

CHAPTER 1

INTRODUCTION

1.1 Since its establishment in 1979, the Standing Commission on Civil Service Salaries and Conditions of Service has been advising the Chief Executive (or the Governor) on the principles and practices governing pay, conditions of service and salary structure of non-directorate civil servants, other than judicial officers and disciplined services staff.

1.2 The Commission provides independent advice and makes recommendations to the Chief Executive, after taking into full account relevant factors and views expressed by the parties concerned. The decision as to whether the Commission's advice should be accepted rests with Government. Within our terms of reference and general remit, we are keen to contribute to the process of any reform by reviewing issues or projects referred to us, and adopt a proactive attitude in tackling the challenges of civil service culture, mindset, improved productivity, benchmarking, etc. The Commission's terms of reference and membership list are at Appendices A and B respectively.

1.3 This is our twenty-second progress report and it gives an account of our major undertakings in 2002. During the year, we held three Commission meetings and three informal meetings with staff councils/associations. In addition, two joint meetings were also held with the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Standing Committee on Directorate Salaries and Conditions of Service in connection with the comprehensive Review of Civil Service Pay Policy and System.

1.4 We would like to express our heartfelt gratitude to **Mrs Janie Kaung, JP** and **Ms Carlye Tsui Wai-ling, JP**, who left during the year after years of dedicated service in the Commission. We also welcome the appointment of **The Honourable Howard Young, JP**, **Mrs Eleanor Ling Lee Ching-man, SBS, JP**, **Professor Anthony Cheung Bing-leung, BBS, JP** and **Mr Mak Ping-on** to the Commission and the re-appointment of all other Members for a further term up to 2004.

1.5 We noted the appointment of the Secretary for the Civil Service as a Principal Official under the Accountability System on 1 July 2002. We continued to maintain close liaison with the Secretary and his staff. We wish to thank them for their assistance and cooperation. Our appreciation also goes to **Mr Lee Lap-sun**, Secretary General of the Joint Secretariat, and his staff (list at Appendix C) for their support during the year.

CHAPTER 2

COMPREHENSIVE REVIEW OF CIVIL SERVICE PAY POLICY AND SYSTEM

Background

2.1 A focus of the work of the Commission during the year was the Review of Civil Service Pay Policy and System. On 18 December 2001 the Secretary for the Civil Service (SCS) wrote to the Commission inviting it to take the lead in coordinating with the other two advisory bodies on civil service salaries and conditions of service¹ in conducting the review (Appendix D). The comprehensive review would cover the non-directorate and directorate staff in the civilian and disciplined grades.

2.2 In his letter, the SCS pointed out that –

“During the recent public discussion on civil service pay, there are concerns in some quarters that other than the starting salary levels, the Administration has not reviewed the salary levels beyond the entry ranks in the civil service for over a decade. As a result, the pay for certain grades and ranks in the civil service is no longer broadly comparable to the pay levels in the private sector. Concerns have also been raised about the validity of the annual pay adjustment mechanism. The central issue arising from the recent discussion is the extent to which our current civil service pay policy and system are still in keeping with today's circumstances.”

The review had been proposed against this background, with a view to modernising the civil service pay policy/system, having regard to the best

¹ The other two advisory bodies are –
(a) The Standing Committee on Disciplined Services Salaries and Conditions of Service, and
(b) The Standing Committee on Directorate Salaries and Conditions of Service.

practices elsewhere, making it simpler and easier to administer, and building in more flexibility to facilitate matching of jobs, talents and pay.

2.3 At a joint meeting held on 4 January 2002, the three advisory bodies agreed to accept the SCS's invitation and to set up a Task Force to undertake the review. The Task Force was made up of ten Members drawn from the three advisory bodies (Appendix E), eight of whom were Members of the Commission.

