

Task Force on Review of Civil Service Pay Policy and System

Phase One

Final Report

September 2002

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(To view written comments forwarded to the Joint Secretariat during the public consultation period from April to June, please visit the Joint Secretariat's website at <http://www.jsscs.gov.hk/>. A compendium of all written submissions received is also kept for perusal at the Joint Secretariat's Office at Room 701, 7th Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong.)

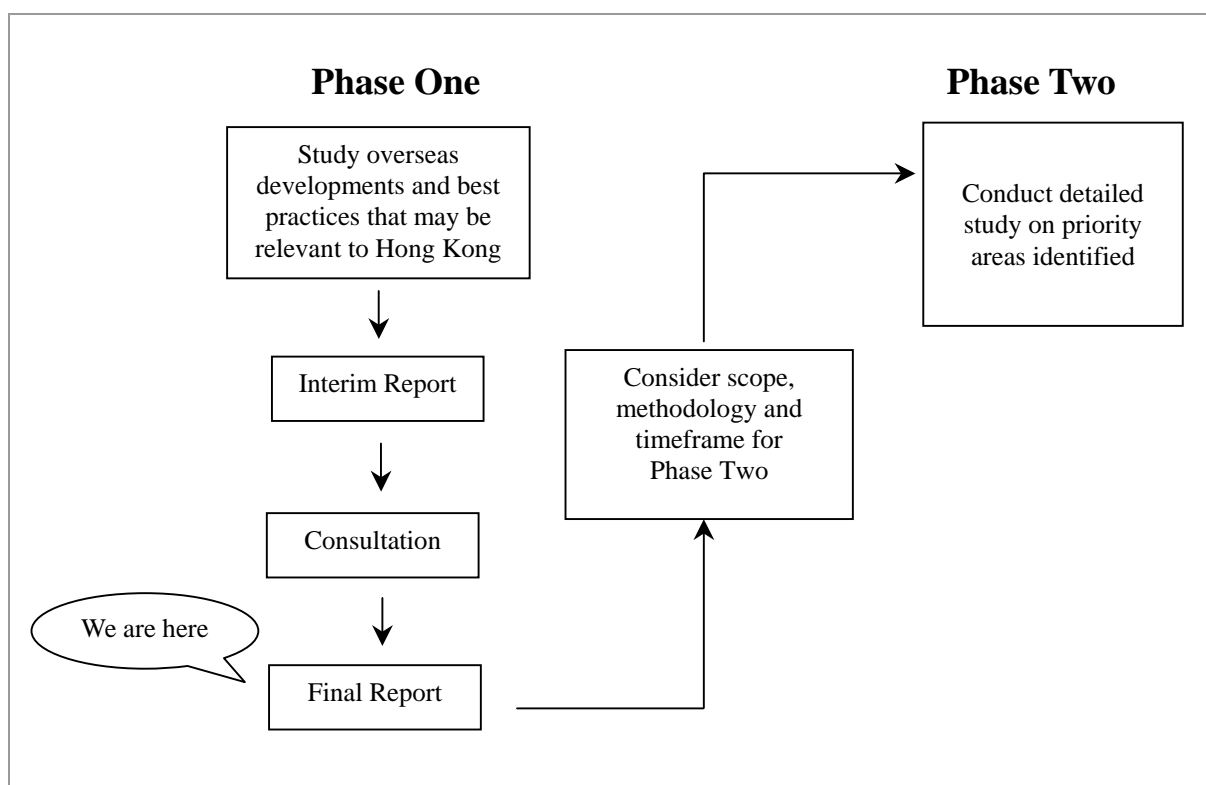
EXECUTIVE SUMMARY

Paragraph

Introduction

1. This is the Phase One Final Report of the Task Force on the Review of Civil Service Pay Policy and System. The review is being conducted in two phases, as shown schematically in Figure 1.

Figure 1: Roadmap of the Review



2. We have arrived at our recommendations after careful consideration of:
 - a consultancy study on the latest developments in civil service pay administration in five selected countries (Australia, Canada, New Zealand, Singapore and the United Kingdom);

- feedback from public consultation on our Interim Report published on 25 April 2002; and
 - the historical context and development of the civil service pay policy and system in Hong Kong.
3. Although the above provide important reference in our consideration, we have not resigned ourselves to simply following overseas practices or the drift of public opinion. We have discussed, indeed debated, the issues thoroughly among ourselves before setting out our conclusions in this report. While we wish to point out that changes cannot be rushed, we also consider it important to take proactive steps towards our vision of the modern civil service pay system.

Priority Areas

4. We would like to suggest that –

In the short term:

9.14

- priority should be given to devising a practical framework and methodology for conducting a pay level survey, and to reviewing the pay trend survey methodology; and
- the Administration should consider the appropriate interim measures to be adopted for the annual civil service pay adjustment exercise pending the outcome of the above review.

In the medium term:

9.15

- an extensive and critical assessment should be made regarding the staff appraisal system to see what changes are needed in order to pave the way for introducing

elements of performance pay (including the systematic linking of achieved performance to the award of annual increments) and flexible pay ranges to civil servants, preferably the senior tier (director level) initially;

- if such initiatives at the senior level prove to be feasible and conducive to achieving better performance, this would inspire confidence in change and provide useful experience for further application of the new arrangements within the civil service; and
- consolidation of job-related allowances should be adopted as a target, as part of a move towards a “clean wage” policy in the long run.

In the long term:

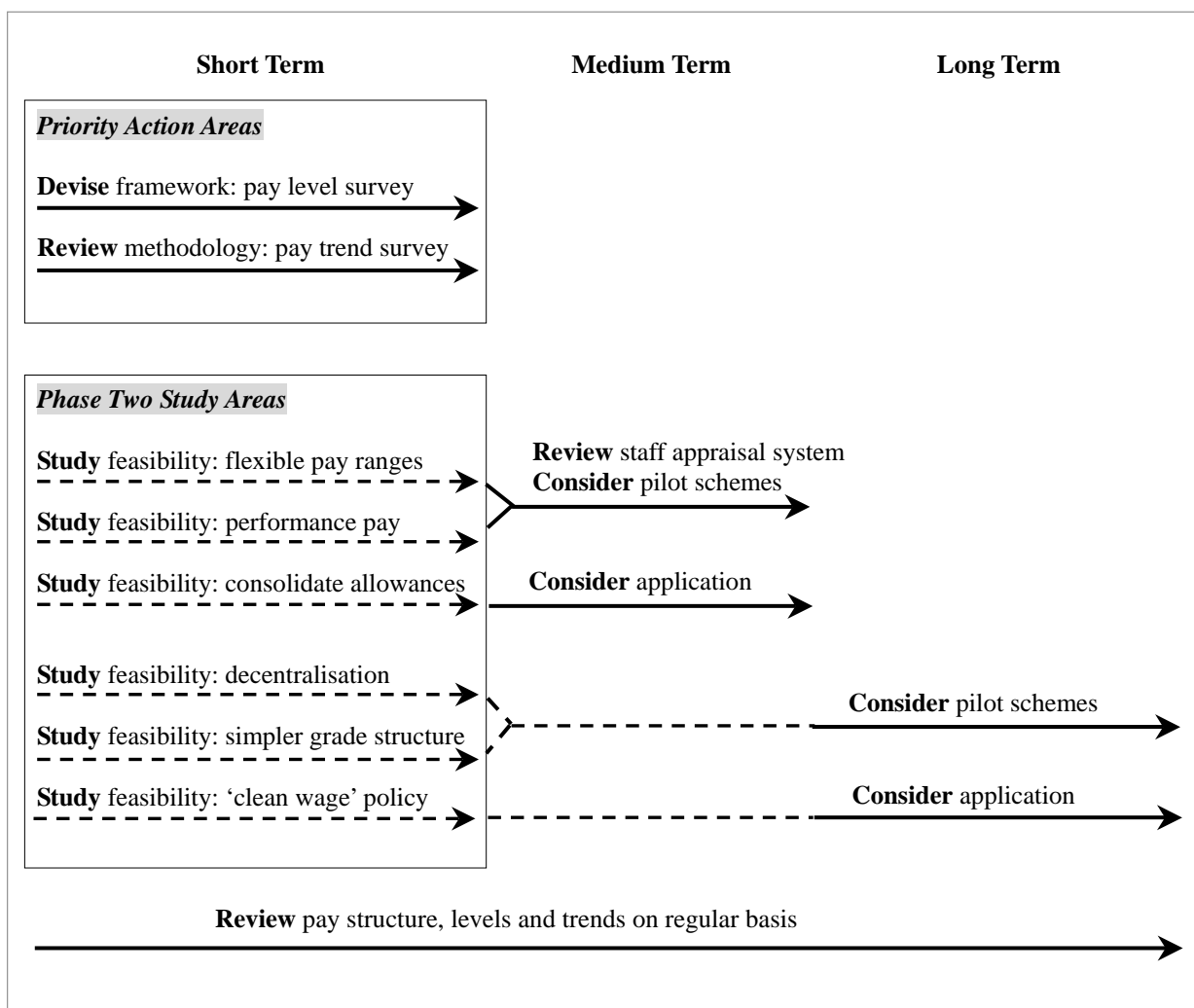
9.16

- decentralisation of pay administration, as part of the devolution of human resource management, should be adopted as a target, after detailed studies are conducted to determine the scope of implementation at different stages, and to see whether the challenges associated with each stage can be overcome;
- the ultimate objective is to allow departments greater freedom to manage pay arrangements to suit their needs; and
- a “clean wage” policy with benefits incorporated into base pay should be adopted as a target.

5. In studying the above areas, particular attention should be paid to the fact that the areas are all inter-related.

(See Figure 2 and paragraph 17)

Figure 2: Priority Areas in Pay Administration



Legend :
 ———> To consider action in the indicated timeframe
 - - -> To commence study in the indicated timeframe

Paragraph

Background

6. On 25 April 2002, we published for public consultation: 1.6
- our Phase One Interim Report, and
 - findings of a consultancy study on the latest developments in civil service administration in the five selected countries.

	Paragraph
7. During the consultation period, which lasted until 30 June 2002, a series of forums and meetings were held with various interested parties. We also received 337 written representations.	1.7 – 1.13

Review of Development in Hong Kong

The Need for Review

8. In commissioning this review, the Administration's objective is to modernise the pay policy/system in Hong Kong, having regard to the best practices elsewhere, with a view to:	2.1 – 2.4
- making it simpler and easier to administer; and	
- building in more flexibility to facilitate matching of jobs, talents and pay.	

Changes Cannot be Rushed

9. We agree that the time is ripe for a comprehensive review, but wish to state that our recommendations at this stage:	2.5 – 2.6
- are in the main conceptual; and	
- will go no further than to identify specific areas to be explored further in Phase Two.	
10. In deciding to embark on any reform after relevant issues have been fully considered in Phase Two of the review, the Administration should bear in mind the objective of modernising the civil service and that reform should be implemented:	2.7
- gradually and progressively; and	

- with stakeholders' buy-in secured throughout the process.

Historical Context and Changing Times

- | | | |
|-----|--|----------------|
| 11. | Historically the civil service in Hong Kong was modelled on the British system, evolving gradually over the years and providing Hong Kong with a stable, clean and efficient civil service. | 2.8 –
2.9 |
| 12. | The analytical study of developments in the five countries (all with roots directly or indirectly in the British civil service model) shows that governments are finding it necessary to modernise their civil service to cope with changes in the socio-economic and political circumstances. | 2.10 |
| 13. | With sustained economic growth from the 1970s to the 1990s in Hong Kong, the civil service pay adjustment system has relied heavily on a formula-based mechanism premised upon broad comparability with the private sector. Affordability had not been a prominent issue until recent years. However, the economic downturn since 1997 has brought the issue of fiscal control to the forefront. | 2.11,
2.14 |
| 14. | Since the 1990s, the rigid network of internal relativities and proliferation of grades and ranks in the civil service are seen to have fallen out of step with changing circumstances. Reasons for this include: | 2.12 –
2.15 |
| | - the many changes which the private sector has undergone in organisational and human resource management; and | |
| | - the higher public expectation in terms of civil service efficiency, value for money, etc. | |

Our Vision

15. Having looked critically at the development of the system in Hong Kong, we are now in a position to paint a vision of what we think the system should be like in the long term, say, after a decade or more. 3.1
16. In this long-term vision, the system should be – 3.2 –
3.8
- (a) able to offer sufficient remuneration to recruit, retain and motivate staff of a suitable calibre to provide the public with an efficient and effective service;
 - (b) regarded as fair both by civil servants and by the public which they serve;
 - (c) able to complement, support and facilitate the effective and efficient operation of the civil service, and to allow it to change and evolve over time to keep up with socio-economic changes, yet stable enough to assure civil servants of their reasonable expectations;
 - (d) simple enough so that an inordinate amount of resources is not required to administer it, yet flexible enough to allow managers to provide incentives as appropriate;
 - (e) able to distinguish between performers and non-performers, and allow managers to act accordingly;
 - (f) able to empower managers to manage staff resources effectively and flexibly, taking care of specific needs of individual departments; and
 - (g) reviewed regularly to take account of the latest developments in international best practices which may be relevant to Hong Kong.

Specific Areas

17. The Administration has asked us to look into five specific areas in Phase One of this review. The following are the priority issues which we have identified in each of these areas.

Pay Policies, Pay System and Pay Structure

- Instead of making drastic, abrupt changes to the current policy and system, a programme of progressive improvements should be introduced to address the latest management needs and different stakeholders' expectations. 4.10
- The principle of broad comparability with the private sector should be maintained. 4.23
- Regular reviews of pay structure, levels and trends should be conducted to establish reasonable rates of pay that are: 4.23
 - accepted as fair by both civil servants and the general public; and
 - sufficient to recruit, retain and motivate the right staff for delivering quality service to the public.
- Affordability should be a very important, but not over-riding, factor in determining pay adjustments. 4.32
- Other factors should continue to be considered in determining pay adjustments. Such factors include: 4.32
 - fair comparison with the private sector;

- staff morale;
 - cost of living adjustment; and
 - performance of the economy.
-
- There are merits in considering the consolidation of job-related allowances into base pay in the medium term, and a “clean wage” policy with benefits consolidated as a long-term target. However, given the unique operational need of the disciplined services, some flexibility should be allowed for the retention/consolidation of allowances to meet specific requirements. 4.41 – 4.42
 - Separate arrangements on pay and human resource management should continue to apply to senior civil servants (i.e. directorate officers). Consideration should be given to modifying such arrangements in line with best practices in the surveyed countries to better reflect responsibility/accountability, risk/award factors and performance. 4.51 – 4.52
 - Pay levels in the disciplined services should continue to be determined with reference to internal relativity with the rest of the civil service. 4.62
 - For pay administration purposes, we do not see a need to revise the existing list of departments which are grouped under the disciplined services. Management of the disciplined services should continue to streamline front-line services and explore room for civilianising supporting services. 4.65

Replacing Fixed Pay Scales with Pay Ranges

- A system of pay ranges, if properly designed and implemented, can bring benefits to performance management, especially for the senior staff. The feasibility of implementing such a system should be explored in Phase Two. 5.19, 5.21
- After a satisfactory performance appraisal system has been designed and fully tested, consideration should be given to introducing pay ranges to senior civil servants at the directorate level as a pilot scheme. 5.22
- The disciplined services warrant separate consideration. After assessing the results of pilot schemes, further consideration may be given to whether and how a system of pay ranges may be extended to the disciplined services. 5.25

Pay Adjustment System and Mechanism

- Criticism of the existing annual pay *trend* survey does not address the fundamental problem of perceived pay disparity between the civil service and the private sector. The problem lies in the absence of a pay *level* comparison, which should be the foundation of the pay determination mechanism. 6.17 – 6.18
- A practical framework and methodology of regular pay *level* surveys should, therefore, be established and applied as soon as possible. 6.21
- In the meantime, there are also a number of issues which should be addressed in respect of the complementary pay *trend* survey as it is currently conducted. These issues include: 6.22 – 6.29

- survey sample – size and economic distribution;
 - effects of company downsizing or restructuring; and
 - other technical matters such as increment cost deduction, etc.
- A closer look should also be taken in Phase Two as regards whether the growing overseas trend of moving away from formula-based approaches in pay determination has any useful application to Hong Kong. 6.31

Introducing Performance-based Rewards

- The concept of linking pay more closely with performance is supported in principle. Nevertheless, there are issues regarding the efficacy of performance-related pay in practice which require further study. 7.18, 7.20, 7.22
- Apart from the performance bonus type of reward, the systematic linking of achieved performance to the award of annual increments also merits further study in Phase Two. 7.22
- A more detailed study should be conducted in Phase Two on the feasibility of applying performance pay to senior civil servants at the directorate level in selected departments which conduct tradable businesses (e.g. “trading fund” departments). 7.23
- As in the case of introducing pay ranges, a radical look should first be taken at the staff appraisal system in terms of its design and operation, with a view to ensuring reliable performance measurement. 7.25

- | | |
|---|-----------|
| | Paragraph |
| - The disciplined services warrant separate consideration. After assessing the results of pilot schemes, further consideration may be given as regards whether and how performance pay may be extended to the disciplined services. | 7.28 |

Simplification and Decentralisation of Pay Administration

- | | |
|---|----------------|
| - The issue of decentralisation is complex, and there is the need to tread very carefully on this area of study. | 8.18 |
| - Decentralising pay administration can contribute towards better-run departments/agencies, more motivated and accountable staff, as well as improved delivery of service. | 8.20 |
| - However, there are legitimate concerns, e.g. fragmentation of the civil service, inconsistency in pay arrangements across departments, barriers to cross-posting, etc., which should be addressed. | 8.20 |
| - Decentralisation of pay administration should be adopted as a longer-term target. | 8.22 |
| - The following steps should be taken in Phase Two of the review as regards decentralisation: | 8.24 –
8.27 |
| <ul style="list-style-type: none"> • explore with stakeholders to convince them that, with obstacles removed and necessary assistance given, a decentralised pay system can empower them to run their departments better; • examine the relationship between decentralisation and other aspects of needed reform; and • consider the possibility of engaging staff bodies in designing a decentralised system. | |

	Paragraph
- The following steps should be taken in the next stage:	8.28 –
• consider obtaining stakeholders’ ‘buy-in’ as regards decentralisation of pay administration; and	8.29
• consider providing support to management through training, injection of resources, outside expert assistance, etc.	
- Simplification of grade structure should also be examined in Phase Two. However, the issue should be treated carefully and the following should be examined closely:	8.32 –
• scope for simplification;	8.33
• effects on productivity and staff morale;	
• feasibility of implementing delayering together with pay ranges and performance pay;	
• benefits of departmentalising common and general grades against maintaining flexibility in staff deployment; and	
• need for regular job evaluation.	
- Senior civil servants at the directorate level should continue to be managed centrally for pay purposes.	8.34
- Further consideration should be given, in the light of the operational needs of the disciplined services, as regards whether there are benefits in decentralising pay administration for this group of departments.	8.35

Conclusion

18. We have two points to add in concluding this report:
- We agree with the Consultant’s observation on the importance of “complementary reforms” outside the pay arena. These include areas such as the broader delegation of human resource and financial management responsibilities, and the introduction of robust and credible systems of performance measurement and management. 9.11
 - Changing of mindset, both for management and staff, is crucial before ‘buy-ins’ can take place. Stakeholders should be widely consulted so as to build up consensus for reform. 9.12
19. The priority areas that we have identified for the short, medium and long term are set out in paragraph 4 of this Executive Summary. 9.14 – 9.17
20. We also recommend that the Administration should make this report public, with a view to encouraging wide discussion of its contents and recommendations. 9.18

CHAPTER 1

INTRODUCTION

(This chapter gives an account of the events that have taken place after the publication of the Interim Report of the Task Force on 25 April 2002)

Background

1.1 At the invitation of the Administration (Appendix I), the three advisory bodies on civil service pay and conditions of service¹ agreed to conduct a comprehensive review of the pay policy and system for the civil service. A Task Force with us as members was established on 4 January 2002 to conduct the review. (A list of the members of the Task Force, staff of the Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service (Joint Secretariat) and the terms of reference are at Appendices II, III and IV respectively.)

1.2 The review is conducted in two phases, with Phase One being an analytical study on recent developments and best practices in pay administration in other countries. Taking into account the findings of the analytical study and the views of all interested parties, we will recommend in this Phase One Final Report the main areas of pay administration that should be explored further in Phase Two.

1.3 After a competitive tendering process, PwC Consulting Hong Kong Limited (the Consultant) was appointed on 8 February 2002 to carry out a study of recent developments and best practices in civil service pay administration in five countries, namely, Australia, Canada, New Zealand,

¹ The three advisory bodies are –

- (a) The Standing Commission on Civil Service Salaries and Conditions of Service
- (b) The Standing Committee on Disciplined Services Salaries and Conditions of Service
- (c) The Standing Committee on Directorate Salaries and Conditions of Service

Singapore and the United Kingdom. The selection of the five countries was based on a number of considerations –

- (a) all countries operate systems which historically had their roots, either directly or indirectly in the British civil service system model;
- (b) each of the countries has a professional, career civil service and many civil servants consider it a career employer;
- (c) all five countries have undertaken (and continue to have on their agenda) significant public sector reforms over the course of the past 20 years or so; and
- (d) at the very heart of the civil services in these countries are the shared values of integrity, low level of corruption and fair and equal treatment of all citizens. Political neutrality is also a critical factor in most cases.

1.4 We would add, at this juncture, that there are also important differences in the context in which reforms have been undertaken in these countries vis-à-vis the specific circumstances in Hong Kong. One example of such differences is that the civil services in most of these countries have a much stronger tradition of collective bargaining on pay matters than their counterpart in Hong Kong.

1.5 The study looked at features and issues which might be relevant to Hong Kong, covering in particular the following areas –

- (a) the pay policies, pay system and pay structure commonly adopted;
- (b) the experience of replacing fixed pay scales with pay ranges;
- (c) the pay adjustment system and mechanism;

- (d) the experience of introducing performance-based rewards to better motivate staff; and
- (e) the experience on simplification and decentralisation of pay administration.

1.6 The Consultant submitted its Interim Report to us in mid-April 2002. Having considered the Consultant's findings, we published on 25 April 2002 our own Interim Report in which the history of the evolution of the civil service pay policy and system in Hong Kong was revisited, with particular regard to the five areas covered in Phase One of the review (paragraph 1.5 above). We have also highlighted the relevant points and raised 28 questions, grouped under five study areas, that might merit further consideration.

Consultation

1.7 To facilitate public consultation, we published our Interim Report, a Consultation Paper and a pamphlet, outlining the Consultant's findings, our observations and the questions raised for public discussion. Some 600 copies each in English and Chinese of our Interim Report, with the Consultant's Interim Report as an annex, were distributed. Bureaux, departments and staff associations/unions were invited to give comments. Announcement of Public Interest (API) messages were broadcast on television and radio to inform the public of the exercise. The Consultation Paper (20,000 bilingual copies) and the pamphlet (230,000 copies in Chinese and 40,000 copies in English) were made available to members of the public to invite their views. At that stage, we took the conscious decision that until all stakeholders and members of the public had had an opportunity to express their views on the Consultant's findings, we should continue to maintain an open mind.

1.8 The consultation period was originally scheduled to end one month after publication of the Interim Report, i.e. on 25 May 2002. By popular request, the period was extended to 30 June 2002.

1.9 During the consultation period, we held six forums (from 3 June to 27 June) for members of the public and other concerned parties, including staff consultative councils, staff unions, and management of bureaux and departments. These forums were held in different locations, including the Hong Kong Central Library Lecture Theatre, the Wei Hing Theatre of the City University of Hong Kong, the Auditorium of the Civil Service Training & Development Institute and the conference room of the Joint Secretariat. Some 275 staff associations/unions were invited to these forums and an advertisement to invite public participation in an open forum was published on 7 June 2002 in five local newspapers. A list of the various bodies which attended the forums is at Appendix V.

1.10 Apart from the views collected at the forums, we have also received a total of 337 written representations by post and e-mail. The sources of these representations include departmental management, staff associations/unions, individual civil servants, members of the public and other organisations. We have also studied press reports containing relevant views. A list of the various organisations which have made written representations is at Appendix VI. The Joint Secretariat will post all submissions on its website (www.info.gov.hk/jsscs) and keep a compendium of these submissions for public inspection.

1.11 In parallel with the consultation exercise conducted by the Task Force, the Standing Committee on Directorate Salaries and Conditions of Service met directorate officers/representatives from 37 bureaux/departments. The Standing Committee on Disciplined Services Salaries and Conditions of Service also met senior management of the disciplined services to collect feedback. Lists of these bureaux and departments are at Appendix VII and VIII.

1.12 Since the formation of the Task Force, we have held 23 meetings before this Phase One Final Report is completed. The Consultant has joined us in ten of these meetings and kept us posted of the progress in the study. Views gathered through the forums and written submissions have been forwarded to the Consultant for analysis, while we did our own analysis in parallel. Based on its findings in the five-country study and the

feedback collected, the Consultant submitted its Final Report to us on 12 August 2002 (Appendix XII).

1.13 Having studied all submissions received and the Final Report of the Consultant, we are now in a position to set out our own observations and recommendations. We wish to stress that all the views received have been taken into account in our deliberations. In the chapters which follow, we strive to refer to the representations which we have received. However, as it is not possible to refer to each and every representation, the fact that we do not mention all or any of the points made in certain representations does not mean that they have not been considered.

1.14 Our observations and the priority areas identified for further study are depicted in the ensuing chapters.

CHAPTER 2

REVIEW OF DEVELOPMENT OF CIVIL SERVICE PAY POLICY AND SYSTEM IN HONG KONG

(This chapter sets out the background against which the current review was initiated, and takes a critical look at the development of the civil service pay system in Hong Kong)

The Need for Review

2.1 A fundamental question that has often been raised during the consultation exercise is whether there is a need to review the civil service pay policy and system at this time. In this connection, we would like to set out the background against which the three advisory bodies were invited to conduct this review.

2.2 When the Secretary for the Civil Service wrote to the Chairmen of the three advisory bodies on civil service salaries and conditions of service on 18 December 2001, he pointed out that –

“During the recent public discussion on civil service pay, there are concerns in some quarters that other than the starting salary levels, the Administration has not reviewed the salary levels beyond the entry ranks in the civil service for over a decade. As a result, the pay for certain grades and ranks in the civil service is no longer broadly comparable to the pay levels in the private sector. Concerns have also been raised about the validity of the annual pay adjustment mechanism. The central issue arising from the recent discussion is the extent to which

our current civil service pay policy and system are still in keeping with today's circumstances.”¹

2.3 It was against this background that the review had been proposed, with a view to modernising the pay policy/system, having regard to the best practices elsewhere, making it simpler and easier to administer, and building in more flexibility to facilitate matching of jobs, talents and pay.

2.4 We agree with the Secretary for the Civil Service that the time is ripe for a comprehensive review. Having studied the findings of the Consultant on the best practices in other countries and feedback from the consultation exercise, we are also of the view that there are a number of areas which should be explored in further detail in Phase Two of the review. We will elaborate in later chapters in this report.

Changes Cannot be Rushed

2.5 The Task Force is aware of the sensitivity of the staff sides towards any major changes to the pay system, as underpinned by their extensive views expressed during consultation.

2.6 We wish to state, at the outset, that our recommendations at this stage are in the main conceptual and will go no further than to identify specific areas which should be explored further to see how and to what extent such changes would be appropriate and feasible in the context of Hong Kong. In considering the way forward, we agree fully with the observations of the Consultant that *a long-term view needs to be taken of pay reform, and gaining buy-in and commitment to change from key stakeholders is critical.*²

2.7 The countries studied typically implemented reform embracing civil service pay and grading policy over a period of some 15 to 20 years. In all cases, the reform consisted of a series of changes on different aspects

¹ Secretary for the Civil Service's letter, Para 3

² Consultant's Final Report, Page A1

of pay management. Proposals were generally implemented in an incremental fashion with fine-tuning and revision along the process. In the case of New Zealand, however, the Consultant observes that “more recently, some of the more radical reforms have been wound back significantly in the light of concerns about their effectiveness”.³ In deciding to embark on any reform after relevant issues have been fully considered in Phase Two of the review, it is of vital importance for the Administration to bear in mind the lesson that the changes cannot be rushed. They can only be implemented gradually and progressively, securing stakeholders’ buy-in throughout the process.

