

BY HAND

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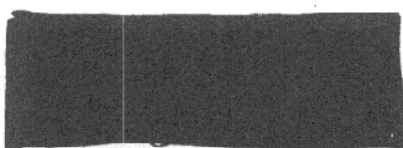

Secretary-General
Joint Secretariat for the Advisory Bodies on
Civil Service and Judicial Salaries and Conditions of Service
Room 701, 7th Floor,
Tower Two, Lippo Centre,
89 Queensway, Hong Kong

Dear Sir,

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

Please find attached the comments received on the Interim Report and the questions raised in the consultation papers. They range from views of the staff sides (Annexes 1 to 4), comments from individuals or teams of staff (Annexes 5 to 10), and comments from the management perspective (Annexes 11 to 15).

Yours sincerely,



for Director of Housing

Review of Civil Service Pay Policy and System Comments from Management Perspective

A. Pay Policies, Pay System and Pay Structure

- Same *objectives* apply for a department as for the civil service as a whole, i.e. to offer sufficient remuneration to attract, retain and motivate staff of a suitable caliber to provide the public with an efficient and effective service.
- More flexibility and more emphasis on performance-pay are welcomed but the changes should be *cost-effective, simple and easy to administer*. An unduly high administration cost might be counter-productive given public concern about the cost of the civil service.
- A *clean wage policy*, i.e. “all cash” in lieu of allowances/benefits is preferred, saving administration cost and providing flexibility for the staff concerned.
- While the revised pay system should be more responsive to market changes and be more related to performance, it should still allow for a large degree of *financial security*, especially for lower-pay *junior staff*, to ensure morale and stability.

B. Decentralized set-up with fewer layers of grades/ranks with own pay system

- *Certain extent of decentralization* of pay administration is welcomed – e.g. maintaining some *central functions* such as job evaluation and determination of pay range limits for cost-effectiveness; and allowing *flexibility* for departments to determine an individual officer’s *entry pay point* and *performance pay*.
- A *simple grading structure* with a broader group of similar jobs carrying similar responsibilities allows departments greater *flexibility in staff deployment and job rotation*.
- HD has already reviewed and put in place a simpler grading structure for *HA contract staff*. Having evaluated the relative importance, the responsibility level and corresponding impact the job has on the organization as a whole, a broadbanding approach has been used to group the various grades and ranks of HA contract staff into *seven levels*. The broadly defined staff ranges provide staff with ample opportunities to develop and attain experience at one grade

level before they are allowed to progress up the ladder to the next grade level, where the skill and responsibility requirements are significantly higher. It also serves to align the pay progression of staff closely with their experience and skills, and eliminates 'title promotion' situations frequently found in organizations adopting narrow banding.

- While departments may welcome the flexibility of being empowered to manage their own pay system, the Central Government should be *cautious of having too many fragmented pay systems* within the Government. This in turn may cause confusions and staff grievances.

C. Feasibility of introducing flexible pay ranges and performance pay

- Already introduced in HD for *HA contract staff*.
- *Flexible pay ranges* allow the department to offer salaries commensurate with the staff's *experience and skills*. It also allows the department to respond to the *market trend* quickly so as to maintain the competitiveness of the pay offered.
- Linking *performance* to *pay* will serve as an incentive and help foster a performance-based culture in the Civil Service. It also helps reinforce the sense of ownership on performance management among supervisors.
- To achieve the desired impact of staff motivation, the performance pay should be *one-off* rather than being built into the basic pay. However, *staff comments* should be taken into consideration when determining the make-up of the pay components, i.e. the percentage of non-fixed salary.
- There must be an *objective and fair appraisal system* (but not too complicated) to ensure individual performance can be measured fairly and effectively. It should also be open and impartial to avoid any favoritism or corruption.
- To achieve the best result of enhancing efficiency and quality, *staff training and development* should be strengthened to go alongside with performance pay.
- While positive performance should be rewarded, departments should also be given more flexibility in handling *disciplinary cases* to expedite actions on poor performance/conduct.

D. Affordability of the Government

- In determining the *pay levels* of staff, broad *comparability* with the private sector should still be the major consideration as we aim at recruiting and retaining the right talents.
- However, the annual *pay adjustment* may put more emphasis on the *affordability* of the Government. At present, pay adjustment is based on pay trend survey which 'follows' rather than 'leads' the private sector. The results may appear out of tune with the prevailing economic situation when there is an abrupt downturn or vice versa. If including affordability of the government based on predictions of income and expenditure for the coming year, we should be able to strike a better balance.

