

ITEM FOR FINANCE COMMITTEE

HEAD 96 - GOVERNMENT SECRETARIAT : OVERSEAS OFFICES

Subhead 001 Salaries

Subhead 002 Allowances

Members are invited to -

- (a) approve the new pay and conditions of employment for the locally engaged (LE) staff in the Hong Kong Economic and Trade Offices (HKETOs) in Washington, New York, San Francisco, London, Tokyo, Toronto, Singapore and Sydney;
- (b) approve the adoption of the annual pay adjustment for the civil service in the respective host cities/countries as the basis for future pay revision for the LE staff in these HKETOs; and
- (c) delegate to the Secretary for the Treasury the authority to approve future revisions of the pay scales for the LE staff in these HKETOs in accordance with (b) above.

PROBLEM

We need to establish a self-standing remuneration system by 30 June 1997 for -

/(a)

- (a) the employment of the locally engaged (LE) staff in the Hong Kong Economic and Trade Offices (HKETOs) in Washington, New York, San Francisco, London, Tokyo, Toronto, Singapore and Sydney; and
- (b) future pay adjustments for LE staff in these offices.

PROPOSAL

2. The Secretary for Trade and Industry proposes -
- (a) to establish new pay and conditions of employment for the LE staff of the HKETOs in Washington, New York and San Francisco (paragraphs 4 to 9);
 - (b) to adopt the existing employment package for the LE staff of the HKETOs in London, Tokyo, Toronto, Singapore and Sydney as the basis of the new employment package (paragraphs 11 to 12);
 - (c) to follow the annual pay adjustment for the civil service in the respective host cities/countries in future pay revisions for the LE staff in these eight offices (paragraphs 10, 13 to 17); and
 - (d) the Secretary for the Treasury be delegated the authority to approve future revisions of the pay scales for the LE staff in these eight offices in accordance with (c) above (paragraph 21).

JUSTIFICATION

3. Historically, we remunerate the LE staff in the HKETOs on the basis of the pay scales of the British Embassy (BE)/British Consulate General (BCG)/British High Commission (BHC)/United Kingdom (UK) Civil Service (for the London ETO) in their respective cities as appropriate. The annual pay revision for these staff also follows the BE/BCG/BHC/UK Civil Service revisions. This arrangement is no longer appropriate and should cease before 1 July 1997.

/Delinking

Delinking of HKETOs in Washington, New York and San Francisco

4. For historical reasons, most of our LE staff in the USA are employed by the BE/BCG on our behalf. We remunerate these staff on BE/BCG pay scales, and in Washington and New York, the BE/BCG actually pay the staff concerned before seeking reimbursement from us.

5. We have reviewed the existing ranking structure and pay relativity between ranks for LE staff in the HKETOs in the USA and consider them appropriate and sufficiently competitive. We propose to retain the existing pay scales and adopt them as the basis for determining the proposed employment package after delinking (see paragraphs 6 to 10 below). Our major considerations are as follows -

- (a) the BE/BCG pay scales have generally worked well and served our needs over the years and are acceptable to both the management and the staff;
- (b) given the small number of LE staff involved in each office, it will not be value for money to embark on an elaborate exercise to determine our own pay scales for each office, and there is no suitable international organisation or public body in these cities whose pay scales we can mirror; and
- (c) it is not possible to adopt the civil service pay scales in the host cities because of the difficulty to align their scales with our existing LE pay scales given the fundamental difference in grading and ranking structure.

6. To provide the LE staff in the ETOs in the USA with some incentive to accept our new employment terms and to ensure a smooth transition and continuity in their service, we propose to increase their existing pay scales by 2%. This is also to acknowledge the lack of career advancement opportunities given the small set-up of our offices.

