

**Legislative Council Panel on Public Service
Meeting on 2 May 2002**

**Interim Report of the
First-Phase Review of Civil Service Pay Policy and System**

PURPOSE

1. The Task Force on Review of Civil Service Pay Policy and System published on 25 April 2002 an interim report of the first-phase review for public consultation. The Task Force's interim report, together with the supporting report prepared by the consultant engaged by the Task Force, is at the Annex. This paper briefs Members on the background of the review and the Administration's response on the publication of the interim report.

BACKGROUND

2. The Administration announced on 18 December 2001 its decision to carry out a comprehensive review on the civil service pay policy and system with the assistance of the Standing Commission on Civil Service Salaries and Conditions of Service (Standing Commission), 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). The three advisory bodies subsequently set up a Task Force under the chairmanship of Mr YEUNG Ka-sing, Chairman of the Standing Commission, to take forward the review.

3. Through the comprehensive review, the Administration seeks to identify ways and means to improve our civil service pay 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.

4. This is a highly complex exercise with far-implications for the civil service and beyond. To facilitate an informed discussion on this complex subject and to prepare the ground for the comprehensive review,

the Administration is taking forward the review in two phases. Under the first phase of the review, the three advisory bodies will carry out an analytical study on recent developments in civil service pay administration in other Governments and identify best practices that are of particular relevance to Hong Kong. The study findings under phase one will be submitted to the Administration by the middle of 2002.

5. Based on the findings of the analytical study and taking account of the ensuing discussions with the concerned parties, the three advisory bodies will make recommendations to the Administration in the second half of 2002 on the scope of the detailed review under phase two, 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 will decide on the best approach to take forward the second-phase review after considering the recommendations from the advisory bodies.

TASK FORCE'S INTERIM REPORT OF FIRST-PHASE REVIEW

6. As part of the first phase of the review, the Task Force has conducted an analytical study on the latest developments in civil service pay administration in Australia, Canada, New Zealand, Singapore and the United Kingdom. Through the public consultation exercise which will end on 25 May 2002, the Task Force solicits views from interested parties on the preliminary findings of its study. In the light of the views received, the Task Force will finalise its first-phase review report for submission to the Administration by the middle of 2002.

THE ADMINISTRATION'S RESPONSE

7. Civil service pay is a very complex issue with wide implications. The two-phase approach adopted for the comprehensive review is intended to allow time for thorough deliberations on all relevant issues. The publication of the Task Force's interim report is a very early step in the review process. The Administration encourages all civil servants and interested parties to study the Task Force's preliminary findings and submit their views to the Task Force so that the Task Force can take them into consideration in finalising the report of the first-phase review.

8. The preliminary findings on recent developments in civil

service pay administration in other Governments provide useful information on how other Governments have responded to changing circumstances and the outcome of their efforts. However, in considering the directions of the future developments of our civil service pay policy and system, it is important that while making reference to overseas experience, we also have due regard to the history of development of our current system as well as our particular needs and requirements. We should also bear in mind the need to continue to offer an attractive and worthwhile career for people with a mission to serve the community while taking due account of the wider costs and benefits to the community.

9. A stable and motivated civil service is a cornerstone for the stability and prosperity of Hong Kong. Any changes to the civil service system must be conducive towards maintaining the stability and development of a clean, trustworthy, quality and efficient civil service.

10. The Administration has an open mind on how the civil service pay policy and system should be improved. We shall take full account of the views of civil servants and members of the public before taking a decision on the advisory bodies' review recommendations in due course.

Task Force on Review of Civil Service Pay Policy and System

Interim Report Phase I Study

April 2002

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- III. Interim Report of the Consultancy Study on the Latest Developments in Civil Service Pay Administration in Other Governments

EXECUTIVE SUMMARY

Paragraph

Introduction

1. This is an interim report on progress in Phase One of the Review of Civil Service Pay Policy and System. The report is prepared by a Task Force set up by the three advisory bodies on civil service salaries and conditions of service, in response to an invitation from the Secretary for the Civil Service to conduct the review. 1.1-1.4
2. The Task Force has commissioned a consultant to carry out an analytical study on the latest developments in civil service pay administration in five selected countries. Five key areas are studied, including: (a) pay policies, system and structure, (b) pay ranges, (c) pay adjustments, (d) performance-based rewards, and (e) simplification and decentralisation of pay administration. 1.5
3. Having regard to the consultant's interim findings, the Task Force now presents its own preliminary findings and observations. 1.6-1.7

Development of Civil Service Pay Policy and System in Hong Kong

4. The objective of the civil service pay policy in Hong Kong is to *“offer sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an efficient and effective service”*. It is underpinned by certain principles relating to fair comparison with the private sector. The objective and principles have been accepted since the 1950s. 2.2-2.7
5. Various methods have been used to assess pay levels and trends with a view to establishing comparability with the private sector. A pay structure based on educational qualifications has also been established. 2.8-2.43
6. In recent years, the Government has introduced elements of a performance-based rewards system into the civil service. A pilot scheme on team-based performance rewards is being conducted. 2.44-2.48
7. While much has been done in recent years in the context of the “Public Sector Reform” to further the objective of decentralisation, the Government has been extremely cautious in venturing into the pay arena in such efforts. 2.49-2.53

Findings and Observations

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| 8. The five-country study by the consultant has provided knowledge regarding the five specific areas which the Task Force has been asked to focus on. | 3.1- 3.8 |
| 9. At this point in time, the Task Force maintains an open mind. It would like to raise a series of questions for general discussion, having regard to the consultant's findings and the development of the civil service pay policy and system in Hong Kong. The questions relate to the need for change, as well as lessons learnt from the international research and their relevance to Hong Kong. | 3.9- 3.51 |

Public Consultation

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| 10. Views from all quarters of the community are welcome. | 4.1- 4.6 |
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CHAPTER 1

INTRODUCTION

(This chapter explains the background leading to the formation of a Task Force to review the civil service pay policy and system)

Preamble

1.1 On 18 December 2001, the Secretary for the Civil Service (SCS) wrote to the Chairmen of the Standing Commission on Civil Service Salaries and Conditions of Service (Standing Commission), 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) inviting the three advisory bodies to conduct a comprehensive review of the pay policy and system for the civil service.

Background

1.2 The need for a comprehensive review has been highlighted in recent public discussion on civil service pay. There are concerns in some quarters that other than the starting salary levels (which were reviewed in 1999), 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 may no longer be broadly comparable to the pay levels in the private sector. Concerns have also been raised as to whether the current annual pay adjustment mechanism continues to serve the purpose it was intended, vis-à-vis changes in pay practices in the private sector. The central issue arising from the recent discussion is the extent to which Hong Kong's current civil service pay policy and system are still in keeping with today's circumstances. Against this background, it was proposed that the existing pay policy/system be reviewed, as a two-phase study, with a view to modernising it and bringing it more in line with the best practices elsewhere and amongst major employers in Hong Kong,

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

The Task Force

1.3 A joint meeting of the three advisory bodies was held on 4 January 2002 in which it was agreed that the SCS's invitation should be accepted and that a Task Force should be set up to carry out the assignment. After consultation with the respective Chairmen of the three advisory bodies, the Task Force with us as members was established in early January. (A list of members of the Task Force is at Appendix I.)

1.4 We held our first meeting on 10 January and discussed the terms of reference (a copy is at Appendix II), house rules and dates of future meetings. It was also decided that an outside consultant should be engaged to provide input on civil service pay structure and reform in a few developed countries. As far as the Hong Kong civil service is concerned, we would rely on our knowledge and experience to formulate our own views.

The Review

1.5 The PricewaterhouseCoopers (PwC) Consulting Hong Kong Limited was selected after a competitive tendering process to undertake a four-month consultancy. The consultant was asked to carry out an analytical study on the latest developments in civil service pay administration in five countries (namely, Australia, Canada, New Zealand, Singapore and the United Kingdom), which may be relevant to Hong Kong, having regard to the history and development of the civil service pay policy and system here. The study was to cover the following areas –

- (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.

Interim Reporting

1.6 We undertook to brief the three advisory bodies and consult all concerned parties, including civil service bodies, when the interim report on preliminary findings becomes available in late April 2002. After evaluating the findings and taking account of the comments of the concerned parties, we would submit, via the three advisory bodies, to the Administration our report on the analytical study in July 2002. In the second half of 2002, we would make recommendations on the scope, methodology, factors to be considered and the timeframe for carrying out the Phase Two Review, and the methodology and timing for a civil service/private sector pay comparison study.

1.7 The preliminary findings and observations of the Task Force, underpinned by the work of the consultant, are now depicted in the ensuing chapters.

CHAPTER 2

DEVELOPMENT OF CIVIL SERVICE PAY POLICY AND SYSTEM IN HONG KONG

(This chapter gives an account of the development of the civil service pay policy and system in Hong Kong since the middle of the 20th century, with focus on the five areas under study)

2.1 We consider it useful to first revisit the history in the development of the civil service pay policy and system in Hong Kong, particularly as regards the five areas covered in Phase One of the review. This will provide us with a solid basis for comparison with the latest developments in the five countries which the consultant has been asked to look into.

A. Pay Policies, System and Structure

I. Policy and System

2.2 We understand that the existing civil service pay policy is to *"offer sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an efficient and effective service. Such remuneration should be regarded as fair both by civil servants and by the public which they serve. Within these parameters, broad comparability with the private sector is an important factor in setting civil service pay."*¹ There are two parts to this policy statement. The first sentence embodies the objective of the pay policy, and the second and third sentences set out the principles involved in determining remuneration.

¹ Pages 13-14, Standing Commission on Civil Service Salaries and Conditions of Service Report No. 23, 1989

Objective

2.3 As far as we can trace, the substance of the existing objective of the civil service pay policy dated back to the 1960s. The same ideas were contained in a more elaborate statement drawn up by the Government in 1968. The objective has been revisited and reaffirmed in various civil service pay reviews since then. Indeed there has been no dispute that the objective of the civil service pay policy should be to offer sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an efficient and effective service.

Principles

2.4 We turn therefore to the evolution of the principles and system of determining civil service pay, starting from the middle of the 20th century.

Principle: Fair Comparison with Private Sector

2.5 In the 1950s and 1960s, the Government appointed a Salaries Commission every few years to review the general levels of civil service pay, and the salaries and structures of individual grades. The 1965 Salaries Commission recommended that civil service pay should be based on the principle of fair comparison with the private sector. This was further recommended by the 1968 Salaries Commission and accepted by the Government, which drew up an elaborate statement containing the following basic principles –

- (a) the Government subscribes to the principle of fair comparison with the current remuneration of private sector staff employed on broadly comparable work, taking account of differences in other conditions of service; and
- (b) the public service has a reasonable claim to the maintenance of real income on the evidence of cost of living indices, provided it can be demonstrated that this is also the experience of other employees.

2.6 Comparability is itself a complicated issue. As early as 1971, the Salaries Commission's Report pointed out that "*it is often difficult to*

establish comparability. For many Government activities, there is no comparable activity in the private sector there are no analogues for the disciplined services and the Administrative Officer in Government has a unique part to play in many respects the service of Government is quite distinct from work in the private sector Government looks for a continuity of service and hopes to attract it by the provision of incremental scales, reasonable security of tenure, good prospects of promotion and pensions. These are not necessarily the most prominent factors in the mind of private employers.”²

2.7 While noting the difficulty in establishing comparability, the 1971 Salaries Commission endorsed the principle of fair comparison with the private sector. In 1971-74, the Government accepted the 1971 Salaries Commission's recommendation to adopt the *occupational class* method in making pay comparison with the private sector. The system divided the civil service into occupational classes, each of which included a range of jobs with private sector analogues. The Government carried out a series of occupational class surveys; but since there were problems in finding comparable jobs in the private sector, the attempt to compare pay on the occupational class basis was not pursued. Adjustment of civil service pay was made on the basis of cost of living data.

2.8 As can be seen from the above, two major tasks are involved in establishing comparability with private sector pay –

- (a) identifying comparable work in the private sector and assessing corresponding pay levels (*pay level assessment*); and
- (b) assessing general pay movements in the private sector to ensure that civil service pay moved broadly in line (*pay trend assessment*).

The recommendation by the 1971 Salaries Commission to adopt the occupational class system as a basis of comparison with the private sector represented an (unsuccessful) attempt to deal with task (a). This is evidently a complicated task. Before looking further into how this task has been tackled, we would follow the chronological order of events and turn to task (b).

² Page 4, Salaries Commission Report 1971

Pay Trend Assessment

2.9 In 1974, the Government decided to conduct a private sector *pay trend survey* in order to ensure that civil service pay moved broadly in line with that of the private sector. The first pay trend survey was conducted that year. Since then, a pay trend survey has been conducted every year. A more detailed account of evolution of the pay adjustment system and mechanism is provided in section C of this chapter.

Pay Level Assessment

2.10 As regards task (a) mentioned in paragraph 2.8, in 1986 a pay level survey was conducted in response to staff request for an increase in salaries following an increase for the directorate. A consultant was appointed in May that year to carry out the survey.

2.11 Since many civil service jobs did not have analogues in the private sector, it was decided not to directly match jobs in the civil service with those in the private sector. Instead, a method of job evaluation was employed (the factor-point method), under which a representative sample of civil service jobs was compared with a similarly representative sample of jobs in the private sector based on three elements: (a) know-how, (b) problem solving, and (c) accountability. The total points scored for each job were then calculated and matched with the salary and the total remuneration of the job. As regards fringe benefits, they were mainly valued on the basis of the maximum notional value to employees.

2.12 The results of the 1986 pay level survey showed that generally, with the exception of Model Scale 1 and D3 and D4, the civil service remuneration package compared favourably with the those in the private sector. Sufficient information had not been collected for ranks above D4. The Government accepted in principle the results of the pay level survey in April 1987.

2.13 In 1988, an improvement package was implemented for Model Scale 1 staff (both in terms of pay and conditioned hours) having regard to the results of the 1986 pay level survey.

2.14 The findings outlined in paragraph 2.12 above were rejected by the Staff Sides of both the Senior Civil Service Council and the Police Force Council. The main complaint about the 1986 pay level survey was centred on the defects which were perceived in the pay level survey methodology, in particular, the method of job evaluation and the valuation of fringe benefits. More specifically, the Staff Sides felt that –

- (a) the methodology of the survey was too broadbrush and had a limited statistical basis. The consultant's methodology took into account only three factors, i.e. know-how, problem solving and accountability. This method was highly subjective, prone to error and open to manipulation. This ignored other important factors, e.g. physical effort, working conditions, etc. It was therefore unsuitable for evaluating complex civil service jobs;
- (b) the use of maximum notional value as a means of calculating the value or benefits was biased against civil servants and the valuation of civil service benefits in particular quarters, private tenancy allowances, and pensions were inflated;
- (c) the time-table for the Staff Sides to comment on the survey was too tight and they were not provided with adequate information; and
- (d) the methodology did not take into account the special features of disciplined services work, e.g. danger, stress, on call, restriction of personal freedom.

2.15 The Staff Sides reacted strongly to the Government's decision to accept in principle the general results of the survey and indicated that implementation would seriously affect staff morale and would be strongly resisted. While discussion on this continued, there was further disagreement between the Administration and the Staff Sides over the size of the 1988 pay adjustment. In the event, a Committee of Inquiry (C of I) was appointed in August 1988 to examine, inter alia, the methodology and findings of the 1986 pay level survey and comment on their validity as a basis for making adjustments to civil service pay.

2.16 The C of I submitted an Interim Report in November 1988 and a Final Report in March 1989. It concluded that –

- (a) the methodology used for the pay comparisons was sound and reputable but job-for-job comparisons would have been preferable and would have created greater confidence in the results;
- (b) the methodology used for the evaluation of fringe benefits tended to overvalue civil service benefits especially in relation to housing; and
- (c) there were nevertheless no convincing grounds for disputing the general tenor of the results though the degrees of discrepancy between the private sector and the civil service must be in doubt.

2.17 The Government accepted in April 1989 the C of I's recommendations, subject to the improvement already awarded to Model Scale 1 staff remaining intact.

2.18 The C of I also recommended in its report that pay level surveys, based on job-for-job comparisons, should be the foundation of the civil service pay system and that it should be conducted at three-year intervals. The Government took note of this recommendation. As the Government had then already invited the Standing Commission to conduct an overall review of the salary structure of the civil service, it would not be desirable to conduct a pay level survey at the same time.

2.19 After examining further the practicability of this recommendation of the C of I, the Standing Commission expressed the following doubts over aspects of the recommendation –

- (a) there would be practical difficulty in finding enough private sector job analogues for making job-for-job comparisons. As a matter of fact, this long-standing difficulty was the reason behind the use of a factor-point system in the 1986 pay level survey;

- (b) it was noted that the C of I had put over-riding importance on the need for maintaining broad comparability with the private sector. However, frequent adjustments to external relativities at the cost of inevitable disruption to internal relativities would not be conducive to the stability of the civil service; and
- (c) while the proposed system would bring about considerable changes to the existing patterns of civil service pay structure, staff consultation and pay determination, there was no guarantee that the new system would be more effective than the existing one in meeting the policy objective given the difficulties mentioned above, nor would it be more acceptable to staff as demonstrated by the reservations expressed by them over the proposal.

2.20 In 1988, having regard to the responsibilities and workload of the disciplined services, and the fact that the 1986 pay level survey was unable to obtain information from the private sector on special factors applicable to the disciplined services, such as danger, stress, and restraint on personal freedom, the Government invited the Standing Commission to commission an independent review on the pay and conditions of service of the disciplined services. The review committee (Rennie Committee) recommended the creation separately of a Police Pay Scale (PPS) and a General Disciplined Services Pay Scale (GDS). It also recommended the setting up of the SCDS.

2.21 The SCDS was established in 1989. On the request of the Government, it conducted a job evaluation of the directorate, Senior Superintendent and Superintendent ranks and their equivalents in the disciplined services. The job evaluation was conducted in conjunction with the disciplined service managements and a consultant.

2.22 The results indicated that the Senior Superintendent and Superintendent or equivalent were paid at a level at, or above, 75% of equivalent jobs in Hong Kong. Directorate jobs appeared to be less well paid, particularly at more senior levels. The disciplined services claimed that the job evaluation results had not adequately reflected the special, unquantifiable factors which made their jobs different from those of their

civilian counterparts. They proposed pay increases of up to 26% in some ranks.

2.23 The SCDS considered it appropriate for directorate salaries in the disciplined services to follow the median market line. In 1990, it recommended to the Government new pay scales for the directorate ranks in the disciplined services. It recommended no change to the pay scales for the Senior Superintendent and Superintendent, and equivalent ranks.

2.24 In the same year, following submissions from various disciplined services for revising the pay scales of non-directorate staff, the Government also requested the SCDS to consider the pay for the rank and file first and then the officer cadre. With respect to the rank and file, the SCDS considered it appropriate to apply the corresponding benchmarks which the Standing Commission had recommended for civilian grades, but with the pay advantage enjoyed by the disciplined services maintained. The SCDS also recommended a reduction in the number of entry points, and pay improvement to junior police officers to recognise their heavier and wider range of responsibilities.

2.25 For the officer cadre in the disciplined services, the SCDS concluded that, with the exception of the basic recruitment rank level, their duties and responsibilities were broadly comparable at each rank level. Their pay should reflect this. It also made recommendations which brought equivalent ranks in the various disciplined services up to par with each other.

2.26 In the few years following 1989, the focus of the Standing Commission's work was on the salary structure review which the Government had invited it to conduct. (The subject of pay structure is covered in paragraphs 2.30 to 2.33.) The next review relating to pay levels was conducted in 1999 on starting salaries, in which the principle of comparing with the private sector was adhered to. For instance, the Standing Commission recommended doing away with qualification groups (QGs) in the civil service that consistently had no comparisons with the private sector (e.g. QGs 4, 6 and 12). Realising that there may continue to be concerns about the salary levels of the civil service above the entry level, the Standing Commission also recommended that "*consideration should be given to whether and how the question of comparability between salaries*

for the civil service and the private sector above the entry level may be appraised”³.

2.27 The review resulted in the downward adjustment of benchmarks/starting pay for the majority of the civilian grades ranging from 6% to 31%. Having regard to the recommendations of the Standing Commission on the starting salaries for civilian grades, SCDS recommended a new set of starting salaries for the disciplined grades, representing reductions ranging from 3% to 17%. The revised starting salaries were implemented in April 2000. The Government also accepted the recommendation by the Standing Commission to delink starting pay from the annual pay trend adjustment.

Principle: Follow, Not Lead Private Sector

2.28 Another principle periodically reviewed in the past is that “*civil service pay should follow rather than lead the private sector. Government should set an acceptable standard and be among the better paying employers in relation to the lowest pay*”. In the 1971 review, the same concept was reaffirmed but worded slightly differently: “*As regards levels of salary, the principle of fair comparison with comparable employment in the private sector is over-riding, and Government should follow and not lead*”⁴.

2.29 As can be seen from section C of this chapter, the design/methodology of the annual pay trend survey reflects the principle of following rather than leading the private sector.

II. Pay Structure

2.30 Upon the establishment of the Standing Commission in 1979, it conducted the first salary structure review and recommended that the Government should adopt the *educational qualification* method.

2.31 In recommending the adoption of this system, the Standing Commission had considered two other possible methods: the *occupational class* method which had proved unworkable (see paragraphs

³ Page 29, Standing Commission on Civil Service Salaries and Conditions of Service Report No. 36, 1999

⁴ Page 4, Salaries Commission Report 1971

2.8 above); and the *core grade* method, which required the identification of some core grades for which private sector analogues were available to be used as a guide for setting the pay for other grades. The Standing Commission's conclusion was that the *educational qualification* method was the only practicable method at the moment, but did not rule out the possibility of using the *core grade* method at some future date, whether on its own or in combination with the *educational qualification* method.

2.32 The next review was conducted in 1989, when the Standing Commission accepted the Government's invitation to conduct an overall review of salary structure. From 1989 to 1990, the Standing Commission reaffirmed the use of the *educational qualification* method, and made recommendations on revised benchmarks for each qualification group and a revised salary structure having regard to the revised structure of individual grades. These recommendations were accepted by the Government.

2.33 The account would not be complete without a brief mention of the progress made in recent years in removing the differentiation between "overseas" and "local" terms and conditions of employment. The Standing Commission gave full support when the Government first proposed in 1994 the Common Terms of Appointment and Conditions of Service (Common Terms) with a view to removing the said differentiation. In 1998, the Government proposed to implement the Common Terms with modification to the scope of application originally proposed. After consultation of the Staff Sides, and with the support of the Standing Commission, the Common Terms have been implemented with effect from 1 January 1999 for new appointments to the civil service.

B. Replacing Fixed Scales with Pay Ranges

2.34 Our study of the development of the civil service pay system has not shown any significant data relating to experience in replacing fixed scales with pay ranges.

C. Pay Adjustment System and Mechanism

2.35 In order to enhance the principles relating to fair comparison with the private sector (see paragraphs 2.5 to 2.29 above), a Pay Investigation Unit was first set up in the then Civil Service Branch in 1968,

with the task of collecting and analysing information on private sector pay and conditions of service through various surveys.

2.36 As inflation gathered momentum, it became clear that the general level of civil service pay had to be adjusted at more frequent intervals than before. In 1972 and 1973, adjustments were made on the basis of cost of living data. However, it was also clear that basing overall civil service pay adjustments on movements in cost of living alone did not reflect well the principles relating to fair comparison with the private sector.

2.37 The Government decided that the most effective way to ensure that civil service pay moved broadly in line with that of the private sector was by means of a survey of private sector pay trends. The results of the survey would be used as the basis for determining overall pay adjustments to the civil service. As a result, the first pay trend survey was conducted in 1974 when the decision was taken to implement the pay trend survey system.

2.38 The development of the pay trend survey system was brought within the purview of the Standing Commission in January 1979 when the Commission was appointed. In that year, the Pay Investigation Unit was transferred to the Standing Commission to enhance the former's impartiality and independence. At the same time, the Unit was re-titled as the Pay Survey and Research Unit (PSRU), answerable to a Pay Trend Survey Committee (PTSC) chaired by a member of the Standing Commission and comprised of representatives of SCDS, management and Staff Sides. Since then, the need for regular pay trend surveys and the methodology for the survey have been continuously reviewed.

Pay Trend Survey

2.39 Pay trend surveys are conducted by the PSRU on an annual basis. The surveys aim to assess the average pay movements of full-time employees of private sector companies participating in the survey over a 12-month period from 2 April of the previous year to 1 April of the current year. They do not measure the pay rates for specific occupational groups.

2.40 The pay trend survey normally takes place between January and May. For the purpose of the survey, the non-directorate civil service is divided into three salary bands. Private sector companies participating in the survey are asked to provide information about changes in basic salaries on account of cost of living, general prosperity and company performance, general changes in market rates and in-scale increment as well as changes in cash payments (e.g. merit pay, bonus) other than those relating to fringe benefits for employees in those salary bands. The information is then collated and analysed, according to the agreed methodology, to produce gross pay trend indicators (PTIs) for the three salary bands. Each PTI is a percentage figure representing the average pay adjustment for all the surveyed employees within the same salary band.

General Pay Adjustment in the Civil Service

2.41 In accordance with the recommendations of the C of I in 1988 (see paragraph 2.16), the terms of reference of which included reviewing the methodology employed in the 1987-88 pay trend survey, the Government deducts the value of civil service increments at their payroll cost (expressed as a percentage of the total payroll cost for each salary band) from the gross PTIs to produce the net PTIs. In considering the civil service pay adjustment, the Government also takes into account the C of I's recommendation that where the resulting pay trend indicator for the lower pay band is below that for the middle band, it should be brought up to the same level unless there are over-riding reasons for not doing so.

2.42 There is consultation within the four central consultative councils, and discussion in the Executive Council and the Finance Committee of the Legislative Council, before a civil service pay adjustment, which takes effect normally from 1 April, is decided and announced. As the survey covers the 12-month period starting from 2 April of the previous year, the adjustment follows rather than leads, the private sector.

2.43 In determining the civil service pay adjustment, the Government takes into account the results of the pay trend survey, changes to the cost of living, the state of the economy, budgetary considerations, the Staff Sides' pay claims and civil service morale. Neither the PTSC nor the Standing Commission is involved in any discussions between the Government and the staff on the actual pay adjustment.

D. Performance-based Rewards

2.44 The Government normally rewards good performance of its staff by promotion or other means such as letters of appreciation and commendations by Heads of Department/Grade (HoDs/HoGs), the Chief Secretary for Administration or the Chief Executive, not related to pay or monetary benefits. Upon the establishment of trading funds in selected departments (e.g. the Electrical and Mechanical Services Department) in mid-1990s, some kind of team bonus has been devised to reward staff in kind (e.g. supermarket coupons, annual dinner, etc.) on a department-wide basis. Under these schemes, all staff in a department will receive the same amount of reward if certain targets (mostly in the form of a set of pre-determined indicators reflecting efficiency, effectiveness and standard of service) are reached during the financial year.

2.45 In March 1999, the Government proposed, in the Civil Service Reform Consultation Document, to progressively introduce elements of a performance-based rewards system into the civil service with a view to providing additional tools to motivate and reward for excellent service. Since then, HoDs/HoGs have been asked to improve the performance management system by introducing, inter alia, new appraisal forms emphasising core competencies, assessment panels and stricter administration of the granting of increments.

2.46 Having set the scene, Government decided to test out team-based rewards in the civil service with a view to providing a management tool for departments to identify and reward those outstanding performing teams and, in turn, raise the departments' overall performance standard. Team rewards are chosen as –

- (a) the achievements are relatively more capable of measurement;
- (b) they help to avoid the problem of subjectivity in appraisal; and
- (c) they promote the productivity of the team through peer support.

2.47 To make a success of performance-based rewards, it is necessary to have a whole-hearted commitment at the senior management levels and a widespread acceptance of the system among staff. There is also a need to consider how to allocate the rewards to officers fairly and equitably. To secure buy-in among departments and staff sides and test whether team-based performance rewards can be distributed fairly and equitably, a pilot scheme on a non-consolidated approach has been implemented in six departments since October 2001 with the following key characteristics –

- (a) rewards may be based on the performance of individual divisions/sections/offices of a department or different work teams within a section/office;
- (b) HoDs may design their own scheme and decide on the detailed assessment criteria for bonus allocation;
- (c) the reward (about half a month's pay) is one-off in nature and will not be built into base pay; and
- (d) HoDs should involve their staff in developing and administering the pilot schemes.

2.48 The Pilot Scheme will run for 9-10 months before the winning teams are selected. This will be followed by evaluation of the trials and recommendations on the way forward.

E. Simplification and Decentralisation of Pay Administration

2.49 For the sake of operational efficiency, system transparency and upkeeping of internal relativity, pay administration has always been centrally managed by the Civil Service Bureau, on the advice of the advisory bodies, through 13 pre-approved pay scales, e.g. the Master Pay Scale, the Police Pay Scale and the Directorate Pay Scale. New headway in the direction of decentralisation was only made in 1999/2000 when HoDs/HoGs were authorised to recruit non-civil service contract (NCSC) staff and determine their pay to help meet the temporary shortfall in manpower.

2.50 To further the objective of decentralisation, Government has done a lot in the context of the “Public Sector Reform” in recent years. Apart from delegating more authority to HoDs/HoGs in managing human resources, the concept of “trading funds” was introduced in five organisations, namely, the Companies Registry, the Land Registry, the Office of the Telecommunications Authority, the Post Office and the Electrical & Mechanical Services Department to improve the efficiency in service delivery. The Manager is authorised to manage his human and financial resources along commercial practices but Civil Service Pay Scales should continue to be adopted for remunerating staff.

2.51 Since 1999/2000, Government has progressively introduced a one-line vote arrangement in 23 departments including the Agriculture, Fisheries and Conservation Department, the Civil Aviation Department, the Department of Health, the Hong Kong Police Force, the Printing Department and the Water Supplies Department. The Controlling Officer is given autonomy and flexibility in deploying the funds between the various components of expenditure within a single recurrent account subhead of the respective Head of Expenditure. However, the central pay and establishment controls continue to apply to these one-line vote departments.

2.52 The real innovation came about in 1999/2000 when the Administration formally decentralised pay administration for the employment of NCSC staff. Under the new arrangement, the Controlling Officer is given the authority to recruit NCSC staff to meet temporary shortfalls in manpower and determine their pay and gratuities in each case subject to compliance with some broad guidelines, e.g. such terms should not be less favourable than those provided for under the Employment Ordinance or more favourable than the mid-point salaries of the equivalent civil service ranks. This has provided flexibility for coping with ad hoc surges in workload. The initial feedback from departments is diverse. One common view is that if the NCSC scheme is to be used on a larger scale as a permanent alternative to normal recruitment to the civil service, the feasibility should be further looked into.

2.53 As can be seen, Government has been extremely cautious in venturing into the pay arena in recent efforts of decentralisation as any such initiative would impact on the established civil service pay administration

policy and mechanism. It would not be appropriate to change them without going through a major review and a consensus-building process on the best way forward.

CHAPTER 3

FINDINGS AND OBSERVATIONS

(This chapter sets out, in point form for easy reading, the Task Force's views on the consultant's five-country study and highlights relevant points that might merit further consideration)

I. Introduction

- 3.1 - The five-country study by the consultant has provided us with knowledge regarding the five specific areas which the Task Force has been asked to focus on.
- 3.2 - Inevitably, differences and variations exist to cater for the needs of individual countries. Even the definition of "civil service" varies from one country to another. But the consultant has also identified some common themes and lessons.
- 3.3 - We noted the consultant's principal observations that –
 - (a) pay and grading reform cannot and should not be implemented in isolation from the broader civil service reform agenda;
 - (b) a long term view needs to be taken;
 - (c) gaining buy-in and commitment to change from key stakeholders is critical;
 - (d) a major investment of resources is necessary to build the capacity and commitment required to implement major pay reforms; and
 - (e) making significant changes to pay and grading arrangements, within the context of wider reform, inevitably involves pain as well as gain.

-
- 3.4 - We do not intend to repeat the consultant's findings in this report but would like to urge readers to read them in their original form. (The consultant's report is attached to this report.)
- 3.5 - Up to this point in time, we maintain an open mind on the consultant's findings and recommendations.
- 3.6 - Nonetheless, it is worth noting that the great majority of those countries studied have introduced extensive reforms over a long period (some 10 to 15 years) to keep up with the changing socio-economic circumstances and what their citizens expected of their civil servants.
- 3.7 - We are well aware that the consultant's study could only provide reference points and that Hong Kong has to operate under a civil service pay system best suited to its own needs.
- 3.8 - In the light of the present system in Hong Kong (bearing in mind the development as recorded in Chapter 2), we would like to raise the following for discussion, before formulating our own views and recommendations.

II. A Need to Change?

- 3.9 - Prior to discussing the pay system as defined under the five areas, our over-riding consideration is: do we need to change the existing pay system which is a product of evolution and which, among other things, has provided Hong Kong with a stable, clean and efficient civil service?
- 3.10 - We are mindful that for this review to be fair and comprehensive, we need to maintain an open mind. However, having seen the development in the five countries studied, there seems to be a case that while the present pay system has served us well, some serious thinking is needed to ensure that the pay system is appropriate under the current socio-economic circumstances in Hong Kong and can meet changing expectations from all quarters as well as challenges in the future.

- 3.11 - This need for change is borne out by recent public discussions over the cost of the civil service. It is obvious that the community would like to see a thorough re-thinking of the basic principles of the existing pay system. Whilst regular pay-level, salary structure and other reviews conducted in the past had made some improvement to the system, piecemeal review on specific areas in the system may no longer suffice.

III. Task Force's Views on the Five Areas of Study

A. Pay Policies, Pay System and Pay Structure

- 3.12 - As mentioned in Chapter 2, the objective of Hong Kong's present civil service pay policy is to "offer sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an efficient and effective service".
- 3.13 - By nature, government service cannot be driven by exactly the same work objectives as the private sector where, in many cases, profit-making or growth of business are the major considerations.
- 3.14 - Apart from expertise, factors such as loyalty, experience, service ethos, social responsibility, unity and continuity of service are rated higher in government service and, as pointed out in Chapter 2, these are not necessarily the most prominent factors in the mind of private employers.
- 3.15 - To attract, retain and motivate staff, the method presently used by the Hong Kong Government is by, among other things, the provision of competitive pay (set with regard to general comparability with the private sector), reasonable security of tenure, relatively good prospects of promotion and pensions or mandatory provident fund (MPF) benefits.
- 3.16 - Lessons learned from the consultant's five-country study suggest that while the belief is still there that the civil service has a leadership role to play as a "good" employer and that to "recruit, retain and motivate" is a common enough objective for their pay

policy, incremental scales, security of tenure, prospects of promotion and pension may no longer be major considerations.