Review of Development in Hong Kong

2.8 In Chapter 2 of our Interim Report, we revisited the development of the civil service pay policy and system in Hong Kong since the middle of the 20th century. With a view to maintaining an open mind before we have had the opportunity to consult interested parties and the public, the chapter was confined to a factual account, without any attempt to look critically at the strengths and weaknesses of the policy and system, and how they would fare vis-à-vis the changing socio-economic and political circumstances. We are now in a position to take a more critical look.

2.9 Historically the civil service in Hong Kong was modelled on the British system. In common with other traditional civil service systems, the system in Hong Kong treasures stability and continuity, and rewards long service and loyalty. A lifelong vocation, progressive pay scales and steady promotion for those at the middle to senior ranks, and generous occupational welfare are some of the main features of this system. The system has evolved gradually over the years, providing Hong Kong with a stable, clean and efficient civil service.

³ Consultant’s Interim Report, Page 14

The Need to Modernise

2.10 However, as the study by the Consultant has shown, governments nowadays are finding it necessary to modernise their civil service to cope with changes in the socio-economic and political circumstances. The civil service in the United Kingdom, on which we modelled our system, has in fact undergone major reform over the course of the past 20 years. Some common trends of reform in the five countries studied include the devolution of more responsibility for pay policy and administration to individual departments and agencies, more emphasis on affordability, ongoing efforts to link pay more closely with performance, and a drive to replace rigid central systems with more flexible approaches.⁴

2.11 As we have mentioned in Chapter 2 of our Interim Report, broad comparability with the private sector has all along been taken by the Administration as an important factor in setting civil service pay.⁵ Historically, this principle of broad comparability was premised on a comparison with the big companies (and hongts), which operated in a similar mindset in terms of organisational and human resource management. Affordability is another factor in pay determination, at least on paper. However, the fact that Hong Kong had experienced sustained economic growth from the 1970s to the 1990s meant that affordability was never a prominent issue. As a result, the pay adjustment system in practice has become more or less a formula-based mechanism,⁶ which had served its purpose well during the said period, particularly in minimising conflicts between the Administration and the staff sides.

2.12 Against the historical backdrop depicted in the above paragraphs, a rigid network of internal relativities, with a proliferation of grades and ranks, has developed in the civil service. Over-reliance on an annual pay trend survey (which only measures pay movements in the private sector) in determining pay adjustments (and hence levels) has given rise to doubt regarding whether civil service pay levels are still broadly

⁴ Consultant's Final Report, Pages A2

⁵ Task Force's Interim Report, Page 4

⁶ Other factors that are taken into account include changes to the cost of living, the state of the economy, budgetary consideration, pay claims from the staff sides, and civil service morale.

comparable to those in the private sector. Apart from the reviews on starting salaries in 1989 (as part of an overall salary structure review) and 1999,⁷ a comprehensive pay level review has not been conducted since 1986 (and even the results of the 1986 review had not been adopted).⁸

Changing Circumstances

2.13 Since the 1990s, the private sector has undergone many changes in organisational and human resource management, e.g. in putting more emphasis on flexible, performance-related, clean wages (i.e. paying “all cash” wages in lieu of allowances, housing benefits, etc.). Taking these changes into account, and if the principle of comparability with the private sector is to continue, we must consider with what aspects of private sector pay management should the comparison be made. Should it simply be a comparison of pay levels? Or should the comparison also include pay practices, the degree of flexibility and cost centre responsibility?

2.14 Since 1997 Hong Kong has experienced a prolonged economic downturn. In view of the prospects of a more volatile economy, the civil service pay system has to be such that it can respond more flexibly to economic fluctuations. Such fluctuations would ultimately affect the Government’s fiscal position and ability to pay. Affordability therefore becomes a prominent issue. What is required would be an adjustment mechanism whereby civil service pay can move up and down broadly in line with economic performance and market trends.

2.15 Since the 1990s, the public has expected more from the civil service, in terms of value for money, efficiency, etc. While performance in public sector work may not be easy to quantify and measure, the Government has still to demonstrate somehow to the public that civil servants are paid according to their performance, hence giving taxpayers more value for money. A rigid pay regime which is seen to reward performers, under-performers and non-performers indiscriminately will not be acceptable — not only to the general public, but even increasingly among civil servants themselves. Traditionally, there is much reliance on

⁷ Task Force’s Interim Report, Page 12

⁸ Ibid., Pages 6-10

promotion as reward for service and performance. However, in times of slow growth in the civil service, promotion is not necessarily a practical solution to rewarding service and performance.

Comprehensive Approach

2.16 In view of the various issues highlighted above, we have come to the conclusion that there is the need to consider a comprehensive approach to modernising the civil service pay system in Hong Kong. This is not to deny the fact that the system has served Hong Kong well by providing a stable, clean and efficient civil service over the years. It is the rapidly changing socio-economic and political circumstances which have given rise to the need to modernise the system.

2.17 We will set out in the next chapter a clear vision and direction for modernisation. We must, nevertheless, repeat the caveat that any changes must not be rushed. The actual steps to be taken must be incremental, so as to gain stakeholder buy-in and operational experience, and to build up the confidence of the public and civil servants in meeting each step of the reform.

2.18 However, we will also identify pressing issues confronting the current pay system which have to be addressed promptly, while other longer-term reform measures are considered.

CHAPTER 3

LONG-TERM VISION

(This chapter sets out our long-term vision for the civil service pay system)

Introduction

3.1 Before plunging headlong into the five specific areas which we have been asked to look into, we consider it important to pause to visualise what we think the civil service pay system should be like in the *long term*. While this vision provides a direction for reform, we do not intend to prescribe a rigid timeframe for its fulfilment. We are fully convinced that any reform should be implemented gradually and progressively, with stakeholders' buy-in and commitment secured throughout the process. Taking into account the experience in the five countries studied, the "long term" referred to above could well be a matter of a decade or more.

Our Vision

3.2 Our vision of the civil service pay system going forward is one which should be –

- (a) able to offer sufficient remuneration to recruit, retain and motivate staff of a suitable calibre to provide the public with an efficient and effective service;
- (b) regarded as fair both by civil servants and by the public which they serve;
- (c) able to complement, support and facilitate the effective and efficient operation of the civil service, and allow it to change

and evolve over time to keep up with socio-economic changes, yet stable enough to assure civil servants of their reasonable expectations;

- (d) simple enough so that an inordinate amount of resources is not required to administer it, yet flexible enough to allow managers to provide incentives as appropriate;
- (e) able to distinguish between performers and non-performers, and allow managers to act accordingly;
- (f) able to empower managers to manage staff resources effectively and flexibly, taking care of specific needs of individual departments; and
- (g) reviewed regularly to take account of the latest developments in international best practices which may be relevant to Hong Kong.

Elements of the Vision

3.3 The first two elements, (a) and (b), in the above list are taken directly from the existing policy statement of the Government. As principles, they are self-evident and are clearly the starting points of the pay policy and system of a responsible government. A fundamental question which the Administration should consider is the quality of persons which the civil service should aim to recruit and retain. For the purpose of this review, as we have discussed in the preceding chapter, the issue is whether the mechanism which has been used in achieving the said objectives with reasonable success over the years is still in step with rapid changes in the socio-economic and political circumstances.

3.4 The next three elements, (c) to (e), are meant to redress the rigidity which have developed over the years in the name of buttressing a stable civil service. The issue at stake is whether the existing structure is in keeping with the expectations of today's society and the best practices in modern human resource management. One needs to be watchful that an overly rigid system which provides little discretion to managers and

inadequate opportunity or incentive to staff is not conducive to a performance culture that emphasises ownership of responsibility.

3.5 Element (f) takes the concept of empowerment/ownership one step further. A highly centralised pay administration constrains the ability of departments or line managers to effectively manage their human resources (and the very significant fiscal resources involved). Viewed from another angle, it exempts the departments/line managers from taking responsibility to manage their human (and related fiscal) resources to produce the best results. The consequence may be such that departments/line managers become unable and unwilling to take ownership of human resource management, leading to an outside view that “civil servants are in effect paid for their job rather than for their performance”.¹

3.6 The empowerment of managers provides only half the answer to the question of taking ownership of human resource management. The question remains as to their willingness. In our recent discussion with departmental management, a common view expressed is that they would gladly leave pay administration to a centralised (or central) mechanism while they concentrate on the professional work or pursue their departmental objectives. This view ignores the reality that ownership of, and hence the exercise of discipline in, human and fiscal resource management is one of the most important elements in achieving the best deployment of limited resources to obtain the best results.

3.7 We fully understand the sentiments of departmental management, given their workload, the fast changes in the political scenario, the demand from the public and the relatively “smooth” operation of the highly centralised pay administration over the years. A critical step towards achieving the objective set out in (f) must be to nurture a change in the culture or mindset of the civil service in this regard. There is no point in pursuing this objective if stakeholders’ buy-in and commitment could not be secured. The enormity of the task should not be under-estimated. As a first step, there is simply no substitute for frank, constructive and

¹ Anthony B. L. Cheung. “Moving into Performance Pay for Hong Kong Civil Servants: Conceptualization and Implementation Problems”, in *Public Administration and Policy*, September 1999, Page 12

patient dialogue involving the Administration, departmental management and the staff sides, with a view to jointly mapping out the next steps. There should be a unity of purpose among all sides to ensure the provision of quality service and value for money to the public.

3.8 The last element, (g), is self-evident. Any effective reward system must be one that is subject to regular review to ensure that it keeps up with the times.

The Road Ahead

3.9 Having set our sight on a vision in the distance, we must remind ourselves that changes cannot be rushed. Given the long road ahead, even the vision we paint now may need to be adjusted and modified over time in response to ever-changing socio-economic circumstances.

3.10 We will bear the above in mind as we proceed to study the five specific areas which we have been asked to look into.

CHAPTER 4

PAY POLICIES, PAY SYSTEM AND PAY STRUCTURE

(This chapter examines a number of key issues on pay policies, pay system and pay structure, and identifies possible improvement initiatives for further study in Phase Two of the review)

4.1 As discussed in Chapters 2 and 3, there is the need to consider a comprehensive approach to modernising the civil service pay system in Hong Kong. In considering the appropriate scope and pace of change, we start with a look at some common features of the reforms conducted over the past 15 to 20 years in the surveyed countries.

COMMON FEATURES IN SURVEYED COUNTRIES

4.2 The Consultant has indicated in its Interim Report that different policies and systems have evolved in the countries studied to meet their specific needs. The important common features are clearly identifiable. They include –

- (a) devolution of more responsibility for pay policy and administration to individual departments and agencies with a view to improving flexibility, accountability and overall performance and efficiency, but retaining central control of pay arrangements for the senior civil service (decentralisation);¹
- (b) a belief that in certain areas (e.g. equal opportunities, training development and merit-based approaches to appointment and promotion) the civil service has a leadership role to play as a

¹ Consultant's Interim Report, Pages 3 & 16

“good” employer, with associated implications for pay policy and structures (comparability);²

- (c) an emphasis on affordability and paying appropriately to recruit, retain and motivate staff, with correspondingly less importance given to formal pay comparability with the private sector and internal relativity (comparability and affordability);²
- (d) ongoing efforts to link pay more closely to performance (performance pay);³
- (e) a drive to replace rigid central systems with more flexible approaches including the adoption of pay ranges, particularly for the senior management levels (replacing fixed pay scales with pay ranges);⁴
- (f) an initiative to consolidate and remove allowances (i.e. either abolish or consolidate them into base pay) in order to improve transparency and accountability and to reduce administrative costs (clean wage policy);⁵ and
- (g) providing separate pay arrangements only for limited groups broadly equivalent to the Hong Kong disciplined services where special provisions apply (e.g. where the right to take industrial action has been removed).⁶

4.3 Item (a) of the above list will be discussed in Chapter 8, item (d) in Chapter 7 and item (e) in Chapter 5. The rest will be covered in paragraphs 4.11 – 4.65. Before going into details, however, we would like to consider first the general issue of the extent and pace of change that would be appropriate for Hong Kong.

² Ibid., Pages 3 & 17

³ Ibid., Page 4

⁴ Ibid., Pages 4, 17-18

⁵ Ibid., Page 18

⁶ Ibid., Page 19

EXTENT AND PACE OF CHANGE

Experience in Surveyed Countries

4.4 The Consultant has pointed out that all the countries studied have implemented wide-ranging pay and grade reforms over the past 15 to 20 years, as part of their long-term public sector reforms, to keep up with changes in the socio-economic and political circumstances. By taking a long-term view and adopting a phased approach to implementation (rather than a “big bang” approach), they have been able to modernise their pay policies and systems.

Results of Public Consultation

4.5 Most departmental management who responded do not consider it necessary to have a major overhaul of the current pay policy and system as they have merits and have stood the test of time. Where improvements are necessary to keep up with the pace of development, the changes should be carefully thought through and introduced incrementally. Time and effort should be devoted to designing, testing and adjusting the changes to the current system. These should be complemented by other human resource management initiatives such as the development of an objective performance-based appraisal system and a more structured job evaluation system. Full consultation with the staff side is necessary at all stages of the changes. Drastic changes with insufficient consultation and time for buy-in will only lead to a deterioration in the quality of service and adversely affect staff morale. They point out that civil service is not a commercial organisation and in many cases is difficult to adopt objective criteria for performance measurement. The difference in the nature of work of the two sectors should be duly recognised.

4.6 A few departments prefer an overhaul of the current system to piece-meal improvements as the latter would not be able to achieve the desired level of change necessary to modernise the Hong Kong system. They propose a long-term plan with phased short-term implementation targets to ensure smooth progression.

4.7 An overwhelming majority of civil service staff bodies which responded do not support a major overhaul of the current pay policy and system given that they have been working well for many years and have proven to be effective in maintaining a stable civil service. However, some of them agree that there is room for improvement. They suggest that changes should be implemented incrementally and be applied to new recruits only. Existing staff should be given the option to choose the old or new system. Only a few associations consider that a major overhaul is necessary, but given the current socio-economic situation, even this group consider it inappropriate to conduct such an overhaul at this stage.

4.8 Very similar views have been expressed in the responses from individual civil servants and departmental consultative councils. Some point out that as a number of civil service reform initiatives have been implemented in recent years and their effects have yet to be evaluated, it is inappropriate to introduce a major overhaul to the current system at this point in time.

4.9 Views expressed among the non-government sectors are mixed. A slight majority support a major overhaul of the current policy and system to make them more flexible and performance-based (as against what they perceive as seniority-based) and to prevent civil service pay from leading the market. Those who object to a major overhaul consider it important to maintain stability and to adopt an incremental approach. In their opinion, the present system has laid down the foundation for a clean, efficient and stable civil service. Any drastic change would affect the morale of civil servants and staff in the subvented organisations, in turn affecting the quality of service provided and the stability of the civil service as a whole.

The Task Force's Views

4.10 Having carefully considered the issue in the light of the Consultant's findings and the views obtained in the public consultation exercise, we consider that instead of making drastic, abrupt changes to the current policy and system, a programme of progressive improvements should be introduced to address the latest management needs and different stakeholders' expectations. These improvements are essential in order to ensure the effective and efficient operation of the civil service, by better

empowering the managers to manage their resources flexibly and allowing them to distinguish further between performers and non-performers. Details should be examined in Phase Two of the review.

COMPARABILITY WITH THE PRIVATE SECTOR

Experience in Surveyed Countries

4.11 In the Consultant's Interim Report, it was pointed out that all the countries surveyed have continued to stress the importance of providing sufficient pay to attract, retain and motivate suitable staff. In doing so, they have often tried to maintain "broad comparability" with the private sector although any explicit link has usually been dropped. In other words, less importance has been attached to formal pay comparability with the private sector and care has been taken to avoid leading the private sector. However, all the countries surveyed believe that in certain areas not directly related to pay, e.g. equal opportunities policies, emphasis on training and development, and merit-based approaches to appointment and promotion, it is important for the civil service to lead as a good employer.

4.12 The Consultant has also observed that in line with the process of decentralisation of pay administration to departments and agencies, the surveyed countries have moved away from an over-emphasis on internal relativities.⁷

4.13 These policies have been successful in rationalising civil service pay in the face of public expenditure constraints. However, over time the senior civil servants' pay in Australia and the United Kingdom have lagged behind that of the private sector by a great margin.⁸ There have been recent attempts to bridge this gap in those countries.

The Hong Kong Experience So Far

4.14 In the case of Hong Kong, the 1965 Salaries Commission recommended that civil service pay should be based on the principle of fair

⁷ Ibid., Page 17

⁸ Ibid., Page 17

comparison with the private sector. This was further recommended by the 1968 Salaries Commission and accepted by the Administration, which drew up an elaborate statement containing the following basic principles –

- (a) the Government subscribes to the principle of fair comparison with the current remuneration of private sector staff employed on broadly comparable work, taking account of differences in other conditions of service; and
- (b) the public service has a reasonable claim to the maintenance of real income on the evidence of cost of living indices, provided it can be demonstrated that this is also the experience of other employees.⁹

4.15 The principle of fair comparison has been reviewed regularly since then and has been invariably reaffirmed as the cornerstone for pay reviews. The idea is now well entrenched among civil service staff bodies and civil servants in general. The general public also accept this principle but they have recently cast doubts on some of the elements of comparison.

4.16 Comparability is in itself a complicated issue as there is no comparable activity (e.g. law enforcement, licensing etc.) in the private sector for many government activities. Whilst noting the difficulty, the following attempts have been made to address the issue –

- (a) conducting pay level surveys from time to time to assess corresponding pay levels for comparable work in the private sector; and
- (b) conducting annual pay trend surveys to ensure that civil service pay moves broadly in line with the general pay movements in the private sector.

4.17 In theory the two should complement each other. In practice, however, (a) has not been conducted since 1986 following an unsuccessful

⁹ Task Force Interim Report, Page 5

attempt. Adjustment of civil service pay on the basis of the results of (b), without (a), over the past 16 years partly accounts for the public call to review the pay adjustment system. (This will be examined in greater detail in Chapter 6.)

Results of Public Consultation

4.18 The departmental management who responded generally consider that the principle of broad comparability with the private sector should be adhered to. Regular pay level reviews should be conducted in addition to the annual pay trend surveys. In order to recruit, retain and motivate the right people for providing quality service, there is a strong need to keep civil service pay competitive. Some point out that the principle of comparison is more important in pay level setting than in pay adjustment. Others consider that as the Government and the private sector firms are engaged in different activities, direct job-to-job comparison is difficult if not impossible. This is particularly the case in respect of the disciplined services as their job nature is unique and there are few comparable jobs in the private sector. For the purpose of broad comparability, one proposal is to make reference to the average earning of a worker with similar experience/qualification/skill levels in a comparable field.

4.19 All civil service staff bodies which responded share the view that the principle of broad comparability should be adhered to as this will enable the civil service to remain competitive in recruiting and retaining suitable staff. Most of them consider that the existing pay review system is effective and should continue to be adopted. A few of them suggest that the survey methodology should be modified and updated so that it could be more responsive to changes in the socio-economic environment.

4.20 Civil service respondents generally support the continued adherence to the principle of broad comparability with the private sector. Some of them suggest that benchmarking civil service pay at the upper quartile of the pay profile of the private sector should continue in order to maintain the stability of the civil service. Others opine that civil service pay should be slightly above the market rate to attract or retain staff of the

appropriate calibre. Where comparable counterparts cannot be found in the private sector, adjustments can be made through internal relativity.

4.21 Most views expressed among the non-civil service sector support the continuation of the principle of broad comparability with the private sector. However, there are clear divisions in opinion as to how this can be achieved. Some pointed out that the existing review system is unable to fully reflect rapid changes in the economic situation and the labour market and should be overhauled. Others are of the view that while some minor changes are required, the existing system (basing mainly on pay trend surveys) is generally in order. Recent problems mainly arise from the lack of a pay level survey to complement it. They therefore highlight the need for regular pay level surveys and formal job evaluations to remove the perceived pay gap between the civil service and the private sector.

4.22 Views expressed in press articles mainly support the principle of broad comparability with the private sector. However, there is a suggestion to sever the link between civil service salaries and the private sector pay as the goals of the two are different in that the former is to provide public services and the latter is to gain profits.

The Task Force's Views

4.23 Having carefully examined the issue of comparability in the light of the Consultant's findings and the results of the public consultation exercise, we agree that broad comparability with the private sector should be maintained as a basic principle in setting civil service pay. In the absence of a competitive market for government products, comparability with the private sector enables the indirect operation of some "market discipline" on civil service pay and helps the Government to maintain competitiveness with the private sector.¹⁰ We believe that the Government should, through regular reviews on pay structure, pay levels and pay trends, aim at establishing reasonable rates of pay that can be accepted as fair by

¹⁰ Anthony B.L. Cheung. "The Civil Service Pay System in Hong Kong: Implications for Efficiency and Equity", in *Asian Civil Service Systems : Improving Efficiency and Productivity*, John P. Burns (ed.) (Times Academics Press, Singapore) June 1994. Page 274

both its employees and the general public, and are sufficient to recruit, retain and motivate the right staff for delivering quality service to the public at large. As can be seen from paragraph 3.2(a) and (b) in the previous chapter, the above are basic elements in our vision of the civil service pay system going forward.

AFFORDABILITY

Experience in Surveyed Countries

4.24 In the Consultant's Interim Report, it was pointed out that as a result of serious fiscal and public expenditure constraints in recent years, affordability has become a dominant feature of pay policy in all the surveyed countries. This is particularly prominent in cases where pay responsibilities have been substantially devolved to departments and agencies and budgetary limits have become the key control mechanism. The tight expenditure control has also limited the ability to implement more performance-related pay systems and adversely affected the acceptability and perceived value of such schemes.¹¹

The Hong Kong Experience So Far

4.25 Locally, affordability had never been a prominent issue in the past few decades when Hong Kong experienced phenomenal socio-economic development underpinned by sustained economic growth. Since 1997, however, we have experienced a prolonged economic downturn. The prospects of a more volatile economy and recurrent budget deficits have prompted many to re-focus on the issue of affordability.

Results of Public Consultation

4.26 The departmental management who responded generally agree that affordability is an important factor but not an over-riding one in determining pay adjustments. The prime consideration is to maintain Government's ability to recruit and retain quality staff and to minimise fluctuations in civil service pay in order to maintain the stability and

¹¹ Consultant's Interim Report, Pages 16-17

morale of the civil service. In their opinion, fiscal problems are normally caused by factors (e.g. economic downturn, revenue generation and allocation of resources) beyond the control of the civil service. It would be unfair for the civil service to bear the responsibility for deficits. Moreover, Government's affordability is difficult to determine. Adopting this as the over-riding consideration in pay reviews could render the process vulnerable to external considerations and ultimately affect the morale and stability of the civil service.

4.27 A few departments consider that more emphasis can be placed on affordability in pay adjustments, especially in departments and agencies which are operating on a trading-fund set-up.

4.28 An overwhelming majority of the civil service staff bodies which responded share the view that affordability should be an important but not over-riding consideration in pay adjustments. The general view is that Government's expenditure is made up of many components and its affordability should not be directly linked to the civil service pay adjustment. They consider it unfair to blame civil servants for the structural deficit and to force them to bear the consequences. This will only affect staff morale and lead to a drain of talent, especially at times of a booming economy.

4.29 Responses from individual civil servants and departmental consultative councils also agree that affordability should be a factor of consideration but not an over-riding one in determining pay adjustments. Some point out that the stability and morale of the civil service should be the prime consideration. Others consider that factors such as staff morale, cost of living, findings of pay trend surveys and the state of the economy should all be taken into account.

4.30 Views expressed among the non-civil service sectors are divided. A slight majority consider that Government's affordability to pay should be an over-riding consideration in pay adjustments as this would help the Government exercise some financial discipline over a significant part of its recurrent expenditure and contain the deficit problem. Those

who are against this view generally share the arguments of the civil service bodies.

4.31 The views expressed in press articles generally support the proposal to make Government's affordability an over-riding consideration in civil service pay adjustments.

The Task Force's Views

4.32 We have considered carefully the Consultant's findings, the feedback from the public consultation exercise, and the changing circumstances which we have discussed in Chapter 2 (see paragraphs 2.13 – 2.15). We are convinced that while affordability should be taken into account as a very important factor in determining pay adjustments, it should not be an over-riding factor. In this respect, we take affordability to mean the ability of Government to pay its staff in a way that is acceptable to society as a whole. Other factors such as staff morale, the cost of living adjustment, comparability with the private sector on pay level and pay trends and the performance of the economy should continue to be taken into account.

CLEAN WAGE POLICY

Experience in Surveyed Countries

4.33 In the Consultant's Interim Report, it was pointed out that all the surveyed countries have taken various initiatives to consolidate and remove allowances in order to improve transparency and accountability and to reduce administrative costs in processing them. In the United Kingdom, allowances have now been largely eliminated. In Singapore, a "clean wage" policy in which many allowances and perks have been abolished or consolidated into the basic pay, has been adopted. In others, only a small number of allowances have been retained for specific reasons such as undertaking particularly difficult or unpleasant tasks, working in remote or expensive locations, working overtime or beyond normal requirements and attracting or retaining particular skills which are in short supply temporarily. In general, such allowances will not exceed 10% of the total remuneration. This policy appears to have been welcomed by the staff side

as encashment or consolidation of allowances has provided them with greater freedom to make use of what they earn.¹²

The Hong Kong Experience So Far

4.34 In Hong Kong, while allowance rates are regularly updated, there have only been a few major reviews. A comprehensive review of job-related allowances was conducted by the Standing Commission on Civil Service Salaries and Conditions of Service from 1983 to 1985 and another one was conducted from 1999 to 2000. The Review Committee on Disciplined Services Pay and Conditions of Service (Rennie Committee) and the Standing Committee on Disciplined Services Salaries and Conditions of Service have also reviewed job-related allowances for disciplined services in 1988 and 1999 respectively. The continued need for individual allowances, the eligibility criteria, the rates and the payment arrangements were reviewed. The feasibility of a “clean wage” policy, *per se*, has not been studied.

Results of Public Consultation

4.35 The civilian departmental management who responded are generally in support of a “clean wage” policy as it will reduce administrative cost and allow more flexibility for the staff to use their take-home pay. It can also achieve the principle of equity through equal pay for the same rank and job. They agree that the out-dated allowances and fringe benefits should be removed and the justified ones should be incorporated into the respective salaries. Some of them point out that there should be no net reduction in the take-home pay due to tax implications. Care should also be taken not to allow the “clean wages” to inflate the pension liabilities.

4.36 Whilst some are skeptical of the benefits of a “clean wage” policy, the majority of the responses from the management of the disciplined services do not support such a policy. In their view, it will incur additional cost on pension and result in staff having to pay more tax. The increased “clean wage” may distort the picture and give an impression

¹² Ibid., Page 18

to the public that civil service pay is becoming higher and higher. They prefer to retain the current system of fringe benefits, in particular the provision of departmental quarters.

4.37 Views from civil service staff bodies are divided. The majority are opposed to the idea of a “clean wage” as it may lead to misallocation of resources in cases where officers who have exhausted their fringe benefit entitlements will receive the benefits again in the form of “all cash” wages. The inclusion of benefits may also jack up the pay level, making civil service pay unduly high. Many are worried that this policy will be used as an excuse to abolish some of the existing benefits. They therefore favour maintaining the status quo.

4.38 Those bodies which support a “clean wage” policy consider that it would help save costs in administering the various benefits and allowances, allow more flexibility for staff to make use of their benefits and make entitlements more post-tied which, in their opinion, is a better alternative than the current arrangement of setting some of the rates according to factors not related to the job, e.g. family size in the case of private tenancy allowance.

4.39 Submissions from individual civil servants also reflect mixed views on this issue. The arguments advanced in support of the proposal or against it are very similar to those offered by the staff side bodies.

4.40 The feedback from the general public and the non-civil service interest groups overwhelmingly support a “clean wage” policy. They consider that civil servants are receiving too many allowances and the outdated ones should be abolished. They believe that a “clean wage” policy will not only save administrative costs, but also increase the transparency of civil service allowances.

The Task Force’s Views

4.41 Having examined the issue in the light of the experience of the surveyed countries, we consider that the “clean wage” policy is conceptually desirable in terms of improving transparency/accountability and reducing administrative costs. As such, there are merits in applying it

to the Hong Kong civil service. However, we note the divided feedback from stakeholders. Before the proposal is further considered, a lot needs to be done to address doubts and to facilitate the buy-in of staff side bodies and individual civil servants. Given the unique operational need of the disciplined services (see paragraphs 4.63 – 4.64), some flexibility should be allowed for retention/consolidation of allowances to meet specific requirements.