2.4 In view of the complex nature of the review, the SCS had requested that a phased approach be adopted. For Phase One of the review, an analytical study would be carried out on the latest developments in civil service pay administration in other governments. The study should have regard to the history of development of the civil service pay system in Hong Kong and identify best practices in civil service pay administration that would be of particular relevance to Hong Kong. The study findings would be published to facilitate an informed discussion on whether any fundamental changes to our civil service pay policy and system were called for and, if so, the conduct of the comprehensive review under Phase Two.

Phase One Analytical Study

2.5 In order to obtain the required data in respect of overseas governments, the Task Force decided to engage a consultant to provide input on civil service pay structure and reform in a number of developed countries. As regards the Hong Kong civil service, the Task Force was to conduct its own research on the local development of the pay policy and system.

2.6 After a competitive tendering process, PwC Consulting Hong Kong Limited was selected to undertake a four-month study on the latest developments in civil service pay administration in five developed countries, namely, Australia, Canada, New Zealand, Singapore and the United Kingdom. These countries had been selected on account of their relevance, having regard to the history and development of the civil service pay policy and system in Hong Kong. As had been suggested in the

SCS's letter dated 18 December 2001, the study covered the following areas –

- (a) the pay polices, pay system and pay structure commonly adopted;
- (b) the experience of replacing fixed pay scales with pay ranges;
- (c) the pay adjustment system and mechanism;
- (d) the experience of introducing performance-based rewards to better motivate staff; and
- (e) the experience on simplification and decentralisation of pay administration.

Public Consultation

2.7 On 25 April 2002 the Task Force reverted to the Commission and the other two advisory bodies with an interim report on Phase One of the review, setting out the development of the civil service pay policy and system in Hong Kong since the middle of the 20th century and the initial observations of the Task Force on the findings of the consultant's five-country study. The Commission was informed that the report would be published together with a consultation paper and a pamphlet which had been prepared for wide distribution to seek views from all quarters on a list of questions grouped under the five areas of study (Appendix F).

2.8 In view of the very tight timetable set by the SCS for Phase One, the Task Force had originally allowed only one month for public consultation. Soon after the consultation process started, the Commission noted the view expressed by some staff associations and members of the public that one month was inadequate for the purpose. The Commission supported the view, which was also shared by the other two advisory bodies. Eventually, the Task Force extended the consultation exercise until the end of June 2002.

2.9 In the course of the consultation exercise, the Task Force also conducted six discussion forums for members of the public and other concerned parties, including staff consultative councils, staff unions and management of bureaux and departments. Apart from the views collected at the forums, the Task Force received 337 written representations. Press reports containing relevant views were also studied. Feedback from the consultation was analysed by the Task Force and the consultant in parallel. The consultant submitted its final report to the Task Force in August 2002.

Observations and Identification of Priority Areas

2.10 After studying the consultation feedback and the consultant's report, the Task Force proceeded to set out its own observations and recommendations. A draft report was prepared for further consideration by the Commission and the other two advisory bodies. The recommendations at this stage were in the main conceptual, and would go no further than to identify specific areas which should be explored further to see how and to what extent such changes would be appropriate and feasible in the context of Hong Kong.

2.11 Having reviewed the development of the civil service pay policy/system in Hong Kong, and taking into account changing circumstances, the Task Force had come to the conclusion that there was the need to consider a comprehensive approach to modernising the pay system. This was not to deny the fact that the system had served Hong Kong well by providing a stable, clean and efficient civil service over the years. It was the rapidly changing socio-economic and political circumstances that had given rise to the need to modernise the system.

2.12 The Task Force pointed out at the outset the importance of not rushing any changes. The actual steps to be taken should be incremental, so as to gain stakeholder buy-in and operational experience, and to build up the confidence of the public and civil servants in meeting each step of the reform.