E. Departmentalization of general/common grades personnel

- Departmentalisation may 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 post great difficulties to departments with a small general/common grade establishment and this may affect the *staff morale* due to flimsy promotion prospect.
- Staff should be given the *option* to choose if they would like to stay in their current department or be posted elsewhere.
- There is merit in *retaining certain common/general grades* of greater responsibility to capitalize on the benefits that broader exposure across departments may bring. For instance, management staff with experience in different fields may bring in *new ideas and broader perspective* to the advantage of the department.
- Besides, care should be taken to reduce the *risk of corruption* should a staff member stay in an office for too long.

The existing pay policy and system are outdated and inadequate to support current HRM practices in talent management. There are too many control mechanisms, for instance, which render the system too cumbersome and inflexible to respond to the changing needs of the departments and the environment of the labour market. I see, therefore, the introduction of a new system with fewer grades/ranks, flexible pay ranges and performance pay as a management tool for better recruitment, retention and motivation of competent staff in the civil service in the long run.

The future system should be based on affordability but flexibility must also be provided for departments to offer tailor-made pay packages to meet the needs of individual cases.

The above reform in pay policy and system must, however, be supported by corresponding changes in other HRM functions. The implementation of performance pay, for instance, may require a revamp of the existing performance management system. Training must be strengthened to equip staff with the appropriate mindset and necessary skills for the new system.

HA has introduced performance-related pay for contract staff since Jan 2002. Therefore, similar system could be implemented for civil service colleagues in the Department. However, the success of any HRM reform will require more than changes in hardware such as systems and procedures. It must be managed as a cultural change programme which is about the introduction of new mindset that challenges traditional civil service management philosophy. In such circumstance, lots of resources in staff communication, consultation, training and development, promotion and publicity will be required.

Subject: Review of Civil Service Pay Policy and System

I have the following comments on the subject:

- There are obvious advantages in allowing user departments a free hand in determining their own pay system with a less cumbersome rank/grade structure because: -
 - (a) they can best deploy their resources to meet their specific needs;
 - (b) they can so design a reward system that can best motivate their people; and
 - (c) the adoption of a broad-banded rank/grade structure can also accord them greater flexibility in meeting the multi-dimensional and ever changing requirements of this modern era.
- Nevertheless, as the proposed system is a total diversion from the conventional practices which stress very much on consistency and comparability of pay among ranks/grades of similar entry qualifications, a complete change of mindset from staff is required to implement the system successfully. The managerial staff, in particular, will need to be properly trained to take forth the performance pay scheme.
- It will be difficult for the departments to compete for the desired personnel if their pay package has no attraction at all in the manpower market.

Pay Policies, Pay System and Pay Structure

2. Given the fiscal constraints of the Government at present and in the coming years, affordability should be the primary factor for pay adjustment. Even so, salary comparability with equivalent jobs in the private sector and/or educational qualifications should continue be taken into account. Competitiveness with the private sector is necessary to attract and retain high calibre staff.

3. Non job-related allowances should be abolished as far as possible. In the long run, civil servants should be paid "all-cash" wages, instead of paying a variety of allowances, providing free housing and offering free medical benefits. This would increase transparency and reduce administrative costs. Civil servants would have full flexibility to decide the use of their wages.

4. By virtue of the job nature and demands, the pay of some disciplined services such as Police, Fire and Correctional Services should be treated differently, but not favorably, from the rest of the civil service. Even though the Government is suffering from fiscal deficit, the morale of these disciplined services should be upheld so as to maintain the stability of the society. It is suggested that the basic pay of disciplined services and the rest of the civil service should be on equal footing but consideration could be given to add a variable component on top of the pay of disciplined services.

Replacing Fixed Pay Scales with Pay Ranges

5. The automatic grant of increments has been criticized by the public that the civil servants are lack of incentive to improve their performance. Flexible pay ranges can bring benefits in terms of better rewarding performance but also bring instability and divisiveness. Besides, it must be accompanied by a vigorous approach to performance measurement and management. At this sensitive stage, an overhaul of performance management system for all ranks of civil servants is not recommended. Flexible pay ranges could be first established for senior civil servants in both civilian grades and the disciplined services in view of their heavier management responsibilities. With

experience gained from adopting flexible pay ranges for senior civil servants, consideration could be given to extend flexible pay ranges to middle and junior-ranking civil servants.

Pay Adjustment System and Mechanism

6. Civil service pay adjustments are determined with reference to an annual pay trend survey aimed at assessing the average pay movements of employees of large private sector companies over the preceding 12 months. The annual pay trend survey has been well received by the civil servants but criticized by the public that the survey has not taken into account the massive staffing reduction in the private sectors and the closure of business of middle and small size companies. The average pay movements therefore cannot reflect comprehensively the actual market conditions.