4.42 In Phase Two of the review, the feasibility of consolidating job-related allowances into base pay should be examined as a medium-term target. The feasibility of incorporating other benefits into base pay should be examined as a long-term target.

SEPARATE ARRANGEMENTS FOR SENIOR CIVIL SERVANTS

Experience in Surveyed Countries

4.43 As reflected in the Consultant's Interim Report, whilst adopting decentralisation as a key, long-term thrust of pay reform, all five of the surveyed countries have continued to centrally manage most or all of their "senior civil service" (ranging from 750 to 3,000 top civil servants in each case) for pay and broader human resource management purposes. Many have introduced new pay-related initiatives such as flexible pay ranges, performance pay, "clean wages" among this group. Experience shows that this approach is an effective way of maintaining a ceiling on public sector pay levels and ensuring that the civil service operates in a coherent way with flexibility for staff mobility between departments/agencies at the most senior level.¹³

Hong Kong Experience So Far

4.44 The directorate staff (comprising some 1,300 officers) in the Hong Kong civil service, more or less the local equivalent of the "senior civil service" of the surveyed countries, have a separate pay scale and are entitled to some fringe benefits not available to other officers. About 340 of this group are generalists (i.e. Administrative Officer Staff Grade C and

¹³ Ibid., Page 16

above, and Principal Executive Officer and above) who are subject to posting across bureaux and departments. The rest are professionals/technocrats who are normally tied to the departments they serve and may only be cross-posted to the related departments on a limited basis. The grading and ranking of such posts and their pay and conditions of service are looked after by a dedicated advisory body, namely, the Standing Committee on Directorate Salaries and Conditions of Service. However, in terms of the annual pay adjustments, they normally follow the level recommended for the upper band of the Master Pay Scale.

Results of Public Consultation

4.45 A majority of civilian departmental management who responded agree that senior civil servants could be subject to a different pay policy with more emphasis on risk and award factors as they are required to cope with higher levels of management responsibilities, accountability and stress. They believe that changes in pay policies and systems for this group can be more readily implemented, given the relatively small number of staff involved. However, a few management respondents consider that all civil servants, irrespective of their ranks should be subject to the same basic pay principles. To do otherwise would only increase the divisiveness among different groups of civil servants. Some of them suggest that the term “senior civil servants” should be clearly defined. Others caution against the inclusion of an unnecessarily high element of risk in the pay system as this would jeopardise the stability of the civil service.

4.46 The views from the disciplined services departmental management are divided. Some agree that more risk/award factors should be incorporated into the system. Others prefer maintaining the status quo, citing the divisive effects of different pay policies for different ranks of staff.

4.47 As regards the staff unions/associations which responded, the majority do not support a different pay policy for the senior civil servants as its divisive effect would bring disharmony and disparity to the civil service, and ultimately affect staff morale. In their opinion, the current pay

arrangements have already reflected the differences in responsibilities and accountability. Over-emphasis of risk/award factors will only destabilise the civil service. Those who support a different pay policy for senior civil servants mainly do so on the basis of the unique and demanding role of this group of civil servants.

4.48 Views from individual civil servants are divided. The reasons for supporting the proposal or rejecting it are very similar to those offered by the departmental management.

4.49 The feedback from the general public and non-civil service interest groups overwhelmingly support a different pay policy and system for senior civil servants, as this group of officers are required to shoulder greater responsibilities and accountability, have more discretion in process management and in problem-solving and can be more closely aligned with their private-sector counterparts in terms of recruitment, motivation and retention. Some even suggest that consideration be given to including similar risk/award factors in the pay for middle-ranking officers as a long-term target, given that they are part of the management team.

4.50 Press reports consider that the pay for senior civil servants should reflect higher risk and award factors.

The Task Force's Views

4.51 We note that in Hong Kong, the current pay and human resources management arrangements for directorate officers are already different from their non-directorate counterparts. This is in line with the continued central management of the senior civil service in the surveyed countries, notwithstanding the decentralisation of management functions in respect of the rest of the civil service. We believe such separate arrangements should be maintained for directorate officers here.

4.52 We have highlighted in the previous chapter our vision of a pay system that is conducive to a performance culture with emphasis on ownership of responsibility (see paragraphs 3.4 – 3.7). Given the higher level of management responsibilities and accountability of directorate officers, we believe that it should be useful to consider introducing to this

group pay initiatives that would better reflect responsibilities and accountability, increase the risk/award factors and the performance element. In this regard, securing the buy-in of this group of some 1,300 stakeholders should also be a useful starting point for new pay initiatives. We will consider specific areas in subsequent chapters.

4.53 In the course of our study, we have also considered the suggestion to extend the above arrangements to cover the senior professionals (i.e. officers on Master Pay Scale (MPS) Point 45 and above). This will increase the size of the population from 1,300 to some 6,300. In view of our conviction that reform should be introduced progressively, we intend to limit our definition of “senior civil servants” to the directorate in Phase Two of the review. The matter may be revisited in due course after experience has been gained with the progress of reform.

SEPARATE ARRANGEMENTS FOR THE DISCIPLINED SERVICES

Experience in Surveyed Countries

4.54 The Consultant has pointed out that there is no consistent model for handling pay arrangements in each of the surveyed countries for the broad equivalents to the Hong Kong disciplined services. The general trend appears to be providing separate arrangements for those disciplined services equivalents where the right to strike or take industrial action has been removed and/or where there is a perceived need to ensure that pay determination is independent of government and undue political interference.¹⁴ With the exception of Singapore, all the countries in question have established separate pay arrangements for the Police Force. However, most of the other disciplined services equivalents are (with some exceptions such as the United Kingdom Prison Service) managed in the same way as other civilian departments within the civil service or the broader public sector.

4.55 The different pay arrangements for uniformed and non-uniformed, or civilian, officers in the same organisation have created some efficiency and human resource management problems. Measures are being

¹⁴ Consultant's Final Report, Page 27

taken by some of the surveyed countries to better integrate all staff within a single pay and structure.

Hong Kong Experience So Far

4.56 The disciplined services in Hong Kong comprise six uniformed departments, namely, Correctional Services, Customs and Excise, Fire Services, Government Flying Service, Hong Kong Police Force and Immigration Department (collectively employing some 52,000 disciplined services staff) and the Independent Commission Against Corruption (which we have not been asked to cover in this review). Officers in the six disciplined services are remunerated under two independent pay scales, i.e. the Police Pay Scale (for the Police Force) and the General Disciplined Pay Scale (for the rest), with a pay advantage over their civilian counterparts. Their pay and conditions of service are looked after by a dedicated advisory body, i.e. the Standing Committee on Disciplined Services Salaries and Conditions of Service.

Results of Public Consultation

4.57 A significant majority of civilian departmental management who responded agree that the pay in the disciplined services should be treated differently from that in the rest of the civil service, citing the special nature of work, exposure to high risks, irregular working hours, high stress and strict disciplinary rules as their main considerations.

4.58 The management of all six disciplined services departments are in favour of separate pay arrangements for the disciplined services. The Police Force further suggest that an independent pay review mechanism should be established for the Police and the separate Police Pay Scale should be retained to keep the pay differential against the other disciplined services.

4.59 Views from the civil service staff bodies are divided. Those with a disciplined background are unanimous in that the pay in the disciplined services should be treated differently from that in the rest of the civil service, giving similar reasons as their management counterparts to support their argument. The majority of those with a civilian background

do not support special treatment for the disciplined services as they regard this as highly divisive.

4.60 As regards individual civil servants who responded, the majority support the proposal to treat the pay in the disciplined services differently from that in the rest of the civil service because of the unique work nature. Those who do not support the proposal are mainly concerned about potential divisiveness among civil servants.

4.61 Views from the general public are divided. The reasons for supporting or rejecting the proposal are very similar to those offered by civil servants. On the other hand, the majority of the non-civil service organisations which responded are in favour of a different treatment for the disciplined services.

The Task Force's Views

4.62 We note that under existing arrangements, the pay and conditions of service for the disciplined services are already treated differently from the rest of the civil service. The arrangements have worked well, and we do not see any reason to depart from them. Given that there are too few comparable jobs in the private sector for a meaningful comparison with posts in the disciplined services, we consider that the determination and adjustment of the pay in the disciplined services should continue to be based on internal relativity with the rest of the civil service.

4.63 In response to the Consultant's suggestion to review, for pay administration purposes, the definition of the disciplined services in the Hong Kong context, we have re-visited the list of departments grouped under the disciplined services. We note that the disciplined services personnel are required to meet specific demands in terms of physical fitness, resilience and ability to work under pressure. Factors such as shift duty requirements, operational posting effects on family life, etc. may not exist in other jobs, either inside or outside the civil service.

4.64 We have also been informed that the job nature of the Hong Kong disciplined services is more complex than those in the surveyed countries. An example of such added complexity is that immigration and

customs responsibilities in Hong Kong include investigations, arrests and prosecutions, whereas in some other countries such cases are referred to the police or other law enforcement agencies for follow-up action. Apart from that, some of the Hong Kong disciplined services are required at times to take on some para-military roles.

4.65 Having regard to the above, we do not see a need to revise the existing list of departments grouped under the disciplined services, which was recommended by the Rennie Committee. As an on-going initiative, however, we suggest that the management of the disciplined services should continue to streamline the front-line services and explore room for civilianisation of some of the support services within their respective organisations.

CHAPTER 5

REPLACING FIXED PAY SCALES WITH PAY RANGES

(This chapter sets out the Consultant's findings, the consultation feedback and the Task Force's views in relation to replacing fixed pay scales with pay ranges)

Introduction

5.1 For many years, Hong Kong has adopted a system of civil service pay scales with fixed annual increments. At present, there are a total of 13 pay scales (Appendix IX) applicable to different grades in the civil service. An officer is granted an increment annually until he reaches the maximum point applicable to his grade and rank. Theoretically, an increment may be withheld on account of unsatisfactory performance, but in practice, such cases are rare.

Experience in Surveyed Countries

5.2 In the Consultant's Interim Report, it is pointed out that all five of the comparator countries have replaced fixed pay scales (with automatic time-based increments) with more flexible pay ranges for their senior civil servants. The countries that have substantially delegated pay management responsibilities – the United Kingdom, Australia and New Zealand – have also extended the use of flexible pay ranges to most or all of their civil service. Typically, a minimum and maximum salary are specified for officers in a particular rank or band. Progression through the range is normally based on performance (i.e. no automatic increment) and considerable flexibility is allowed for officers to move within that range¹

¹ Consultant's Interim Report, Page 20

(e.g. fixed pay points with staff receiving 0, 1, 2 or even 3 pay points depending on performance).

5.3 The experience of the five surveyed countries in implementing flexible pay ranges has been diverse. The governments and senior officials in these countries generally believe that the introduction of pay ranges to the civil service has been successful, particularly in enabling a fairer system of reward (i.e. based on merit and not just time served) and encouraging a more performance-oriented culture. However, there has been, and continues to be, resistance to this approach from trade unions and staff who see the use of pay ranges as potentially divisive and counter-cultural.²

5.4 Experience in the surveyed countries also shows that the effectiveness and perceived fairness of flexible pay ranges depend critically on a comprehensive approach to performance measurement and management.

The Hong Kong Experience So Far

5.5 Hong Kong has no experience in more flexible pay ranges. Because of the extensive use of uniform pay scales with fixed annual increments, our civil servants have been long accustomed to a very rigid and time-based reward culture. Performance tends to be rewarded outside the pay scale by means of promotion.

Results of Public Consultation

General views on flexible pay-range system

5.6 Some of the responses from the management of civilian departments are in favour of the flexible pay-range system. They see benefits in terms of helping to motivate staff (particularly those who have reached the maximum of the pay scales), enhancing a performance-oriented culture and creating flexibility in pay in response to market trends.

² Ibid., Page 21

5.7 The management of other civilian departments who do not favour the system are more skeptical. They worry that with the introduction of performance-pay elements, short-term goals aimed at yielding quick returns will take priority over long-term objectives of the departments, affecting adversely the quality of service in the long run. Other anticipated implementation problems include “difficulties in managing a complicated pay system”, “insufficient market knowledge of civil servants to turn the system into an effective management tool”, “fostering of a flattery culture (some call it a ‘shoe-shining’ culture) and favouritism” and “less effective team work due to individual members competing for more pay”. It is perceived that before the advantages of the system can be realised, more resources will have to be put in developing a performance management system and in training staff ahead of changes. If there are not sufficient resources to reward deserving staff and merit increments are too small to differentiate performance, the idea is not worth pursuing.

5.8 The overwhelming majority of responses from the management of disciplined services also do not support the system. Apart from sharing the views mentioned in the above paragraph, they stress that given the uniqueness of the disciplined services, measures which otherwise apply to the private sector and civilian departments should not apply to them.

5.9 Some respondents from the staff sides of the civil service do not support the system. They consider that performance in most civil service jobs is difficult to quantify and measure in an objective way, and the system may give rise to many management problems, such as complaints and disputes over the fairness of appraisals. They express concern over the “difficulty in measuring the performance of an individual who works on a team basis”, the “possible divisiveness among civil servants”, the “aggravation of a flattery culture”, and the “disparity in pay for similar posts in different departments”. There is also concern about fairness of the system as some staff who have no choice in their posting are denied the varying opportunities offered by different jobs for demonstrating individual capability. They feel that a new system may not

be necessary since the existing performance management system can be enhanced to ensure that increments and promotions are well justified.

5.10 Some of the responding non-civil service organisations and non-civil service individuals are supportive of the flexible pay-range system. They consider that the current fixed pay-scale system with annual increments are primarily time-based rather than merit-based, and the award of increments adds to staff cost regardless of the economic condition and affordability. From their point of view, the pay-range system would help foster a stronger performance-oriented culture.

5.11 A few articles in the press have also commented on the flexible pay-range system. Some are supportive of the system as it would provide incentive for civil servants. There are, however, dissenting views that implementing pay ranges will only complicate the pay system as, in the absence of adequate transparency, a flattery culture may be encouraged, causing damage to staff morale as a whole. The existing fixed pay-scale system already has the built-in flexibility of not granting increments to non-performers.

5.12 Apart from changing to a flexible pay-range system, some feedback indicates that other measures may also be adopted in nurturing a performance culture. Examples are additional increments for outstanding performers, performance-based rewards such as annual performance bonus in addition to fixed pay scales, and free travel passage. Some consider that performance management tools not directly linked to pay may be applied through education, training, promotion and an exit system to remove non-performers.

Views regarding application of the system to directorate / senior staff

5.13 From the consultation feedback, opinions vary as regards the levels in the civil service to which pay ranges should apply. Some believe that civil servants at all levels should be subject to the same pay regime to ensure fairness and to avoid potential divisiveness. However, some respondents in the civil service and some non-civil servants suggest that the Administration should pilot the concept in the senior civil service. It is generally believed that senior civil servants, with heavier management

responsibilities, have influence and choice over what they do, whereas junior staff must follow instructions from senior staff and are typically in a more reactive position.

5.14 In the consultation with directorate officers, they express concern about the possibility of subjecting pay negotiation/settlement to public scrutiny. They believe that in the end, the system will not work since, under the pressure of public scrutiny, all officers will likely be awarded equal remuneration. The question is, therefore, whether pay should continue to be transparent when flexible pay ranges are introduced.

Views regarding application of the system to disciplined services

5.15 While not many respondents comment on whether the pay-range system should apply to the disciplined services, the overwhelming majority of the responding disciplined services, from both the management and the staff side, are not supportive of the idea. The reason given is that the nature of law enforcement is reactive to occurrences which are not within the control of the staff who are responsible for the enforcement. To try to quantify output as the basis for assessing and rewarding performance would be misleading. They emphasise that considerations unique to the disciplined services should be taken into account.

The Task Force's Views

5.16 As we have discussed in Chapter 2, the present fixed pay-scale system has, over many years, provided civil servants in Hong Kong with an expectation of steady pay progression. The rapidly changing socio-economic and political circumstances, however, have called for the modernisation of the system. The Government has to demonstrate to the public that civil servants are paid according to their performance, instead of adhering to a rigid regime that rewards performers, under-performers and non-performers indiscriminately. In this regard, the introduction of pay ranges is consistent with our vision of a more flexible system that provides discretion to managers and incentive to staff, and that is conducive to a performance culture with emphasis on ownership of responsibility (see paragraphs 3.2(c) – (e) and 3.4). The subject is also

related to performance pay and the issues discussed here should be considered together with the chapter on that subject (i.e. Chapter 7).

5.17 In the course of consultation, many respondents express concern over the practical difficulties in measuring staff performance in some civil service jobs. We agree that there are good grounds for this concern, as experience from the five surveyed countries indicates that the effectiveness of flexible pay ranges relies critically on the following good practice³ –

- (a) establishing clear linkages between overall government objectives, Departmental/Agency objectives and targets, and individual objectives and targets;
- (b) requiring civil servants to prepare and agree with their supervisor a personal performance plan or contract, against which their subsequent performance will be assessed;
- (c) placing considerable emphasis on developing robust and comprehensive performance measures, recognising that many aspects of public sector performance are difficult to measure in practice;
- (d) developing more sophisticated staff appraisal techniques; and
- (e) ensuring that processes are in place to handle poor as well as good performance.

5.18 We believe that it is essential that any effective pay-range system should be supported by an objective and fair appraisal system with adequate checks, and measurable indicators, which are not too complicated to operate. There should be good checks and balances in the system to enhance staff confidence and to prevent possible abuse of the system. The framework of the system should be perceived as transparent and equitable to all stakeholders.

³ Ibid., Page 21

5.19 Taking into account the fact that much of the concern about a flexible pay-range system focuses on the operational constraint, and potential abuse, while the intrinsic merits of such a system are not particularly questioned, and in the light of the Consultant's findings on overseas experience, we consider that the system, if properly designed and implemented, can bring benefits to performance management, especially for the senior staff. Under such a system, it will be easier for the pay levels of some civil service jobs to be adjusted in accordance with corresponding market trends. This would avoid triggering unnecessary intra-civil service adjustments simply on grounds of maintaining historical internal relativities which may be difficult to justify in present circumstances.⁴ The question of pay transparency will also have to be addressed.

5.20 Notwithstanding the above, we do not think a pay-range system should be relied upon as the sole contributor to enhancing a performance-oriented culture. As suggested by the consultation feedback, management tools such as education, training, promotion and an exit system to remove non-performers are also effective measures to nurture a performance culture. We would add that other work characteristics, such as a sense of accomplishment, challenging work, job security, personal growth and recognition are also important elements in nurturing a performance culture.⁵

5.21 We recommend that the feasibility of implementing flexible pay ranges should be further explored in Phase Two of the review. The existing performance appraisal system, a component which is fundamental and the pre-requisite for an effective flexible pay-range system, should be reviewed. The possible management problems and implementation difficulties raised by interested parties within and outside the Government should be examined in greater detail. Where necessary, stakeholders

⁴ Anthony B. L. Cheung. "Moving into Performance Pay for Hong Kong Civil Servants: Conceptualization and Implementation Problems", in *Public Administration and Policy*, September 1999. Page 20

⁵ Ibid., Page 16

should be involved in the process of designing a system that is acceptable to both the civil service and non-civil service sectors.

5.22 After a satisfactory performance appraisal system has been designed and fully tested, consideration should be given to introducing pay ranges only to senior civil servants at the directorate level as a pilot scheme. In the light of such experience, further extension can be considered. The MPS and its application should be reviewed to bring them more in line with private sector practice. Fine tuning adjustments, such as breaking up each pay point into smaller components and authorising management to reward outstanding performance by granting more than one pay point, can be explored.

5.23 In parallel with the consideration to review the existing performance appraisal system, we would also suggest to explore feasible measures that may be taken to help change the mindset of civil servants towards more flexible pay progression. As with any other part of the reform, every step towards consideration to change to pay ranges should be taken in full consultation with all parties concerned. Incumbents' recognition of the advantages of the system will be essential to move towards a modernised civil service pay system that can discriminate between performers and non-performers, and reward or sanction accordingly.

Directorate Level

5.24 We consider that after a satisfactory appraisal system has been developed and fully tested, a pilot scheme on flexible pay ranges (e.g. allowing for manoeuvring within minimum and maximum points) may be introduced at the directorate level in a few departments.

Disciplined Services

5.25 In view of the unique work nature of the disciplined services, we agree that, in the context of flexible pay ranges, this group of civil servants warrant separate consideration. After assessing the results of pilot schemes, further consideration may be given to whether (and, if so, how) the system should be extended to the disciplined services.

CHAPTER 6

PAY ADJUSTMENT SYSTEM AND MECHANISM

(This chapter sets out the Consultant's findings, the consultation feedback and the Task Force's views in relation to the present pay adjustment system and mechanism)

Introduction

6.1 As discussed in Chapter 4, "broad comparability with the private sector" has been one of the basic principles of civil service pay for many years (see paragraphs 4.11 – 4.23). To help ensure that civil service pay moves broadly in line with movements in the private sector, annual pay trend surveys (PTSs) have been conducted since 1974. The results of the PTSs are used as reference, amongst other factors, in determining annual pay adjustments in the civil service.

6.2 While the system has worked well in the past, and has contributed to providing Hong Kong with a stable, clean and efficient civil service, we see the need to examine whether it can still meet changing expectations from all quarters in the face of the present socio-economic circumstances.

Experience in Surveyed Countries

6.3 The Consultant has pointed out that historically, all the five countries studied had a highly centralised, national level pay and wage determination for the civil service. These systems tended to rely heavily on formula-based approaches to pay determination, and were often based on formal pay comparability with the private sector.¹

¹ Consultant's Final Report, Page 29

6.4 With the trend of decentralisation of pay administration to individual departments and agencies (more so in Australia, New Zealand and the United Kingdom, but to a lesser degree in Canada and Singapore), all the surveyed countries have moved away from a central, formula-based approach to pay determination. Individual departments now have greater delegated responsibility for pay determination, with affordability, achievement of performance goals, and recruitment, retention and motivation of staff as key considerations. Collective and individually negotiated agreements, within centrally determined bargaining and budgetary parameters, are now a common feature, with pay trend surveys and pay level benchmarking with the private sector used to inform rather than dictate the pay adjustment process.

6.5 The Consultant has also observed that the role of the central agencies has changed with more emphasis on setting the overall policy framework and providing advice, rather than directly controlling detailed pay negotiations.²

The Hong Kong Experience So Far

6.6 Details of the experience in Hong Kong in respect of the determination of civil service pay are set out in Chapter 2 of our Interim Report.³ Relevant developments are summarised in the following paragraphs.

6.7 In Hong Kong, civil service pay adjustments are determined with reference to the results of the annual PTS aimed at assessing the average pay movements of employees of private sector companies over the preceding 12 months. The current survey methodology setting out, inter alia, the criteria for selection of companies is at Appendix X.

6.8 For the purpose of the survey, the non-directorate civil service is divided into three salary bands. Companies participating in the survey are requested to provide information about changes in basic salaries on account of cost of living, general prosperity and company

² Task Force's Interim Report, Page 27

³ Ibid, Pages 6-12 and 14-16

performance, general changes in market rates and in-scale increment as well as changes in cash payments (e.g. merit pay, bonus) other than those relating to fringe benefits for employees in those salary bands. The information is then collated and analysed, according to the agreed methodology, to produce gross pay trend indicators (PTIs) for the three salary bands.⁴ Subject to the validation of the Pay Trend Survey Committee, the PTIs are submitted to the Administration as reference in determining the civil service pay adjustments.

6.9 Apart from the PTIs, the Administration also takes into account changes to the cost of living, the state of the economy, budgetary considerations, the staff sides' pay claims and civil service morale in determining pay adjustments.

6.10 We pointed out in Chapter 2 in our Interim Report that⁵ two major tasks are involved in establishing comparability with private sector pay –

- (a) identifying comparable work in the private sector and assessing corresponding pay levels (*pay level assessment*); and
- (b) assessing general pay movements in the private sector to ensure that civil service pay moved broadly in line (*pay trend assessment*).

The PTS only tackles task (b). A pay level review or survey is required for task (a).

6.11 In 1986, in response to staff request for an increase in pay, a consultant was commissioned to conduct a comprehensive pay level survey. The findings of the survey were, however, rejected by the staff sides. While discussion on this continued, there was further disagreement between the Administration and the staff sides over the size of the 1988

⁴ Ibid, Page 15

⁵ Ibid, Page 6

pay adjustment. In the event, a Committee of Inquiry (the Burrett Committee) was appointed to examine, inter alia, the methodology and findings of the 1986 pay level survey and comment on their validity as a basis for making adjustments to civil service pay. The terms of reference of the Burrett Committee also included reviewing the methodology employed in the 1987-88 PTS.

6.12 In accordance with the recommendations of the Burrett Committee, the Administration has since 1988 adopted the formula to deduct the value of civil service increments at their payroll cost (expressed as a percentage of the total payroll cost for each salary band) from the gross PTIs to produce the net PTIs. In considering the civil service pay adjustments, the Administration also takes into account the Burrett Committee's recommendation that where the resulting PTI for the lower salary band is below that for the middle band, it should be brought up to the same level unless there are over-riding reasons for not doing so.

Results of Public Consultation

6.13 The majority of the respondents in the civil service and some in the non-civil service sector agree that civil service pay should continue to adhere to the principle of broad comparability with the private sector. They generally believe that the current adjustment mechanism is fair, works well, and should not be replaced unless there is a better, proven alternative. The majority of these respondents, however, also support the idea of fine-tuning the present system, such as introducing more flexibility by separating the annual pay adjustment into two components – the first part being a basic pay adjustment applicable to all civil servants and the second part a discretionary portion awarded subject to performance. Others believe that more frequent and regular reviews could be conducted to ensure that the system is brought in line with the changing environment. It is also pointed out that if the present system is replaced, pay adjustment may have to be negotiated annually. This could be time-consuming, costly and counter-productive.

6.14 Some respondents in the civil service, on the other hand, argue that it is unfair to compare civil service and private sector jobs because in many cases, there are too few comparable jobs in the private

sector for objective comparison. In difficult times, private enterprises may cut service to reduce expenditure, but the level of service provided by the Government may not be varied in either good or bad times. Public demand for certain services, such as social welfare, may even be greater in bad times. It would therefore be unfair to compare civil service pay directly with that of the private sector.

6.15 A few press articles and some non-civil service organisations hold different views. They consider that civil service pay should not be directly linked to that of the private sector, one reason being that civil servants enjoy job security while employees in the private sector often do not. The present PTS is criticised for not taking into account the downsizing and cost-cutting measures initiated by private sector companies, which may have a bearing on salary adjustments in these companies. They point to flaws in the current formula, e.g. that the increment cost deducted from the gross PTI does not adequately offset the value civil servants actually gain through obtaining an increment (see paragraph 6.12 above and Appendix XI for background of the formula). They also consider the lack of pay level surveys as the cause of a widening pay disparity between the civil service and the private sector. They propose to include small and medium enterprises (with less than 100 employees) in the survey population to increase the representation of the pay trend surveys.

6.16 On the issue of whether fiscal constraints should be an over-riding factor in determining pay adjustments, most respondents in the civil service agree that it should be one factor, but not an over-riding factor. Views from respondents in the non-civil service sector, however, are rather diverse. Some think that fiscal constraints should be an over-riding factor, but some do not.

The Task Force's Views

Pay Levels and Pay Trends

6.17 Since the economic downturn in recent years, the pay adjustment mechanism has been under severe criticism, particularly as regards whether the method of comparing with the private sector is

reasonable and fair. The public is increasingly questioning whether the existing civil service pay adjustment mechanism is still compatible with the present socio-economic circumstances.

6.18 As we see it, the fundamental problem with the perceived pay disparity between the civil service and the private sector lies in the absence of a proper pay level comparison. In the 1989 Final Report of the Burrett Committee, it has been emphasised that there is an important link between pay level surveys and pay trend surveys. It is pointed out that –

“...even the most unstructured system of civil service pay determination must have regard to outside pay levels if only as an aid to satisfying recruitment and retention needs. When, as in Hong Kong, the total remuneration ‘package’ is intended, as a matter of deliberate policy, to be broadly comparable with that of private sector employees, there has to be a structured methodology for establishing a correct comparison. This involves the conduct of pay level surveys. If annual pay adjustments are an accepted practice in both sectors and if annual checks on the continuing correctness of the pay level comparison are either impossible or impractical, then there has also to be a mechanism for updating civil service pay in between the periodic checks on pay levels.

