

**For discussion
On 10 January 2005**

LegCo Panel on Health Services

Remuneration of Hospital Authority Staff

Purpose

This paper outlines the remuneration packages of Hospital Authority (HA) staff, the different types of employment in HA/and the changes that are in the pipeline in view of changing circumstances and concern over staff morale.

Background

2. It is the objective of the HA “to provide rewarding, fair and challenging employment to all its staff, in an environment conducive to attracting, motivating and retaining well qualified staff”.

3. Schedule 3(10) of the HA Ordinance, Cap. 113 provides that the Authority shall determine –

“the remuneration, and the terms and conditions of employment, of its employees”.

4. The remuneration package offered to HA employees on the establishment of HA in 1991 was based on the principle of cost comparability with the civil service, i.e., in terms of total cost to the employer, the cost of the HA package should be comparable to that of the civil servants then serving in the Hospital Services Department (HSD). This principle still applies.

5. It should also be noted that when the HA was first established, it inherited a number of human resources arrangements adopted in the civil service. Over the years, many changes have been made to the remuneration packages and practices in view of the need to

respond to organizational challenges and changing circumstances.

Remuneration packages

6. There are three different types of remuneration packages. The background on how they emerged and their components are set out at the Annex.

HA's pay scales

7. At the time when HA was established, it had been agreed that the basic salary scale of the HA should not change, and consequently the HA had adopted a pay point system similar to Government's Master, Directorate and "Model Scale I" pay scales. At that time, incremental progression up to the maximum of the salary scale of the position was the general expectation in line with Government practice and increment would normally be paid on the anniversary of appointment. For employees remunerated on the HA Management Pay Scale (which was specifically created by the HA for new management positions under the New Management Initiatives introduced in 1992), a Performance-related Increment Assessment Scheme applies, and increment(s) will be granted on the basis of merit.

8. HA's pay scales are normally reviewed and revised when Government adjusts civil service pay. Although there is no rule strictly requiring HA to revise its pay scale when Government adjusts that of the civil service, the HA normally follows such practice given –

- (a) the cost comparability principle that needs to be observed;
- (b) that the recurrent funding for HA will be adjusted in line with the civil service pay adjustment whenever there is one.

HA has therefore all along correspondingly adjusted the dollar value of HA pay scales according to the civil service pay adjustment exercise. Consequently, the HA has followed closely, since its inception, all civil service annual pay adjustments such as –

- (a) pay increases for employees in the early 90s;

- (b) pay freezes for employees in 1998 (for those ranked at or above D3 on the Directorate Pay Scale or HMPS pay point 37), 1999, 2000; and
- (c) pay reduction on 1 October 2002, 1 January 2004 and 1 January 2005.

9. In 2000, the civil service decided to lower the starting salaries of entry ranks for new recruits and serving staff on in-service appointment to make the civil service pay at entry ranks more compatible with the market level. This resulted in reduction in starting salaries ranging from one pay point to six pay points for entry ranks in the Government. The maximum point of the concerned ranks remained unchanged. Because of the reasons stated in paragraph 8, the HA correspondingly lowered the starting salaries of entry ranks for HA's new recruits and serving staff on in-service appointment to maintain the relativity between the Government and HA. As a result, the starting salaries of around 96 ranks in HA have been adjusted downwards by 1 to 6 points.

Types of employment

10. In HA, employees are mainly engaged in three broad categories of employment according to the different operational needs in respect of the jobs concerned, viz. permanent, contract or temporary.

Job related allowances

11. Civil Servants in the HSD were eligible to a range of job-related allowances (e.g. Acting Allowance, Extraneous Duties Allowance, etc.). At the time of the establishment of HA, a number of allowances were abolished, but many had been retained to help ensure a smooth transition. The continued payment of these allowances was also considered necessary at the time because of the long-established ranking structure and job descriptions HA had inherited.

Remuneration of healthcare staff under training

12. While HA's primary objective is to provide medical services to Hong Kong's population within the allocated public funding, it is the expectation of society that the HA, as the major provider of public healthcare services, has an inherent responsibility to train the current and future healthcare workforce for Hong Kong. To discharge this responsibility, HA has been taking in about 300 new medical graduates and about 40 new allied health graduates every year.

