

PART II

LETTER OF 17 FEBRUARY 1986 TO HIS EXCELLENCY  
THE GOVERNOR TENDERING ADVICE ON THE SECOND STAGE  
OF THE REVIEW OF LEAVE AND PASSAGE ARRANGEMENTS

17 February 1986

His Excellency Sir Edward Youde, GCMG, MBE  
Governor of Hong Kong

Your Excellency,

Review of Leave and Passages

In paragraph 3 of our letter of 30 December 1985 to Your Excellency, we said that we had adopted a phased approach in our examination of the package of new leave and passage arrangements for civil servants which the Administration referred to us for advice, and that that letter contained our recommendations on the first stage of our work. This first stage covered only those proposals which would not lead to major increases in the value of leave and passage benefits and we needed more time to examine the remainder, which would either entail an increase in the value of benefits in the case of serving civil servants, or revised benefits in the case of new appointees. We have now completed our examination of these latter proposals. In this letter, we submit our recommendations on the proposals which will entail an increase in the value of the benefits of serving civil servants. We shall address Your Excellency separately on changes in the leave and passage arrangements for new appointees to the civil service.

2. Before we go on to discuss the individual recommendations which form the second stage of our work, we would like to record the fact that, at one point in our deliberations, we felt that a decision on the proposals which would entail an increase in the value of the benefits enjoyed by serving civil servants ought to be deferred until the total package concept could be applied to comparisons of civil service and private sector benefits. This would be in accordance with the view expressed in paragraph 36 of our Report No. 9 that there should be no further improvements in the real value of fringe benefits of civil servants pending the application of the total package concept to pay comparisons. However, we took into account the desire of the Staff Side for an early decision on the leave and passage proposals and the fact that a great deal of work will have to be done before the total package concept can be applied to the comparison of civil service and private sector benefits. In view of these considerations, we decided to go ahead with our further examination of these proposals. However, we regard the conclusions we have reached on them as interim ones, which

should be subject to further review following the application of the total package concept to the valuation of pay and other fringe benefits in the public and private sectors.

3. In the course of our review of the proposals involving an increase in the real value of fringe benefits to which only overseas officers are entitled, and particularly the Administration's proposals to extend the Annual Leave Scheme to overseas officers below MPS 48, we also considered whether any such increase would generate similar requests from local officers in a bid for equal treatment for local and overseas officers. We therefore wrote to Your Excellency on 6 December 1985 seeking advice on whether it was the intention that the conditions of service for local and overseas officers should be brought closer together which seemed to be the intention of Section IV of Annex I to the Sino-British Joint Declaration. The Chief Secretary has since written to us on behalf of Your Excellency explaining that the Joint Declaration provides for the continued employment of overseas officers in the Government of the future Hong Kong Special Administrative Region, and that separate treatment, including leave and passage arrangements will continue to be necessary for overseas and local officers. We took this into account when we considered the proposals which might lead to a further divergence in the conditions of service for local and overseas officers.

4. In the following paragraphs, we set out our views on the individual proposals which fall within the second stage of our work and which affect serving officers.

#### Cash Payment in Lieu of Final Leave

5. Under present arrangements, officers proceeding on leave prior to their final departure from the civil service remain on the civil service establishment and continue to receive their monthly salaries until they have taken all their final leave. The period can be up to 180 days in the case of local officers or 365 days in the case of those overseas officers who have accumulated a large leave balance as a result of curtailment of leave in the public interest. The commutation of leave balances into cash payments is not allowed and officers retain their entitlement to housing and education allowances as well as to any incremental award or salary adjustment which may occur during their final leave.

6. The Civil Service Branch review has identified a number of problems in the current arrangements for final leave which are inconvenient to both management and staff. For

example, supernumerary posts have to be created before replacements can be appointed to take up the duties of officers on final leave and overseas officers may be subject to double taxation. To ameliorate this situation, the Administration proposes that officers leaving the service should be allowed to opt for an immediate cash payment in lieu of final leave so as to reduce administrative work and speed up the payment of pensions (i.e. to advance the payment date of monthly pensions) and that part of contract gratuities which relates to the final leave period. If an officer takes this option, he would be required to forgo any incremental award, salary adjustment and other fringe benefit to which he would otherwise be entitled during his final leave. Apart from simplifying and modernising administrative procedures, the Administration considers that the proposal would enable officers leaving the service to take the option which best suits their personal needs and at the same time assist them to re-establish themselves immediately after their retirement.

7. We have taken into account the Administration's views as well as an assertion by the Staff Side that they will only accept the proposal if it is offered to them as an option. We ourselves feel that it would be undesirable from the staff relations point of view to make the scheme mandatory in the case of serving officers. On the other hand, we also consider it unacceptable, in principle, for the scheme to be optional as the Government will stand to lose if most officers leaving the service take the option which is financially most advantageous to them. Moreover, if an officer opts for a cash payment in lieu of final leave, he will start to draw his pension at the same time. We regard this as a "double benefit" to the officer and we find it difficult to accept. For all these reasons, we recommend that the Administration's proposal should not be adopted in the case of serving civil servants, but we consider that it may merit consideration in the case of new appointees, for whom the scheme could be mandatory.