Conceptually therefore a pay trend survey is an adjunct to a pay level survey, a subsidiary mechanism for preventing civil service pay levels from falling too far out of line with those of the private sector in the intervals between pay level surveys. ... By contrast, a pay trend survey says nothing about the correctness of civil service pay levels. Indeed the pay increases resulting from pay trend surveys may arouse public comment which actually diverts attention from the far more important question of the correctness of the pay levels to which such increases are applied. Moreover, pay trend surveys are of their nature only approximate reflections of what has been happening in the private sector. They lead to

arguments over the types of outside pay increase to be included in the calculation of the pay trend indicators and how they should be weighted. Any errors arising from their broadbrush nature can produce excessive or inadequate adjustments to civil service pay which are cumulative and compounding in their effect year by year.

From the above reasons, we believe strongly that pay level surveys should be regarded as the foundation of the pay system and that the role of pay trend surveys, though still essential, should be reduced. It follows that pay level surveys should be conducted regularly and frequently. It will also then follow that the built-in inaccuracies of even the best possible pay trend methodology will matter less than they do at present. If rough justice for one party or the other cannot be avoided, it is more tolerable if the results are corrected quickly.”⁶

Regarding frequency, the Burrett Committee has recommended that *“the aim should be to mount a pay level survey at intervals of about every three years.”⁷*

6.19 We fully agree that pay level surveys should be the foundation of the pay determination mechanism while pay trend surveys play a complementary role to ensure that the civil service pay is updated in between the periodic checks on pay levels. The comparison with the private sector may be distorted if reliance is placed solely on the PTSs, which reflect only broadbrush changes in the pay of surveyed companies, in the absence of regular pay level surveys. Any disparity may be compounded in effect year by year.

⁶ Committee of Inquiry into the 1988 Civil Service Pay Adjustment and Related Matters (Burrett Committee), Final Report, Paras 5.3 – 5.6

⁷ Ibid, Para 5.38

Pay Level Surveys

6.20 Despite its important role in checking the appropriateness of pay levels, however, we note that a *comprehensive* pay level survey has not been conducted *successfully* (i.e. with results accepted by all parties concerned) for a very long time. The pay level survey conducted in 1986 was comprehensive, but the results and conclusions made were not accepted by the staff sides. The civil service starting salaries reviews conducted in 1979, 1989 and 1999 were limited in scope in that only benchmarks of salaries for entry-level jobs were established⁸. Hence, the question of whether civil service pay levels are comparable with those in the private sector has, in effect, been left unanswered for many years.

6.21 Given the large number of civil service grades and ranks, and the complexity in determining the actual pay level of different jobs, we appreciate that it is very difficult to find sufficient comparable jobs in the private sector to effectively carry out a comprehensive pay level comparison, and for the outcome of such a survey to be accepted by all concerned. We consider that it is necessary to examine this subject as a matter of priority so that a practical framework and methodology of pay level survey can be established and applied as soon as possible to provide much needed data to establish some form of comparability of civil service pay level with the private sector.

Pay Trend Surveys

6.22 Although we believe that the root of the present controversy over civil service pay lies in the absence of a pay level survey, we agree that there are a number of issues which must be addressed in respect of the existing PTS system, as has been pointed out by some of the respondents during consultation. To start with, the “broad comparison” principle is historically premised on a comparison with big companies with 100 employees or more. The established practice is that comparison should only be drawn with employers that are generally known as steady and good employers who conduct wage and salary administration on a

⁸ The starting salaries reviews in 1979 and 1989 were conducted as part of the overall salary structure reviews.

rational and systematic basis. As such, PTSs only collect data from large and reputable firms with 100 employees or more. To some extent, data so collected may be biased as the majority of the working population in Hong Kong work for small and medium sized enterprises with less than 100 employees. Unlike large firms, these enterprises are believed to be more volatile. To exclude them in the PTS could render the survey results less representative.

6.23 However, whether or not we include more smaller companies in the survey field, the ultimate question lies in the appropriate benchmarking sample for the pay adjustment survey. Consideration must be given to the representativeness of the economic sectors in general, the fulfilment of the criteria of a “good and steady” employer by companies in the sample, and the practical difficulty concerning participation.

6.24 Apart from comments on company size, the sample of surveyed companies is also subject to criticism for not being able to reflect accurately the territory-wide distribution of the economic population. Due to difficulty in finding companies to participate in the PTS in the past, and the need to maintain continuity in the survey sample, the survey population is heavily biased towards utility companies. This has led to allegations that the PTS results do not reflect accurately the general picture of pay adjustment, taking into account the economic population of all sectors as a whole. To address this inadequacy, the Pay Trend Survey Committee has, in recent years, included new companies from other economic sectors to the survey field, such as the “Wholesale, Retail and Import/Export” and the “Community, Social and Personal Service” sectors, with a view to securing a distribution that is more proportional to that of the territory as a whole. Nevertheless, progress made so far is slow due to the difficulty of finding and adding large number of surveyed companies in the under-represented sectors and the sheer size of the utility companies which are not easy to counter-balance over a short period of time.

6.25 Another common criticism is that the PTS does not take adequate account of the possibility that employees in a company may have received a pay increase only after the company has been downsized

or restructured. In the private sector, pay increase is a result of higher productivity in terms of output or value-added per employee, but in the civil service, productivity is difficult to measure and has not been a determinant of pay adjustment.

6.26 Under the existing pay-scale system, civil servants who have not reached the maximum points of their pay scales receive an annual increment in addition to the salary adjustment made in April each year. About 40% of the civil servants are in this group. Such practice is rare in the private sector and is therefore perceived as a kind of double adjustment. Although an increment deduction is applied to the gross PTIs every year, some critics argue that the value deducted does not adequately offset the value of increments, i.e. for those who have not reached the maximum points of their pay scales. (See also Appendix XI.)

6.27 Following the recommendation of the Burrett Committee in 1989, the Administration has established the practice that where the resulting PTI for the lower salary band is below that for the middle band, it is brought up to the same level unless there are over-riding reasons for not doing so. With changes in the distribution of the labour force and the socio-economic environment over the past ten years leading to an oversupply of labour and smaller increases in salaries at the lower end, the deliberate policy decision in the past may have aggravated the pay level imbalance between this group of civil servants and their private sector counterparts.

6.28 The fact that Hong Kong has experienced sustained economic growth from the 1970s to 1990s means that affordability, a factor for pay consideration at least on paper, had never been a prominent issue. Hence, the pay adjustment system in practice has become more or less a formula-based mechanism, which has the benefit of being straightforward and avoiding much argument with the staff sides. Whether this can continue is a matter that deserves serious consideration by the Administration given the current prolonged economic downturn.

6.29 In the past, pay increases for the civil service are applied across the board, without any regard to performance. Pay had only been

upwardly flexible and the reduction this year is only achieved by the introduction of highly controversial legislation. It is often a defence for objecting to pay cuts in the civil service that private sector bonuses in good years are not captured in the annual PTSs. Hence, it would be unfair for the civil service to follow private sector companies in cutting pay during bad times. This defence appears to be based on a misinterpretation of the PTS, as changes in bonuses are captured in the calculation of the PTIs.

6.30 To some extent, the responding stakeholders acknowledge that there are inadequacies in the existing pay adjustment system and some fine-tuning is required. We suggest that the existing PTS should be modernised to cope with the changing expectations from various stakeholders. The Administration should consider whether and what interim operational measures should be adopted, including whether or not the annual PTS in its current form should continue to be conducted in the interim period, pending an overall review of the pay adjustment system.

Further Consideration

6.31 In the light of the Consultant's findings, we also suggest that, in Phase Two, a closer look should be taken as to whether the growing overseas trend of moving away from formula-based approaches in pay determination has any useful application to Hong Kong. Without going into details at this stage, we would point out that, in studying this issue, regard must be given to the contextual differences between Hong Kong and the countries surveyed.

CHAPTER 7

INTRODUCING PERFORMANCE-BASED REWARDS

(This chapter sets out the Consultant's findings, the consultation feedback and the Task Force's views in relation to introducing performance-based rewards)

Introduction

7.1 When we discussed the development of the civil service pay system in Hong Kong in Chapter 2, we highlighted the fact that since the 1990s, the public has expected more from the civil service, in terms of value for money, efficiency, etc. We pointed out that a rigid regime which is seen to reward performers, under-performers and non-performers indiscriminately will not be acceptable — not only to the general public, but even increasingly among civil servants themselves.

7.2 The inclusion of performance pay as one of the five areas to study in this review may be premised on the following considerations. First, the private sector has successfully introduced performance-linked factors in remunerating their staff, resulting in good performers being awarded and non-performers being sanctioned. Second, it is the Administration's observation that linking performance to pay in the civil service is practised more and more by developed countries with some success. Therefore, doing the same in Hong Kong would be consistent with the practices of the private sector, and would increase productivity of the civil service and motivate better performers. In this chapter, we will look further at these assumptions.

Experience in Surveyed Countries

7.3 In its Interim Report,¹ the Consultant has pointed out that a common thread in all the countries surveyed is to link pay more closely to performance. As we have discussed in Chapter 5, the replacement of automatic annual increments on fixed pay scales by more flexible pay ranges (which enable different pay and increases to be given on the basis of performance) has been a significant step towards implementing performance-related pay in these countries.

7.4 In varying degrees, some of the surveyed countries have consolidated individual performance bonuses into base pay. Others prefer to administer them in the form of one-off payments either as a token for a good year's work or a reward for contribution to a project. The rewards have so far focused on senior civil servants, and do not form a major element in the pay structure (ranging from 5% in one country to over 30% in another). As regards more junior civil servants, many are not eligible for performance-based rewards. Where they are, the amount is usually less than 10% of salary.

7.5 Team-based performance rewards are less common, and are normally associated with completing a particular task or project, or achieving a prescribed performance target.

7.6 The success of any performance-based reward scheme depends very much on a credible supporting performance management framework that is fair and consistently applied. Adequate funding is also essential to allow meaningful rewards to be provided as a means to motivate staff.

7.7 The introduction of performance-based reward schemes takes time as well as commitment from both management and staff. Securing buy-in is crucial, particularly in convincing and training senior staff before they are prepared to introduce such schemes to their own staff.

¹ Consultant's Interim Report, Pages 24-25

7.8 In some countries, efforts to link civil service pay more closely to performance “have met with considerable resistance from Trade Unions and staff, particularly in the early stages of implementation”.² Implementation has not always been as successful as one would hope.

The Hong Kong Experience So Far

7.9 The Hong Kong Government’s experience in introducing performance-based pay is very limited. The proposal to progressively introduce elements of a performance-based reward system into the civil service first appeared in the Civil Service Reform Consultation Document published in March 1999.

7.10 A pilot scheme was implemented in six departments in October 2001 to test whether team-based performance rewards can be distributed fairly, and to secure buy-in among departments and staff sides. The results of this pilot scheme will not be known until later in 2002.

Results of Public Consultation

7.11 Consultation feedback indicates that management in the civil service are generally aware of the merits of performance pay, i.e. in improving flexibility, motivating staff and reinforcing a performance culture. However, they are also concerned about problems in implementation, especially when many of them do not see the present performance appraisal mechanism as operating satisfactorily. The satisfactory operation of the mechanism, in turn, depends much on a change in culture or mindset amongst both appraisers and appraisees.

7.12 Some management would like to see the concept of linking pay more closely with performance extended to the power to sanction. A common theme that has emerged in the consultation is that the lack of effective powers to sanction non-performers, particularly in terminating their employment, has been frustrating to management and demoralising to other staff.

² Ibid., Page 25

7.13 Other respondents from management in the civil service are concerned about the possible adverse impact of introducing performance pay. Such impact may include upsetting the stability of the civil service, multiplying the burden of complaints and appeals, breeding a flattery culture and developing unhealthy rivalry within work teams.

7.14 Staff side bodies have expressed very similar views. They agree that performance pay is good in principle, but difficult to implement, with the danger of creating more problems than it may solve. Some express reservation about change, saying that they prefer to continue to rely on promotion as reward.

7.15 Management and staff associations of the disciplined services are more against performance pay. Apart from sharing the reservations of their civilian counterparts, they stress the importance of team work in the disciplined services. It would neither be easy nor fair to give individual rewards in this light.

7.16 Feedback from the consultation also indicates that members of the public would like to see more competitiveness and better efficiency amongst civil servants. Nevertheless, they are concerned about problems in implementation, mentioning again the fear of breeding a flattery culture.

7.17 Articles in the press agree that there are merits in introducing performance elements to pay. However, they also caution against upsetting the stability of the civil service. They suggest the need for clear performance targets. They also touch on fiscal constraints on the ability to introduce performance-based rewards.

The Task Force's Views

7.18 We agree that serious study should be given to linking pay more closely with performance as an important component in modernising the civil service pay system. In terms of the operation of the civil service, a properly designed and implemented system of performance pay should, in principle, help to better motivate staff and reinforce a performance culture. In terms of the expectations of the public as well as civil servants, it helps

to address the criticism that the existing system is rigid and is seen to reward performers and non-performers indiscriminately. The concept is therefore in line with our vision set out in Chapter 3 (see paragraphs 3.2(c) – (e) and 3.4).

7.19 In studying the experience of the countries surveyed, however, we note the varying degree of success in implementing performance pay. We note further that the performance-based element typically makes up a relatively minor component in the pay structure. Base pay is never put at risk. In two of the five countries, performance pay is confined to senior civil servants.

7.20 We are also mindful of the concerns expressed by management and staff in the civil service, particularly the references to the lack of a good staff appraisal system and the fear of breeding a flattery culture. We accept that the measurement of performance in the civil service is likely to be more problematic, given the difference between profit-driven private sector practice (with more easily defined performance targets) and public sector service (the quality of which is not readily quantifiable). We also note the emphasis which the disciplined services place on team work and the difficulty in singling out individuals for awarding performance pay.

7.21 The subject of introducing performance pay in the Hong Kong civil service has been studied in an academic article in September 1999.³ The article points out that –

“While the case for reform and for putting more emphasis on performance is quite overwhelming and the notion of performance pay is certainly attractive to reformers in concept, the efficacy of performance-related pay in practice is still mixed with both encouraging as well as negative experiences. There are several claims in favour of performance pay which need to be evaluated with more

³ Anthony B. L. Cheung. “Moving into Performance Pay for Hong Kong Civil Servants: Conceptualization and Implementation Problems”, in *Public Administration and Policy*, September 1999.

vigour before they should be accepted as givens with open arms: that the civil service can easily follow what private firms do in rewarding performance; that a performance pay system is more objective and fairer than the existing pay system; that managers welcome performance pay as a preferred tool of management; and even more critically, that performance pay is an important motivator of performance.”⁴

7.22 Clearly there are still many issues which require further study, but they do not mean we should drop the idea of performance pay which is not limited to the performance bonus type of reward that is being experimented by the Administration for some departments. Taking a broad interpretation, the award of annual increment through the current pay scale should be considered as a type of performance pay, provided that the award is more systematically linked to performance achieved. In this context, performance pay is not something so far away. Indeed, many members of the public consider that civil servants should not be awarded increments automatically regardless of their performance. This type of performance pay may be an area that merit further study in Phase Two of the review.

7.23 In addition, we suggest that a more detailed study should also be conducted on the feasibility of applying performance pay to senior civil servants at the directorate level initially in selected departments which conduct tradable businesses (e.g. “trading fund” departments). This should take into account the experience gained in the team-based pilot scheme, the results of which will be known later this year. The study should be conducted in Phase Two of this review.

7.24 Although the detailed study should initially focus on senior civil servants at the directorate level, there may be a case to review the principle and feasibility of performance pay (or other rewards) for the civil service in general in due course, while recognising that performance rewards are small for junior civil servants in the countries surveyed.

⁴ Ibid., Page 12

7.25 In the meantime, we would advise the Administration to take a radical look at the staff appraisal system in terms of its design and operation, with a view to ensuring reliable performance measurement. It is crucial that the system with its operating mechanism should be acceptable to management and staff. Hence there is the need to involve them extensively in the design and to secure their buy-in at an early stage. The Administration should also explore the issue of defining clear work targets and performance indicators for the purpose of increasing objectivity in performance appraisals.

7.26 Until the above have been achieved, the introduction of performance pay, including the bonus type of performance pay to middle and lower ranking staff, should be put on hold.

Directorate Level

7.27 We consider that after the above issues have been fully addressed, a pilot scheme on performance pay may be introduced at the directorate level in a few selected departments.

Disciplined Services

7.28 In view of the unique work nature of the disciplined services, we agree that, in the context of performance pay, this group of civil servants warrant separate consideration. After assessing the results of pilot schemes in due course, further consideration may be given to whether (and, if so, how) the system should be extended to the disciplined services.

CHAPTER 8

SIMPLIFICATION AND DECENTRALISATION OF PAY ADMINISTRATION

(This chapter examines the experience on decentralisation of pay administration and discusses the pros and cons of introducing similar practice to Hong Kong. This chapter also briefly touches on the scope for simplification)

8.1 One of the five main areas the Task Force has been asked to review is the experience on simplification and decentralisation of pay administration. In painting a vision of the civil service pay system going forward in Chapter 3, we discussed how the concept of empowerment/ownership should form an integral part of the vision. We believe that the decentralisation of pay administration, as part of a broader civil service reform which aims at devolving management responsibilities to improve service delivery efficiency, should be considered as a target in the longer run.

Experience of Decentralisation in Surveyed Countries

8.2 In the Consultants' Interim Report, it was pointed out that "a key, long term thrust of civil service pay reform in survey countries (and indeed, in many other countries) has centred on decentralising more responsibility for pay policy and administration with the objective of improving flexibility, accountability, overall performance and efficiency."¹ Australia, New Zealand and the United Kingdom have devolved most pay administration responsibility to individual agencies and departments, within certain centrally determined parameters and guidance. Singapore

¹ Consultant's Interim Report, Page 16

and Canada have also given more autonomy and flexibility to departments, but they have retained more centralised control.

8.3 All five countries surveyed have, meanwhile, continued to centrally manage most or the entirety of their senior civil service for pay purposes and for broader human resource management.²

8.4 The Consultant has also observed that “whilst certainly contributing to some significant improvements, devolution has also created some important challenges that need to be recognised and managed, particularly against the backdrop of a perceived fragmentation of the civil service”.³ The issue is therefore, a most complicated one of striking the right balance.

The Hong Kong Experience So Far

8.5 In the case of Hong Kong, the Task Force’s Interim Report has pointed out that, for the sake of operational efficiency, system transparency and upkeeping of internal relativity, pay administration has always been centrally managed by the Civil Service Bureau, on the advice of advisory bodies. New headway in the direction of decentralisation was only made in 1999-2000 when Heads of Departments and Heads of Grades were authorised to recruit non-civil service contract (NCSC) staff and determine their pay to help meet the temporary shortfall in manpower.⁴

8.6 In the mid-1990s, within the context of “Public Sector Reform”, the concept of “Trading Funds” was introduced in five government organisations. Their managers are authorised to manage their financial resources along commercial practices but Civil Service Pay Scales have continued to be used for remunerating staff.⁵

8.7 Since 1999-2000, the Administration has progressively introduced a “One-line Vote Arrangement” in 23 departments. The

² Ibid., Page 16

³ Consultant’s Final Report, Page A3

⁴ Task Force’s Interim Report, Page 18

⁵ Ibid., Page 19

Controlling Officers of these departments are given autonomy and flexibility in deploying funds between the various components of expenditure. However, central pay and establishment controls continue to apply to these one-line vote departments.⁶

8.8 The “decentralisation” introduced in Hong Kong so far is no comparison to those taking place in the countries surveyed. Here, the Administration has been extremely cautious in venturing into the pay arena in its recent efforts of “decentralisation” as any such initiative would impact on the established civil service pay administration policy and mechanism. We understand it is the Administration’s belief that it would not be appropriate to change such policy and mechanism without going through a major review and a consensus-building process on the best way forward.

Results of Public Consultation

8.9 The mixed results obtained from the public consultation since the release of the Task Force’s Interim Report show that the Administration’s cautious approach mirrors the wide range of views which exists at this point in time as to whether decentralisation of pay administration fits Hong Kong’s situation.

8.10 Some civil service managers are in favour of having more human and financial management resources placed under their control as a result of decentralisation of pay administration. The Consultant has also confirmed that these managers believe it is possible to delegate the authority to departments within broad, central guidelines and parameters to best meet local needs. However, other managers believe that Hong Kong is too small to justify highly decentralised arrangements. They are concerned that decentralisation may create additional administrative burden, distract them from performing the department’s core functions and lead to the loss of internal relativities when staff with similar experience and skill are paid differently in different departments under a fragmented pay system. This,

⁶ Ibid., Page 19

they worry, might result in unhealthy competition between departments for resources.

8.11 Some departmental managers are skeptical about achieving greater autonomy under the pretext of decentralisation. They pointed out that departments would still have to operate their pay system within a centrally determined policy framework, subject to strict affordability and budgetary constraints, leaving them with very limited flexibility in determining pay.

8.12 Other concerns expressed include “the lack of resources and expertise in pay administration”, “the fragmentation of pay scales”, “the problem of internal relativity”, “inconsistency”, “endless pay-related disputes and staff appeals”, “loss of economy of scale”, “straining of relationship between management and staff” and “effect on the overall coherence of the civil service in terms of common purpose and values”.

8.13 The majority of the responding civil service staff bodies have also expressed reservation. Some consider that the current pay administration practice has worked well and any change would create internal conflicts between staff and management. Having seen what happened in the countries surveyed, staff unions are also worried that their bargaining power over pay level and pay adjustment might be affected. Yet others are worried about abuse of power by senior staff in the departments when pay administration is decentralised.

8.14 A minority of the responding disciplined and civilian staff bodies, on the other hand, consider that there are merits in decentralising pay administration. It will enable departments to recruit according to need and to reward their staff on a fairer basis, having set the pay system to better suit the demand of individual departments. However, even staff bodies which see the “brighter side” of decentralisation are aware of the difficulties associated with the idea. Hence, they advocate a very gradual approach; for instance, conducting trial runs on non-core grades or trading funds’ staff by allowing the departments which hire them to give additional increments, benefits, or extension of contracts. The central authority

should, in the meantime, continue to issue broad guidelines within which departments can devise a reasonable pay system best suited to their needs.

8.15 The same divergence of views is present in the submissions of individual civil servants. Some object to the idea of pay decentralisation, with reasons very similar to those already mentioned. Others support the idea, echoing what has been observed overseas in that decentralisation may empower departments “to appoint and develop people with the skills necessary in a rapidly changing environment”.⁷ Once again, a cautious approach has been suggested. There is also general agreement that the central authority should maintain some control by setting pay ranges and providing avenues for appeal etc.

8.16 Views expressed in the non-government sectors are equally divergent, although the distance between the two poles is considerably less. Apart from observations on the merits and demerits of decentralised pay administration, some regard the move a pre-requisite for introducing performance pay, whilst others suggest that departmentalisation of some common and general grades should be introduced in unison. But all caution that any moves in these directions should not be embarked upon in haste.

8.17 Very similar views have been expressed in press articles, with some pointing out that whilst overseas experience can be useful reference materials, Hong Kong’s situation is not entirely the same as those countries surveyed.

The Task Force’s View

8.18 We have been extensively briefed on views expressed on this issue. Our attendance at public consultation sessions has proved to be very fruitful. Members have debated the issue thoroughly at the Task Force’s regular meetings and brainstorming sessions. We have also discussed with the Consultant their findings and observations on how decentralisation fared in the countries surveyed, paying particular attention to the shortfalls,

⁷ Consultant’s Interim Report, New Zealand Country Summary, Page vii

criticism from stakeholders and difficulties encountered during the long periods of time required for implementation. All indications point to the complexity of the issue and the need to tread very carefully on this area of study.

8.19 We agree that there are merits in decentralising pay administration as part of the devolution of human resources management. This will empower managers to better manage staff resources according to the specific needs of their departments, allow them to recruit and retain staff outside the main stream pay scales, permit them to better reward good performers and sanction non-performers, etc. However, the Task Force is also fully aware of the need to address legitimate concerns expressed by critics and doubters.

8.20 Overseas experience on decentralisation varies according to country circumstances, but some degree of decentralisation of pay administration has been a common feature of reforms. Though not entirely without problems (e.g. fragmentation of the civil service, inconsistency in pay arrangements for similar staff in different departments, barriers to cross-posting etc.) departments have been given freedom to manage their own pay arrangements to suit their particular needs.⁸ Such freedom, if exercised responsibly and within some necessary government-wide parameters, can contribute towards having better-run departments, more motivated and accountable staff and better delivery of public services.

8.21 The idea should therefore not be lightly dismissed, nor the benefits which decentralisation of pay administration might bring be allowed to be buried under the doubts and criticisms expressed so far. A more constructive attitude would be to recognise both the merits and constraints of decentralisation, and to find ways and means to overcome practical problems identified.

Timeframe

⁸ Consultant's Final Report, Page 31

8.22 We would therefore recommend to the Administration that decentralisation of pay administration be adopted as a longer term target, to be looked at in greater depth, together with the challenges decentralisation might bring. It will be up to the Administration to consider what parts of the pay system can be further decentralised, and in what timeframe.

The Way Forward

8.23 We would like to propose a staged approach.

8.24 Stage one should form part of Phase Two of this review. Factors which have led some departmental management and staff to express reservation should be examined in greater detail, engaging in discussion once again with those who have so expressed their views in the process. Attempts should be made to explore with these stakeholders to convince them that with the obstacles removed and necessary assistance given, a decentralised pay system can empower them to run their departments better.

8.25 The detailed examination will also look at the relationship between decentralisation of pay administration and other aspects of civil service that need to be reformed. We should also examine the experience gained from pay arrangements applicable to NCSC staff, and the effects such may have on incumbent staff and departmental operation.

8.26 What further needs to be looked into is the relationship between central administration and departmental management when pay administration is decentralised, for instance, the extent departments should operate within the centrally determined fiscal conditions.

8.27 Finally, the possibility of engaging the main staff side bodies and staff unions in designing such a decentralised pay administration system should also be considered.

The Next Stage

8.28 We are confident that the findings of the detailed examination will show that the obstacles and reservations can be overcome by

complementary reforms and changes in other areas of the civil service system. The next stage is to consider obtaining “buy-in” from the stakeholders, particularly from staff who are used to a centrally determined, formula-based pay system. It will be necessary to demonstrate how a more flexible pay system can help departments operate better in delivering quality service to the community as well as bringing more job satisfaction to those delivering the service, in an environment manned by motivated colleagues.

8.29 The next area to be considered would be the support to management through training. It is obvious from consultation feedback that doubters of decentralisation consider themselves somewhat lacking in human resource management expertise. Some would rather concentrate on delivering the department’s core service than being responsible for managing the departments’ pay system. We need to identify the assistance that can be given to those who wish to try out a more flexible pay system. To what extent can the lack of expertise be overcome by training or by the injection of resources? How can outside expertise assist in the first few years, bearing in mind that this was a route taken in the countries surveyed?

8.30 We believe that even in the stages of detailed examination and fact-finding, it is vital that management and staff should be given the assurance that decentralisation of pay administration is not only an initiative involving a long lead time, but that it will not be imposed on them. In other words, there should be flexibility whereby some departments which are managerially and culturally ready for decentralisation can opt for the devolved system while others which would prefer a longer waiting time can stay on the existing track with more centralised control.

8.31 We would like to suggest that every effort should be made to convince both the management and staff sides that decentralisation is worth trying out and that voluntary pilot schemes will be considered. The central administration should have to support and monitor the scheme closely, to the extent of shouldering additional costs or seconding additional staff to assist. The number of pilot projects may be few in the first phase of trial. The important thing is experience accumulation and lesson learning.

Simplification of Grade Structure

8.32 Turning to simplification of grade structure, we notice that the majority of consultation feedback do not object to the concept of delayering in order to improve efficiency and save costs. If implemented properly, this would be an important initiative to achieve savings, through the reduction in administrative cost as a result of the simplified structure, with relatively less pain to the staff involved. This will also help to install a sense of cost-effectiveness in the departments concerned.

