

**Memorandum for the Finance Committee of
the Hong Kong Housing Authority**

**Launch of the Consultancy Study to Review
the Remuneration Package of Housing Authority Contract Staff**

PURPOSE

This paper seeks Members' advice and endorsement to launch a review on the remuneration package of Housing Authority (HA) contract staff.

RECOMMENDATION AND ADVICE SOUGHT

2. Members are invited to approve the proposal for launching the review of remuneration package of HA contract staff set out in paragraphs 19 and 20 below and the declassification of the paper as stated in paragraph 26 below.

BACKGROUND

3. The remuneration package of HA contract staff was first introduced in 1995 modelling on the civil service pay package for comparable ranks. In September 2000, the then Human Resource Committee^{Note 1} agreed to delink the remuneration of HA contract staff from the civil service pay system and introduce a new remuneration package. The new package was developed based on the findings and recommendations of a consultancy study and aimed to align the pay and benefits of HA contract staff more closely with those in the market. A broadbanding approach was introduced whereby all contract ranks were grouped under seven job categories^{Note 2} each with a wide salary band to replace the original pay scales. To minimise the financial impact on serving staff due to the delink, a special "grandfathering" arrangement was introduced to protect the monthly take-home pay (including salary and cash allowance) of staff by allowing those staff with salary or cash allowance higher than the new band maximum / allowance rate to retain their existing rates.

Note 1 The Human Resource Committee was subsumed under the Finance Committee in 2003.

Note 2 The seven job categories are: Directorate, Senior Professional, Professional I, Professional II, Officer, Staff I and Staff II.

4. The consultancy study also recommended that a more comprehensive remuneration package review could be conducted every three years to take into account changes in the market. In the interim years, salary adjustment is mainly based on the salary movement in the market. The first remuneration package review was conducted and the recommendations were endorsed by the Finance Committee (FC) in 2006. With the economic downturn since 2000 reflected in the review findings, the salary ranges of the seven job categories and the cash allowances were all adjusted downward, and the reduction was quite substantial for some job categories. In view of the possible drastic impact on staff, FC agreed that the special grandfathering arrangement previously granted to staff employed before September 2000 should be continued, i.e. their monthly take-home pay was protected even if their salary or cash allowance was higher than the revised rates. However, these staff would not receive salary adjustment in the subsequent years as long as they remained “outband” (i.e. their pay exceeded the band maximum in terms of total cash^{Note 3}). For the other “outband” staff employed after September 2000 (i.e. not subject to the grandfathering arrangement), a three-year grace period was granted during which their take-home pay was protected. Finally, after the grace period, only two staff members remained “outband” and their pay was reduced accordingly.

5. The second remuneration package review was conducted and the recommendations were endorsed by FC in 2008. As a result of the review, the salary ranges of the seven job categories and the cash allowances were all adjusted upward. For the grandfathered staff who were still “outband”, their take-home pay was kept frozen. The review also recommended that two studies should be launched to develop a performance-based salary progression mechanism to motivate exemplary performance and regular employment (in the form of continuous contract) to enhance job security of contract staff^{Note 4} respectively.

6. The third remuneration package review was conducted and the recommendations were endorsed by FC in 2012. As a result of the review, the salary range of the “Directorate” job category remained unchanged while the salary ranges of the other six job categories were all adjusted upward. For those grandfathered staff who were still “outband”, their take-home pay was kept frozen. To motivate these “outband” staff, who had not been eligible for normal salary adjustment, the performance-based salary progression mechanism

Note 3 Total cash includes salary, cash allowance and gratuity.

Note 4 Studies on regular employment and performance-based salary progression mechanism were conducted with staff involvement throughout the process. The implementation proposals were approved by FC on 29 September 2009 vide Paper No. FC 37/2009 and FC 38/2009.

has been enhanced by including them in the pool of eligible officers for selection of 30% exemplary performers with effect from the annual salary adjustment exercise for 2012/13. Each selected “outband” staff member would be given a one-off payment which is calculated by multiplying his/her annual salary by 2% or half of the normal salary increase rate, whichever is less. In addition, five days of full pay paternity leave were introduced with effect from 2 August 2012; and HA also enhanced its voluntary MPF contribution by raising the caps for different levels of pay by \$250.