13. Among all the healthcare professionals, post-graduate training for doctors is associated with the greatest complexities. There are elaborate rules and requirements differently stipulated by the 15 Colleges of the Academy of Medicine for specialist training, and under the jurisdiction of the Hong Kong Medical Council with respect to specialist registration. The timing of the various stages of professional examinations of the respective Colleges, and the passing rates, vary to a great extent. Consequently, while generally doctors undergoing specialist training will need a minimum training period of 6 years as stipulated by the Academy, various extension periods have to be considered for individuals in view of the need to match the complicated posting requirements, timing of examinations, and of the need to give reasonable allowance of examination attempts.

Changes made by HA to the remuneration structures and practices

14. As a publicly-funded body, HA is conscious of the need to use public money prudently when remunerating staff. Over the years, HA has made various moves to improve the remuneration structures, introduce new management concepts and abolish outdated remuneration practices. These efforts are outlined in the paragraphs 15 to 24.

Abolition of Omitted Pay Points

15. HA has inherited from the Government the arrangement of having omitted pay points in some ranks (e.g., Medical and Health Officer, Registered Nurse, Accountant, Analyst Programmer II, etc) where recruitment and retention difficulties had been experienced by the

Government before the establishment of HA. In view of the changed circumstances in HA where staff recruitment and retention do not pose a major problem, the HA took the lead to abolish all omitted pay point arrangements for HA ranks with effect from 1 April 2000.

Cancellation of Bonus Increments

16. It had also been the practice inherited from Government that additional “bonus increments” would be granted to serving employees (doctors/nurses) who had acquired some recognized higher qualifications. The aim was to encourage serving staff to acquire additional higher qualification required by the service. Under the bonus increment practice, Medical Officers who had acquired the recognized higher qualifications in their respective specialty, and nurses who have acquired the Midwifery qualification would be granted 2 or 1 additional pay point(s) respectively.

17. At the time when the starting salary of entry ranks was reviewed in 2000 (paragraph 9 above) the opportunity was taken to also abolish the practice for the following reasons :-

- (a) with improved staff retention situation and the introduction of the Contract Medical Officers Scheme under which the acquisition of higher qualification by Medical Officers has become a pre-requisite for recognition as a Specialist and appointment to higher rank, it was considered that award of bonus increment for higher qualification was no longer appropriate;
- (b) it is considered that the focus of pay management should be on the job done instead of on the number and kind of qualifications held.

Linking Pay to Performance

18. To improve the salary increment system, efforts have been given to linking pay to performance whenever the opportunity arises. Granting of annual increment has since 2001-02 been linked to the performance ratings of staff. No employee will be granted an annual increment unless there is a recommendation by the supervisor in their Staff Development Review report.

Performance-related Increment Assessment for HMPS Employees

19. To emphasize the performance oriented culture, the HA has created a new pay scale (HMPS) for employees appointed to new management positions of the HA. Employees remunerated on the HMPS will have their increment(s) granted on the basis of merit. Since June 2000 and April 2002, medical grade staff and pharmacy grade staff have also been put under the Performance-related Increment Assessment Scheme following grade review reforms.

Abolition of Job-related Allowances

20. Since its establishment, the HA has spent efforts in introducing new management concepts and practices to facilitate flexible utilisation of human resources. One of the strategies adopted is to reform the hierarchical structure and professional boundaries by realigning the existing ranks into broad banding of jobs thereby encouraging multi-skilling of staff to optimize utilisation of staff resources. The previous grade and ranking structures adopted from the Government have gradually become out of step with organizational needs. Moreover, with the advance in technology and changes in operational requirements, there have been changes in both the job and skill mix requirements. These developments posed questions on the need for continued payment of such allowances.

21. After a thorough review of all types of allowances and expenses / reimbursement in HA, 10 categories of allowance / reimbursement payment were abolished in HA with effect from 2003. The remaining allowance items are either considered essential for operation, or will be further reviewed and discussed with staff.

Grade Reviews and Change of Type of Employment for New Medical Graduates undergoing Specialist Training

22. Over the years, HA had initiated various grade reform exercises with the aim to enhance training opportunities for new graduates of professional grades while at the same time promoting quality

of patient services and taking into account fiscal constraints. Introduction of the medical grade reform on 1 June 2000 is an example.