8.33 However, as in the case of decentralisation, the issue has to be treated carefully. The following areas have to be closely examined in Phase Two of the review before any step in this direction should be taken –

- (a) the scope for simplification;
- (b) how present ranks can be delayered without affecting productivity and staff morale;
- (c) whether delayering could be implemented together with pay ranges and performance-based pay to better reward the performing staff, given that promotion might become a less feasible incentive in periods of consolidation or slow expansion particularly as delayering takes place;
- (d) whether departmentalising common and general grades would strengthen loyalty to the host department, enhance training, help retain experience and yet maintain adequate flexibility in staff deployment; and
- (e) the need for regular job evaluation.

Directorate Level

8.34 We would like to suggest that like all the countries surveyed Hong Kong should continue to centrally manage senior civil servants at directorate level for pay purposes. Overseas experience has shown that this approach is an effective way of maintaining a ceiling on public sector pay

levels and safeguarding the cohesiveness of the civil service, while allowing for staff mobility between departments at the most senior level.

Disciplined Services

8.35 We would suggest that separate consideration should be given to disciplined services, in the light of their operational needs, as regards whether decentralising pay administration would be beneficial. The matter can be considered after allowing time for the perceived difficulties to be worked out in the next stage of the review.

8.36 We look forward to the further examination of the issues of decentralisation of pay administration and simplification of grade structure in Phase Two of the review, with due regard to those considerations we have outlined above.

CHAPTER 9

CONCLUSION

(This chapter recaps what the Task Force was expected to do in Phase One of the review, revisits the findings and discusses the way forward)

The Task

9.1 The three advisory bodies on salaries and conditions of civil service was invited by the Administration in December 2001 to “*carry out an analytical study on the latest developments in civil service pay administration in other Governments (including but not limited to Singapore, the United Kingdom, Australia and New Zealand). The study should have regard to the history of development of the civil service pay system in Hong Kong and identify best practices in civil service pay administration that would be of particular relevance to Hong Kong. The study findings will be published to facilitate an informal discussion on whether any fundamental changes to our civil service pay policy and system are called for and if so, the conduct of the comprehensive review under the second phase*”.¹ The Administration’s invitation can be found in Appendix I.

The Approach

9.2 The Task Force, formed by members drawn from the three advisory bodies, started work in January 2002 and engaged a consultant to supply it with information on latest developments in the four countries

¹ Letter of Secretary for the Civil Service dated 18 December 2001 to Chairman of the Standing Commission on Civil Service Salaries and Conditions of Service, Standing Committee on Disciplined Services Salaries and Conditions of Service and Standing Committee on Directorate Salaries and Conditions of Service, Para 5

selected by the Administration. The Consultant's suggestion of adding Canada to the list was accepted.

9.3 In the meantime, the Task Force revisited the history of development of the civil service pay system in Hong Kong. Observations made during this review were subsequently published in Chapter 2 of the Task Force's Interim Report.

9.4 In order to facilitate an informed discussion of best practices in other countries which might be relevant to Hong Kong, we published the Interim Report in late April 2002 and a Consultation Paper in which 28 points of interest were listed. As a popular aid to soliciting views from all quarters, a pamphlet summarising the 28 points into 15 questions was also produced.

9.5 Judging from the feedback received via post and e-mail, the issue is a matter of public concern, in particular amongst civil servants. Members of the Task Force also benefited greatly from the forums and meetings organised to discuss, face-to-face, with departmental management, civil service staff bodies, individual civil servants and members of the public. Only then did we feel that we had the requisite feedback and inputs from all quarters to discuss and brainstorm amongst ourselves to come up with views and suggestions on the five areas stipulated by the Administration in its invitation.

9.6 This should explain why in the Interim Report and during the consultation period, we were at pains to explain to the audience that collectively, the Task Force did not have any pre-determined stance on the issues being studied and on the 28 questions in particular. The maintenance of an open mind was vital to a dispassionate and rational examination of the issues at stake.

The Observations

9.7 One message which comes out strongly from the written feedback and at the consultation sessions is that while, arguably, the local civil service pay system is not as advanced as that of the countries surveyed,

a “big bang” approach to modernisation has no support from any quarter. Indeed, this will only destabilise a civil service which is adjusting to recent reform measures, pay reduction and a new accountability system. The middle and lower ranking civil servants in particular remain to be convinced that the present review does not have a hidden agenda to dramatically reduce the size of the civil service and to adjust their remuneration downwards.

9.8 Notwithstanding the above perception, we hope we will be able to collectively convince all doubters that the purpose of our review is to study ways and means to modernise the pay system at a pace which is acceptable to both the stakeholders (i.e. the civil service management and staff side) and society as a whole. Viewed in the light of what have been happening in developed countries like those surveyed by the Consultant, we believe such a review is timely and necessary.

Pay Level Survey

9.9 The Task Force cannot be oblivious to the more pressing issue of modernising the existing pay adjustment mechanism. As pointed out in Chapter 6 of this report, we would like to recommend to the Administration that priority should be given to devising a practical framework and methodology for conducting a pay level survey in order to render the pay adjustment mechanism more credible to all sectors of society. In this regard, we note the Administration has indicated that the scope of Phase Two of the review exercise should at least cover, amongst others, the methodology for determining pay levels in the civil service (including the timing and frequency of conducting a full-scale private sector pay comparability study if it is decided that the principle of broad comparability with the private sector should be upheld). We suggest that the Administration should seriously consider the recommendations of the 1988 Burrett Committee and ensure that pay level surveys are “institutionalised and that they should be mounted with a frequency which acknowledges both the overriding importance of maintaining civil service pay at fair levels, and the ineradicable weaknesses of [annual] pay trend surveys as a means of determining civil service pay the aim should be to mount a

pay level survey at intervals of about every three years”². When the next pay level survey should be conducted should be a matter for the Administration to decide. If it is decided that a pay level survey should be carried out, the Administration should discuss with the three advisory bodies on how the pay level survey should be conducted. The Administration should also consider whether the pay trend survey should proceed as usual in the meantime.

Areas for Further Studies

9.10 In addition to reviewing and modernising the pay adjustment system and mechanism, we have suggested in other chapters of this report that, in the general direction of an overall progressive improvement scheme, the following areas deserve more critical and in-depth examination under Phase Two –

- (a) the feasibility of introducing flexible pay ranges to senior civil servants at the directorate level after the development and satisfactory execution of a reliable performance measurement system;
- (b) the feasibility of introducing performance pay to senior civil servants at the directorate level after the development and satisfactory execution of a reliable performance measurement system; and
- (c) the adoption of decentralisation and simplification of pay administration as a long-term target, recognising the merits of decentralisation as well as the challenges and problems that it might bring.

Acting in accordance with our terms of reference, what we have managed to do in Phase One of the review is to define the inadequacies as perceived

² Committee of Inquiry into the 1988 Civil Service Pay Adjustment and Related Matters (Burrett Committee), Final Report, Para 5.38

and, where possible, to narrow down the scope of study in view of feedback and public consultation.

Complementary Reforms

9.11 We have taken into account the findings in the Consultant's Final Report. We are in agreement with the Consultant's observation on the importance of "complementary reforms" outside the pay arena. These include the broader delegation of human resource and financial management responsibilities and the introduction of robust and credible systems of performance measurement and management³ and making the process of removing/dismissing the non-performers less tedious. These have to be in place alongside any attempt to change the pay structure and its administration. Experience overseas has shown that financial constraint can cripple or negate any concrete proposals to introduce flexibility to the pay system. Acceptance by and close collaboration with the resource bureaux of the Administration are crucial to any success in modernising the pay system. All these issues cannot be rushed. In the countries studied, it has taken more than a decade in most cases to have any tangible reforms implemented.

Changing of Mindset and Buying-in

9.12 At this juncture, it is more important to understand and to demonstrate to all the need for change and the benefit such changes might bring. Changing of mindset, both for management and staff side, is crucial before buy-ins can take place. It is therefore essential to consult the stakeholders widely during the process so as to build up consensus for reform.

Priority Areas

9.13 To conclude, we would like to reiterate that while changes are necessary, they cannot be rushed. Detailed studies should be conducted on

³ Consultant's Final Report, Page 4

the areas highlighted in this report and stakeholders' buy-in secured before changes are to be introduced.

9.14 For the **short term**, priority should be given to devising a practical framework and methodology for conducting a pay level survey, that lies at the centre of the pay system, and to reviewing the pay trend survey methodology. The Administration should consider the appropriate interim measures to be adopted for the annual civil service pay adjustment exercise pending the outcome of the above review.

9.15 For the **medium term**, an extensive and critical assessment of the staff appraisal system should be conducted to see what changes are needed in order to pave the way for introducing elements of performance pay (including the systematic linking of achieved performance to the award of annual increments) and flexible pay ranges to civil servants, preferably the senior tier (director level) initially. If such initiatives at the senior level prove to be feasible and conducive to achieving better performance, this would inspire confidence in change and provide useful experience for further application of the new arrangements within the civil service. In addition, consolidation of allowances should be adopted as a target, as part of a move towards a "clean wage" policy in the long run.

9.16 As for the **long term**, decentralisation of pay administration should be adopted as a target, after detailed studies are conducted to determine the scope of implementation at different stages, and to see whether the challenges associated with each stage can be overcome. The ultimate objective is to allow departments greater freedom to manage pay arrangements to suit their needs. In addition, a "clean wage" policy with benefits incorporated into base pay should be adopted as a target.

9.17 Due to ever-changing socio-economic and political circumstances, the medium and long-term recommendations should be regularly reviewed to ensure that they still meet the demands of the time.

The Way Forward

9.18 We would also like to recommend that the Administration should make public our Phase One Final Report. The public should be

encouraged to discuss its contents and recommendations. As stipulated in the Secretary for the Civil Service's letter in December 2001, the Task Force will take into account the ensuing public discussions before suggesting to the three advisory bodies the methodology and timing for the Phase Two review. This should take place before the end of 2002. After that, it will be up to the Administration to decide on the best approach to take forward the review, after considering the advice from the three bodies.

CHAPTER 10

ACKNOWLEDGEMENTS

10.1 We would like to record our sincere appreciation for all those who have contributed to our review, in particular, all bureaux, departments, staff associations, departmental consultative committees, individual civil servants, members of the public and organisations who have given their views to the Task Force through written submissions or attending consultation forums.

10.2 We are grateful to the Commissioner for Official Languages and her staff for their assistance and professional skill in translating both our Interim and Final Reports. We also wish to express our gratitude to the Government Printer and his staff for their efficiency in printing our Interim and Final Reports within the very short periods of time given. We wish to thank the Information Services Department for their assistance in designing the reports' covers and publicising the consultation exercise. Our thanks also go to the Department of Justice for their advice on matters relating to the appointment of a consultant, and on arrangements to ensure compliance with legislation relating to privacy in making available submissions for public inspection.

10.3 We also appreciate the efforts made by PwC Consulting Hong Kong Limited in their study of recent developments and best practices in civil service pay administration in the five selected countries.

10.4 Last but not least, we wish to express our appreciation to the Secretary-General and the staff of the Joint Secretariat for their hard work, in particular, their assistance in researching various pay related issues, organising the consultation sessions, collecting and processing views received and keeping members busy throughout the review.

公務員事務局局長
政府總部

香港下亞厘畢道
中區政府合署四座



SECRETARY FOR THE CIVIL SERVICE
GOVERNMENT SECRETARIAT
CENTRAL GOVERNMENT OFFICES
WEST WING
LOWER ALBERT ROAD
HONG KONG

本局檔號 Our Ref.:

來函檔號 Your Ref.:

電話號碼 Tel. No.: 2810 2342

傳真號碼 Fax No.: 2868 5069

18 December 2001

Mr Yeung Ka-sing, JP
Chairman
Standing Commission on Civil Service
Salaries and Conditions of Service
Room 701, Tower Two, Lippo Centre
89 Queensway
Hong Kong

Yeung Ka-sing

Note

Similar letters have been sent to the Chairmen of the Standing Committee on Directorate Salaries and Conditions of Service and the Standing Committee on Disciplined Services Salaries and Conditions of Service.

Review of Civil Service Pay Policy and System

I am writing to invite the Standing Commission on Civil Service Salaries and Conditions of Service (Standing Commission), in conjunction with the Standing Committee on Disciplined Services Salaries and Conditions of Service (SCDS) and the Standing Committee on Directorate Salaries and Conditions of Service (Directorate Committee), to conduct a comprehensive review of the pay policy and system for the civil service. I would also like to invite the Standing Commission to take the lead in coordinating with the SCDS and the Directorate Committee in this review exercise.

We are most grateful for the advice and recommendations given by the Standing Commission in the context of the 1999 Civil Service Starting Salaries Review. In recognition of the difficulties in comparing salaries beyond the starting level and the greater difficulty inherent in, and longer time required for, an overall review, we had then concluded that we should focus on a review of the starting salaries. The revised civil service benchmarks and starting salaries and the delinking mechanism for starting salaries were implemented on 1 April 2001.

During the recent public discussion on civil service pay, there are concerns in some quarters that other than the starting salary levels, the Administration has not reviewed the salary levels beyond the entry ranks for over a decade. As a result, the pay for certain grades and ranks in the civil service is no longer broadly comparable to the pay levels in the private sector. Concerns have also been raised about the validity of the annual pay adjustment mechanism. The central issue arising from the recent discussion which we need to address is the extent to which our current civil service pay policy and system are still in keeping with today's circumstances. Accordingly, we would like to invite the Standing Commission, in conjunction with the SCDS and the Directorate Committee, to conduct a comprehensive review of our civil service pay policy and system with a view to modernising it and bringing it more in line with the best practices elsewhere; making it simpler and easier to administer; and building in more flexibility to facilitate matching of jobs, talents and pay.

The review will cover the non-directorate and directorate staff in the civilian and disciplined grades. We will involve the SCDS and the Directorate Committee in the review exercise to ensure that the interests and concerns of the disciplined services and directorate staff will be fully taken into consideration.

In view of the complex nature of the review, we shall adopt a phased approach. For the first phase of the review, we invite the Standing Commission, in conjunction with the SCDS and the Directorate Committee, to carry out an analytical study on the latest developments in civil service pay administration in other Governments (including but not limited to Singapore, the United Kingdom, Australia and New Zealand). The study should have regard to the history of development of the civil service pay system in Hong Kong and identify best practices in civil service pay administration that would be of particular relevance to Hong Kong. The study findings will be published to facilitate an informed discussion on whether any fundamental changes to our civil service pay policy and system are called for and if so, the conduct of the comprehensive review under the second phase. The terms of reference of this analytical study is enclosed.

Based on the findings of the analytical study and taking account of the ensuing discussions with the concerned parties, the Standing Commission and the other two advisory bodies are invited to make recommendations to the Administration on the conduct of the comprehensive review on civil service pay policy and system under phase two. The recommendation should cover the scope of the detailed

review, the factors which may need to be taken into account in conducting this exercise, the methodology to be adopted as well as the timing and timeframe for completing the second-phase review. The Administration would also like to be advised on the methodology and timing for conducting a comparability study between civil service pay and private sector pay, with due regard to the differences in job nature and in the measurement of output/performance.

While we have an open mind on the scope of the detailed review under phase two, we consider it appropriate to cover at least the following areas –

- (a) a review of the fundamental principles underpinning our present civil service pay policy, especially the principle of broad comparability with private sector pay;
- (b) the methodology for determining pay levels in the civil service (including the timing and frequency of conducting a full-scale private sector pay comparability study if it is decided that the principle of broad comparability with the private sector should be upheld);
- (c) rationalisation of the grading structure and salary structure of some 400 grades and over 1 000 ranks in the civil service, and a review of the principle of internal pay relativity among grades with a view to building in greater flexibility in the civil service grading and pay structure;
- (d) motivation of the civil service through an improved and more flexible salary system;
- (e) the annual pay adjustment mechanism; and
- (f) preservation of the integrity and stability of the civil service system while system changes take place.

The Administration will, after considering the recommendations of the Standing Commission and the other two advisory bodies, decide on the best approach to take forward the second phase of the review exercise.

We would like to receive the results of the analytical study to

be carried out under phase one by the middle of 2002, and the recommendations on the conduct of the detailed review under phase two in the second half of 2002. In carrying out their work, the three advisory bodies are required to take account of the views of all interested parties, including the staff sides, departmental/grade management and other interested parties.

While the overall review is underway, we shall continue to adopt the existing mechanism for civil service pay adjustment based on the findings of the annual Pay Trend Survey and other usual considerations for the 2002 civil service pay adjustment exercise. We shall also hold the next periodic benchmark review on starting salaries, which is due in 2002/2003, in abeyance pending the outcome of the overall review.

The review that we are embarking on is wide in scope and complex in nature. Given the way our civil service pay system underpins the civil service structure, the recommendations arising from the review may have a profound impact on the civil service. I would like to assure you that the Administration will render all necessary assistance to the Standing Commission and the other two advisory bodies to facilitate the smooth progress and successful completion of this main review.

I am writing separately to the Chairman of SCDS and the Chairman of the Directorate Committee to invite the two advisory bodies to participate in the review.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Joseph W P Wong', written in a cursive style.

(Joseph W P Wong)
Secretary for the Civil Service

c.c. SG, JSSCS

Study on Recent Developments and Best Practices in Pay Administration in Other Governments

Terms of Reference

The Standing Commission on Civil Service Salaries and Conditions of Service (the Standing Commission), in conjunction with the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Standing Committee on Directorate Salaries and Conditions of Service, are invited to examine recent developments and best practices in civil service pay administration in other Governments in order to advise the Government on whether there are lessons to be learnt for the existing civil service pay policy and system.

2. The advisory bodies are requested to focus on pay administration, including the following aspects -

- (a) the pay policies, pay system and pay structure commonly adopted;
- (b) the experience of replacing fixed pay scales with pay ranges;
- (c) the pay adjustment system and mechanism;
- (d) the experience of introducing performance-based rewards to better motivate staff; and
- (e) the experience on simplification and decentralisation of pay administration.

3. The deliverables of the study will include detailed examples of the systems and practices that are widely adopted by other Governments, an analysis on their respective pros and cons, and advice on best practices.

4. The advisory bodies are required to take account of the views of all interested parties in this exercise, including the staff sides, departmental/grade management and other interested parties.

5. The study findings should be submitted to the Administration by the middle of 2002.

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

Chairman :

Mr Yeung Ka-sing, JP

Members :

Mr Nicholas Brooke, BBS, JP

The Hon Bernard Chan, JP

Professor Chan Yuk-shee

Professor Anthony Cheung Bing-leung, BBS, JP

Mr Nicholas Chiu Sai-chuen, JP

Mr Nicky Lo Kar-chun

Mr Mak Ping-on

The Hon Tam Yiu-chung, GBS, JP

The Hon Howard Young, JP

**Staff of the Joint Secretariat for the Advisory Bodies on Civil
Service and Judicial Salaries and Conditions of Service**

Secretary General	Mr LEE Lap-sun, JP
Assistant Secretary General	Mr Richard LUK Fong-chun Mr William YUEN Jing-yee
Senior Executive Officer	Mrs Paulette Marie Santos de Souza (until 24.5.2002) Ms Catherine CHAN Hau-ping (from 4.7.2002) Ms Rebecca MAK Mei-kuen
Senior Personal Secretary	Ms Rolatta CHUNG Ka-ling
Personal Secretary I	Ms Anita LEUNG Lai-ming Miss Yvonne LAM Oi-lan
Clerical Officer	Mrs Connie WONG YAU Yuk-fan
Assistant Clerical Officer	Mr CHU Man-kit
Clerical Assistant	Mr Benny LIM Hon-fai Mr Joe HO Chi-ho
Motor Driver	Mr WONG Tak-kong

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

Terms of Reference

In the context of the comprehensive review of the pay policy and system for the civil service in respect of civilian and disciplined grades to be conducted by the three Advisory Bodies^{*},

- (a) to research into the latest developments in civil service pay administration in other governments, analyse their pros and cons and identify best practices that may be of particular relevance to Hong Kong, having regard to the history and development of the civil service pay policy and system in Hong Kong, and focusing on the following aspects –
 - (i) the pay policies, pay system and pay structure commonly adopted;
 - (ii) the experience of replacing fixed pay scales with pay ranges or other pay systems;
 - (iii) the pay adjustment system and mechanism;
 - (iv) the experience of introducing performance-based rewards to better motivate staff; and

^{*} They are the Standing Commission on Civil Service Salaries and Conditions of Service, the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Standing Committee on Directorate Salaries and Conditions of Service.

- (v) the experience on simplification and decentralisation of pay administration including any related management changes;
- (b) to commission a consultant to assist the Task Force on an analytical study on (a) above, and receive the interim and final consultancy reports from the consultant;
- (c) to monitor the progress and provide guidance to the consultant during the consultancy study;
- (d) to conduct a public consultation exercise on the preliminary findings and recommendations of the Task Force, taking account of the views of all interested parties, including the staff sides, departmental/grade management and members of the public;
- (e) in the light of the findings and recommendations, and the views of all interested parties, to recommend the scope, methodology and timing of the comprehensive review to be undertaken in the second phase and the factors which may need to be taken into account; and
- (f) to report to the three Advisory Bodies on the recommended way forward and to take such follow-up action as the Advisory Bodies may direct.

**List of Organisations represented in the
Consultation Forums of the Task Force**

(I) Forum for Main Staff Consultative Councils/Bodies

Date : 3 June 2002

Time : 2:30 p.m. – 4:30 p.m.

Venue : Hong Kong Central Library Lecture Theatre

Attended by representatives of the following organisations :

Senior Civil Service Council (Staff Side)

(including : Association of Expatriate Civil Servants of Hong Kong;

Hong Kong Chinese Civil Servants' Association; and

Senior Non-expatriate Officers Association)

Model Scale 1 Staff Consultative Council (Staff Side)

Hong Kong Federation of Civil Service Unions

Government Employees Association

(II) Forum for Bureaux and Departments

Date : 5 June 2002

Time : 2:30 p.m. – 4:45 p.m.

Venue : Hong Kong Central Library Lecture Theatre

Attended by representatives of the following Bureaux and Departments :

Agriculture, Fisheries and Conservation Department

Architectural Services Department

Audit Commission

Buildings Department

Census and Statistics Department

Chief Secretary for Administration's Office

Civil Aid Service

Civil Aviation Department

Civil Engineering Department

Civil Service Bureau

Civil Service Training and Development Institute

Companies Registry

Constitutional Affairs Bureau

Correctional Services Department

Customs and Excise Department

Department of Health

Department of Justice

Economic Services Bureau

Education Department

Electrical and Mechanical Services Department

Environmental Protection Department

Financial Services Bureau

Fire Services Department

Food and Environmental Hygiene Department

Government Flying Service

Government Property Agency

Government Supplies Department

Health and Welfare Bureau
Highways Department
Home Affairs Bureau
Home Affairs Department
Hong Kong Observatory
Hong Kong Police Force
Hongkong Post
Housing Department
Immigration Department
Independent Commission Against Corruption
Information Services Department
Information Technology and Broadcasting Bureau
Information Technology Services Department
Inland Revenue Department
Innovation and Technology Commission
Intellectual Property Department
Judiciary
Labour Department
Land Registry
Lands Department
Legal Aid Department
Leisure and Cultural Services Department
Marine Department
Official Languages Agency
Official Receiver's Office
Planning Department
Printing Department
Public Service Commission
Radio Television Hong Kong
Rating and Valuation Department
Registration and Electoral Office
Security Bureau
Social Welfare Department
Student Financial Assistance Agency
Television and Entertainment Licensing Authority
Territory Development Department

Trade and Industry Department
Transport Bureau
Transport Department
Treasury
Water Supplies Department
Works Bureau

(III) Public Forum

Date : 9 June 2002

Time : 3:00 p.m. – 5:00 p.m.

Venue : Wei Hing Theatre, City University of Hong Kong

(IV) Forum for Staff Associations/Unions

Date : 11 June 2002

Time : 10:15 a.m. – 12:15 p.m.

Venue : Hong Kong Central Library Lecture Theatre

Attended by representatives of the following organisations :

Architectural Services Department Landscape Architects Association
Architectural Services Department Quantity Surveyors' Association
Association of Government Calligraphists
Association of Government Cartographic Staff
Association of Government Cultural Services Assistants
Association of Government Printing Officers
Association of Government Survey Officers (Estate)
Association of Government Technical & Survey Officers

Association of Hong Kong Civil Servants
 Association of Technical Officers (Cultural Services)
 Association of Water Meter Reading Staff
 Bailiff Grade Union
 Bailiff's Assistants Association
 Consumer Services Inspectors' Association - WSD
 Government Electrical & Mechanical Services Department
 Technical Staff Union
 Government Electrical & Mechanical Services Department Building
 Services Employees Association
 Government Electrical & Mechanical Works Supervisors, Craftsmen
 & Workmen Association
 Government Employees Solidarity Union
 Government Librarians Association
 Government Mod 1 Staff General Union
 Government Park & Playground Keepers Union
 Government Supplies Assistants Association
 Hong Kong Chinese Civil Servants' Association – Social Security
 Assistants' Branch
 Hong Kong Chinese Civil Servants' Association – Welfare Worker
 Branch
 Hong Kong Clerical Grades Civil Servants General Union
 Hong Kong Fire Services Department Ambulancemen's Union
 Hong Kong Fire Services Officers Association
 Hong Kong Government Filtration Plant Staff Union
 Hong Kong Government Municipal Services General Grades Staff
 Union
 Hong Kong Housing Department Architects Association
 Hong Kong Housing Department Structural Engineers Association
 Hong Kong Immigration Assistants Union
 Hong Kong Leisure and Cultural Services Department Employees
 General Union
 Hong Kong Marine Department Local Professional Officers'
 Association
 Hong Kong Marine Department Marine Controllers Association
 Housing Department Quantity Surveyors' Association

Housing Department Senior Estate Assistant Association
Labour Inspectors Association
Land Executives Association
Land Inspectors Union
Marine Department Chinese Employees Union
Marine Department Technical Inspectors Association
Marine Officers Association
Occupational Hygienists Association
Senior Occupational Safety Officers Union

(V) Forum for Staff Associations/Unions

Date : 11 June 2002

Time : 2:30 p.m. – 4:20 p.m.

Venue : Auditorium, Civil Service Training and Development
Institute

Attended by representatives of the following organisations :

Association of Hong Kong Nursing Staff
Association of Therapeutic Radiographers
Government Statistical Officers Association
Hong Kong Air Traffic Controllers Association
Hong Kong Government Filtration Plant Staff Union
Hong Kong Hospital Operating Theatre Assistants Association
The Junior Police Officers' Association
Union of Hong Kong Rehabilitation Agencies Workshop Instructors

(VI) Forum for Staff Associations/Unions

Date : 27 June 2002

Time : 2:30 p.m. – 4:45 p.m.