- 3.17 - Affordability has become a more prominent factor in the countries studied. Less importance is also being given to formal pay comparability with the private sector.
- 3.18 - The principle of treating everybody more or less alike under predictable incremental scales, security of tenure and pension etc. may no longer apply, these are gradually being replaced by performance-based rewards, variable pay components (especially for the senior members of the civil service), contract arrangements or provident fund in lieu of pension.
- 3.19 - Other changes have led to a “clean wage policy” with job-related allowances consolidated.
- 3.20 - In this respect, the civil service pay systems in the countries studied may share increasing commonality with pay systems in the private sector, though profit-making and expansion of business cannot be civil servants’ major considerations.
- 3.21 - The consultant seems to suggest that such shifts in emphasis have served the countries which introduced them quite well. At least, they have been seen as addressing the debate on whether the civil service is over-paid, under-paid or whether civil service pay is moving with changing economic circumstances.
- 3.22 - We are not suggesting at this stage that the Hong Kong civil service should follow suit, as we need our own system which will continue to promote public service ethos and unity. Any change which might result in a high turnover of staff in the civil service will not be beneficial to Hong Kong.
- 3.23 - Instead, we would like to ask the following questions –
 - (a) Should there be a major overhaul of the civil service pay policy and system, putting more emphasis on performance-

pay, clean wage policy (i.e. paying “all cash” wages in lieu of allowances, housing and medical benefits, etc)?

- (b) Should senior civil servants be subject to a pay policy which is different from that of the middle-ranking and junior ranks, placing more risk/award factors on the former?
- (c) Should the disciplined services’ pay be treated differently from the rest of the civil service?
- (d) Should we continue to conduct regular pay level, pay structure and pay trend surveys to ensure that civil service pay remains comparable with that of the private sector?
- (e) Or should Government’s affordability to pay be an overriding consideration in pay adjustments?
- (f) What features of the existing pay policy and system should be retained to ensure stability and morale of the civil service?

(How changes are to be implemented and how long that should take will not be considered at this stage.)

B. Replacing Fixed Pay Scales with Pay Ranges

- 3.24 - For many years, Hong Kong has adopted a system of civil service pay scales with fixed annual increments. An officer is granted an increment annually until he reaches the maximum point applicable to his grade and rank. An increment may be withheld on account of unsatisfactory performance, but such cases are rare.

- 3.25 - The Hong Kong Government does not have experience in replacing pay scales with pay ranges.
- 3.26 - All of the five countries studied have incorporated flexible pay ranges, but to different extents. Some have flexible pay ranges for most civil servants. Others have introduced flexible pay ranges *only* for senior civil servants, retaining fixed pay scales for other civil servants.
- 3.27 - Typically, a minimum and maximum salary are specified for officers in a particular rank or band. Considerable flexibility is allowed for officers to move within that range, and for performance to be taken into account in determining such movements.
- 3.28 - The experience of the five countries shows that the introduction of pay ranges may provide a fairer system of reward based on merit (and not just time served) and encourage a performance culture.
- 3.29 - Their experience also shows that the use of flexible pay ranges must be accompanied by a vigorous approach to performance measurement and management.
- 3.30 - In considering whether flexible pay ranges should be introduced to replace fixed pay scales in the Hong Kong civil service, some questions have to be addressed –
- (a) Would the introduction of flexible pay ranges bring benefits in terms of better rewarding performance and enhancing a performance-oriented culture in the Hong Kong context?
 - (b) Would flexibility in pay progression lead to potential divisiveness among civil servants?

- (c) Should flexible pay ranges be applied to the entire civil service, or only to senior civil servants, who typically have heavier management responsibilities?
- (d) Should flexible pay ranges apply both to civilian grades and the disciplined services?
- (e) Would changes be required to the existing performance measurement and appraisal systems to support the introduction of flexible pay ranges?
- (f) Would a performance management system directly linked to pay be the most effective way of nurturing a performance culture?

C. The Pay Adjustment System and Mechanism

- 3.31 - In Hong Kong, civil service pay adjustments are determined with reference to an annual pay trend survey aimed at assessing the average pay movements of employees of private sector companies over the preceding 12 months.
- 3.32 - In determining the civil service pay adjustment, the Government also takes into account other factors, such as changes to the cost of living, the state of the economy, budgetary considerations, the staff sides' pay claims and civil service morale.
- 3.33 - The consultant has observed that, with the trend of decentralisation of pay administration to individual departments and agencies, there is a move away from a formula-based approach to pay determination in the countries studied.
- 3.34 - The consultant has also observed that as a consequence, the role of the central agencies has changed with more emphasis on setting the overall policy framework and providing advice, rather than directly controlling detailed pay negotiations.

- 3.35 - A closer look at the summaries of the five countries shows that in two of the five countries, it appears that the central governments still exercise strong control over the determination of pay levels and adjustments, with a rather mechanistic approach to determination. In the remaining three countries, it appears that fiscal constraints and pay negotiation are the key determinants in setting levels and adjustments.
- 3.36 - In considering whether the experience in the five countries studied provides useful guidance relevant to the Hong Kong context, some questions have to be addressed –
- (a) Should the principle of broad comparability with the private sector continue to be adhered to?
 - (b) Is the existing pay adjustment system still regarded as fair by both civil servants and the public which they serve? Would another mechanism serve this purpose just as well, or better?
 - (c) Is there a need for changing or introducing more flexibility in the existing adjustment mechanism?
 - (d) Should fiscal constraints be an over-riding factor in determining pay adjustments?
 - (e) Depending on whether, and to what extent, pay administration should be decentralised to departments (see section E), what would be the right balance for Hong Kong in terms of central control/guidance versus autonomy/flexibility for individual departments?

D. Introducing Performance-based Rewards

- 3.37 - As outlined in Chapter 2, the Hong Kong Government's experience in introducing performance-based pay is very limited.

The proposal to progressively introduce elements of a performance-based reward system into the civil service first appeared in the Civil Service Reform Consultation Document published in March 1999.

- 3.38 - Having improved the performance management system through the introduction of competency-based appraisal forms and assessment panels, and stricter administration of the granting of increments, Government implemented a pilot scheme in six departments in October 2001 to test whether team-based performance rewards can be distributed fairly and equitably and to secure buy-in among departments and staff sides. The results to be available in late 2002 will shape further development on this initiative.
- 3.39 - Lessons learned from the five-country study indicate that a common thrust in all the countries surveyed is to link pay more closely to performance. Replacement of automatic annual increments on fixed pay scales by more flexible pay ranges (which enable different pay and increases to be meted out on the basis of performance) has been a significant step towards implementing performance-related pay.
- 3.40 - In varying degrees, some countries have consolidated the individual performance bonuses into the base pay. Others prefer to administer them in the form of one-off payments either as a token for a good year's work or a reward for contribution to a project.
- 3.41 - Team-based performance pay is less common and is normally associated with completing a particular task/project or achieving a prescribed performance target.
- 3.42 - Performance-based rewards in other countries have so far focused on senior civil servants. This part of their remuneration ranges from 5% in one country to some 40% in another. As regards more junior staff, many are not eligible for performance-based rewards. Where they are, the amount is usually less than 10% of salary.

- 3.43 - Experience in other countries suggests that success of any performance-based reward scheme depends very much on a credible supporting performance management framework and adequate funding to enable the granting of meaningful rewards. Where the framework is fair and applied consistently, performance-based rewards appear more capable of bringing tangible benefits to the management and the staff concerned.
- 3.44 - In the light of the above, some questions have to be addressed –
- (a) Do we see the merit for Hong Kong to incorporate elements of performance pay in civil service salaries?
 - (b) Apart from pay ranges which already have performance-related elements, do we need to consider other forms of performance-based rewards?
 - (c) Should team-based performance rewards be used and, if so, to which group (senior, middle, lower or all levels) should they apply and on what basis?
 - (d) Should individual performance rewards be introduced and, if so, to which group (senior, middle, lower or all levels) should they apply and on what basis?
 - (e) Some improvements to the staff appraisal system have been introduced in recent years. What further changes are needed to support the introduction of performance-related pay?

E. Simplification and Decentralisation of Pay Administration

- 3.45 - On decentralisation, the Hong Kong Government has delegated more authority to departments in managing human resources, introduced “trading funds” in five organisations and a “one-line vote” arrangement in 23 departments in recent years. However,

there is no decentralisation of pay administration, which is centrally managed by the Civil Service Bureau.

- 3.46 - Building on the experience of employing temporary workers, the Hong Kong Government has authorised the departments to separately recruit non-civil service contract staff to meet temporary shortfalls in manpower and determine their pay and gratuities in each case since 1999/2000, subject to compliance with some broad guidelines.
- 3.47 - The country studies by the consultant reveal that all the countries covered have, to varying degrees, devolved their pay arrangements to individual departments and agencies, operating within a centrally determined policy framework and subject to strict affordability and budgetary constraints. Key features include –
 - (a) giving considerable freedom to departments/agencies;
 - (b) continuing to manage senior civil servants centrally; and
 - (c) reducing the use of allowances.
- 3.48 - According to the consultant, these efforts appear to have contributed to real improvements in both individual performance and overall civil service productivity, mainly by providing a fairer way of rewarding people, gearing pay systems to the particular circumstances of individual departments/agencies, simplifying arrangements and providing more flexibility to meet resource and staff needs.
- 3.49 - However, pay decentralisation has also created problems of internal relativity and threats to the overall coherence of the civil service in terms of common purpose and values.
- 3.50 - Most countries surveyed have also implemented major changes to their grading arrangements, common features include –
 - (a) departmentalising general grades personnel (with the exception of the Administrative Service or its broad equivalent);

- (b) creation of flatter, less hierarchical management structures, through rationalisation of the number of ranks and pay ranges;
- (c) combining occupations into broad staff groupings for better human resource management;
- (d) establishing formal job evaluation systems/procedures for assessing job weighting; and
- (e) reducing the weighting attached to educational qualifications as the primary determinant of rank or grade in favour of a broader assessment of job demands.

3.51 - Some questions have to be addressed –

- (a) Should consideration be given to introducing decentralisation of civil service pay administration for a city like Hong Kong?
- (b) If decentralisation of civil service pay administration is to be introduced, how much pay and grading responsibility should be devolved to departments?
- (c) Should some or all of the current general/common grades staff be departmentalised to facilitate department-based management?
- (d) If civil service pay administration is to be decentralised, there may be a rather long transition period. How can the standard of service and staff morale be maintained during that period?
- (e) In terms of simplification, is there scope to amalgamate existing grades within broader occupational categories? Is there scope for having flatter organisations with wider span of management control and fewer rank layers?
- (f) Should a formal job evaluation system be introduced and, if so, should this be operated centrally or at department level?

CHAPTER 4

PUBLIC CONSULTATION

(This chapter concludes the interim report with an invitation for comments from all quarters of the community)

4.1 We have noted with interest the results of consultant's research into the latest developments in civil service pay administration in the five selected countries. We also noted what the consultant considered as good practices that might be of relevance to Hong Kong.

4.2 We are, however, of the opinion that until all stakeholders and members of the public have an opportunity to express their views on the consultant's findings, the Task Force should continue to maintain an open mind. The consultation period which follows the publication of this interim report should provide the opportunity for commenting on the whole range of questions which we are asking, under the five areas of study, in Chapter 3.

4.3 In this respect, we agree with the consultant's observation that *"Gaining buy-in and commitment to change from key stakeholders is critical. Early consultation with Civil Service managers and staff is an important means of raising awareness about the need and options for change, overcoming concerns and anxieties and benefiting from their thinking in shaping proposed reforms."*⁵

4.4 We will make recommendations in our final report in July 2002. Thereafter, the Standing Commission, in conjunction with the other two advisory bodies, will make recommendations to the Administration in the second half of 2002 on the conduct of the second-phase review.

4.5 In the meantime, we welcome views from all quarters of the community.

⁵ Page 3, Interim Report to the Task Force on the Review of Civil Service Pay Policy and System, PwC Consulting

4.6 Comments should be forwarded on or before 25 May 2002 to:
Joint Secretariat for the Advisory Bodies on Civil Service and Judicial
Salaries and Conditions of Service, Room 701, 7th Floor, Tower Two, Lippo
Centre, 89 Queensway, Hong Kong. Fax: 2877 0750. E-mail:
jsscs@jsscs.gov.hk.

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TERMS OF REFERENCE

**Task Force on Review of Civil Service
Pay Policy and System**

In the context of the comprehensive review of the pay policy and system for the civil service in respect of civilian and disciplined grades to be conducted by the three Advisory Bodies*,

- (a) to research into the latest developments in civil service pay administration in other governments, analyse their pros and cons and identify best practices that may be of particular relevance to Hong Kong, having regard to the history and development of the civil service pay policy and system in Hong Kong, and focusing on the following aspects –
 - (i) the pay policies, pay system and pay structure commonly adopted;
 - (ii) the experience of replacing fixed pay scales with pay ranges or other pay systems;
 - (iii) the pay adjustment system and mechanism;
 - (iv) the experience of introducing performance-based rewards to better motivate staff; and
 - (v) the experience on simplification and decentralisation of pay administration including any related management changes;
- (b) to commission a consultant to assist the Task Force on an analytical study on (a) above, and receive the interim and final consultancy reports from the consultant;

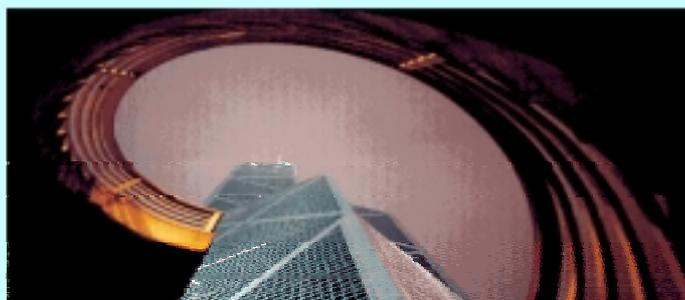
* They are the Standing Commission on Civil Service Salaries and Conditions of Service, the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Standing Committee on Directorate Salaries and Conditions of Service.

- (c) to monitor the progress and provide guidance to the consultant during the consultancy study;
- (d) to conduct a public consultation exercise on the preliminary findings and recommendations of the Task Force, taking account of the views of all interested parties, including the staff sides, departmental/grade management and members of the public;
- (e) in the light of the findings and recommendations, and the views of all interested parties, to recommend the scope, methodology and timing of the comprehensive review to be undertaken in the second phase and the factors which may need to be taken into account; and
- (f) to report to the three Advisory Bodies on the recommended way forward and to take such follow-up action as the Advisory Bodies may direct.

PWC CONSULTING

A member of the PricewaterhouseCoopers network

**C o n s u l t a n c y S e r v i c e f o r a n A n a l y t i c a l S t u d y
o n t h e L a t e s t D e v e l o p m e n t s i n C i v i l S e r v i c e
P a y A d m i n i s t r a t i o n i n O t h e r G o v e r n m e n t s**



**I n t e r i m R e p o r t t o t h e T a s k F o r c e o n t h e
R e v i e w o f C i v i l S e r v i c e P a y P o l i c y a n d S y s t e m**

A p r i l 2 0 0 2

**CONSULTANCY SERVICE FOR AN ANALYTICAL STUDY ON THE LATEST
DEVELOPMENTS IN CIVIL SERVICE PAY ADMINISTRATION
IN OTHER COUNTRIES - INTERIM REPORT**

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Executive Summary

Introduction

1. PwC Consulting were appointed by the Task Force on the Review of Civil Service Pay Policy and System to conduct research into the latest developments in Civil Service pay administration in selected Governments, and to identify practices that might be of relevance to Hong Kong, having regard to the history and development of the Civil Service pay system here. In particular, the research focused on five key areas of interest, as set out in our terms of reference from the Task Force:

- **Commonly adopted pay policies, pay systems and pay structure**
- **Experience of replacing fixed pay scales with pay ranges, or other pay systems**
- **Systems and mechanisms for determining pay levels and pay adjustments**
- **Experience of introducing performance-based rewards (or other means to better motivate staff)**
- **Experience on simplification and decentralisation of pay administration.**

2. This report sets out the interim findings from the research and focuses on the key principles and broad arrangements adopted in Australia, Canada, New Zealand, Singapore and the United Kingdom. For convenience, a high level overview of the Civil Service pay arrangements for each country is summarised in the table at the end of this Executive Summary, while further details for each country can be found in the country summary appendices at the end of the main report.

3. Our approach to the research was designed to ensure that we collected our data in a consistent fashion and that the emerging results are robust and relevant to the Hong Kong context. To ensure these criteria were met we focused our research efforts in each country through a very senior, highly experienced country adviser. Most of our advisers are former top Government officials and all have deep knowledge of Civil Service pay developments in their individual countries.

Summary of General Lessons and Good Practice from the Research

4. While each country has evolved very different approaches to Civil Service pay to meet their specific needs, we have, nevertheless, identified some common themes and lessons from our research. Specifically:

Pay and grading reform cannot and should not be implemented in isolation from the broader Civil Service reform agenda. For pay and grading reforms to be successful, complementary reforms are

needed in a number of other areas, such as the broader delegation of human resource and financial management responsibilities.

- Development of supporting performance measurement and management frameworks is vital to ensure that pay and grading reforms can be applied fairly and consistently

A long term view needs to be taken. Implementing pay and grading arrangements typically requires a number of years, using a phased approach to reduce risk and to help build capacity within the Civil Service. Sustained top level commitment and support is crucial both at the political level and from the highest echelons of the Civil Service in order to maintain momentum

- **Gaining buy-in and commitment to change from key stakeholders is critical.** Early consultation with Civil Service managers and staff is an important means of raising awareness about the need and options for change, overcoming concerns and anxieties and benefiting from their thinking in shaping proposed reforms
- **A major investment of resources is necessary** to build the capacity and commitment required to implement major pay reforms. Typical areas for investment include relevant training and skills development, communications, specific initiatives to shift mindsets and promote a performance culture, and the development of the supporting infrastructure necessary to ensure efficient pay administration, eg technology based systems
- **Making significant changes to pay and grading arrangements, within the context of wider reforms, inevitably involves pain as well as gain.** The path to achieving the benefits from new pay or grading arrangements is rarely smooth. Challenges and setbacks must be expected and allowed for. Staff resistance to any change from the status quo, a potential drop in morale and motivation among those staff who feel they have lost out under new arrangements, and securing the funding needed to implement proposed reforms, are some of the typical issues which may need to be addressed.

5. Having described these general lessons, we have grouped our more detailed findings on good practice under each of the five designated areas of interest.

COMMONLY ADOPTED PAY POLICIES, STRUCTURES AND SYSTEMS

6. The common trends in pay policy in our five survey countries include:
 - Devolution of more responsibility for pay policy and administration to individual Departments and Agencies

- A belief that in certain areas (eg equal opportunities) the Civil Service has a leadership role to play as a ‘good’ employer, with associated implications for pay policy, for example equity in pay arrangements from an equal opportunities perspective
- An emphasis on affordability (ie living within budgetary constraints) and paying appropriately to recruit, retain and motivate staff, with correspondingly less importance given to formal pay comparability with the private sector
- Ongoing efforts to link pay more closely to performance, through various forms of performance-based rewards
- A drive to replace rigid central systems with more flexible approaches including, for example, the consolidation of allowances and their absorption into base pay
- Providing separate pay arrangements only for those groups broadly equivalent to the Hong Kong Disciplined Services where special provisions apply (eg where the right to take industrial action has been removed). As a consequence, many of these equivalent groups in the selected countries are in practice treated in the same way as any other Department or occupation within the Civil Service or broader public sector.

EXPERIENCE OF REPLACING FIXED PAY SCALES WITH PAY RANGES

7. All five of the countries we surveyed have replaced fixed pay scales (with automatic time-based increments) for their senior civil servants with more flexible pay ranges. Some countries have gone further and extended the use of flexible pay ranges to most or all of their Civil Service. Typically a minimum and maximum salary is specified for each pay range, but then considerable flexibility is allowed for individuals to move through the pay range based on performance.

SYSTEMS AND MECHANISMS FOR DETERMINING PAY LEVELS AND ADJUSTMENTS

8. Each of the five countries, to varying degrees, has taken steps to decentralise the determination of pay levels and adjustments to individual departments and agencies. This has resulted in a general move away from a central, formula-based approach to pay determination for most countries. Affordability within budget constraints, achievement of performance goals, and recruitment, retention and motivation of staff are now the primary consideration, rather than formal comparability with the private sector. Pay trend and level surveys are more typically used to inform collective and individual agreements within set negotiating parameters, rather than to dictate pay adjustments.
9. As a consequence the role of the central agencies has changed with more emphasis on setting the overall policy framework and providing advice, rather than having a direct involvement in setting pay levels.

EXPERIENCE OF INTRODUCING PERFORMANCE-BASED REWARDS

10. A common thrust in all the countries surveyed has been efforts to link pay more closely to performance, especially for senior civil servants. In addition to the flexible pay ranges already described, other performance related reward arrangements that have been implemented elsewhere include:

- Individual performance bonuses – both “one off” and incorporated into basic pay
- Team based performance pay, which is less common and typically associated with achieving set performance targets, or completing a particular task or project.

11. Much of the emphasis to date on performance-based rewards has been focused on senior civil servants partly because of the importance of motivating and rewarding this group, and partly because they generally have more discretion and control over their work. The proportion of senior civil servant remuneration that is now performance based and ‘at risk’ varies considerably between countries. The Singapore Government has gone furthest with an average of some 40% of senior officer remuneration now paid on the basis of individual performance and overall economic performance.

12. Two critical success factors in introducing performance-based reward schemes appear to be the development of a credible and robust performance management framework, and the provision of adequate funding to support effective differentiation between average and outstanding performance.

Experience of simplifying and decentralising pay and grading administration

13. As described above, all of our survey countries have, to varying degrees, devolved their pay arrangements to individual Departments and Agencies, operating within a centrally determined policy framework. However, whilst certainly contributing to some significant improvements, devolution has also created some important challenges that need to be recognised and managed, particularly against the backdrop of a perceived fragmentation of the Civil Service.

14. Most of the countries we surveyed have also implemented major changes to their grading arrangements. Common features include the following:

- Departmentalising general grades personnel
- Creation of flatter, less hierarchical management structures, through rationalisation of the number of ranks and the number of pay ranges
- Combining occupations into broad staff groupings for the purposes of grading and human resources management
- Establishing formal job evaluation systems and procedures for assessing relative job weight and ranking
- Growing away from educational qualifications as the primary determinant of rank or grade.

Implications for Hong Kong

15. It is not the remit of this report to put forward specific recommendations. However, we believe that based on the experience of our five survey countries and taking account of the current issues and challenges facing the Hong Kong Civil Service, **all five key pay and grading areas of interest, as highlighted in our brief, are worthy of further, more detailed consideration.** Specifically there would be value in the Hong Kong Civil Service:

- Undertaking a more far reaching review of their pay policies and the fundamental principles underlying them
- Examining further whether flexible pay ranges should be introduced
- Reviewing the current mechanisms for determining pay levels and adjustments
- Exploring the scope for a more performance based approach to pay and rewards
- Examining the scope for further delegation of responsibility for pay and human resources management to individual Departments.

High Level Overview of Civil Service Pay Arrangements in the Selected Countries

16. In order to provide a quick appreciation of the Civil Service pay arrangements that have developed in each of the survey countries, we have prepared a very brief, tabular guide (see pages 7 and 8 overleaf). The guide is organised around the five key areas of interest specified by the Task Force. We hope it paints a useful picture against which the main findings of the research can be considered.

17. Inevitably in producing such a short summary we have had to make some very broad generalisations and simplifications of the detailed arrangements in each country. As such it should be read with some caution. To avoid possible misunderstanding or misinterpretation we suggest that readers should also look at the fuller details on each country, as set out in Appendices A-E.

| Australia | Canada | New Zealand | Singapore | United Kingdom | Summary |
|-----------|--------|-------------|-----------|----------------|---------|
|-----------|--------|-------------|-----------|----------------|---------|

Commonly adopted pay policies, structures and systems

| | | | | | | |
|--|---|---|---|--|---|--|
| Is pay administration devolved - <i>- for Civil Servants?</i> | Substantially devolved – Departments and Agencies largely determine own pay policies within guidelines | No – pay policy remains largely centrally determined (this is currently under review) | Highly devolved – Departments and Agencies largely determine own pay policies within guidelines | Moderate devolution – some local flexibility; central agencies remain influential | Highly devolved – Departments and Agencies largely determine pay policies within guidelines | Devolution of responsibility for pay management issues is a key thrust. Senior civil servants continue to be managed from a central point to facilitate mobility and pay control |
| <i>- for Senior Civil Servants?</i> | No - determined centrally | No - determined centrally | No - determined centrally | No - determined centrally | No - determined centrally | |
| Are Disciplined Services handled separately for pay purposes? | Customs & Excise and Immigration treated similarly to other civil servants. Fire, Correctional and most Police Services are outside core civil service | Immigration, Police, Flying and Correctional Services are treated similarly to other civil servants. Fire and Customs & Excise are outside core civil service | Customs & Excise, Immigration, Police and Correctional Services are treated similarly to other civil servants. Fire Services are outside the core civil service | All Disciplined Service equivalents are treated broadly similar to other civil servants, although some specific arrangements apply | Customs & Excise and Immigration are treated similarly to other civil servants. Correctional Services have separate arrangements. Fire and Police are outside core civil service. | There is a wide span of arrangements for this group influenced by factors such as their legal ability to strike, need for independence, job demands & historical agreements |
| Are pay adjustments made by formal comparability with private sector pay? | No – seen only as a guide to inform market conditions | Yes - comparison by occupation | No – seen only as a guide to inform market conditions | Yes - competitiveness with the private sector for all jobs is seen as key to the recruitment and retention of high calibre staff | No – seen only as a guide to inform the principle of recruit, retain and motivate. | Most countries have reduced their emphasis on formal pay comparability with the private sector with affordability considerations now taking precedence |
| Is 'ability to pay' a primary factor for pay adjustment? | Yes | Yes | Yes | Yes | Yes | |
| Are educational/academic qualifications an important factor for internal relativity? | Only one of several factors | Only one of several factors | Only one of several factors | Yes | Only one of several factors | Broader job comparisons are increasingly the norm |
| Have allowances been rationalised/consolidated/simplified? | Yes – most allowances have ended and/or consolidated into base pay | Yes – most allowances have ended and/or consolidated into base pay | Yes – most allowances have ended and/or consolidated into base pay | Yes – most allowances have ended and/or consolidated into base pay | Yes – most allowances have ended and/or consolidated into base pay | In all cases, use of allowances has reduced to increase transparency and reduce admin costs |

Experience of replacing fixed pay scales with pay ranges

| | | | | | | |
|---|--|--|--|--|---|--|
| Have automatic annual increments on a pay scale been replaced by more flexible pay ranges? | Yes – most staff are now on a flexible pay range | Not for the majority of unionised staff, although a new scheme is currently being implemented. Pay ranges have been introduced for senior (non-unionised) civil servants | Yes – most staff are now on a flexible pay range | The majority of staff still receive an annual increment but pay ranges have been established for senior civil servants | Yes (with limited exceptions eg the Correctional Services). | General trend towards flexible pay ranges, particularly for senior staff |
|---|--|--|--|--|---|--|

| Australia | Canada | New Zealand | Singapore | United Kingdom | Summary |
|-----------|--------|-------------|-----------|----------------|---------|
|-----------|--------|-------------|-----------|----------------|---------|

Systems and mechanisms for determining pay levels and adjustments

| | | | | | | |
|--|--|---|--|--|---|--|
| Is a formal private sector comparison used to inform pay adjustments? | No - but adjustments must be within an agreed financial budget | No – but emphasis on comparability and must be within agreed budget | No - but adjustments must be within an agreed financial budget | Yes – calculated as a comparator to private sector pay | No - but adjustments must be within an agreed financial budget | The trend is towards a less mechanistic way of determining pay increases which allows agencies to address their individual needs, whilst operating within a broad centrally determined framework |
| What is the main role of central agencies in pay determination? <i>- to agree or to set budgets for pay increases?</i> | Agree overall financial budgets | Strong central role in both budgets and detailed pay adjustments | Agree overall financial budgets | Determine overall financial budgets | Agree overall financial budgets | |
| <i>- to provide advice and guidance or to set broader pay policy issues?</i> | To provide advice and guidance | To set direction and determine broader pay policies | To provide advice and guidance and set parameters | To set direction and determine broader pay policies | To provide advice and guidance and agree negotiating parameters | |

Experience of introducing performance-based rewards

| | | | | | | |
|--|---|---|---|--|--|---|
| Is there widespread use of performance related pay (PRP)? | Yes – most staff have some form of PRP | Minimal – for a small number of senior civil servants up to 20% of pay may be “at risk” | Yes – most staff are eligible for some form of PRP | Increasing - linked to performance of the individual and the economy as a whole | Yes – most staff are eligible for some form of PRP | PRP is now widely used, particularly for senior staff |
| Are performance awards consolidated into base pay? | Yes for some staff | Yes, for some staff | Yes, increasingly for most staff | Yes for some staff | Yes for most staff | |
| Is it paid as a one-off (non-consolidated) bonus? | Yes for some staff | Limited to senior civil servants | Yes for some staff | Yes for some staff | Use of bonuses limited to exceptional circumstances | |
| Are there team-based performance rewards? | Some use – typically paid on completion of a project | Very limited | Very limited – bonuses typically paid on completion of project | Very limited | Limited – still seen as experimental. | Whilst the broad principle is generally embraced there have yet to emerge significant numbers of successful examples |
| Has a robust performance management framework been developed? | Most forms of appraisal are used and increasingly 360 degree assessment. Skills development is ongoing. | Traditional approach to appraisal for most staff with lack of consistent standards | Well established systems and high skills level - self appraisal and 360 degree assessment are common. Reports are structured around competencies. | Traditional but rigorous system. Recent emphasis on development of balanced scorecard approach | Most forms of appraisal are used and increasingly 360 degree assessment. Skills development ongoing. | A key component to support performance related pay but requires significant education and skills development to engineer behavioural change |

Experience of simplifying and decentralising pay and grading administration

| | | | | | | |
|--|--|---|---|--|--|---|
| Have there been moves to establish flatter, less hierarchical structures through simplification of pay and grading systems? | Yes - only 11 grades in the Australian Public Service | This is on-going. The current system is highly complex system with 72 occupation groups, 105 sub groups and 840 separate levels | Yes –most Departments and Agencies have independently introduced flatter more flexible structures with fewer ranks/bands | Some simplification in recent years, particularly amalgamation of pay bands at senior levels | Yes –most Departments and Agencies have independently introduced flatter more flexible structures with fewer ranks/bands | In all cases there is a drive towards less complex pay and grading systems aimed at increasing local flexibility |
| Is a formal job evaluation system used? | Yes, to some degree. Each group of duties is classified according to its work value requirements | Yes, an off-the-shelf system is used for executives. For other positions, whole job comparison is used and grouped by occupations | Yes, either a position-based comparative job survey is used or an off-the-shelf system where there is no comparator role. | Yes, to some degree | Yes – a civil service wide grading system is in operation | The trend is towards broad, generic occupational groupings and a move away from narrowly defined job descriptions |

Introduction

This Report

18. In support of the Task Force on the Review of Civil Service Pay Policy and System, PwC Consulting were appointed in February 2002 to conduct research into the latest developments in Civil Service pay administration in selected Governments and to identify practices that might be of relevance to Hong Kong, having regard to the history and development of the Civil Service pay system here. The study covers five countries – Australia, Canada, New Zealand, Singapore and the United Kingdom (UK).
19. This report sets out the interim findings from the research, organised around the five key areas of interest specified to us by the Task Force. These are:
 - **Commonly adopted pay policies, pay systems and pay structure**
 - **Experience of replacing fixed pay scales with pay ranges, or other pay systems**
 - **Systems and mechanisms for determining pay levels and pay adjustments**
 - **Experience of introducing performance-based rewards (or other means to better motivate staff)**
 - **Experience on simplification and decentralisation of pay administration.**
20. While we have necessarily examined in some detail the Civil Service pay systems in each of the comparator countries, in this report we mainly concentrate on the key principles and broad arrangements adopted elsewhere. We believe this focus helps ensure that, at this stage in the Pay Review and as an aid to public consultation, the report most usefully facilitates a considered debate on strategic options for the future shape of pay administration for the Hong Kong Civil Service.
21. A wide range of terms is used in the context of pay administration. However these terms are not always used in a consistent way across countries. For example, in the Hong Kong Civil Service the term ‘grade’ is used to describe a particular job group. In other countries a ‘grade’ more often refers to the level of seniority, comparable with the term ‘rank’ in Hong Kong. To try and ensure consistency of understanding and use of common terms we have therefore included at the end of this report a **glossary of common terms**, based, where appropriate, on the current Hong Kong Civil Service usage.
22. In **Appendices A - E**, as the background to our analysis of general learning points and good practice, we provide individual summaries of the key features of the Civil Service pay administration arrangements and experience of each of the comparator countries.

Scope and Approach to the Research

Scope of the country research

23. In the inception phase of the study, we confirmed the scope of the country research with the Task Force. It was agreed that the research should:
- Specifically address the five research topics identified by the Task Force, as indicated previously
 - Primarily focus on providing a sound understanding of the key principles and broad features of Civil Service pay arrangements in other countries, together with informed insights into why these arrangements have developed as they have, how well they are seen to be working and the learning points with particular reference to Hong Kong
 - Provide explicit coverage of the pay arrangements for the overseas equivalents of the Hong Kong Disciplined Services, where these are significantly different from the main Civil Service arrangements
 - Provide high level coverage of the provision of major benefits and allowances as part of the overall compensation structure, but not go into any great detail on these items. We also exclude coverage of wider human resource management (HRM) matters, unless these are directly relevant to the high level understanding of pay arrangements and developments
 - Focus mainly on the central/ federal Civil Service, in countries where Government operates at different levels. The exception to this is where the equivalent to any of the major Hong Kong Civil Service staff/ job groups are administered outside of the central Civil Service.

Research approach

24. Our approach to the research was designed to ensure that the results are as robust and relevant as possible to the work of the Task Force, recognising the practical limitations of the extremely tight timescales within which we have had to work. In particular we have:
- Developed a detailed, structured research template to ensure consistency and value in the descriptive and evaluative information drawn from each country
 - Focused our research efforts in each country through a very senior, highly experienced country adviser. Most of our advisers are former top Government officials and all have deep knowledge of Civil Service pay developments in their individual countries and established high level contacts in their Governments to ensure swift access to relevant information and insights
 - Conducted local research to confirm Civil Service pay arrangements in Hong Kong and the historical context and special considerations that have shaped these. While it is not part of our remit to critique the Hong Kong system, an understanding of how

it works and why it has developed in the way it has is critical to assessing the relevance of overseas experience and developments within the local context

- Worked closely with the Task Force to ensure the research addresses their needs in the most useful and practical way.

The Selected Overseas Countries

25. This section is intended to provide the reader with a broad overview of each country and their Government and Civil Service structures. See the individual country summaries in Appendices A– E for further relevant details.

Introduction to the comparator countries

26. The Task Force mandated Australia, Singapore and the UK for the purpose of this research, and PwC Consulting proposed Canada and New Zealand as being additional, useful comparators. Their suitability was based on a number of considerations:

- Structure and governance – all countries operate systems which historically had their roots, either directly or indirectly, in the so called, British “Westminster” model
- Professionalism – each of the countries has a professional, career Civil Service and many civil servants consider it a career employer
- Programmes of public sector reform – all five countries have undertaken (and continue to have on their agenda) significant public sector reforms over the course of the past twenty years or so
- Values – at the very heart of these country Civil Services are the shared values of integrity, lack of corruption and fair and equal treatment of all citizens. Political neutrality is also a critical factor in most cases.

