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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

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.