



Our ref. : L/M to (11) TRA/P/405/3 Pt. 3

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Dear Mr. Lee,

Thank you for your letter of 25 April 2002 inviting comments on the Task Force's Interim Report and the questions raised in the consultation papers.

The views and comments of our departmental management are attached for your consideration please. We have not received any comments or suggestions from the staff-side.

Yours sincerely,

for Director-General of Trade and Industry

Comments on the Task Force's Interim Report and the Questions Raised in the Consultation Paper

I. On Pay Policies, Pay System and Pay Structure

- (a) We consider that a major and comprehensive review of the civil service pay and system is necessary in view of drastic socio-economic changes in the past few years. Moreover, the present policy and system lack flexibility to cater to changing expectations of the community and challenges in future.

We support in principle performance-pay and clean wage policy. The former would be an effective means to encourage better performance; the latter would eliminate a lot of administrative work required for administering various types of fringe benefits. Implementation, however, would be a very difficult and complex issue. Performance-pay must be backed by a fair, objective and credible performance measurement system. For the clean wage policy, it would not be a simple task to work out a monetized value for some fringe benefits, e.g. medical service provided to civil servants.

- (b) As senior civil servants are involved in policy making and important government decisions, it seems logical and reasonable to place more risk/award factors on their pay. But here again, implementation must be backed by a credible and workable appraisal system.
- (c) We do not have a firm position but on ground of parity, disciplined services' pay should not be treated differently from the rest of the civil service. Members of the disciplined services may have a completely different view.
- (d) We consider that a straight-line comparison between civil service pay and that of the private sector is not appropriate because their work objectives and performance requirements are vastly different. However, it is necessary to maintain a broad comparability between the two to avoid substantial pay differences for similar or identical jobs between Government and the private sector. The question is how to ensure a fair and objective methodology for the pay level, pay structure and pay trend surveys to provide for an accurate and reliable comparison.
- (e) We consider that Government's long-term affordability to pay should be an important consideration in pay adjustments. But we would like to know

whether Government is prepared to be more generous in pay adjustments when its affordability improves.

- (f) Adequate staff consultation in the process of pay policy and system formulation is an important factor to ensure stability and morale of the civil service.

II. On Replacing Fixed Pay Scales with Pay Ranges

- (a) We believe that flexible pay ranges would definitely bring benefits in terms of better rewarding performance and enhancing a performance-oriented culture. But, same as for performance pay, there must be a fair and objective performance measurement system to determine pay levels. Moreover, other effective management tools must be in place to deter unscrupulous appeals against performance ratings. Otherwise, a lot of resources may be required for tackling appeals from staff.

As the underlying principle of both the performance-pay and flexible pay ranges systems is to encourage and reward good performance, we wonder what would happen to the poor performers. Would they be subject to pay cuts should there be a significant drop in the standard of their performance?

- (b) As long as there are an effective performance measurement system and adequate checks and balances in administering the flexibility in pay progression, we believe that the potential problem of divisiveness among civil servants can be contained and managed. This being the case, we do not wish to see the fear of divisiveness among civil servants being used as a reason of not rewarding good performance.
- (c) We consider that flexible pay ranges should be applied to the entire civil service. However, consideration may be given to introducing a smaller range for the junior ranks and greater flexibility for senior civil servants to recognise the vast difference in their responsibilities.
- (d) Yes, as far as concept is concerned.
- (e) [please see (a)].
- (f) A performance management system directly linked to pay may not necessarily be the most effective way of nurturing a performance culture. Its effectiveness would depend largely on how large the monetary reward is. Pay apart, promotion on the basis of merits, instead of seniority, is another

booster. Besides positive reinforcements, we suggest that there should also be adequate flexibility in our current system to deal with poor performers. Carrots and sticks must complement each other to achieve the desired result.

III. Pay Adjustment System and Mechanism

- (a) We support the principle of broad comparability with the private sector but comparability must be broad in its real sense.
- (b) The existing pay adjustment system may not be regarded (rightly or wrongly) as fair by the public at times of economic downturn. Even if the public recognizes that senior civil servants are paid less than their counterparts in comparable positions in the private sector, they are not prepared to speak out for various reasons. Amongst the civil servants, there is growing discontent over harsh remarks laboured on their pay and performance. They are particularly aggrieved by the fact that when the pay in the private sector soars, they cannot reap any benefit from the economic boom; but when the pay in the private sector shrinks, the public expects them to have a pay cut.
- (c) Yes, the present system lacks flexibility.
- (d) Fiscal constraints should not be an over-riding factor in determining pay adjustments. We have to consider staff morale and stability of the civil service.
- (e) Pay administration can be decentralised to departments for departmental grades as management of these grades is under the authority of respective heads of departments. Decentralisation of pay administration for general and common grades staff implies a breakdown of present staff management system which has proved to be effective over the past years. Nevertheless, we believe that there may be scope to further explore decentralization for certain general and common grades although it would be a much more complex issue than that for departmental grades.

IV. Introducing Performance-based Rewards

- (a) [please see item 1(a)].
- (b) Yes, we may consider, among others, expanding the Long Service Travel Award, introducing year-end bonus in cash or in kind.

- (c) Should team-based performance rewards be used, they should be, as a matter of principle and for fairness, applied to each and every member of the team to recognise their contribution regardless of their ranks. However, in reality, there is great variation in their duty requirements which may impact on their contribution. We foresee a lot of difficulties in drawing up objective, mutually-agreed and measurable criteria to assess team-based performance.
- (d) We consider that individual performance rewards, if introduced, should be applied to all levels. To start with, they may first be applied to senior level, and depending on the outcome, extended to middle and lower levels. Besides objective and measurable assessment criteria, the form of reward (e.g. performance bonuses form part of the basic salary, or one-off payments on top of base pay, etc.) and the amount should be clearly designed.
- (e) To support the introduction of performance-related pay, we suggest that staff appraisals should fully reflect the assessment criteria and targets to qualify for financial rewards. They must also be mutually agreed by appraising officers and appraisees. Otherwise, it would be difficult to resolve subsequent disputes between staff and the management.

Other proposal includes a robust mechanism to deter delays in completion of staff appraisal for any delays are likely to weaken the effectiveness of any performance-related reward system.

V. Simplification and Decentralisation of Pay Administration

- (a)&(b) We support in principle giving consideration to decentralising civil service pay administration as we believe it is an important management tool in HR. If it is to be introduced, there should be a centrally determined policy framework within which Heads of Departments/Grades would devise their own policy and guidelines.
- (c)&(d) Some general/common grades are already performing functions (e.g. licensing, property control etc.) peculiar to the departments where they work. Thus, in theory there may be scope to explore departmentalizing some general/common grades to facilitate department-based management. However, implementation would be a very difficult and complex issue. For instance, staff would be very reluctant to remain in departments where workload is heavy, promotion posts are few and customers difficult.

- (e) Amalgamation of existing grades within broader occupational categories may result in fewer promotion layers and heavier workload. Whether it is going to work successfully would largely depend on Government's determination to pursue a leaner and flatter organisation.
- (f) Formal job evaluation of departmental grades should be carried out at departmental level, and that of general grades centrally.