7. On pension benefits, the LE staff in the three US offices are eligible for participation in BE's Pension Plan to which officers concerned contribute 6% of their equivalent salaries. The HKETOs also contribute the same amount to the Pension Plan. Upon delinking of the HKETOs from the BE system, the LE staff will cease to be eligible for participation in this Pension Plan and will cash in their

/benefits

benefits. Thereafter, we need to provide them with a similar level of pension benefits so that there is no erosion of their overall employment package. Given the small number of LE staff in the three ETOs, we consider it more appropriate to offer them a contract gratuity in place of pension benefits. Based on advice of a reputable US-based employee compensation and actuarial consultancy firm, we propose to provide a 10% gratuity in lieu of pension every two-and-a-half years subject to satisfactory completion of the contract. This level of gratuity is comparable to the approximate cash value which an LE staff could have derived from our contribution to the BE Pension Plan over the same period of time.

8. As the LE staff working for the three HKETOs in the USA are regarded as the BE/BCG employees, those of them who are non-US citizens enjoy privileges and immunities granted by the US Congress and are not liable to payment of US Income Tax and US Federal Insurance Contributions Act (FICA) contributions. There are therefore two pay scales presently in force for the LE staff, one for non-US citizens and the other for US citizens. The two scales are essentially the same except that we gross up the scale for US citizens for the incidence of tax and FICA contributions. A Bill is now with the US Congress for granting privileges and immunities to our HKETOs there on a self-standing basis. Upon enactment of the Bill, our LE staff who are non-US citizens will continue to be exempted from payment of taxes. We propose to maintain the two separate pay scales as at present. The existing and proposed pay scales for each of the three HKETOs in the USA are in Enclosures 1 to 3.

Encls.
1 to 3

9. The present conditions of employment for the LE staff in the ETOs in Washington, New York, and San Francisco also include fringe benefits, such as vacation leave and medical and dental care. Upon delinking from the BE/BCG system, we propose to provide similar fringe benefits to them. Details of these benefits are in Enclosure 4.

Encl. 4

10. The existing BE/BCG pay scales for LE staff in the HKETOs in the USA are revised in line with the pay adjustments for the US Federal Government Civil Service. To maintain the pay package for LE staff in these offices at competitive levels, we propose to continue to follow US Federal Government Civil Service revisions.

/Delinking

Delinking of HKETOs in London, Tokyo, Toronto, Singapore and Sydney

11. Unlike the ETOs in the USA, the ETOs in Tokyo, Toronto, Singapore and Sydney are not part of the BE/BCG/BHC. For historical reasons, however, they have been following the pay scales and pay adjustments for the LE staff of the BE/BCG/BHC in their host cities. In London, the pay package of our LE staff at present follows that of the UK Civil Service. The annual pay revisions in these five ETOs follow generally the rate adopted by the respective federal or central governments, as appropriate.

12. For the same reason given in paragraph 5 above, we propose to establish new employment packages for these five ETOs on the basis of the existing packages with adjustments as explained in the following paragraphs.

13. In London, since April 1996 the UK Government has decentralised pay administration to individual departments/ministries. In view of the similarity in functions and responsibilities, we propose that the pay scale of our LE staff should mirror that of the Department of Trade and Industry in the UK, including their performance-related annual pay award system.

14. In Tokyo, the BE has adopted a policy to scale down its permanent establishment and to fill vacancies by temporary staff. As a result, we have not revised the pay of the LE staff in Tokyo since August 1993. On the other hand, the Japanese Civil Service has made an inflation adjustment aggregating to 3.03% from 1994 to 1996 for their civil servants. This has caused us serious recruitment and retention problem with the wastage figure standing at 25%. We propose to make the cumulative adjustment of 3.03% to the pay scales of the LE staff in Tokyo so as to restore the competitiveness of our pay package. Future pay revisions will follow those of the Japanese Civil Service, as determined by the National Personnel Authority for all government employees.

15. In Toronto, as in other places in Canada, the Civil Service is divided into three tiers, namely, federal, provincial and municipal. The amount of annual adjustment is basically a matter of negotiation between the unions and the management. As the work of our Toronto Office covers the whole of Canada, we propose to follow the pay adjustments of the federal government for future salary revisions.

