

CHAPTER 4

THE GOVERNMENT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION

GENERAL REVENUE ACCOUNT

GOVERNMENT SECRETARIAT

Civil Service Bureau

Financial Services and the Treasury Bureau

<h3>Review of the Voluntary Retirement Scheme</h3>

**Audit Commission
Hong Kong
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REVIEW OF THE VOLUNTARY RETIREMENT SCHEME

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REVIEW OF THE VOLUNTARY RETIREMENT SCHEME

Summary and key findings

A. **Introduction.** In anticipation of a growing number of surplus staff and in order to create room for further efficiency measures, a Voluntary Retirement Scheme (VRS) was introduced in May 2000 to enable existing staff in 59 designated grades to leave the civil service voluntarily. In December 2000, the Finance Committee (FC) of the Legislative Council (LegCo) approved a non-recurrent commitment of \$2,790 million for making voluntary retirement (VR) payments to officers retiring under the VRS. Up to 31 October 2002, 9,788 applications for retirement under the VRS had been approved, and 9,422 officers (hereinafter referred to as VR takers) had left the service with retirement benefits and VR payments after taking all their pre-retirement leave. The total payment to the VR takers was \$7,526 million (i.e. \$4,786 million for pension gratuity, \$418 million for monthly pension and \$2,322 million for VR payment —paras. 1.3, 1.4, 1.14 and 1.15).

B. **Second VR Scheme.** On 14 January 2003, the Executive Council (ExCo) advised and the Chief Executive ordered that a second VR Scheme should be approved. The estimated total VR related expenditure, assuming that 7,000 officers would opt for VR, is \$10 billion up to 2006-07 (paras. 1.16 and 6.16).

C. **Audit review.** Audit has recently conducted a review to assess the economy and effectiveness with which the Government has implemented the VRS. The audit has identified that there is room for improvement in a number of areas (para. 1.17).

D. **Need to critically assess the grades for inclusion in the VR schemes.** Based on the 2000-01 to 2002-03 manpower plans submitted by Heads of Department (HoD) and Heads of Grade (HoG), in June 2000 the Civil Service Bureau (CSB) and the Financial Services and the Treasury Bureau (FSTB) assessed that there were 42 grades with 4,080 surplus officers. However, 11 of these 42 grades, with a total notional annual mid-point salary (NAMS) of \$26.4 million for 97 surplus officers, were not eventually designated as VR grades. Furthermore, of the 59 designated VR grades, 28 grades did not have surplus staff as reported in the manpower plans. According to the FC paper dated 21 February 2003 on the Second VR Scheme, there were 229 grades with a strength of about 100,000 which were proposed to be included in the Scheme. Audit considers that the CSB and the FSTB need to critically assess the future manpower requirements of government bureaux and departments before a final decision is made on the grades and ranks to be included in the Second VR Scheme (paras. 2.5, 2.8 and 2.10).

E. **Need to take account of the monthly pensions payable before the normal retirement date as a cost of the VRS.** Audit estimated that the total amount of monthly pensions payable to the

9,422 VR takers, from their VR date to their normal retirement date, would be \$3,806 million. Audit noted that the Administration had treated such monthly pensions payable to VR takers as their earned benefits and therefore had not included them as a cost in determining the compensation package under the VRS. In Audit's view, such monthly pensions payable should have been treated as extra cost of the VRS. This is because under normal circumstances, such monthly pensions are not yet due for payment as the provisions in the ordinances for the Old Pension Scheme (OPS) and the New Pension Scheme (NPS) only allow the payment of monthly pensions after an officer's normal retirement. Audit estimated that the annual costs of the VRS were, as a result, understated by \$379 million in the FC paper dated 1 December 2000. According to the FC paper dated 21 February 2003, the monthly pensions payable to VR takers from their VR date to their normal retirement date have again not been taken into account as a cost of the Second VR Scheme. Audit considers that the Administration needs to take account of such payment in determining the VR compensation package and for assessing the cost-effectiveness of future VR schemes (paras. 3.6 to 3.8 and 3.11 to 3.12).

F. Need to review the pension gratuity commutation rate in determining VR payments.

In determining the VR payments, a fixed 50% commutation rate for all VR takers irrespective of whether they were on the OPS or the NPS was used. According to the CSB, the 50% commutation rate would make the VR package more attractive to officers on the OPS whose permitted maximum pension gratuity commutation rate was only 25%. However, Audit found that even based on a commutation rate of 25% to calculate the VR payments, the total amount payable to most VR takers on the OPS would still be greater than the total amount payable to them as if they had switched to the NPS before 1 January 1996. Had the Government used the normal 25% commutation rate to calculate the VR payments for VR takers on the OPS, the VR payments to them would have been reduced by \$61 million. According to the FC paper dated 21 February 2003, the Government would still use a fixed 50% commutation rate to determine the VR payments in the Second VR Scheme. In Audit's view, the CSB needs to critically review whether the actual pension gratuity commutation rates opted by the VR takers should be used for calculating VR payments in future VR schemes (paras. 3.14, 3.16, 3.17, 3.19 and 3.20).