DEVELOPMENTS SINCE LAST REVIEW

7. Since the last remuneration package review in 2012, there have been continuous developments related to the HA contract staff. Some key aspects are highlighted below.

Conversion to Civil Service Status

8. Under the long term manpower strategy endorsed by FC in October 2008, HA contract staff grades are divided into Group A (i.e. job grades to be staffed by HA contract staff in the long run) and Group B (i.e. job grades to be staffed by civil servants in the long run)^{Note 5}. As at 1 June 2015, the number of HA contract staff stood at 684. Of them, 353 are in Group A and 331 in Group B. For those contract posts in Group B, they are to be converted gradually to civil service posts upon the incumbents either being recruited into the civil service or leaving HA through natural wastage. Since implementation of the long term manpower strategy, some 440 Group B contract staff have been appointed as civil servants in the Housing Department (HD). However, the pace of conversion has started to slow down and we estimate that the number will be less than 10 each year in the coming years. Taking into account the estimated conversion figures and the natural wastage in the coming five years, the number of HA contract staff is estimated to be around 630 in five years’ time.

Note 5 As at 1 June 2015, Group A comprises 13 contract grades whereas Group B comprises 19 contract grades.

Regular Employment

9. With FC's approval to introduce regular employment for contract staff since March 2010, most serving staff had opted to transfer to regular employment upon expiry of their fixed-term contracts. The transfer of contract staff members from fixed-term contracts to regular employment was completed in January 2013. As at 1 June 2015, a total of 652 contract staff (or 95%) were on regular employment and 32 contract staff (or 5%) were on fixed-term contracts^{Note 6}.

Enhanced Performance-based Salary Progression

10. As reported in paragraph 6, the performance-based salary progression mechanism has been enhanced with the inclusion of "outband" staff in the pool of eligible officers for selection of 30% exemplary performers with effect from the annual salary adjustment exercise for 2012/13. For reference, 15, 18 and 8 "outband" staff have benefitted from the enhanced mechanism in 2012/13, 2013/14 and 2014/15 respectively.

New Mandatory Provident Fund (MPF) Arrangement for HA Contract Staff on Regular Terms of Employment

11. In August 2013, FC approved the implementation of new MPF arrangements for HA contract staff on regular terms of employment. Starting from 1 January 2014, HA's enhanced MPF contribution has been divided into Mandatory Contribution (MC) and Voluntary Contribution (VC). For MC, HA follows the prevailing statutory requirement. According to the current prevailing statutory requirement, HA contributes 5% of the staff members' monthly relevant income as MC, subject to the prevailing statutory cap stipulated in the Mandatory Provident Fund Schemes Ordinance. The VC rate will be determined by HA from time to time and the current arrangements are set out in paragraph (e) of **Annex A**^{Note 7}.

Note 6 Of these 32 staff members, six are on renewable fixed-term contracts till they reach the age of 60 (as they have not opted for regular employment in 2010) and 26 are on non-renewable fixed-term contracts to meet short-term operational need.

Note 7 The VC rate will be reviewed in the context of retirement benefits in the coming remuneration package review of the HA contract staff.

Current Pay Package

12. With the introduction of regular employment since March 2010, the remuneration package of HA contract staff at present includes monthly salary and cash allowance, year-end incentive payment (for staff on regular employment) / end-of-contract gratuity (for staff on fixed-term contracts), an annual variable merit payment to be allocated by section heads based on performance, and HA's MPF contribution. Contract staff members are also provided with fringe benefits including various types of leave, group life insurance, medical/dental benefits, etc. Details of the remuneration package are at **Annex A**.

NEED FOR A FRESH REVIEW

13. The implementation of the long term manpower strategy; the introduction of regular employment; and the enhanced performance-based salary progression mechanism have brought about changes in the number, grades, and remuneration components of contract staff. Externally, there have also been considerable changes in the employment market in Hong Kong, such as the upward adjustments of the statutory minimum wage in 2013 and 2015 and the new legislative arrangements for paternity leave starting from 2015. Taking into consideration that it has been three years since the completion of the last review and that the staff side has also requested a review, it is now opportune to conduct another remuneration package review of HA contract staff to benchmark with the latest market level and practices.