27. The organisation of the Governments is crucial to this study, as are the context and nature of their extensive public sector reforms and their current arrangements for pay and reward.

The organisation of Government

28. The five countries illustrate a range of organisational structures. At one end of the spectrum, Singapore is a relatively centralised, unitary Government, while the UK, Canada and Australia all have three different tiers of Government (each with different responsibilities). New Zealand lies somewhere in-between. This makes direct comparison with Hong Kong a difficult task.

Reform programmes

29. The five selected countries offer a range of experiences resulting from their long term programmes of public sector reform. In some cases reform has been radical such as in New Zealand, in others more evolutionary such as in Canada. For each, however, to a greater or lesser degree, the reforms encompass a number of common themes:

- Reorganisation and redefinition of the core Civil Service, with increasing responsibilities shifted to autonomous agencies and to other tiers of Government
- A drive towards enhanced quality, efficiency, and effectiveness of the Civil Service
- Increased private sector involvement in the delivery of public services, using competition as a driver for change and improvement
- Development of a customer-centric focus, including a range of e-Government initiatives
- More effective financial planning, management and control, typically centred on devolution of financial management responsibilities to individual agencies and managers
- Growth of a performance culture promoting greater transparency and accountability, both collective and individual
- Emphasis on overhauling HRM policies and practices both to encourage better performance and to help attract, retain and motivate quality staff.

30. It is important to recognise the importance of these themes in influencing and, in some cases, supporting the pay and grading reforms which each of the comparator countries have implemented.

Summary of General Lessons and Good Practice from the Research

31. This section summarises the main findings from our research and draws out some of the potential implications for the Civil Service in Hong Kong. The section starts by highlighting some general lessons before discussing in more detail the main research findings for each of the five key areas of interest set out in our terms of reference.

GENERAL LESSONS FROM THE INTERNATIONAL RESEARCH

32. Perhaps the first important point to note from our international research is simply that all five of the countries we surveyed have implemented wide ranging pay and grading reforms. With the exception of Canada, where major reform is now being addressed, it would be no exaggeration to say that the countries we have studied have radically transformed their pay and grading arrangements over the last 10 years or so. The general perception of the Governments concerned is that these reforms have, together with other public sector management improvements, had a substantial positive impact on overall Civil Service performance, in terms of more flexible and effective resource management, improved efficiency and service quality, greater transparency and accountability, reduced numbers and total salary outlays, and the engendering of a more 'customer focused' performance culture.
33. So, what are the main lessons to be learnt from this international experience? We think the **first** general lesson is that **pay and grading reform cannot and should not be implemented in isolation from the broader Civil Service reform agenda**. In all five of our survey countries, pay and grading reform has been positioned – and implemented – as one, albeit important, element of broader HRM reform. Similarly, HRM reform has in turn been implemented as an integral part of the broader public sector reform agenda.
34. More specifically, one clear learning point is that the successful implementation of major pay and grading reform depends critically on complementary reforms being implemented in a number of other areas, for example:
- The broader delegation of HRM responsibilities to Departments and Agencies so that they have effective control of their staff
 - The delegation of financial management and control responsibilities so that senior staff have the ability to manage resources in order to achieve results
 - The development of supporting performance measurement and management frameworks to ensure that pay and grading reforms can be applied fairly and consistently.

35. The opposite is also probably true, in that our survey countries appear to have oncluded – rightly or wrongly - that their broader public sector reform agenda could not be

implemented fully without supporting pay and grading policies that promoted flexibility and encouraged more focus on performance.

36. A **second** general lesson is that **successfully implementing major pay and grading reforms requires a long term view**. Typically, the Governments we surveyed embarked on their reform programmes in the mid/late 1980s, prompted by a range of pressures: economic recession, rising inflation, perceived Civil Service inefficiency and concerns about Trade Union power. They responded by implementing a wide range of reforms embracing all main aspects of pay and grading policy. However, as far as we can tell, none of these countries followed an overall masterplan or blueprint. Rather, they developed a broad set of overall policy objectives and then progressively implemented changes and reforms, with each successive ‘wave’ of reform building on the experience and lessons of the previous one(s).
37. In doing so, the factors underpinning success appear to have included the following:
- Sustained top level commitment and support – both at the political level and from the highest echelons of the Civil Service
 - Adopting a phased approach to implementation, rather than a ‘big bang’ philosophy. The exception to this has been New Zealand, where rapidly introduced far reaching changes in the early 1990s were driven by a prevailing sense of crisis at that time. More recently, some of the more radical reforms have been wound back significantly in the light of concerns about their effectiveness
 - Using pilot studies to try out proposed new approaches before implementing more widely in order both to reduce risk and to help build capacity within the Civil Service.
38. The **third** general lesson we have taken from our research is that **achieving buy-in and commitment to change through the involvement of key stakeholders is critical to success**. The approaches taken in our survey countries have included:
- Early consultation with all key stakeholders, particularly Civil Service managers and staff
 - Ensuring that steps are taken to build internal competency and experience. While overseas Governments often used external support in the initial stages to provide expertise and resources, they also sought to progressively transfer this expertise to the Civil Service to build capacity and commitment to change
 - In some countries, reforms were initially introduced on a voluntary basis (either for the individuals or Departments concerned). In Australia, for example, Departments were given delegated freedom to change their

pay and grading systems but they were not required to do so. In practice, many Departments started by simply transposing the previous centralised policies and rules but then, over time, reviewed and changed them to better fit their particular needs.

39. The **fourth** general lesson from our research is that **successful implementation of pay and grading reform requires a major investment of resources**. All the countries we have researched have invested heavily in:
- Training and skills development for their staff, particularly in performance management skills
 - Communications and public relations initiatives
 - Broader change management to help to overcome the inevitable resistance to change, shift mindsets and encourage the development of a performance culture
 - Providing funding for the additional costs involved in transitioning to new systems.
40. The **fifth**, and final lesson, is that the experience of **making significant changes to pay and grading arrangements, within the context of wider reforms, inevitably involves pain as well as gain**. While Governments and, indeed, other stakeholders have identified a range of significant potential benefits from implementing pay and grading reforms, it is also important not to underestimate the inevitable challenges and set-backs that are involved in such a major undertaking. For example:
- The need to overcome considerable resistance from staff and their representatives to any changes to the status quo
 - Reduced morale and motivation of some staff, in the face of loss of security and assured pay progression (although other staff will see the such reforms as offering a valuable benefit)
 - Lack of available funding in practice to fully support the effective introduction of new arrangements, eg differential performance awards to really motivate enhanced performance
 - A challenge to the cultural coherence and the sense of an integrated and cohesive Civil Service, as a consequence of pay delegation. For example, in the UK, as individual Departments have established their own pay levels and grading arrangements, the ability to easily re-deploy staff across the Civil Service, other than at the most senior level, has become an issue.
41. Having described these general lessons, the remainder of this section summarises in more detail our research findings. For convenience, we have grouped these under each of the five key areas of interest set out in our terms of reference.

COMMONLY ADOPTED PAY POLICIES, STRUCTURES AND SYSTEMS

42. Despite certain common history and heritage, each of our survey countries has evolved very different pay policies and systems to meet their specific needs. It is important to note that these policies have changed significantly over time in response to various

factors such as difficulties in recruitment and retention, overall labour market and macroeconomic trends, and prevailing political attitudes and priorities. So, for example, the UK and New Zealand have moved decisively from policies driven by formal pay comparability with the private sector to those driven far more by the ability to pay and the need to recruit, retain and motivate suitable staff. Despite these differences, we have also identified some important common themes, the most important of which are summarised below.

The decentralisation of pay policy and administration

43. A key, long term thrust of Civil Service pay reform in our survey countries (and, indeed, in many other countries) has centred on decentralising more responsibility for pay policy and administration with the objective of improving flexibility, accountability and overall performance and efficiency. Some of our survey countries have been more radical than others: Australia, New Zealand and the UK have substantially dismantled their previous nationally-based pay negotiating arrangements and devolved most pay responsibilities to individual agencies and departments, within certain centrally determined parameters and guidance. Singapore and Canada have retained more centralised systems, but they have also given more autonomy and flexibility to departments and agencies.
44. One important exception to this common trend has been pay arrangements for senior civil servants. All five of our survey countries have continued to centrally manage most or all of their senior Civil Service for pay purposes and, indeed, for broader human resource management. This approach is perceived to have been an effective way both of keeping a 'lid' on public sector pay, and ensuring that the Civil Service operates in a coherent way with staff mobility between Departments and Agencies at the most senior levels. The current pay and HRM arrangements for Directorate level staff in the Hong Kong Civil Service share some but not all of these characteristics.

The importance of the Civil Service as a good employer

45. All of the countries we surveyed believe that in certain areas (eg equal opportunities) the Civil Service has a leadership role to play in behaving as a 'good' employer. As a result, in a number of the countries we surveyed, the Civil Service is recognised as a leader in areas, such as equal opportunities policies, emphasis on training and development, and merit-based approaches to appointment and promotion. Significantly, all of these policies have implications for pay policy and structures.

Affordability or ability to pay

46. All of the countries we surveyed have faced serious fiscal and public expenditure constraints in recent years. This has often translated into reductions in the size of the Civil Service and very tight controls on Civil Service pay levels. In Canada, for example, the core Civil Service has reduced in size by some 40% over the last decade or so and little or no pay increases were awarded for much of the 1990s. Similarly, the UK Civil Service contracted by an average of some 4% a year during the same period. Against this background, it is perhaps unsurprising that affordability has become a dominant feature of pay policy in these countries. This is particularly so where pay responsibilities

have been substantially devolved to individual Departments and Agencies (where budgetary limits have become the key control mechanism).

47. The emphasis on tight public expenditure control in these countries has also limited the ability to implement more performance related pay systems as there simply have not been the resources available to fund such schemes adequately. This appears to have had a negative impact on both the acceptability and perceived value of such schemes in the countries concerned.

External comparability

48. As already indicated, reforms pursued in the 1980s and early 1990s reduced the emphasis on formal pay comparability with the private sector with affordability considerations increasingly taking precedence. However, all the Governments we surveyed have continued to stress the importance of providing sufficient pay to attract, retain and motivate suitable staff. In doing so, they have often tried to maintain “broad comparability” with the private sector although any explicit link has usually been dropped. None of the countries we surveyed seek to lead the private sector: they either aim to broadly match the private sector (eg Singapore) or explicitly recognise the need for what in the UK is termed as a ‘public sector discount’, reflecting certain additional benefits of Civil Service employment such as increased job security and non-contributory pension entitlement.
49. There is however mounting concern in, for example, Australia and the UK that, as a result of these policies, pay for senior civil servants in particular is now lagging the private sector by too great a margin and there have been recent attempts to bridge this gap. In Singapore, concerns about the same issue resulted in senior Civil Service salaries being pegged formally with top earners in the private sector, a move that has created some controversy but is in line with Singapore’s objectives of continuing to recruit the “best and brightest” to the Civil Service.

Internal relativities

50. Internal relativities have been and will no doubt remain an important aspect of pay policy development in the Civil Service. However, a common trend is that the relative importance of internal relativities in Civil Service pay determination appears to be diminishing, for two main reasons. First, the process of decentralisation already referred to above, has reduced the importance of internal relativities between Departments and occupations (but not within Departments and Agencies). Second, Governments have consciously sought to move away from an over-emphasis on internal relativities recognising the distorting impact that this can have on their ability to recruit in the external labour market.

Linkages between pay and performance

51. A common trend in pay policy reform in all of the countries we surveyed has been efforts to link pay more closely to performance - both individually and in terms of increased public sector productivity. The underlying objectives have been: to improve efficiency

and productivity; to help to generate a performance culture; and to increase flexibility. The general trend in our survey countries has been to replace or supplement traditional fixed pay scales (with more or less automatic increments) with a range of performance-based pay arrangements including flexible pay ranges, performance bonuses and other reward schemes (as described in more detail below). The initial focus of such schemes has often been on the senior management levels.

Flexibility and responsiveness

52. The Governments we have surveyed have all sought to introduce more flexible pay policies in order to avoid getting locked into rigid or unnecessarily complex or bureaucratic approaches, as was typically the case historically. The UK, Australia and New Zealand have all replaced such systems with more simple and flexible central approaches, consistent with a more devolved approach to Civil Service management. However, the most striking example is Singapore which, initially driven by the impact of economic recession in the mid-1980s, has progressively introduced far reaching measures to ensure that the Government has considerable flexibility to adjust Civil Service pay to reflect economic conditions. The discretionary elements of remuneration for senior civil servants in Singapore now amounts to some 30-40% of total remuneration, and is only partly consolidated into base pay (and is thus pensionable).

Consolidation and removal of allowances

53. It is important to note that there is a striking difference between our survey countries and Hong Kong in terms of the provision of allowances and their historic significance. Specifically, only a very small minority of civil servants in our survey countries receive allowances which in total exceed 10% of their total remuneration (excluding pension entitlement) and in some countries, such as the UK, allowances have now been largely eliminated.
54. All of our survey countries have taken various initiatives to consolidate and remove allowances both in order to improve Civil Service transparency and accountability and to reduce administrative costs; for example, the Canadian Government estimate that processing of allowances consumes more than 1/3 of the total cost of delivering human resource services. This policy generally appears to have been welcomed by staff as encashment or consolidation of allowances has provided them with greater freedom to spend their incomes as they wish. For example, the Singapore Government has adopted a “clean wage” policy in which many allowances and perks (eg cars for senior civil servants) have been abolished or consolidated into basic pay, while New Zealand has allowed senior staff to decide how best to structure their own remuneration packages providing that there is no extra cost to the Department or agency concerned.
55. Where allowances have been retained it is generally for a small number of specific reasons, for example, undertaking particularly difficult or unpleasant tasks, for working in remote or expensive locations, for overtime or excessive work requirements, and to help attract and retain particular skills which are in temporarily short supply.

Separate arrangements for the Disciplined Services

56. Our research has shown that there is not a consistent model for handling pay arrangements in each of the survey countries for the broad equivalents to the Hong Kong Disciplined Services (Correctional Service, Customs and Excise, Fire Department, Government Flying Service, Immigration Department and the Hong Kong Police). The general trend appears to be to provide separate pay arrangements for those Disciplined Services equivalents where the right to strike or take industrial action has been removed (for example, the UK Prisons Service have recently had their right to take industrial action removed through statute and, in recognition of this, their pay is now determined through a separate pay review board) and/or where there is a perceived need to ensure that pay determination is independent of Government and undue political interference.
57. In practice, this has led our survey countries (with the exception of Singapore) to establish separate pay arrangements for the Police Force. But most of the other Disciplined Services equivalents are, with certain exceptions (eg UK Prisons Service), managed in the same way as other Departments or occupations within the Civil Service or broader public sector. However, it is important to note that under the more decentralised arrangements described above, there has been scope for these Disciplined Services equivalents to tailor their pay arrangements to meet their specific circumstances.
58. A specific issue of concern to the Police Force and some of the other Disciplined Services equivalents in our survey countries is the different pay arrangements that have operated historically for uniformed and non-uniformed or civilian officers. The general perception appears to be that this has created a range of human resource management and efficiency issues and a number of our survey countries are taking steps to better integrate all staff within a single pay and HRM structure (eg Canada, where historically there have been two differently treated groups of civilian staff in the Royal Canadian Mounted Police, in addition to sworn officers).

Implications for Hong Kong

59. In response to various external pressures, the countries we have surveyed have implemented major changes to their pay and grading policies in a range of areas. Generally speaking, these reforms have been perceived as successful by the Governments concerned in the sense of contributing to improved Civil Service performance and productivity, and in some cases, these perceptions are backed up by more independent evaluation work. Equally, however, it is fair to say that the reactions of individual staff and Trade Unions to these reforms has been more mixed with substantial resistance to change, particularly in the initial stages of implementation.
60. While the Hong Kong Government has implemented certain changes to its pay and grading policies in recent years, it is fair to say that the nature and extent of these changes has been more limited than our survey countries (with the possible exception of Canada). Given that Hong Kong continues to face similar external pressures to those facing our comparator countries, and given the perceived success of the reforms by the countries themselves, we consider that **there would be value in the Hong Kong Civil Service undertaking a more far reaching review of their pay policies and the fundamental**

principles underlying them. In this event, the following questions will need to be addressed:

- Is there scope for further decentralisation of pay responsibilities to bureaux and departments?
- Are the Hong Kong Government's overall employment policies consistent with that of a good employer?
- Should formal pay comparability with the private sector be continued and, if so, on what basis?
- Should the Hong Kong Government move away from a system of internal relativities built mainly around educational qualifications?
- Should affordability within budget constraints (ie 'ability to pay') assume a dominant role in determining overall resources for pay adjustment?
- What scope is there to accelerate or extend current initiatives to rationalise, consolidate and simplify existing allowances?
- To what extent should the current Disciplined Services continue to be handled separately for pay purposes?

EXPERIENCE OF REPLACING FIXED PAY SCALES WITH PAY RANGES

61. All five of the comparator countries have replaced fixed pay scales (with automatic time-based increments) for their senior civil servants with more flexible pay ranges. The countries that have substantially delegated pay management responsibilities – the UK, Australia and New Zealand – have also extended the use of flexible pay ranges to most or all of their Civil Service.
62. The detailed way in which these pay ranges operate vary between countries, and between different Departments and Agencies in those countries with more delegated arrangements. However, the typical features include the following:
 - Pay ranges which specify a minimum and maximum salary for each range, with each pay range attached to a particular rank or band
 - Progression through the range is normally based on performance (ie no automatic increment)

- There may be complete flexibility to move through the range or certain guidelines (eg fixed pay points with staff receiving 0,1,2 or even 3 pay points depending on performance)
- Pay ranges tend to be much wider and overlap more than traditional fixed pay scales

- The broad equivalents of the Hong Kong Disciplined Services have generally been more resistant to the introduction of pay ranges. Performance-based approaches appear to be particularly counter cultural to these organisations where there is a more conservative culture, an older staff profile, and more emphasis on rank and hierarchy in day-to-day working.
63. Experience of implementing flexible pay ranges has been mixed. The Governments and senior officials in our survey countries generally believe that the introduction of pay ranges to the Civil Service has been successful, particularly in enabling a fairer system of reward (ie based on merit not just time served) and encouraging a more performance-oriented culture. But there has been, and continues to be, resistance to this approach from Trade Unions and staff who see the use of pay ranges as potentially divisive and counter cultural. A particular issue that has arisen in some countries has been an inability to adequately fund such schemes (the UK is a good example of this issue) and this has directly impacted their credibility and effectiveness.
64. The experience internationally is also that the effectiveness and perceived fairness of flexible pay ranges depends critically on a comprehensive approach to performance measurement and management. Specifically, emerging good practice in the countries we surveyed includes:
- Establishing clear linkages between overall Government objectives, Departmental/Agency objectives and targets, and individual objectives and targets
 - Requiring civil servants to prepare and agree with their supervisor a personal performance plan or contract, against which their subsequent performance will be assessed
 - Placing considerable emphasis on developing robust and comprehensive performance measures, recognising that many aspects of public sector performance are difficult to measure in practice
 - Developing more sophisticated staff appraisal techniques
 - Ensuring that processes are in place to handle poor as well as good performance.

Implications for Hong Kong

65. Given that all of our survey countries have established more flexible pay ranges, at least for their senior staff, and the perception in the countries concerned that, properly implemented, these changes can help to improve accountability and performance, we believe that **there would be merit in examining further whether flexible pay ranges**

should be introduced to the Hong Kong Civil Service. In doing so, some of the key questions to be addressed will include the following:

- Should pay ranges be limited to senior staff only?
- Should the pay ranges be designed centrally or left to Bureaux and Departments to design themselves?
- How flexible should any pay ranges be (eg should a system of pay points be retained)?
- What changes would be required to the Government's performance measurement and staff appraisal systems to support the introduction of flexible pay ranges?
- What are the funding implications?

SYSTEMS AND MECHANISMS FOR DETERMINING PAY LEVELS AND ADJUSTMENTS

66. Historically, all our comparator countries had a highly centralised, national level pay and wage determination for the Civil Service. These systems tended to rely heavily on formula-based approaches to pay determination, and were often based on formal pay comparability with the private sector. With the exception of Singapore, the other four countries operate a collective bargaining model with formal employer and Trade Union representation.
67. In the late 1980s and early 1990s, faced with various external pressures already alluded to, all five countries took steps to decentralise the determination of pay levels and adjustments to individual departments and agencies. One consequence of this has been that the UK, New Zealand, Australia, and, to a much lesser extent, Canada and Singapore, have moved away from a central, formula-based approach to pay setting (as is still the case in Hong Kong), driven by pay trend and level comparison with the private sector. In place of this, individual Departments now have greater delegated responsibility for pay determination, with affordability, achievement of performance goals, and recruitment, retention and motivation as the key considerations. Collective and individual negotiation and multi-year agreements with staff, within centrally determined bargaining and budgetary parameters, are now a common feature. By their nature these negotiated settlements mean that while comparative pay trend surveys and pay level benchmarking with the private sector are still undertaken the results broadly inform rather than dictate the pay adjustment process.
68. The role of the central agencies has changed, and continues to change, as a result. Typically, their roles in pay determination now include the following:

- Determining pay levels and adjustments for the senior Civil Service. This is handled differently in different countries: for example; the UK Government takes advice from an independent Board while Australia and New Zealand utilise individually negotiated agreements
- Determining pay levels and adjustments for specific groups of staff that are handled differently from the remainder of the Civil Service. For example, in the UK there are six independent pay review bodies covering professional groups who are not allowed, or at least not expected to resort to industrial action ie the Senior Civil Service, doctors and dentists, nurses, the Armed Services, teachers and the Prison Service

- Developing the overall framework and policies within which Departments and Agencies can determine their specific pay arrangements. The detailed operations vary considerably by country. For example, in the case of Australia and New Zealand the overall framework emphasises affordability and certain minimum requirements (eg the requirement to link increases in pay to improved productivity) but Departments are substantially free to determine their own arrangements. By contrast, in the UK and Singapore, Departments are required to discuss and agree in advance with the central agencies any significant additional flexibilities
- Undertaking research into pay levels and movements. Typically this research covers both the private and public sectors, is based on a variety of surveys and data sources and is publicly available. The information is used as an input to the central pay determination described above and provides influential guidance to other Departments and Agencies but, generally, any explicit formula-based link between pay research results and pay adjustments has been dropped. Individual Departments and Agencies will also undertake their own pay research to examine their competitiveness in their target labour markets
- Providing advice and guidance to Departments and Agencies on pay issues. In Australia for example, the Department of Employment and Workplace Relations (DEWR) has been influential in developing the performance related pay agenda in the public sector.

69. The major benefits of adopting these more decentralised arrangements have been to place more authority (and accountability) with individual Departments and Agencies and to provide more flexibility for Departments to tailor pay policies and systems to their own circumstances. The changes have also simplified substantially the central arrangements but, equally, they have resulted in a very complex and fragmented pay system. For example, the UK has moved from a single, central system to more than 170 separate pay negotiating units. Another important learning point is the importance of retaining tight expenditure controls, particularly in the early stages where Civil Service managers are learning to operate in a very different environment.

Implications for Hong Kong

70. In considering the potential learning points and implications for Hong Kong, it is important to note that Hong Kong is, in effect, a ‘city state’ with a unitary Government (ie no separate regional or local tiers) and with no formal collective bargaining arrangements. Equally, however, the fact that in order to improve Civil Service efficiency and performance, all of our survey countries are moving to more decentralised pay adjustment mechanisms with less emphasis on formal private sector pay comparability, suggests that this is an area worth exploring further. Given mounting public concerns in this area, we believe that this is therefore **an appropriate time to**

review the current mechanisms for determining pay levels and adjustments in the Hong Kong Civil Service.

71. In doing so, our international research suggests that some of the key questions to be addressed are as follows:

- Should the Hong Kong Government continue to use a formula-based approach to inform pay determination and, if so, does the formula need to be revised and applied differently?
- How much autonomy, if any, should be given to individual Bureaux and Departments to determine their own pay levels and adjustments?
- What role should the central agencies – such as Civil Service Bureau and Finance Bureau – play in future pay determination?
- Should the Government continue to centrally determine pay levels and adjustments for certain categories of staff (eg the Directorate) and do the current arrangements need any modification?

EXPERIENCE OF INTRODUCING PERFORMANCE-BASED REWARDS

72. A common thrust of pay reform in all the countries we have surveyed has been efforts to link pay more closely to performance. As already indicated, in practice this has meant progressively moving away from traditional fixed pay scales, with more or less automatic increments, to a range of performance based pay arrangements. In addition to flexible pay ranges which have already been described, other performance related reward arrangements that have been implemented include:

- Individual performance bonuses – both “one off” and incorporated into basic pay
- Team based performance pay, which is less common and is typically associated with meeting performance targets, or completing a particular task or project.

73. Much of the emphasis on performance-based rewards has been focused on senior civil servants partly because of the importance of motivating and rewarding this group and partly because senior staff generally have more discretion and control over their work. The proportion of senior civil servant remuneration that is now performance based and ‘at risk’ varies considerably between countries. In Australia for example, around 80% of senior civil servants are eligible to receive some kind of bonus payment: the average payment being some 5% of total remuneration but ranging up to over 30% for certain individuals. The Singapore Government has gone furthest with an average of some 40%

of senior officer remuneration now paid on the basis of individual performance and overall economic performance. Depending on the country concerned, more junior staff may not be eligible for any form of performance-based reward and, where they are eligible, the amounts involved tend to be more modest – usually less than 10% of salary.

74. In most cases where performance rewards have been introduced, staff have generally not been expected to put any of their existing base pay at ‘risk’. Eliminating automatic annual increments has in some cases, such as Australia, initially funded individual performance-based progression within the pay range. In those countries with delegated pay systems, Departments have increasing control over the size of performance awards, whether progress increments or one-off bonuses, so long as they are met from within

their overall expenditure budgets.

75. In general performance-based rewards are perceived to be an important ingredient of the broader public sector reform effort. However, in some countries they have met with considerable resistance from Trade Unions and staff, particularly in the early stages of implementation. As indicated for flexible pay ranges, the success of other performance based pay systems appears to depend on the credibility of their supporting performance management frameworks. Where the framework is considered to be fair, applied consistently and with appropriate moderation arrangements, performance-based rewards do appear capable of achieving tangible benefits both for the employer and for individual civil servants.

Implications for Hong Kong

76. Given both the importance other Governments attach to improving the links between Civil Service pay and performance, and the very limited use of such arrangements to date in the Hong Kong Civil Service, we believe that **there should be scope for introducing a more performance based approach to pay and reward policies in Hong Kong**. In examining this further, however, it must be stressed that our international examples highlight the need for extremely careful planning and preparation. In particular, the following key questions need to be addressed in detail:

- Should individual bonuses be introduced and, if so, for which groups of civil servants should they apply and on what basis?
- Is there more scope for introducing team based performance rewards, building on experience to date in Hong Kong?
- Should individual or team bonuses be ‘one off’ in nature or incorporated into base pay?
- What changes are needed to the Government’s current performance measurement and management framework to support any such changes?
- What are the funding requirements?

Experience of Simplifying and Decentralising Pay and Grading Administration

77. Alongside performance-based pay, the second key thrust of pay and grading reform has been decentralisation and simplification. As we have already described under previous headings, all of our survey countries have, to varying degrees, decentralised their pay arrangements to individual Departments and Agencies, operating within a centrally determined policy framework. The key features have been as follows:

- Giving considerable freedom to Departments and Agencies to develop

and manage their own pay systems

- Subjecting departmental freedoms to strict affordability and budgetary constraints, together with centrally determined pay policies and negotiating parameters
- Continuing to manage senior civil servants separately (and centrally)
- Taking steps to simplify systems of allowances by consolidating or abolishing existing allowances and making them non-accountable (ie everyone in the job entitled to the allowance will automatically receive it).

78. While it is difficult to find definitive, independent evidence, these trends do appear to have contributed to real improvements in both individual performance and overall Civil Service productivity, primarily by:

- Better gearing pay systems to the particular circumstances of each Department and Agency
- Providing a fairer way of rewarding people (providing the underlying systems are themselves fair and applied consistently)
- Providing more flexibility to meet resourcing needs
- Simplifying arrangements so they are easier to understand and cheaper to administer
- Better equipping Civil Service Departments and Agencies to compete for scarce skills or staff in high demand.

79. However, pay decentralisation is certainly not a panacea. It has become evident that the decentralisation of pay has also created some potentially important problems and risks that need to be recognised and managed:

- Problems of internal relativities between staff doing similar or identical work in different Departments/Agencies. For example, the UK has recently found that differences of 10% or more in pay have arisen for similar or identical jobs in different agencies, creating some tensions and a sense of pay 'drift'
- Difficulties where (as in the UK and Australia) the Government wishes to combine or merge Departments which now have very different pay arrangements

- Threats to the overall coherence of the Civil Service in the sense of having a common purpose and set of values
- The need to ensure that overall budgets are tightly controlled to avoid unexpected expenditure increases, particularly in the transition period.

80. In parallel with the decentralisation of pay described above, most of the countries we surveyed have also implemented major changes to their grading arrangements. The exception to this has been Canada, although a major grading review is now in progress there in response to increasing criticism over the costs and effectiveness of the current

system. The key common features adopted in the four other reference countries include the following:

- Giving Departments and Agencies more autonomy in grading issues (and, indeed, human resources management more generally)
- Departmentalising general grades personnel (sometime with the exception of the Administrative Service or its broad equivalent)
- Rationalising the number of ranks and the number of pay ranges to create a smaller number of broader pay bands. This has generally created flatter management structures with staff able to pass through broad pay bands on the basis of performance, without requiring a formal promotion process
- Combining occupations into broad staff groupings. For example, the Singapore Government has grouped together several of the schemes of service for particular occupations into a combined scheme of service
- Establishing formal job evaluation systems and procedures for assessing job weighting. In some countries – such as the UK and Canada - these systems have remained centralised (but applied locally); in others – for example, New Zealand – this responsibility has been devolved. More recently some countries are exploring greater use of competency-based approaches as an alternative or supplement to job evaluation
- Growing away from educational qualifications as the primary determinant of rank or grade, relying instead on a broader assessment of job demands.

81. Generally, it appears that grading reforms have been welcomed. For the Governments concerned and senior managers, these reforms have provided much needed flexibility and scope for increasing efficiency. But there have also been major benefits for staff by providing greater opportunities for career development, particularly for those who have reached the top of their existing pay scales. The establishment of formal job evaluation processes has also been seen as a fairer means of assessing the relative value of different jobs, and is important from the point of view of equal opportunities policy – an area of particular concern to a number of the Governments we surveyed.

82. The main concern expressed about grading reform and decentralisation has been the need to avoid major increases in costs as a result. For example, in Canada, long awaited grading reforms have been delayed due to concerns about cost implications, given the fact that, like Hong Kong, a high percentage of the Canadian Civil Service have already reached the top of their pay scale and there are concerns as to the ability and willingness of senior civil servants to effectively manage this situation.

Implications for Hong Kong

83. It is generally acknowledged that Hong Kong has a complex Civil Service pay and grading system. Given this, and the international experience summarised above, we believe that **there is merit in examining the scope for further decentralisation and simplification of pay and grading in the Hong Kong Civil Service.** In doing so, the key questions to be addressed will include the following:

- How much additional pay and grading responsibility should be delegated to Bureaux and Departments and on what basis should any such delegations apply (eg voluntary or negotiated)?
- The justification for retaining separately accountable allowances, other than in very special circumstances?
- What scope is there to amalgamate existing grades within broader occupational categories?
- Should some or all of the current general grades staff be departmentalised?
- What is the scope for introducing broader pay bands to reduce the number of ranks and what measures would be needed to ensure continued transparency and expenditure control?
- Should a formal job evaluation system be introduced and, if so, should this be operated centrally or on a devolved basis?
- Is there further scope for extending the use of competency-based approaches and how should such approaches tie in with any job evaluation scheme?

Conclusion

84. This interim report has summarised the key findings from our initial research on pay and grading developments in five selected countries. The focus of our work to date has been on identifying the key principles and features of the reforms that these countries have implemented. In doing so at a high level, there is inevitably a danger of over-simplification or over-generalisation. However, given the short time available to us, we are reasonably confident that this report captures the key common trends evident in pay and grading reforms internationally, as well as highlighting useful examples of experience that may be of relevance to Hong Kong.
85. We have also sought to identify some general lessons from this international experience and to assess the potential implications for Hong Kong. We must emphasise, however, that this report does not seek to put forward specific recommendations or proposals. Rather it sets out our interim view that the five key aspects of pay and grading highlighted in our brief are all worth exploring further. We await with great interest the feedback from the forthcoming public consultation exercise in order to inform our final advice to the Task Force on the Review of Civil Service Pay Policy and System, as to the scope and nature of the next phase of their review.

