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COMMISSIONER OF INLAND REVENUE,
G.P.O. BOX 132, HONG KONG.

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File No.: (28) in HQ380/935

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28 June 2002

Dear Sir,

**Task Force on Review of
Civil Service Pay Policy and System**

I refer to your letter of 2 May 2002 seeking views and comments from Bureaux and Departments on the Task Force's Interim Report and the questions raised in the consultation papers.

I append herewith the views and comments on the questions raised for your consideration, please.

Yours sincerely,

for Commissioner of Inland Revenue

Civil Service Pay Policy and System

Comments

Items

Paragraph 19 On Pay Policies, Pay System and Pay Structure -

<p>(a) Should there be a major overhaul of the civil service pay policy and system, should more emphasis be put on performance-pay, clean wage policy (i.e. paying "all cash" wages in lieu of allowances, housing and medical benefits, etc)?</p>	<p>The clean wage policy can save manpower currently deployed to administer, manage and monitor the different types of benefits and allowances payable to civil servants by virtues of their ranks and jobs, e.g. the various housing benefit schemes, the directorate holiday passage scheme, provision of departmental transport to directorate officers and payment of extraneous duty allowance. The idea of clean wage policy is fully supported. It can also achieve the principle of equity by having equal pay for the same rank and job.</p>
<p>(b) Should senior civil servants be subject to a pay policy which is different from that of the middle-ranking and junior ranks, placing more risk / award factors on the former?</p>	<p>The ability to recruit, retain and motivate should be a guiding principle to determine the pay policies of all civil servants irrespective of rank and grade.</p>
<p>(c) Should the disciplined services' pay be treated differently from the rest of the civil service?</p>	<p>The disciplined services' should be treated differently from the rest of the civil service taking account of their responsibilities, workload, and specific job nature such as danger, stress and on-call service of the disciplined services.</p>
<p>(d) Should we continue to conduct regular pay level, pay structure and pay trend surveys to ensure that civil service pay remains comparable with that of the private sector?</p>	<p>The pay trend of private sector may be a good reference to ensure that the civil service pay is competitive and sufficient to recruit, retain and motivate staff. However, the civil service and private sector have different considerations. The Government is a non-profit making organization with social responsibility. Therefore, fair comparison of pay trend is difficult and even impossible as the Government and the private sector are engaged in incomparable activities. The civil service pay should not be pegged with those of the private sector.</p>

<i>Civil Service Pay Policy and System</i>	
Items	Comments
(e) Or should Government's affordability to pay be an over-riding consideration in pay adjustments?	As the Government may face serious fiscal and public expenditure constraints, "affordability" to pay may be taken as one of the major considerations but not the over-riding consideration in pay adjustments. Civil servants should not lose out vis-à-vis private sector employees merely because the fiscal position is at stake.
(f) What features of the existing pay policy and system should be retained to ensure stability and morale of the civil service?	The existing pay policy and system should be retained. If changes are to be introduced, a gradual pace should be taken so that the changes can be accepted more readily.
Paragraph 20 On Replacing Fixed Pay Scales with Pay Ranges -	
(a) Would the introduction of flexible pay ranges bring benefits in terms of better rewarding performance and enhancing a performance-oriented culture in the Hong Kong context?	Sound in principle. However, Hong Kong civil servants have been accustomed to the predictable incremental pay progression, the introduction of flexible pay ranges may be counter-cultural and result in considerable resistance from the staff. It may also result in divisiveness among civil servants and may cultivate shoe-shining culture.
(b) Would flexibility in pay progression lead to potential divisiveness among civil servants?	The flexibility in pay progression will probably lead to divisiveness among civil servants.
(c) Should flexible pay ranges be applied to the entire civil service, or only to senior civil servants, who typically have heavier management responsibilities?	If and only if the flexible pay ranges have to be introduced, in view of (a) and (b) above, they should be applied to the entire civil service.
(d) Should flexible pay ranges apply both to civilian grades and the disciplined services?	The same should be applied to both the civilian grades and the disciplined services.