23. Having to take in and remunerate about 300 new medical graduates and about 40 new allied health graduates year on year without corresponding departure numbers poses great fiscal challenge to HA. Faced with the budget deficits in recent years, the HA has to strike a balance between managing the budget, providing training and job opportunities for new recruits, and maintaining service level and quality.

24. To manage the fiscal burden brought on by the ever-enlarging pool of trainees, in 1997 the HA changed the employment terms for new medical trainees from permanent to contract employment, well before such practice was introduced to other grades. Further changes were made in association with the medical grade reform implemented in 2000 and in subsequent years. These included the following -

- (a) a new Resident pay scale to cater for the training period of new medical graduates in the specialist training programmes, with its starting salary point the same as the revised pay scale of Medical Officers in the civil service;
- (b) lowering of starting salary points of promotion ranks (Associate Consultant and Consultant), which was also applicable to other professional grades at similar levels such as Pharmacist. In return, there was promise of improved promotion prospect of around 50 promotions every year on average for doctors, to help improve the supervision structure;
- (c) a maximum period of 7 years for specialist training (except for Family Medicine training where the period of training in HA is 4 years), subject to individual consideration of special circumstances for extension;
- (d) creation of Specialist Resident posts to retain those who have good performance and completed the specialist training

period, but not yet secured a promotion post.

In general, these measures enabled the HA to continue to take in about 300 new medical graduates every year for training, and secure a definitive number of promotions every year despite severe budgetary constraints. However, continued employment in the HA after completion of training cannot be totally guaranteed because the size of HA and the public funding allocated to healthcare services cannot expand without limit.

Challenges faced by the HA and measures taken to address these

25. As pointed out in the above paragraphs, HA, as a publicly-funded organization, has to work within various confines when designing its remuneration structures and practices. It has, on its establishment, inherited some arrangements from the then HSD. There is also a need to observe the cost comparability principle, to honour contractual obligations, to operate within budgetary constraints, to enhance efficiency and to maximize training and job opportunities for new healthcare graduates. As circumstances change and competing needs arise, the remuneration structures and practices of HA have undergone different stages of evolution resulting in multiple variations in terms of employment types and remuneration packages. At each stage of evolution, HA has decided that the new change introduced will only be applied to new recruits after the implementation date. For HA, the decisions to change are difficult to make, knowing that such variations and diversity might not be conducive to maintaining staff morale. To minimize the adverse impact, HA has tried its best to communicate with staff representatives through the various levels of consultative mechanism, as well as modify plans where appropriate on receiving staff feedback. The challenges arising from these changes that HA is facing now are discussed in paragraphs 26 to 37 below.

Concern over “unequal pay for equal work”

26. The perception of inequity arises from the introduction of the Monthly Allowance Package, changes to entry points and salary increments, introduction of contract employment etc. The feeling of inequity is particularly poignant amongst new medical graduates who

joined the HA in recent years when they compare themselves with their predecessors. There is great stress among them arising from worries about their ability to pass the required examinations in order to secure the next training contract, and the uncertainty of employment after completion of training.

27. While staff morale is an important consideration, it should also be appreciated that offering different remuneration packages to the same rank / group of staff joining an organization in different years is an inevitable consequence if the organization is to honor existing contracts with old staff, while continuing to recruit staff at the market rate in a declining economic climate with salaries falling. Such disparity also exists in the civil service, and is more commonly found in the private sector.

28. In the last few years, the HA has been increasingly concerned about staff morale issues, particularly after the SARS outbreak. While the budgetary situation remains very stringent and HA must continue to operate within the confines mentioned above, HA is now considering offering of increment to well-performing staff recruited after June 2002 (please see paragraph 18). The Government and HA are also exploring the possibility of re-distributing some of the specialist training responsibilities to the private sector.

Job insecurity created by contract employment

29. In recent years, HA has increased the use of contract employment partly because of the employment of contract residents undergoing specialist training, and partly because of the financial uncertainties of the organization. Experience also indicates that contract employment helps manage performance as well in that it links performance to employment opportunity. Nevertheless, the HA recognizes the fact that contract employment does not provide long-term job security which could be important to many staff. There is also perception of disparity when contract staff compare themselves with their predecessors.

30. The HA recognizes the need to strike an appropriate balance

on the extent of use of contract employment so as to ensure that cohesive, loyal teams of staff are available for delivery of quality service to the public. Consideration is being given to converting some well-performing contract staff after a certain period to permanent terms of employment.