Venue : Joint Secretariat Conference Room

Attended by representatives of the following organisations :

Agriculture, Fisheries and Conservation Department Staff
Association

Association of Assistant Social Work Officers
(Social Welfare Department)

Association of Government Calligraphists

Association of Government Cultural Services Assistants

Association of Government Printing Officers

Association of Government Survey Officers (Estate)

Association of Liaison Officers, Home Affairs Department

Association of Trade Controls Officers
(Customs & Excise Department)

Bailiff's Assistants Association

Government Electrical & Mechanical Services Department
Building Services Employees Association

Government Electrical & Mechanical Services Department
Technical Staff Union

Government Electrical & Mechanical Works Supervisors,
Craftsmen & Workmen Association

Government Librarians Association

Government Park & Playground Keepers Union

Government Supplies Assistants Association

Hong Kong Chinese Civil Servants' Association - Social Work
Assistant Branch

Hong Kong Chinese Civil Servants' Association - Welfare Worker
Branch

Hong Kong Government Municipal Services General Grade Staff
Union

Hong Kong Housing Department Architects Association
Hong Kong Housing Estate Assistants Association
Housing Department Senior Estate Assistant Association
Land Executives Association
Land Inspectors Union
Marine Department Chinese Employees Union
Occupational Hygienists Association
Senior Occupational Safety Officers Union
The Government Doctors' Association
Union of Government Amenities Assistants
Union of Hong Kong Rehabilitation Agencies Workshop
Instructors

Written Submissions were received from the following organisations/individuals during the consultation period

(I) Bureaux and Departments

Agriculture, Fisheries and Conservation Department
Architectural Services Department
Audit Commission
Civil Aviation Department
Correctional Services Department
Customs and Excise Department
Department of Health
Department of Justice
Drainage Services Department
Education Department
Environment and Food Bureau
Environmental Protection Department
Fire Services Department
Food and Environmental Hygiene Department
General Grades Office
Government Flying Service
Government Land Transport Agency
Government Supplies Department
Health, Welfare and Food Bureau
Home Affairs Department
Hong Kong Observatory
Hong Kong Police Force
Hongkong Post
Housing Department
Immigration Department
Inland Revenue Department
Innovation and Technology Commission
Intellectual Property Department
Land Registry
Legal Aid Department
Leisure and Cultural Services Department
Marine Department
Public Service Commission
Social Welfare Department

Trade and Industry Department
Water Supplies Department

(II) Staff Associations/Unions

Architectural Services Department Landscape Architects Association
Architectural Services Department Quantity Surveyors' Association
Association of Expatriate Civil Servants of Hong Kong
Association of Government Calligraphists
Association of Government Cartographic Staff
Association of Government Secretarial Staff
Association of Government Technical & Survey Officers
Association of Hong Kong Nursing Staff
Association of Liaison Officers, Home Affairs Department
Association of Police Translators
Association of Trade Controls Officers
(Customs & Excise Department)
Audit Commission Examiner Grade Association
Disciplined Services Consultative Council (Staff Side)
Federation of Education Department Staff Associations
General Grades Civil Servants General Union
Government Electrical & Mechanical Services Department Staff
Union
Government Electrical & Mechanical Works Supervisors, Craftsmen
& Workmen Association
Government Electrical and Mechanical Services Department Building
Services Employees Association
Government Employees Association
Government Employees Solidarity Union
Government Flying Service Aircraft Engineers Association
Government Flying Service Aircraft Technicians Union
Government Librarians Association
Government Park & Playground Keepers Union
Government Senior Clerical Officers Association
Government Social Work Officers Association
Government Statistical Officers Association
HKSAR Government Executive Grade Association
Hong Kong Chinese Civil Servants' Association
Hong Kong Chinese Civil Servants' Association - Clerical Officer
Branch

Hong Kong Chinese Civil Servants' Association - Customs Officer Grade Branch

Hong Kong Chinese Civil Servants' Association - Instructor's Branch (Correctional Services)

Hong Kong Chinese Civil Servants' Association - Taxation Officers' Branch

Hong Kong Chinese Civil Servants' Association - Welfare Worker Branch

Hong Kong Civil Servants General Union

Hong Kong Clinical Psychologists Association

Hong Kong Correctional Services Department Assistant Officers General Association

Hong Kong Customs and Excise Staff General Association

Hong Kong Customs Officers Union

Hong Kong Federation of Civil Service Unions

Hong Kong Fire Service Officers Association

Hong Kong Fire Services Control Staff's Union

Hong Kong Fire Services Department Ambulance Officers Association

Hong Kong Fire Services Department Ambulanceman's Union

Hong Kong Fire Services Department Staffs General Association

Hong Kong Immigration Assistants Union

Hong Kong Marine Department Local Professional Officers' Association

Hong Kong Postal Workers Union; and Hong Kong Post Office Senior Postman Union

Housing Department Chief Estate Assistants Association

Housing Department Estate Assistants Association; and Hong Kong Chinese Civil Servants' Association – Housing Department Estate Assistants Grade Branch

Housing Department Technical Staff Association

Housing Managers' Association

Housing Officers Association

Joint-Committee of the Disciplined Services Staff Associations/Unions

Labour Inspectors Association

Marine Officers Association

Model Scale 1 Staff Consultative Council (Staff Side)

Police Force Council Staff Associations
[including Superintendents' Association;
Overseas Inspectors' Association; and
Junior Police Officers' Association of the Hong Kong Police Force]
Senior Civil Service Council (Staff Side)
Senior Non-Expatriate Officers Association
The Association of Customs and Excise Service Officers
The Government Local Civil Engineers Association
Union of Hong Kong Post Office Employees

(III) Other Organisations

Business and Professionals Federation of Hong Kong
Employers' Federation of Hong Kong
Federation of Hong Kong Industries
Hong Kong Confederation of Trade Unions
Hong Kong Democratic Foundation
Hong Kong Family Welfare Society
Hong Kong Former Senior Civil Servants Association Limited
Hong Kong General Chamber of Commerce
Liberal Party
New Century Forum
New Youth Forum
The Chinese General Chamber of Commerce
The Chinese Manufacturers' Association of Hong Kong
The Federation of Hong Kong & Kowloon Labour Unions
The Hong Kong Progressive Alliance
Tung Wah Group of Hospitals

(IV) Civil Servants

105 submissions including those from departmental consultative committees were received from civil servants.

(V) Members of the Public

117 submissions were received from members of the public.

**Directorate Officers from the following 37 Bureaux and Departments
met with the Standing Committee on Directorate Salaries
and Conditions of Service on 14 May 2002**

Architectural Services Department
Audit Commission
Census and Statistics Department
Civil Aid Service
Civil Aviation Department
Civil Service Bureau
Civil Service Training and Development Institute
Commerce and Industry Bureau
Correctional Services Department
Customs and Excise Department
Department of Health
Drainage Services Department
Education Department
Fire Services Department
Food and Environmental Hygiene Department
Government Flying Service
Highways Department
Home Affairs Department
Hong Kong Monetary Authority
Hong Kong Observatory
Hong Kong Police Force
Hongkong Post
Housing Department
Information Services Department
Inland Revenue Department
Innovation and Technology Commission
Judiciary
Land Registry
Lands Department
Legal Aid Department
Marine Department
Official Languages Agency
Rating and Valuation Department
Security Bureau
Social Welfare Department
Transport Department
Water Supplies Department

**The Senior Management of the following Disciplined Services met with
the Standing Committee on Disciplined Services Salaries
and Conditions of Service on 24 May 2002**

Correctional Services Department
Customs and Excise Department
Fire Services Department
Government Flying Service
Hong Kong Police Force
Immigration Department

Existing Civil Service Pay Scales

The existing pay scales include:

- (i) Master Pay Scale
- (ii) Directorate Pay Scale
- (iii) Directorate (Legal) Pay Scale
- (iv) Police Pay Scale
- (v) General Disciplined Services (Commander) Pay Scale
- (vi) General Disciplined Services (Officer) Pay Scale
- (vii) General Disciplined Services (Rank & File) Pay Scale
- (viii) Model Scale 1 Pay Scale
- (ix) Training Pay Scale
- (x) Technician Apprentice Pay Scale
- (xi) Craft Apprentice Pay Scale

Methodology of Pay Trend Survey

Objective

The objective of the pay trend survey is to measure the movement of pay in the private sector. Fringe benefits, whether made in cash or in kind, do not fall within the ambit of the survey.

Survey Period

2. The pay trend survey covers the period from 2nd April of the previous year to 1st April of the current year.

Survey Field

3. The criteria used in the selection of companies for inclusion in the survey are as follows :

- (a) The distribution of companies by major economic sectors in the survey field should reflect closely the overall distribution of Hong Kong's economically active population;
- (b) Individual companies in the survey field should:
 - (i) be regarded as typical employers in their respective fields normally employing 100 employees or more;
 - (ii) be generally known as steady and good employers conducting wage and salary administration on a rational and systematic basis;
 - (iii) determine pay on the basis of factors and considerations applying to Hong Kong, rather than factors applying outside Hong Kong;
 - (iv) if they form part of a group or consortium in Hong Kong, only be treated as separate companies where

they have complete autonomy in setting and adjusting pay rates; and

- (v) not use the government pay adjustment as the main factor in determining pay adjustments.

Salary Bands

4. Three salary bands are used for the collection of survey information. These are :

- Lower band : Below Master Pay Scale (MPS) Point 10 or equivalent
- Middle band : MPS Points 10-33 or equivalent
- Upper band : Above MPS Point 33 to General Disciplined Services (Officer) Pay Scale (GDS(O)) Point 38 or equivalent.

Employees Covered

5. The survey should cover all employees in the participating companies with the exception of :

- (a) employees whose basic salaries are above the dollar term of GDS(O) Point 38 or equivalent;
- (b) craft and technician apprentices;
- (c) part-time employees who are certified by the company concerned to work less than 75% of the normal weekly working hours in that company;
- (d) employees remunerated at piece-rates; and
- (e) all imported labour.

Components of Pay Adjustment

6. Salary adjustments awarded to employees on account of the following factors are included in the calculation of the pay trend indicators :

- (a) Cost of living;
- (b) General prosperity and company performance;
- (c) General changes in market rates; and
- (d) Inscale increment and merit.

7. Changes in payments additional to basic salary such as year-end bonuses are also included.

8. Salary adjustments attributed to external and internal relativities are identified and reported for reference. They are excluded from the calculation of the pay trend indicators. (Note : Adjustments due to external relativities refer to those given to a specific group of employees in a company as a result of salaries paid by other companies for a similar job.)

Calculation Criteria

9. The following criteria will be used for the calculation of the pay trend indicators :

- (1) All companies participating in the survey will be included in the calculations provided that:
 - (a) they can furnish and confirm data on adjustments of salary and additional payments for not less than 75% of their total employees by a specified date;
 - (b) where appropriate, they can furnish, either separately or in an aggregate form, data on adjustments relevant to the calculation of the pay trend indicators, i.e. adjustments attributed to cost-of-living changes, general prosperity and company performance, general changes in market rates, inscale increment and merit;

- (c) their economic activities, company size or salary structure has not changed to such an extent that it is no longer appropriate for the data provided by them to be compared with the data provided in the previous year.
- (2) Only data on salary adjustments and additional payments relating to the survey period and additional payments for the 12 months before the survey period reported belatedly are included in the calculation of the pay trend indicators.
- (3) Data on salary and additional payments relating to the following employees are excluded from the calculation of the pay trend indicators:
 - (a) employees whose basic salaries are above the dollar term of GDS(O) Point 38 or equivalent;
 - (b) craft and technician apprentices;
 - (c) part-time employees who are certified by the company concerned to work less than 75% of the normal weekly working hours in that company;
 - (d) employees remunerated at piece-rate;
 - (e) all imported labour; and
 - (f) employees whose pay is determined on the basis of factors and considerations other than those applying to Hong Kong.
- (4) Three salary bands, equivalent to the dollar terms of below MPS Point 10 (lower band), MPS Points 10-33 (middle band), and above MPS Point 33 - GDS(O) Point 38 (upper band), are used.
- (5) Data on salary and additional payments for company employees in a particular band are included in the calculation of the pay trend indicators only if by a specified date the company has announced adjustments for not less than 75% of the employees in that band relevant to the

survey period.

- (6) Adjustments attributable to external and internal relativities are excluded from the calculation of the pay trend indicators.
- (7) Changes in bonus are taken into account and one month's bonus is taken as equal to 8.33% of the annual basic salary.
- (8) Changes in payments and monthly allowance reported in dollar terms are converted into annual percentage terms by relating them to the appropriate salary rates.
- (9) Where a range of percentage adjustments to a particular salary band is reported, the average figure is used.

Increment Cost Deduction Formula

Background

Prior to the appointment of the Committee of Inquiry into the 1988 Civil Service Pay Adjustment and Related Matters (Burrett Committee), there was a growing concern on the part of the Staff Side over the exclusion of *merit pay* from pay trend surveys (PTS). The concern arose from the observation that merit pay formed a significant and increasing part of the annual pay adjustments in some companies in the private sector. The manner in which merit pay was dealt with was important and the Management Side also recognised the need to address the issue.

2. Past practice before 1988 was to exclude merit pay from the calculation of the pay trend indicators (PTIs)¹ on the ground that it did not form part of the *general pay award* in the private sector. Presumably for the same reason, no account was taken of the value of automatic *scale increments* either in the civil service or in the surveyed firms. However, the difficulty in distinguishing merit payments awarded in a number of private sector companies from general pay increases presented a problem. Exclusion of such data in the calculation of the PTIs would mean suppression of the actual pay increases awarded by private sector companies.

3. The Burrett Committee considered different views from interested parties in order to tackle the problem. It came to the conclusion

¹ The average pay movements of employees of private sector companies over the preceding 12 months.

that if merit pay was to be included in the calculation of the PTIs, a balancing factor would be required and that this could be related to the value of the civil service increments.

The Formula

4. On balancing the pros and cons of possible alternatives in treating merit pay of the private sector companies, the Burrett Committee recommended in its 1989 Final Report that beginning in 1989, the PTS system should take account of both private sector merit pay and civil service increments and that “the formula for calculating future civil service annual pay adjustments should include the percentage values of private sector merit pay and increments in the PTIs, from which the values of civil service increments for individual salary bands should be deducted at their payroll cost.”² In actual calculation, the value of civil service increments is expressed as a percentage of the total payroll cost for each salary band.

Impact on Civil Servants

5. In recent years, there is a general impression that civil servants have the privilege of a double adjustment every year as they receive not only an annual increment on their service anniversaries but also a general adjustment (usually an increase in the past) applicable to all civil servants in April.

6. In fact, this is only true for civil servants who have *not* reached the maximum point of their pay scales. For this group (comprising

² 1989 Final Report of Burrett Committee, Para 7.18

about 40% of the total number), the value gained through obtaining an increment is greater than the value of increment costs deducted from the PTIs. However, civil servants who have reached the maximum point of their pay scales will receive less than the average PTI increases because of the deduction of increment costs and the fact that they are not entitled to increments. In a way, this is a cost neutral system. Those who lose out after reaching their maximum pay points have arguably gained previously.

**Consultancy Study for an Analytical Study on the Latest
Developments in Civil Service Pay Administration
in Other Countries – Final Report**

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Executive Summary

1. PwC Consulting were appointed in February 2002 by the Task Force on the Review of Civil Service Pay Policy and System to conduct research into the latest developments in civil service pay administration in selected governments, and to identify practices that might be of relevance to Hong Kong, having regard to the history and development of the civil service pay system here. The research examined the key principles and broad arrangements adopted in Australia, Canada, New Zealand, Singapore and the United Kingdom, focusing on five key areas of interest to the Task Force:
 - Commonly adopted pay policies, pay systems and pay structure
 - Experience of replacing fixed pay scales with pay ranges, or other pay systems
 - Systems and mechanisms for determining pay levels and pay adjustments
 - Experience of introducing performance-based rewards (or other means to better motivate staff)
 - Experience on simplification and decentralisation of pay administration.
2. In April 2002 we submitted our Interim Report on the research to the Task Force and this was subsequently made available for public consultation. This Final Report provides a broad overview of the responses to the issues raised in the public consultation feedback and sets out our advice to the Task Force on the areas of pay administration reform we believe are worthy of further consideration in Phase 2 of the Civil Service Pay Review.

Responses to the Public Consultation

3. The Task Force received a total of 337 written submissions in response to the public consultation. These came from a wide range of interested parties, including departmental management, civil service unions, staff associations and consultative groups, individual civil service managers and staff, members of the public and outside interest groups. Of the total responses, about 40% were formal submissions from departmental management, staff groups and civil service unions/associations. A further 20% of submissions were from individual civil service managers and staff.
4. In addition, the Task Force has also held six consultation sessions for civil service management, staff representatives and the general public.
5. There are a diverse range of opinions expressed on most issues, both between and within the main stakeholder groups. Civil service management responses are generally more open to reform of the civil service pay regime, as are non-civil service responses. Civil service staff and union responses tend to argue for retaining existing arrangements as being tried and trusted.
6. The responses to the public consultation from all parties within the civil service are cautious, to varying degrees, about the need for a radical overhaul of the existing pay

policy and system, as opposed to more limited enhancements. In particular, they feel that:

- The case for change has not yet been clearly articulated. There is a need for a better understanding of what works well and what does not, and not just to make change for the sake of change
 - It is vital to maintain civil service stability and staff morale going forward
 - Any justified reforms should be introduced progressively, with a lot of accompanying staff communications and involvement.
7. Civil service staff, in their responses, also express that the fundamental issue is not with the adequacy or appropriateness of existing arrangements, but how management choose to apply them. They are also sceptical about the Administration's intentions in initiating the Pay Review at this time.
8. Generally, responses from all the interested parties within the civil service – management, staff, unions, etc - tend towards the status quo in several aspects of pay administration, including:
- Retaining the principle of broad pay comparability with the private sector
 - Rejecting affordability as the overriding consideration in pay adjustments (although some responses from individual civil service managers are more supportive of the idea)
 - Retaining separate pay arrangements for the disciplined services
 - Retaining the existing mechanisms for pay adjustment
 - Not decentralising pay and grading responsibilities (although again this is slightly more support from individual civil service managers).
9. At the same time, responses from all parties within the civil service indicate some support for:
- Grade rationalisation and the introduction of broader occupational categories
 - The introduction of formal job evaluation as a basis for determining internal relativities.
10. Civil service management responses are generally more positive about a range of other possible reforms, including:
- Introduction of a clean wage policy
 - Introduction of separate arrangements for the senior civil service
 - Replacement of fixed pay scales with flexible pay ranges
 - Introduction of performance-based rewards
 - Departmentalisation of the General/Common Grades.

Suggested areas worthy of further consideration in Phase 2 of the Pay Review

11. It is not within the remit of this consultancy to make specific recommendations for the Hong Kong civil service's future pay administration arrangements. However, based on our understanding of the context and development of civil service pay administration in Hong Kong, the experience of the surveyed countries and the feedback from the public consultation, we believe that there would be merit in the Task Force exploring further in Phase 2 of the Pay Review all the five areas of pay and grading interest, as covered in our research. More specifically there would be value in:
 - Making a considered determination of the degree and pace of appropriate change to civil service pay policy and arrangements, based on a fundamental review of current policies, principles and arrangements, and the requirements and options for the future
 - Setting a more explicit policy on clean wages
 - Examining further how the principle of broad comparability with the private sector should be best applied
 - Looking further at whether and how the principle of affordability should be applied in civil service pay determination and adjustment
 - Examining further the separate treatment of the senior civil service
 - Reviewing the rationale and policy for separate pay treatment of the disciplined services
 - Exploring further whether and how flexible pay ranges should be introduced
 - Reviewing the mechanism for determining pay levels and adjustments
 - Exploring further the case and options for performance-based rewards
 - Examining the scope for further delegation of responsibility for pay and human resources management to individual departments
 - Exploring the scope and approach to grade simplification.
12. By their nature, many of the highlighted issues are linked or interdependent. As such we believe it is important for the Task Force to take a coordinated, holistic and prioritised approach to exploring them further. More specifically, we would encourage the Task Force, at an early stage, to develop a high level vision of the key principles and outline features of the civil service pay administration arrangements it believes the Administration should work towards implementing.
13. As noted in our interim report, successful pay and grading reform is typically dependent on complementary reforms in a number of other areas, such as the broader delegation of HR and financial management responsibilities and the introduction of robust and credible systems of performance measurement and management. As such the Task Force's consideration of the above issues and opportunities should take account of, and will be strongly influenced by, whatever wider agenda the

Administration has for civil service reform.

14. In moving forward the Task Force will also need to give equal consideration to the best way of introducing any identified pay reforms, as to the changes themselves. The importance of effective implementation planning and change management cannot be overstated. Recognising and responding to the issues and concerns of key stakeholders will be vital.

Introduction

15. PwC Consulting were appointed in February 2002 by the Task Force on the Review of Civil Service Pay Policy and System to conduct research into the latest developments in civil service pay administration in selected governments, and to identify practices that might be of relevance to Hong Kong, having regard to the history and development of the civil service pay system here. In particular, the research focused on five key areas of interest, as set out by the Task Force:
 - Commonly adopted pay policies, pay systems and pay structure
 - Experience of replacing fixed pay scales with pay ranges, or other pay systems
 - Systems and mechanisms for determining pay levels and pay adjustments
 - Experience of introducing performance-based rewards (or other means to better motivate staff)
 - Experience on simplification and decentralisation of pay administration.
16. In April 2002 we submitted our Interim Report to the Task Force; this was subsequently made available for public consultation as an attachment to the Task Force's own interim report. Our report set out the findings from the international research and focused on the key principles and broad arrangements adopted in Australia, Canada, New Zealand, Singapore and the United Kingdom. For reference and convenience, a brief summary of our interim findings and conclusions can be found in Appendix A to this report.
17. The public consultation period was originally intended to be for one month from 25 April 2002, but was extended by the Task Force until 30 June 2002 in response to requests from interested parties. The Task Force received 337 written submissions from a wide range of groups and individuals, including departmental managements, civil service unions, staff associations and consultative groups, individual civil service managers and staff, members of the public, and outside interest groups. The Task Force also held a total of six consultation sessions with interested parties in the civil service and the general public. All the comments and suggestions made in the written submissions and consultation forums have been given careful consideration.
18. In this, our Final Report, we now:
 - Provide a broad overview of the feedback received during the public consultation in relation to the five key areas covered by the research
 - Offer our advice to the Task Force on the main areas of pay administration reform we believe the Task Force should explore further in Phase 2 of the Pay Review, taking account of the findings from the international research and public consultation.
19. We would re-iterate at this point that it has not been within our terms of reference to undertake a critical assessment of the strengths and weaknesses of the Hong Kong civil service's current pay administration arrangements or to make specific recommendations

for the future civil service pay policies, structures and systems best suited to the local need. These will be matters for the Task Force to address in its future deliberations.

Overview of Responses to the Public Consultation

Introduction

20. In this section we highlight the broad comments, sentiments and ideas put forward by a wide range of interested parties in response to the public consultation conducted between 25 April and 30 June 2002.
21. The source, nature and quality of the 337 written submissions are diverse. They include both collective and individual responses and some 60% are from parties within the civil service. Some responses only give general views about the pay review, while others, in particular those from within the civil service, comment in detail on individual questions raised in the Task Force's consultation document. Some departments and interested parties have conducted surveys of their constituent members and provided findings from these self-organised initiatives. Responses from former and existing civil servants show a good understanding of the research topics under study. Management responses are insightful and well-articulated.
22. The contributions at the six consultation forums are similarly diverse, representing both group and individual positions. Not unexpectedly, the views expressed at these forums are much in line with the written submissions.
23. Our overview of the responses is organised around the five key areas of interest raised by the Task Force. The indications of the strength of support for, or against, particular areas of pay administration reform are based on a systematic analysis of the written submissions. Our feedback on the arguments put forward on specific topics, issues raised and ideas proposed draws on both the written submissions and the consultation forums.
24. In summarising the views in the consultation responses we have distinguished five main categories of respondent:
 - Civil service management groups and individual managers
 - Civil service staff groups, including departmental consultative committees, and individuals
 - Unions and civil service associations
 - Non-civil service interest groups, such as business associations and political parties
 - Members of the public.

Commonly adopted pay policies, structures and systems

The degree of reform required to current arrangements

25. About 200 written submissions respond to the question as to whether there should be a major overhaul of the civil service pay policy and system. Overall, the responses suggest no clear consensus within the civil service or in the community on this fundamental issue of civil service pay reform.
26. Just under half of the civil service management group responses and just over half of the individual civil service manager responses indicate some degree of support for a broad review of civil service pay arrangements. They are open to the possibility of significant reforms to keep up with changing times and expectations. They believe it is a good opportunity to build flexibility into the pay policy, system and structure, so as to motivate staff, enhance efficiency, and meet public expectations and future challenges. The remaining management group/individual manager responses tend to favour the status quo, or express reservations on the need for a major overhaul. Some suggest focusing more selectively on areas in need of improvements in the existing arrangements (an option the consultation document did not specifically address).
27. A clear majority of the civil service staff and interest group responses (eg grade associations, civil service unions and federations, etc) do not support a major overhaul of the current pay policy, structure and system, citing the need to maintain the stability and morale of the civil service. They are sceptical about the drivers of this reform initiative and tend to see the pay review in conjunction with the recently announced civil service pay reduction. They argue that most of the current policies and systems are well established and proven, and, therefore, are not convinced of the need for significant changes. They are worried that a major reform will bring about uncertainty and a negative impact on staff morale. However, they agree that it is necessary to identify areas for improvement and regularly review the pay regime so as to keep it in line with the changing environment and make it comparable with the private sector.
28. Nearly all responses from non-civil service interest groups, and over half of individual responses from the general public, are supportive of a major review and overhaul of the civil service pay regime. These external parties feel there is a compelling case to review and revamp the civil service pay policy and system in light of the perceived significant pay disparity between the public and private sectors, some outdated benefits and allowances inherited from the past, and the rigidity in the current arrangements.
29. In considering this topic, specific issues raised in the various responses, whether in written submissions or at consultation forums, include the need for:
 - A better understanding of the future role and projected size of the civil service, with respect to the provision of services to the public, and the impact of this upon the appropriateness of different civil service pay arrangements
 - Clarity about the wider reform context within which the pay review is being conducted

- A clear sense of direction for pay reforms, supported by long term and short term implementation targets
 - A proper assessment of the strengths and weaknesses of the current arrangements (ie what works well and has to remain; what does not work well and has to be improved), and identification of priority areas for attention
 - Recognition that civil servants can be motivated by non-monetary factors (eg job security, sense of mission/public service)
 - A review of the effectiveness of the recent changes in entry salaries and employment of non-civil service contract staff, before any further reform is introduced.
30. Suggestions made in the responses on implementing pay reforms include:
- The need for changes to be introduced incrementally, to ensure smooth progression and continuity of the public service
 - The need for open and frank discussions with staff and unions to solicit buy-in and support and to address concerns about civil service stability, morale and integrity
 - The restricted application of any new system to new recruits only
 - The option for existing staff to opt out of any proposed changes.

Clean wage policy

31. Around 130 written submissions express views on the issue of a clean wage policy, and the overall benefits and allowances for civil servants.
32. A large majority of civil service management responses, both group and individual, indicate support for a clean wage policy. They see benefits in terms of cost saving from administering the system, reduced opportunities for technical breaches or abuses, increased flexibility in the way staff spend the benefits, and removal of differences in entitlement because of personal circumstances, eg having children or not.
33. Staff group and union/association responses, on the other hand, have more mixed views towards the issue. While some of these responses favour a move towards a clean wage policy, most prefer the status quo or are neutral on the subject. Concerns about a clean wage policy include:
- Risk that it will be used as an excuse for removal of some of the existing benefits
 - Fears that it could give rise to unfairness or double benefits for some, due to varying needs and eligibility for various types of allowances
 - Possibility that it could lead to a public misimpression that civil servants are paid too much.
34. Most responses from individual civil service staff support a move to a clean wage policy, as do most responses from individual members of the public and non-civil service interest groups. They believe that some of the ‘outdated’ allowances should be

abolished and a clean wage policy would increase the transparency of civil service allowances and benefits.

35. Specific issues raised by respondents for further consideration include:
- Whether the provision of benefits and allowances is protected under the Basic Law or existing employment terms and conditions, and the powers of the Government to change this
 - The need for a comprehensive review of civil service benefits and allowances, as part of the remuneration package, to ensure broad comparability with the private sector pay
 - Eligibility for and calculation of the cash amount for the benefits and allowances.
36. Some responses suggest that if a clean wage policy is introduced it should only be applied to new recruits or promotees in the first instance.

Broad comparability with the private sector

37. Some 160 written submissions respond to this question in the consultation document.
38. Responses from all parties within the civil service are strongly in favour of retaining broad comparability with private sector pay. They see a strong need to keep civil service pay competitive or even slightly higher than private sector pay in order to recruit and retain talents for the civil service. Management responses generally support the Government continuing to conduct regular pay level, pay structure, and pay trend surveys. Some civil service staff and union responses argue that ensuring broad comparability is a feature of being a good employer. In their view, this would require continuation of regular pay trend surveys and benchmarking with the upper quartile of the market range.
39. Most responses from the general public support the broad comparability principle. While some responses from non-civil service interest groups support the broad comparability principle, other express concern about achieving comparability in practice, in view of the existing perceived disparity between public and private sector pay levels. In achieving broad comparability, some responses highlight the need for regular pay level surveys and formal job evaluations in light of the perceived gap between private sector and civil service pay which has built up over the years. Some point to the ineffectiveness of the current mechanism by comparing a monolithic single public system with lots of other diversified private systems. As an alternative, they propose comparison be made between occupational groups rather than between the civil service as a whole and the private sector.
40. Specific issues raised for further consideration include:
- The different nature of business between public and private sectors and therefore the need for separate sets of considerations in determining pay

- The problem of assuring comparability when no pay level survey has being conducted in the past 13 years
- The lack of comparable private sector analogues to benchmark against some civil service job categories
- The reliance on minimum academic qualifications as a primary basis for determining job value.