16. In Singapore, the Public Service Division of the Prime Minister's Office is responsible for the formulation and implementation of policies and practices pertaining to the remuneration and compensation terms for the Singapore Civil Service. We propose that the annual pay revision of our LE staff in Singapore should follow that of the Singapore Civil Service, including any bonus payment with regard to the performance of the economy.

17. In Sydney, the pay claims of almost half of the Australian workforce and all members of the Australian Public Service (APS) are covered by federal awards and by the jurisdiction of the Australian Industrial Relations Commission (AIRC). The conditions of service under which the APS operates apply to all staff irrespective of the state in which they work. We propose that the annual pay revision of the LE staff in Sydney should follow the APS, as determined by the AIRC.

Encl. 5 18. The proposed pay scales of LE staff in HKETOs in London, Tokyo, Toronto, Singapore and Sydney are in Enclosure 5.

Encls. 6 to 10 19. Apart from pay, the LE staff in London, Tokyo, Toronto, Singapore and Sydney HKETOs enjoy other fringe benefits such as pension, medical and dental schemes, workmen compensation scheme and leave. We consider these fringe benefits reasonable and consistent with the local legislation and employment practice. On establishment of the self-standing remuneration packages, we will continue to provide the staff with similar fringe benefits so as not to erode their terms of employment. A list of the fringe benefits enjoyed by the LE staff in the respective HKETOs are at Enclosures 6 to 10 for Members' information.

Appointments on Renewable Contract Terms

20. We have considered the possibility of employing our LE staff on renewable contract terms. This will provide greater flexibility in the appointment and management of our LE staff. Taking the new pay package as proposed by the Consultant in the USA as a reference (paragraph 7 above), we consider it appropriate to offer, wherever possible, two-and-a-half years renewable contract terms with 10% end-of-contract gratuity in lieu of pension benefits to the LE staff elsewhere.

/Delegation

Delegation of authority for annual pay revision

21. If Members approve the principle of revising the pay scales of our LE staff in accordance with the annual pay adjustment for the civil service in the respective host cities/countries, the annual pay revisions are routine. We therefore propose that Members delegate to the Secretary for the Treasury the authority to approve future revisions of the pay scales for the LE staff in the eight HKETOs in accordance with the proposals outlined in paragraphs 10 to 17 above.

FINANCIAL IMPLICATIONS

22. The proposals, if approved by Members, will result in an additional cost of \$1,456,000 to Government on an annual basis. We have included sufficient provision in the 1997-98 Estimates for this purpose.

23. In the unlikely event that the Bill mentioned in paragraph 8 is not passed by the US Congress before July 1997, the additional expenditure of paying non-citizen LE staff in USA, who would otherwise continue to be eligible for tax exemption, the "gross" pay scale as an interim measure is about \$500,000 per annum. Sufficient contingency is available for this purpose. We expect that the situation, if happened, would not last long.

BACKGROUND INFORMATION

24. There are at present ten HKETOs. They are located in London, Brussels, Geneva, Washington, New York, San Francisco, Tokyo, Toronto, Singapore and Sydney and are responsible for promoting the economic and trade interests of Hong Kong.

25. To provide supporting services to Hong Kong-based officers posted to these offices, we recruit in the host countries/cities supporting staff mostly in the clerical and secretarial grades, and investment promotion consultants whose work requires good local knowledge and contacts. The arrangement is more economical than sending Hong Kong-based staff to fill these posts. In the case of non-English speaking countries, the ability of the LE staff to speak the local language is an added advantage to the work of the HKETOs concerned.

26. In line with the principles of the Hong Kong Civil Service pay policy, the pay scales of LE staff should be maintained at a reasonable and sufficiently competitive level so as to attract, retain and motivate suitable staff to join and continue working in the HKETOs.