2.13 With the above caveat, the Task Force set out its vision of the civil service pay system going forward as one which should be –

- (a) able to offer sufficient remuneration to recruit, retain and motivate staff of a suitable calibre to provide the public with an efficient and effective service;
- (b) regarded as fair both by civil servants and by the public which they serve;
- (c) able to complement, support and facilitate the effective and efficient operation of the civil service, and allow it to change and evolve over time to keep up with socio-economic changes, yet stable enough to assure civil servants of their reasonable expectations;
- (d) simple enough so that an inordinate amount of resources is not required to administer it, yet flexible enough to allow managers to provide incentives as appropriate;
- (e) able to distinguish between performers and non-performers, and allow managers to act accordingly;
- (f) able to empower managers to manage staff resources effectively and flexibly, taking care of specific needs of individual departments; and
- (g) reviewed regularly to take account of the latest developments in international best practices which may be relevant to Hong Kong.

Issues Raised by the Commission

2.14 Although Commission Members were represented in the Task Force, the Commission as a whole examined the findings of the Task Force critically. In considering the priority areas which the Task Force had identified as appropriate for further study in Phase Two, there were a few issues which the Commission felt should be looked at more closely before the report was submitted to the Administration.

2.15 One issue related to the priority areas which the Task Force had identified for the short term. In recommending that priority should be given to devising the framework for a pay level survey and reviewing the pay trend survey, the Task Force suggested that the Administration should consider interim measures for the annual pay adjustment pending the outcome of the recommended review. The Commission discussed whether the Task Force should include more specific recommendation on the 'interim measures' concerned, but concluded that it would be appropriate for the Administration to work out such measures directly with civil servants. The Commission also agreed to leave it open to the Administration to decide whether to invite further input from the advisory bodies on the framework and methodology of the said surveys.

2.16 Another issue was the recommendation of the Task Force to adopt a 'clean wage' policy in the long term. The Commission felt that the meaning of 'clean wage' should be stated more clearly. The term could be interpreted as the incorporation of job-related allowances into basic pay, or the abolition/incorporation of certain fringe benefits (such as housing benefits). As the trend in the private sector was to move towards the monetisation/abolition of allowances and benefits, the Commission felt that a higher priority should be given to reviewing the matter. We suggested, therefore, to the Task Force that the Administration should be advised to consider consolidating job-related allowances in the medium term, with the ultimate target of moving towards a 'clean wage' policy that would consolidate benefits into basic pay in the long run.

2.17 A third issue was the recommendation regarding 'decentralisation' of pay administration. The Commission noted that the underlying principle was to empower managers through the devolution of human resource management. To ensure that managers in departments would be appropriately empowered, taking decisions on pay should form part of the devolved responsibilities. The Commission pointed out that it would, however, not be useful to decentralise payroll administration. To have each department set up its own system to handle payroll would cause difficulties for managers in departments who were not trained to provide payroll services. There would also be a loss of economies of scale. We suggested to the Task Force that this point should be clarified.

Phase One Final Report

2.18 The Commission conveyed its views and suggestions to the Task Force. These were eventually incorporated into the latter's Phase One Final Report. A summary of the recommendations of the Task Force is as follows –

In the short term:

- priority should be given to devising a practical framework and methodology for conducting a pay level survey, and to reviewing the pay trend survey methodology; and
- the Administration should consider the appropriate interim measures to be adopted for the annual civil service pay adjustment exercise pending the outcome of the above review.

In the medium term:

- an extensive and critical assessment should be made regarding the staff appraisal system to see what changes are needed in order to pave the way for introducing elements of performance pay (including the systematic linking of achieved performance to the award of annual increments) and flexible pay ranges to civil servants, preferably the senior tier (director level) initially;
- if such initiatives at the senior level prove to be feasible and conducive to achieving better performance, this would inspire confidence in change and provide useful experience for further application of the new arrangements within the civil service; and
- consolidation of job-related allowances should be adopted as a target, as part of a move towards a 'clean wage' policy in the long run.

In the long term:

- decentralisation of pay administration, as part of the devolution of human resource management, should be adopted as a target, after detailed studies are conducted to determine the scope of implementation at different stages, and to see whether the challenges associated with each stage can be overcome;
- the ultimate objective is to allow departments greater freedom to manage pay arrangements to suit their needs; and
- a ‘clean wage’ policy with benefits incorporated into base pay should be adopted as a target.

