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28 June 2002

Mr YEUNG Ka-sing
Chairman
Task Force on Review of
Civil Service Pay Policy and System
Joint Secretariat for the Advisory Bodies
on Civil Service and Judicial Salaries
and Conditions of Service
[Fax No. 2877 0750]

Dear Mr Yeung

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

The Task Force's Interim Report on the Phase One Study presents us with the interim findings from an analytical study on the latest developments in civil service pay adopted in Australia, Canada, New Zealand, Singapore and the United Kingdom. We noticed that there are pros and cons of different civil service systems and arrangements in these countries. They have adopted different approaches to suit their own needs. We share the consultant's observation that pay and grading reform cannot and should not be implemented in isolation from the broader Civil Service reform agenda. Its success will depend on the effective implementation of changes in various areas such as the broader delegation of human resources and financial management responsibilities, development of supporting performance measurement and management framework.

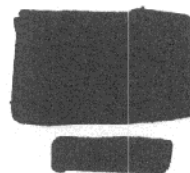
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An adequate transition period is necessary should a decision be made to implement any major changes to the existing practices. This is to allow sufficient time for key stakeholders to understand the proposal, deliberate on issues of their concern and give their views, and for the thorough administration to consider their views before effecting the changes. We should also build in a review mechanism at the initial implementation stage so that modification could be made where necessary.

Our departmental management views on the interim findings as well as questions asked are detailed at **Annex A**. We have also sought the views of staff on the consultation documents. The matter was discussed at meetings of the Immigration Departmental Consultative Committee (IDCC) and the General and Common Grades Departmental Consultative Committee (GCGDCC) held on 16.5.2002 and 10.6.2002 respectively. The views expressed by members are set out at **Annexes B and C**.

I also understand that the Immigration Department staff associations/unions will submit their views to your Joint Secretariat separately.

Yours sincerely

A large black rectangular redaction box covering the signature of the Director of Immigration.

for Director of Immigration

c.c. Secretary for the Civil Service

**Management views on
The Interim Report of the Task Force
on Review of Civil Service Pay Policy and System (Phase I Study)**

I. Pay Policies, Pay System and Pay-Structure

- (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) ?*

The existing pay system has provided Hong Kong with a stable, clean and efficient civil service. Hence, we do not consider that a major overhaul of the civil service pay policy is necessary. [Please see IV(a) for demerits of incorporating elements of performance pay in civil service salaries]. Nevertheless, there may be scope for putting more emphasis on clean wage policy to reduce pay administration cost. However, certain types of allowances to recognize hazardous working environment or hardships inherent in certain nature of work should be retained.

- (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 ?*

It is not appropriate nor is it desirable to have great deviation in pay policies for different ranks within the same department, particularly so for Disciplined Services (DS) which require team cooperation and good esprit de corps at various levels. DS plays an important role in maintaining the stability and prosperity of Hong Kong.

- (c) *Should the disciplined services' pay be treated differently from the rest of the civil service ?*

DS play a very unique role in the civil service. There is basically no comparability with the private sector in terms of the functions and nature of services delivered having regard to the following :

- (i) The DS expertise is not available or transferable from the private sector. There are no comparable jobs e.g. refusing entries of the undesirables and detecting forged travel documents by immigration control officers at the control points, etc;
- (ii) Work requirements for DS are unique, e.g. risk/danger elements during field operation by Immigration Service staff on forgery syndicates, removal of undesirables from Hong Kong and other immigration enforcement duties, etc;
- (iii) Members of DS have to tackle security, confidentiality and very often, sensitivity issues, which non-DS staff normally do not have to face.
- (iv) Members of DS are required to observe stringent disciplines, rules and regulations beyond those required of non-DS civil servants. Their conduct is governed strictly by relevant disciplined services legislation, the breach of which could render them punishable under relevant legislation. All service members are required to observe strict disciplinary codes;
- (v) Factors such as shift duty requirements, operational posting effects on family life, risk, hardship, stress, mission to safeguard security, stability and interests of the Region, etc. are all very distinctive requirements for the DS. Such factors may not exist in other jobs, inside or outside the civil service;
- (vi) DS pay should reflect the long-term commitment of staff and the amount of training and other Human Resources investments spent on them. It should be able to attract and retain them in the service. Otherwise, high staff wastage will be costly and will definitely affect continuity and quality of service;

- (vii) In view of (vi) above, DS pay should be more attractive than that of other jobs to ensure job security, to retain quality staff, to reduce the incentive to quit; and
 - (viii) The factors for DS pay and condition of service that could be benchmarked with those for the civilian staff are virtually very limited, i.e. entry qualifications, hours of work.
- (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 ?*

For civilian grades, regular pay level, pay structure and pay trend surveys should be conducted to maintain **broad comparability** with the private sector as well as to keep the pay system conducive to attracting, retaining and motivating suitable talent. It is also necessary to infuse and reflect prevailing socio-economic conditions into the pay of civil service. However, the outcome of pay level, pay structure and pay trend surveys should not be the only factor to determine civil service pay.

