

*Task Force On Review Of Civil Service Pay Policy And System –  
Interim Report Phase 1*

*Response from The Association Of Expatriate  
Civil Servants of Hong Kong*

*Submitted on behalf of the AECS by  
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*Our response is by way of comments and answers inserted in blue italics in  
the text of the Review.*

*Opening Comments:*

*It may be assumed that resistance to these many proposals would come from staff and their representatives. That will probably be true at the initial stage. However, when it comes to implementation of change, the Administration has proven itself in the past to be highly resistant to accommodating even the most reasonable suggestions for change from staff associations. CSB tends to start with the view that any suggestion for change is a criticism of the Administration. This defensive attitude often inhibits objective analysis of the problem and fair consideration of proposed solutions.*

*The Administration also adopts the attitude that if a proposed change in benefits costs even a little bit more, it will be rejected even if there are substantial administrative cost savings to be achieved in administering the revised benefit.*

*We recommend consideration be given to giving priority to the simplification and rationalisation of benefits and allowances. If we succeed with this, it will give some confidence to trying the more problematic performance pay issues. If we fail, we will know that it will be a waste of time and money to try more major reforms.*

# CHAPTER 1

## INTRODUCTION

### Background

- 1.2 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. *[We all know that the genesis for this Review was a political response to LegCo and perceived public pressure. Thus the Task Force must strive to avoid the perception that the objective is to cut public service emoluments rather than a genuine attempt at improving the pay process. Otherwise, staff unions will not come on board the process and be prepared to negotiate in good faith.]* 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. *[AECS agrees in principle, but our past experience with the Administration is that "the devil is in the details". That is, it may sound good at a high level, but the Administration is notoriously irrational and uncompromising about revising terms and conditions.]*

### The Review

- 1.5 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) *[With regard to the Canadian and Australian experience, it may be more valuable to look at provincial and state experiences which are closer in size to Hong Kong. For example, one of our members was employed in the British Columbia government which undertook (and later abandoned) performance pay and “objective” job evaluations for establishing pay levels]* which may be relevant to Hong Kong, having regard to the history and development of the civil service pay policy and system here.

## CHAPTER 2

### DEVELOPMENT OF CIVIL SERVICE PAY POLICY AND SYSTEM IN HONG KONG

#### A. Pay Policies, System and Structure

##### I. Policy and System

###### *Objective*

2.3 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. *[We agree]*

###### *Principles*

2.28 “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”. *[We agree]*

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. *[This is a bland way of avoiding stating the fact that the government was forced by law and the AECS into this “reform”]*

#### **D. Performance-based Rewards**

2.45 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. *[Despite having been asked, there is much evidence to indicate that appraisals and assessment panels are not done honestly in some departments, and CSB is unwilling to enforce its will when presented with evidence of abuse]*

2.46 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. *[We agree]*

#### **E. Simplification and Decentralisation of Pay Administration**

2.52 The real innovation came about in 1999/2000 when the Administration formally decentralised pay administration for the employment of NCSC staff. 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. *[Because of the freeze on filling vacancies, many departments have used this device to fill the gap in permanent posts – nothing temporary about it!]*

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. *[We agree]*

## CHAPTER 3

### FINDINGS AND OBSERVATIONS

- 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.

*[We agree with all of the above points]*

## 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? *[We are not convinced that major change is needed or desirable]*

- 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. *[As long as the re-thinking includes the possibility of a conclusion that what now exists is OK]*

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

#### ***A. Pay Policies, Pay System and Pay Structure***

- 3.19 - Other changes have led to a “clean wage policy” with job-related allowances consolidated. *[We agree]*

- 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. *[We agree]*

- 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 *[No]*, clean wage policy (i.e. paying “all cash” wages in lieu of allowances, housing and medical benefits, etc?) *[Worth the attempt, but it will be difficult to get agreement]*
- (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? *[No, but if it goes ahead, it must be honest]*

- (c) Should the disciplined services' pay be treated differently from the rest of the civil service? *[In general, we think not, although some compensation for shifts and danger should be allowed]*
- (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? *[Yes]*
- (e) Or should Government's affordability to pay be an over-riding consideration in pay adjustments? *[It should be a factor, but where the government's inability to pay is caused by a political failure to remedy a structural defect in revenue collection, it would be unfair to have civil servants shoulder that burden]*
- (f) What features of the existing pay policy and system should be retained to ensure stability and morale of the civil service? *[See specific comments elsewhere]*

## ***B. Replacing Fixed Pay Scales with Pay Ranges***

- 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. *[Is there actual empirical evidence to prove this assertion - even anecdotal evidence? In our experience, individual staff of all ranks tend to work well, or excel, or work adequately or poorly depending on their own personalities, attitudes and capabilities. As long as they feel they are being generally paid fairly, the prospect of receiving a bonus does not alter their behaviour. Furthermore, is there any evidence to suggest that those who do not get bonuses reduce their productivity because they are upset for being unrewarded?]*

