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29 June 2002

Secretary General
Joint Secretariat for the Advisory Bodies on Civil Service
and Judicial Salaries and Conditions of Service
Room 701, 7th Floor
Tower Two, Lippo Centre
89 Queensway
Hong Kong

Dear Sir,

Review of Civil Service Pay Policy and System

I refer to the letter dated 25 April 2002 from the Chairman of the Task Force on Review of Civil Service Pay Policy and System inviting views on the consultation paper of the Phase I Study and attach at the Appendix the views of our Air Traffic Management Division.

In addition, our Departmental Consultative Committee has expressed the view that staff should be consulted on the Task Force's recommendations when available.

Yours faithfully,

[REDACTED]
([REDACTED])

for Director-General of Civil Aviation

General Comments

Having studied the consultant's "Brief Review of Civil Service Pay Arrangements in the Five Selected Countries", we are inclined to agree that there is a need to modernise the existing pay system so that the revised system would be simpler and easier to administer, and can better meet the changing expectations of all concerned under the current socio-economic circumstances of Hong Kong.

Views on the Five Areas of Study

Pay Policies, Pay System and Pay Structure

2. Although the majority of the countries have devolved the pay administration to departments, we are of the opinion that it should still be centrally determined in respect of civil servants as well as senior civil servants in order to maintain stability among all civil servants. Otherwise it may give rise to endless debates among departments why some of the civil servants are being remunerated with more than the others. Certainly this would have a long term negative impact on staff morale. There is also the concern that the non-revenue earning departments will be placed in a disadvantageous position.

3. Admittedly civil servants are being paid by public money. Hence, affordability which varies with the current economic climate should also be taken into consideration in determination of pay level. The Government, however, must bear in mind that the remuneration should be sufficient to attract, retain and motivate staff of a suitable calibre to provide the public with an efficient and effective service. A balance should be struck in spite of the fact that affordability has become a more prominent factor in the countries studied.

4. It is agreed that educational/academic qualifications should only be one of the several factors for internal relativity and broader job comparisons should be introduced. However, for some civil service grades, there are no comparable jobs in the private sector. As such, basically the existing education/academic qualifications should be maintained as an important factor for internal relativity.

5. In order to reduce administration costs, job-related allowances should be consolidated into base pay as far as possible.

Replacing Fixed Pay Scales with Pay Ranges

6. As it is, the annual increment system is already performance-based. An increment may be withheld if an officer's performance and conduct are not up to the required standard. Perhaps the Administration should consider introducing a one-off bonus system whereby an officer assessed with outstanding performance is paid a percentage of his monthly salary at the end of a staff appraisal report period to recognize his work and contribution. Admittedly, the flexible pay ranges have their merits. If it is to be introduced, it should be applicable only for the senior civil servants who typically have heavier management responsibilities.

Systems and Mechanisms for Pay Adjustments

7. Two of the five countries still exercise strong control over the determination of pay levels and adjustments. Hong Kong should follow suit for reasons given in paragraph 2 above.

8. With the exception of one country, it appears that fiscal constraints and pay negotiation are the key determinants in setting levels and adjustments. In our case, we also take into account other factors, such as private sector comparison, changes to the cost of living and civil service morale. It seems that our system adopts a more macro view by taking more factors into consideration in determination of pay levels and adjustments. Certainly it is more acceptable to the staff side.

Introducing Performance-based Rewards

9. It seems that performance related pay is widely used in the five countries, especially for senior staff. It is certainly an incentive to staff if it is paid on top of the existing annual increment system. However, a more comprehensive appraisal report may be required for all grades in order to justify the additional financial rewards. This would inevitably lead to more paper work and administration costs.

Simplification and Decentralisation of Pay Administration

10. Decentralisation of pay administration should not be introduced unless it is agreed by the staff side as it would create problems of internal relativity and threats to the overall coherence of the civil service in terms of common purpose and values. However, due consideration should be given to implementing changes to grading arrangements, such as departmentalising general grades personnel, creation of flatter and less hierarchical management structures through rationalisation of the number of ranks and pay ranges.

Major Questions to be Addressed

11. Comments on the questions raised by the Task Force (paragraph III of the Review) are tabulated below –

Reference	Comments
1.	The civil service pay policy and system should be modernised by means of introducing clean wage policy and putting more emphasis on affordability. Performance pay is acceptable if it is paid by a one-off bonus system.
2.	Inclined to agree that senior civil servants should be subject to a pay policy which is different from that of the middle-ranking and junior ranks as they have heavier management responsibilities.
3.	As it is, there are already separate pay scales in place for various disciplined services. They seem to be acceptable for all concerned.
4.	We should adhere to the principle of board comparability with the private sector in conducting pay leave and pay structure in order to attract, retain and motivate staff of a suitable calibre to provide the public with an efficient and effective service.
5.	Due consideration should be given to affordability taking the socio-economic circumstances of Hong Kong into account but not to the extent of becoming an over-riding factor in pay adjustments.
6.	Flexible pay ranges should not be introduced to the entire civil service as it may lead to potential divisiveness among civil servants. Perhaps it should be applied to senior civil servants only who typically have heavier management responsibilities.

Reference	Comments
7.	The existing pay adjustment system, other than comparing with the pay trend in the private sector, also takes other factors into account, such as changes to the cost of living, the state of economy, budgetary considerations, the staff sides' pay claims and civil service morale. From the staff sides' point of view, it is a fair system.
8.	Please see para 6 above.
9.	Not in favor of a across-the-board team-based performance rewards for civil servants. Besides, according to the survey, there are no significant successful examples.
10.	Individual performance rewards in the form of one-off bonus on top of annual increment at the end of staff appraisal period should be introduced to all groups of civil servants.
11.	Not in favor of decentralisation of civil service pay administration as it would create problems of internal relativity and threats to the overall coherence of the civil service in terms of common purpose and values.
12.	All the general/common grades staff should be departmentalised to facilitate department-based management. It is easier to administer and a fairer system when it comes to staff performance assessment. Individual managers may have different yardsticks in assessing staff performance.
13.	If the staff side is consulted and eventually agreed to decentralisation of pay administration, there should be no effect on staff morale and their standard of service. However, if it is to be introduced in spite of rejection from staff, other options, such as voluntary retirement scheme, should be made available. As staff are given a choice, the standard of service and staff morale can be maintained.
14.	There is certainly scope to introduce flatter and more flexible structures with fewer ranks/bands.
15.	A centrally operated job evaluation system should be introduced if the Government is to amalgamate existing grades within broader occupational categories.