Glossary of Terms

| <u>Term</u> | <u>Description</u> |
|---|--|
| Allowances | Separate sums of money for such aspects of employment as overtime, shift working, call-outs, other special working conditions. These are not considered as part of pay or salary but as a separate component (hence, the usage of the phrase ‘salary and allowances’). |
| Benefits | The full range of additional elements beyond pay that contribute to making up the total rewards for an employee. Benefits could be cash/monetary or non-cash/non-monetary (for example, annual holidays) and have some actual or perceived value to the individual and cost to the employer. |
| Bonus - fixed | A fixed amount of bonus that is governed by the terms of the contract. Usually fixed by reference to base salary eg one month’s bonus and paid every year at the same time. <i>See contractual terms of employment.</i> |
| Bonus - performance | Cash lump sum payment based typically on an organisational as well as a team or an individual’s performance. |
| Bonus – variable | Bonus that can vary in amount from one year to the next either according to a predefined formulae (or according to management’s discretion). Typically based on organisational financial results determined after results are announced. In some organisations, these are distributed according to individual performance. |
| Compensation | Essentially the same as pay and includes all pay-related items such as basic salary and bonuses, as well as allowances but excludes benefits. |
| Continuous terms of service or Permanent terms or ‘on-going’ contracts | Contracts of employment where there is no stated period of employment and hence it can be assumed by both parties that the employment will continue until one or other party gives notice of termination or retirement age is reached. |
| Contractual terms of employment | The details of the terms of employment set out in the contract of employment or appointment letter that create obligations on the part of the employer or employee. |

| <u>Term</u> | <u>Description</u> |
|--|---|
| Entry salary | The salary at which new recruits start the job or enter the pay structure. Normally, but not necessarily, the minimum of the pay range for that job or the minimum of the grade. |
| Emoluments | Generally used to refer to cash or cash-equivalent payments to an employee (<i>see also 'pay'</i>). |
| Grade (or 'job grade') | The name or description of the level for a particular job such that several jobs might be clustered into that particular grade and share the same pay range or pay scale. Grades are sometimes defined by means of job evaluation scores or other means of describing jobs of similar size or worth. |
| Grievance and disputes | Usually relating to procedures that set out how staff can raise grievances with management or their immediate manager, or lodge disagreements, or can dispute decisions made by management. |
| Housing allowance | A cash allowance used to pay for or subsidize the costs of domestic accommodation for the employee and his or her family. It may take many forms and be paid to the employee or direct to a landlord. It may be described in many different ways such a mortgage allowance or rental allowance. |
| Involuntary termination | Termination of employment initiated by the employer such as redundancy, dismissal, forced retirement. |
| Job evaluation | A systematic process for establishing the relative value/worth of jobs within an organisation (or internal relativity). The process by which the 'size' of the job is determined usually by defining the jobs according to certain agreed factors (such as know-how, span of control, complexity etc) and applying a score to each factor. Usually, the greater the evaluation score, the larger and more accountable the job and the higher the salary. |
| Non contractual terms of employment | Terms that may be set out in general but not specifically defining the amount and which may or may not be applied. Especially applicable to a non-contractual bonus where it may be agreed that a bonus MAY be paid but the amount will vary and may not be paid at all. Otherwise described as variable bonus or discretionary bonus . |
| Non-accountable cash allowance | A cash allowance that is paid where there is no need for the receiver to account for how it is spent. It may be intended to cover certain specified costs but it makes no difference whether the expenditure actually took place or not and therefore how much of the allowance is saved. It generally is treated as different from base pay and usually is not taken into account in determining pension benefits or contributions, or in calculating other allowances such as overtime. |

| <u>Term</u> | <u>Description</u> |
|-----------------------|--|
| Pay – fixed | A pre-determined level that applies to the job in question fixing the amount of pay that will apply to all holders of that particular job. |
| Pay level | The actual payment amount or quantum made to the individual or more usually the average of a group usually in comparison to others. Hence pay level survey to compare how much in real terms is actually paid to one group in comparison to another. |
| Pay or salary | Anything paid to the employee as cash or cash equivalent. |
| Pay points | A ‘ladder’ of predetermined pay levels that can be used to define the upper and lower range of salary that applies to a particular job. Thus salaries are described by reference to the particular pay point assigned to the job and, one pay point will be a predefined amount higher or lower than the next pay point. Pay adjustments can either be made by increasing all the values of the pay points or incrementally by moving up the ladder to a higher pay point. |
| Pay policies | Pay policy sets out at a high level how processes should be designed and managed within the broader context of the organisation’s business strategies, culture and reward philosophy. It provides a framework for management and for HR specialists to resolve particular and recurring pay issues like how much is paid. It enables consistent decisions to be made where appropriate, while recognising the need for flexibility and the dangers of rigidity. |
| Pay ranges | A pre-determined upper and lower pay level that applies to a particular job/role/grade. The range is from the minimum to the maximum point and any part of the range is accessible (ie no fixed steps or pay points). |
| Pay scale | A predetermined upper and lower pay level that applies to a particular job but with fixed steps or pay points in between such that only these fixed points can be used. |
| Pay strategies | The desired competitive pay position in relation to a specified group of other companies or the employment market as a whole, defining whether average salaries should be equal to higher or lower than the salaries paid by the comparison groups, and by how much. eg median salary strategy or 75 th percentile. |

| <u>Term</u> | <u>Description</u> |
|---|---|
| Pay structure | The relationship between different jobs and the mathematical or financial model describing the pay for all jobs within the organisation. Pay structure takes account of internal relativity, external competitiveness and where appropriate, negotiated rates for the job. Types of pay structures are graded, broad-banded, job family, individual pay grade, pay curve, spot rate and pay spine. |
| Pay system | The system by which pay is administered and converted into payroll such that the 'payroll system' is a subset of the overall pay system, or simply put, the way organisations use or work the pay structure. A rather loose term that can be used to cover all aspects of the actual implementation of pay and all the rules and procedures that must be complied with. |
| Pay trend | The movement in pay from one year or period to the next usually expressed as a percentage increase or decrease. Hence pay trend surveys compare how much pay increases or decreases over the past 12 months. It takes no account of the amount of pay (pay level) only the percentage change. |
| Performance based pay | Pay that is directly or indirectly related to the results achieved by the individual, group or organisation or by the general standard of performance in the job that is considered to have been achieved. It requires some method of measurement or assessment of performance in order to decide the pay level or pay increase that should apply. The actual payment may be in the form of additional basic salary or bonus or commission. |
| Period contract or contract terms of service | Usually just referred to as contract terms in which the period of employment is precisely stated in the contract and may be for one, two or more years. At the end of the contract employment ceases unless a new contract is offered and accepted. |
| Perks (perquisites) | A subset of benefits usually meaning the non- cash elements of the full range of benefits, which may or may not attract taxation. It is a commonly used description in N. America but in the UK generally refers to the privileges associated with the job, including size of office, provision of special car parking spaces or eating arrangements. |

| <u>Term</u> | <u>Description</u> |
|---------------------|--|
| Quarters | The direct provision by the employer of accommodation or quarters for the employee and his or her family as an alternative to providing cash and leaving the employee to make his or her own arrangement. Such properties may or may not be owned by the employee, but if not directly owned the employer will take out the lease and handle all the payments for that property and allocate it to the employee. |
| Rank | Defines the level of seniority of the job such that high-ranking jobs are more senior and attract more pay than lower ranking jobs. Jobs of the same rank would be considered equal in status though the pay may be different. |
| Remuneration | Essentially the same as pay and including all cash items such as basic salary, allowances, bonuses etc but excluding non-cash benefits. |
| Reward | The combinations of financial and non-financial programmes (benefits) that serve to attract, reward, retain and motivate employees. |

Appendices

A – Australia Country Summary

B – Canada Country Summary

C – New Zealand Country Summary

D – Singapore Country Summary

E – United Kingdom Country Summary

Appendix A - Australia Country Summary

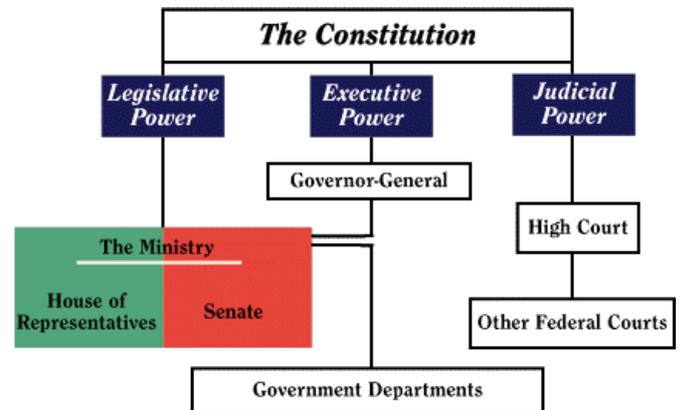
The Government Context

Organisation of Government⁶

The Australian Government is characterised by two major features:

- A system of Cabinet based on the British Westminster tradition whereby the party, or coalition of parties, commanding a majority in the House of Representatives becomes the government, and provides the ministers (including the Prime Minister), all of whom are members of Parliament
- A federal system, under which powers are distributed between the federal (Commonwealth) government, and the six state governments.

Executive authority is vested in the Prime Minister, Cabinet (a forum for the collective decisions and policies of Government) and Executive Council (all ministers and parliamentary secretaries, and presided over by the Governor-General – a representative of the Queen. Its roles include ratifying decisions of the Cabinet and issuing proclamations and regulations). Legislative power resides in the Parliament, which provides a forum for proper representation, and for scrutinising the actions of government.



Commonwealth powers are confined to those specified in the federal constitution, and include overseas and interstate trade and commerce, taxation, provision of benefits (eg. pensions, unemployment), broadcasting, telephonic and postal services, defence, trading and financial corporations, and foreign affairs. There are currently 17 Portfolios, each headed by a minister who is a Member of Parliament and accountable for the portfolio's affairs. Portfolios typically comprise a Department and a range of other agencies, which are responsible for policy advice and the delivery/contracting of services.

By contrast, each State has its own constitution, and the State Parliament has power to pass laws on virtually any matter that has relevance to that state. Thus the States have primary responsibility for law and order, education, health and community services, transport and culture and recreation. However since the Commonwealth has the single power to raise revenue through income taxes, and it grants money it has raised to the States, its federal constitutional powers have been expanded through the ability to impose conditions upon these grants. Thus the Commonwealth can ensure it is involved in many matters that are primarily the responsibility of States, such as health and education.

Background Reference Sources

⁶ "The Parliament: An overview" www.aph.gov.au; "Australia in focus" www.pmc.gov.au

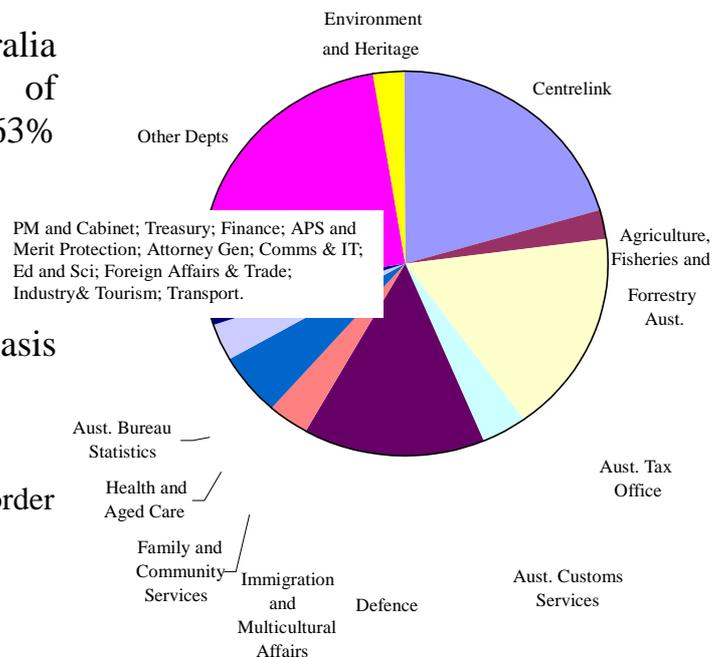
Local government in Australia is the responsibility of the States, which provide the legislative framework and oversee the operations of local government. Local government services include

engineering (roads, footpaths, drains), community services (aged care, child care, fire and fire prevention), environmental services (waste management and environmental protection), regulatory services (buildings, restaurants, animals) and cultural services (libraries, galleries and museums).

Civil Service overviewⁱⁱ

At the Commonwealth level, the Australian Public Service (APS) is a career service and generally staff are recruited on a permanent basis. The APS include those government institutions serving Parliament, Departments, and many agencies, tribunals and commissions. APS staff are employed under the Australian Public Service Act. Other staff, such as the Australian Federal Police, are employed under other Acts. Immigration and customs services are part of the APS, however other equivalents of the Hong Kong Disciplined Services; the police, fire services and correctional services, are State responsibilities and so fall outside of the APS. Australia has no equivalent of the Government Flying Service.

- The public sector in Australia employs some 189,500 staff, of which the APS accounts for 63% (nearly 119,000 staff)
- APS forms 1.3% of total employment in Australia
- The vast majority of APS staff are employed on a full-time basis (91%)



Under the Public Service Act, the Senior Executive Service (SES) is established in order to provide for a group of officers who may undertake higher level policy advice,

managerial and professional responsibilities in Departments and may be deployed within and between agencies so as best to promote the efficiency of the Australian Public Service. There are around 1600 officers in the SES, equal to 1.5% of all employees in the APS.

The APS Act also identifies the Values and Code of Conduct for the APS and sets down the important accountability provisions and the relationship of the public service to Ministers and to Parliament. Generally the Values require that the APS is apolitical in performing its functions, employment decisions are based on merit, there is open accountability, services are delivered fairly and courteously, and there is a focus on leadership, achieving results and managing performance. The Code of Conduct requires employees to act with honesty and integrity, be diligent, respectful, and maintain confidentiality.

Background Reference sources

ii Budget Paper No 1 2001-01, p4.8; Public Service and Merit Protection Commission "Australian Public Service Statistical Bulletin 2000-01

Public Sector Reformⁱⁱⁱ

General public sector reform

Over the last twenty years, Australia has had two radically different phases of public sector reform. The Hawke Labour Government drove the first phase of Australian public sector reform, from 1983 to 1996 with a well-articulated public service policy, designed to ensure that Ministers were firmly in control of the public policy agenda. Its reforms were aimed at clearer specification of objectives, devolution of authority and responsibility, and accountability enhanced by evaluation of performance. Specific actions included corporatisation and privatisation for some government services, improvement of financial management, abandonment of central control over staff numbers (but retaining control over senior executives), and a range of personnel and management reforms, including the introduction of the SES, rationalisation of the classification structures and abandonment of central classification controls. The overall effect was a shift in focus from inputs to outputs and outcomes, and significant efficiency improvements for those activities previously conducted by Government. However the broader efficiency of government had not been subject to much scrutiny or evaluation, as most government operations were sheltered from competitive pressure.

The incoming conservative Howard Coalition Government was deeply sceptical about the efficiency of the public service. It believed that the public service had major inflexibilities in its administrative, industrial and financial dealings; high compliance costs associated with rules and regulations; and a bureaucracy that lagged behind other governments and the private sector. Its response was to cut around 5% from the Commonwealth Budget, and introduce a range of new initiatives:

- *Workplace relations changes:* The Government has devolved human resource management responsibility to agency heads and authority to settle their employees' terms and conditions of employment. Agencies are free to negotiate within the Government's policy parameters for agreement making in the APS (see below). This vests in them greater flexibility and authority to manage their own workplaces.
- *New financial legislation:* The Audit Act 1901 was replaced with a package of legislation that involves significant devolution of responsibility for financial management to agency heads. Detailed, complex and intrusive finance regulations were substantially swept aside, and new Chief Executive Instructions allow agency heads to establish a financial framework and processes that meet their agency business needs. While initially there was minor impact because

agencies translated the previous detailed financial instructions into their Chief Executive Instructions, many are now reviewing their instructions to develop more practical and better targeted arrangements.

- *Competitive tendering and contracting*: This has become a key component of the Government's public sector reform. Market testing of relevant activities and services is mandatory for all agencies. In response to the Industry Commission's report on *Competitive Tendering and Contracting by Public Sector Agencies*, the Government required all departments and agencies to systematically review all their activities to ensure that APS

iii "Reforming the Australian Public Service, A statement of the Government's intentions, Australian Government Publishing Service, Canberra 1983;

iii The Hon David Kemp, Minister Assisting the Prime Minister for the Public Service, "Reforming the public service to meet the global challenge", Feb 1998

attention is focussed on core Commonwealth business. Where an activity does not come within Commonwealth responsibility, agencies are required to consider whether the activity should be devolved to a more appropriate level of government, privatised or discontinued. If remaining within Government, managers must look for ways to improve efficiency and effectiveness using tools such as benchmarking, re-engineering, competitive tendering and contracting to improve efficiency and effectiveness. A significant area of interest was government IT infrastructure, although experience with outsourcing this area has been mixed. The implementation has focused so far on corporate services such as human resource management, financial services, records management, facilities and property management.

- *Service charters:* All Government Departments and Agencies that deal directly with the public are required to have a customer service charter that sets out: the key standards of service that customers can expect to receive; customers rights and responsibilities; how to complain should services not be met; the response of the Agency if it does not meet its service standards; and how to comment on the service charter. The principles require departments to monitor performance against the charter standards and to account for operations by publishing information on its compliance. Virtually all Agencies now have these in place, and a Department of Finance survey in 2001 indicated 80% of Agencies had improved service delivery.
- *Government online:* In the *Investing for Growth* statement, Government committed to putting all appropriate Government services online by 2001. A major strategic priority was to enhance services to regional Australia. As part of the strategy, Departments were required to pay all suppliers electronically by the end of 2000, and to deal with all 'simple procurement' electronically by the end of 2001. These objectives were achieved. Each Department is now required to publish an *Online Action Plan*, and report twice yearly to Government on progress in key areas.
- *Accrual budget:* Australia has moved to accrual budgeting with the first accrual Budget delivered in May 1999. The new framework changes both how and what the Commonwealth measures (outputs and outcomes), for budgeting accounting and reporting purposes. It required that Commonwealth Department and Agency managers acquire a new set of financial management skills. While this placed a considerable strain on Departments and Agencies, where greater support and guidance was needed to implement the framework, including professionally qualified accounting staff, the second accrual Budget

was delivered in May 2000 and went far more smoothly, although the quality of information needs improvement.

The outcome of this later wave of reform is a firm focus on the effectiveness and efficiency of the public service, subjecting the vast bulk of government activity to competitive pressure. While the reform provides Departments with new flexibility to manage their people, some have been slow to embrace this, and the perceived success of this aspect of the reforms is mixed.

Pay specific reforms

Prior to 1996, Australia had a highly centralised pay system, with most terms and conditions determined by the Australian Industrial Relations Commission (AIRC), with pay increases determined by a typically annual National Wage Case. Within the APS, there were over 100 Awards that determined the terms and conditions of employment. A common feature was that pay rates were fixed - whilst there were usually pay ranges within a grade, there was typically little flexibility in the pay rate for an individual, and progression through pay points within a grade was virtually automatic.

The new framework through the Workplace Relations Act 1996 (which applies to employees across the economy in both the public and private sectors) has reshaped the industrial relations system facilitating a more direct relationship between employers and employees. The setting of pay and conditions of employment for the APS was devolved to individual agencies in 1997. Key features of workplace relations change includes:

- *Award simplification*: This has been a major component of reform. The Department of Employment and Workplace Relations (DEWR) has employer responsibility for awards applying to the Australian Public Service (APS). As part of this responsibility, over 100 APS Awards were rationalised in 1995 to form an integrated set of nine Awards: the APS General Employment Conditions Award 1995, the various classifications awards and the APS Agency Specific Provisions Award 1995. The aim was to simplify terms and conditions so that they focus on minimum standards, rationalisation of the available allowances and leave entitlements, removal of provisions which restrict or hinder productivity and the efficient performance of work, the use of plain English expression of award provisions and removal of obsolete provisions, among other changes.
- *Awards safety net*: Historically the APS Award specified the terms and conditions of employment, however following 1996 reform, the employees' actual conditions are now typically specified in agreements. The role of awards has consequently changed and the simplified range of nine Awards provide a base, or minimum set of terms and conditions from which Departments and Agencies can build to make their annual agreements. The AIRC's role is now to enforce the minimum safety net for wages and conditions.
- *Agreement-making choices*: Actual wages and conditions, and working arrangements are generally determined by agreement of employers and

employees at the workplace level. The new act provides for Australian Workplace Agreements (AWA) that focus on individuals (mostly the SES), and Certified Agreements (CA) that are collective and cover the bulk of the APS.

- *Freedom of association:* This change provided employees with the freedom to join or not join a union of their choice (compulsory unionism has been outlawed).
- *Industrial action:* There is limited right to strike during the negotiation of an agreement contingent upon a party's genuine attempt to reach agreement, but not once it is in operation. This has reduced the amount of industrial action.

Agencies and Departments have readily embraced the flexibilities entailed in the new Workplace Relations Arrangements. Most agencies have now experienced two rounds of agreement making and are about to embark on the third. Agencies seem to be learning from each successive round of agreement making, and improving processes as a result. The changes involved a significant focus on improving performance. This allowed for improvements to pay and conditions linked to productivity gains, underpinned by effective performance arrangements to guide salary change.

Overview of Current Pay and Administration Arrangements^{iv}

Australia has applied its current pay and administrative arrangements across the economy, so that they include all Government employees (Federal, State and Local - including disciplined services outside the APS such as the police, fire and correctional services) as well as the private sector. This summary primarily focuses on the APS as the core 'Civil Service'.

Pay administration policies and principles

The setting of the pay and conditions of employment for Commonwealth public servants is highly decentralised and was devolved to individual agencies in 1997. Policy is developed by the Department of Employment and Workplace Relations (DEWR) and is focused to:

- Foster more direct relations between employers and employees
 - Link pay and conditions to productivity gains
- Be funded within agency appropriations (there are no other limits to budget except that any changes to pay and other terms and conditions are constrained by the Department's available budget)
- Provide access to compulsory redeployment, reduction and retrenchment provided these are not an enhancement of existing redundancy obligations applying to an agency
- Facilitate mobility and maintain a cohesive APS by maintaining the APS classification or Agency structure (but with ability to broadband it further), use effective performance management arrangements to facilitate salary movement, and retain portability of leave entitlements.

DEWR also provide advice and information on APS remuneration, classification and conditions of employment, but have no centralised control over Agency pay negotiations.

Under the Workplace Relations Act 1996 staff are to be covered by two types of Agreements:

- *Individual Australian Workplace Agreements (AWA's)* currently covers over 5% of APS employees, including 94% of the SES. While these are individual agreements and must be signed individually, they can be reached collectively. Employees can appoint a bargaining agent (including a union) to negotiate on their behalf, although this is rarely done.

- *Certified Agreements (CA)* (over 94% of APS employees). These agreements can also be reached directly with employees or with unions, although usually the latter, with union participation mandatory upon the request of an employee. CA's must be ratified by the

iviviv Department of Employment, Workplace Relations and Small Business, "2001 Survey of Agreement Making in the APS" Canberra 2001; Department of Employment, Workplace Relations and Small Business, Supporting Guidance for the Policy Parameters for Agreement Making in the APS, Canberra, 2000.

AIRC, who must be satisfied that there is no disadvantage to the employees, and the agreement is thoroughly understood and supported by the majority of employees to whom the agreement applies.

Agencies must obtain Government approval from the Agency Minister (with an assessment against policy objectives provided through DEWR) before seeking to certify agreements.

Pay structure and components

Grading and base pay structures^v

Historically, classification structures were complex and subject to complicated rules. All parties welcomed recent simplification. There are now 11 groups within the APS based on the standard APS grades ('grades' are equivalent to 'ranks' in Hong Kong):

- *APS Levels 1-6*; covering the bulk of APS employment
- *Executive Levels 1 and 2*; covering middle managers
- *Senior Executive Service Levels 1-3*; comprises senior executives (SES)

The APS Classification Rules also provide for associated training classifications comprising APS Trainees and Agency Trainees. For any particular job, the Department or agency must classify it based on the work value requirements of the group of duties.

The pay range assigned to each grade is specified in the Agency Certified Agreement, which usually states a number of fixed pay points within each range. Salary ranges have widened significantly at every APS classification level, usually with a considerable overlap in the salary ranges. Agencies are free to broadband the APS Classification Structure (ie. collecting grades within a band through which a person can progress without formal promotion) but they must be mindful of the Public Service Commissioner's view that to meet the policies of merit and reasonable access, at least two breaks must be incorporated that would require open competitive selection. Therefore movement between (broad-banded) grades is by competitive selection.

Pay components

The major components of pay are usually base pay, overtime and associated meal allowances, and performance pay (incremental or bonus). There may also be a number of additional allowances (see below). Employers and employees generally determine actual wages and conditions by agreement. For an individual covered by a CA, pay (including entry pay) can be set at any point in the range for that person's grade, except that it cannot exceed the maximum, nor be lower than the minimum. There are no constraints on the pay of an individual on an AWA.

Many Agencies have a large number of additional allowances, although in most cases these are being rationalised, and in some, eliminated – however allowances have a low potential value, typically no more than 10% of salary. Some of the more radical CA's have substantially dismantled complex and arcane systems of allowances that had grown up over the decades, with these typically rolled into base pay. The Department of Finance and Administration,

for example,

v Department of Employment, Workplace Relations and Small Business, Public Service Classification Rules 2000, Canberra 2000.

has abolished almost all allowances, including overtime – where additional effort is reflected in performance pay or time off in lieu.

There is no widespread system of non-accountable cash allowances (the exception used to be for official travel), as Agencies are moving to a system of credit card or cost-reimbursement to manage expenses. Typically a housing allowance (or housing) is provided to people working in remote locations such as remote national parks or aboriginal communities, or areas of high living cost such as Sydney, although this would only cover a very small number of people.

Performance pay is still a relatively small proportion of total remuneration, around 5% on average but ranging up to 15% in some agencies, or a fixed amount of between Au\$500-2000 - both specified in the agreement. Performance bonus is far more common for the senior civil service (SES) with at least 80% of eligible SES receiving a bonus payment which ranged up to 32% of base salary and averaged around 5% of their total remuneration package. Some Departments have sought to recognise and reward team performance often centred on achieving a defined assignment or set of tasks. For example, the Accrual Budget Group in the Department of Finance and Administration were eligible for a performance bonus equal to three months pay for successful completion of their project by June 30, 2000.

Pay system and administration

Design and management of pay structures, and pay administration is devolved to Departments, and are not centrally regulated. However in undertaking their responsibilities in each of these areas since 1996, Departments and Agencies have commonly required assistance from outside expertise. Implementation of pay structures is through the AWAs or CAs, neither of which can be ratified without agreement from relevant staff. Pay administration is often an area where delivery has been outsourced as part of the competitive tendering and contracting reforms previously described.

Movement within the pay band

Typically, progression within broad-banded grades is dependent on performance, with accelerated progression available for outstanding performance. The APS performance management framework is not prescriptive and provides agencies with the flexibility to adopt approaches to performance management that are tailored to best serve the diverse needs of the individual Agencies.

Almost all performance remuneration is based on individual performance against an individual performance contract, assessed by the individual's superior, often using peer review and frequently subject to endorsement/moderation by senior management. The majority of CAs advance individuals through multiple pay points within the broadband grade, typically one pay point for an effective performance, and two pay points for superior performance (or alternatively, a negotiated percentage change in salary).

System and mechanism for determining pay levels and pay adjustments^{vi}

Before 1996, a typically annual National Wage Case determined pay increases for the majority of workers. Major employer bodies and trade unions were the main parties involved in wage negotiations. A common feature was that pay rates were fixed, and progression through the pay points within a grade was virtually automatic. However this has changed following the Workplace Relations Act 1996, with responsibility delegated to individual Departments and agencies, and subject to negotiations with employees and their representatives. A 2001 Agency survey by DEWR suggests that there is now a remarkable degree of variation in tailoring pay packages within Agencies to meet their specific business priorities and needs.

The DEWR undertakes and publishes remuneration surveys covering all elements of pay across the public and private sector workforce. Although there is no requirement for Agencies to utilise this material in their pay negotiations, they are operating in a competitive environment to recruit and retain staff, so may wish to consider this market comparison but there is no automatic link. When Departments negotiate their employment agreements, however, they must be consistent with Government's APS remuneration policy that improvements to pay and conditions be linked to productivity gains and that performance management arrangements guide salary movement so that pay changes are performance based.

Arrangements for the Disciplined Services^{vii}

This section illustrates the treatment of the Disciplined Services, using the Australian Federal Police as an example.

The nearest Commonwealth equivalent to the Hong Kong Police Force is the Australian Federal Police (AFP), which falls outside the APS. However, the provisions of the Workplace Relations Act 1996 apply equally to the AFP as they do any other employee group across the economy. This means that that in effect, the arrangements applying to the AFP are effectively identical to those applying to the APS as discussed in this paper.

The AFP enforces Commonwealth criminal law, and protects Commonwealth and national interests from crime in Australia and overseas. The AFP is Australia's international law enforcement and policing representative, and the chief source of advice to the Australian Government on policing issues (standard Police services are a State responsibility).

The Australian Federal Police has been undergoing continual evolution since its inception in 1979. Throughout this period the AFP has continued to develop a high quality law enforcement capability, and continued to deliver a high quality service to the community and the government. The Federal government has clearly outlined its expectation of the AFP in the latest Ministerial Direction made under sub-section 13(2) of the Australian Federal Police Act. The AFPs reform agenda and the continuing changes to the management structures and resource management practices are integral to the AFPs ability to deliver these required outcomes.

The Australian Federal Police Act 1979 and other Commonwealth employment legislation establishes the employment framework for all AFP employees. The pay system for support staff is the same as that of police officers. Conditions of service specific to all AFP employees (apart

vi 2000 Senior Executive Service Remuneration Survey; 2001 Non-SES Remuneration Survey; all available on the website www.dewrsb.gov.au., also Department of Employment, Workplace Relations and Small Business, 2000 Senior Executive Service Broader Market Comparison, Canberra 2000, p5.

from Senior Executives) are set out in the AFP Certified Agreement 1999-2002. The conditions of service for the senior executive are negotiated through individual AWAs.

The AFP Certified Agreement 1999-2002 has as one of its objectives, continuing the move towards a flexible and professional remuneration and benefits package which recognises the flexible and diverse nature of the AFP's work, remunerates employees accordingly, and is based on mutual trust between the AFP and its workforce.

The Remuneration Strategy of the Agreement includes four elements that collectively determine pay within the AFP. These are:

- An assessment of the work value of roles in the AFP;
- The skills, knowledge and personal attributes the individual brings to the role;
- The outputs agreed in the employee performance plan for that team/individual and their performance record; and
- Where appropriate, the AFPs need to have regard to the external market.

Remuneration and certain entitlements may vary between categories of AFP employment depending on location within Australia or overseas, the type of work undertaken, working patterns and work/life balance.

Some other elements of the agreement include:

- An across the board salary increase to be delivered over 4 years
- The 22 grade (ie rank) salary spine to be reviewed annually against the wage cost index produced by the Department of Finance and Administration
- Advancement between grades to be competitive
- Access to performance bonus subject to assessment against the formal performance management plan (PMP)
- Advancement up the pay spine subject to the PMP and date of last promotion, with accelerated advancement dependent on the PMP and assessment of merit by the Police Commissioner
- A focus on developing flexible workplace arrangements, such as hours of work or leave arrangements.

Additional allowances are paid for example on overseas service, deployment to high cost living areas and as compensation for hours generally worked flexibly in excess of the normal 40 hour working week. For example:

- For a full time employee working in an area designated as operations, the allowance is 33% of the employee's annual base salary;
- For community operations, the allowance is 25% of the employee's annual base salary plus double time overtime for any duty worked after 84 hours in any paid fortnight; and
- For an employee in an area designated as commercial, the allowance is 3% of the employee's annual base salary.

Being subject to the same overall policies as the APS, the AFP are also working to introduce more flexible workplace arrangements, and placing greater emphasis on performance driven movement through the pay spine.

The Experience of Changing Pay Administration Arrangements

Experience of replacing fixed pay scales with pay ranges

As mentioned previously, this responsibility was delegated to Agencies and Departments. There was little resistance to more flexible pay arrangements. The AWA or CA became the only way for staff to gain a pay increase, although unions have been concerned that pay differentials have resulted (in practice, the scope for disparities is limited because of the need to fund pay increases within budget allocations, and pay relativities for non-SES staff have not moved far from the former regulated system). There is however, significant widening and overlapping of salary ranges associated with the grades in the APS as Agencies had the capacity to implement new arrangements in ways that suited their needs. Use of external resources was often required to support the process.

Experience of introducing performance based rewards^{viii}

Australia has had a reasonable degree of resistance to performance management. Performance appraisal and pay arrangements were first introduced to the APS for the SES in 1992, with individual performance assessment, however unions in particular, argued that this would detract from team performance. Adoption was by vote, and in many cases, senior officers voted the system down, preferring no additional pay or bonus to the proposed performance management system. In 1996, a change of Government led to radical change within the APS, including widespread introduction of performance pay through the Workplace Relations Act 1996.

The Australian Public Service Values explicit in the Act make clear that achieving results and managing performance are central to the work of the APS. Departments were required by Government to design and implement their systems in little over a year, so there was significant reliance on outside expertise to assist with the process and to transfer skills to the public sector. Because performance management systems became an integrated part of the negotiation of employee terms and conditions, there was extensive negotiation with employees and their union representatives, which was critical in gaining sufficient staff support early in the process, however it also created pressure for unions, which made the initial process lengthy, complex and tense. While unions initially resisted vigorously, there is now general acceptance of the process and it runs far more smoothly as Agencies move to their second and third annual agreements. Most agencies provided training to their employees as part of the implementation process.

Implementation of performance management systems has been a dynamic process in Australia with many modifications being made over time with each new negotiation, including to rating scales, remuneration arrangements, links to business planning priorities, and moderation and consultation processes. In addition, a small number of Departments provide for recognition benefits and rewards that may include Secretary's or Australia Day awards, and informal rewards

viii Management Advisory Committee, Performance Management in the Australian Public Service, Canberra, 2001; Public Service and Merit Protection Commission, 1999, State of the Service Report 1998-99

such as theatre tickets, development opportunities, written comments of appreciation, home/based work programs and time off in lieu, as well as more explicit performance pay arrangements. However it is noted that there is potential that these rewards could be counterproductive if seen to be favouring particular groups of people.

Agency respondents to the DEWR survey were asked to state the broad nature of the most important performance enhancing provisions in their agreements. The top five ranked were performance management arrangements (74 per cent), family friendly working arrangements (also 74 per cent), flexible working hours (61 per cent), tailoring conditions to agency business (57 per cent) and simplification of leave entitlements (56 per cent).

Although significant progress has been made, some major challenges remain. A study by the Management Advisory Committee found the credibility of systems were an issue, particularly where employee perceptions about fairness and consistency in application were negative and moderation ineffective. Most important were the quality and meaningfulness of performance measures and how they are seen to link with agency priorities. There were further concerns raised that little is done to manage under-performance. However agency frameworks do attempt to address these issues, for example, Treasury provides for processes to ensure consistency, two way feedback, the basis for skills development, system controls to facilitate transparency and fairness, and provisions for addressing under-performance.

Experience of simplification and decentralisation of pay administration

Please refer to the earlier section on “Pay system and administration”.

When the Howard Government came to power in 1996 it was confronted by major legislative and administrative inflexibilities. The costs to government were high because of a culture of compliance with rules and regulation that were outdated and overly prescriptive. There was also the major cost of making the central pay system year 2000 compliant, and a decision was taken that it should be abandoned. The simplification of classification structures and devolution of responsibilities to agencies was welcomed by the APS. While unions and many staff were reluctant to accept rationalisation of allowances, they ultimately agreed to it as part of CA packages that included other benefits.

The decentralisation of pay administration and devolution of responsibility left agencies with a range of new responsibilities. The general approach was to obtain significant external support to manage the transition. Agencies also tended to replicate the abandoned central controls as a first step, then to amend these subsequently. The reduced costs achieved were shared with staff through pay increases, and current arrangements are now generally simpler, and easier to understand and administer. Some administrative functions, such as payroll, are now outsourced.

Points of Interest

The current arrangements have enabled the rationalisation of allowances, have reduced administrative costs and simplified remuneration arrangements, and according to the 2001 DEWR survey, these costs savings are shared with all staff through pay increases.

Flexibility has enabled Agency pay arrangements to be better tailored to suit Agency and employee needs, simpler and easier to understand and administer (often through outsourcing), and provide the scope to compete for staff whose skills are in high demand (eg. IT). Common features include a stronger link with performance appraisal and performance more generally, with flexible use of classification structures, flexible working hours and arrangements, and simplification of leave, allowances and penalty provisions. Measures to enable people to balance their work and family responsibilities are also prevalent. The new Agreements have also been used to secure commitment to organisational change. It is likely that these outcomes will strengthen in future.

There remain, however, some Agencies that have not strayed too far from the old Award arrangements and have done little to take advantage of the flexibilities. This mismatch between Agencies has meant there is some inhibition of lateral movement of functions or people between agencies as a result of the need to deal with the different terms and conditions. In addition, there are some who argue that the new arrangements adversely impact the concept of a single Civil Service.

