

For discussion on  
18 October 2010

**Legislative Council Panel on Public Service**  
**Supplementary Provision Arising from**  
**the Modification to the '3+3' Civil Service Entry System**

**Purpose**

This paper seeks Members' support to seek the approval of the Finance Committee (FC) in November 2010 for a supplementary provision of \$30 million in 2010-11 to meet an estimated increase in expenditure arising from the modification to the entry system for recruitment to the basic ranks in the Civil Service.

**Background**

2. Under the previous entry arrangement in force between June 2000 and June 2010, new recruits to basic ranks were normally appointed on three-year new probationary terms and three-year new agreement terms (i.e. the '3+3' system) before they were considered for further appointment on new permanent terms (NPT). In April 2010, we consulted the Panel, the Staff Sides of the Central Consultative Councils and the Public Service Commission (PSC) on a proposal to remove the three-year new 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 and our assessment of the financial implications. The Panel welcomed early implementation and indicated readiness to expedite consideration of the related financial implications.

**Implementation of the modified entry system**

3. The modified entry system and the associated transitional arrangements have been promulgated. Effective from 1 July 2010, new recruits to 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.

4. Under the transitional arrangements, 8 821 civil servants serving on probationary terms on 1 July 2010 (i.e. the first limb of the '3+3' system) will be considered for permanent appointment upon satisfactory completion of their probationary period. Another 2 079 officers serving on agreement terms on 1 July 2010 (i.e. the second limb of the '3+3' system) have been invited to opt for NPT with effect from 1 July 2010 or to complete their existing agreements before consideration is given to permanent appointment. A total of 1 828 officers (or 88%) have opted for NPT with effect from 1 July 2010; and their suitability for permanent appointment is being assessed in accordance with the established procedures.

### **Financial implications**

5. 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 agreement service (i.e. the second-limb of the '3+3' system). The Government would not make any voluntary contributions for them under the Civil Service Provident Fund (CSPF) scheme until they are appointed on NPT (usually after six years of service). Under the transitional arrangements, they will be appointed on NPT upon satisfactory completion of their probationary service, and the Government will make voluntary contributions for them under the CSPF scheme from their 4<sup>th</sup> year of service onwards in lieu of any gratuity payment. For agreement officers serving on 1 July 2010 (i.e. the second limb of the then '3+3' system) and who have opted and are assessed to be suitable for permanent appointment, the Administration will make gratuity payments where applicable for the portion of their agreement service up to and including 30 June 2010, and make voluntary CSPF contributions in respect of their service on NPT commencing on 1 July 2010 in lieu of any gratuity payment. In this connection, it is noted that the contract gratuity specified for the three-year agreement service under the then '3+3' system for most grades is the same as the Government's contribution rate under the CSPF scheme for civil servants with three to less than 15 completed years of service, i.e. 15% of an officer's basic salary.

### *Additional cash flow requirement*

6. The transitional arrangements stated in the above paragraph would entail some additional cash flow requirement in 2010-11, in the form of advanced payment for contract gratuities and the Government's voluntary contributions under the CSPF scheme as explained below.

### *Pro-rata contract gratuities*

7. As stated in paragraph 5 above, contract gratuities under the then '3+3' system would be paid where applicable to officers for their three-year agreement period and upon its satisfactory completion. Under the transitional arrangements, *pro-rata* gratuities will be paid in 2010-11 to eligible officers serving on agreement terms and who have opted, and are assessed to be suitable, for permanent appointment with effect from 1 July 2010. The maximum additional cash flow requirement 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 for the payment of contract gratuities in 2010-11. Taking into account the latest expenditure projection of this Subhead, we estimate that a supplementary provision of \$30 million is required, made up of –

	<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)

### *Monthly voluntary contributions by the Government under the CSPF scheme*

8. As stated in paragraph 5 above, the Government would not make any voluntary CSPF contribution for an officer for his/her first six years of service under the then '3+3' system. Under the transitional arrangements, such contributions, on a monthly basis, will need to be made in 2010-11 for 2 240 serving probationers whose probationary service ends during the period from 1 July 2010 to 31 March 2011 and another 1 828 agreement officers who have opted for NPT with effect

from 1 July 2010, subject to their being assessed to be suitable for permanent appointment. The maximum additional cash flow requirement is estimated at \$47.3 million in 2010-11. As the officers concerned are working in different bureaux and departments, the estimated additional requirement will be spread out under different Heads of Expenditure and will not exceed \$10 million for any Head of Expenditure. We intend to deal with any supplementary provision required under delegated authority.

### **Advice sought**

9. Members are invited to support our request for a supplementary provision of \$30 million in 2010-11 for Head 120 – Pensions Subhead 016 Contract gratuities. Subject to Members' advice, we intend to submit the request for the approval of the FC in November 2010.

**Civil Service Bureau  
October 2010**