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Dear Lap-sun,

Review of Civil Service Pay Policy and System

I am responding to the letter of 25 April 2002 from the Chairman of the Task Force on Review of Civil Service Pay Policy and System. Since publication of the Task Force's Interim Report on the Phase One Study, we have invited staff representatives through the Departmental Consultative Committee to express their views, directly to the Secretariat or through the Department. I have also tried to collate views from my directorate colleagues with a view to coming up with a management position on the various issues raised. However, the views so collected are either general or diverse and this makes it difficult for an overall consensus to be established. I have therefore chosen to express to the Secretariat my views as the Director [REDACTED]. These views do not represent the collective views of the [REDACTED] Department. They are my personal observations and comments based on my experience in having managed a Government department for some two years. I hope the Secretariat will find these relevant.

Over the last few years, the fiscal constraints, the private sector downsizing, and the implementation of the Enhanced Productivity Programme have placed due pressure on the civil service. The service as a whole is facing increasing criticisms of inefficiency, rigidity, lack of innovation and low productivity. As I see

it, the problem does not lie with individual civil servants, but with the system under which we are operating. It follows therefore the problem has to be solved systemically, not just targeting pay and benefits of civil servants. More fundamentally, as I have expressed at one of consultation forum held by the Task Force, Government bureaux and departments have to re-examine their respective roles and functions and identify those core business that should continue to be delivered by civil servants under a system that would safeguard integrity, meritocracy and efficiency, reward innovation and attract high calibre staff. This should be complemented by a strategy to hive off non-core business.

Modern day management places emphasis on decentralizing authority, empowering line managers and shortening the distance between the point decisions are made and the point those decisions are executed. Authority and accountability no doubt should go hand in hand and to make this work in practice, it should be underpinned by a personnel system that rewards performance and penalizes non-performance. Having said that, public service is never identical to private sector business where shareholders' interest and profit are the operable bottomlines. What works well in the private sector in rewarding performance may not be directly applicable to the civil service. For example, in the recent consultancy review of the remuneration of senior executives of a number of non-Government public bodies, one factor taken into account is the sort of community service, prestige and social status that go with a public sector job.

Any review of civil service system, in my view, must give full recognition to the role and responsibility of senior managers, for example, heads/deputy heads of departments and agencies. They should be entrusted with more responsibility and accordingly more flexibility to plan and do their own business and manage their human and fiscal resources. The latter has been significantly achieved through the roll-out of one-line vote to departments, now practiced by 23 departments. However, where it comes to interface between human and fiscal resources, one-line votes are still inadequate in at least one important respect, that is, one-line vote departments are still subject to establishment controls based on which the Department's Personal Emoluments provision is calculated or managed. One consequence is that Departments have no gain or no loss to award increments based on performance because it has little or no impact on the Department's resources.

One particular area of flexibility or devolved responsibility that is quite crucial is "hire-and-fire". Heads of Department should be empowered to design pay packages around certain core principles and remove staff who do not perform with a proper appeal and review system in place.

I have also attempted to provide hereunder my response to the 15 specific questions raised in the Phase One Study consultations.

(A) On Pay Policies, Pay System and Pay Structure

Q1 Should there be a major overhaul of the civil service pay policy and system, putting more emphasis on performance-pay, clean wage policy (i.e. paying "all cash" wages in lieu of allowances, housing and medical benefits, etc.), etc., and building in more flexibility for adjustment?

- It appears to me that piece-meal changes may no longer be the right recipe. If we are to improve our competitiveness and address the present woes, a significant overhaul of the present system appears inevitable. Generally speaking, I support "all cash" wages and removal of some obsolete practices such as "no double benefits" between husbands and wives and "suspending pensions" when a retired civil servant takes up office in selected public organizations. I support more flexibility for adjustment. On performance-pay, I have reservations on an across-the-board application to all civil servants.

Q2 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?

- We may not need a totally different pay policy or system as such for senior civil servants. While I am not averse to introducing more risk/award factors to their pay system, stability and the ability to manage public affairs without fear or favour have to be safeguarded. With the introduction of a performance-based reward/penalty system (Questions 8 to 10 below), senior civil servants would surely experience more explicit reward and penalty given the higher responsibility and risk factors inherent in their posts.
- If future developments of the civil service structure warrant, it may be possible to classify all government staff as either core or non-core, with the former subject to the same civil service pay policy and system while the latter to be employed on more flexible terms that could be adapted or adjusted to meet changing requirements, such as those currently under the non-civil service contract terms.

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Q3 Should the disciplined services' pay be treated differently from the rest of the civil service?

- No particular views but could understand if a different and perhaps more stable system is proposed for the disciplined services, given the unique nature of their job and the lack of comparable private sector jobs. However, if we are to pursue this, the Government has to be satisfied that the scope for civilianization in disciplined departments has been optimally examined and practised.

Q4 Should we adhere to the principle of broad comparability with the private sector and continue to conduct regular pay level, pay structure and pay trend surveys to ensure that civil service pay remains competitive?

- While the principle of broad comparability is not disputed, the basis of how this is assessed can be quite contentious. For example, one oft-quoted criticism is that the current pay trend mechanism fails to capture the total payroll implications and the effect of downsizing through improved productivity in the private sector. To restore credibility, some adjustments have to be made to the current system.