2.19 The report was submitted to the SCS with a letter issued jointly by the Chairmen of the three advisory bodies on 20 September 2002 (Appendix G). It was released by the Administration on the same day for public consultation until mid-November 2002. The SCS indicated that he would keep the Commission and the other two advisory bodies informed of the views received during consultation, and the work plan would be reviewed after the advisory bodies had had a chance to consider the matter in the next few months. (A copy of the SCS’s letter dated 20 September 2002 is at Appendix H).

CHAPTER 3

FURTHER DELIBERATIONS ON REVIEW OF JOB-RELATED ALLOWANCES AND INFORMAL MEETINGS WITH CIVIL SERVICE STAFF ASSOCIATIONS

Further Deliberations on Review of Job-Related Allowances

3.1 At the invitation of the Administration, the Commission conducted a review of job-related allowances (JRAs) in respect of the civilian grades in 1999-2000. Our findings and recommendations were published in Report No. 38 in June 2000.

3.2 The Administration launched a three-month consultation on our review recommendations in November 2001 with staff and departmental management. After considering the feedback obtained from the consultation exercise, the Administration drew up specific proposals on the way forward and consulted staff and departmental management further on the proposals in September 2002. The SCS wrote to the Commission on 15 November 2002 to set out the Administration's decision on the review (Appendix I).

3.3 Having regard to the ongoing comprehensive Review of Civil Service Pay Policy and System (see Chapter 2), the Administration considered it appropriate to focus at this stage on measures which would improve on the administrative efficiency of the JRA system while broadly maintaining the existing framework of the JRA system. Fundamental changes to the JRA system would be further examined in the context of the comprehensive review.

3.4 In his letter, the SCS informed us that the Administration had decided to withhold action on our recommendation to lower the eligibility cut-off level of JRAs, currently set at Master Pay Scale (MPS) Point 33. The decision had been taken in the light of divergent views received from the staff sides and departmental management, and the ongoing

comprehensive Review of Civil Service Pay Policy and System which could have an impact on the JRA system.

3.5 We had reservation about this decision. As we had pointed out in Report No. 38 in June 2000, we considered that civil servants discharging managerial duties or duties of a comparable level of responsibility should not strictly adhere to rigid duty lists and expect to become eligible for JRAs when required to take up new or additional duties. As many civil servants remunerated below MPS 33 were also engaged in managerial functions, we had recommended lowering the eligibility cut-off point for JRAs by re-aligning it with that for Overtime Allowance. In other words, we remained of the view that only staff in ranks with scale maxima on or below MPS 25 and scale minima on or below MPS 19 should be eligible for JRAs.

3.6 We noted that the Administration had responded to our recommendations on JRA principles applicable to the civilian grades, and made modifications to two of the principles. First, the principle relating to the amount of time spent on extra or unusual duties was modified to address the problem of inconsistency in its application across departments and the need to allow greater flexibility for departments to use JRAs as motivation to deliver prompt and efficient public service. The modified principle focused instead on service need and operational efficiency. Second, the principle which specified that JRAs should not be paid for 'inherent duties' was revised to clarify that the exclusion referred more specifically to 'inherent duties of the concerned grade and rank'.

3.7 The Administration had also accepted our recommendations on the categorisation of JRAs, the rate-setting mechanism and the imposition of a moratorium to facilitate the review of individual JRAs payable to civilian staff. The moratorium was launched on 1 December 2002 for six months, during which bureaux and departments would be required to review all JRAs under their charge.

3.8 Our comments were conveyed to the Administration in a letter
— dated 2 January 2003 (Appendix J). We noted that a marker had been put down for the issue of the eligibility cut-off point to be revisited in the

context of the comprehensive review, and recommended that the issue should be pursued as soon as it was practicable. We also requested the Administration to keep us informed periodically of progress of the review of individual JRAs during the six-month moratorium.