In the case of DS, its pay is not comparable with that of the private sector [please see comments at I (c) above].

- (e) *Or should Government's affordability to pay be an over-riding consideration in pay adjustments?*

Fiscal consideration should only be one of the considerations in pay adjustments rather than an over-riding one. While it is acknowledged that civil service pay will to a great extent depend on Government's affordability which will be subject to the macro financial and climate and the economy as a whole, the stability of civil service should be a paramount consideration. Too frequent or sharp fluctuation in pay adjustment in response to short-term economic fluctuations will affect the morale of the civil servants and stability of the civil service as a whole.

- (f) *What features of the existing pay policy and system should be retained to ensure stability and morale of the civil service ?*

To ensure stability and morale of the civil service, the following principles of the existing pay policy and system should be retained:

- (i) The principle of "fair comparison with comparable employment in the private sector" (i.e. broad comparability) for civilian grades, but not for disciplined services due to their unique nature of service (please see comments at I (c) above);
- (ii) Reasonable remuneration should be offered to attract people of suitable caliber to join the civil service, and to retain and motivate them to provide an efficient and effective public service;
- (iii) In determining civil service pay adjustment, the Government should take into account all relevant factors including the results of the pay trend survey, changes to the cost of living, the state of the economy, budgetary considerations, the Staff Sides' pay claims and civil service morale.

II. 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 ?*

The introduction of flexible pay ranges for DS is not favoured. Indeed, there are other effective management tools in existence to encourage and motivate staff in DS, such as promotion, commendations, training opportunities, job enrichment, job satisfaction, etc.

- (b) *Would flexibility in pay progression lead to potential divisiveness among civil servants ?*

Some staff may resist flexible pay ranges while some would welcome the proposal. Perceptually, allowing too much flexibility for performance pay might be vulnerable to favouritism abuse. This might lead to potential divisiveness among civil servants. Any revolutionary changes will likely encounter strong resistance from staff, and uncertainties in pay will affect the morale of the 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 ?*

The introduction of flexible pay ranges in the civil service is not favoured [please see comments at II (a) & (b) above].

- (d) *Should flexible pay ranges apply both to civilian grades and the disciplined services ?*

Same comments as II (c) above. DS pay should be considered separately [please see comments at I (c) above].

- (e) *Would changes be required to the existing performance measurement and appraisal systems to support the introduction of flexible pay ranges ?*

We do not favour the introduction of flexible pay ranges for the DS. In the event that a decision is made to implement this proposal, there must be an objective and fair appraisal system with adequate checks and balances (but not too complicated) to tie in with the introduction of the flexible pay ranges. The system should also be open and impartial to avoid any favoritism or corruption. Dynamic changes to the existing performance measurement and appraisal systems are necessary. The existing systems could be improved by developing more sophisticated staff appraisal techniques; establishing clear linkages between overall Government objectives, departmental objectives and individual objectives; requiring civil servants to prepare and agree with their supervisor a personal performance plan against which their subsequent performance will be assessed, and placing more emphasis on developing robust and comprehensive performance measure.

- (f) *Would a performance management system directly linked to pay be the most effective way of nurturing a performance culture ?*

A performance management system directly linked to pay is not necessarily the most effective way of nurturing a performance-oriented service culture. Apart from pay reward, there are other management tools to encourage and motivate staff in DS. Education and training are considered to be equally important to develop and sustain an effective performance-oriented culture.

III. Pay Adjustment System and Mechanism

- (a) *Should the principle of broad comparability with the private sector continue to be adhered to ?*

DS pay should not be compared with that of the private sector as there is no comparable jobs [please see comments at I (c) above].

For civilian grades, since direct job-to-job or factor-point comparison with the private sector may not be possible, the principle of broad comparability should be adhered to so that the pay structure and system of the civil service will be close to the market level. Moreover, adopting the principle of broad comparability will ensure that we will be able to attract and retain talent, and experienced staff.

However, the outcome of pay level and pay trend surveys of the private sector should not be the only basis for determining civil service pay adjustments.