7. The existing pay adjustment system merits a fundamental change with the fiscal ability of the Government as an over-riding factor. The annual pay trend survey should continue but its result can only be taken as a guide to reflect the market conditions but not a determining factor on pay adjustment.

Introducing Performance-based Rewards

8. The success of performance-based reward (PBR) scheme depends very much on a credible supporting performance management framework and adequate funding to enable the granting of meaningful rewards. The Government has already made a step forward to improve the performance management system through the introduction of competency-based appraisal forms and assessment panels, and stricter administration of the granting of increments. To ensure fairness and avoid "shoe-shining" when implementing the PBR, the performance management system needs to be further enhanced by means of self-appraisal and 360 degree assessment. The problem is under the current fiscal constraints of the Government; it is difficult for the Government to robustly introduce PBR at present and in the coming years. PBR would be a long-term strategy that should be pursued gradually and modestly.

9. PBR can be applied to team or individual. Team-based performance rewards can be given to a group, which has successfully completed a project or assignment. Actually, the Government implemented a pilot scheme in six departments in October 2001 to test whether team-based performance rewards can be distributed fairly and equitably. PBR for individuals could be focused on senior civil servants who have heavier management responsibilities. Besides pay ranges which already have performance-related elements, consideration could be given in introducing performance bonus for outstanding performance for all ranks of staff. This can be a motivator for the staffs who have attained the maximum pay points.

Simplification and Decentralisation of Pay Administration

10. Pay decentralisation can bring flexibility to the Departments to meet resources and staff needs. CSB should maintain the role in determining overall financial budgets and pay policies, setting direction and establishing formal job evaluation systems.

11. To facilitate pay decentralization, simplification of pay administration is necessary. Consideration could be given to create flatter, less hierarchical management structures, through rationalization of the number of ranks and pay ranges and combine occupations into broad staff groupings for better human resource management.

Review of Civil Service Pay Policy and System
Consultation Forum for the Management of Bureaux/Departments

- (I) **Whether departments can function better under a decentralized set-up with fewer layers of grade/ranks and with authority to manage their own pay system**

Fewer layers of grade/ranks

- PROs: ✧ Enhance efficiency and expedite information flow between upper and lower echelons
 ✧ Achieve savings in manpower
 ✧ May result in job enrichment and greater job satisfaction
- CONs: ✧ Too long a span of control may hamper staff supervision and control
 ✧ May affect promotion opportunities and result in fewer morale booster to motivate for better performance (if grades/ranks are delayed vertically).
- Recommendations: ✧ Instead of applying across the board, try de-layering at individual function/office level with regard to the specific operational requirement and the need to strike a balance between span of control and efficiency.
- HD experience: ✧ The new management model in DTMO office with fewer layers of management staff helped enhance efficiency.

With authority to manage their own pay system

- PROs: ✧ Allows flexibility to develop a tailor-made pay system to suit departmental needs
- CONs: ✧ Increase administrative cost/ consultancy fee to develop & maintain an independent pay system for each department
 ✧ Duplication of effort for deciding salary for General and Common grades
 ✧ Result in grievance on pay disparity among departments
- Recommendations: ✧ More viable for new entrants in new organizations with an independent grading structure different from that of an established government department. For serving civil servants, they are bounded by their current terms of appointment.
- HD experience: ✧ The new remuneration package for HA staff which simplifies the pay system by grouping all contract staff under 7 broad job grades.

(II) The feasibility of introducing flexible pay ranges and performance pay in their respective departments

- PROs: ✧ Better motivate and command control of staff through monetary rewards
- CONS: ✧ Competition between departments for staff of the same profession
- ✧ Difficult to ensure equity and prone to personal favoritism
- ✧ May face objection from many serving civil servants in fear of losing their rights and pay claims
- Recommendations: ✧ May only be applicable to new recruits who are to be placed under a new grading structure. Instead of varying the basic salary, would be better to put a bonus system on top.
- HD experience: ✧ The advent of a new grade structure for HA contract staff allows flexibility in the determination of entry salary and facilitates the subsequent roll-out of a performance-related pay system.

(III) whether the future pay system should be based on affordability or on the ability to recruit and retain

- ✧ The ability to recruit and retain links to the prevalent market situation. As the administrative cost for staff recruitment and training is high, especially in the cases of many professional grades, the salary range for civil servant should therefore be benchmarked to the market rate, rather than depending on the affordability of individual departments, in order to ensure adequate supply of qualified recruits suitable staff and avoid problem of brain-drain.