- 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. *[Absolutely true, and little evidence of that happening in some departments]*
- 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? *[We are sceptical]*
  - (b) Would flexibility in pay progression lead to potential divisiveness among civil servants? *[We think so]*
  - (c) Should flexible pay ranges be applied to the entire civil service, or only to senior civil servants, who typically have heavier management responsibilities? *[Senior and middle only]*
  - (d) Should flexible pay ranges apply both to civilian grades and the disciplined services? *[Yes]*
  - (e) Would changes be required to the existing performance measurement and appraisal systems to support the introduction of flexible pay ranges? *[The recommended systems are basically OK, but they vary greatly in adoption, implementation and honesty. Standardisation (with some necessary flexibility), compulsory use and monitoring by CSB would be essential]*
  - (f) Would a performance management system directly linked to pay be the most effective way of nurturing a



performance culture? *[We doubt it. There are actually a substantial number of staff who take pride and satisfaction in serving the public well, and will work well regardless]*

### C. *The Pay Adjustment System and Mechanism*

- 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. *[Remember that in Canada and Australia, a reference to “country” means only the national government, which may not be representative of the prevailing practices in those countries]*
- 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? *[Yes]*
  - (b) Is the existing pay adjustment system still regarded as fair by both civil servants and the public which they serve? *[Generally yes, but the government is often tempted to depart from the pay indicators due to short term political pressures]* Would another mechanism serve this purpose just as well, or better? *[We can't think of one, other than to improve the present one to eliminate tinkering due to political pressure]*
  - (c) Is there a need for changing or introducing more flexibility in the existing adjustment mechanism? *[Not convinced]*

- (d) Should fiscal constraints be an over-riding factor in determining pay adjustments? *[It should be a factor, but where the government's inability to pay is caused by a political failure to remedy a structural defect in revenue collection, it would be unfair to have civil servants shoulder that burden. Furthermore, this excuse is too easy to argue by an administration subject to political pressure.]*
- (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? *[Like Singapore, Hong Kong is small, staff from all departments are close together and living under the same economic influences. Centralised policy makes more sense.]*

#### ***D. Introducing Performance-based Rewards***

- 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, *[This is too broad a statement – CSB recommended these changes. Many or most departments have not complied]*
- 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. *[We agree]*
- 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?

*As mentioned previously, we are sceptical that performance is actually improved by the existence of performance pay incentives. Performance pay takes tremendous effort to administer fairly – effort that is diverted from the primary duties of staff. It would be interesting to do a classical cost/benefit analysis to see how much it would cost in staff time (and bonus money) to administer performance pay against the predicted benefit in productivity obtained by better performance of staff.*

*In addition to the expected jealousy and resentment felt by staff who feel wrongly deprived of a bonus, someone who got a bonus this year will be disgruntled if he doesn't get it again the following year. Even those who get bonuses may feel badly for those who didn't get one, but were deserving. One might also feel badly for those who would never get a bonus because they didn't deserve one. In short, institution of performance pay opens up many opportunities for engendering bad feelings, whereas under the present system, even if one feels that his performance is superior to that of his colleagues, he generally accepts the concept of equal pay for a similar job. If he performs better, he can expect to be considered more favourably for promotion.*

*Furthermore, an unfortunate immediate tendency when instituting performance pay is that performance appraisals get “fudged” to justify the giving of the bonus. They already tend to get “fudged” to increase the chances of a successful promotion to a favoured employee.*

- (b) Apart from pay ranges which already have performance-related elements, do we need to consider other forms of performance-based rewards? *[We can't think of any useful or necessary ones]*
- (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? *[No strong view on this – await pilot scheme results]*

- (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? *[See above, but generally only at middle and senior ranks]*
- (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? *[Needs to be made mandatory and monitored for compliance by CSB and staff unions]*

### ***E. Simplification and Decentralisation of Pay Administration***

3.50 - Most countries surveyed have also implemented major changes to their grading arrangements, common features include –

- (b) creation of flatter, less hierarchical management structures, through rationalisation of the number of ranks and pay ranges; *[May be some merit]*
- (c) combining occupations into broad staff groupings for better human resource management; *[May be some merit]*
- (d) establishing formal job evaluation systems/procedures for assessing job weighting; *[Very difficult and time consuming; hard to do fairly and convince staff it is done fairly]* 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. *[We agree. The fetish in Hong Kong for acquiring academic credentials is an unnecessary drain on people and resources]*

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? *[We are not convinced]*
- (b) If decentralisation of civil service pay administration is to be introduced, how much pay and grading responsibility should be devolved to departments? *[Limited]*
- (c) Should some or all of the current general/common grades staff be departmentalised to facilitate department-based management? *[Perhaps]*
- (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? *[We question what is meant by “morale”. Feeling good about one’s work? Adverse effect on productivity? Anyhow, if it is genuinely worth doing (in the sense of giving a better and more efficient service to the public), it should be done and staff should be convincible. If it is not worth doing, or not perceived as worth doing, then there will be a lot of unhappy people.]*
- (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? *[Maybe]*
- (f) Should a formal job evaluation system be introduced and, if so, should this be operated centrally or at department level? *[Very, very difficult and time consuming and hard to sell the result. In British Columbia it was tried and eventually fell into disuse. Good for consultants though!]*

## CHAPTER 4

### PUBLIC CONSULTATION

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."* [*We of course agree*]

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, 7<sup>th</sup> Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong. Fax: 2877 0750. E-mail: [jsscs@jsscs.gov.hk](mailto:jsscs@jsscs.gov.hk).