Encl. 11

27. A summary of Hong Kong-based and LE staff in all the HKETOs is in Enclosure 11.

28. We have delinked our LE staff from the BE system in the HKETOs in Geneva and Brussels. On 12 July 1991, Members approved new salary scales for the LE staff in the Geneva HKETO mirroring those of the World Trade Organisation (WTO) [FCR(91-92)45]. On 11 December 1992, Members further approved new salary scales for the LE staff in the Brussels HKETO mirroring those of the World Customs Organisation (WCO) [FCR(92-93)104]. We adopted the salary scales of the WTO and the WCO as the basis for remunerating LE staff because it was largely with these two organisations that our ETOs in Geneva and Brussels had to compete for the right kinds of bilingual staff.

Trade and Industry Branch
May 1997

**Fringe Benefits for LE Staff
in HKETOs, USA**

- (a) Medical & Dental Scheme : Employer's contribution is 85% of premium.
- (b) Workman Compensation : Contribution is wholly borne by the employer.
- (c) Vacation Leave : 16 to 25 working days per year depending on the grade and length of service.
- (d) Sick Leave : Up to a maximum of 18 working days in a calendar year or a total maximum of 45 working days in any one contract term of 30 months.

[TP97/ACC1/P.BENE-USA/1]

**Fringe Benefits for LE Staff
in HKETO in London**

- (a) Pension : Employer's contribution is 1% of salary for members of the Scheme.
- (b) Vacation Leave : 22 to 30 working days per year depending on the grade and years of service.
- (c) Sick Leave : Staff on probation/trial
Up to 1 week on full pay for every completed four weeks of service.
- Staff confirmed to appointment
6 months full pay during any period of 12 months and thereafter half pay up to a maximum of 12 months within 4 years.
- (d) Special Allowance : 20% of basic salary for staff recruited before 1987 and 10% for staff recruited after 1987 as

compensation for the lack of staff welfare facilities such as subsidised meals and recreational facilities.

- (e) Recruitment and Retention Allowance : This has replaced the London Weighting Allowance which was abolished with effect from 1.10.1994 to allow more flexibility in meeting recruitment and retention needs. The ceiling is £3,000 per annum.

**Fringe Benefits for LE Staff
in HKETO in Tokyo**

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|---------------------------------------|---|
| (a) Bonus | 1 month's salary each for the mid-summer and new year bonuses. |
| (b) Health and Pension Plan | Employer's contribution is 50% of premium. |
| (c) Unemployment Insurance Scheme | Employer's contribution is 70% of premium. |
| (d) Workmen's Compensation Insurances | Contribution is wholly borne by the employer. |
| (e) Vacation Leave | 21 working days per year up to a maximum accumulation of 42 days. |
| (f) Sick Leave | <u>Within the first year of appointment</u>
A maximum of 2 months on full pay

<u>For 1 year of service or more</u>
A maximum of 3 months on full pay |
| (g) Maternity Leave | A maximum of 14 weeks on full pay |

(h) Terminal Benefits

Subject to a qualifying period of 10 years of service and the total retirement payment subject to a maximum of 60 months of salary.

(i) Retirement : For 1st to 10th year of appointment

1 month's salary for each year of service

For 11th to 20th year of appointment

1.1 month's salary for each year of service

For 21st to 24th year of appointment

1.2 month's salary for each year of service

For retirement after 25 years of service

The following percentage ratio of the monthly salary will apply:

125% monthly salary - first 10 years
137.5% monthly salary - next 10 years
150% monthly salary - 21st to 30th year
125% monthly salary - 31st year onwards

(ii) Death and ill health :

60% monthly salary - 1st to 5th year
75% monthly salary - 6th to 10th year
80% monthly salary - 11th to 19th year
The same arrangement as in (i) for 20th
years onwards

(i) Redundancy Payment

Subject to no claims to terminal benefits if redundancy
payment has been made:

1.5 month's salary - first 10 years
1.65 month's salary - next 10 years
1.8 month's salary - 21st to 30th years
1.5 month's salary - 31st year onwards.