- (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?*

Most civil servants are concerned with job stability and favour the existing annual pay adjustment system which has been operating well. Whereas, the general public might be more concerned about Government's affordability particularly at the time of economic downturn.

- (c) *Is there a need for changing or introducing more flexibility in the existing adjustment mechanism ?*

Increment under the existing pay adjustment mechanism can be used as a tool for enhancing staff management. At present, annual increments are not granted automatically but subject to satisfactory performance and approval by appraising/countersigning officers in the assessment of performance. For sub-standard performance, stoppage and deferment of increment will be considered and authorised by the Head of Department. More flexibility may be introduced into the incremental system, e.g. increments may be withdrawn as well for those not performing well.

- (d) *Should fiscal constraints be an over-riding factor in determining pay adjustments ?*

Fiscal constraints constitute a factor for consideration in determining pay policy and system but should not be an over-riding factor. (please see comments at I (e) above).

- (e) *Depending on whether, and to what extent, pay administration should be decentralised to departments, what would be the right balance for Hong Kong in terms of central control/guidance versus autonomy/flexibility for individual departments ?*

If the policy of decentralisation of pay administration is to be implemented, the Administration needs to consider greater delegation of authority to departments on various aspects. Decentralisation of pay administration could hardly be successful if the authority of the departmental management, which is currently quite limited, is not expanded. Decentralisation of pay administration should accompany with it greater devolution of human resource and financial resource management authority so that departments will have full-fledged flexibility to customise their performance management system to cater for their diverse needs. Other areas requiring consideration for decentralisation may include the departments' authority in fee revision, reducing pay for substandard performers and administering disciplinary proceedings against defaulters.

Besides, unlike private organisations, decisions made by the Government are subject to judicial review. There is always a danger that staff might appeal against the decision of the management on performance pay and seek judicial review. This would entail voluminous work on the part of the Administration throughout the legal proceedings and would incur huge administration cost.

IV. Introducing Performance-based Rewards

- (a) *Do we see the merit for Hong Kong to incorporate elements of performance pay in civil service salaries ?*

The existing system has been operating well. Indeed, there are already effective management tools to reward individual performance, pay enhancement is therefore not essential. Although there might be some merits in introducing performance-linked pay, the demerits of incorporating elements of performance pay in civil service salaries may out-weigh the benefits. These include :

- (i) Performance-linked pay system may lead to staff selecting jobs which would allow short term achievements at the expense of long-term benefits;
 - (ii) Some DS postings do not permit personal performance to be recognised. The major difference between disciplined and other civil services is that the majority of DS jobs involve team work. As far as immigration work is concerned, team work is of paramount importance in enforcing effective immigration control, particularly in the control points and the investigation fields. All staff are trained to work in concerted efforts and coordinate with each other in a team towards the departmental goals whilst putting aside individual interests;
 - (iii) Performance pay only rewards individuals, but too much emphasis on measuring individual's performance is not beneficial to the immigration service and more importantly may affect team work and erode team co-operation which are essential in DS;
- (b) *Apart from pay ranges which already have performance-related elements, do we need to consider other forms of performance-based rewards ?*

The introduction of flexible pay ranges is not favoured (please see comments at II above).

- (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 ?*

We understand that a Pilot Scheme has been implemented in a few departments for several months for testing out team-based rewards in the civil service. The success of the Scheme and the likely benefits to be brought about have yet to be assessed. We are therefore not in a position to offer any specific comments at this stage.

- (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 ?*

Individual performance reward is not favoured as it may adversely affect teamwork and team co-operation in DS (please see comments at IV (a)(ii) & (iii) above).

- (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 ?*

A transparent and fair appraisal system is a pre-requisite to performance-linked pay. Checks and balances are required to avoid subjectivity in the appraising process. The way one-line votes is granted will determine whether performance-linked pay could work. One-line vote should be rolled over and not granted on a year-by-year basis. Meanwhile, should performance-related pay be introduced in the civil service, competency-based performance appraisals to facilitate assessment for pay rewards may be introduced as a support.

To achieve the best result of enhancing efficiency and quality, a series of changes have to be instituted in parallel. A strong commitment to training and development is necessary to change the mindset of staff. It would also have to ensure that the appropriate infrastructure and a fair and objective performance management framework are in place. Adequate staff consultation is important to gain wider support, in particular, support from the staff unions.

