

CHAPTER 2

COMPREHENSIVE REVIEW OF CIVIL SERVICE PAY POLICY AND SYSTEM

Background

2.1 A focus of the work of the Commission during the year was the Review of Civil Service Pay Policy and System. On 18 December 2001 the Secretary for the Civil Service (SCS) wrote to the Commission inviting it to take the lead in coordinating with the other two advisory bodies on civil service salaries and conditions of service¹ in conducting the review (Appendix D). The comprehensive review would cover the non-directorate and directorate staff in the civilian and disciplined grades.

2.2 In his letter, the SCS 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.”

The review had been proposed against this background, with a view to modernising the civil service pay policy/system, having regard to the best

¹ The other two advisory bodies are –
(a) The Standing Committee on Disciplined Services Salaries and Conditions of Service, and
(b) The Standing Committee on Directorate Salaries and Conditions of Service.

practices elsewhere, making it simpler and easier to administer, and building in more flexibility to facilitate matching of jobs, talents and pay.

2.3 At a joint meeting held on 4 January 2002, the three advisory bodies agreed to accept the SCS's invitation and to set up a Task Force to undertake the review. The Task Force was made up of ten Members drawn from the three advisory bodies (Appendix E), eight of whom were Members of the Commission.

2.4 In view of the complex nature of the review, the SCS had requested that a phased approach be adopted. For Phase One of the review, an analytical study would be carried out on the latest developments in civil service pay administration in other governments. 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 would be published to facilitate an informed discussion on whether any fundamental changes to our civil service pay policy and system were called for and, if so, the conduct of the comprehensive review under Phase Two.

Phase One Analytical Study

2.5 In order to obtain the required data in respect of overseas governments, the Task Force decided to engage a consultant to provide input on civil service pay structure and reform in a number of developed countries. As regards the Hong Kong civil service, the Task Force was to conduct its own research on the local development of the pay policy and system.

2.6 After a competitive tendering process, PwC Consulting Hong Kong Limited was selected to undertake a four-month study on the latest developments in civil service pay administration in five developed countries, namely, Australia, Canada, New Zealand, Singapore and the United Kingdom. These countries had been selected on account of their relevance, having regard to the history and development of the civil service pay policy and system in Hong Kong. As had been suggested in the

SCS's letter dated 18 December 2001, the study covered the following areas –

- (a) the pay polices, 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.

Public Consultation

2.7 On 25 April 2002 the Task Force reverted to the Commission and the other two advisory bodies with an interim report on Phase One of the review, setting out the development of the civil service pay policy and system in Hong Kong since the middle of the 20th century and the initial observations of the Task Force on the findings of the consultant's five-country study. The Commission was informed that the report would be published together with a consultation paper and a pamphlet which had been prepared for wide distribution to seek views from all quarters on a list of questions grouped under the five areas of study (Appendix F).

2.8 In view of the very tight timetable set by the SCS for Phase One, the Task Force had originally allowed only one month for public consultation. Soon after the consultation process started, the Commission noted the view expressed by some staff associations and members of the public that one month was inadequate for the purpose. The Commission supported the view, which was also shared by the other two advisory bodies. Eventually, the Task Force extended the consultation exercise until the end of June 2002.

2.9 In the course of the consultation exercise, the Task Force also conducted six discussion forums for members of the public and other concerned parties, including staff consultative councils, staff unions and management of bureaux and departments. Apart from the views collected at the forums, the Task Force received 337 written representations. Press reports containing relevant views were also studied. Feedback from the consultation was analysed by the Task Force and the consultant in parallel. The consultant submitted its final report to the Task Force in August 2002.

Observations and Identification of Priority Areas

2.10 After studying the consultation feedback and the consultant's report, the Task Force proceeded to set out its own observations and recommendations. A draft report was prepared for further consideration by the Commission and the other two advisory bodies. The recommendations at this stage were in the main conceptual, and would 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.

2.11 Having reviewed the development of the civil service pay policy/system in Hong Kong, and taking into account changing circumstances, the Task Force had come to the conclusion that there was the need to consider a comprehensive approach to modernising the pay system. This was not to deny the fact that the system had served Hong Kong well by providing a stable, clean and efficient civil service over the years. It was the rapidly changing socio-economic and political circumstances that had given rise to the need to modernise the system.

2.12 The Task Force pointed out at the outset the importance of not rushing any changes. The actual steps to be taken should 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.

2.13 With the above caveat, the Task Force set out its vision of the civil service pay system going forward as 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.

Issues Raised by the Commission

2.14 Although Commission Members were represented in the Task Force, the Commission as a whole examined the findings of the Task Force critically. In considering the priority areas which the Task Force had identified as appropriate for further study in Phase Two, there were a few issues which the Commission felt should be looked at more closely before the report was submitted to the Administration.

2.15 One issue related to the priority areas which the Task Force had identified for the short term. In recommending that priority should be given to devising the framework for a pay level survey and reviewing the pay trend survey, the Task Force suggested that the Administration should consider interim measures for the annual pay adjustment pending the outcome of the recommended review. The Commission discussed whether the Task Force should include more specific recommendation on the 'interim measures' concerned, but concluded that it would be appropriate for the Administration to work out such measures directly with civil servants. The Commission also agreed to leave it open to the Administration to decide whether to invite further input from the advisory bodies on the framework and methodology of the said surveys.

2.16 Another issue was the recommendation of the Task Force to adopt a 'clean wage' policy in the long term. The Commission felt that the meaning of 'clean wage' should be stated more clearly. The term could be interpreted as the incorporation of job-related allowances into basic pay, or the abolition/incorporation of certain fringe benefits (such as housing benefits). As the trend in the private sector was to move towards the monetisation/abolition of allowances and benefits, the Commission felt that a higher priority should be given to reviewing the matter. We suggested, therefore, to the Task Force that the Administration should be advised to consider consolidating job-related allowances in the medium term, with the ultimate target of moving towards a 'clean wage' policy that would consolidate benefits into basic pay in the long run.

2.17 A third issue was the recommendation regarding 'decentralisation' of pay administration. The Commission noted that the underlying principle was to empower managers through the devolution of human resource management. To ensure that managers in departments would be appropriately empowered, taking decisions on pay should form part of the devolved responsibilities. The Commission pointed out that it would, however, not be useful to decentralise payroll administration. To have each department set up its own system to handle payroll would cause difficulties for managers in departments who were not trained to provide payroll services. There would also be a loss of economies of scale. We suggested to the Task Force that this point should be clarified.

Phase One Final Report

2.18 The Commission conveyed its views and suggestions to the Task Force. These were eventually incorporated into the latter's Phase One Final Report. A summary of the recommendations of the Task Force is as follows –

In the short term:

- 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:

- 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:

- 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.

2.19 The report was submitted to the SCS with a letter issued jointly by the Chairmen of the three advisory bodies on 20 September 2002 (Appendix G). It was released by the Administration on the same day for public consultation until mid-November 2002. The SCS indicated that he would keep the Commission and the other two advisory bodies informed of the views received during consultation, and the work plan would be reviewed after the advisory bodies had had a chance to consider the matter in the next few months. (A copy of the SCS’s letter dated 20 September 2002 is at Appendix H).