Continuation of temporary employment while jobs have changed from a temporary to a more permanent, full-time nature

31. Similarly, for those temporary staff, whose jobs have changed from a temporary to a more permanent, full time nature, the HA is planning to convert them into full-time contract employment.

Concern over senior executive remuneration

32. There has been some public and staff concern over senior executive remuneration in the HA. The matter must be looked at in proper perspective, taking into consideration executive structure and the changes that have taken place over the years.

33. With a mandate to manage 43 public hospitals, 99 outpatient clinics and about 53 000 staff, providing the great majority of secondary and tertiary healthcare to the local population, the HA is the second largest employer in Hong Kong after the Government itself. The management demand to run such a big and complex organization is great. The HA Board is therefore well versed with the need to attract and retain appropriate executive leadership both in level and number for the work. At the same time resources should be maximally spent on direct patient care. Therefore there have been continued attempts to streamline and downsize management. Many executives have taken on very substantial additional work without any adjustment to pay throughout the years. In 2002, senior executives of HA volunteered an additional pay cut, double that of the average staff, in order to accomplish smoothly the salary reduction exercise in line with the civil service.

34. The HA has constantly responded to the ever changing environment to implement appropriate changes in the HA management structure, and closely controlled the number and cost of senior executives

to balance ensuring capable leadership with ensuring efficiency and effectiveness. At the time when the first Chief Executive of HA was appointed in 1994, there were 16 Deputies in HA Head Office, and 38 Hospital Chief Executives. The organization now has a larger portfolio to manage mainly because of new services like the community geriatric and psychiatric services, the takeover of general out patient service from the Department of Health and introduction of Family Medicine training, Chinese Medicine service etc. On the other hand, there are currently only 8 Directors/Deputy Directors in HA Head Office, and 27 Cluster Chief Executives/Hospital Chief Executives. After the SARS crisis, the HA Board reviewed the senior executive structure, and found it in need of strengthening after years of trimming and in view of the numerous challenges ahead. Any addition however will be prudent and marginal. The HA Board also considers it of paramount importance to maintain stability, and hence there will not be major changes in the executive structure, including the cluster management structure, within the next few years.

35. During the formative years of the HA, it was considered important to replace the relatively passive role of the previous Medical Superintendents of hospitals, by Hospital Chief Executives who were empowered to carry out management and service reform. High caliber executives had to be recruited to these positions to transform the hospital services. At the same time, 3 Principal Officers were created in the new HA Head Office to head the much larger organization after taking over all Government and subvented hospitals. This was subsequently replaced by the Chief Executive position in 1994. For these new positions, the remuneration packages were determined as a separate exercise. But in order to encourage performance, a percentage of such salaries would be withheld, and to be released in part or in whole at the end of every year after assessment of the executive's performance by a panel. This portion was called the incentive award. With organizational evolution to a cluster management structure subsequently, Cluster Chief Executives have been appointed, but their salary structure have not been revised despite the higher responsibility of managing a cluster and a major hospital, and still follows those of Hospital Chief Executives.

36. On the other hand, Deputy Director positions in the HA

Head Office were considered, during the early years of HA, to follow similar positions in the previous HSD. So the usual remuneration packages with modifications where appropriate would suffice, and without the incorporation of an incentive award. Throughout the years, it had been increasingly recognized that key executive positions in HA Head Office also shouldered higher responsibilities. Some positions have since been re-titled Directors, but the remuneration packages again have not been revised.

37. The HA Board has for some time recognized the need to review the remuneration packages of the senior executive team to broadly ensure that both the quantum of remuneration and package content are consistent with current practice in the local and international scene, and that relativities within the HA are appropriate in the light of the many changes that had taken place. To this end, the HA has recently appointed an external consulting firm to conduct a thorough review with outcomes to be deliberated by the HA Board during the first quarter of 2005. The HA Chairman and appropriate Board members constitute the Steering Committee for this project. Attention will also be brought to the fact that despite explanations, there remains misunderstanding on the practice of the incentive award scheme, which needs to be addressed. Senior executives in HA are all supportive of an independent and fair review of the remuneration packages that are appropriate for their jobs.