Undoubtedly the key to successful change in the APS has been the more general changes in workplace arrangements, where the Workplace Relations Act deregulated pay and conditions throughout the Australian economy – and therefore APS and disciplined services pay deregulation were simply a part of this wider agenda. Unions resisted the changes fiercely, but have come to accept the new arrangements. Their particular issues are the scope for senior management to give themselves substantial pay increases while opposing those for the rank and file (exacerbated because AWA contracts are individual and confidential), and they have concerns about the capacity of individuals to effectively negotiate (although individuals have a legal right to representation). Unions also argue for team-based performance pay in many cases (but it should be noted that nothing in the current arrangements precludes this). Such considerable change and the skills needed for delegated negotiation would require a significant commitment of resources, and this can be difficult for smaller agencies. It would be important to facilitate the availability of strategic HR advice and training, either internally or from the private sector, and a binding budget that will ensure that flexibility is not abused. Top-down commitment is essential as is building credibility.

Key trends

The policies of the Government with respect to workplace relations, and the DEWR survey of Agreement Making have provided indicators of the changes and trends as departments and agencies are responding to their devolved responsibilities for employment matters after 2 rounds of workplace agreements, and now entering their third round of negotiations. These include:

- Continued emphasis on performance management systems
- Stronger link with performance appraisal and performance pay
- More flexible use of classification structures, including through extended use of broad banding
- More use of flexible working hours and arrangements, simplification of leave, allowances and penalties, and measures to enable people to balance their work and family responsibilities
- More consideration of team based reward where some departments are experimenting with bonus for project completion
- Greater use of negotiated agreements to secure commitment to organisational goals and cultural change, with elements of pay dependent on achievement of organisational goals as directed by Government policy.

Although there are wide ranging views, overall the current arrangements are thought to have been successful in changing the culture of pay negotiations within the APS, and outcomes are undoubtedly improving with each new round of negotiation. Performance management systems are seen to have forced dialogue between managers and their staff, so that issues are dealt with rather than swept under the carpet.

Appendix B – Canada Country Summary

The Government Contextⁱ

Organisation of Government

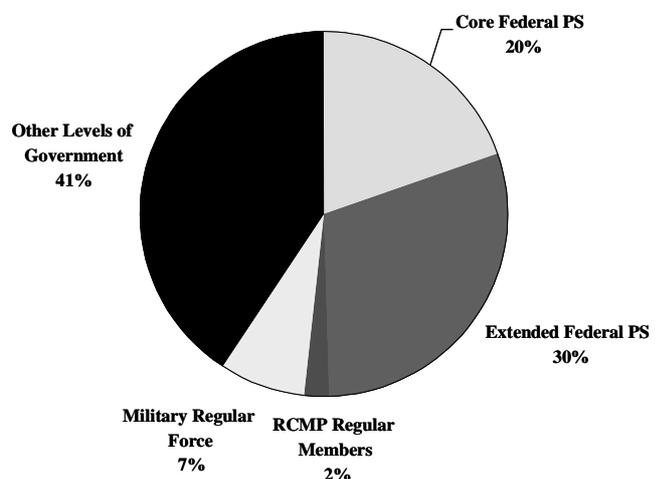
Canada has a federal parliamentary government. There are three levels of government: federal (central), provincial and municipal (local). The federal government has constitutional responsibility for matters concerning defence, foreign affairs, customs, regulation of banking, aviation, inter-provincial and international transportation, commerce and communications, broadcasting, and any matters to do with nuclear energy and criminal code. Federal and the provincial legislatures both have power over agriculture, immigration, and certain aspects of natural resources/environment. If federal and provincial laws conflict on these matters, the federal law prevails. Both the federal and provincial governments have power over old age, disability and survivors' pensions, but if their laws conflict, the provincial power prevails. Provincial governments have the lead responsibility for education and health care but due to funding arrangements the federal government influences standards. Municipal governments are effectively the “children” of the provinces: provincial governments divide the responsibilities between the provincial and municipal levels.

There are approximately 30 ministries (departments) in the current federal government. In addition, there are a number of Crown Corporations and Agencies that operate at arms-length from departments. Most of these agencies report to parliament through a cabinet minister, although a few report directly to parliament.

Civil Service overview

The Public Service is the workforce for which the Treasury Board (TB) is the employer. The broader public service at federal level is employed within a number of agencies and crown corporations. These have ‘employer status’ and their own compensation policies and programmes, although they are often modelled after the main Public Service.

- Number of Public Service staff for which TB is the employer is 147,000; and that for extended federal public service stands at 220,000 (excluding commercial crown corporations but including separate agencies and the main Public Service)
- Public servants (including some of the equivalents of Hong Kong Disciplined Services⁷) comprise about 4.6% of the total Canadian workforce
- Roughly half are employed at the federal level, including the military, Royal Canadian Mounted Police (RCMP) and extended federal agencies
- 79% of the Public Service is permanent staff with the remainder on fixed term or seasonal contracts.



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⁷ See details on page 2.

Compared with the Hong Kong Civil Service, the Public Service or the extended public service perform a broader range of functions. Some functions such as the postal service, customs service, and food inspection are not part of the core public service. Instead they are the responsibilities of separate federal agencies.

While the federal Public Service eliminated reference to occupational categories a few years ago, the former occupational category structure is fairly comparable to that of the Hong Kong Civil Service:

| HK Civil Service Broad job category | Canadian Public Service (former category) | Minimum qualification for entry | Approximate populations |
|---|---|--|---|
| Civil service managers and administrators | Executive Category Admin and Foreign Service Category | Relevant Degree and/or equivalent experience | Executive levels = 750 Admin and other officers = 55,000 |
| Clerical staff and secretaries | Administrative support | Some high school education / vocational or secretarial training | 40,000 |
| Professional specialists | Scientific and professional | Degree or professional qualification in an appropriate discipline | 34,000 |
| Technical staff | Technical | Certificate or diploma holders although increasingly the technologists have degrees, even advanced degrees | 10,000 |
| Manual workers | Operational | Year 5 education Trade certificate in some cases | 10,000 |

Of the equivalents of the Hong Kong Disciplined Services:

- RCMP is like a crown agency. It reports through the Solicitor General. The RCMP has some civilian public servants but also has Regular Members and Civilian Members. Regular and Civilian Members are not deemed to be Public Service employees
- There are very few fire fighters in federal Public Service; the vast majority of fire fighters in Canada are employed in municipal level fire services
- The customs service is *not* part of the main Public Service but is in the extended public service – within a newly formed separate agency, Canada Customs and Revenue Agency (CCRA). Customs used to be within the main Public Service but transferred out in November 1999
- The Immigration Department is generally part of the main Public Service (ie considered civil servants). It also employs in consulates and embassies abroad “locally engaged staff” who are not civil servants
- There is only a minimal flying service at federal level. Some provinces have larger flying services to perform functions like forest fire fighting and air ambulance. Most requirements for flight services at any level of government are contracted out.
-

Key values and public perception of the Public Service

Key values of the Public Service of Canada are:

- A professional public service, appointed based on qualifications for the work; independent from political influence on appointment.
- Integrity in acting in the public interest, and according to the rule of law
- Accountability
- Delivering value for money for taxpayers
- Fairness and equity in serving the public and in managing the workforce.

At federal level there is also a value on services being “pan-Canadian”, with consistency across the country. This value translates into one of national standards in public service employment.

Public perception of public servants in Canada is generally positive. Despite some media coverage that may sensationalize negative events, the public generally respects public servants as professional and independent. Research shows, however, that people prefer to work for business and the public service at any level of government is not regarded as an “employer of choice”. The recent recession has limited the impact of this problem but, in the long run, all governments will have to make improvements in competitiveness.

Public Sector Reform^{ix}

Program review: drivers and impact

Deficit reduction has been the most pronounced driver of change in the last 10 years. The need to eliminate deficit financing led to a process called Program Review, by which departments revisited all their programs examining whether they were still in the public interest, deserved a fundamental role of government, or could be done through Alternative Service Delivery (ASD). The result has been pursuance of a range of outsourcing solutions, devolution of programs to other levels of government, and rationalisation of many others.

Another consequence of Program Review was the movement of some programs out of the main Public Service to form new, more independent agencies, with their own employment regimes. These new agencies include the tax and customs service, the parks service and the food inspection service. With a greater number of separate employers, there is a growing diversity in the pay structure and administrative arrangements.

Program Review also resulted in massive reduction in employment in the federal Public Service. Estimates are in the 40% range. Some of the downsizing was accomplished through early retirements, and buyouts for younger workers. The net effect is a current workforce that is middle aged. A high portion of the workforce will retire over the next 10 years, prompting a need for workforce renewal, with a new focus on recruitment and retention.

Fiscal responsibility remains a very important driver. Technology has emerged as an enabler of further transformation. The Government of Canada has committed to moving most programs to

ix www.tbs-sct.gc.ca, country adviser; consultancy reports by PwC Consulting on compensations and human resources reforms for the Public Service of Canada

an electronic service delivery model. The intent is to improve service delivery while saving costs by delivering on the web. There is a parallel and growing commitment to electronic service delivery within the HR function.

Pay specific reforms

The major drivers of pay reforms in the federal Public Service have been:

- Pay equity legislation – requiring the government to ensure that pay policies are gender neutral
- The need to streamline the administration of pay and pension – in turn, driven by an on-going desire for greater efficiency in government operations
- The need for greater market competitiveness in compensation, particularly among some technical and professional levels.

The first two drivers converged in the 1995 initiative called the Universal Classification Standard (UCS)⁸. The intent was to bring all occupations in the public service under the same point factor method for job evaluation. Using a “universal” job evaluation instrument was expected to bring the Public Service into compliance with pay equity legislation (the *Canadian Human Rights Act*). It is vast project and one that remains on-going.

The second main thrust pay reform focuses on efficiencies in pay and pension administration. The goal is to automate pay and pension administration, consolidate delivery into shared services centres and move more pay administration to the web. A first attempt at modernizing pay administration was begun in the early 1990s and aborted a few years later after severe cost overruns. That first attempt was a centralized custom solution. Following the failure of that initiative, individual departments each implemented their own versions of commercial off the shelf HR systems; predominantly PeopleSoft. This produced small gains at first but as the departments upgrade, they are all introducing self-service and gradually adjusting the service delivery model. Cost savings in pay administration are in the 30% range with these new, tiered service delivery models.

The third pressure has arisen more recently as the public service began rebuilding capacity for program delivery following the Program Review. While there are no difficulties recruiting support staff, attracting and retaining more highly skilled resources is increasingly difficult in a competitive labour market. Rather than awarding increases in the base compensation (and setting a precedent for similar awards for other occupational groups), the government began a practice of awarding **terminable allowances** to specific occupations to make the total compensation more competitive with the external market. Groups in receipt of such terminable allowances include computer systems professionals, engineers, technical inspectors, physicians and some nurses. A strong business case has to be made for a TA to be paid, and a fundamental argument is one of recruitment-retention. TAs are not considered part of pensionable pay. Moreover, in theory, TAs can be stopped when market conditions shift and a so called “hot” skill is no longer in short supply, although to date this has not happened.

⁸ See details in “Experience of Simplification and Decentralisation of Pay Administration”.

Overview of Current Pay Administration Arrangements^x

Pay administration principles and policies

Legal framework

Several pieces of legislation combine to set the framework for compensation. The *Financial Administration Act* (FAA) gives the Treasury Board the power both to set compensation and to frame administrative responsibilities for pay. It also sets the concept of pay for work (as opposed to skill). The *Public Service Staff Relations Act* (PSSRA) requires that the government have a classification plan and frames the certification of bargaining agents around occupationally defined communities of interest. Pay Equity is embodied in the *Canadian Human Rights Act* (CHRA) (s 11).

Broad principles underpinning pay policies

The federal Public Service aims for a combination of **affordability** and **broad comparability with the private sector**. The affordability goal is in keeping with the general goal of fiscal restraint and the notion of serving in the public interest. The goal of comparability with the private sector is more practical in that there is a need to compete to attract and retain talent, particularly in managerial, professional and technical occupations. Two vehicles drive comparability. The primary driver is collective bargaining, but negotiating mandates that focus on affordability offsets this. A secondary driver is employer-sponsored analyses of compensation in specific labour markets.

The reality is that these two aims (affordability and competitiveness) do not align easily. For 7 years in the early 1990s, there was a complete pay freeze, as part of the effort to control the budget deficit. During this freeze period, all collective bargaining ceased. As this was also a period of downsizing, the impact of deteriorating competitiveness on recruitment/retention was neither visible nor acknowledged. It has become very apparent, however, in the last few years as the general Canadian labour market is very dynamic and the public service has encountered significant problems in recruiting and retaining talent.

A third important principle is that of **equity**. Apart from the legal requirement for Pay Equity (female dominated job classes cannot be paid less than male dominated job classes of equivalent value), there is a strong impetus for internal equity or relativity. Traditionally, the federal Public Service has been a career public service, with most employees spending 20 to 30 years in the public service. Thus, their natural comparators have tended to be other public service groups. With the workforce almost 100% unionized, collective bargaining tends to sustain relativities. Whatever bargaining unit bargains first in a round of collective bargaining tends to set the precedent for others. Pattern bargaining also means that there is a significant convergence in the pay and benefits structures across all bargaining units.

^x www.tbs-sct.gc.ca, country adviser; consultancy reports by PwC Consulting on compensations and human resources reforms for the Public Service of Canada

Pay structure and components

Pay and grading structure

Compensation is bargained collectively for all but a small portion of the public service that is not represented by unions (eg executives, HR managers). Bargaining units are defined in terms of occupations in the core Public Service. The occupational groups vary in size from over 40,000 clerks to fewer than 50 air traffic controllers.

As already mentioned, the pay and grading structure is in transition. The legacy occupational group structure includes 72 occupational groups and 105 subgroups. Each occupational group or sub-group is divided into levels. It is a position-based system, not a person based system. Work is delineated into jobs and jobs are rated for their value. Through the job evaluation (classification) process, a job is categorized into a specific occupational group and rated at a specific level. At a given occupational group and level (such as a Clerk 1) there will generally be four to six separate base pay rates. Levels are not broad banded and within a level, rates are relatively close together. An individual is typically appointed to the minimum rate and receives annual increments for four or five years (depending on the number of increments in the range) to reach the top rate at that level. There are a total of 840 distinct levels across all groups and thousands of pay rates across all the levels.

Under the legacy classification plans, this process is largely achieved through a whole job benchmarking method. The new classification plan uses a point factor method. There will be fewer groups, but no change in bargaining agent affiliation. Bargaining focuses on the base pay plus some distinctive terms and conditions. Most other terms and conditions are bargained centrally in master agreements.

Pay components

The pay structure in the Canadian Public Service is predominantly made up of base pay. Base pay rates in the Canadian public service vary by occupational group and level (as established in collective bargaining). When a new collective agreement is set for an occupational group (such as Clerks), it typically adjusts all the increments for a given level (such as Clerk 1). The base pay of a Clerk at the second increment of the former scale moves to the second increment of the new scale (and so on). The average full time annual base pay in the Canadian Public Service is in the range of C\$45,000. Pay rates for full time employment are the same, regardless of whether the individual is appointed on a fixed term or indeterminate basis. Part-time rates are pro-rated.

A very small portion of public servants (primarily in executive ranks) receives performance pay (in the range of 5 to 10% of base). There are no discretionary bonuses but terminable allowances are paid on top of base pay to a few selected occupations to reflect the competitiveness in recruiting and retaining resources in temporarily short supply.

The benefits plan is essentially constant for all full time employees, including those in the disciplined services. Employees working less than 20 hours a week are not eligible for benefits.

Within the first 6 months of employment a term employee is not covered by the pension plan. After 6 months of term employment, they are covered and can buy back the past service.

Benefits are valued at approximately 22% of base pay and include pension, extended medical⁹ and dental coverage, a life insurance component and a long-term disability insurance component. The employer and employee jointly fund the pension plan (although the accounting for the federal pension does not show a distinct “fund”). Because of integration of the public service pension plan with the public pension plans (Canada Pension Plan – CPP and Quebec Pension Plan – QPP), employees in effect contribute to the public service plan at two rates:

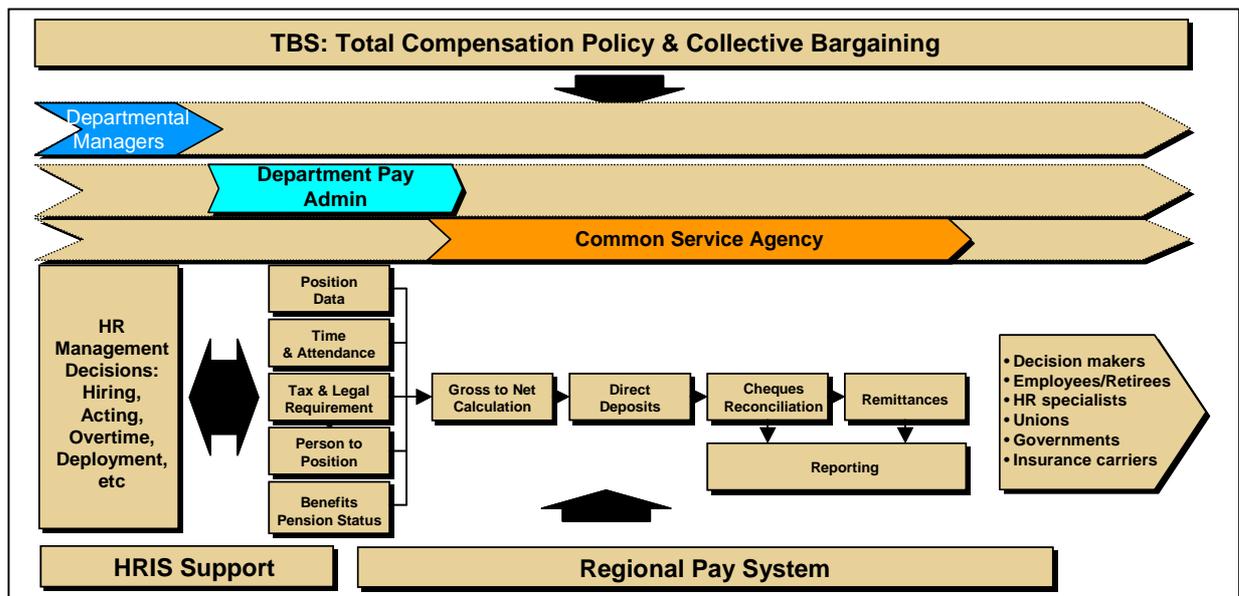
- 4 per cent on salary *up to the maximum* covered by the public pension plan
- 7.5 per cent on salary *above the maximum* covered by public pension plan

A small number of employees (depending on work contexts) receive special allowances. These include, for example, a risk allowance for working in the prisons and an allowance for working in remote areas or being at sea. Housing allowances (whether in the form access to a property or as an allowance) are very rare and taxable. Employees are also eligible for overtime compensation, usually 1.5 times the base rate for hours worked beyond 7.5 per day, and up to 2.5 times base if required to work on a statutory holiday. Overtime must be approved in advance. In some cases, employees are encouraged to take overtime compensation as time in lieu of pay.

Pay system

Division of roles and responsibilities for pay administration

The diagram below provides a high level overview of the pay administration process and the allocation of responsibilities



⁹ There is a public medicare scheme in Canada that covers essential medical and hospital services. Extended medical coverage covers drugs, vision care, and private accommodation in a hospital.

Responsibility for pay policy formulation sits with the Treasury Board Secretariat (TBS), with the TB Ministers as the final decision makers on policy. TBS functions as the employer for the main Public Service and conducts all collective bargaining. After a new collective agreement (CA) is reached, TBS reviews it and turns the CA language into rules for pay administration. Public Works and Government Services Canada (PWGSC) then code these into the legacy pay system. TBS also gives instructions to departments on how to interpret the new CA.

TB also gives the bargaining mandate (that is, sets the overall compensation budget) to some other agencies that are separate employers. The disciplined services come under the same broad control as the core Public Service.

Other stakeholders in the formulation and evaluation of pay policy include:

- The Canadian Human Rights Commission (CHRC) has some authority regarding pay equity. Affected employees may complain to the CHRC for investigation
- The Auditor General has a broad mandate around HR effectiveness. Compensation matters are the subject of audit reports from time to time
- The Advisory Committee on Senior Compensation is an independent body composed of private sector leaders. It recommends compensation levels for executives
- Privy Council Office (PCO) plays a minor role regarding the oversight of executive compensation for Crown Corporations
- Payroll (gross to net) and pension plan administration are delivered by PWGSC.

Departments administer the day-to-day pay processes for the determination of gross pay, benefits enrolment, allowances and overtime pay. Departments also give advice on collective bargaining to TBS regarding occupations of particular interest to their business lines or other factors that particularly affect their operations.

There is very little managerial comprehension of or accountability for pay decisions. Line managers make the decisions that have a pay consequence but have no direct control over specific pay outcomes. A line manager defines a job requirement in terms of key activities, responsibilities, skill, effort and working conditions. A committee of line managers then rates the job across the Department. This process determines the group and level of the job.

Individual movements within pay band

With only a few exceptions (eg executives, research scientists), all staff have lock step annual increments. In a few cases where there are just the minimum and maximum pay rates defined, annual increase is performance-based.

If the person is being appointed from outside the public service, appointment is typically to the minimum rate for that occupational group and level. If the appointment is from within the public service, the departmental pay advisor, following strict pre-set formulae, determines the appropriate pay rate. Assuming the individual is not already at the maximum rate for the group and level, their base pay is raised to the next increment automatically on the anniversary date of the initial appointment.

In theory, a line manager could restrict this annual increment for performance reasons, but the burden of proof is very high. The employee would likely raise a grievance and most managers do not want to go through this process.

System and mechanism for determining pay level and pay adjustments

Until the early 1990s, TBS had a pay research bureau responsible for pay level comparisons now, however, external consultants are used to conduct the research.

Key features of the mechanisms are:

- Emphasis of the comparison is on base pay and other cash compensation; together with some consideration for other benefits (Since the benefits packages are very standard in the Public Service, the main point of comparison is really around the presence or absence of a benefit in the comparator groups)
- Comparison is usually made by occupation – the selection of comparator organizations depends on the occupation
- Focus is on occupations, not exact job matches; and thus comparisons are intended to target feeder occupations (the work in government is not a match with the work in industry, but the industry pool feeds the government).

While collective agreements normally last for 2 years, external comparisons are not made in every round of bargaining. Economic increases are bargained collectively and are generally defined as a percent increase over the existing base pay.

Arrangements for the Disciplined Services

The disciplined services are not unionized but their pay policies and structure are set in comparison with those of the Public Service. Indeed, considerable effort is invested in achieving appropriate relativity. Total compensation is compared between ranks in the military and the main occupations in the Public Service. Adjustments are made to reflect military specific issues, such as the 24/7 duties.

The main difference is that the disciplined services pay by rank only with minimal distinction by occupational group. The military have had to recognize distinctions in some professional areas (eg engineers, physicians, dentists, pilots) and have awarded each of these professions added bonuses to compensate for market relativities. These are treated as signing / retention bonuses.

The RCMP (Police) and the Military approach Treasury Board Secretariat with a pay plan. The total compensation analysis focuses on comparability to the main public service, and there are a number of “benchmark” points at specified levels/ranks.

The experience of changing pay administration arrangements^{xi}

Experience of replacing fixed pay scales

To date the Public Service of Canada has structured pay around fixed scales and therefore has no experience of replacing these with pay bands or other approaches.

Experience of introducing performance-based rewards

Performance pay is a relatively small component in the current pay structure; however, there is a renewed interest in the subject matter. The primary driver is the recognized need to renew the public service. Compensation must be more competitive, and since performance based compensation is common in the private sector, it has been re-introduced. Where performance pay exists, the decision on the quality of the performance is made by the senior manager and generally reviewed by peers of that senior manager (in a performance review committee).

There is some talk of performance pay for the large portion of the public service not already eligible for performance pay. To date, however, the unions have continued to resist such compensation models. Indeed, in the past, they negotiated away from performance-based models to lock-step increments.

Experience of simplification and decentralisation of pay administration

As previously mentioned, classification and compensation reform began with the launch of the development of the Universal Classification Standard (UCS) in the late 1990s. This initiative was undertaken particularly in response to a large number of pay equity (ie equal pay for work of equal value) claims brought against the Canadian Government. Reform is still underway and the new approach is aimed at introducing wider pay ranges and more flexibility and managerial discretion in pay administration.

The UCS differs from the existing classification model in that it is a point factor method. There are 16 elements falling under 4 main factors of job value: responsibility, skill, effort and working conditions. As the name implies, the initial plan was to have this classification model applied to all occupational groups across the Public Service.

One assumption of UCS was that it would enable a single pay line so all jobs would be rated (and paid) consistently relative to all other jobs. And it was clearly anticipated that the implementation of the UCS would allow the employer to simplify the number of distinct pay grades. Broad banding was also expected to be part of the solution. Current media speculation, however, suggests that the Government may consider abandoning the concept of “universality” in favour of customisation, and multiple pay lines, for different groups of workers to better reflect the market demand for their job skills. This has been brought about in light of fears about the potential for considerable turbulence if a large portion of “professional” employees (eg lawyers, engineers, IT specialists, economists etc) have to “mark time” on their existing salaries. Salaries are a critical issue for the government, which is facing a massive exodus due to an aging workforce and a looming global skills shortage that will have all employers in the public and

^{xi} www.tbs-sct.gc.ca, country adviser; consultancy reports by PwC Consulting on compensations and human resources reforms for the Public Service of Canada

private sectors competing for talent. The press estimates that nearly half of today's public servants will leave within the decade. Concerns about pay equity, however, continue and will need to be addressed. The general consensus appears to be that classification reform will proceed but in a different form than originally anticipated, and implementation will take place over a period of time and in a staged manner.

Approach to implementation

In terms of coverage, the classification and compensation reforms have been limited to the civilian Public Service for which Treasury Board is the Employer. Some separate agencies also launched similar exercises. The military are exploring the use of the UCS or a derivative thereof as a means of evaluating military occupations, though it is still in its infancy. Currently UCS covers for public servants but not the Members in the RCMP. The longer term plan, however, is to move all civilians in the RCMP under a common employment framework.

Owners of the project are the Treasury Board. A major stakeholder in the implementation, however, has been the Canadian Human Rights Commission (CHRC) who has for many years voiced concern regarding equal pay for work of equal value. While their complaints focused on the existing classification scheme, it was clearly very important that the new standard avoids the problems inherent in the existing standards. As such the voice of CHRC representatives, primarily around matters of gender neutrality, has been taken into consideration.

The design team collected information on work activities across the Public Service, using an open-ended survey. Work characteristics were compiled from a sample of some 400 employees. By mid 1997, the design team had moved from a conceptual model to a working model of the UCS. The design team proceeded to refine this working model.

In 1998, Departments began the development of work descriptions for a sample of 5,000 positions based on 3,800 distinct jobs across the Public Service. TBS released "version 1" of the UCS job evaluation instrument in the late summer of 1998.

For the following 12 months, Departments were under considerable pressure to produce work descriptions and to rate them. Tight deadlines were imposed which led to some frustration both in Departments and among the TBS design and implementation teams. The deadlines were subsequently extended.

The next step was to weight various elements and to then release the weights and preliminary levels for consultation to Deputy Ministers. This has been a valuable exercise in unearthing some crucial internal relativity issues.

The process remains ongoing for a large number of Departments who have room to make adjustments in work or organization design to accommodate the new standard.

Lessons learned

The main lessons learned from this initiative to date are:

- Not to underestimate the difficulty of changing compensation. It cuts to the heart of the employer-employee relationship
- Garner executive commitment early – maintain this commitment by keeping them focused on the benefits, yet aware of the risks
- Ensure high levels of “education” on technical issues: managers who have no experience of managing compensation matters have been asked to make decisions which are outside their current competency. For example, if departments do not have a thorough and accurate diagnosis of the deeper messages that relativity issues were signalling, they may “fix problems” that are actually not problems at all but a true revaluation of work. Similarly, they may not take advantage of opportunities to consider how to redistribute work, to adapt to the organizational impact of the new UCS values
- Tie the compensation reform to the overall organizational transformation/business agenda
- Change means change – and it has to be managed at all levels. This means wide engagement, beyond the HR function. But also recognize that not all resistance to change is irrational
- Do not set overly aggressive time lines or expect a big bang rollout – phased implementation is easier and less turbulent
- Fashion an implementation model that benefits from turnover
- Data quality is critical – address the systems issues up front.

Points of Interest

Key features of current pay administration arrangements

- Though a pay philosophy is not explicitly stated, the Government and departments aim to achieve internal relativities and broad comparability to the private sector
- The legacy pay structure is similar to that of Hong Kong, with an Occupational Group Structure and fixed pay point system (annual increment) to achieve internal relativities
- It is a centralised pay system, with Treasury Board responsible for pay policy formulation and departments for day-to-day pay process administration.

Impact and success of recent developments leading to current arrangements

The primary strengths of the Canadian public service compensation regime are also the source of the major weaknesses:

- The compensation framework allows for an objective basis for compensation decisions. Employees are not paid at levels set by the whim of the local manager. However, the very objectivity is achieved through a rigid administration that leaves very little discretion for managers. As a result, managers have not learned to accept accountability for

compensation decisions and change to a more performance-oriented process will be difficult.

- The position-based model for pay contributes to the general sense of objectivity and fairness. However, it fails to recognize the contribution that individuals make through their discretionary effort and skills over and above the bare minimum.
- Internal relativity is perceived to be relatively strong in the Canadian Public Service. However, this internal relativity is rigid. As the external market has evolved, raising the average compensation of some occupations (such as finance and IT) is considered necessary. It became harder and harder to maintain traditional internal relativities.
- Classification reform has reduced the number of distinct occupational groups. This simplifies administration. However, it also makes it harder to compensate competitively for very small sets of employees with distinctive “hot” skills. While a terminable allowance can be justified, the trick is to confirm clear boundaries for such augmentation.
- Unionization and collective bargaining lead to wide standardisation in the compensation structure but also create inevitable rigidities. Collective bargaining tends to produce salary compression at senior levels as unions bargain for the majority of their members who are at the junior levels.
- Full pay equity is very difficult to achieve in a diverse organization without compromising total affordability. A more specifically defined pay equity can be achieved.
- An occupationally based compensation scheme permits comparability to the external labour market. To the extent that external comparisons are made, the stated aim has been to meet not exceed “the market.” However, in a large, geographically diverse public service, this assumes that all regions have similar labour market conditions. This is not the case. The result is that actual pay rates are significantly over the market in some occupations in some regions and others are significantly under the market. Regional factors should be taken into consideration if the intent is to continue to have a vibrant public service in all regions.

Key trends

Future compensation developments anticipated for the Canadian public service include:

- Increased use of terminable allowances, likely on a more targeted basis to achieve improved external relativity
- Increased use of performance pay, with application to mid manager levels and some professions
- Introduction of flexible benefits – where the employee has choice from among a menu of benefits or levels of benefits.

- A gradual shift away from very narrowly defined jobs to a job-family based approach that carves out compensation space, with more attention to individual skills and competencies in setting pay levels
- Reform of the pension plan itself to diminish its “golden handcuff” effect
- Implementation of a modern payroll administration system, through a commercial off the shelf application
- Improved communications of the total compensation package through the web.

Appendix C – New Zealand Country Summary

The Government Context

Organisation of Government^{xii}

The New Zealand Government is characterised by a parliamentary system and unitary structure. Members of Parliament are selected by mixed proportional representation. Parliament passes laws and acts in a scrutiny role, controlling taxation as well as public expenditure.

Executive authority is vested in the Prime Minister and all the Ministers, who form the Executive Council. A subset of those Ministers forms the Cabinet. Cabinet is the central decision-making body of the executive government. Its role is to determine and approve new legislation and policy proposals and priorities, and to co-ordinate portfolio responsibilities. Ministers must be Members of Parliament.

The Government is made up of:

- Three central Departments (i.e. the Treasury, the Department of Prime Minister and Cabinet, and the State Services Commission)
- 36 other Departments, which are usually policy making bodies but a minority have operational or coupled functions
- 160 Crown Entities, which are bodies created to be some distance from Ministers carrying out defined operational roles
- 19 State Owned Enterprises (SOEs) and 10 Crown-owned companies. (These make up the commercial trading arm of Government.)

NZ has a widely devolved central (national) Government, but does not have a regional or state/federal structure. The local government sector is limited in powers.

Local government

There are two layers of local government: regional councils, and territorial (district or city) councils.

Regional councils are responsible for:

- Management of the effects of use of freshwater, coastal waters, air and land
- Biosecurity control of regional plant and animal pests
- River management, flood control and mitigation of erosion
- Regional land transport planning and contracting of passenger services
- Harbour navigation and safety, marine pollution and oil spills
- Regional civil defence preparedness.

Background Reference Sources

^{xii} www.stats.gov.nz; www.oecd.org; "Towards Better Governance: Public Service Reform in New Zealand (1984-94) and its Relevance to Canada", Office of the Auditor General of Canada, 1995; and advice from the State Services Commission

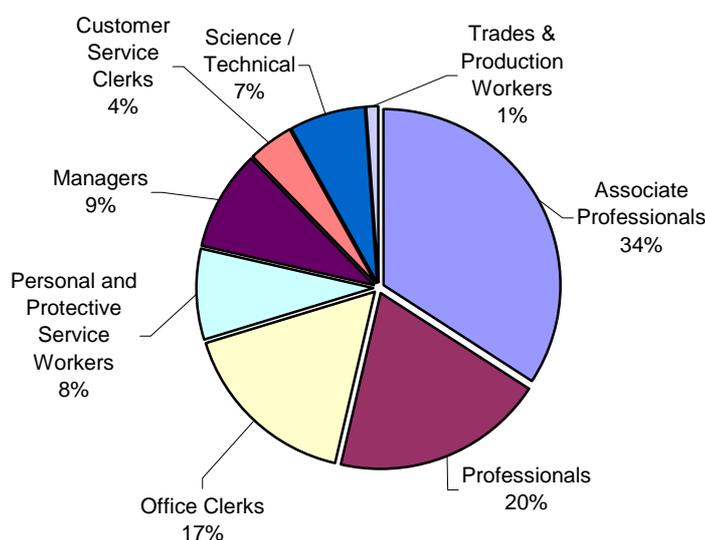
Territorial councils (district and city councils) are responsible for:

- Community well-being and development
- Environmental health and safety (including building control, civil defence, and environmental health matters)
- Infrastructure (roading and transport, sewerage, water/stormwater)
- R^{xiii}ecreation and culture
- Resource management including land use planning and development control.

Civil Service overview^{xiv}

The Civil Service is called the Public Service. Staff employed in the wider public sector enjoy similar but not exactly parallel conditions and pay. In practice, their conditions are often more generous and their pay higher.

- The NZ public sector consists of 30,000 employed in government departments, 75,000 in Crown Entities and 25,000 in the trading sector.
- This represents 1.79% of the working population.
- In 2001, 7.4% of Public Service employees were on fixed-term contracts.



New Zealand has largely dispensed with Civil Service occupational categories and many equivalents to jobs in the Hong Kong civil service have been placed outside of the Public Service.

- Chemists/Water chemists are in the Crown Research Units, which are Crown Companies with semi commercial objectives
- Engineers and surveyors were once in the NZ Public Works Department, which has been disbanded. Engineering and surveying is now a private sector activity
- This also applies to electrical, electronic and mechanical inspectors: only a small core remains in the Public Service. The Public Service has concentrated on setting services standards and monitoring their outsourced operation
- A number of agricultural and fishing officer functions are performed by the private sector, though a core does remain in the Public Service to set and monitor standards
- Environmental protection is in the hands of local government.