Informal Meetings with Civil Service Staff Associations

3.9 Since 1992 we have held informal meetings each year with the Staff Sides of the Senior Civil Service Council (SCSC) and the Model Scale 1 Staff Consultative Council (MOD 1 Council), the two central consultative councils of the Government in respect of the civilian grades. The Staff Side of the SCSC is made up of the Association of Expatriate Civil Servants of Hong Kong, the Senior Non-Expatriate Officers Association and the Hong Kong Chinese Civil Servants' Association. In order to canvass a wider spectrum of views, the Commission decided in 1996 to meet also three major confederation-type unions not represented on the SCSC, viz. the Hong Kong Civil Servants General Union (HKCSGU), the Government Employees Association (GEA) and the Hong Kong Federation of Civil Service Unions (HKFCSU). These meetings have proved to be very useful in keeping the Commission apprised of issues of topical concern to civil servants.

3.10 The informal meetings in 2002 were held in December. As in past years, we invited each of the seven staff associations to a separate meeting. On this occasion, the three constituent associations of SCSC indicated that they did not wish to participate in the meetings because at the time they wished to focus on discussion with the Administration regarding the pay review. The GEA also declined our invitation as they did not have any substantial views on civil service pay and conditions of service to raise at the time. As a result, informal meetings were only held with the Staff Side of MOD 1 Council, HKCSGU and HKFCSU.

3.11 Among the many issues raised, a major concern of the staff associations was the 2003 civil service pay adjustment. The associations expressed the general view that civil servants were willing to share economic hardship with the general public and were prepared to accept any outcome that was arrived at under the existing pay adjustment

mechanism. They would like to see the Administration sitting down with the staff sides to work out the way forward for the 2003 pay adjustment. We also noted their concerns about any further pay cut through legislation and the adverse effect of conducting a pay level survey under the current depressed economic conditions.

3.12 Regarding a possible second Voluntary Retirement Scheme, the associations commented that should the Administration decide to proceed, the compensation package would have to be comparable to, if not more favourable than, the first scheme in order to attract civil servants to participate. The scheme should also be open to all grades.

3.13 We exchanged views with the associations on some recommendations contained in the Phase One Final Report of the Task Force on Review of Civil Service Pay Policy and System. We responded to their concern about considering the departmentalisation of common and general grades. As regards the recommendation to study the incorporation of fringe benefits into base pay, we noted their worry about the implications that any such measures might have on the benefits currently enjoyed by civil servants. Another concern of the associations was that, instead of taking forward the proposals of the Task Force as a comprehensive package, the Administration might follow up on only some of the proposals in a selective, piecemeal manner.

3.14 We were briefed on the justifications for the proposed conversion of MOD 1 staff from Category B to Category A status, and the proposal to merge the Workman I and Workman II grades in order to boost the morale of MOD 1 staff. Regarding the applications of HKCSGU and HKFCSU for admission into the SCSC, we noted the associations' suggestion about reviewing the existing civil service consultative machinery to broaden its representativeness.

3.15 We found the exchange of views with the staff associations very useful. Their views were also conveyed to the Administration for consideration and follow-up as appropriate.

CHAPTER 4

PAY TREND SURVEY SYSTEM

4.1 The main function of the pay trend survey system is to produce annual indicators of the average pay movements in respect of full-time employees of private sector companies participating in the survey. The Pay Survey and Research Unit (PSRU) collects from these companies information about any changes in pay arising from general salary adjustments, bonuses, merit payments and inscale increments. These data are analysed to produce gross pay trend indicators (PTIs) for three different salary bands, which are then presented to the Pay Trend Survey Committee for verification and agreement (see paragraphs 4.3 – 4.6).

4.2 Following the recommendations of a Committee of Inquiry in 1988, the Administration deducts the value of civil service increments at their payroll cost (expressed as a percentage of the total payroll cost for each salary band) from the gross PTIs to produce the net PTIs. In adjusting civil service pay, the Administration takes account of various factors, including the net PTIs, staff morale, budgetary considerations and the prevailing social and economic conditions.

Pay Trend Survey Committee

4.3 The Pay Trend Survey Committee (PTSC) is an independent body established by the Administration on the Commission's advice in 1983. It is chaired by a Member of the Commission and comprises representatives of the Administration and the staff sides. Its membership is at Appendix K.