Civil Service Pay Policy and System

ISSUES

COMMENTS

<p>(e) Would changes be required to the existing performance measurement and appraisal systems to support the introduction of flexible pay ranges?</p>	<p>Presumably a lot of changes are necessary. Need to consider the required changes in more details later.</p>
<p>(f) Would a performance management system directly linked to pay be the most effective way of nurturing a performance culture?</p>	<p>Apart from maintaining a linkage on performance and pay, a more flexible exit system to get rid of the sub-standard performers, fast track promotion and other one-off bonus may be effective to nurture a performance culture.</p>
<p>Paragraph 2.1 On Pay Adjustment System and Mechanism -</p>	
<p>(a) Should the principle of broad comparability with the private sector continue to be adhered to?</p>	<p>Owing to the difference in business objective, the principle of comparison may be more useful in pay setting than in pay adjustment. In fact, the manpower and time consumed is substantial in the existing system. There is always a large time gap between what has happened in the private sector pay and the civil service pay.</p>
<p>(b) Is the existing pay adjustment system still regarded as fair by both civil servants and the public which they serve? Would another mechanism serve this purpose just as well, or better?</p>	<p>The system itself is fair basically. Review can be taken from time to time to ensure its acceptability by the civil servants as well as the public.</p>
<p>(c) Is there a need for changing or introducing more flexibility in the existing adjustment mechanism?</p>	<p>Not supported as it would further complicate the system.</p>
<p>(d) Should fiscal constraints be an over-riding factor in determining pay adjustments?</p>	<p>Fiscal constraints may be taken as one of the major factors in determining pay adjustments but should not be an over-riding factor.</p>

<i>Civil Service Pay Policy and System</i>	
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(e) Depending on whether, and to what extent, pay administration should be decentralized to departments, what would be the right balance for Hong Kong in terms of central control / guidance versus autonomy / flexibility for individual departments?	To avoid inconsistent treatment, pay administration should continue to be centralized as it would be difficult for the department to set a standard and to maintain consistency and fairness.
Paragraph 22 On Introducing Performance-based Rewards -	
(a) Do we see the merit for Hong Kong to incorporate elements of performance pay in civil service salaries?	The present reward for good performance is only by promotion. However, there are many constraints on such reward, e.g. the officer has already promoted to the top of his grade, there is no vacancy in the next higher rank or the officer is not meritorious for immediate promotion etc. Therefore, performance related pay on both individual or team basis can be an effective motivator if it is sufficient to differentiate the difference in performance.
(b) Apart from pay ranges which already have performance-related elements, do we need to consider other forms of performance-based rewards?	Other than performance-related pay, fast track promotion, recognition, one-off bonus or other forms of departmental function can also be performance-based rewards, which can serve as incentives to the staff members.
(c) Should team-based performance rewards be used and, if so, to which group (senior, middle, lower or all levels) should they apply and on what basis?	Agreed but it is difficult to devise a fair and objective basis.
(d) Should individual performance rewards be introduced and, if so, to which group (senior, middle, lower or all levels) should they apply and on what basis?	Agreed but it is difficult to devise a fair and objective basis. It will be unfair to those who are taking up unquantifiable duties.

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(e) Some improvements to the staff appraisal system have been introduced in recent years. What further changes are needed to support the introduction of performance-related pay?	The result of the recent changes is yet to be seen. Further changes can be considered at a later time so as to allow more time for all civil servants to adapt and digest.
Paragraph 23 On Simplification and Decentralisation of Pay Administration -	
(a) Should consideration be given to introducing decentralisation of civil service pay administration for a city like Hong Kong?	It is not cost effective to decentralize the entire civil service pay administration to departments as every department has to develop its own computer system and engage HR expertise to do the job.
(b) If decentralization of civil service pay administration is to be introduced, how much pay and grading responsibility should be devolved to departments?	In view of (a), it is considered that this item is not applicable.
(c) Should some or all of the current general / common grades staff be departmentalised to facilitate department-based management?	Departmentalisation of general grade staff, particularly for large departments with over thousand of staff, will help flexible deployment within the departments for purpose of achieving higher efficiency and productivity. As far as the IRD is concerned, more clerical posts with tax-oriented duties should be departmentalised. A critical review of the duties of the general grades staff posts should be conducted. In this respect, a fair, reasonable and equitable transitional arrangement for departmentalisation of staff with prior staff consultation should be made.
(d) If civil service pay administration is to be decentralized, there may be a rather long transition period. How can the standard of service and staff morale be maintained during that period?	To ensure that the service standard and staff morale be maintained in times of any change in civil service pay policy, it is of vital importance that all civil servants be clearly informed of the rationale and benefit of the change. Good and effective communication has to be maintained throughout the transition period. Besides, to avoid creating additional anxiety, the introduction and implementation of other major civil service reforms should be minimised.

<i>Civil Service Pay Policy and System</i>	
<u>Items</u>	<u>Comments</u>
<p>(e) In terms of simplification, is there scope to amalgamate existing grades within broader occupational categories? Is there scope for having flatter organizations with wider span of management control and fewer rank layers?</p>	<p>Amalgamation of grades is effective to enhance efficiency and to simplify administration. The government should be more ready to delete grades and ranks that have become obsolete and redundant over time. The scope of having flatter organizations should be assessed case by case with the principle that work procedures should be streamlined as far as possible and decision making level be delegated to the lowest competent level.</p>
<p>(f) Should a formal job evaluation system be introduced and, if so, should this be operated centrally or at department level?</p>	<p>It should be operated centrally and not at departmental level if introduced because of the lack of expertise and resources at departmental level.</p>