G. Need to conduct cost-benefit analysis on every VR application. Audit found that if a cost-benefit analysis had been carried out on every VR application, the Government would have achieved estimated savings of \$60 million by rejecting those VR applications that would result in net additional expenditure to the Government. Audit also found that the shorter the length of active service before a VR taker's normal retirement, the smaller would be the chance that the Government was able to achieve savings. According to the FC paper dated 21 February 2003, the Second VR Scheme would not apply to those officers with five or less than five years of active service before normal retirement. In Audit's view, there is still a chance that the Government may incur net additional expenditure for applicants with more than five years of active service. The CSB needs to consider issuing guidelines to HoD and HoG to enable them to conduct a cost-benefit analysis on every application under the Second VR Scheme (paras. 4.8, 4.11 and 4.15).

H. Need to find ways of speeding up the process of releasing VR takers. Audit noted that 2,873 (31%) VR takers were released to take their pre-retirement leave between 6 and 12 months after the scheduled date of approval of VR applications (12 December 2000), and 2,860 (30%) VR takers were released more than 12 months after that date. According to Audit's estimate, for every one month advanced in the release of the VR takers, the Government could have achieved additional

savings of \$81 million in salaries. In Audit's view, the CSB needs to critically ascertain the reasons for the long duration of releasing some VR takers and find ways of speeding up the whole process (paras. 4.18 and 4.19).

I. Need to strictly enforce the recruitment freeze to VR grades. According to Audit's estimate, the average payback period for the approved cases of the VRS is 12.3 years, assuming that the services provided by VR takers would be replaced by alternative modes of service delivery. In 8,995 (95%) of the VR cases, the Government will not be able to recover all the VR related cost if recruitment for the VR grades is resumed five years after the deletion of posts. According to the FC paper dated 21 February 2003, there will be a five-year civil service recruitment freeze to the VR grades under the Second VR Scheme. Audit considers that the Government needs to strictly enforce the five-year recruitment freeze requirement under the Second VR Scheme and critically examine the need for recruitment after the recruitment freeze period (paras. 4.23, 4.24 and 4.26).

J. Deletion of posts under the VRS. Under the VRS, HoD and HoG did not need to delete a post at the same rank as that vacated by a VR taker. Audit noted that HoD and HoG had deleted/would delete 1,890 posts (19.3% of 9,788 posts) at a lower rank, i.e. posts with NAMS smaller than that of the posts vacated by the VR takers. As a result, the total NAMS of the posts deleted/to be deleted would be \$213.8 million less than the total NAMS of the posts vacated by VR takers under the VRS. According to the FC paper dated 21 February 2003, departments were required to delete a VR taker's post or a post of the same rank of the VR taker upon the departure of the VR taker in the Second VR Scheme. Audit welcomes this new control requirement (paras. 5.2, 5.10, 5.11 and 5.24).

K. Need to prevent creation of posts using the NAMS arising from the deletion of posts under the VRS. Subject to the establishment ceiling not being exceeded, Controlling Officers have been delegated the authority to create civil service posts. According to the Director of General Grades' return to the FSTB in November 2001, the total NAMS of \$76 million, released from the 400 posts of the clerical and secretarial grades deleted under the VRS, would be used to create, upgrade or regrade other civil service posts. The FSTB considered that the "reuse" of the resources of the VR posts to create other civil service posts would defeat the fundamental objective of the VRS. However, up to 31 December 2002, the Director of General Grades and the departments concerned had not frozen the total NAMS of \$76 million and prevented it from being used for the creation, upgrading or regrading of other civil service posts. In Audit's view, the CSB and the FSTB should have issued clear guidelines to HoD and HoG, before the launching of the VRS in July 2000, to prevent them from using the NAMS arising from the deletion of posts under the VRS for the creation, upgrading or regrading of posts (paras. 5.25, 5.26, 5.30, 5.32 and 5.33).

L. Need to critically examine the arrangements for the utilisation of VR savings. Audit noted that of the annual savings of \$1,426 million in NAMS from the 9,788 posts deleted/to be deleted, \$1,014 million (71%) was retained for use by departments, and only \$412 million (29%) would be returned to the Government as savings under the Enhanced Productivity Programme. In Audit's view, the Government may not be able to recover the cost of the VRS if the amount saved by deleting the VR posts was retained and used by departments. According to the LegCo Panel paper dated 14 January 2003, the costs of compensation and the pension payments under the Second VR

Scheme could be paid back in around five years if all the savings of \$2.4 billion per year in salaries were not then spent on other expenditure. The Administration considered that there was no need to put in place a separate mechanism to claw back part of such savings. In Audit's view, the CSB and the FSTB need to critically examine the arrangements for the utilisation of the savings generated from the VRS and the Second VR Scheme (paras. 6.7 to 6.10).