Of the equivalents to the Hong Kong Disciplined Services:

- The Immigration Service and Customs are part of the ‘core’ Public Service, and not separated even though they are uniformed and have some enforceable powers
- The Fire Service is a Crown Entity
- The Police Force is outside of either the Public Service or the Crown Entity sector, because they have constabulary independence. But they are very closely aligned to the Public Service in practice
- There is no Government Flying Service.

Values

The Public Service has an established mission of service to the Government of the day that is captured in various documents, principally the Code of Conduct. This has three overarching principles - public servants should:

- Fulfil their lawful obligations to the Government with professionalism and integrity.
- Perform their official duties honestly, faithfully and efficiently, respecting the rights of the public and their colleagues.
- Not bring the Public Service into disrepute through their private activities.

Public Sector Reform

PUBLIC SECTOR REFORMS^{xv}

Reform drivers

The organisation, structure and functions of the Public Service has largely been shaped by the *State Sector Act (1988)*, the *Public Finance Act (1989)* and the *Employment Contracts Act (1991)*.

Factors contributing to a series of major public service reforms commencing 1984 include:

- The economic crisis and the conditions leading to it
- Frustration of ministers in the Labour Party cabinet with the weaknesses in the public service, which were about lack of clearly defined goals or management plan in most Departments; few effective control mechanisms for Departmental performance review; little management freedom in Departmental operations; too much emphasis on input controls; and no effective review mechanisms for dealing with poor performance by senior management
- A deliberate challenging of existing institutional arrangements by the Labour Government upon taking office in 1984. That Government had two terms of office until 1990. The challenge was continued, to a lesser degree, by the subsequent National Government.

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xiv State Services Commission HRC Survey 2001; and State Services Commission: Code of Conduct 1995 and 2001

^{xv} www.oecd.org; "Towards Better Governance: Public Service Reform in New Zealand (1984-94) and its Relevance to Canada", Office of the Auditor General of Canada, 1995

Major reform initiatives

Since 1988 the NZ public sector has undergone continual reform both general and pay specific. Details are set out below.

- 1988: State Sector Act aimed to enhance efficient and effective public service management by increasing managerial autonomy and more clearly defining accountabilities; preserving the values of service to the community and integrity.
- 1989: Public Finance Act introduced a new legal framework covering the use of public resources.
- 1991: The Employment Contracts Act introduced a new regime for industrial relations and a new employment framework of contracts. There were also major reviews of State sector reforms to date, covering parliamentary accountability; the collective interest; strategy formulation by Cabinet; risk management; the relationship between ministers and Chief Executives; the role of central agencies; senior management development; and human resource and financial management.
- 1993: Significant restructuring of public service departments, with the creation of Crown Entities in the health, science, housing and transport sectors.
- 1994: Fiscal Responsibility Act introduced a requirement for the Government to publish and regularly update the fiscal state of the country, looking out over ten years.
- 2001: Strategic Business Plans as ownership documents for Departments, and Reform package for Crown Entities announced. The package is intended to make governance and accountability arrangements for Crown Entities clearer, more centralized and consistent.
- 2002: The Government has sponsored a major project called 'Recreating the centre' aimed at consolidating central agencies and their functions, and aligning the behaviour of Crown Entities with the core public service. It has been premised on the belief that NZ's civil service had become too devolved and fragmented, and that a central core needed to take a more assertive and directive role.

Impact of the reforms^{xvi}

All initiatives have centred on the following themes and have had significant influence on the current operations:

- **Decentralisation;** resulting in greater managerial discretion of Departments and Crown Entities over inputs

^{xvi} An independent study of the reforms by Prof Alan Schick from Maryland University; State Services Commission HRC Survey 2001

- **Commercialisation**; leading to the development of a set of operating financial-based guidelines for the evaluation of Departmental cost-effectiveness and competitiveness
- **Corporatisation**; entailing the establishment of Crown companies and SOEs to focus on commercially oriented businesses
- **Business-orientation**, giving greater freedom on resources utilisation, greater clarity of objectives, and more streamlined structures – particularly in the Crown Entity sector
- **Restructuring**; leading to the substantial downsizing of the 'core' public service from 53 to 35 departments and agencies or about 86,000 to 34,000 full time equivalent staff between mid-1984 to end of 1993. But this was accompanied by a growth in the Crown Entity and trading sectors.

The period of time over which these reforms have been rolled-out means there is a higher likelihood that newer and younger staff are on individual agreements than the previous cohorts of public servants (the proportion of employees on individual agreements falls as age increases, from 72% of 15-19 year olds to 34% of 60-64 year olds). There is also a broad agreement that service to the public has improved in terms of efficiency, quality and responsiveness to customers, though there is thought still to be room for improvement in co-ordinating the agencies of the State to achieve a more seamless service to the public.

Pay specific reforms

Prior to 1988, the total State sector engaged in centralised pay negotiations, conducted between the State Services Commission (SSC), representing the Government as employer, and the Council of Trade Unions representing State sector unions. The negotiations settled on an annual general pay adjustment. Compulsory unionism, arbitration processes, and a relativities system were the pillars of the pay framework at this time. The State Sector Act of 1998 started a process of decentralisation.

Subsequent key pay specific reforms include:

- 1991: The Employment Contracts Act introduced greater flexibility in employment relations through enterprise based bargaining. The national system of employment arbitration in the case of employment disputes was also dismantled and replaced by individual contract law, with individual grievance procedures.
- 2000: Employment Relations Act repealed the Employment Contracts Act 1991 and introduced a number of changes to how employers, employees and unions conduct their relationships. The ultimate goal of the Act is to build productive employment relations, and for employers, employees and unions to make changes and work through issues themselves, by dealing with one another in good faith, with mutual

trust and confidence. The new Employment Relations Act (ERA) 2000 also re-recognises the role of unions as important bargaining agents.

The Employment Contracts Act brought about significant changes in the Public Service. The Public Service Appeal Board, which heard all appeals against non-appointment from Public Service employees, was abolished. Departments now have their own appointment review procedures. The SSC also delegated all its powers for collective employment negotiations to Chief Executives of Departments and ministries. However, they are required to take account of the bargaining parameters set by Government and to consult the SSC about their bargaining strategies. (See “*Legal framework*” below)

Main drivers of this decentralised approach are considered to be devolution of management responsibility, locating decision making to the level at which it is best made (principle of subsidiarity), accountability, discipline, and transparency.

IMPACT OF THE PAY REFORMS

The decentralised pay administration arrangements has brought about changes in the following areas:

- **Flexibility in occupational classifications:** Before the reforms, there was a standard set of occupational classes, with set pay scales and grades across the Public Service. Each department now has autonomy in determining job titles, occupational groupings and pay scales within budgetary constraints. There is a trend towards very broad, generic occupational groupings to suit agencies’ operational requirements and staff skill development needs. In the wider public sector – and in the workforce as a whole – the Employment Contracts Act brought about an increase in occupational flexibility, associated with a reduction in union membership and far less demarcation between unions.
- **Flexibility in remuneration:** As prescribed pay scales for occupational classes across the Public Service have disappeared, they have been replaced by a variety of remuneration systems. There is no longer a set appropriation dedicated to personnel expenditure. Each Department has responsibility for developing its own remuneration strategy in line with the strategic imperatives for the Department.
- ***Changes in contractual arrangements:*** Traditionally, many staff in the Public Service belonged to and were represented by their major union, the Public Service Association, which negotiated terms and conditions of employment on their behalf. Virtually all employees were party to Collective Employment Contract (CECs), which were called voluntary agreements or awards before the Employment Contracts Act. Employees can now choose who would represent them in employment matters, and provide for negotiation between employers and employees over whether contracts would be individual or collective.

- **Labour supply and demand:** There were concerns prior to the reforms that the rigid job classification system, and inflexible recruitment policy meant that the Public Service lacked the means to appoint and develop people with the skills necessary in a rapidly changing environment. The reforms changed the skill requirements for the Public Service and wider public sector, and also allowed much greater flexibility in meeting those changed requirements.

Overview of Current Pay Administration Arrangements

Pay administration principles and policies^{xvii}

LEGAL FRAMEWORK

The governing legislative framework for this decentralised market was the State Sector Act 1988 (SSA) and the Employment Contracts Act 1991 (ECA). The Employment Contracts Act (ECA) replaced compulsory unionism with voluntary unionism, removed arbitration and established enterprise bargaining in the place of national occupational awards. Unions were de-emphasised and, to an extent, replaced by the concept of bargaining agents (who could be any nominated person). These Acts facilitated the move towards “individualised work and performance contracts” as a replacement for the former “rule and process-based civil-service system” (Kettl, 1996, p.453).

The Employment Relations Act 2000 has rebalanced employment relations somewhat by requiring employers to bargain in good faith, recognising that bargaining power in settling new agreements is unequal, and advantages the employer. But it has not significantly altered the individualised and performance basis of employment of what are now called employment ‘agreements’ not contracts.

Key principles governing pay administration

The pay policies of NZ are currently evolving to reflect the policies of the current Government, (elected in 1999), which have been formulated in reaction to over a decade of change.

In the decade between 1988 and 1999, pay policies were dominated by two principles: decentralisation, and a belief in the efficacy of comparatively unregulated market forces to set pay levels. The approach up to 1999 has been market driven, subject to the ability to pay. The main control has been fiscal affordability, rather than a set of employment rules. The pay regime was performance based. There was a significant element of pay that was “at risk”, especially for managers and senior professionals.

The State Services Commission has prescribed general policy parameters under

which Departments and Agencies are allowed to negotiate the terms and conditions of employment with their employees. These include:

- ‘Good employer’ and equal employment opportunities provisions
- Requirements relating to notifying vacancies, making appointments on merit, and implementing appointment review procedures
- Developing a Senior Executive Service (in conjunction with the State Services Commission)
- Good practice guidelines for bargaining strategies.

Pay structure and components

Grading and base pay structures

There is no centralised pay structure with grades spread across all Departments and ministries in the Public Service. In its place exist broad occupation ‘families’ with internal salary ranges. For example, the occupational family of policy analysts falls into three bands: analysts, senior policy analysts and managers (some Departments also have a special category for a select few who have management level skills but do not want to be managers). This system provided the most flexibility, aligned with fiscal control and performance incentives. The one exception is the centrally controlled pay policies and structures for Public Service Chief Executives.

Chief Executives

From 1988 the SSC used job evaluation to evaluate Chief Executive (CE) roles. Until 1997, CE’s pay structure was based on a payline, the potential remuneration rising according to the size of the position as measured in job evaluation points. From time to time the Government agreed to shift the entire payline or to allow more tolerance around the line but the SSC found remuneration issues were often less in the macro policy than in setting pay for specific positions requiring skills that were scarce in the market. The payline also limited the capacity of the SSC to recognise consistently high performance by a specific individual.

A new pay structure, settled in 1997, was built on a series of bands (currently 5 bands). Each band covers larger job sizes as measured in job evaluation points. The SSC still operates inside the total sum of money made available each year by the Government for CE pay, and the PM and Minister of State Services must agree to the results of the Commissioner’s negotiations.

Under the previous policy, the CE’s packages were composed of separate elements: a base salary and a set of benefits in kind (motor vehicle, employer superannuation contribution, professional fees and an expenses allowance of \$1000 pa). Since 1997 the pay is calculated according to a total remuneration approach, as a single sum. CEs can then choose the combination of pay and benefits they wish to receive. Whatever choices, there are no extra costs imposed on the employer.

Performance is linked to remuneration by an increase in incentive pay from 10% (before 1997) to 15%. This is calculated on the total package rather than base salary, as before

^{xvii} “Bargaining Parameters and Guidelines, Including Guidelines on Use of One-off Performance Payments and Other Special Payments, Approved by Government” from SSC; comment from the PSA, the main Public Service union, the partner in the “Partnership for Quality” agreement with the SSC, which represents the Government; and interviews with senior DoL personnel in the Office of the Chief Executive

1997. The performance pay is against the targets set out in a strategic incentive plan (SIP), built around the policy priorities of the Government. Measured against the fixed proportion of CE's packages (salary and benefits in kind, but excluding performance incentives) the average increase in Public Service CE remuneration was 7-8% in 1996/97 to 1997/98 (when the changes were made). The proportion of CE pay that is comprised of performance incentives rose from 4.3% to 6.9% of total remuneration in the same period. Along with fiscal constraints, CE pay is one centralised feature of pay policies and structures and it sets an influential precedent in the Public Service and wider State sector.

Departments

Each department designs and manages its own pay structure. Departments have taken different approaches to pay ranges but there was a common pattern of using external job sizing approaches to revalue jobs into larger families, and to have steps between the minimum and maximum points. Staff were generally hired within that range so that performance incentives existed, even for very experienced staff.

Many Departments and ministries initially sought external help from consultants and advisors. But they aimed to build up internal resources rather than permanently outsource what was considered a core organisational function. Staff and unions are involved in the design of the system which includes job sizing, job descriptions, ranges of rates and performance reviews, but the systems and final decisions on performance and pay are managed by the senior managers of the department.

Pay system

Division of roles and responsibilities for pay administration

NZ, unlike other countries, devolved responsibility for HR management to the Department level without first setting in place Government-wide policy frameworks or guidelines beyond those in the State Sector Act. Apart from limited restraints in the area of industrial relations, Departments were free to develop their own strategies, policies and practices. However this was modified over time and a defined set of bargaining parameters grew in size and specificity.

In NZ's devolved model of government, the Treasury has been highly influential in setting the overall fiscal parameters. The annual budget process sets the degree of fiscal movement a Department could expect. This movement was not exclusively a pay movement but a total package for the Department, including the funding of new policy and operations. The SSC co-ordinated bargaining parameters and in addition, controlled CE pay policies and structures. Since 1999, the Government has revitalised the role of the Commission as a central co-ordination body, with a responsibility to bring the devolved system together around a new set of bargaining parameters. These parameters now place more attention on the development and maintenance of capability in the Public Service.

Departments are able to develop policies for their internal implementation, with the maximum amount of flexibility to suit their business, within the centrally determined fiscal conditions. They decide on pay within that total package, subject to the bargaining parameters set by the Government.

There are moves since the Employment Relations Act 2000 to reintroduce unions back into the pay making process, though their long absence and consequent declining membership has left them severely under-equipped to fill their revised role.

Departments: movement within pay bands

There are no automatic increments. Movement within a range is based on performance appraisal, and movement to another band (e.g. analyst to senior analyst) is normally by formal appraisal by a panel set up within the department.

Pay levels and movement are constrained by overall budgetary considerations applying to the Government as a whole, and then cascaded down to each Department. There is no longer a set appropriation dedicated to personnel expenditure.

The market determines entry pay, although education may be one factor. Pay rates for entry-level jobs in the public sector are similar to those in the private sector although the gap widens as job size increases. Public sector senior management positions (including Chief Executives) tend to be paid about 80 –85% of the pay rates for equivalent positions in the private sector. The gap is slightly larger when incentive payments are included.

SYSTEM AND MECHANISM FOR DETERMINING PAY LEVEL AND PAY ADJUSTMENTS^{xviii}

For the Chief Executives pay, the SSC makes comparison to CEs working in the wider State sector, rather than to the private sector. For their staff, Departments generally compare across other Departments and ministries on remuneration, either through active co-operation or through the effects of market forces, which have required Departments to understand what others pay.

As an example, the Department of Labour (DoL) used to employ a payline approach to revalue jobs. Job sizing was used to group roles into job families, in a band with an upper and lower limit. The job sizing was carried out for each job family within each of the six service units in the Department, with an allowable variation of 5%. Each year the payline was updated with market data from a variety of sources. If a divergence showed that this exceeded + or- 5% of the previous payline, then an adjustment was made to pay to bring it in to line. However, because the payline approach was seen as over smoothing changes in the market, DoL has now adopted a “basket” approach. Two broad types of surveys are conducted:

- Position-based job survey approaches, where DoL job descriptions are compared with generic job descriptions in the same category (e.g. DoL safety inspectors with inspectors generally)
- Job-evaluation approaches, where a job is evaluated from scratch without comparison.

DoL recognises it has a special problem when the Public Service is the only employer of specific roles e.g. Immigration Officers. As such, while the Public Service is used as the basis of the comparison for many positions, for these and most senior positions the whole job market in public and private sectors is used. DoL aims to compare at the median point, accepting it is not a market leader, but it is under some pressure with some of its service units (particularly its policy unit) to raise the comparison level.

Although the basket approach answers the problem identified with the payline approach, there are still internal variations between the service units (up to NZ\$15,000) that are causing concern. There is also concern about the accuracy of the position evaluation methodology (used in both payline and the “basket” approach), as persuasive position holders can sway the objectivity of the exercise.

Arrangements for the Disciplined Services^{xix}

The Disciplined Services in NZ also operate under devolved and decentralised management. Customs and Immigration are both departments in the core Public Service, and their conditions of services and pay are largely in line with the remainder of the Public Service. Police stand outside the Public Service because of the independence the Police need from the political process. The Police Commissioner is appointed directly by Parliament, but the last appointment was facilitated by the SSC – indicating the extent to which the Police are inside the Public Service by convention, if not by law. Legislation is now in train to confirm this approach to the Commissioner’s appointment.

One feature common to all the above services is that they remained strongly unionised in comparison to the ‘civilian’ Public Service, even in the decade of radical change in NZ. While changes in pay policies and structures extended to both civilian and Disciplined Services, it was widely recognised that the changes were more difficult to implement in the disciplined forces. There have been several contributing factors: strong unions, older workforce profiles, and a greater reluctance to identify and measure performance because of the culture of strong hierarchies and ranks achieved through years of experience.

Police Service

The NZ Police are distinguished from the Public Service by having no right to strike, and by having an compulsory arbitration procedure with ‘final offer’ arbitration at the end of it if negotiations fail. Final offer means that each party has to state its position and what it wants, and the arbitrator chooses one of the offers. There is no right of appeal.

While final offer arbitration is intended to modify extreme outcomes, it has worked against substantial change and has led to conservative outcomes over

time. Typically, when a range of complex issues go to the final offer, they are simplified to win the

^{xviii} Pay Movement Trends and Labour Cost Index, Statistics New Zealand; and interviews with senior DoL personnel in the Office of the Chief Executive

^{xix} Interviews with the Director of HR in the NZ Fire Service.

contest. This has meant matters of pay details have been avoided in favour of a percentage blanket settlement.

The efforts to improve the relationships and environment led to a ‘Police Negotiating Framework’ in 1995, based on good faith- and information-based bargaining. Arbitration was required in 1997/98, but the last two bargaining cycles since then have been settled in negotiations without the need for arbitration.

The Police began a process of job sizing following the introduction of that framework, and constructed a payline, job families and ranges of rates with performance-based progression. Performance-based pay has not been successful however, and acts in a fashion similar to increments. The job families are generally linked to ranks, but not absolutely. Historically, rank was not always given because of job size (an example has been the ranks of those in the Police Training College).

The Police Department is divided into sworn and non-sworn employees, which was felt to be widely divisive. Prior to the Police Amendment Act 1989, the State Services Commissioner was the employer of non-sworn employees, and sworn employees were under the Police Commissioner. The Act brought them together, but did not obliterate the history. Though there are two different frameworks for pay, there has been greater success in joining the remuneration setting processes into one industrial negotiation. However, links are made to the wider job market for non-sworn employees, but not for sworn officers.

Fire Service

The employer of fire service personnel is the Fire Service Commission, which reports to the Minister of Internal Affairs. For pay and conditions of service, the Fire Service is divided into two, with two associated paylines: the ‘base’ of 1690 Firefighters, and the 434 management and support staff.

Pay and conditions for the ‘base’ fire-fighters are established through a fixed point salary, which is skills-based and established by a collective employment contract negotiated with the Fire Service Association (union). There are defined hierarchies. Employees start as *Firefighters*, and after two years normally progress to be *Qualified Firefighters*. After five years progress can be made to *Senior Firefighter* status. This is an automatic progression as long as time is served and skill levels are attained through courses and examinations. Then there are two levels of officers: *Station Officer* (who is the first line supervisor for a crew of 4 Firefighters of various ranks); and *Senior Station Officer*.

For historical reasons, there have been only modest attempts to radically reform these arrangements for the ‘base’ fire-fighters. A long history of difficult pay negotiations and a strong union meant that change has not been possible at this level. Performance pay and bonuses have not been used among these employees.

Change however, has been made to the management in the Fire Service. The change was implemented largely through an organisational restructuring of the Service, which required senior staff to reapply for jobs. Job sizing was carried out for all non-operational and management jobs. Non-operational staff have been indexed against the public and private sector job market (all jobs) because the Service recruits from that whole market.

Non-operational staff are paid in relation to performance – both in base salary movements and by bonuses. The performance appraisal is not directly tied to pay reviews but it does inform the process. Performance is linked to objectives and targets.

Customs Service

Unlike the Fire Service, the NZ Customs Service has not attempted radical restructuring but has sought to introduce change incrementally. Resistance to change has been high and industrial relations have been divisive. Older staff have remained on dated conditions and, for instance, impose a very high cost in overtime (13% of staff have between 30-40 years of service, and 25% between 20-30 years).

The history of industrial relations has led Customs to adopt short-term expedient actions in attempting to introduce changes in conditions and pay, such as atomising pay scales around narrow, specialist job descriptions rather than broader job families. This is contrary to the trend in the rest of the Public Service. The Department was also slow to introduce performance management and performance related pay.

A crisis point was reached in 1998, with a financial deficit partly generated by an expensive new IT system. The Department was forced to restructure to drive down costs, moving to a national service from its original regional basis. A competency framework was put in place. This allows on-job skills training and recognition, with pay consequences.

The Experience of Changing Pay Administration Arrangements

Experience of replacing fixed pay scales

The NZ Public Service replaced fixed pay scales with pay ranges following the State Sector Act 1988. Most departments started with the traditional fixed scales and progressively re-sized jobs into job families with ranges within them, largely determined by performance. (*See details of the arrangement in “Departments: Movement within pay bands” in the previous section*)

The aim was to achieve greater flexibility in order to engender improved performance and greater financial discipline. There was also a strong belief in the superiority of the market over centralised intervention in determining pay.

Coverage extended to both civilian and disciplined services – but was more difficult to implement in the disciplined forces. This had several contributing factors: strong unions, older

workforce profiles, greater reluctance to identify and measure performance because of the culture of strong hierarchies and ranks achieved through years of experience.

Fiscal discipline was maintained by the wide use of ‘one-off’ performance bonuses rather than rises in base pay. However, the current Government, whilst not wanting to wind back an emphasis on performance, has made it clear that in future it wants good performance to be rewarded through consolidation into the base pay of employees.

EXPERIENCE OF INTRODUCING PERFORMANCE-BASED REWARDS

The NZ Public Service introduced performance appraisal systems, leading to performance pay, in the late 1980s. The responsibility for this was at the Department level.

New Zealand embraced performance appraisal and performance pay to drive and lift performance in the Public Service. This related to a widely held view by ministers in the Government that the Public Service was under-performing. At the same time, the influence of the private sector was very large and it was recognised that rewards and sanctions needed to go together. The aim was to create an internal labour market in the public sector to exert pressure on performance.

Performance management framework

Performance appraisal systems and performance pay is largely at the individual level, though a number of departments also reward teams where a team project has been successful.

It operates on a hierarchical basis: CEs have a specific performance agreement with the State Service Commissioner who is the apolitical agent of the minister(s) that the CE serves. This performance agreement is based on targets to be achieved, and standards of agreed behaviour that are then cascaded down from the CE to the senior management of the Department or ministry. The managers in turn expect achievement of certain targets and demonstrated behaviours from their staff. A range of approaches is encouraged, as long as the approach is valid. The Balanced Scorecard is one of the approaches adopted.

Performance based rewards follow from the performance appraisal system. The appraisal systems operated vary between Departments but invariably involve a blend of peer judgements and objective data on a range of criteria, including qualitative and quantitative skills, communications and interpersonal skills, and evidence of outputs. Competency frameworks are very common as a guide to assessment – usually adapted to the specific work of the Department.

Budgeting for pay movement

Departments take the responsibility for budgeting for performance-related pay. The CE has full power to make independent decisions but there are conventions that are observed, and the State Service Commissioner and the Head of the Treasury will ask questions if the size of the pot appears excessive. However, a newly formed organisation, or one that has aging staff, or has new tasks requiring new capabilities, will be expected to have active strategies to find or reward the necessary capabilities.

Typically, the HR unit within the Department has the role of determining the amount that is put into reserve for performance-related pay. They normally keep extensive records of previous years decisions, and have the records and profiles of staff at hand in order to make their recommendation.

Forms of performance pay

The majority of public servants have a performance related element to their pay. The scale, however, varies with the position, and with the policies of the department involved. There has been some scaling back from the 1990s when a substantial element of senior managers and professionals pay was “at risk”. For other staff too there has been a reduction, for example the Department of Labour has decreased its performance related pay element from 5% to 2.5% in 2000.

Performance-related pay comes in a range of forms:

- Bonuses, typically paid at the completion of a defined project (that is, the bonuses can occur throughout the year, on a continuous basis). The use of one-off bonuses is declining however, under the present Government’s policies
- An advance in the band of salary that the staff member is in. This embeds the performance pay into the ongoing salary of the recipient. This advance in base pay is typically only made once a year at the formal annual appraisal, but departments usually have policies that allow a manager to make such a recommendation at any time of the year, particularly if performance is outstanding or the likely recipient needs recognition to retain their services
- An advance in the salary band to a higher band, as in fewer cases. This decision is usually on the basis of sustained performance, and again, except in exceptional circumstances, it is the subject of a review panel, not the decision of the manager of the unit in which the recipient works.

The Police noted that their performance management system did not work as intended: some units within the Police set aside sums of money that were then split evenly between those who were eligible – in effect working like annual increments.

Impact and success of change

Performance appraisal and rewards are now firmly embedded in the culture of the NZ Public Service and, with few exceptions among professional level staff, is positively embraced. The financial implications of the reforms in the 80s and 90s were considered positive by the Governments of the day. Labour costs were held and labour productivity in the Public Service improved.

From the point of view of Public Service managers, the performance appraisal and rewards system is a way of learning from feedback, with the opportunity to lift performance and grow in the role.

It is accepted less by staff in lower positions, because they perceive that the rewards go to the prominent positions. In many departments this is recognised and addressed by ensuring sums of money are dedicated to lower positions, and the same system of performance targets and objectives is used to moderate that negative perception.

Issues arising and future developments

The new Government has moved to 'mainstream' performance pay into the base salaries of staff. One implication is that it is becoming locked into future pay, and management may be more cautious in using it. However, performance and base pay have been strongly linked in NZ since 1988 and the new Government is not overturning that.

EXPERIENCE OF SIMPLIFICATION AND DECENTRALISATION OF PAY ADMINISTRATION

The State Sector Act (1988) and the Employment Contracts Act (1991) significantly altered the pay administration of the NZ Public Service. Essentially, central structures and mechanisms for pay were taken down and the responsibility passed to the CEs of the Public Service organisations.

Before the State Sector Act of 1998, the State Services Commission was the central personnel authority for all Departments in Public Service. It employed all Departmental staff, and prescribed personnel policies and procedures in the Public Service manual. The State Sector Act devolved responsibility for human resource management from the SSC to the Chief Executives of Departments, within parameters defined in the Act.

Approach to introducing these changes

The implementation was given some direction by the central agencies, and the State Services Commission in particular. But the SSC delegated all its powers for collective employment negotiations to CEs of Departments and ministries, and implementation was largely devolved. However, Departments and

ministries were required to take account of the bargaining parameters set by Government and to consult the SSC about their bargaining strategies.

Many Departments and ministries sought external help from consultants and advisors. There was a concerted move, however, to develop and maintain internal resources rather than permanently outsource what was considered a core organisational function.

Impact and success of the change

From the point of view of Public Service managers the changes were a success, because they had more direct control over a key item of resource capability and expenditure.

From the point of view of some employees the changes shifted power markedly from organised labour (unions and professional bodies) to the employer. The balance has come towards the centre with the repeal of the Employment Contracts Act.

Issues arising and future developments

New Zealand continues to maintain a highly decentralised pay system but the new Government is seeking to recreate a centre to tie that decentralised system into a more cohesive whole. This translates into tighter central bargaining parameters. The fiscal control that has always dominated in NZ continues, but the Government is willing to make more investment in departments showing signs of strain. An example of this is the Department of Courts, which received a large sum for staff recruitment and development outside of the 2001 Budget cycle.

Points of Interest

Key factors which have shaped and facilitated current pay administration arrangements

A number of key factors underpin the success of the current pay arrangements in New Zealand:

- The reforms in pay policies and structures were part of much larger reforms to the role and business of Government. The importance of this cannot be overestimated. Fiscal disciplines for departments and a strong accountability system preceded the HR reforms and provided the necessary parameters for the market approach to pay policies and structures
- NZ believed that the differences between agencies in the Civil Services outweighed their similarities, and was prepared to have different job structures with internal ranges of rates to suit the profile of the agency, and its culture and its business. This did not mean abandoning a 'Civil Service' bound by common values, but it required those values to be revisited and found, not in common structures and pay, but in common constitutional roles and a common focus on serving the public

- There was a wide acceptance that ranges of rates and related performance management were not going to be perfectly achieved first time, and that all parties needed to work through the resolution of issues and implementation. Clear processes and staff involvement were crucial along with a firm management commitment to implementing ranges of rates. In particular, management was required to model the disciplines that staff were asked to follow
- Maintaining fiscal discipline while achieving performance was NZ’s primary concern. One feature of its maintenance was the wide use of “one-off” performance bonuses rather than rises in base pay. The whole pay system was inside the management control of the Departments, which had strong incentives to cap the pay movements of their staff. But longer term, the effect of the downward pressure on departments to manage their costs has meant that Departments have ‘done more for the same’, or only slowly growing, funding over a decade. This has led to some crises in capability, which now concerns the current Government
- Another factor contributing to the current arrangements is the Government’s recognition that pay reform is an evolving issue and there has to be an acknowledgement and willingness to change tack when something has been proved not to work – whether it has been disadvantageous to specific groups or to the “business” of Government as a whole.

Key trends

Against the background of these highly decentralised pay administration arrangements, we note the following key trends in the New Zealand Public Service model:

- While there is a strong emphasis on performance and linking performance to pay, the current Government has moved to give more emphasis to ‘mainstream’ performance pay built into the base salary, rather than one-off performance bonuses
- To maintain a highly decentralised Public Service pay system, the Government is seeking to enhance the central co-ordination of pay administration in order to create a more cohesive whole, effectively through two measures: tighter central bargaining parameters and more flexibility from the centre. The centre can on one hand exercise stringent fiscal control to guard against excess resources and, on the other, make more investment in Departments showing strain
- Many Departments and agencies have commissioned external consultants and advisors in developing and implementing their own pay arrangements to meet their own requirements. Seeing this as a core organisational capability, they tend to seek help to build up internal resources and skills rather than permanently outsource.

APPENDIX D – SINGAPORE COUNTRY SUMMARY

The Government Context

Organisation of Government^{xx}

Singapore is a parliamentary republic; a city state with a governing structure patterned on the British system of parliamentary Government. Executive power lies with the Prime Minister and his Cabinet who direct and control the Government and is responsible to Parliament. Each of the Government ministries is headed by a Minister who is a Member of Parliament, and a Member of the Cabinet and is accountable to the Parliament for all the Ministry's affairs.

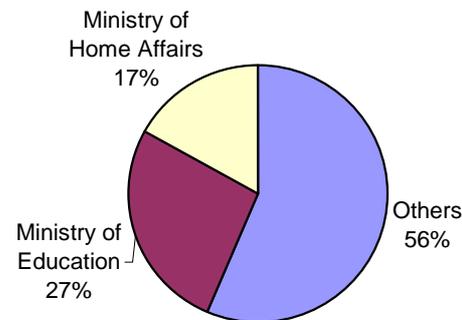
Singapore has only one level of government i.e. national and local government is one and the same - a form of government that reflects the country's small population of about 4.01 million. As at January 2002, there were 14 ministries, 21 Government Departments and 68 statutory boards.

As a governing body for both the nation and the city, the Singapore Government is responsible for planning, budgeting for and supervising the majority of key services. The actual delivery of some services has been devolved to statutory boards. These are an autonomous Government agencies set up by special legislation to perform specific functions. Some statutory boards have formed subsidiary companies to add further flexibility to their operations for example, charging fees for service provided. Others have been further corporatised and subsequently privatised. These include power and gas provision, telecommunications, and broadcasting.

The Civil Service^{xxi}

There are a little over 114,500 people in the Singapore public sector, including of the civil list, political appointments and servants who work in 14 ministries and employees of the statutory boards. The sector accounts for around 5.23% of the working population.

What is normally called the 'Singapore Civil Service' excludes statutory boards, government-owned enterprises and the Singapore Armed Forces. The Civil Service proper employs 63,300 staff, or 55% of the overall public sector. Within the Civil Service, some 270 (0.43%) belong to the elite Administrative Service and hold key leadership positions in government ministries and the major statutory boards. Some are also seconded to Government linked companies.



"Others" refer to other ministries, the Prime Minister's Office and other civil servant and political appointments

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^{xxi} "Public Service Reforms in Singapore", Janet Tay, http://magnet.undp.org/Docs/psreform/civil_service_reform; Personnel Policy Department, Public Service Division, Prime Minister's Office; "Yearbook of Statistics - Singapore 2001", Department of Statistics,

Ministry of Trade and Industry, Republic of Singapore; <http://www.admainservice.gov.sg/main.htm>; "The New Public Administration: Global Challenges Local Situation - The Singapore Experience", Paper presented at the biennial Commonwealth Association for Public Administration and Management (CAPAM) Conference, 21-24 April 1996; Principles of governance as outlined by Mr Lim Siong Guan, Head of Civil Service, in the Singapore Country Paper for ASEAN Resource Centre, Seminar on Leadership, Ethics and Public Sector Reforms, 22 to 24 September 1999

The equivalent of the Hong Kong Disciplined Services (or what are called the Home Affairs Uniformed Services in Singapore) are considered as part of the Singapore Civil Service, and come under the Ministry of Home Affairs (MHA). The exception is the Customs and Excise Department which sits under the Ministry of Finance. The number of employees in the Hong Kong Disciplined Services equivalents is around 20,000, of whom the police account for about 13,000 or 65% (this figure excludes National Servicemen).

The overwhelming majority of staff in the Singapore Civil Service are employed on a permanent basis. Fixed period contracts are not widely used - only for projects requiring very specific skills. Continuity of service or skills availability is a key consideration for converting contract staff to continuous terms of service

The key values underpinning the Civil Service are:

| Principles | Practices |
|-----------------------------------|--|
| Leadership is key | <ul style="list-style-type: none"> • Strong political will and example of political leaders and public servants in terms of integrity and honesty (through strict adherence to a code of conduct) • Constant re-inventing of the way the Government does its business in response to external challenges |
| Reward for work, work for reward | <ul style="list-style-type: none"> • Meritocracy and equal opportunities for all in terms of <ul style="list-style-type: none"> - open and fair recruitment and selection based on educational qualifications and relevant experience - effective performance appraisal • Market rates for civil servants |
| Pragmatism and a sense of urgency | <ul style="list-style-type: none"> • Continual learning by doing and through constant review and improvement • Will to make and implement difficult decisions |

The Singapore Civil Service is generally regarded as efficient, thorough, strategic and pragmatic having facilitated demonstrated improvements in service delivery over recent years. The current upgrading and increasing emphasis on IT, however, is of concern to some sectors of society, especially citizens of an older age profile, arguing that these developments seem to be serving the Government more than the public. As an employer, the Civil Service is viewed positively, in particular as a training ground for new recruits.