[TP96/ACC7/P.BENEFITS/4]

**Fringe Benefits for LE Staff
in HKETO in Toronto**

- (a) Pension Contribution : Contribution of Employer and employees amount to about 2.925% of the annual salary under the Canada Pension Plan which is a compulsory government - sponsored pension scheme required by law.

- (b) Medical Insurance Scheme : Contribution of employer and employees amount to 50% of the premiums for the health care coverage and long-term disability under the scheme.

- (c) Social Security Contribution : Employee's contribution is 2.95% of annual income while employer's contribution is 1.4 times that of the employee contribution.

- (d) Vacation Leave : 15 working days per year on full pay

- (e) Sick Leave : 91 days with full pay in any period of one year's service.

**Fringe Benefits for LE Staff
in HKETO in Singapore**

- (a) Bonus : As awarded by the Singapore Government subject to the performance of the economy.
- (b) Pension Contribution : Under the compulsory Central Provident Fund, contributions from employer and employee depends on salary and age.
- (c) Medical Insurance Scheme : Employer's contribution is full premium.
- (d) Vacation Leave : 15 to 23 working days per year increased to 18 to 25 working days after 10 years of service.
- (e) Sick Leave : A maximum of 30 calendar days per year on full pay and 60 calendar days thereafter on half pay.
- (f) Maternity Leave : A maximum of 8 weeks on full pay subject to a minimum service of 180 days and two confinements.

(g) Special Leave : 3 days' bereavement leave for death of close relatives; military leave for National Service; and 3 days' marriage leave subject to one occasion only.

**Fringe Benefits for LE Staff
in HKETO in Sydney**

- (a) Pension Contribution : 6% superannuation contribution for each LE staff and the contribution will be increased by 1% every 2 years up to the maximum of 9% by 1.7.2002. Employees will only draw the employer's contribution when they permanently leaves the workforce upon retirement or on sickness, disability grounds.
- (b) Vacation Leave : 20 working days per year with 17.5% annual leave bonus payment.
- (c) Long Service Leave : 3/10 of a month for each completed year of service subject to a qualifying period of 10 years continuous service.
- (d) Sick Leave : 18 days per calendar year.
- (e) Maternity Leave : Full pay for the period from 6 weeks prior to the expected date of confinement to 6 weeks after the actual date of confinement.
- (f) Paternity Leave : Up to 3 days' full pay leave may be granted in any calendar year at the discretion of the Director.
- (g) Compassionate Leave : Up to 5 days' full pay leave may be granted in case of death of close family members or other special circumstances at the

discretion of the Director.

(h) Military Leave : Members of the Citizens Military Force are allowed a maximum of 20 calendar days a year for annual training.

(i) Redundancy Pay : For less than 1 year of service

2 1/2 weeks actual final salary.

For less than 3 years of service

3 3/4 weeks actual final salary for each complete year of service.

For less than 7 years of service

5 weeks actual final salary for each completed year of service.

**Establishment of HKETOs
(As at 1.4.1997)**

<u>Office</u>	<u>Date of establishment</u>	<u>Number of HK based staff</u>	<u>Number of LE staff</u>	<u>Total</u>
1. London	1946	10 + 1 (FCO)	16	26 + (1)
2. Brussels	1965	8	12	20
3. Geneva	1967	7	8	15
4. Washington	1967	8	16	24
5. New York	16.5.83	5	15	20
6. San Francisco	15.7.86	4	11	15
7. Tokyo	16.9.88	6	9	15
8. Toronto	1.10.91	<u>4</u>	<u>10</u>	<u>14</u>
9. Singapore	17.1.96	4	5	9
10. Sydney	23.9.96	5	8	13

61 + (1)

110

171 + (1)