Affordability to pay as an overriding consideration

41. Some 170 written submissions give comments and views on this issue.
42. A vast majority of the responses from the wider civil service community are against affordability to pay as an overriding consideration in determining pay adjustments. Many are worried that this principle is vulnerable to political considerations and affected by other wider economic factors and decisions ; and, as a result, staff morale may suffer.
43. Some civil service management responses see a stronger case for adjusting pay according to affordability in departments that need to be financially self-sufficient, eg trading funds. A few suggest the streamlining of work processes and/or voluntary redundancy schemes to be used to contain staff costs.
44. Some civil service staff group and individual responses suggest that the term ‘affordability’ needs to be clearly defined because there are many factors at play (eg revenue generation and resources allocation). They argue that they need a stable income to pay for normal living expenses and deserve the pay irrespective of the economic situation. They also believe they should not be the group highlighted to bear the brunt of the economic downturn, since they did not share in the economic boom in the past (eg in the form of year-end bonuses).
45. Responses from the general public and non-civil service interest groups indicate mixed views as to whether affordability should be an overriding consideration for pay adjustment. Those opposed to the idea hold the same arguments as civil servants. Those in favour of the principle see that staff costs constitute a significant percentage of public spending and therefore the affordability to pay would help the Government to exercise greater financial discipline and contain the current deficit.
46. A specific issue raised in the responses for further consideration is whether the Government should consider exploring the possibility of sharing the upside with civil service employees if affordability is a primary determinant of future civil service pay adjustments.

Separate pay regime for the senior civil service

47. There are about 130 written submissions expressing views on the idea of setting a separate pay regime for the senior civil service. Responses from the civil service indicate divergent views on this issue.

48. Nearly half of the civil service management group returns and well over half of the individual manager responses indicate support for senior civil servants being subject to a different pay policy, with more emphasis on risk and reward factors. They believe a separate pay regime for the senior civil service would help reflect the intrinsically different nature, roles and responsibilities, and accountability of this top layer in the civil service and ultimately better reward them. In terms of implementation, they also think changes in pay policies and systems for this group will be more readily worked out and agreed to, given the relatively small number of staff involved. The remaining management responses are more in favour of the status quo or neutral to the issue, citing the need for a clearer definition of the senior civil service, and arguing that the motivation of senior civil servants comes from job satisfaction, sense of achievement, and ability to influence public policy, rather than the monetary incentives. They also see a potentially divisive effect between the senior staff, and the middle and the lower staff, if separate arrangements are introduced. One of the key alternative proposals put forward in the responses is to strengthen the risk and award factors in individual goal setting under the existing performance appraisal mechanisms.
49. There is a wide spread of different views in the responses from civil service staff and unions. While some responses are neutral toward this issue, more favour maintaining the status quo (ie no separate arrangement) than support a change. Those opposed to separate arrangements believe the current pay scales already adequately reflect the differences in work nature and accountability and, thus, a separate pay regime for the senior civil service is not necessary. They are worried that over-emphasis on the risks/rewards factors would distort the basic values of the civil service – which focus on accountability and a stable working environment. They are also concerned that separate arrangements would lead to a widening of the pay differences between senior, middle and lower staff, and thus increased divisiveness within the civil service.
50. A large majority of the non-civil service interest group responses and to a slightly lesser degree the individual responses from the general public support the separation of senior civil service pay arrangements from those of others. Their reasons are:
- The senior civil services’ greater responsibilities and accountability
 - The need for senior civil service pay to be closely aligned with their private sector counterparts to recruit, motivate and retain talents
 - The need for more stringent criteria for pay rises for an already well-paid group.
51. Some of the non-civil service responses also highlight the need for similar risk/reward factors for middle and junior civil servants because they are part of the team, underpinning and supporting senior management in successful job delivery.
52. Specific issues raised in the responses on this topic for further consideration include:
- The need for a clear definition of what constitutes the senior civil service
 - Management of substandard performance in the senior civil service when placing more emphasis on rewarding good performance

- Need for greater mobility within the senior civil service for career development and for better staff deployment.

Treatment of the disciplined services

53. About 150 written submissions give views and comments on this issue. A common theme from all the responses is that the coverage of the disciplined services has to be clearly defined for the future, in terms of which departments and which job groups are to be covered.
54. To a larger extent responses from within the discipline services are in favour of continuing a separate pay regime, as are the majority of the civil service management responses. They perceive a need for separate pay arrangements for the disciplined services to recognise the special nature of work, which is associated with high risks, irregular work hours, tremendous stress, strict disciplinary rules, and the importance to maintain integrity of the law enforcement operations. Some believe the current arrangements (ie the Police and the General Disciplined Services Pay Scales) have already distinguished the treatment between civilian and disciplined services staff.
55. Responses of civil service staff and unions/associations both show mixed views on this issue, although there is slightly greater support for keeping separate arrangements. Those against separate arrangements argue they are potentially divisive.
56. Most non-civil service interest group responses are in favour of a separate pay regime for the disciplined services, citing similar arguments to other in support of differentiation. Responses from the general public are evenly split as to whether there should be separate treatment for the disciplined services or not.
57. A key issue raised in the responses for further consideration is how the disciplined services should be defined in future. For example, which departments should be included and which are more appropriate to be included as part of the civilian service? Should disciplined services pay arrangements cover administrative and other civilian staff working in disciplined services departments?

Replacing fixed pay scales with pay ranges or other pay systems

58. Some 175 submissions comment on this issue.
59. Just over half of the civil service group management responses, and to a lesser degree submissions from individual managers, are in favour of introducing flexible pay ranges in the civil service. Many of those in favour of pay ranges see the benefits in terms of:
 - Helping to motivate staff (particularly those who have reached the maximum of the pay scales)
 - Enhancing the performance culture
 - Creating flexibility in pay in response to market trends

- Encouraging reasonable risk-taking and innovation in the civil service.

Those in this group opposed to the idea think that it may encourage a ‘shoe-shining’, flattering culture, and favouritism.

60. Half of the responses from civil service staff groups and an even larger majority of union responses are against the introduction of pay ranges. They believe the fixed pay scales system is more suitable for the civil service, which is largely service-oriented; and, if properly managed, can retain capable staff and thus maintain stability of the civil service. They are worried that pay ranges, if introduced, can lead to a great disparity in pay for the same posts across departments. They highlight a number of potential issues in the implementation stage, eg:

- Most work is difficult to quantify and measure in an objective way
- Some staff work on a team basis and therefore it is difficult to assess their individual performance
- There is concern about fairness as staff cannot select their jobs and some posts offer greater opportunities for demonstrating individual capability
- The emphasis on the performance-pay element will give rise to short-sighted measures or short-term goals to yield quick returns
- It is likely to lead to a greater number of disputes between staff and supervisors, and subsequently lead to increase in resources for managing appeals and complaints.

61. A majority of responses from the non-civil service interest groups and to a less extent responses from the general public are supportive of the idea of introducing flexible pay ranges to link pay to performance. Most of them do not like the current fixed pay scales, pointing out both that the annual increments are primarily time-based rather than merit-based and that the award of increments adds to staff cost regardless of economic conditions and affordability.

62. Alternatives proposed in responses to enhance staff motivation include:

- Introduction of pay ranges as an extension beyond the maximum points of current fixed pay scales to reward performance from a separate source of funding
- Better management of the current annual increment system (eg more increment points for outstanding performance or strictly no increments for under-performance) to differentiate levels of performance
- Other forms of rewards such as free travel passage and overseas training.

63. Implementation suggestions from the responses include:

- Introducing pay ranges for new recruits only, allowing serving staff discretion to opt in/out of any new arrangements
- Revamping the current performance appraisal mechanism, which is not suitable for the purpose

- Establishing a credible, fair, objective performance measurement and assessment mechanism, in conjunction with clear guidelines, to underpin the introduction of pay ranges
- Starting with narrow performance ranges (eg about 10% of base pay) and expanding the variable component if this proves successful.

Coverage of the pay ranges system

64. Opinions vary as to which levels of staff in the civil service pay ranges should apply to. The majority of all responses support the Government piloting the concept in the senior civil service. The main reasons given are that senior civil servants have heavier management responsibilities and have influence and choice over what they do. It is felt that junior staff can remain governed by the fixed pay scales system until they are more ready to accept the pay ranges concept. They suggest that a move to pay ranges below the senior civil service should be considered if the pilot implementation is deemed successful.
65. Some responses argue that civil servants at all levels should be subject to the same pay regime if pay ranges are introduced, as this will ensure fairness and avoid potential divisiveness in the civil service.
66. Opinions are also split as to whether pay ranges should be applied to disciplined services. The civil service management responses generally consider the principles can be applied to both civilian and disciplined services. Some, however, highlight that the disciplined services may have some considerations unique to themselves and are therefore cautious about extending any such arrangements to cover them.
67. An overwhelming majority of the responses from the disciplined services see no major benefits of pay ranges to their departments, because of the potential rise of malpractice and unnecessary competitiveness if the new system is not carefully managed.
68. Civil service staff association and union responses are also adamantly against applying pay ranges to the disciplined services. They argue that the nature of law enforcement and related work is reactive and not within the control of staff in most circumstances to influence their performance. They believe performance related pay ranges could also give rise to corruption in the disciplined services.

Systems and mechanisms for pay adjustments

69. There are about 150 submissions expressing views on this specific issue.
70. Most of the civil servant responses opine that the current adjustment mechanism is fair, works well, and should not be replaced unless there is a better, proven alternative. They generally support the idea of more frequent and regular reviews to ensure that the current system is kept up to date with the changing environment. They argue that

although the current mechanism may seem inflexible, it offers the civil servants the kind of stability they expect when joining the civil service and therefore they do not need to worry about basic livelihood and can focus on their jobs. *(Note: Please also see the section on 'Broad comparability with the private sector' on page 11.)*

71. Specific issues raised in civil service responses for further consideration include the:
- Need to provide more information and educate the public in order to correct misunderstandings and public criticism about the existing pay adjustment mechanism
 - Need to identify and remedy any perceived weaknesses in the current mechanism
 - Possibility and appropriateness of linking civil service pay adjustments to GDP growth
72. A majority of responses from the non-civil service interest groups and individual members of the public point to flaws in the current pay trend formula and an absence of pay level surveys as the cause of a widening pay disparity between the civil service and the private sector. They propose a widening of the sample of private sector organisations used in the pay trend surveys to include small and medium enterprises, in addition to other improvement steps. They also feel that there is a compelling need to achieve more comparability between similar job types in the public and private sectors, rather than just across-the-board pay movements. *(Note: Please also see the section on 'Broad comparability with the private sector' on page 11.)*

Introducing performance-based rewards

73. Nearly 170 written submissions deal with this issue. Overall, civil service responses are divided on the question of introducing performance-based rewards.
74. Half of the civil service management group and individual manager responses are in favour of introducing performance-based rewards. These responses welcome performance-based rewards as an efficient means of motivating staff and encouraging good performance, especially for those staff who have reached their maximum salary. They also see benefits in terms of improved efficiency, productivity and accountability, and a reinforced performance culture in the civil service. However, some responses comment that performance-based rewards will only be effective when:
- Departments are given full authority to manage their resources (eg an extended one-line vote arrangement) and to resolve the appeals in an efficient manner
 - The size of award constitutes a significant portion (ie not less than 10%) of the base pay.
75. There are diverse views expressed in the civil service staff and union/association responses. While staff group responses tend to be against the notion of performance-based rewards, many individual staff responses are more supportive of the concept. Some union/association responses express support for the introduction of some form of

performance-based rewards, but most are against the idea. Those against think performance-based rewards could undermine the morale of staff, encourage divisiveness, and potentially give rise to a flattering culture within the civil service. They are particularly concerned that if performance-based rewards are to be introduced their success depends on a fair, transparent and objective performance measurement and assessment system. Specific issues raised in responses from this group include:

- The relationship between flexible pay ranges and performance-based rewards
- Concern about pressure to set and give priority to short term opportunities in order to yield quick results
- Difficulty and cost of administering and managing performance pay in practice, as there are so many grades and ranks across departments
- Practical or technical issues arising from quantifying and measuring outputs.

76. A significant majority of responses from non-civil service interest parties and over half of those from members of the public are in favour of performance-based rewards, believing in their potential motivational impact.

77. Some responses suggest the requirements for successfully introducing performance-based rewards. These include the need for:

- A comprehensive performance appraisal system – one that is fair and transparent
- Ample funds available to support the initiative or any marginal benefits would not be worth pursuing
- An efficient disciplinary system in place to deal with under-performers, including the ability to exit staff where necessary.

Types of performance-based rewards

78. A number of responses offer views on different types of performance-based rewards. Opinions vary.

79. Whilst most of these responses see the potential motivational effect from individual incentives, they are generally worried that the competition element will harm harmony or team-working in the civil service and in practice would be difficult to administer.

80. Other responses favour team-based rewards, as team building and spirit is more conducive to fostering a harmonious working environment in the civil service. They also believe the nature of work is more often on a team basis, particularly below the senior level, and that team rewards would be more acceptable to the junior staff. Some responses note that team-based rewards would not necessarily be an alternative to an individual performance-based rewards scheme.

81. Practical difficulties in implementing team-based rewards, as noted in responses, include:

- The wide variety in the nature and size of teams across/within departments and grades
 - Setting, quantifying and measuring team targets (and properly segregating the influence of external factors which are beyond the control of participating teams)
 - Distinguishing between high and low performance within a team in order to allocate the rewards in a fair and equitable manner.
82. Other suggestions, from the submissions, on appropriate types of performance rewards, include:
- Year-end bonuses to reward outstanding performance or successful completion of special projects or assignments, on the condition that the annual increment system remains
 - More use of intangible awards such as appreciation, commendation and other forms of recognition, such as travel, training and development opportunities.

Coverage of the performance-based rewards

83. Some responses propose that individual rewards should be first tried out with senior civil servants and gradually expanded to cover the wider civil service. They think this would help ensure fair and consistent arrangements for all levels of the civil service.
84. Opinions on whether performance awards should apply to the disciplined services vary greatly. Some responses caution that the introduction of any scheme in the disciplined services needs to be handled carefully in order to reinforce and reward the right behaviours and a valid set of outputs/outcomes.

Simplifying and decentralising pay and grading administration

Decentralisation of pay and grading responsibility

85. About 180 submissions provide comments on this issue and offer a diverse range of views as to whether decentralisation would work in the Hong Kong civil service.
86. Some civil service management responses welcome the idea of greater autonomy and control over human resources and financial management as a result of pay administration decentralisation. They believe it is possible to delegate the authority to departments within broad, central policy and parameters to best meet local needs. However, most management responses feel Hong Kong is too small to justify highly decentralised arrangements, and are concerned about the duplication and increased administrative costs, the loss of internal relativities under a fragmented system, competition between departments for resources, and the lack of needed expertise, skills, and resources at the departmental level to manage the system.

87. Overall, a majority of the staff group and union/association responses are in favour of the status quo, although over a quarter of union/staff association responses and around a half of individual staff responses support greater decentralisation. Those against greater delegation see it having a potentially divisive effect within the civil service, the loss of redeployment opportunity for some grades, greater uncertainty, and the risk of putting too much control over resources in the hands of departmental management. They believe implementation will be an extremely challenging task.
88. Non-civil service responses are divided on the issue, although a majority of the outside interest group responses favour greater decentralisation. Those supporting the idea for change argue that the current centralised pay system has become a barrier for efficient and accountable departmental operations and decentralisation is fundamental to bring in necessary changes within departments. Those with reservations on the issue cite reasons similar to those civil service management and staff responses supporting the status quo.
89. Specific issues raised in the responses on this topic include:
- The appropriate degree of decentralisation of pay administration and the future role of the centre in these matters
 - The recognition that pay delegation must fit within a wider program of devolving business and financial resource management, and HR responsibilities and flexibilities
 - The need for any move to decentralise pay and grading arrangements to be matched by the introduction of a transparent and competitive appointments and promotion system across the civil service.
90. Comments in the responses on implementation include:
- Support for pilot pay decentralisation, to test the feasibility and impact. Initial piloting might be appropriate with a selection of larger departments and/or one-line vote or trading fund departments
 - Support for the establishment of a central function responsible for addressing complaints and grievances, and for subsequently auditing departmental pay administration to ensure effective management and use of resources.

Departmentalisation of General/Common Grades

91. Approximately 155 submissions express views on the issue of departmentalising General and Common Grades staff. Again there are divergent views across the various stakeholder groups.
92. Just over half of the departmental management responses support this proposition, arguing that there would be benefits to effective resource management, particularly of junior staff and the clerical and secretarial grades. Those having reservations about this issue, however, feel strongly that the rotation of General/Common Grades staff under the current arrangements provides necessary broadening of experience, exposure to

good practices and new perspectives, together with a necessary check and balance on departmental management. They see these aspects as too important to lose. Most of these management responses recognise a significant concern regarding the lost career development opportunities for both Executive Officers and other General/Common Grades.

93. A significant majority of civil service staff group responses are against this idea. They argue the downside would be: loss of economies of scale associated with recruitment, training, and deployment; limited career prospects particularly in small departments; risk of redundancy when departments outsource, privatise or downsize; and eradication of the check and balance role of the General and Common Grades in departments.
94. Civil service union/association responses are generally divided on the issue.
95. Submissions from the General Grades/Common Grades largely oppose the idea. They think it would limit their future promotion prospects, deprive them of their career development opportunities, and limit the scope for flexible deployment for special tasks under a tight timeline (eg election activities).
96. Responses from the non-civil service parties and, in particular outside interest groups, support the idea, pointing out that departmentalisation of General Grades/Common Grades staff would be necessary to facilitate other changes in terms of greater departmental responsibility for pay and grading, performance review, and grade rationalisation in the civil service.
97. Specific issues raised in the responses for further consideration include:
 - The possibility of General/Common Grades staff, once departmentalised, transferring to departmental professional or technical grades, if the necessary academic and professional qualifications are obtained
 - The need to provide sufficient deployment planning and training to facilitate skills transfer
 - The scope for piloting the idea in clerical grades, then extending, if appropriate, to the wider General/Common Grades group.

Scope for amalgamation of existing grades within broader occupational categories

98. About 140 submissions give views on this issue. A majority of the responses are supportive of grade rationalisation, although the group responses from civil service staff are much more mixed in their views.
99. Over half of the departmental management responses and most of those from individual civil service managers see a definite scope for grade rationalisation and flatter organisations, as a means of enhancing efficiency and simplifying administration. Many believe there are numerous grades and ranks that have become obsolete over time, and that there is a dilution of grade/rank differentiation in many jobs.

100. In contrast, some group responses from civil service staff express concerns that reform in this area will lead to reduced promotional prospects for civil servants in general; threats to job security particularly for the middle and lower levels; and consequently an adverse impact on staff morale. Without any solid proposals, these responses suggest a need to review each grade carefully and consider each case for rationalisation on its own merits.
101. There are some concerns expressed in the disciplined services responses, which see a need to retain existing structures to reflect the specific nature of their work. They indicate, however, that there could be potential to streamline the civilian grades.
102. Most of the non-civil service responses are very supportive of the idea of simplifying the grades. They believe it will create more flexible and efficient departmental operations and reduce costs through elimination of unnecessary levels and headcounts.
103. Specific options for grade rationalisation proposed in the responses include:
- Amalgamating grades across the civil service with similar occupational or educational requirements
 - Adopting a job demand approach to grade and rank determination, based on the introduction of a job evaluation system.
104. Specific issues raised in the responses for further consideration include:
- The need to recognise that achieving flatter organisations and the amalgamation of grades and ranks are two distinct issues and therefore initiatives in these two areas should be conducted independently
 - Potential need to widen pay scales, if scope of responsibilities has been widened
 - The importance, in de-layering, to strike a balance between span of control and effectiveness.
105. Comments in the responses regarding the implementation of grade rationalisation include:
- The need to give greater autonomy on grading matters to departments
 - The importance of addressing staff concerns about downsizing and loss of career opportunities
 - The need for a review of departmental management structures to be first conducted before moving further down to lower levels, in order to gain buy-in and support from the staff.

Introduction of formal job evaluation system

106. About 120 submissions deal with this issue.
107. At least half of the responses from civil service management, individual civil service managers and staff, and from outside the civil service, indicate support for the introduction of formal job evaluation. Group submissions from civil service staff and those from unions/staff associations are more cautious about the idea.
108. Within those responses supporting job evaluation, there is an even balance as to whether the system should be centralised or not. Centralisation is supported largely for reasons of operational efficiency and expertise, internal relativity, transparency and fairness. Decentralisation of responsibility within central guidelines is supported, because it is thought that departments have a greater understanding of job requirements.
109. Some key suggestions from the responses include:
- Any formal job evaluation system should be administered by an independent body
 - It should be introduced in connection with simplification of the existing grades within broader occupational categories
 - If a decentralised job evaluation system is introduced, the Government should still have a role in setting the overall framework and guidelines, and performing a monitoring function.

Suggested Areas for Further Consideration in Phase 2 of the Pay Review

110. This section sets out our advice to the Task Force on the main aspects of civil service pay administration that we believe should be addressed further in Phase 2 of the Pay Review. Our conclusions are organised under the five key areas of research interest and take account of the relevant civil service pay arrangements and developments in the five surveyed countries and the views received during the public consultation.

Commonly adopted pay policies, structures and systems

The need for a major overhaul of the civil service pay policy and system

111. The surveyed countries, with the exception of Canada which has just embarked on more far reaching civil service pay reforms, have all undergone major, long term and arguably successful programmes of change to their civil service pay policies, structures and systems. Each country has had a different starting point and responded to different pressures and circumstances. In most cases though, changes have been part of and driven by a much wider agenda of public sector reform. Common underpinning factors have been the desire to create a stronger performance culture within the civil service and greater flexibility in ensuring the staffing needs of the civil service are appropriately met, and to enhance accountability and value for money.
112. Based on the responses to the public consultation, there appears to be limited support within the Hong Kong civil service for a major overhaul to the current pay regime, but tacit acceptance that there may be scope for more modest review and improvement. In the absence of a compelling case for change, responses from civil service staff groups and unions/associations see current arrangements as tried and trusted, and believe that any necessary changes should be progressively introduced over the long term so as not to disrupt the stability or morale of the civil service. In contrast, responses from outside interest groups are much more supportive of the need for a major revamp.
113. Based on the above, **we believe that while there is almost certainly scope to improve the pay administration of the Hong Kong civil service, further work is now required to make a considered determination of the degree and pace of that reform.** Specific issues we feel the Task Force may wish to address include:
- The scope and timing of wider public sector management reforms, which might have a bearing on the future direction of civil service pay administration
 - The strengths and weaknesses of current pay arrangements and their appropriateness to meet future requirements
 - The motivations of individuals for joining or leaving the civil service, and the importance of pay arrangements as a factor in their decision making

- The need to develop a compelling case for change and a pay reform vision, reflecting a comprehensive review of civil service pay policies and the key principles underlying them
- The need to develop a pay reform strategy and timeline, to deliver the pay reform vision
- The identification of areas of pay administration which require attention in the immediate term and for which interim solutions need to be devised.

Clean wage policy

114. The review and rationalisation of benefits and allowances has been a common feature in the surveyed countries, although these payments have generally been a less significant element in total remuneration than has been the case in Hong Kong. A clean wage policy has generally been welcomed by staff in the countries concerned, in that it gives them more freedom to spend their income as they wish and it has helped lower pay administration costs. Where allowances have been retained it is restricted to particularly difficult or unpleasant tasks, work in remote or expensive locations, where there are excessive work requirements or skills are in short supply.
115. The public consultation suggests that locally many civil service management group and individual manager responses support moves towards a clean wage policy, as providing administrative cost savings, reduced opportunities for abuse, and greater spending flexibility for staff. In contrast, most civil service staff and union/association responses have mixed views on this issue. Some fear that they will lose out if existing benefits and allowances are encashed or withdrawn. Responses from outside parties strongly advocate a clean wage policy to provide for greater transparency in civil service remuneration.
116. While there is an ongoing review of allowances, **we consider that there would be value in further work to set a more explicit policy on clean wages.** Specific issues the Task Force may wish to address include:
- The scope to accelerate or extend current initiatives to rationalise, consolidate or simplify existing allowances
 - The principles which should determine where it remains appropriate to retain allowances or target them more effectively
 - The best approach to introducing a clean wage policy.

Broad comparability with the private sector

117. In support of providing sufficient pay to attract, retain and motivate suitable staff, all the surveyed countries have tried to maintain broad comparability with the private sector, although the explicit linkage has in many cases been dropped. None of the countries seeks to lead the private sector, but they either look to broadly match (eg Singapore) or recognise a ‘public sector discount’ (eg the UK). A reduced focus on

formal pay comparability has led to some concerns that pay for the senior civil service in particular is now lagging the private sector by too great a margin.

118. From the public consultation, responses from both inside and outside the civil service largely favour retaining broad comparability with private sector pay, although some, particularly those responses from non-civil service parties, believe that the comparisons should be at occupational group rather than whole civil service level (as is the case with the existing pay trend surveys).
119. **Our conclusion is that while broad comparability is likely to remain a feature in pay determination, there is a need for further work to consider how this principle is best applied.** Specific issues the Task Force may wish to address include:
- The appropriate competitive positioning of civil service versus private sector pay (ie what broad comparability means)
 - Whether this positioning should be different for different occupational groups or levels of seniority
 - How broad comparability should weigh against other factors, such as affordability, in pay determination
 - How broad comparability can be achieved and maintained in practice, if there is perceived to be an existing significant gap between public and private sector pay.

Affordability to pay as an overriding consideration

120. Affordability has become a dominant feature of pay policies in the surveyed countries, reflecting the serious fiscal and public expenditure constraints they have had to deal with in recent years. A trend towards decentralisation of pay responsibilities to departments has reinforced the focus on ability to pay within overall budgets.
121. Responses to the public consultation from all parties in the civil service are largely against affordability as the overriding pay principle, fearing it is vulnerable to political pressure and wider economic factors. However, management groups and individual manager responses agree that it is one of the considerations in pay setting. Outside views on the subject are mixed, but the affordability principle is seen as a way of ensuring Government exercises proper financial discipline.
122. In the light of the present focus on public expenditure constraint in Hong Kong, **we believe that there would be value in the Task Force looking further at whether and how the principle of affordability should be applied in civil service pay determination and adjustment.** Specific issues the Task Force may wish to address include:
- The appropriate definition of affordability
 - The relationship between affordability and other factors such as private sector comparability

- The areas of the civil service where affordability might be particularly relevant.

Separate pay regime for the senior civil service

123. Distinctive treatment of the senior civil service is a feature in most of the surveyed countries. For example in those countries with highly devolved systems, maintaining a centrally managed senior civil service has been seen as an important way of maintaining the overall cohesion of the civil service and keeping the lid on the overall pay bill. In those countries with individual performance pay arrangements, the senior civil service typically has a higher percentage of their total remuneration at risk.
124. There are mixed views within the civil service responses as to whether senior civil servants should be treated differently. Some believe it is appropriate to reflect their greater responsibilities and increasing accountability, but some staff responses show concern about a widening pay gap and divisiveness if the senior civil service is treated differently. Responses from outsiders generally support different treatment, in part as a means of better aligning senior civil servants with their private sector counterparts.
125. **We consider the separate treatment of the senior civil service for pay purposes as worthy of further examination.** Specific issues the Task Force may wish to address include:
- The definition of the senior civil service
 - The extent to which the senior civil service should be treated differently for pay purposes, taking account of wider managerial and HR issues
 - The scope to use the senior civil service as a pilot group for introducing pay reforms
 - The need to develop a different pay review mechanism for this group to better reflect pay movements for comparable groups in the private sector
 - How to mitigate the risks of widening pay gaps and divisiveness, as raised by staff.

Treatment of the disciplined services

126. While there is no consistent model across the surveyed countries for handling the pay arrangements of the disciplined services or their equivalents, the general trend is to only provide separate treatment where the right to strike or take industrial action has been removed and/or where there is a perceived need to ensure that pay determination is independent of government or undue political interference. While this means that in practice separate arrangements have been retained for the police in most of the countries, many other disciplined service equivalents are managed for pay and other purposes in the same way as the broader civil service.
127. From the public consultation, responses from the disciplined services, and civil service managers in general, argue strongly for retaining different arrangements for the disciplined services because of the special nature of the work. Other civil service staff and union/association responses have more mixed views, although erring towards the separate treatment of the disciplined services. Some are concerned about the

divisiveness of separate treatment. Outsider responses largely support different arrangements for the disciplined services.