Q5 Or should Government's affordability to pay be an over-riding consideration in pay adjustments?

- Fiscal considerations have always been one of the several factors to be taken into account in annual pay adjustments. Whether this factor should be over-riding is, at the end of the day, a matter of reasonableness.

(B) On Replacing Fixed Pay Scales with Pay Ranges

Q6 Should flexible pay ranges be introduced into the Hong Kong civil service to replace fixed pay scales? If so, should they apply only to senior civil servants or the entire service, including both the civilian grades and the disciplined services?

- Pay scales are not by themselves an evil in any pay system. However, with the lowering of starting salaries since April 2000, the fixed pay scale of some ranks have become ridiculously long. Consideration of pay scales is linked to appointment practices. For example, it may be more desirable to review pay between contracts against a general pay range. For civil servants on permanent employment, a shorter fixed
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pay scale with increments granted on satisfactory performance may still be required. No matter under what systems, their effective implementation would hinge on the development of a credible performance appraisal and management system and would need to be accompanied by corresponding changes to the provision for personal emolument (PE) resources as discussed above to make its faithful implementation a worthwhile act. Changes in the mindset of civil servants towards flexibility in pay progression will be important.

- Apart from rewarding good performance, it would only be fair if the system also provides for the deduction of salary in respect of unsatisfactory/poor performance.

(C) On Pay Adjustment System and Mechanism

Q7 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?

- I think civil servants will generally regard the existing pay adjustment system with pay adjustments determined with reference to an annual pay trend survey and other factors including changes to the cost of living, the state of economy, budgetary considerations, etc. as fair. But as discussed above, there is one major flaw in the system that has been highlighted in the recent development.

(D) On Introducing Performance-based Rewards

Q8 Is there merit for elements of performance pay to be incorporated into civil service salaries?

- There is general merit in linking pay more closely with performance for civil servants. The question is how to do it and at what levels without upsetting the stability needed of the civil service.

Q9 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?

- As not all work output can be quantified and measured with objective indicators, team-based performance reward system may not be applicable to all departments. For departments operating on trading funds and for projects/tasks with quantifiable performance targets, team-based performance rewards seem to be more applicable.

Q10 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?

- Individual performance reward scheme is only useful where performance can be clearly measured. In other words, the appraisal system has to be credible.

(E) On Simplification and Decentralisation of Pay Administration

Q11 Should consideration be given to introducing decentralisation of civil service pay administration for a city like Hong Kong?

- To complement the overhaul of the civil service pay policy and system, consideration should be given to moving towards devolution of more authority to individual departments to administer, within the broad guidelines and principles determined by Civil Service Bureau and subject to budgetary constraints, their own pay policies and arrangements that will suit their operational needs. There are however challenges to address, namely, problems of internal relativity, threats to the overall coherence of the civil service and expertise in individual departments to appropriately determine the benchmarking of grades/ranks.

Q12 Should some or all of the current general/common grades staff be departmentalised to facilitate department-based management?

- There is the need to retain central management of the versatile managerial grades such as Administrative Officers, Executive Officers, Treasury Accountants, etc. and to retain their mobility and transferability amongst departments. Given their exposure to different work settings and clear understanding of the initiatives and directions, they will be able to bring about cross-fertilization of skills and experience in the departments and ensure that the management functions will be performed in accordance with laid down policies and guidelines of the Government as a whole.
- On the other hand, the continuation of other supporting staff, e.g. Clerical and Secretarial Grades staff, drivers, etc, on a general and common grade basis carries rigidity and prevents multi-skilling or enriching of job contents to suit the department's operational needs. There is a strong case in favour of departmentalization of these supporting general/common grades staff, although full consideration

must be given to addressing their concerns about career development and promotion prospects, especially in those smaller departments which do not offer sufficiently broad job experience and career development structure.

Q13 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?

- Given the impact of decentralization of civil service pay administration, it would not be appropriate to initiate any changes towards that direction without going through a major review to work out the details of the proposals and a full consultation with staff concerned in order to get their consensus and support. The acceptability of a decentralized pay administration system to the majority will be crucial to the maintenance of the standard of service and staff morale in the civil service.

Q14 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?

- We support the trend to minimize the number of grades and ranks in the Government, including the amalgamation of grades, where applicable, so as to develop these grades into multi-disciplinary grades capable of serving their clients more effectively, thus avoiding fragmented and piecemeal work referrals and preventing conflicting of interests among staff of different grades/ranks performing similar or even overlapping jobs.
- To actualize the concept of 'small government', we should have a flatter organization with wider span of management control to increase effectiveness and efficiency.

Q15 Should a formal job evaluation system be introduced and, if so, should this be operated centrally or at department level?

- We agree to reducing the weighting attached to educational qualifications as the primary determinant of rank or grade and are in favour of a broader assessment of job demands.
- Formal job evaluation system may be introduced and be implemented say, at 10-year interval, given the intensiveness of the exercise. As

regards the design of the job evaluation system, objectivity and fairness should be the main focus in working out the assessment tools. For the sake of fairness, the Civil Service Bureau should play a part in administering the system and individual departments be fully involved as they will have in-depth understanding of the uniqueness of the contents and nature of the jobs concerned.

Yours sincerely,

[Redacted signature]

([Redacted name])

Director

[Redacted title]