

Information Note
for the LegCo Panel on Public Service

Indebtedness in the Civil Service

Purpose

This note sets out, for Members information, the enhancement measures which the Civil Service Bureau (CSB) proposes to introduce to strengthen the management of staff indebtedness in the civil service.

Background

2. At the meeting of the LegCo Panel on Public Service on 26 April 2001, some Members expressed concern about the indebtedness problem of civil servants. We acknowledge this concern and have undertaken a review of the existing management measures on handling staff indebtedness with a view to introducing improvements where appropriate.

3. We have completed our review and a summary of our findings and recommendations is given below.

The Policy

4. Under the existing policy on dealing with indebtedness, we stress that it is the responsibility of individual officers to ensure that their private financial arrangements do not infringe upon their work and that management should watch out for any deterioration in performance of staff which may be a result of pecuniary difficulties. Where staff indebtedness occurs, we work to ensure that:-

- (a) it will not impact on the efficient and effective operation of the civil service; and
- (b) it will not affect public confidence in the integrity of the civil service.

5. The Administration has adopted a three-pronged approach to tackle the staff indebtedness problem:-

(a) Prevention

New appointees are given induction briefing on prudent financial management and the importance we attach to the integrity of the

civil service. The written materials distributed to them include a copy of the booklet on “Sources of Finance for Civil Servants”.

(b) Identification

New appointees must seek permission for any loans previously obtained through unauthorized sources. Applicants for salary advances are required to declare their outstanding loans to facilitate assessment of their financial position and repayment capability. Under CSR 458, an officer who becomes bankrupt must notify his department which would in turn inform CSB together with any recommendations. Under CSR 456, departmental managers are required to look out for any case in which it appears that an officer is suffering from serious pecuniary embarrassment.

(c) Management

Staff suspected to have financial problems will be counselled by designated officers and closely supervised in their performance of duty. They will be prohibited from performing duties which involve handling of public money or are corruption prone.

When personal financial difficulties infringe upon work performance to the extent that the job is not carried out satisfactorily, the officer renders himself liable to administrative action (which may range from deferment of increment, through loss of promotion opportunities, to retirement in the public interest). Where serious pecuniary embarrassment has led to misconduct (such as obtaining unauthorized loans or undertaking unauthorized outside work), the officer will be subject to disciplinary proceedings.

Where necessary, counselling services by clinical psychologists or qualified social workers may be offered to assist the officers to tide over the stress and anxiety arising from their situation.

Review

6. We have analysed the present state of the indebtedness problem in the civil service by making reference to the number of bankruptcy cases involving civil servants and focusing on those departments where a larger number of such cases have occurred.

7. The number of bankruptcy cases involving civil servants as debtors in recent years is given below:-

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u> (up to June)
Overall	893	3,071	4,606	3,395
Civil servants	78 (8.7%)	342 (11.1%)	380 (8.3%)	255 (7.5%)

8. A further drilling down on the above statistics reveal that the departments with a larger number of bankruptcy cases include the Police, Food and Environmental Hygiene Department, Correctional Services Department, Fire Services Department, Leisure and Cultural Services Department, Post Office, Housing Department and Water Supplies Department. Further analysis of the situation in these departments indicate that around 77% of the bankrupt officers are of junior ranks (Model Scale I or below Master Pay Scale (MPS) Point 13 or equivalent) while 21% are middle ranking officers (MPS Pt. 14 - 33 or equivalent). About 2% of the bankrupt officers are of senior rank (MPS Pt. 34 - 49 or equivalent). There are no bankruptcy cases involving officers at the directorate level. The common causes of indebtedness reported are family-related problems (including acting as guarantor for family members), investment failure, gambling, overspending, and excessive use of credit facilities.

Assistance provided

9. The officer concerned will normally be counselled by his supervisor and, as required, the departmental staff welfare officer. Professional counselling services (offered by clinical psychologists or social workers) may also be provided either in-house where available (e.g. the Police, Correctional Services Department, Post Office, Housing Department) or by way of referral to Social Welfare Department. In some departments, stress management workshops are organized for staff.

10. In general, management in these departments have taken a vigilant stand over indebtedness cases that come to light. Prompt actions are taken to ascertain the facts of the case and, where appropriate, redeployment of the officer concerned to non-cash handling duties or to a post less vulnerable to corruption opportunities is arranged. The performance of the officers is closely monitored and cases where misconduct is revealed (e.g. unauthorized loan, unauthorized outside work) are duly acted upon.

11. In addition, some of the departments have also taken proactive steps on the preventive front by:-

- (a) organizing seminars for supervisory staff on how to handle staff with financial difficulties;
- (b) providing a reference guide for frontline supervisors in handling staff with indebtedness problem;
- (c) organizing training sessions on prudent personal financial management;
- (d) building up a culture of prudent financial management and healthy life style (e.g. the Healthy Life Style Campaign in the Police); and
- (e) publishing articles about the undesirable effects of gambling in departmental newsletters.