STAFF CONCERNS

14. Contract staff generally welcomed the introduction of regular employment in 2010 to enhance their job security and the performance-based salary progression mechanism with effect from the 2010/11 salary adjustment exercise to motivate staff's better performance; and the inclusion in 2012 of "outband" staff in the list of officers for selection of 30% exemplary performers for a one-off payment. However, the general sentiment amongst them has deteriorated recently as their salary adjustment rates in 2012/13 and 2014/15

Note 8 were lower than those of civil servants. They have expressed grievances about their salary getting less favourable each year when compared with their civil service counterparts occupying similar positions. They have requested a review of the annual salary adjustment mechanism.

15. Some contract staff have also expressed their dissatisfaction with limited promotion opportunities. They consider that contract staff's remuneration should include sufficient incentives in order to motivate them to give their best, since promotion as a motivator is out of question for many of them. They have suggested the incentives should comprise, amongst others, a mechanism to reward working experience in HA, and further refinement of the performance-related pay mechanism.

16. One particular aspect of the performance-related pay mechanism which contract staff members have highlighted is the unfavourable situation whereby individual staff whose pay in terms of total cash are close to the pay band maximum cannot enjoy the full rate of additional salary adjustment when they are selected as exemplary performers as their pay is capped by the pay band maximum. They consider the current situation is demoralising to these exemplary performers.

17. Some contract staff regard the current arrangement that they can only enjoy a higher rate of HA voluntary contribution to their Mandatory Provident Fund after 15 years' service in HA as not attractive enough to recruit and retain talents. They have also requested reviewing the caps for HA's voluntary contributions of different pay levels.

18. There are also some calls from the contract staff to re-link their remuneration package with that of civil servants, although after candid discussion with the Management, they have accepted that it is in their best interest to work with the Management to take forward the review of the remuneration package for HA contract staff.

Note 8 The salary adjustment rates for HA contract staff and civil servants in 2012/13 and 2014/15 are as follows-

Year	HA Contract Staff			Civil Servants		
	Upper (%)	Middle (%)	Lower (%)	Upper (%)	Middle (%)	Lower (%)
2012/13	4.58	4.87	4.66	5.26	5.8	5.8
	(6.58)	(6.87)	(6.66)			
2014/15	4.29	4.1	4.05	5.96	4.71	4.71
	(6.29)	(6.10)	(6.05)			

Figures in brackets represent the salary adjustment rates for HA contract staff members who have been selected as exemplary performers.

PROPOSAL

19. We propose to commission a consultant with the necessary human resources expertise to conduct a study of the local employment market and make recommendations for any necessary adjustments to HA contract staff remuneration package. The objective is to ensure that our remuneration package is broadly comparable with that in the market in order to attract and retain the required talent. In particular, the Consultant will be required to review the pay levels of all HA contract staff grades and advise on the fringe benefits (including retirement benefits, leave entitlement and medical benefits, etc.) for HA contract staff in the light of prevailing market situation and practice; study the annual salary adjustment mechanism and make recommendations for improvement where appropriate. The Consultant will also be asked to study and advise on how remuneration packages in the market take into account the employees' working experience; and advise on market practices of motivating/rewarding staff, including staff whose total remuneration is close to the pay band maximum. Details of the scope of the proposed consultancy and the proposed schedule and key milestones are set out in **Annexes B and C** respectively. We aim to submit the review findings and recommendations (including the 2016/17 salary adjustment proposals) to FC for consideration around July 2016.

20. Modelling on the arrangement of the 2012 remuneration package review, it is proposed that a cross-divisional steering committee be set up to oversee the review and a working group involving staff representatives be formed to provide staff views on different issues to the Consultant.

STAFF CONSULTATION AND COMMUNICATION

21. At the HA Contract Staff Consultative Committee (HACSCC) meeting held in July 2015, we consulted the staff side members about the coming remuneration package review and its scope. The members welcomed the review to benchmark the remuneration package of contract staff with the latest market remuneration level and practices and were agreeable to the proposed scope set out at **Annex B**.