4.4 The main function of the PTSC is to commission the annual pay trend survey, oversee the operation of the PSRU in conducting the pay trend survey and agree its results. Once the findings of a pay trend survey have been agreed, neither the PTSC nor the Commission is involved in any way in subsequent discussions between the Administration and the staff sides on any pay adjustment based on the survey results.

4.5 In tendering advice to the Chief Executive on the methodology for the pay trend survey, the Commission will, as prescribed by its terms of reference, have regard to the advice of the PTSC.

4.6 The PTSC held two meetings during the year. One meeting was held in early May to receive a report from the Controller of the PSRU about the findings of the 2001/2002 pay trend survey, and another in mid-May to examine and validate the survey findings. The PSRU, under the guidance of the Secretary General of the Joint Secretariat, continued to provide support to the PTSC.

2001/2002 Pay Trend Survey

4.7 The 2001/2002 pay trend survey was conducted from January to May 2002. At the commencement of the survey, the survey field comprised 83 companies. With the addition of 15 companies, the survey field expanded to 98 companies. One company, however, did not meet the selection criteria set out in the approved survey methodology because the number of its employees had dropped to below 100. As a result, 97 companies were invited to take part. In the event, 91 companies actually participated. The PSRU collected information on pay adjustments in these 91 companies (comprising 130,854 employees) over the twelve-month period from 2 April 2001 to 1 April 2002 and analysed the data in accordance with the approved methodology. The survey findings were released for public information on 6 May 2002 prior to their formal validation by the PTSC on 13 May 2002. A summary of the validated results of the survey is at Appendix L.

4.8 Under the Public Officers Pay Adjustment Ordinance which came into effect on 19 July 2002, civil service pay was reduced with effect from 1 October 2002 by 4.42% for civil servants in the upper salary band, 1.64% for those in the middle salary band and 1.58% for those in the lower salary band. The revised pay scales for the civil service are given at Appendix M.

Way Forward in 2002/2003

4.9 In September 2002, the Administration set up a working group involving the staff sides of the four central consultative councils and four other civil service staff associations to discuss the handling of the civil service pay adjustment in 2003 and related issues. The Administration informed the PTSC that pending the completion of a review of the methodology of the annual pay trend survey, no pay trend survey should be conducted for the year 2002/2003. A copy of the letter dated 30 December 2002 from the Secretary for the Civil Service to the PTSC
— Chairman is at Appendix N.

CHAPTER 5

LOOKING INTO THE FUTURE

5.1 We are aware that Phase Two of the Review of Civil Service Pay Policy and System has yet to be carried out. However, we are given to understand that, having regard to the recommendations of the Task Force in its Phase One Final Report, the Administration is now focusing on the priority actions in the short term, i.e. devising a practical framework and methodology for conducting pay level surveys and reviewing the annual pay trend survey methodology. At the time this report is prepared, discussions are being held between the Administration and the staff sides on the handling of the 2003 civil service pay adjustment mechanism and related issues. In view of these urgent tasks, the Administration aims to decide on the way forward regarding the comprehensive review in early 2003, following consultation with staff and taking into account the results of the public consultation on the Task Force's Phase One Final Report.

5.2 Pending the Administration's decision on how best to take forward Phase Two of the review, we shall continue to carry out our responsibilities under the Commission's terms of reference and to tender advice on any proposals from the Administration for changes to the pay and conditions of service for individual grades or for the civil service as a whole.

5.3 We also understand that, given the Government's commitment to achieving significant economy in its operating expenditure in the next few years, the Secretary for the Civil Service has recently undertaken to review all the existing civil service allowances within the coming year. The review covers allowances related to the performance of duty as well as allowances payable as fringe benefits. In due course, the Administration will seek the Commission's advice on specific proposals where appropriate.

5.4 As in the past, we shall maintain our contact with major civil service staff associations and private sector organisations to ensure that we keep abreast of developments relating to the discharge of our duties and responsibilities.