

## 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.”<sup>1</sup>*

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.*<sup>2</sup>

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

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<sup>1</sup> Secretary for the Civil Service's letter, Para 3

<sup>2</sup> 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”.<sup>3</sup> 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 20<sup>th</sup> 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.

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<sup>3</sup> 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.<sup>4</sup>

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.<sup>5</sup> 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,<sup>6</sup> 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

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<sup>4</sup> Consultant's Final Report, Pages A2

<sup>5</sup> Task Force's Interim Report, Page 4

<sup>6</sup> 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,<sup>7</sup> a comprehensive pay level review has not been conducted since 1986 (and even the results of the 1986 review had not been adopted).<sup>8</sup>

## **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

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<sup>7</sup> Task Force’s Interim Report, Page 12

<sup>8</sup> 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.