22. Subject to FC's approval of the recommendations in this paper, we shall announce our plan to conduct the remuneration package review and its scope to all contract staff. As the remuneration package is a subject of major concern to all contract staff, we will maintain close communication with them through HACSCC, the working group mentioned in paragraph 20 above, staff consultation meetings and additional focus group meetings as necessary. Once appointed, the Consultant will meet with staff representatives to explain the

methodology and process of the review and to collect their views. We shall also set up a special webpage on our intranet to keep staff posted on the progress of the review. When the consultancy findings and recommendations are available, we will consult all contract staff before putting our recommendations to FC for consideration.

FINANCIAL AND STAFFING IMPLICATIONS

(Note: Paragraph 23 has been deleted from the paper due to confidentiality.)

LEGAL IMPLICATIONS

24. There is no legal implication for the proposed review.

PUBLIC REACTION / PUBLICITY

25. Since it is an internal human resource management issue of HA, we do not anticipate that the proposal would attract much public attention or media interest. No publicity is proposed.

CLASSIFICATION

26. HA is not obliged to unveil the details of its review of the remuneration package of contract staff. However, to enhance transparency of the review, it is proposed that except paragraph 23 on financial implications, this paper should be declassified after the proposal has been endorsed by Members. This paper, if declassified, will be made available to the public at HA homepage, the Department's library and through the Departmental Access to Information Officer.

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Remuneration Package for HA Contract Staff

There are two types of contract staff, i.e. staff on regular terms of employment (“regular terms”) and staff on fixed-term contracts.

The main features of the current remuneration package of both types of contract staff include:

(a) Base Salary

A broadbanding approach is adopted whereby the base salaries of staff are set within seven pay bands which correspond to the seven levels in the grading structure^{Note 1} of the contract staff. The pay bands do not provide fixed salary points for each job but a range from which the base salary of individual contract staff is determined having regard to their skills, qualifications, experience and other factors. Staff salaries are adjusted annually according to the market pay trend levels and their performance. There is no salary increment based on years of service.

The existing pay bands are as follows:

Job Grade	Current Salary Range (\$ per month)	
	Minimum	Maximum
Directorate	113,005	220,360
Senior Professional	65,025	123,540
Professional I	39,890	75,795
Professional II	25,845	49,115
Officer	16,600	31,535
Staff I	10,915	19,655
Staff II	8,880	15,975

Note 1 The grading structure comprises seven grade levels, i.e. Level 1 – Directorate, Level 2 – Senior Professional, Level 3 – Professional I, Level 4 – Professional II, Level 5 – Officer, Level 6 – Staff I and Level 7 – Staff II.

(b) Cash Allowance

For staff at Professional I level or above, they are awarded a cash allowance at a fixed amount. The rates of current cash allowances are as follows:

Job Grade	Cash Allowance (\$)
Directorate	47,600
Senior Professional	12,500
Professional I	7,200

There is no annual adjustment mechanism for cash allowance.

(c) Year-end Incentive Payment / End-of-Contract Gratuity

Staff on regular terms are paid a year-end incentive payment equivalent to 10% of total base salary on satisfactory completion of every full year's service while those on fixed-term contracts are paid a gratuity equivalent to 15% of total base salary upon satisfactory completion of the contract.

(d) Merit Payment

Staff whose performance is at "very effective" and above may be rewarded with a merit payment capped at a maximum of an officer's one month's salary. The budget for merit payment is set at 2% of the total annual base salary payroll of contract staff at the end of the appraisal period (i.e. 31 December).

(e) Mandatory Provident Fund (MPF) Contribution

HA's MPF contribution is pegged at the statutory mandatory amount for those on fixed-term contracts (currently 5% of the staff member's monthly relevant income (RI)^{Note 2} capped at \$1,500 with effect from 1 June 2014). For those on regular terms, starting from 1 January 2014, HA's contribution has been divided

Note 2 Relevant income (RI) refers to any wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance (including housing allowance and other housing benefit), expressed in monetary terms, paid by an employer to an employee. It does not include any severance or long service payments under the Employment Ordinance.

into Mandatory Contribution (MC) and Voluntary Contribution (VC)^{Note 3}. For MC, HA follows the prevailing statutory requirement. According to the current prevailing statutory requirement, HA contributes 5% of the staff member's monthly RI as MC, subject to the prevailing statutory cap stipulated in the Mandatory Provident Fund Schemes Ordinance. The VC rate will be determined by HA from time to time.