Public Sector Reform

Public sector reforms^{xxii}

The Civil Service has undergone some significant reforms over the past two decades beginning in the early 1980s. The focus has been improved delivery of service to the public and a more devolved financial management, as set out below:

- **Managerialism and budget reform.** Principles of business management were introduced into the Civil Service. Key initiatives included the introduction of block vote budget allocation system and a management accounting system (activity based costing) and implementation of zero-based reviews within the ministries

- **Corporatisation/ privatisation and establishment of statutory boards.** Privatisation is one of several long-term means considered by Government to achieve progressive decentralisation and devolution of many traditional roles and functions. A degree of Government control is still maintained through share ownership in the numerous state and quasi-state companies, organised under wholly owned government holding companies (e.g. the Temasek Holdings Private Limited), and also through movements of former civil servants to head key positions in such organisations. A mixture of privatisation, corporatisation, formation of statutory boards and other managerial initiatives has been used as tools to enhance and maintain efficiency of Government organisations.
- **Shift to client-oriented public administration.** The shift towards more client-centred public administration has taken the form of providing more efficient customer-based services, through streamlining rules, procedures and red-tape using computerisation and other approaches. The most recent initiative is the introduction of PS21, or Public Service for the 21st century, which aims to transform mindsets and create a culture within the Civil Service that welcomes continuous change for greater efficiency and effectiveness.

These initiatives, coupled with a Government directive in 1986 to reduce its workforce by 10% over the subsequent five years, were successful in improving overall efficiency. There were no recruitment freezes but hiring policies were limited to replacements for necessary personnel. Attempts to improve customer service have also been successful - particularly counter and processing services in Government Departments and offices. A holistic approach was adopted in implementing such initiatives, and accompanying changes were made to the appraisal system, rewards and development systems to support the strategic imperatives.

Pay specific reform^{xxiii}

Pay reform in the Singapore Civil Service has taken place in the broader context of personnel-related reform. In particular, this included constitutional amendments in 1995 to delegate recruitment and promotion functions, for all grades of staff except the Administrative Service, from the Public Service Commission to the various ministries, through a system of Personnel Boards.

Key developments that have characterised the pay reform include:

- Introduction of a **flexible wage system** in July 1988 driven by the economic recession of 1985. This enabled the award of wage increases, on top of salary increments, as a mid-year or year-end variable bonus. It also provided the government with increased flexibility to adjust wages in response to future economic situations
- Move towards more **competitive salaries for top civil servant talent.** There was a substantial salary increase for both Administrative Service officers (about 20%) and other senior civil servants (from between 21% to 34%) at the end of 1993 in response to low recruitment and high resignation rates. In 1994, salaries for senior staff were pegged to those in the private sector by setting formal benchmarks. Two points are used: Superscale G for senior civil servants and Staff Grade I for Ministers. Other salaries are then interpolated or extrapolated from these two points.
- Introduction of **performance related pay for all civil servants**, linked to individual

performance

- **Encashment of medical benefits and the gradual phasing out of pensions** as part of the government's move to reduce liabilities for the future generations. The former resulted in an addition component to civil servants' salaries of 1% to be used to contribute to their individual Medisave account. This is a national savings scheme that helps individuals set aside part of their income to meet hospitalisation expenses.
- Introduction of **salary ranges for senior civil servants** to increase flexibility in personnel management. Officers can be rewarded with merit increments within their salary range each year depending on their assessed potential and demonstrated performance.

Broad impact of reforms

On the whole, these reform initiatives have been seen as successful in meeting their stated objectives. It is still too early to tell, however, whether more recent interventions, such as the introduction of salary ranges for senior civil servants and the performance bonus, have had an equally positive impact. Overall, the Civil Service has found that effective change management and a flexible implementation approach have been critical to ensuring successful buy-in of these change initiatives.

Overview of Current Pay and Administration Arrangements^{xxiv}

Pay administration principles and policies

Determination and implementation of pay policy

Pay policies are centrally determined by the Public Service Division (PSD), who also ensure that various ministries implement them in a consistent way. With the devolution of personnel functions to the various ministries there is now greater flexibility for them to influence pay policies and practices relevant for their staff. A recent example is the Ministry of Home Affairs' review of the Home Affairs Uniformed Services in 2000 where an external consultant was engaged to undertake the review of these services.

The Ministry of Finance is in charge of the overall budget for each ministry, which would include the budget component for manpower expenditure. PSD would oversee the budget pool for specific salary components such as Performance Bonus. Ministries are responsible for the administration of their staffs' salaries, within the frameworks that are jointly established with PSD. Ministries have autonomy to make certain variations to cater for the specific needs of the

^{xxii} "Public Administration in Singapore: Continuity and Reform" by David Seth Jones, Handbook of Comparative Public Administration in the Asia-Pacific Basin, Ed. by Hoi-kwok Wong, New York: M Dekker, c1999

^{xxiii} "Economic Restructuring and Flexible Civil Service Pay in Singapore" by David CE Chew, Public Sector Pay and Adjustment - Lessons from five countries, Ed by Christopher Colclough, Routledge, Great Britain, 1997; "Wielding the Bureaucracy for Results: An Analysis of Singapore's Experience in Administrative Reform" by Jon. S.T. Quah, National University of Singapore, Asian Review of Public Administration, Vol. VIII, No.1 (July- December 1996)

^{xxiv} Personnel Policy Department, Public Service Division, Prime Minister's Office; "Economic Restructuring and Flexible Civil Service Pay in Singapore" by David CE Chew, Public Sector Pay and Adjustment - Lessons from five countries, Ed by Christopher Colclough, Routledge, Great Britain, 1997; <http://www.gov.sg>

relevant services within the overall Civil Service guidelines as long as they do not exceed the block vote budget allocated to them.

Pay principles

The Civil Service operates on the following pay principles:

- **Comparability with the private sector.** In recent years, there has been an increased emphasis on competitiveness of civil servants' pay vis a vis the private sector, although the policy is for their pay to be pegged to, but not to lead the market
- **Annual salary reviews.** To remain competitive, Annual Salary Reviews are conducted to identify salaries that need revision. The Civil Service takes into account the annual wage adjustment recommendations of the National Wage Council and follows its principles of wage adjustment in salary revision exercises
- **Flexibility in the wage structure of civil servants.** The wage structure for civil servants is made up of a number of components which can be adjusted based on the performance of the economy without affecting take home pay too adversely. Recently additional flexibility has been added through introduction of by performance bonus linked to individual performance.
- **"Clean wage" policy.** Civil servants are paid "all cash" wages which is indicative of a move away from paying a wide variety of allowances, provision of free housing, and offering free medical benefits. One initiative was a transfer from the Civil Service pension scheme to a national Central Provident Fund (CPF) scheme.
- **Internal Relativity.** Educational qualifications remain an important factor in determining starting salaries and for entry into the Civil Service
- **Long term strategic view.** The Civil Service adopts a long term strategic view on pay administration matters. This has had some important implications for the design of the pay structure and system:
 - The Civil Service has sought to strengthen the links between pay for the high level Administrative Service and top private sector salaries. This reflects a recognition of the need to stem the outflow of good officers from the Civil Service which would ultimately affect succession to top positions
 - While there is a desire to adopt the latest and best practices, policy makers are always cognizant of the need for long term public accountability
 - PSD's preferred stance on Civil Service salaries is for adjustments to fluctuate within a narrower band than is the case for the private sector. This allows for greater stability in the longer term, which is seen as important to ensure that employees remain motivated to deliver quality service.

Pay structure and components

Grading structure

Jobs in the Singapore Civil Service are classified according to four Divisions (I to IV) based on very broad levels of work and educational qualifications, as set out below:

| Division | Details |
|--------------|---|
| Division I | Generalist administrative and professional grades (requires a university degree) |
| Division II | Includes the executive and supervisory grades and requires at least an Advanced General Level Certificate of Education |
| Division III | Includes the clerical, technical and other support grades with an educational pre-requisite of a General Certificate of Education |
| Division IV | Workers engaged in manual or low-level routine work (e.g. office attendants) are placed in this category |

These are further disaggregated into broad occupational groups e.g. administrative group, nursing group etc. Each group is divided into a single recruitment grade (the term grade in Singapore is synonymous with the term 'rank' in Hong Kong) and one or more promotional grades, reflecting different levels of work responsibility and difficulty.

The grades of the administrative group (Senior Officers and the elite Administrative Service) are all in Division I but those of other groups can span Divisions for example, a student nurse will be in Division III, and a chief nursing officer in Division I.

The terms and conditions of many groups are formalised in schemes of service, which prescribes the entry qualifications, grades, salaries, broad duties and responsibilities, probationary period, appointment, career structure and promotion requirements of its group. One of the key developments over the last five years was the amalgamation of schemes of service in the Civil Service into broad Service Groups: Senior Officers, Management Support Officers, Technical Support Officers, and Corporate Support Officers. This change was aimed at widening the development prospects and improving the deployability of officers.

Approach taken in designing pay structures

Pay structures are designed using a hybrid of the job-based approach. Job evaluation is used to rank jobs within a certain scheme of service into ascending levels of difficulty and responsibility. The aim is to ensure:

- Equal pay for equal jobs
- Promotion always involves movement to positions of higher job responsibility.

The internal relativity of the various schemes of service and their salary ranges, however, are not an issue in practice as they are all pegged to their respective market rates according to qualifications and, in most cases, age.

Civil Service pay structure

Since 1988, the Civil Service has moved towards a flexible wage system. The current pay structure has flexible components both in the monthly wage and annual bonuses:

Monthly Wage Components

| | |
|---|---|
| Basic pay | Fixed and counted for the purpose of computing an officer's pension. |
| Non-Pensionable component (NPC) | Found in the salaries of officers who are on medical benefits schemes with co-payment features. NPC helps offset the co-payment expenses officers have to make for their own healthcare. Officers who did not opt to convert to medical schemes with co-payment features do not receive this component. Not counted for the purpose of pension computation. |
| Monthly variable component (MVC) | Comprises the 1982-84 National Wages Council (NWC) Wage Adjustments. MVC is counted for the purpose of computation for pensionable officers and can be adjusted in times of poor economic performance. |
| Non-Pensionable Variable Payment (NPVP) | Comprises all NWC wage adjustments and salary revisions made from 1993 onwards. It is not counted for the purpose of pension computations and can be adjusted in times of poor economic performance. |

Annual Bonuses

| | |
|---|---|
| Non-Pensionable Annual Allowance (NPAA) | 1 month's pay - similar to the Annual Wage Supplement or 13th month pay in the private sector. It has been paid since 1972. It is paid in December every year and can be removed in times of poor economic performance. |
| Annual Variable Component (AVC) | Up to 2 month's pay - this component was built up from the NWC wage adjustments for the period 1988-1991 when the NWC wage adjustments that were payable to civil servants were used to build up the AVC rather than incorporated in the monthly salaries. The AVC is paid in 2 instalments -in July and December and can be removed in times of poor economic performance. |
| Special Bonus (SB) | This component is a one-off payment that is made during years of exceptionally good economic performance. |
| Performance Bonus (PB) | This component is variable and depends on the performance grading of the individual officer. The Scheme covers officers at the senior and middle management levels. |

The pay structure for most of the Civil Service is characterised by fixed salary scales with fixed minimum, maximum and increments. The exception is the Administrative Service' salary scale and salary points which have been replaced by a system of salary ranges in 2000.

Under the current arrangements, the variable and semi-variable components can amount to 30% to 40% of the base salary to provide an adequate cushion for adjusting salaries during times of

economic recession. Employees are constantly reminded that a significant part of their earnings are “at risk” and dependent on the health of the economy as a whole.

There are few allowances given under the Singapore Civil Service pay structure. The more common allowances include:

- A transport allowance for senior civil servants. This is in line with the "clean wage" policy and is also consistent with the Government's wider policy to control the number of cars in Singapore
- A special allowance for Administrative Officers, Statutory and Political Appointments. An allowance equivalent to one month's salary in recognition of officers who hold premier positions, or who have been assessed to have the potential to hold senior positions
- Special allowances are paid to more junior staff where specific risk or hazardous working conditions apply eg certain areas of police work.

Typical benefits include vacation and medical leave, low interest rates for housing, housing renovation, vehicle and computer purchases, use of local Government Holiday Bungalows and membership at the Civil Service Club. There may be some minor variations across the ministries e.g. some ministries allow the use of overseas holiday bungalows and chalets.

Pay system

As mentioned above, decisions on salary upon appointment and promotion are made by the various Personnel Boards according to PSD guidelines. With the exception of senior civil servants, pay administration is the responsibility of the respective ministries.

Key features of pay administration process

The key features of the pay system for the Singapore Civil Service are as follows:

- **Determination of entry pay.** Entry salary is determined based on qualifications, relevant years of experience and national service. Honours degree holders are paid higher salaries than pass degree holders. Applicants who have completed National Service are awarded an additional increment in recognition of the service they have performed.
- **Movements within salary time-scale or salary range.** Officers on salary time-scales progress on the basis of fixed annual increments until they reach the scale maximum. Only in rare exceptional cases do increments vary from the norm. Annual increments have traditionally been granted in Singapore virtually automatically, except for flagrant displays of inefficiency (or disciplinary cases such as officers who have been charged for corruption).

Officers on salary range are given merit increments within their salary range each year depending on their assessed potential and demonstrated performance.

Systems and mechanisms for determining pay levels and pay adjustments^{xxv}

The systems and mechanisms for determining pay levels and pay adjustments are partially decentralised. The pay structure is centrally managed and regulated by the PSD, which carries out an annual state of service review to examine the various services' 'health' in terms of attrition and vacancy rates, pay competitiveness etc. In addition, various ministries are given the autonomy to review the competitiveness of their unique schemes of service. Comparators used include the wider public service and the private sector. Such data can be used to inform the ministries' consultations with PSD. The basis for pay level adjustments in the Singapore Civil Service is broad comparability with the market but not to lead it. At the same time taking into consideration any prevailing recruitment and retention issues.

Actual pay levels and pay adjustment mechanisms

For senior civil servants a formula has been set to peg pay to salaries of top earners from a basket of 6 professions. These have been chosen based on similarity with the nature of work performed by such civil servants e.g. bankers, accountants, engineers, lawyers, multi-national companies and local manufacturers. The point of comparison is the average of the principal earned income of the 15th highest tax payer, aged 32 years old, belonging to each of the 6 professions.

It is clearly stated that the benchmark figure is an estimated average, not a fixed entitlement and includes basic pay, NPAA, AVC, a typical Performance Bonus, a car allowance (plus imputed tax), plus a new Special Allowance. Benchmarks are computed annually, based on income tax returns data. Salaries automatically follow the benchmarks up or down, albeit after a lag. The benchmarks are reviewed every 5 years.

For most civil servants (ministers are an exception) the benchmark is not "discounted". This is based on the argument was that it would be unrealistic and unfair to expect civil servants to make a financial sacrifice compared to their private sector peers, in order to enter public service.

The first review of the Administrative Service benchmark in 2000 revealed that salaries in the private sector were anything up to 50% higher. Instead of accepting these figures at face value, and increasing salaries to match them, the Government thoroughly reviewed the salary benchmark methodology and framework. It was found that overall the benchmark was sound in that it had been effective in attracting and retaining good officers in the Administrative Service for the past 5 years. They chose, therefore to retain the benchmark approach as it stood.

For the rest of the Civil Service, PSD undertakes comparisons with the market pay on an annual basis. The comparison is against aggregated income data from the CPF Board and the IRAS. Ministries are given the autonomy to engage consultants to conduct salary surveys and the outcomes will be used to inform their consultation with the PSD regarding the status of specific schemes of service. Services suffering from critical staffing level will be given interim market adjustments when the gap with the benchmark widens beyond a certain amount, for example 15%.

^{xxv} Republic of Singapore "Competitive Salaries for Competent and Honest Government: Benchmarks for Ministers and Senior Public Officers", Singapore, White Paper, Command 13, 21st October 1994; Personnel Policy Department, Public Service Division, Prime Minister's Office

Recent salary adjustments^{xxvi}

A range of factors has triggered salary adjustments and often a fine line has to be trod between balancing economic conditions with recruitment and/or retention issues.

Government considers that in times of economic downturn, it has a duty to send a clear signal of the gravity of the situation, and to set an example by taking the lead in wage restraint. As such as recently as last year, political appointment holders and senior civil servants, whose salaries are tied to the private sector salary benchmarks, had their monthly salaries cut by 10% from 1 Nov 2001 for 12 months. No year-end AVC payments were made except to lower level civil servants (Division II-IV) whose salaries are lower. All other adjustments to their salaries would be frozen during this period. The cuts affected the variable components of the monthly salary but not the basic pay.

The Singapore Government had to took a firm stance on this issue, and worked together with the Unions to implement what was a hard decision. The flexible elements of the salary structure enabled the ability of the Civil Service to respond and adapt to meet market conditions.

The existing systems and mechanisms for determining pay levels and adjustments allow for regular tracking of market pay movements. Pay trends also take into consideration all working employees so there are no issues related to statistical selection. The potential downside, however, is that there may be over-benchmarking as the earnings data may vary due to market seasonal and windfall factors. Although salaries are benchmarked against the market, promotion and movement up the grades are still perceived to be generally slower than in the private sector except for the Administrative Service.

Whilst it is the view of certain sectors of the population that top level benchmarking are somewhat generous, on balance the current arrangement are deemed to have worked for Singapore. Potential areas for improvement may include the appointment of an independent or even an international panel to review its key benchmarking approach and to study why the Civil Service are not attracting and retaining enough top talents. For the other staff, job-based surveys could be used as a starting point for better job comparability instead of using only aggregated data from the Central Provident Fund and the income tax department.

Arrangements for the Disciplined Services

The Singapore Police Force is part of the Ministry of Home Affairs, which is responsible for internal security and law and order.

Pay principles

The general principles of pay as set out above apply to these grades of staff although there are some variations and allowance to cater for the specific needs of certain groups of staff. For example, recruits may join as a Senior Officer, a Junior Officer or as a Home Affairs Senior Executive (equivalent of Senior Officers in other Government bodies). Entry salaries depend

^{xxvi} Deputy Prime Minister BG (NS) Lee Hsien Loong, *Civil Service NWC Award, Public Sector Salary Revisions and Review of Salary Benchmarks*, Ministerial Statement on 29 June 2000; Deputy Prime Minister BG (NS) Lee Hsien Loong, *Second off-budget measures 2001 -*

Tackling the Economic Downturn, delivered in Parliament on 12 Oct 01; Personnel Policy Department, Public Service Division, Prime Minister's Office.

on educational qualifications, national service and in the case of operational command positions, requirements for certain physical qualities. Entry salaries for this grade of staff are approximately 10% higher than those paid by the private sector.

Comprehensive review of the Home Affairs Uniformed Service in 2000

Salary revision for the Home Affairs Uniformed Services (HUS) was made in Dec 1997. For 1998 and 1999, the Ministry monitored HUS salary competitiveness but found no need to make significant changes then, largely because the economy was still recovering from the economic crisis. In 2000, a comprehensive review was conducted covering officers in the Police, Singapore Civil Defence Force, Prisons and Central Narcotics Bureau. The aim of this review was to keep the HUS schemes in line with future labour market trends and to retain “choice employer” status. The study focused on the different elements that make up the total experience of a uniformed career in HUS including salary, benefits, career management, officer retention, continuous learning and development, and rank structures.

Outcomes of the study

Key pay related outcomes from the study were:

- **Extension of retention payments to all HUS officers of Senior Station Inspector 2 equivalent rank and below.** To reduce attrition of lower rank HUS officers, an existing scheme for prison staff was modified and extended to all HUS officers of Senior Station Inspector 2 equivalent rank and below in October 2001. Officers on the retention payments scheme receive the equivalent of one month’s salary each year during their first 6 years of service. Thereafter, the amount will increase to the equivalent of 1½ months’ salary each year from the 7th to the 10th year of service. Officers will be able to draw down these payments in the 6th, 8th, 10th and 12th year of service
- **Pay adjustment.** MHA adopted the principle that salaries should be pegged to market salaries (using age primarily as a basis of comparison) rather than against salaries in other public service schemes. As the study found that pay for officers up to Station Inspector and equivalent ranks lagged the market, with effect from 1 June 2001, HUS officers up to Station Inspector and equivalent ranks had their pay raised by one increment. Starting salaries for Corporals and Sergeants were also be raised by one increment from the same date. Senior Station Inspector equivalents and above, and other officers who have reached the maximum of their salary scale did not receive the adjustment as their salaries were found to already be in line with the market
- **A new occupational superannuation scheme** known as the INVEST plan was implemented in 2001. The aim of the fund is to help new officers (whose retirement age is lower than existing officers i.e. 50 for officers of Senior Station Inspector 2-equivalent rank and below and 55 for Senior Officers) transit out of service into their second career. Officers in this retirement fund scheme receive an additional contribution each month into their retirement accounts. The money in the retirement account is then invested. Serving officers were given the option to continue on their current terms or to opt for the new scheme (in which case they would also be agreeing to a lower retirement age and opting out of their existing pension scheme). An advantage of the new scheme is that, unlike the full forfeiture under the pension scheme, an officer on the INVEST plan may receive part of the accumulated benefits if (s)he retires before reaching the compulsory retirement age.

The Experience of Changing Pay Administration Arrangements

Experience of replacing fixed pay scales

In 2000 the Singapore Civil Service introduced a system of salary ranges to replace the existing system of salary points for its most senior staff ie Administrative Officers and political appointment holders. As a consequence, 14 Superscale and Staff Grades were banded and consolidated into 9 salary ranges, and the 4 timescale grades were each converted into salary ranges. This gave the Civil Service increased flexibility in personnel management and officers can be rewarded with merit increments within their salary range each year, depending on their assessed potential and demonstrated performance.

| Salary Points | Salary Ranges | Political Appointments |
|--|---------------|--|
| Staff Grade IV, V | MR1 | Deputy Prime Minister/ Minister MR1 |
| Staff Grade III | MR2 | Minister MR2 |
| Staff Grade II | MR3 | Minister MR3 |
| Staff Grade I | MR4 | Minister MR4 |
| Superscale B | SR5 | Senior Minister of State |
| Superscale C | SR6 | Minister of State |
| Superscale D | SR7 | Senior Parliamentary Secretary |
| Superscale E | SR8 | Parliamentary Secretary |
| Superscale G | SR9 | |
| Senior Principal Assistant Secretary* | R10 | |
| Principal Assistant Secretary | R11 | |
| Assistant Secretary | R12 | |
| Senior Administrative Assistant | R13 | |
| Administrative Assistant | R14 | |

*: Newly introduced range.

Details of min and max for the above are not made public.

Staff on Superscale and Staff Grades were a better off as it meant that they no longer had to wait to be promoted in order to enjoy a salary increase. For the timescale Administrative Officers (ie those in the newly formed R10-R14 range), it meant that their increments would be at risk. However, as the working of the salary ranges was underpinned by the existing performance appraisal system, which was widely accepted and considered as being successful, this change does not appear to have resulted in any major unhappiness or discontent.

The key challenge in ensuring that the new system worked well was to educate supervisors on the importance of the appraisal process. In order to underscore the importance of the appraisal process, the ability to conduct and engage in performance appraisals is one of the pre-requisites for promotion to supervisory positions.

Experience of introducing performance-based rewards

As described previously, the Singapore Civil Service pay structure is distinctive in that it has performance related elements both in the monthly salary component (NPVP and MVC) and the annual salary component (the NPAA, AVC, SB and PB).

Performance bonus

The Civil Service [Performance Bonus \(which was first introduced to Superscale Officers and the Administrative Service in 1989 and later extended to all civil servants in 2000\)](#) allows the Civil Service to link pay directly with individual performance on the job. This gives the salary structure added flexibility and provides management a finer tool with which to reward deserving officers. The bonus amounts for all civil servants are set out below:

| Officers | Performance bonuses |
|---|-----------------------------------|
| Majority of civil servants | Base rate of 0.5 months of salary |
| Administrative Officers in Superscale C and above | Average 5 months of salary |
| Administrative Officers up to Superscale D1 | Average 3 to 4 months of salary |

Recent increase in variable component for senior civil servants and the GDP bonus

For the senior civil servants, the variable component of the 13th month - the NPAA, the AVC and the performance bonus together make up 30% of the total annual remuneration. In 2000, the proportion was increased to 40% for senior officers (i.e. Superscale G and above). This increase comprises individual performance bonuses and the GDP-related bonus (i.e. bonus which is linked to the state of the economy).

| Economic growth in the calendar year | Bonus months pay |
|---|-------------------------|
| 8% or more | 2 months |
| 5% (mid point of longer term growth potential of 4 to 6%) | 1 month |
| 2% or less | 0 month |

Source: Deputy Prime Minister BG (NS) Lee Hsien Loong, Civil Service NWC Award, Public Sector Salary Revisions and Review of Salary Benchmarks, Ministerial Statement on 29 June 2000

To incentivise and retain officers, the government also introduced a 'bonus pool' concept in 2000 but for senior civil servants only. Under this system, an officer would be paid half his/her performance bonus for the year immediately, and the other half will be placed into a bonus pool. The officer will be entitled to receive the amount in the bonus pool in two equal instalments 12 and 24 months later, provided (s)he continues in service. Officers who resign or are dismissed from the Service would not be allowed to withdraw any balance in the pool, although officers who retire are able to do so.

Performance management framework

Performance related pay is administered within the existing Civil Service performance management framework, which has been found to work well over the years ('tried and tested'). The performance unit is defined primarily at an individual level except for the GDP related bonus that is dependent on the state of the economy.

There are two components in the Singapore Civil Service's performance assessment system: the reporting system and the ranking system (the so called Currently Estimated Potential ranking). The main assessment criteria for the reporting system are personal performance targets and trait-based criteria. The ranking system has two components: performance ranking and potential ranking (which is also considered in promotion and reward decisions). The main assessment criteria for the forced distribution performance ranking system is relative performance between teams or individuals.

On balance, the current performance management arrangements are considered to be quite successful, and they have worked well thus far as a foundation for supporting performance reward decisions. The existing structure ensures that performance/individual equity-conscious civil servants are paid fairly and impartially according to market rates and are adequately rewarded for taking on progressively higher positions with increased responsibility, while those not willing to pull their weight will not be so favourably compensated. Some argue, however, that the existing arrangements tend to favour the 'fair weather' performers and those who "please the boss". There is also a perception that loyalty is not always recognised.

Experience of simplification and decentralisation of pay administration

This issue has been covered in some detail above. In summary, however, two key changes have been made over recent years:

- Devolution of personnel management in the Civil Service to give ministries more autonomy in the appointment, confirmation and promotion of their officers. This was driven primarily by the desire to improve the responsiveness of personnel decision-making processes while not compromising on basic principles such as internal relativity and transparency.

The process of devolution was carried out in phases, and over the years more decisions have been decentralised from PSD to the various ministries. The outcomes have been greatly welcomed as promotion exercises can now be held every year, and vacancies filled with recruits chosen by the ministries themselves.

- Amalgamation of different schemes of service into broad Service Groups in the Civil Service. Employment and salary structures were streamlined and promotional grades were added where necessary to allow officers more promotion opportunities. This was aimed at enabling the Civil Service to better deploy and develop employees according to their potential and abilities rather than be constrained by the schemes of service that applied when they were recruited.

In introducing broad Service Groups, officers who moved from an incumbent salary-scale scheme to a new range-based scheme were given the option of joining the appropriate Service Group on no less favourable terms. Those who decided to remain with their current scheme of service would continue to be governed by the terms and conditions of their scheme. Whilst this has, to date, impacted only a relatively small percentage of civil servants (conversion to ranges is a gradual process), it has nonetheless been considered a success as more than 95% of those affected opted to join the Service Groups.

Some of the practical considerations in planning and implementation these changes are:

- Communicating the right message
- Bringing in the key stakeholders (both policy makers, the affected civil servants and those responsible for administering the change) and key people on the ground (such as the Union) early during the exercise and managing their expectations throughout.

Points of Interest

The key challenge in managing pay of civil servants in Singapore is to maintain the right a balance between paying enough to ‘attract, motivate and retain’ and aligning pay policies with the overall public service ethos (‘public above self’). In doing so, Government has had to take some hard decisions, including cutting pay. Whilst not popular, they were nonetheless implemented because Government chose to take a longer term view and a holistic perspective.

Whilst highly organised and systematic, the Civil Service pay structure and system is not considered rigid, rather it is fit for purpose and has demonstrated flexibility to meet external challenges. This is important in ensuring that there is a degree of transparency and consistency in the actual working of the structure, especially since the implementation of pay decisions has been devolved to the various ministries. Somewhat ironically though, information on the Civil Service pay structures is not readily available on the internet or in public documents (a practice common in the private sector). Although this has raised concerns about public accountability issues, the decision not to reveal too much information can be seen as being consistent with the Civil Service's view of itself as an employer competing in a small labour market.

Pay is a key component of the package to attract the best into the Civil Service but above and beyond that, it is recognised that as public servants, pay cannot be the sole factor. Over the years, therefore, great emphasis has been placed on training. Consequently the Civil Service has rather successfully created a perception of itself as a choice training ground for new recruits.

Pay administration for most grades of staff has been devolved to the various ministries. Although these are free to operate within pre-determined boundaries, the culture is such that there are unlikely to be any major deviations from set pay policies as ministries operate with the knowledge that they are part of the larger Civil Service. There have been instances of ministries wanting greater autonomy and the ability to pay higher salaries for their good staff, however, PSD's preferred stance on Civil Service salaries is for movements to fluctuate within a

narrower band than is the case in the private sector. This is to allow for greater stability, which PSD believes is important for civil servants to be able to do their job well.

The Singapore Civil Service pay system is built on well thought out principles. One of the key challenges in the devolution of personnel functions, however, is to ensure that the human resource personnel and line managers in the ministries have a clear understanding of these principles and are able to apply them wisely, and not mechanistically. It has been stressed that even though the system is well designed, its successful implementation depends on the people who manage the system.

On balance, the Singapore pay arrangements work well in the closely managed, but pragmatic environment of Singapore. The current arrangements have evolved over a period of time and the implication of significant changes have been considered thoroughly before implementation. For example, it took close to five years of deliberation before a decision was finally made to implement the performance bonus for all civil servants. Also, the implementation of performance-related rewards was underpinned by an existing performance appraisal system that had credibility among staff and was considered to have worked well over the years. A pragmatic approach is also adopted in implementing pay related initiatives: systems are changed or designed for the future civil servants and implemented first for new recruits. Serving officers are then given a choice to opt into the new system. This approach has enabled Singapore to introduce quite significant changes without incurring major costs.

In implementing new initiatives, mid-level policy makers are cognizant of the importance of getting "buy-in" from the various stakeholders such as the HR employees of the various ministries, the Union, the civil servants themselves including the senior policy makers. For the latter in particular, it has been highlighted that part of challenge is in managing staff expectations to accept the fact that all the implications of any new policy or system cannot be foreseen and to be willing to change and innovate over time.

Key trends

Moving forward, the key trends include:

- Further strengthening the links between performance and pay
- Willingness to try out in a planned way, new approaches to remuneration that have been found to work in the private sector. At the same time, ensuring that these do not undermine the values underlying the Civil Service pay structures.

Pay ranges will be considered for Civil Service schemes in general, although their applicability to all levels of staff needs to be further evaluated.

Appendix E - United Kingdom Country Summary

The Government Context

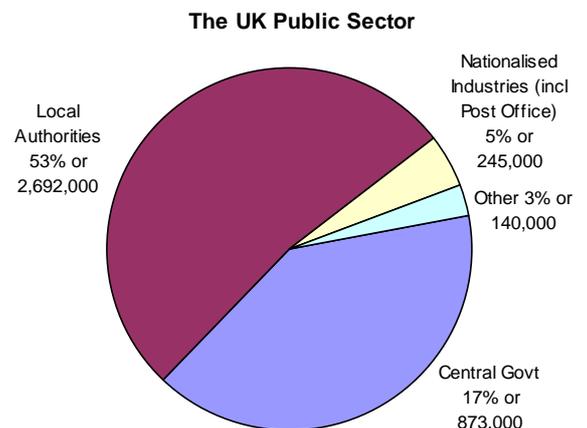
Organisation of Government^{xxvii}

The United Kingdom is a parliamentary democracy, which provides for the integration of the executive and the legislature. Parliament is the supreme legislative authority. The executive, chaired by the Prime Minister who is also head of government, comprises a Cabinet of senior politicians. Each Department of central Government is headed by a minister who is a Member of Parliament and is accountable to Parliament for all the Department's affairs.

Central Government is responsible for economic policy and national-level taxation and customs duties; for supervision (but not provision) of the health and education services; for direct provision of the main social security benefits, State Pensions and employment services; for supervision of the police and criminal justice system; provision of prisons; defence; transport policy (delivery of transport is mainly privatised); supervision of the local government system and major planning matters; trade and industry policy; foreign policy; and miscellaneous other national-level services. Some services, for example environmental protection and river management, are controlled at national level by autonomous Non-Departmental Public Bodies (NDPBs).

Since 2000, separate Parliaments or Assemblies have existed in three parts of the UK (Scotland, Wales and Northern Ireland, covering about 10% of the population), to which some of the powers of central Government are delegated, with others (notably economic policy and Revenue collection, defence and foreign policy plus social security and employment services in the case of Scotland and Wales) reserved to the Westminster Government and Parliament.

Elected Local Authorities handle naturally local services like refuse collection, parks and libraries, local road maintenance, most planning issues and a range of social welfare services; and in general they fund and supervise primary and secondary education subject to national standards. Police Services are locally funded and supervised but have operational independence subject to national supervision of standards. Fire Services are similar. Health is organised under a series of Health Trusts on a local level, appointed by and answerable to central government. Local Authorities draw their finance both from local taxation and approximately 48% of their expenditure from subvention from central Government. The relevant Authority employs staff separately.



