

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 120 – PENSIONS Subhead 016 Contract gratuities**

Members are invited to approve a supplementary provision of \$30 million under Head 120 Pensions Subhead 016 Contract gratuities for the advanced payment of contract gratuities in 2010-11 arising from the modification to the entry system for recruitment to the basic ranks in the Civil Service.

### **PROBLEM**

The approved provision for the payment of contract gratuities is inadequate to meet the anticipated expenditure in 2010-11 due to the modification to the entry system for recruitment to the basic ranks in the Civil Service.

### **PROPOSAL**

2. We propose to provide a supplementary provision of \$30 million under Head 120 Pensions Subhead 016 Contract gratuities to meet the advanced payment of contract gratuities in 2010-11 arising from the modification to the entry system for recruitment to the basic ranks in the Civil Service.

### **JUSTIFICATION**

#### **Implementation of the modified entry system**

3. Under the previous entry arrangement in force between June 2000 and June 2010, new recruits to the basic ranks were normally appointed on three-year new probationary terms and three-year new agreement terms (NAT) (i.e. the '3+3' system) before they were considered for further appointment on new permanent terms (NPT).

4. Having reviewed the implementation experience of the '3+3' system, we consulted the Legislative Council (LegCo) Panel on Public Service, the Staff Sides of the Central Consultative Councils and the Public Service Commission (PSC) in April 2010 on a proposal to remove the three-year agreement period (i.e. the second limb of the '3+3' system) and the consequential transitional arrangements for serving officers appointed under the '3+3' system. All parties supported our proposal; and the Panel and the Staff Sides requested the Administration to implement it as soon as possible. In June 2010, we informed the Panel of our plan to implement the proposal with effect from 1 July 2010.

5. Effective from 1 July 2010, new recruits to the basic ranks will be appointed on a three-year probationary period, save for those grades where prior approval from the Civil Service Bureau (and support from the PSC where appropriate) has been obtained for variations to the entry system. Subject to satisfactory completion of the probationary period and full compliance with the requirements of the grade concerned and service need, these recruits will be considered for further appointment on NPT.

6. Under the transitional arrangements, officers who have completed their probationary period and are serving the second limb of the '3+3' system have been invited to opt for permanent appointment with effect from 1 July 2010 or to continue to serve out their existing agreements. The suitability of serving officers opted for permanent appointment will be assessed in accordance with the established arrangements. Upon the expiry of the option period in August 2010, amongst 2 079 eligible officers, a total of 1 828 officers (or 88%) have opted for NPT with effect from 1 July 2010.

#### **Advanced payments of contract gratuities**

7. Under the then '3+3' system, the Administration would pay contract gratuities where applicable to civil servants upon their satisfactory completion of the three-year NAT service (i.e. the second-limb of the '3+3' system). With the implementation of the transitional arrangements in paragraph 6 above, for those NAT officers who have opted and are assessed to be suitable for permanent appointment with effect from 1 July 2010, the Administration will make gratuity payments where applicable for the portion of their agreement service completed up to and including 30 June 2010. The maximum additional cash flow requirement in the form of advanced payment of contract gratuities is estimated at \$37.9 million in 2010-11. This expenditure could not be anticipated when preparing the 2010-11 Estimates for Head 120 Pensions Subhead 016 Contract gratuities.

8. The additional cash flow requirement of \$37.9 million for advanced payment of contract gratuities can be partially offset by the lower-than-expected expenditure under this subhead<sup>Note</sup>. A supplementary provision of \$30 million is therefore required to meet the shortfall.

## FINANCIAL IMPLICATIONS

9. The latest estimates of Subhead 016 are as follows –

	<b>\$ million</b>
Approved provision	324.9
<i>less</i>	
Actual expenditure up to 28.9.2010	170.2
Estimated expenditure to 31.3.2011	<u>184.7</u>
Estimated shortfall	(30.0)

10. We propose the provision of a supplementary provision of \$30 million to Head 120 Pensions Subhead 016 Contract gratuities to meet the advanced payment of contract gratuities in 2010-11 arising from the implementation of the modified entry system. Subject to Members' approval of the proposal, we shall offset the supplementary provision from Subhead 015 Public and judicial service pension benefits and compensation under the same Head in light of the lower-than-expected level of expenditure under this subhead.

## PUBLIC CONSULTATION

11. We consulted the LegCo Panel on Public Service on the proposal on 18 October 2010. Members supported the funding application.

**/BACKGROUND .....**

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<sup>Note</sup> A saving of \$7.9 million (mainly from changes in contract end date and leave period of agreement officers) has been identified under this Subhead.

**BACKGROUND**

12. The objective of the '3 + 3' system was to provide greater flexibility in the civil service appointment system and allow for better quality control of staff. From June 2000 to March 2009, a total of 20 612 civil servants had been appointed under the then '3+3' system. Only five (or 0.02%) left the Service during or upon completion of the second limb of the '3+3' system due to unsatisfactory performance or conduct; and another 35 left during the initial three-year probation period. This shows that there is little practical need, from the perspective of weeding out poor performers, for a three-year agreement period on top of a three-year probation period. We have thus removed, after consultation with the stakeholders, the three-year agreement period previously required of new recruits to the basic ranks before they could be considered for permanent appointment.

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Civil Service Bureau  
October 2010