According to the current prevailing policy, HA sets the VC rate at 4.3% of the staff member's monthly RI, subject to progressive caps ranging from \$1,000 to \$4,000 for different levels of pay.

For staff members with 15 years of service or more without a break in service since joining HA (including service on fixed-term contracts before conversion to regular terms), the VC rate will be increased from 4.3% to 5% with corresponding adjustment to the caps ranging from \$1,000 to \$4,250 for different levels of pay.

(f) Other Fringe Benefits

Benefits provided to contract staff include various types of leave (i.e. annual leave, sick leave, study leave, maternity leave, paternity leave, marriage leave and bereavement leave), out-patient, hospitalisation, maternity, dental benefits and life and disability insurance. Some contract staff are eligible for work-related allowances such as acting allowance, overtime allowance and typhoon allowance.

Note 3 FC approved at its meeting on 1 August 2013 that new MPF arrangements would be implemented for HA contract staff on regular terms with effect from 1 January 2014. The new arrangements were devised with a view to addressing staff concerns over "erosion of the VC" of their MPF benefits in case of future upward revision of the statutory MPF level; and aligning HA's MPF arrangements more closely with the market norms.

**Proposed Scope of Consultancy to
Review the Remuneration Package of HA Contract Staff**

The Consultant is required to -

1. review the pay levels of all HA contract staff job grades in the existing seven pay bands in the light of prevailing market situation, including private companies and public/non-profit making organisations, and suggest appropriate adjustments to be made based on the findings;
2. study and advise on the market practices of remuneration composition for comparable job grades and duties;
3. study the existing performance-related pay systems, which include the mechanism of annual salary adjustment (including the performance-based salary progression mechanism) and allocation of merit payment, with reference to current market practices and make recommendations for improvement where appropriate;
4. advise on the prevailing levels and practices regarding fringe benefits (including retirement benefits, leave entitlement and medical benefits, etc.) in both the private and public sectors, and suggest recommendations to align with the market;
5. study and advise on how remuneration packages in the market take into account the employees' working experience; and advise on the market practices for motivating/rewarding staff, including staff whose total remuneration is close to the pay band maximum;
6. review HA's annual salary adjustment mechanism and recommend the 2016/17 salary adjustments for different levels of staff;
7. provide full justifications, backed up by research data, including references to the prevailing pay levels and pay policies in both the private and public sector, to support its recommendations;

8. produce an overall strategic plan for implementation of the recommendations proposed in the consultancy study; and
9. provide draft reports and final reports on the consultancy study, hold focus group meetings and briefing sessions, etc. and to present the final report to the Finance Committee of HA and to attend meetings convened by the management.

**Proposed Schedule and Key Milestones of the Consultancy to
Review the Remuneration Package of HA Contract Staff**

Activities	Timing
1. Preparation of scope of consultancy study, tendering specifications, and discuss with staff representatives on the detailed arrangements of the review.	April to July 2015
2. Issue tender invitations to potential consultants and conduct tender selection exercise.	August to October 2015
3. Appoint consultant and work out the detailed arrangements and schedule.	October to November 2015
4. Brief staff on the scope of the remuneration package review, the methodology of the study, the review timetable, the staff communication plan, and collect staff's views and suggestions.	End November 2015
5. Consultant to conduct the review, prepare and submit report on findings and recommendations.	December 2015 to March 2016
6. Collect staff's views on the Consultant's findings and initial recommendations.	Early / Mid April 2016
7. Study the findings and recommendations from the Consultant, assess the implications and devise implementation proposals.	May / June 2016
8. Consult staff on the proposals and refine the proposals where appropriate to take into account staff's views.	June 2016
9. Submit the proposals (including the 2016/17 salary adjustment proposals) to FC for consideration.	July 2016