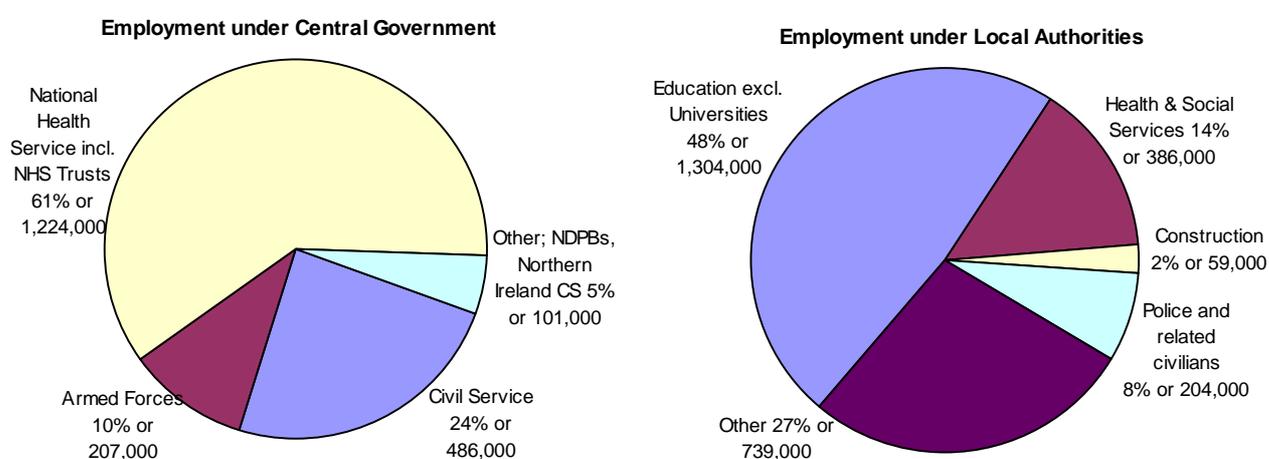
Overall the public sector employs some 5 million people and accounts for 18% of the general working population.

Background reference sources

xxvii "The Civil Service in Liberal Democracies: An Introductory Survey"; OECD country profile; UK Adviser

Civil Service overview^{xxviii}

The Civil Service comprises some 486,000 staff working in central Government Departments and Executive Agencies. It covers most of the broad types of staff found within the Hong Kong Civil Service (HKCS), including Prison Services, Custom & Excise and Immigration staff. It however excludes police and fire officers and staff in the equivalent of a number of specific HKCS grades involved with local community service delivery eg teachers, medical staff, social workers, etc. There is no direct equivalent at central or local level to the Government Flying Service.



Executive Agencies, and some Departments operating on Agency lines, comprise 77% of the Civil Service (effectively those carrying out programmes and delivering services at national level). These bodies have no separate legal status and are part of their parent Departments, but have a substantial degree of administrative delegation extending to separate pay and rank/grading structures. Some are designated as self-financing trading funds, similar to those in Hong Kong.

The top 3,300 posts (0.7% of the Civil Service) form the Senior Civil Service (SCS), including both general administrator/managers and top professionals. They are required to work across the Service to support a unified administration. Unlike all other groups, they are paid within a single unified pay structure.

The Civil Service is still seen as a career system and so relatively little use is made of fixed term contracts (FTC), probably no more than 5-10% of senior civil servants and/or specialist staff. The general trend appears to be away from the use of FTCs. Except where otherwise provided, FTC staff have a salary in the contract (with a bonus or performance element usually linked to their Agency's target), which is revalorised broadly in line with the revalorisation element of any

general pay award, however they do not typically become part of the main pay progression mechanism.

The Civil Service generally enjoys a justified reputation for a high level of honesty, integrity and lack of corruption. This reflects the Service's driving ethics, which include:

- Political neutrality and continuity
- Appointment and promotion on merit (ensured by the independence of the recruitment process)
- Fairness and lack of bias or favour to all citizens.

Recent Public Sector Reform^{xxix}

The UK Civil Service has undergone major reform over the course of the past 20 years. Under the Conservative Government 1979-1997, the impetus was largely a politically driven programme to reduce the size of Government, and to retain in public hands only an irreducible core. Under the post-1997 Labour Government, the thrust has been one of efficiency and pragmatism.

Key reforms have included:

- *Financial Management Initiative* (early 1980s) aimed to introduce a focus on the 'cost of an output' as a lever to improve productivity and service quality. As a result, management information and costing systems were installed throughout the Government machine, albeit slowly.
- *Next Steps* (1988) is considered the most significant change in the structure of the civil service since the Northcote-Trevelyan reforms of the 19th century:
 - The 1988 report recommended that the executive functions of government be carried out by distinct units within Departments, called Executive Agencies, with the aim of delivering better quality of service to the public.
 - Executive Agencies have defined responsibilities, a sense of ownership and clear objectives set out in a published framework documents. Ministers set key performance targets covering quality of service, financial performance and efficiency, and allocate resources. Chief Executives, the Agency heads, who remain civil servants, are responsible to their respective ministers for their performance and expenditure.
 - 140 Agencies and 4 Departments are running on Next Step lines, covering about 77% of the Civil Service. Some Agencies operate as self-financing trading funds similar to those in the Hong Kong Government.
 - The initiative has resulted in major productivity and quality improvements.
- *Competing for Quality (1991)* aimed at enhancing the competitiveness of the public services by comparing and potentially outsourcing services to the private sector, through benchmarking and market testing. This has now been replaced by a policy called "Best Value" in local government, and a similar discipline in central Government, which is less presumptive about outsourcing and allows a competitive internal provider to carry on.

- *Citizen's Charter Programme* (1991), launched as a ten-year programme that aimed to improve the quality of public services and make the Civil Service answer better to the wishes of their users, through the establishment of charters:
 - Now all central Government Departments and Agencies are required to publish information, set standards and have complaints procedures in place
 - It has had a significant effect on the attitudes of front-line public servants in local and central Government, and has reinforced the cultural ethic of public servants in favour of working in the interests of users and not just for the profit and loss account. There is evidence of improving quality of service standards achieved in parallel with the productivity improvements

- *Civil Service White Papers: Continuity and Change* (1994) and *Taking Forward Continuity and Change* (1995) set out the Government's expectation of further improvements in performance within tightly controlled running costs. From 1995, Departments were to prepare Efficiency Plans each Spring setting out how they intended to deliver the savings required by running costs constraints. In addition, all Departments with 12 or more senior staff were to complete a Senior Management Review by April 1996 to eliminate unnecessary layers of management and to inform the creation of the Senior Civil Service (SCS). The subsequent Senior Management Review produced a reduction of 23% in the SCS over the period 1994 to 1996.

- *Comprehensive Spending Review* (2000) was first conducted in 1997 in two tiers at the departmental level feeding into the wider overall review conducted by a Cabinet committee of senior ministers looking across Government. It allowed the Government to bring public spending programmes into lines with its own priorities as a coherent set of objectives. It led to the introduction of public service agreements (PSA) between each Department and the Treasury, setting out measurable efficiency and effectiveness targets against which progress would be monitored.

- *Review of the Cabinet Office* (1998) by the Cabinet Secretary and Head of the Home Civil Service identified and proposed organisational responses to a number of perceived weaknesses at the centre of the government concerning:
 - Linkage between policy formulation and implementation
 - Dealing with cross-cutting issues of policy and service delivery
 - Looking ahead to future opportunities and threats
 - Reviewing the outcomes of government policies and the achievement of objectives.

- *Modernising Government* (1999) set out the vision and the package of reforms for the modernisation of the government. It aimed at:
 - Ensuring that policy making was more joined up and strategic
 - Making sure that public service users were the focus in policy delivery
 - Delivering public services of high quality and efficiency.
 It led to a strong government focus on the management of cross-cutting issues and subsequently the building of a framework conducive to better development and delivery of cross cutting issues.

- *Post-Election Changes (2001)*: after the 2001 General Election, a number of new co-ordinating and monitoring units were established in the Prime Minister's Office and the Cabinet Office to champion 'delivery' of the Government's programmes (ie ensure key programmes were actually carried through), to modernise public services, and to review future strategy. Monitoring of PSAs was to be intensified by the Cabinet Office and the Treasury acting jointly.

Impact of the reforms

The various reforms have led to a significant drop in the size of the Civil Service: 4% annually over the 1990s. Of this, 1% was "boundary change" with privatisation and outsourcing, and 3% from increased productivity and cutting inessential services.

In addition to these productivity gains, the measurable quality-of-service standards have increased as a result of the targets set to the Executive Agencies combined with the management freedoms given to them to achieve their targets. Quality of service includes processing times for issue of licences, passports etc; improved waiting times at counters in social security offices and in phone-answering; improved complaints mechanisms which have focussed attention on meeting the expectations of 'customers'; and improved levels of accuracy in tax handling; etc.

On the economic side, an important driver has been not only cost-saving but transfer of risk through privatisation, the aim being to eliminate large publicly-funded deficits, and force price increases and efficiency improvements. This has generally been successful, with the employment conditions of Civil Service staff transferring to the private sector protected through European Union based regulations, specifically Transfer of Undertaking (Protection of Employment Regulations) 1981 (TUPE). More recently, however, privatisation of the railways has been highly unsuccessful and as a consequence, political and public enthusiasm for privatisation has waned, at least temporarily.

In recent years there has been a much stronger emphasis on efficiency; an obligation to the taxpayer to provide more for less; and to provide a high standard of service to meet the convenience of the citizen, ie away from a producer-led culture.

Pay specific reforms

Reform on pay arrangements has been progressive and far-reaching over the last ten years. Three key developments in the Civil Service (note these developments are not applicable to the police, fire or other Local Authority staff), have been:

- *Delegation of pay administration authority to all departments and agencies.* Each Department/Agency can now negotiate their pay system, pay levels and rank/grade structure for staff below the Senior Civil Service, replacing national pay negotiations. These

arrangements apply equally to the ‘disciplined’ parts of the Civil Service as to the rest, ie Customs and Excise Officers, Prison staff and Immigration Officers (though none of these is ‘disciplined’ in the Hong Kong sense).

- *Replacement of Senior Civil Service ranks/grades by a ‘job-weight’ rating system* with a series of 4/5 pay bands each linked to part of a job-weight scale. The Permanent Secretary of their Department, on the basis of their performance and the available pay budget, judges individual progress within a pay band. The reform has aimed to allow the senior structure within different Departments/Agencies to develop appropriately within their means.
- *Abolition of automatic annual increments* (with the exception of the Prison Service), in favour of a variety of performance based systems. This usually allows variable rates of progression up a rank/grade/job-weight scale according to performance against targets, contained by an available pay budget.

The result of introducing this delegated, performance based system has been a complete fragmentation of the old rank/grade structure. It has provided individual Departments and Agencies with a much greater flexibility to set pay arrangements to meet their particular local circumstances and performance requirements.

Overview of Current Pay and Administration Arrangements

Pay administration policies and principles

For the majority of staff the guiding principle until the early 1990s was comparability with the private sector and there were regular formal comparability reviews sponsored jointly by management and staff unions. By the early 1990s, pay inflation was a diminishing problem and pay comparison was replaced (to the chagrin of the staff unions) by three new principles:

- *Pay should be enough to recruit, retain and motivate*; a principle mainly of use to management, though the unions could build on the need to motivate. This is underpinned by a test of affordability
- *National pay negotiations should be replaced by delegated pay systems* (and rank/grade structures) at the level of each Department and Agency
- *Abolition (now complete apart from the Prison Service) of automatic annual increments* related to length of service, and replacement by a variety of systems linked to performance.

Pay arrangements for all civil servants except the SCS, are highly devolved, though with control maintained through Treasury approval. The single centrally-controlled pay system for the SCS which is not negotiated but laid down by the Government acts as a cap and unifying influence on the delegated arrangements for all other staff. Recommendations for the SCS come from an independent Senior Salaries Review Body (SSRB).

Pay structure and components

Grading and base pay structures

There is no longer a universal job grading system, with central grades/ranks abolished progressively from 1995. Every Department/Agency has its own system within which there are a series of levels of jobs. In a big Department there will typically be 4 levels in the SCS and 5 or 6 below. Grades for specific jobs are determined under a Civil Service-wide job-weight rating scale called JEGS (Job Evaluation Grading Scale, similar to the Hay system but unique to the Civil Service. When assigning which 'grade' applies to which job JEGS considers financial responsibilities, staff numbers, professional skills and competencies etc.).

To each of these job weight bands a pay band is attached. Details of these vary between Departments/Agencies. Some have fixed pay points; all will have fixed minimum and maximum. This pay band may also have 'target levels' for average performers after a given number of years. The pay band will be revalorised each year as part of the negotiations. Most posts are now competitive so people already at a given level will have to compete with those seeking advancement or with external candidates if the post is open to the market. Education qualifications are not generally relevant although professional qualifications, current pay and previous related experience may influence entry pay.

Local Authority pay, including Police and Fire, has not yet fragmented to the same extent as the Civil Service pay. For Local Authorities, national bargaining systems are available as a framework, however some Authorities vary or do not use national terms. National bargaining systems determine annual increases in base rates of pay, changes to the position of minimum and maximum points on pay spines and changes to certain benefits and conditions of service. For some negotiating groups, Local Authorities are free to place different jobs anywhere on the pay spine that they see fit. Authorities may also choose to pay market supplements or other additions to basic pay. If conditions change within an Authority's labour market, it may choose to regrade the job or change the components of non-basic pay. For other negotiating groups Local Authorities may also choose whether to pay a spot salary for particular jobs or allow progression through a band linked to the national spine. Authorities may also choose the size of bands within their pay structure and what factors influence progression through a band such as length of service, performance or competencies, but in general performance pay has not developed far in Local Government and annual increments

remain the norm¹⁰.

Pay components

Apart from a few Departments/Agencies with one-off bonus elements, all Civil Service pay is 'basic pay'. There are relatively few bonus schemes in operation although some Departments/ Agencies have started to experiment with non-consolidated (non-pensionable) one-off bonuses in order to leverage a limited pay budget. But this approach remains to some extent unpopular and counter-culture in the UK Civil Service.

Generally most Civil Service allowances have been eradicated (through consolidation into base pay or buy-out arrangements), apart from overtime for most grades below SCS. It is still open to Departments to negotiate such allowances as part of their settlements, eg clothing allowances for certain jobs, but it is very limited. The Prison Service retains allowances for special skills and special jobs and they may also have low rent accommodation provided. Outside the Civil Service, Police and Fire also still include some cash allowances. Many systems have a locality adjustment, whether as an explicit allowance or by placing people in some areas higher in a pay-band than others, but these are not usually a significant proportion of basic pay.

Equally non-financial rewards do not figure heavily although there is some freedom, within the usual budgetary constraints, to use these. Forms of performance recognition awards, such as dinners, coupons or certificates for either the individual or the team, intended to supplement the motivational effect of the pay system are not a major part of any system, although many staff claim this to be a motivating factor. One example is a scheme operated by the Prison Service¹¹ that includes official commendations, certificates, flowers and gifts or recommendation for a Queen's Honour.

Pay system and administration

Until the mid-1990s, pay for staff below the Senior Civil Service was negotiated at national level between the Treasury and the staff unions, within a national rank/grade structure. Starting with some Executive Agencies, delegated powers were then given eventually to each Department and Agency; there are now around 170 separate pay negotiating units, each free (subject to constraints) to negotiate their own pay systems and levels and their

¹⁰ "Pay in Local Government 2001" by the Local Government Employers Organisation - www.lg-employers.gov.uk

¹¹ www.hmprisonservice.gov.uk/corporate

rank/grade structure appropriate to their circumstances and strategic imperatives. The result is thus highly complex and fragmented. These arrangements apply equally to the ‘disciplined’ parts of the Civil Service as to the rest, ie Customs and Excise Officers and Immigration Officers (though neither of these is ‘disciplined’ in the Hong Kong sense). The Prison Service is the only significant exception (see below).

A ‘lid’ is kept on this system through a single centrally-controlled pay system for the 3,300 members of the Senior Civil Service. The SCS system is not negotiated but laid down by the Government in the light of an annual report by an independent Senior Salaries Review Body (which also recommends pay levels for the judiciary and for the Armed Forces at levels equivalent to the SCS, ie Brigadier and above), and for MPs and Ministers. The SSRB is one of six Pay Review Bodies for professional groups in the public sector who are not allowed, or at least not expected, to resort to industrial action – doctors and dentists; nurses and other para-medical professionals; the Armed Services; one for teachers which, following a period of militancy by them, was placed on a statutory basis some years ago; and now the Prison Service Pay Review Body set up in 2001 following prison officer militancy and the withdrawal by statute of their right to strike.

Movement within the pay band

In the United Kingdom, a key change in pay arrangements was the abolition (now complete apart from the Prison Service) of automatic annual increments, with replacement by a variety of systems linked to performance, usually by variable rates of progression up a rank/grade/job-weight scale according to performance against targets, but contained by an available budget.

As part of the Public Service Agreements, each Department aligns one-year targets with Departmental objectives, which cascade down each level of the organisation in the Department and its Agencies, ending with Personal Performance Plans for each member of staff. These provide specific quantified and time constrained personal objectives to be achieved by each individual, which are monitored at least twice-yearly for each staff member to allow review and corrective action if necessary - much training is being devoted to making personal targets/objectives more precise and quantifiable. A formal performance appraisal process is undertaken with predefined descriptions, and open-ended comments by both the appraiser and appraisee, and 360-degree feedback is being actively experimented with.

Progression through a pay band will be influenced by length of service, performance and competencies, and achievement of objectives. Negotiation determines what percentage increase, or how many points up the band, an individual will receive for a given performance rating on a 3 or 5 point scale (sometimes called an ‘equity share scheme’ or a ‘fair share of the pay pot’). For example, the Inland Revenue has a 3-box performance assessment system directly related to achievements of personal targets – Exceeded Targets, Achieved Targets and Failed to Achieve Targets. Most other Departments still have a traditional 5-box qualitative assessment, though rooted in measurable achievement. Typically on a 5 point scale and with 2.5% inflation, an average performer might get 3%, the top performers 7%, and poor performers nothing. Management of the spread of these awards is generally done through a process of forced distribution. Generally bonus performance pay is not available, however a few Departments/

Agencies are experimenting to provide one-off bonus elements for special achievements or people at the top of their pay band.

System and mechanism for determining pay level and pay adjustment

Pay in the public sector as a whole has broadly matched that in the private sector, though often moving in counter-cyclical jerks – first led by the private sector and then vice versa. This was particularly true in the 1970s and 1980s when pay inflation was a major economic problem and public sector pay freezes led to subsequent anomalies. Comparison to the private sector is now not an explicit part of the process.

Noticeably, however, pay of professionals, specialists and senior staff generally lags behind that of their private sector equivalents. Currently, mechanisms used by SSRB and other Review Bodies to assess pay adjustments vary depending especially on the degree to which reasonable comparators exist. Surveys are used to inform, but not lead, the SSRB's recommendations as other criteria such as recruitment and retention, performance management, affordability, and recognition of a "public sector discount" will also influence their decision. The SSRB has been influential in recent years in advice on developing systems for performance pay at these levels¹².

Other Review Bodies commission similar studies where appropriate but there is no general pattern. They will also receive representations from staff associations etc, but not in 'negotiating mode'.

Arrangements for the Disciplined Services

Pay settlements for Custom & Excise, Immigration, Police and Fire Services continue to be negotiated in the traditional way. The first two groups also use performance pay in much the same way as the rest of the Civil Service. As a result of previous militancy, and a resultant statutory ban on strike action, the Prison Service is the only one of the "disciplined services" to have a separate Review Body rather than a negotiated system

We have provided below some discussion of the pay administration systems for Prisons, Police and Fire Services (within the Local Government framework) to illustrate the differences in systems.

- The Prison Service Pay Review Body will provide advice on the pay of prison officers, although the Government is not bound to accept it. The Prison Service have introduced performance related broad-banding for senior and administrative staff, but the rank and file still have time-based increments. An extension of performance provisions to rank and file staff remains on the agenda, however, although significant progress in the short term is unlikely in the light of current militancy.
- The pay of police staff is negotiated with staff unions within a statutory framework called the Police Negotiating Body (PNB). The police also have a statutory ban on striking, which although seeming to reduce their negotiating position has not in practice due to the urgency of crime prevention and the need to raise recruitment. These factors have combined to keep police pay relatively high. Government is negotiating competency-based additions with the

¹² www.cabinet-office.gov.uk/civilservice/scs/index.htm

PNB (expected to be achieved by 75% of officers), or discretionary additions for officers undertaking the most demanding tasks. This is the closest the Police Service has been yet to performance pay.

- Individual Local Authorities have the power to negotiate and set pay and terms for the Fire Services. A recent survey by the Local Authorities Employers Organisation indicates that many Local Authorities have rejected the concept of performance related pay. However Local Authorities do support the provision of research guidance on performance management, and performance and competency pay.

The Experience of Changing Pay Administration Arrangements

Experience of replacing fixed pay scales

The process of changing fixed pay scales in the Civil Service is seen to be generally successful, however staff unions were initially resistant to the dismantling of the national bargaining system. Consultation occurred on a case by case basis, and the move was progressive, first starting with Inland Revenue in 1990, then other agencies as part of the ‘next steps’ reform. Training and exchange of experience was a strong part of the process.

While responsibility has been delegated to Departments/Agencies, in practice formal negotiating guidance was (and still is) given to all delegated units by the Treasury, setting out the economic background and stressing the need for performance systems to be strengthened¹³. Within this system, each unit is required not only to live within its budget, but also to seek prior approval from the Treasury of a ‘pay negotiating remit’ with a business case for any structural change. Although in practice this leads to something approaching a ‘going rate’ for annual awards, it has also over a period resulted in significant variations in pay and rank/grade structures – with the partially perverse effect that pay for similar jobs in different Departments can often differ by as much as 10%. (This causes serious problems when, as recently, Departments are merged.) The remit system also applies to Non-Departmental Bodies (NDPBs).

Experience of introducing performance based rewards

Pay for all within the central Civil Service, including the SCS and Permanent Secretaries, is broadly performance related (although time related, annual fixed increments are still in place for most of the Prison Service). Many Departments used external consultants to advise and incorporate a private sector perspective into the design of their systems. This was supplemented by a good deal of exchange of

¹³ www.pcs.org.uk/pay/negotiations/paynews/05remit.htm

experience between Departments or Agencies.

Performance pay is not funded as a distinct budget – indeed, nor is pay itself, as although assumptions are made by the Treasury and Departments/Agencies in setting overall budgets, Departments/ Agencies have the power to vire between pay and other items of current expenditure. Effectively an assumption is made that pay per average person will increase by x% (typically a little above inflation), but that there will be an off-setting reduction in staff numbers by increased productivity. The staff number production will also take account of any predicted increase or reduction in the volume of work. The pay element of the current budget will be a product of these factors. As explained already, the amount received by an individual will be above or below the average depending on performance – there is no automatic base pay increase.

In practice, pay budgets in the United Kingdom have limited the ability to award outstanding performers any significant motivating increases in pay. Although Ministers and managers generally believe performance pay must have a beneficial effect, there is little compelling independent evidence that performance pay on its own does so (though some staff, especially younger staff, appear to regard it as ‘fairer’ than old systems which took no account of performance contribution or effort). There is more consensus that performance pay, as a part of a wider performance management system including personal targets and assessment, does contribute to improvement. Adjustments have been made in 2002 for the SCS that increase awards to outstanding performers, but effectiveness will still depend among other things, on the adequacy of funding. Staff and especially unions have consistently resisted performance pay, arguing that it does not in itself add to performance motivation.

Experience of simplification and decentralisation of pay administration

The result of the delegated system has been a complete fragmentation of the old rank/grade structure (and a certain amount of inter-Departmental confusion about comparability of levels), but also a considerable reduction in the power of the unions to hold the Government to ransom by industrial action (there have been no strikes or strike threats at national level in recent years). Industrial action is still occasionally threatened in individual Agencies. There is no clear evidence whether the effect of delegation has been to hold general pay levels below what they would otherwise have been: many observers think that if anything the staff unions have ‘won’. On the other hand the development of rank/grade structures and performance pay systems geared to the circumstances of each unit is generally thought to have contributed to the growth of productivity.

Points of Interest

The developments in pay arrangements in the UK Civil Service, outlined above, have evolved over the past 10 years to a large extent in response to, and as a direct result of, the creation of Executive Agencies. The focus has been on promoting flexibility and performance management and has been achieved through:

- Significantly delegated powers to meet market needs and to ensure local relevance rather than bureaucratic rigidity
- Less rigid job classification process
- Setting clear targets at unit and personal level rather than generalised qualitative assessments

- of performance
- Extended use of performance related pay.

The result of this has been to successfully curb inflationary increases, at the same time developing a performance culture that has demonstrably improved quality and productivity. This has maintained a population of high calibre staff, with open competition for jobs and a flatter hierarchy that has meant greater freedom of movement across departments for staff to pursue their careers.

A number of key success factors can be identified in arriving at the current situation:

- *In the mid-90s trade unions were generally weak, having been subjected to a rolling programme of power reducing reforms during the 1980s. This allowed Civil Service management to implement many pay-related changes with more ease than if there had been coherent national-level opposition*
- *The move to delegation involved an act of faith, and a careful balance between 'letting go' to trusted managers and retaining some central co-ordination.*
- A significant investment in training and exchange of experience in managing performance and performance measures was made
- Adequate methods of assessing relative performance (against targets/objectives and/or against other staff) had to be developed over time.

Current arrangements have made a positive contribution to creation of a performance culture – although only when linked to other aspects of a performance management system such as targets and regular assessment against objectives or other staff. However, there are now 170 separate negotiating units and recently issues of internal relativity have been raised as a result of the merging of a number of Departments. Examples of different terminology exist both within and between Departments, such as a 'Deputy Director' in the Cabinet Office is roughly equivalent in job-weight/pay terms to a 'Director' in the Department of Trade and Industry. There are also those who question whether the cultural coherence of the Civil Service has been damaged through the fragmentation of pay systems, and thus its ability to work for a collectively responsible Cabinet.

Other concerns are emerging about retention, especially of the SCS and scarce skills groups. This may be fed by the general perception that one of the main causes is that performance pay schemes have not been adequately funded to have a real motivating effect. This has limited the spreading-out of actual pay between the best and the weakest performers, and has kept public sector pay for senior posts and scarce skills below what is needed to ensure adequate quality, especially where the intention is to attract new talent from outside the Civil Service. Some would argue that it needs to be accepted that that the "recruit, retain and motivate" principle requires the pay bill to increase in line with private sector earnings, not merely to match inflation. There is a balance to be achieved through which the highest performers can be rewarded to a meaningful level without reducing expectations of average performers to a demotivating extent. On the other hand, advocates of performance pay would argue that promotion of performance through appropriate pay systems would allow smaller numbers of higher quality and higher-performing staff.

Notwithstanding the above issues, there is a general consensus that the development of devolved,

performance based pay arrangements has created a fairer way of rewarding people, in that they emphasise merit rather than time served, and because they support a more flexible approach to managing the resource and performance needs of individual Departments and Agencies.

Key trends

- Continuing development of performance pay driven by Government pressure for modernisation of the Civil Service to improve service delivery
- Gradual expansion of performance pay schemes among the disciplined services
- Use of two year rather than annual negotiated agreements
- Higher tops of pay scales, implying the potential for much higher pay for higher grades (funding dependent).

xxviii Economic Trends', Annual Supplement 2001: The Stationery Office; Civil Service Statistics, www.civil-service.gov.uk/statistics/documents/pdf/css00.pdf

xxix "Strategic Review and Reform – the UK Perspective", OECD; "The Civil Service in Liberal Democracies: An Introductory Survey" Kingdom, J E, Routledge, 1990; "The State of the Higher Civil Service After Reform: Britain, Canada, and the United States", OECD, February 1999; OECD country profile; UK Adviser)

Consultation Paper on the Review of Civil Service Pay Policy and System

Purpose

The Task Force established upon the Administration's invitation to review the civil service pay policy and system would like to solicit views from all quarters on the findings of a five-country study. Views are also invited on some related questions the Task Force is asking in its interim report published on 25 April 2002.

Background

2. On 4 January 2002, a Task Force comprising members drawn from the three advisory bodies on civil service pay and conditions of service¹⁴ was set up to conduct a comprehensive review of the pay policy and system for the civil service. The central issue involved is the extent to which Hong Kong's current civil service pay policy and system are still in keeping with today's circumstances.

3. The review is in two phases, with Phase One being an analytical study on recent developments and best practices in pay administration in other countries. The Task Force will consider whether any useful reference can be drawn from the analytical study to facilitate a more detailed review in the second phase.

4. The Task Force decided to appoint an outside consultant to provide input on civil service pay structure and reform in a few selected countries. PwC Consulting was appointed after a competitive tendering process to carry out an analytical study on the latest developments in civil service pay administration in Australia, Canada, New Zealand, Singapore and the United Kingdom. The study looked at features and issues which might be relevant to Hong Kong, having regard to the history and development of the civil service pay policy and system here.

¹⁴ The three bodies are –

- (a) Standing Commission on Civil Service Salaries and Conditions of Service;
- (b) Standing Committee on Disciplined Services Salaries and Conditions of Service; and
- (c) Standing Committee on Directorate Salaries and Conditions of Service.

5. In particular, the consultant was asked to cover the following areas in its study –

- (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.

The Consultant's Findings and Observations

6. PwC Consulting submitted its interim report to the Task Force in mid-April 2002.

— 7. At Appendix A is the consultant's findings and observations, summarised in a brief, tabular guide form for easy reference.

8. The Task Force would like to repeat here the consultant's concerns that in producing such a short summary, they inevitably had to make some very broad generalisations and simplifications of the detailed arrangements in each country. As such, it should be read with some caution. To avoid possible misunderstanding or misinterpretation, the consultant suggested that readers should look at the fuller details on each country, as set out in the country summaries annexed to their report (at www.info.gov.hk/jsscs).

Development of the Hong Kong Civil Service Pay Policy

9. While the consultant was conducting its study, the Task Force revisited the development of the civil service pay policy and system in Hong Kong, in the light of the five areas mentioned above. The Task Force considered that this would provide them with a solid basis for comparison with the latest developments in the five countries which the consultant has been asked to look into.

10. A summary of the development of the Hong Kong civil service pay system over the last 50 or so years can be found in the Task Force's interim report. A brief version in the form of a chronological list is in Appendix B of this paper for easy reference.

The Task Force's Observations

11. Having studied the consultant's interim findings, the Task Force noted that inevitably, differences and variations exist to cater for the needs of individual countries. Even the definition of "civil service" varies from one country to another. Nonetheless, the consultant has been able to identify some common themes and lessons.

12. The Task Force noted in particular the consultant's observation that pay and grading reform cannot and should not be implemented in isolation from the broader civil service reform agenda. A long term view needs to be taken and gaining buy-in and commitment to change from key stakeholders is critical.

13. Similarly, it was also noted that a major investment of resources is necessary to build the capacity and commitment required to implement major pay reforms. Making significant changes to pay and grading arrangements, within the context of wider reform, inevitably involves pain as well as gain.

14. It is not possible to go into details regarding the consultant's findings and observations in this consultation paper. The community is invited to read the consultant's report in its original form as attached to the Task Force's own interim report (at www.info.gov.hk/jsscs).

15. After going carefully through the consultant's findings, the Task Force has decided that at this point in time, it would like to maintain an open mind.

16. However, having seen the development in the five countries studied, there seems to be a case that while the present pay system, among other things, has provided Hong Kong with a stable, clean and efficient civil service, some serious thinking is needed to ensure that the pay system is appropriate under the current socio-economic circumstances in Hong Kong. It has to be a system that can meet changing expectations from all quarters as well as challenges in the future.

17. From what the Task Force could perceive, the community would like to see a thorough re-thinking of the basic principles of the existing pay system. Piecemeal review on specific areas may no longer suffice.

18. To prepare itself for the final report, the Task Force would like to seek views from all quarters on the following questions, grouped under the five specific areas of study.

19. **On Pay Policies, Pay System and Pay Structure –**

- (a) Should there be a major overhaul of the civil service pay policy and system, should more emphasis be put on performance-pay, clean wage policy (i.e. paying "all cash" wages in lieu of allowances, housing and medical benefits, etc)?
- (b) Should senior civil servants be subject to a pay policy which is different from that of the middle-ranking and junior ranks, placing more risk/award factors on the former?
- (c) Should the disciplined services' pay be treated differently from the rest of the civil service?
- (d) Should we continue to conduct regular pay level, pay structure and pay trend surveys to ensure that civil service pay remains comparable with that of the private sector?

- (e) Or should Government's affordability to pay be an over-riding consideration in pay adjustments?
- (f) What features of the existing pay policy and system should be retained to ensure stability and morale of the civil service?

20. **On Replacing Fixed Pay Scales with Pay Ranges –**

- (a) Would the introduction of flexible pay ranges bring benefits in terms of better rewarding performance and enhancing a performance-oriented culture in the Hong Kong context?
- (b) Would flexibility in pay progression lead to potential divisiveness among civil servants?
- (c) Should flexible pay ranges be applied to the entire civil service, or only to senior civil servants, who typically have heavier management responsibilities?
- (d) Should flexible pay ranges apply both to civilian grades and the disciplined services?
- (e) Would changes be required to the existing performance measurement and appraisal systems to support the introduction of flexible pay ranges?
- (f) Would a performance management system directly linked to pay be the most effective way of nurturing a performance culture?

21. **On Pay Adjustment System and Mechanism –**

- (a) Should the principle of broad comparability with the private sector continue to be adhered to?

- (b) Is the existing pay adjustment system still regarded as fair by both civil servants and the public which they serve? Would another mechanism serve this purpose just as well, or better?
- (c) Is there a need for changing or introducing more flexibility in the existing adjustment mechanism?
- (d) Should fiscal constraints be an over-riding factor in determining pay adjustments?
- (e) Depending on whether, and to what extent, pay administration should be decentralised to departments, what would be the right balance for Hong Kong in terms of central control/guidance versus autonomy/flexibility for individual departments?

22. **On Introducing Performance-based Rewards –**

- (a) Do we see the merit for Hong Kong to incorporate elements of performance pay in civil service salaries?
- (b) Apart from pay ranges which already have performance- related elements, do we need to consider other forms of performance-based rewards?
- (c) Should team-based performance rewards be used and, if so, to which group (senior, middle, lower or all levels) should they apply and on what basis?
- (d) Should individual performance rewards be introduced and, if so, to which group (senior, middle, lower or all levels) should they apply and on what basis?
- (e) Some improvements to the staff appraisal system have been introduced in recent years. What further changes are needed to support the introduction of performance-related pay?

23. **On Simplification and Decentralisation of Pay Administration –**
- (a) Should consideration be given to introducing decentralisation of civil service pay administration for a city like Hong Kong?
 - (b) If decentralisation of civil service pay administration is to be introduced, how much pay and grading responsibility should be devolved to departments?
 - (c) Should some or all of the current general/common grades staff be departmentalised to facilitate department-based management?
 - (d) If civil service pay administration is to be decentralised, there may be a rather long transition period. How can the standard of service and staff morale be maintained during that period?
 - (e) In terms of simplification, is there scope to amalgamate existing grades within broader occupational categories? Is there scope for having flatter organisations with wider span of management control and fewer rank layers?
 - (f) Should a formal job evaluation system be introduced and, if so, should this be operated centrally or at department level?

24. The questions being asked above are extracted from the Task Force's interim report. It is not possible to repeat here all the relevant factors which gave rise to the questions being asked. The factors are depicted in the interim report and readers may wish to take them into consideration when responding to our questions.

25. Having considered all views expressed during the consultation period, the Task Force will produce its final report in July 2002. Thereafter, the three advisory bodies on civil service pay and conditions of service will make recommendations to the Administration in the second half of 2002 on the conduct of the second-phase review.

Public Consultation

26. We welcome views from all quarters of the community on the Task Force's interim report and on the questions raised in this consultation paper (paragraphs 19-23 above).

27. Please forward your views and comments to us on or before 25 May 2002 at –

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Task Force on the Review of Civil
Service Pay Policy and System

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