Conclusion

38. HA recognizes that its staff is the organization's most valuable asset. Over the years HA has done its best and has achieved a lot within the confines of the budget and the cost comparability principle for its staff. HA will continue to explore creative ways of meeting staff expectations while maintaining flexibility and spending public funds prudently. HA will also continue to try its best to communicate with staff, as well as modify plans where appropriate on receiving their feedback.

39. Although theoretically it is possible to de-link the pay and remuneration practices of HA with that of the civil service and indeed the HA has achieved this to some extent for certain ranks, there have been

repeated and consistent great concern among staff groups towards a radical move. HA will take great care in balancing staff morale and its consequence over service quality, against any benefit that can be achieved from either the budgetary or the human resources angles.

40. The Government is aware of the difficulties besetting HA. Since nearly 80% of HA's recurrent expenditure is devoted to remuneration of staff, the difficulties HA faces in continuing to honour contractual obligations to existing staff and to offer a reasonable remuneration package to staff, including trainees recruited in the future is also a major facet of the bigger healthcare financing problem. Given the continued need to exercise tight control on public sector spending in the coming years, the situation would only improve if there is a significant increase in the turnover of existing staff, leading to increased promotion prospects, more job opportunities for those who have completed training and more training opportunities for new medical graduates. This in turn hinges on the growth of the private medical sector. Only when the private medical sector has a larger share of the market will more healthcare workers be attracted to leave the public sector. To achieve a better balance between the public and private sectors, the Government has accorded high priority to working out measures to -

- position the public healthcare sector more precisely to providing services –
 - to those who cannot afford those of the private sector;
 - to patients who require multi-disciplinary collaborative treatment; and
 - to patients whose illnesses are of an emergency or catastrophic nature;
- encourage more patients who can afford private medical services to move to the private sector; and
- develop long-term healthcare financing options that will enable patients to use more private sector services in the long run.

We will consult members on these measures when we have developed proposals in these regards.

Advice Sought

41. Members are requested to note the contents of this paper.

**Hospital Authority
Health, Welfare and Food Bureau
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Remuneration Packages in HA

Cash Allowance Package

When the HA was established in 1991, the Cash Allowance package was approved by the Executive and Legislative Councils in 1991 after an extensive period of intense research, study and discussion. It was aimed at attracting and retaining staff in the new organization and comprises the following :-

- (a) Basic salary – payable in arrears on a monthly basis in accordance with the respective HA pay scales as determined appropriate to the job;
- (b) Core benefits such as retirement benefit (provident fund), housing benefit (Home Loan Interest Subsidy System), leave, medical & dental benefits, as well as death & disability benefits which the organisation considered essential to be provided in kind;
- (c) Cash Allowance – expressed as a percentage to basic salary payable on a monthly basis in addition to basic salary. In essence, this is a Flexible Spending Account for the employee which represents the balance of cost to HA in providing the core benefits in kind and the cost to Government in providing all its fringe benefits to civil servants working in the then Hospital Service Department.

Fixed Flexi Allowance Package

2. Arising out of a report and recommendations by the Director of Audit and the subsequent discussion at the Legislative Council's Public Accounts Committee and the Committee's recommendations, from 1 January 1997, the HA split the Cash Allowance percentages into a Fixed Allowance and Flexi Allowance, both still expressed as a percentage of basic salary. This Flexi-Allowance was taken to represent the housing component of the cash allowance and hence is subject to the Government's double benefits rule.

Monthly Allowance Package

3. In May 1995, the then Secretary for Health and Welfare established a working group to review the HA remuneration package. The Working Group conducted a cost comparability study between the HA and the civil service packages. The purpose was to establish the trend of the cost comparability position. As a result of the study, the Government proposed HA to work out a revised funding arrangement for HA staff appointed after a cut-off date. The revised funding arrangement should have the flexibility of being adjusted annually in line with the prevailing civil service oncost rates. This proposal also fulfilled the Public Accounts Committee's recommendation of introducing a mechanism for regular review and adjustments of the HA package. The remuneration package flowing from this revised funding arrangement was offered to staff recruited on or after 1 April 1998. It offered a Monthly Allowance calculated on the basis of the Government's 1997 Staff Cost Ready Reckoner rates (representing the prevailing civil service staff oncost rates) and was set as a fixed sum of money not linked to the staff's basic salary. It was acknowledged then that existing staff (staff recruited before 1 April 1998) would not be affected.