128. **We believe that there would be value in further reviewing the rationale and policy for separate pay treatment of the disciplined services.** Specific issues which the Task Force may wish to address include:

- The principles which should determine separate treatment
- The rationale for retaining the current arrangements for each individual disciplined service
- The extent of special considerations for those disciplined services justifying different treatment
- The practicality of linking other disciplined services to the rest of the civil service for pay purposes.

Experience of replacing fixed pay scales with pay ranges or other pay systems

129. All the surveyed countries have replaced fixed pay scales and automatic increments for their senior civil servants with flexible pay ranges. Those countries with devolved systems have also extended flexible pay ranges to most or all other parts of the civil service. Civil service management believe these reforms have been successful in enabling a fairer system of reward and a more performance-oriented culture. In contrast, staff and unions have shown resistance to change, arguing the move is divisive and countercultural. Overall the international experience is that the effectiveness and perceived fairness of flexible pay ranges depends critically on a comprehensive approach to performance measurement and management.

130. Locally, consultation submissions from both civil service managers and outside the civil service tend towards supporting a move away from fixed pay scales, to increase flexibility and reward performance rather than time served. Staff and union/association responses more strongly favour the status quo and some believe that better management of the existing increment system could also achieve an improved performance focus.

131. In the light of the above, **we believe that there would be value in exploring more closely whether and how flexible pay ranges should be introduced.** Specific issues the Task Force may wish to address include:

- Whether pay points should be retained or only minima/maxima set
- The practicality, as at least an interim measure, of strengthening the existing incremental system, to make progression more clearly performance related rather than automatic

- The scope for piloting the concept of pay ranges at the senior civil service level and for a small number of departments, linked to a performance pay element. If this works, extending it progressively across the civil service
- The pros and cons and options for introducing broadbanding.

Systems and mechanisms for determining pay levels and adjustments

132. All the surveyed countries, although to a lesser degree in Canada and Singapore, have moved away from highly centralised pay and wage determination and the use of a formula-based approach to pay setting. Individual departments now have greater delegated pay responsibilities, with affordability, achievement of performance goals, recruitment, retention and motivation of staff as key considerations. Collectively and individually negotiated agreements are also now a common feature, with pay trend surveys and pay level benchmarking with the private sector used to inform rather than dictate the pay adjustment process.
133. Most local civil service manager and staff responses view the current adjustment mechanism as fair, working well, and believe that it should not be replaced unless there is a better, proven alternative. However, many responses from outside interest parties have pointed both to flaws in the current formula and the absence of pay level surveys as having created a widening pay disparity between civil service and private sector jobs.
134. **We believe that there is now a need to explore more rigorously the options and recommend the most appropriate future pay determination and adjustment mechanism**, consistent with other proposed reforms in pay administration. Specific issues the Task Force may wish to address include:
- Whether there are useful interim improvements to the current mechanism which could be implemented in time for the 2003 review
 - The case for and practical approach to undertaking a pay level survey, in order to identify the extent of any reforms that may be needed to the pay review mechanism and establish a basis for any new pay structure
 - The level of autonomy, if any, which should be given to individual bureaux and departments in setting their own pay levels
 - The role that the central agencies – such as Civil Service Bureau and Finance Service and Treasury Bureau – should play in future pay determination
 - Whether the senior civil service and other selected groups should continue to be subject to central pay determination, even if there is a general move towards greater delegation of pay matters to departments.

Experience of introducing performance-based rewards

135. The introduction of performance-based awards has been a strong feature in overseas reforms and has been regarded as an important factor in raising performance standards within the civil service. In addition to flexible pay ranges, where progression reflects the level of individual performance, other performance-based award arrangements which have been implemented include individual performance bonuses, team-based rewards, and payments linked to economic performance (as in Singapore). Typically staff have not been required to put their existing base pay at risk and senior civil servants have a larger part of their total remuneration linked to performance than junior staff. A fair and consistently applied performance management framework has been seen as an important pre-requisite for the success of performance pay schemes.
136. The civil service responses to the public consultation offer mixed views on the issue of performance rewards. Around half of the civil service management responses, and many from outside interest group, favour the introduction of performance-based rewards to improve flexibility, motivate staff and reinforce a performance culture. There is less support for this idea among civil service staff responses and much less in those from unions/associations. They argue that it will be divisive and undermine morale. There are no clear views expressed on whether one form of performance-based rewards (eg individual vs team-based) would work better than another.
137. **Our view is that performance-based rewards is a potentially significant area of development worthy of further exploration.** Specific issues the Task Force may wish to address include:
- The appropriate scope and approach to implementing performance-based rewards to best fit local needs and circumstances
 - The effectiveness and robustness of existing performance management systems within the civil service and, as appropriate, the best route for ensuring a credible framework is in place
 - The use of the senior civil service as a starting point for piloting individual performance pay
 - The applicability of other forms of performance rewards within the Hong Kong civil service, such as:
 - individual performance bonuses
 - team rewards, which are currently being piloted in six departments
 - corporate rewards schemes, where staff are rewarded when the department as a whole achieves/exceeds agreed performance targets. (Such schemes currently exist in a modest form in some of the Trading Funds)
 - performance awards linked to the overall economic performance of Hong Kong
 - enhanced forms of non-cash recognition
 - The funding of performance rewards.

Experience of simplifying and decentralising pay and grading administration

Decentralisation of pay and grading responsibility

138. Some degree of decentralisation has been a feature of reforms in other countries. Freedom has been given to departments to manage their own pay arrangements, including policies and structures, to suit their needs and circumstances. This has facilitated a greater financial accountability and performance focus, but also raised some concerns about fragmentation of the civil service, inconsistency in pay arrangements for similar staff in different departments and barriers to career development and cross-departmental movement.
139. There are divergent views from the public consultation as to whether decentralisation would work in the Hong Kong civil service. While some manager responses would welcome greater resource and financial autonomy within central policy and parameters, more feel that Hong Kong is too small to justify highly decentralised arrangements. Some staff fear abuses if greater power is put in local managers' hands and are concerned about the possibility of pay disparity and reduced opportunities for career movement between similar jobs in different departments. Responses from outside parties tend to be supportive of greater decentralisation to enhance efficiency and accountability.
140. **We consider this is another important area for the Task Force to look at further in Phase 2**, as the degree of any future decentralisation will be a strong influence on the development of other aspects of future pay arrangements, eg a high level of decentralisation is likely to lead to a stronger focus on affordability in determining pay levels and adjustments, and may reduce some of the scope for grade rationalisation across the civil service as a whole.
141. Specific issues which the Task Force may wish to address include:
- The scope of any wider reform program to decentralise managerial or HR responsibilities, and the implications of this for pay delegation
 - The principles that should be applied to determine the appropriate degree of any decentralisation of pay administration
 - The future role and responsibility of central agencies in a more delegated system.

Grading reforms (including grade rationalisation, departmentalisation of the General/Common Grades, introduction of formal job evaluation)

142. Most of the surveyed countries have implemented major changes to grading arrangements, typically linked to delegation on grading matters to departments. Reforms include:

- Departmentalisation of general and common grades, other than at the senior civil service level
 - Introduction of broader occupational groupings and pay bands
 - Introduction of job evaluation or competency based approaches to assess job weight
 - Moving away from education qualifications as the determinants for grade and rank.
143. Locally, feedback from many civil service management responses suggests that grading reforms, including grade rationalisation, departmentalisation of general/common grades and introduction of job evaluation, would be welcomed to improve efficiency and resource management. Staff responses have more mixed views about change, some fearing reduced promotion opportunities and less job security. Job evaluation or equivalent approaches are, however, viewed by many responses from parties within the civil service as a fairer basis for setting internal relativities. More than half the union/association responses also indicate positive support for grade rationalisation and broader occupational categories.
144. **Our conclusion is that there is value in looking further at the scope for grading reforms**, recognising that this necessarily has to be closely linked to the wider consideration of pay administration delegation. Specific issues the Task Force may wish to address include:
- The scope to give greater autonomy on grading matters to departments, including the departmentalisation of the General and Common grades
 - The potential and options for introducing an integrated grade structure, based on a detailed analysis of existing families of grades
 - The case for job evaluation, or alternatives approaches, as a method of setting internal relativities and creating a rational and equitable grade structure
 - The scope for piloting job evaluation using one department (or the senior civil service) as a precursor to extending across the civil service.
145. In pursuing any changes, it will be important to address any staff concerns about potential loss of mobility and career opportunities.

Moving Forward

146. In the preceding section of this report we set out our advice to the Task Force on the broad agenda of pay reform issues and opportunities we believe it should examine further in the next phase of the Review of Civil Service Pay Policy and System.
147. In moving forward the Task Force now needs to determine the civil service pay and grading arrangements which will best suit Hong Kong's future requirements and circumstances. This assessment must take account of the strengths and weaknesses in current arrangements and an understanding of the Administration's wider intentions for civil service reform in key related areas, such as the broader delegation of HR and financial management responsibilities.
148. By their nature, many of the highlighted issues are linked or interdependent. As such we believe it is important for the Task Force (in conjunction with the Administration) to take a coordinated and holistic approach to exploring them further. More specifically, we would encourage the Task Force, at an early stage, to develop a high level, long term vision of the key principles and outline features of the civil service pay administration arrangements it believes the Administration should work towards implementing. Establishing such a vision, together with a broad implementation route-map, will provide a shared focus for interested parties on the future direction and reduce the risk of detailed reforms being tackled in a piecemeal way.
149. Clearly, it is not practical for the Task Force to examine and address in detail all the possible areas for change at the same time. From our wider experience we would therefore suggest the following broad, if overlapping, priorities for attention:
- Firstly, to review the mechanism for pay determination and adjustment. As well as looking at possible short term revisions to the current pay formula and adjustment process, this would involve consideration of:
 - the pay strategy that the Administration should adopt in terms of how it should position civil service pay in comparison to the private sector, in order to meet its HR policy objectives
 - how broad comparability, if appropriate, can be achieved and maintained in future
 - the role of affordability and other management considerations in setting pay levels
 - Secondly, to examine in detail how the current pay and grading structure should be rationalised and the best means of implementing any changes. This would include:
 - deciding on the degree of delegation of pay and grading responsibilities to departments and the central policies within which this devolvement would operate
 - reviewing and identifying the scope and approach to rationalising and simplifying the existing grade and rank structure

- deciding whether to move away from fixed pay scales and if so what the appropriate replacement structure should be and how it should be introduced
- exploring the use of job evaluation as a better basis for setting internal relativities
- developing a policy on clean wages and reviewing allowances accordingly
- Thirdly, to examine further the case for performance-based rewards and the best path for introducing these into the civil service. This would include:
 - exploring the feasibility of introducing individual performance pay and the most appropriate system for this, drawing on both wider public and private sector experience
 - identifying and evaluating other forms of performance-based rewards which might be introduced, eg team or departmental incentives, one-off bonuses, and enhanced non-cash recognition schemes
 - reviewing existing performance measurement systems to see how they need to be strengthened to support a performance-based rewards culture
 - piloting new performance rewards arrangements, before rolling them out across the civil service.

150. In its further work, the Task Force will need to give careful thought to the way that changes are best implemented. It is clear from the responses to the public consultation that winning the ‘hearts and minds’ of the civil service will be a key factor in ensuring the success of any reforms. This echoes the experience of the surveyed countries in implementing reforms to their civil service pay arrangements. Some of the valuable lessons from that wider implementation experience are summarised in Appendix B.

Conclusion

151. This report has set out our advice to the Task Force on those aspects of civil service pay administration reform which we believe are appropriate to explore further in Phase 2 of the Review of Civil Service Pay Policy and System. In forming our views we have taken account of our understanding of the context and development of the present civil service pay arrangements in Hong Kong, the experience of the surveyed countries in this area and the feedback received from the public consultation on the Interim Report.
152. We believe that this Pay Review represents an important, timely and exciting opportunity to make a comprehensive re-assessment of the pay administration regime best suited to the future needs of the Hong Kong civil service.
153. We do not underestimate the challenges now facing the Task Force. There are many options and considerations to be taken into account. At the same time, a strong message from the public consultation is that the civil service still waits to be convinced of the need for changing established and trusted ways of dealing with pay and grading matters. Setting out a compelling case for any change, and a high level vision of the principles and features which should underpin future arrangements, needs to be a priority task moving forward.
154. We look forward with interest to seeing the Task Force's final report on this phase of the Pay Review and wish it well in tackling Phase 2.

Appendix A – Summary of Interim Report Findings

Summary of General Lessons and Good Practice from the Research

- A1. While each country has evolved very different approaches to civil service pay to meet their specific needs, we have, nevertheless, identified some common themes and lessons from our research. Specifically:
- **Pay and grading reform cannot and should not be implemented in isolation from the broader civil service reform agenda.** For pay and grading reforms to be successful, complementary reforms are needed in a number of other areas, such as the broader delegation of human resource and financial management responsibilities. Development of supporting performance measurement and management frameworks is vital to ensure that pay and grading reforms can be applied fairly and consistently
 - **A long term view needs to be taken.** Implementing pay and grading arrangements typically requires a number of years, using a phased approach to reduce risk and to help build capacity within the civil service. Sustained top level commitment and support is crucial both at the political level and from the highest echelons of the civil service in order to maintain momentum
 - **Gaining buy-in and commitment to change from key stakeholders is critical.** Early consultation with civil service managers and staff is an important means of raising awareness about the need and options for change, overcoming concerns and anxieties, and benefiting from their thinking in shaping proposed reforms
 - **A major investment of resources is necessary** to build the capacity and commitment required to implement major pay reforms. Typical areas for investment include relevant training and skills development, communications, specific initiatives to shift mindsets and promote a performance culture, and the development of the supporting infrastructure necessary to ensure efficient pay administration, eg technology-based systems
 - **Making significant changes to pay and grading arrangements, within the context of wider reforms, inevitably involves pain as well as gain.** The path to achieving the benefits from new pay or grading arrangements is rarely smooth. Challenges and setbacks must be expected and allowed for. Staff resistance to any change from the status quo, a potential drop in morale and motivation among those staff who feel they have lost out under new arrangements, and securing the funding needed to implement proposed reforms, are some of the typical issues which may need to be addressed.
- A2. Having described these general lessons, we have grouped our more detailed findings on good practice under each of the five designated areas of interest.

Commonly adopted pay policies, structures and systems

A3. The common trends in pay policy in our five surveyed countries include:

- Devolution of more responsibility for pay policy and administration to individual departments and agencies
- A belief that in certain areas (eg equal opportunities) the civil service has a leadership role to play as a 'good' employer, with associated implications for pay policy, for example equity in pay arrangements from an equal opportunities perspective
- An emphasis on affordability (ie living within budgetary constraints) and paying appropriately to recruit, retain and motivate staff, with correspondingly less importance given to formal pay comparability with the private sector
- Ongoing efforts to link pay more closely to performance, through various forms of performance-based rewards
- A drive to replace rigid central systems with more flexible approaches including, for example, the consolidation of allowances and their absorption into base pay
- Providing separate pay arrangements only for those groups broadly equivalent to the Hong Kong disciplined services where special provisions apply (eg where the right to take industrial action has been removed). As a consequence, many of these equivalent groups in the selected countries are in practice treated in the same way as any other department or occupation within the civil service or broader public sector.

Experience of replacing fixed pay scales with pay ranges

A4. All five of the countries we surveyed have replaced fixed pay scales (with automatic time-based increments) for their senior civil servants with more flexible pay ranges. Some countries have gone further and extended the use of flexible pay ranges to most or all of their civil service. Typically a minimum and maximum salary is specified for each pay range, but then considerable flexibility is allowed for individuals to move through the pay range based on performance.

Systems and mechanisms for determining pay levels and adjustments

A5. Each of the five countries, to varying degrees, has taken steps to decentralise the determination of pay levels and adjustments to individual departments and agencies. This has resulted in a general move away from a central, formula-based approach to pay determination for most countries. Affordability within budget constraints, achievement of performance goals, recruitment, retention and motivation of staff are now the primary consideration, rather than formal comparability with the private sector. Pay trend and level surveys are more typically used to inform collective and individual agreements within set negotiating parameters, rather than to dictate pay adjustments.

A6. As a consequence the role of the central agencies has changed with more emphasis on setting the overall policy framework and providing advice, rather than having a direct involvement in setting pay levels.

Experience of introducing performance-based rewards

A7. A common thrust in all the countries surveyed has been efforts to link pay more closely to performance, especially for senior civil servants. In addition to the flexible pay ranges already described, other performance related reward arrangements that have been implemented elsewhere include:

- Individual performance bonuses – both “one off” and incorporated into basic pay
- Team-based performance pay, which is less common and typically associated with achieving set performance targets, or completing a particular task or project.

A8. Much of the emphasis to date on performance-based rewards has been focused on senior civil servants partly because of the importance of motivating and rewarding this group, and partly because they generally have more discretion and control over their work. The proportion of senior civil servant remuneration that is now performance-based and ‘at risk’ varies considerably between countries. The Singapore Government has gone furthest with an average of some 40% of senior officer remuneration now paid on the basis of individual performance and overall economic performance.

A9. Two critical success factors in introducing performance-based reward schemes appear to be the development of a credible and robust performance management framework, and the provision of adequate funding to support effective differentiation between average and outstanding performance.

Experience of simplifying and decentralising pay and grading administration

A10. As described above, all of our survey countries have, to varying degrees, devolved their pay arrangements to individual departments and agencies, operating within a centrally determined policy framework. However, whilst certainly contributing to some significant improvements, devolution has also created some important challenges that need to be recognised and managed, particularly against the backdrop of a perceived fragmentation of the civil service.

A11. Most of the countries we surveyed have also implemented major changes to their grading arrangements. Common features include the following:

- Departmentalising General Grades personnel
- Creating flatter, less hierarchical management structures, through rationalisation of the number of ranks and the number of pay ranges
- Combining occupations into broad staff groupings for the purpose of grading and human resources management

- Establishing formal job evaluation systems and procedures for assessing relative job weight and ranking
- Growing away from educational qualifications as the primary determinant of rank or grade.

Implications for Hong Kong

A12. It was not the remit of the Interim Report to put forward specific recommendations. However, we believe that based on the experience of our five surveyed countries and taking account of the current issues and challenges facing the Hong Kong civil service, **all five key pay and grading areas of interest, as highlighted in our brief, are worthy of further, more detailed consideration.** Specifically there would be value in the Hong Kong civil service:

- Undertaking a more far reaching review of their pay policies and the fundamental principles underlying them
- Examining further whether flexible pay ranges should be introduced
- Reviewing the current mechanisms for determining pay levels and adjustments
- Exploring the scope for a more performance-based approach to pay and rewards
- Examining the scope for further delegation of responsibility for pay and human resources management to individual Departments.

High Level Overview of Civil Service Pay Arrangements in the Selected Countries

A13. In order to provide a quick appreciation of the civil service pay arrangements that have developed in each of the surveyed countries, we have prepared a very brief, tabular guide (see overleaf). The guide is organised around the five key areas of interest specified by the Task Force. We hope it paints a useful picture against which the main findings of the research can be considered.

A14. Inevitably in producing such a short summary we have had to make some very broad generalisations and simplifications of the detailed arrangements in each country. As such it should be read with some caution. To avoid possible misunderstanding or misinterpretation we suggest that readers should also look at the fuller details on each country, as set out in our Interim Report.

High Level Summary of Civil Service Pay Arrangements for the Selected Countries

	Australia	Canada	New Zealand	Singapore	United Kingdom	Summary
Commonly adopted pay policies, structures and systems						
Is pay administration devolved - - for Civil Servants?	Substantially devolved – Departments and Agencies largely determine own pay policies within guidelines	No – pay policy remains largely centrally determined (this is currently under review)	Highly devolved – Departments and Agencies largely determine own pay policies within guidelines	Moderate devolution – some local flexibility; central agencies remain influential	Highly devolved – Departments and Agencies largely determine pay policies within guidelines	Devolvement of responsibility for pay management issues is a key thrust. Senior civil servants continue to be managed from a central point to facilitate mobility and pay control
- for Senior Civil Servants?	No - determined centrally	No - determined centrally	No - determined centrally	No - determined centrally	No - determined centrally	
Are Disciplined Services handled separately for pay purposes?	Customs & Excise and Immigration treated similarly to other civil servants. Fire, Correctional and most Police Services are outside core civil service	Immigration, Police, Flying and Correctional Services are treated similarly to other civil servants. Fire and Customs & Excise are outside core civil service	Customs & Excise, Immigration, Police and Correctional Services are treated similarly to other civil servants. Fire Services are outside the core civil service	All Disciplined Service equivalents are treated broadly similar to other civil servants, although some specific arrangements apply	Customs & Excise and Immigration are treated similarly to other civil servants. Correctional Services have separate arrangements. Fire and Police are outside core civil service.	There is a wide span of arrangements for this group influenced by factors such as their legal ability to strike, need for independence, job demands & historical agreements
Are pay adjustments made by formal comparability with private sector pay?	No – seen only as a guide to inform market conditions	Yes - comparison by occupation	No – seen only as a guide to inform market conditions	Yes - competitiveness with the private sector for all jobs is seen as key to the recruitment and retention of high calibre staff	No – seen only as a guide to inform the principle of recruit, retain and motivate.	Most countries have reduced their emphasis on formal pay comparability with the private sector with affordability considerations now taking precedence
Is 'ability to pay' a primary factor for pay adjustment?	Yes	Yes	Yes	Yes	Yes	
Are educational/academic qualifications an important factor for internal relativity?	Only one of several factors	Only one of several factors	Only one of several factors	Yes	Only one of several factors	Broader job comparisons are increasingly the norm
Have allowances been rationalised/consolidated/simplified?	Yes – most allowances have ended and/or consolidated into base pay	Yes – most allowances have ended and/or consolidated into base pay	Yes – most allowances have ended and/or consolidated into base pay	Yes – most allowances have ended and/or consolidated into base pay	Yes – most allowances have ended and/or consolidated into base pay	In all cases, use of allowances has reduced to increase transparency and reduce admin costs
Experience of replacing fixed pay scales with pay ranges						
Have automatic annual increments on a pay scale been replaced by more flexible pay ranges?	Yes – most staff are now on a flexible pay range	Not for the majority of unionised staff, although a new scheme is currently being implemented. Pay ranges have been introduced for senior (non-unionised) civil servants	Yes – most staff are now on a flexible pay range	The majority of staff still receive an annual increment but pay ranges have been established for senior civil servants	Yes (with limited exceptions eg the Correctional Services).	General trend towards flexible pay ranges, particularly for senior staff

Australia	Canada	New Zealand	Singapore	United Kingdom	Summary
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Systems and mechanisms for determining pay levels and adjustments

Is a formal private sector comparison used to inform pay adjustments?	No - but adjustments must be within an agreed financial budget	No - but emphasis on comparability and must be within agreed budget	No - but adjustments must be within an agreed financial budget	Yes - calculated as a comparator to private sector pay	No - but adjustments must be within an agreed financial budget	The trend is towards a less mechanistic way of determining pay increases which allows agencies to address their individual needs, whilst operating within a broad centrally determined framework
What is the main role of central agencies in pay determination? - to agree or to set budgets for pay increases?	Agree overall financial budgets	Strong central role in both budgets and detailed pay adjustments	Agree overall financial budgets	Determine overall financial budgets	Agree overall financial budgets	
- to provide advice and guidance or to set broader pay policy issues?	To provide advice and guidance	To set direction and determine broader pay policies	To provide advice and guidance and set parameters	To set direction and determine broader pay policies	To provide advice and guidance and agree negotiating parameters	

Experience of introducing performance-based rewards

Is there widespread use of performance related pay (PRP)?	Yes - most staff have some form of PRP	Minimal - for a small number of senior civil servants up to 20% of pay may be "at risk"	Yes - most staff are eligible for some form of PRP	Increasing - linked to performance of the individual and the economy as a whole	Yes - most staff are eligible for some form of PRP	PRP is now widely used, particularly for senior staff
Are performance awards consolidated into base pay?	Yes for some staff	Yes, for some staff	Yes, increasingly for most staff	Yes for some staff	Yes for most staff	
Is it paid as a one-off (non-consolidated) bonus?	Yes for some staff	Limited to senior civil servants	Yes for some staff	Yes for some staff	Use of bonuses limited to exceptional circumstances	
Are there team-based performance rewards?	Some use - typically paid on completion of a project	Very limited	Very limited - bonuses typically paid on completion of project	Very limited	Limited - still seen as experimental.	Whilst the broad principle is generally embraced there have yet to emerge significant numbers of successful examples
Has a robust performance management framework been developed?	Most forms of appraisal are used and increasingly 360 degree assessment. Skills development is ongoing.	Traditional approach to appraisal for most staff with lack of consistent standards	Well established systems and high skills level - self appraisal and 360 degree assessment are common. Reports are structured around competencies.	Traditional but rigorous system. Recent emphasis on development of balanced scorecard approach	Most forms of appraisal are used and increasingly 360 degree assessment. Skills development ongoing.	A key component to support performance related pay but requires significant education and skills development to engineer behavioural change

Experience of simplifying and decentralising pay and grading administration

Have there been moves to establish flatter, less hierarchical structures through simplification of pay and grading systems?	Yes - only 11 grades in the Australian Public Service	This is on-going. The current system is highly complex system with 72 occupation groups, 105 sub groups and 840 separate levels	Yes - most Departments and Agencies have independently introduced flatter more flexible structures with fewer ranks/bands	Some simplification in recent years, particularly amalgamation of pay bands at senior levels	Yes - most Departments and Agencies have independently introduced flatter more flexible structures with fewer ranks/bands	In all cases there is a drive towards less complex pay and grading systems aimed at increasing local flexibility
Is a formal job evaluation system used?	Yes, to some degree. Each group of duties is classified according to its work value requirements	Yes, an off-the-shelf system is used for executives. For other positions, whole job comparison is used and grouped by occupations	Yes, either a position-based comparative job survey is used or an off-the-shelf system where there is no comparator role.	Yes, to some degree	Yes - a civil service wide grading system is in operation	The trend is towards broad, generic occupational groupings and a move away from narrowly defined job descriptions

Appendix B – Lessons from Overseas Experience in Implementing Pay Administration Reforms

- B1. The experience of the surveyed countries in implementing major reforms to their civil service pay administration highlights a number of important lessons for managing a smooth and successful transition. We briefly summarise these below, as we believe they are of relevance to the Hong Kong situation.
- **Find compelling and credible reasons for change** and then actively and continuously communicate and sell the benefits of change. The feedback from the public consultation reinforces the importance of this in getting ‘buy-in’ from staff to pay reforms.
 - **Have a clear vision** of the end result and remain focused on achieving it.
 - Recognise that **changes to pay structures and systems will often depend or be driven by wider managerial and HR reforms** in the civil service.
 - **Take an evolutionary approach** mapped to a consistent and well communicated programme of reform, in order to provide reassurance and focus rather than creating uncertainty. For example, in New Zealand a “big bang” approach was initially adopted because they were in a period of crisis. They are now taking a more considered look at what changes should be retained, what needs to be reined back, and what may require further moderation.
 - **Establish a realistic timeframe** that maintains momentum, at the same time allowing for consolidation and avoidance of change fatigue.
 - **Ensure there is sufficient depth of expertise** and the necessary skills internally to carry forward changes and, as appropriate, the requirement for external assistance to aid the process.
 - **Don’t commit to change which in practice cannot be delivered** effectively or be sustained. For example the UK has experienced some difficulties with its performance pay arrangements for senior civil service as it finds that in practice it is unable to fully fund performance pay awards.
 - **Proactively looking for trade-off opportunities** – eg choice for staff to opt in or opt out, of proposed changes - so that staff feel they had some involvement over the decisions that affect them.
 - **Have the courage to take hard decisions** where necessary in order to stay on track. Examples include increasing the level of “at risk” pay for senior staff, or devolving responsibility and accountability beyond previous levels of comfort. There needs to be a willingness to change the fundamental infrastructure as marginal change is unlikely to lead to substantial change or benefit.
 - **Encourage the active participation of staff representatives** in the design of pay reform initiatives. This can help to facilitate the implementation process, and raise awareness of potentially damaging issues early on.
 - **Be sensitive to the strength of staff feeling** and the aspects of change which legitimately require significant consultation and involvement.

- **Ensure education, training and communication is proactive and ongoing** to help new behaviours and actions to become institutionalised within the civil service. Most of the surveyed countries were considered to have stopped these activities too early.