Strengthening Management Measures

12. Whilst in general departments have taken a proactive approach in dealing with indebtedness cases which came to their notice, we have identified a number of areas for enhancement which aim in particular to help departments identify at a much earlier stage staff who may fall into indebtedness and to further strengthen preventive efforts. These include:-

- (a) assisting departments to identify staff with indebtedness problems early. We propose:-
 - (i) providing a list of tell-tale indicators that may point to a case of financial distress (e.g. indiscriminate use of credit cards, nuisance caused by debt collectors, or garnishee orders from the Commissioner of Inland Revenue);
 - (ii) asking departments to set out clearly the responsibilities of individual supervisors to look out for signs of indebtedness amongst staff under their purview and to take prompt follow-up action in consultation with departmental management and welfare officers;
 - (iii) asking departments with a larger number of staff indebtedness cases to consider conducting regular surveys to monitor the trend and profile of their staff indebtedness problem as well as regular reviews of the position of outstanding cases; and

- (iv) requiring departments with a larger number of staff, particularly where the staff indebtedness problem is more serious, to appoint designated officers not only at the departmental headquarters level, but also at the regional and district levels so that more vigilant detection and monitoring actions may be taken;
- (b) providing additional guidelines for departmental management on how to counsel and assist indebted officers as well as encouraging departments to provide added training for those officers designated to handle such cases;
- (c) inviting departments to consider whether in-house professional counselling services may be offered to staff in need if such services are not currently available in their departments;
- (d) asking departments to develop clear departmental posting policy for indebted officers having regard to departmental circumstances and the risk of exposure to corruption;
- (e) asking departments with a larger number of bankruptcy cases to provide regular reports on the progress of their improvement measures and the overall situation of their staff indebtedness problem, on top of the regular returns on bankrupt officers and officers in serious pecuniary embarrassment. This will facilitate monitoring by CSB and the sharing of experience amongst departments;
- (f) organizing experience-sharing workshops on the management of indebted staff, so that effective measures in individual departments could be adapted for use in other departments in the light of their specific operating circumstances; and
- (g) encouraging departments with a larger number of indebted staff to step up educational efforts in order to inculcate a culture of healthy life style and prudent financial management. These may include:-
 - (i) running campaigns and training/briefing sessions for staff covering such themes as anti-gambling campaign, avoiding overspending, investments pitfalls, etc; and
 - (ii) publication of simple guides on how to detect and handle indebted officers, for the general information of junior supervisors.

Other measures that have been considered

13. We have also examined other measures, including the proposal hitherto raised by some Members to require officers at the upper echelon and in certain grades to declare their liabilities.

14. We consider that how an officer chooses to manage his own finances is a private and personal matter. While it is the responsibility of management to look out for staff indebtedness problem to avoid adverse impact on the effective operation and integrity of the civil service, we should avoid making arbitrary interference with an officer's privacy.

15. We also foresee substantive difficulties in coming up with a commonly acceptable income-based threshold beyond which liabilities have to be declared. The use of mortgaged loans to finance property and other investments is so common that unless we set the threshold at a very high level, it may not do very much to minimize interference with personal privacy. If the value of the assets held by an officer (which may change over time) is brought in to form part of the equation, it would make the formula unwieldy. It can also be argued that an officer's overall financial state depends not only on his income or the value of his investments, but also the financial support from his family. Whatever the formula, it would be controversial and difficult to administer.

16. The above problems argue against the proposal to require civil servants to declare their personal liabilities. We believe that the objective to detect staff indebtedness at an early stage could be better served by the enhanced management measures proposed in paragraph 12 above. These proposed measures, together with existing measures such as requiring senior officers to declare their private investments regularly and subjecting them to integrity checking before their appointment to senior positions, will provide additional safeguards to combat corruption and misuse of public office.

The rising number of bankruptcy cases

17. The statistics in para. 7 above suggest that the rising number of bankruptcy cases is not a phenomenon unique to the civil service. It appears that the phenomenon has largely been driven by the state of our economy in the past few years and more debtors filing their own petitions for bankruptcy.

18. We note that the Financial Services Bureau has recently convened a high-level roundtable discussion with concerned parties including the Hong Kong Association of Banks on how to address the issue of the increasing consumer debt and bankruptcy in Hong Kong. The proposed measures that have been discussed include providing debt relief plans for borrowers, tightening the consumer lending policies of banks, enhancing sharing of information among banks, and promoting co-operation among banks and Government departments in tackling abuse cases. The Official Receiver's Office and the Hong Kong Monetary Authority are following up these proposals with concerned parties.

Way Forward

19. CSB will continue to keep the staff indebtedness problem under regular review and enhance our management measures when needed whilst maintaining efforts in promoting integrity in the civil service.

Civil Service Bureau
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