Annual Leave for Overseas Officers  
Below MPS 48 or the Equivalent

8. At present, overseas officers on or above MPS 48 or the equivalent are entitled to opt for the Annual Leave Scheme with associated passages in lieu of normal vacation leave which is taken after a tour or notional tour of  $2\frac{1}{2}$  years. They may then take 45 consecutive days annual leave within each 12-month period in which case they forgo the normal vacation leave that they would have earned for the period. Officers who opt for the Annual Leave Scheme are entitled to standard return air passages to their home country for

themselves, their spouses and their dependent children provided that the total cost of such passages does not exceed six full fare passages.

9. The Annual Leave Scheme, which was introduced in 1962 for heads of Grade 1 departments, was extended to all directorate officers in 1978 and further extended in 1980 to Segment D officers (now MPS 48 - 51). The reasons for the extension were as follows :

- (a) employees in comparable positions in the private sector were given annual leave of about six weeks;
- (b) the practice of "long leave" after a two-year or three-year period of duty had caused staff management and posting problems, and could result in an officer failing to keep abreast of new developments. This was undesirable particularly where officers had reached certain senior ranks and where management continuity was important; and
- (c) a regular annual break from duty would be beneficial both to the officers concerned and to the civil service as a whole in view of the pressure under which the officers worked.

10. We have been informed that the Association of Expatriate Civil Servants of Hong Kong has for some years been pressing for an extension of the Annual Leave Scheme with associated passages to all overseas officers below MPS 48, and that it has argued that the reasons set out in the previous paragraph apply also to these officers. The Association, furthermore, believes that the extension of the Annual Leave Scheme to overseas officers below MPS 48 would enhance staff morale and improve staff relations.

11. The Civil Service Branch review of leave and passages came to the following conclusions :

- (a) mainly for staff management and operational reasons, it would be appropriate to extend the Annual Leave Scheme to the next segment of overseas officers, that is, to officers on MPS 38 - 47 or the equivalent;
- (b) for budgetary reasons, a phased approach should be adopted. As a first step, the Annual Leave Scheme should be extended to overseas officers on

MPS 44 - 47 or the equivalent with 10 years' service or more and this would be followed as a second step (say, one year later) by the extension of the scheme to overseas officers on MPS 38 - 43 or the equivalent with 10 years' service or more. A further extension of the Annual Leave Scheme to all other overseas officers on MPS 38 - 47 or the equivalent after their first tour of service could be pursued in the future depending upon the Government's budgetary situation; and

- (c) the adoption of a phased approach would have the advantage of offering improved benefits initially to officers who have demonstrated their commitment to Hong Kong through long service and make it possible to take the Government's financial position into account.

12. We have considered all these factors and we endorse in principle the Administration's proposal to extend the Annual Leave Scheme, though with some modification, to overseas officers on MPS 38 - 47. In our view, a further extension of the scheme to overseas officers lower down the Master Pay Scale might be considered after the total package concept has been applied to the valuation of pay and other fringe benefits in the public and private sectors as mentioned in paragraph 2 of this letter.

13. In general, we accept that there is a need for overseas officers to renew home ties at more frequent intervals than is permitted under the present tour system, which only allows vacation leave to be taken after a tour or notional tour of 2½ years. We believe that the extension of the Annual Leave Scheme to overseas officers below MPS 48 would meet this need. However, in order to limit the increase in real benefits pending the application of the total pay package concept to the valuation of benefits, we recommend that overseas officers on MPS 38 - 47 who are to be included in the Annual Leave Scheme should contribute towards the flexibility in leave arrangements which will result from the scheme and bear part of the cost of the additional passages which will be provided. In our view, this can best be achieved through the notional savings which could be made by reducing the "overseas addition" element in their leave rates. This could be done in two ways. Firstly, as recommended in our letter of 30 December 1985 on the first stage of the current review, the forfeiture formula should be replaced by a 20% - 30% reduction in the "overseas addition" element in the vacation leave of overseas officers as the quid pro quo for permission to take vacation leave (after a tour, or notional tour, of 2½ years) annually and with no restriction on the

location in which the "basic leave" element may be spent. Secondly, we now recommend that a further reduction should be made in the "overseas addition" element to cover 75% of the additional costs of passages, on the understanding that, subject to negotiation with British Airways and/or other airlines, APEX (or some other air fare cheaper than APEX) should be used to take officers to their country of origin.

14. When considering the reductions to be made in the leave rates of overseas officers on MPS 38 - 47 to whom the Annual Leave Scheme will be extended, we have worked on the assumption that calculations should be based on the mid-point salary of all overseas officers in the same salary band who meet the same age and service criteria. In arriving at reduced leave rates for these officers, we have used the method which the Treasury now uses to estimate annual passage costs in the civil service i.e. we have assumed that each officer will draw, on average, three full passages on each trip to his country of origin. We have also been guided by the following principles :

- (a) the reduced annual leave should be long enough to enable officers to renew home ties as well as to recuperate from the pressure of work. However, it should not exceed 45 days which is the length of the leave for which overseas officers on or above MPS 48 are eligible under the present Annual Leave Scheme. Conversely, the reduced annual leave rates, when combined with 12 days' casual leave, should not be less than the annual leave rates for newly-appointed overseas officers if casual leave is combined with vacation leave under the Administration's proposals; and
- (b) any reduction in leave should apply only to the "overseas addition" element in the officers' leave-earning rates whilst their basic leave rates should remain the same as those of their local counterparts. The reduced "overseas addition" element, however, should not be lower than that for newly-appointed overseas officers.

15. In accordance with these assumptions and principles, we recommend the adoption of the annual leave rates for overseas officers on MPS 38 - 47 set out in the following table :