V. 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?*

In general, certain degree of decentralization of civil service pay administration would allow departments to customise their pay policy having regard to their peculiar requirements and would permit them to react to challenges more swiftly. However, decentralization could be difficult to operate and might lead to more problems, such as, different pays in similar grades in different DS. Internal relativity amongst DS is important. The present relativity amongst the DS works smoothly and stably, and is widely accepted and respected by the DS staff as fair and equitable. Hence, we have reservation as to the extent of benefit, if any, that may be derived from a decentralized system.

- (b) *If decentralization of civil service pay administration is to be introduced, how much pay and grading responsibility should be devolved to departments?*

It would not be appropriate to change the existing pay policy and mechanism without going through a major review and a consensus-building process on the best way forward. Any devolution of responsibility to departments other than the decentralization of pay administration for the employment of non-civil service contract (NCSC) staff should be cautiously planned, as such initiative would impact on the established civil service pay administration policy and mechanism.

In any case, the central government should retain the power in formulating overall policy on promotion, recruitment, the framework of performance-pay and setting the guidelines on pay increase/reduction for departments to follow. They should be *cautious of the problem of internal relativities* between staff doing similar work but with different pay conditions in different departments. This in turn may cause confusion and staff grievances, which would be detrimental to the overall cohesiveness of the civil service.

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

Departmentalisation may allow departments to have greater flexibility in resource deployment and at the same time help cultivate a sense of belonging among the general/common grades staff. It is feasible and desirable as long as the establishment of general/common grades is large enough to provide adequate advancement prospect and job rotation among staff. However, this would pose great difficulties to departments with a small general/common grade establishment and this may affect the staff morale due to dim promotion prospect.

Junior general/common grade officers have in a way been 'departmentalised' since they are not subject to frequent interdepartmental transfer in the course of their career. It is important to retain certain common/general grades of higher responsibilities such as the Executive grade to facilitate cross-fertilisation of ideas and sharing of management experiences, as well as to enable them to effectively implement central management initiatives.

- (d) *If civil service pay administration is to be decentralised, there may be a rather long transition period. How can the standard of service and staff morale be maintained during the period ?*

To maintain the standard of service and stability of the civil service, a long transition period is necessary if the pay administration is to be decentralized. To maintain the standard of service and staff morale during the transition period, the following are crucial :

- (i) clear processes to be communicated;
- (ii) staff involvement, i.e. bringing in the affected civil servants early during the process and managing their expectations throughout;
- (iii) firm management commitment to implement the changes;
- (iv) limiting the new pay packages to the new recruits only to avoid confrontation by serving officers.

A step-by-step approach incorporating necessary modifications in the light of feedback and experience acquired in the initial implementation stage is desirable.

- (e) *In terms of simplification, is there scope to amalgamate existing grades within broader occupational categories? Is there scope for having flatter organisations with wider span of management control and fewer rank layers?*

As far as DS are concerned, there may not be much scope to amalgamate the existing grades in view of the following :

- (i) each disciplined service has its unique occupational function;
- (ii) individual departmental grades are subject to their own set of ordinance/regulations.

As far as the Immigration Service is concerned, there is no scope to establish a flatter organisation or fewer rank layers in that the nature of work of each of the IO and IA grades is clearly defined and difficult to merge, e.g. :

Immigration Assistant	:	guard and escort duties for illegal immigrants, overstayers, removees, refused landing passengers and other undesirables under examination; field investigation on immigration crimes; taking statements from suspects
Senior Immigration Assistant	:	passenger clearance duties; field investigation and taking statements from suspects in more complicated cases; leading sub-teams in simple cases
Chief Immigration Assistant	:	counter duties and other front-line services at public oriented offices, such as Documents sections, Information Office; supervisory duties in detention quarters and as assistant duty officer in duty offices at control point; as deputy team leader in field operations combating immigration crimes

Immigration Officer	:	as case assessment officer or secondary examination officer, requiring decision-making on simple cases e.g. assessing applications at visa control sections / conducting secondary examinations on passengers at control points; as supervisor in control points, public-oriented offices and Investigation sections combating immigration crimes
Senior Immigration Officer	:	as decision-maker in applications e.g. at Headquarter sections and in complicated cases at control points
Chief Immigration Officer	:	as manager/formation head to oversee sectional operations
Assistant Principal Immigration Officer	:	to implement immigration policies, review operational procedures, administer and manage Sub-divisions
Principal Immigration Officer	:	to assist the Directorate on policy issues / decision and in mapping out business strategies; to liaise with Bureaux on departmental issues

It appears that **general and common grades** might have greater scope for amalgamation. In amalgamation of these grades, the consideration of flexible redeployment and multi-skilling should prevail.

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

We have no idea how the system will operate and are therefore unable to give any specific views.

Immigration Department
June 2002