M. Need to consider reducing the civil service establishment through natural wastage and normal retirement. In his Policy Address of January 2003, the Chief Executive stated that to achieve the goal of reducing public expenditure, an overall target of cutting the civil service establishment by 10% to about 160,000 by 2006-07 through natural wastage and normal retirement was set, and that the Government would launch the Second VR Scheme. The CSB estimated that around 7,000 officers would opt for VR under the Second VR Scheme. Audit has estimated that, through natural wastage and normal retirement, the number of civil service posts to be vacated during the years 2003-04 to 2006-07 would be around 12,000. If a large proportion of such vacated posts or the consequential vacant posts were to be deleted, this would greatly help achieve the target of reducing the civil service establishment to 160,000 by 2006-07 (paras. 6.15 to 6.17).

N. Audit recommendations. Audit has made the following main recommendations that the Secretary for the Civil Service should, in consultation with the Secretary for Financial Services and the Treasury:

VRS

Savings to be achieved under the Scheme

- (a) strictly enforce the recruitment freeze to the VR grades within five years of the deletion of posts vacated by the VR takers (para. 4.27(a));

Use of NAMS arising from the deletion of posts under the Scheme to create/upgrade/regrade posts

- (b) take action, in conjunction with the departments concerned, to ascertain and claw back the NAMS arising from the deletion of posts under the VRS, which has been used for the creation, upgrading or regrading of other civil service posts (para. 5.34(c));

Use of NAMS savings from posts deleted under the Scheme

- (c) critically re-examine the existing arrangements for the utilisation of savings generated from the VRS with a view to ensuring that the savings, other than those needed for alternative modes of service delivery, are returned to the Government (para. 6.11(a));

Second VR Scheme

Determination of VR grades

- (d) draw up appropriate criteria for determining the VR grades and ranks which best meet the objectives of the Second VR Scheme (para. 2.11(a));
- (e) introduce control measures to ensure that the selection of grades and ranks for inclusion in the Second VR Scheme is in accordance with the prescribed criteria (para. 2.11(b));

Determination of the VR payment

- (f) critically review whether the actual pension gratuity commutation rates opted by the VR takers, instead of the fixed 50% commutation rate for all VR takers, should be used for calculating the VR payments (para. 3.21(b));

Early release of VR takers

- (g) introduce measures to expedite the processing of VR applications and releasing of VR takers within the pre-determined time schedule (para. 4.28);

Timely deletion of VR posts

- (h) specify a timeframe for the deletion of posts in order to realise the savings as soon as possible (para. 5.35(a)); and

Use of NAMS savings from posts deleted under the Scheme

- (i) promulgate clear guidelines to government bureaux and departments that they should return all savings, other than those needed for the alternative modes of service delivery, to the Government to ensure that the Government's target of reducing the overall expenditure is achieved (para. 6.11(b)).

O. **Response from the Administration.** The Administration has noted the audit recommendations on the VR schemes. In the implementation of the Second VR Scheme, the Administration has generally accepted the audit recommendations.

PART 1: INTRODUCTION

Background

1.1 The Government's commitment and continuous efforts to enhance efficiency and to respond to changing needs of the community in a cost-effective manner have from time to time resulted in proposals with staff implications.

1.2 As the Government's policy is to avoid redundancy as far as possible, departments have been asked to plan their efficiency measures in line with natural wastage or, where appropriate, arrangements for staff redeployment. In 1999-2000 and 2000-01, the Civil Service Bureau (CSB) and the Financial Services and the Treasury Bureau (FSTB —the then Finance Bureau) had jointly operated a central clearing house mechanism to help redeploy surplus staff who could not be absorbed within their own departments.

1.3 In anticipation of a growing number of surplus staff in certain grades in the civil service, and in order to create room for further efficiency measures to sustain the Enhanced Productivity Programme (EPP —Note 1) in the medium term, a voluntary retirement scheme was introduced in May 2000 to enable existing staff to leave the civil service voluntarily.

The Voluntary Retirement Scheme

1.4 On 9 May 2000, the Executive Council (ExCo) advised and the Chief Executive ordered that a Voluntary Retirement Scheme (VRS), in accordance with the Pensions Ordinance (Cap. 89) and the Pension Benefits Ordinance (Cap. 99), should be approved. Under the VRS, civil servants in 59 grades with identified or anticipated surplus staff were eligible to retire from the service voluntarily, irrespective of whether they had attained the minimum age of retirement or completed the minimum qualifying length of service.

1.5 The 59 grades included in the VRS are listed in Appendix A. As at 1 July 2000, these grades, mainly supporting and ancillary grades, had a total strength of about 70,000. From 3 July to 3 October 2000, the staff of these 59 grades could consider whether or not to apply for voluntary retirement (VR) under the Scheme. On 12 December 2000, all VR applicants were notified whether their applications were approved, not approved or withheld pending further processing.

Note 1: *In his 1998 Policy Address on 7 October 1998, the Chief Executive endorsed the launch of an EPP and required government bureaux and departments to deliver productivity gains amounting to 5% of their annual operating expenditure during the years 2000-01 to 2002-03.*

Eligibility for the VRS

1.6 Officers who were not eligible to receive retirement benefits under the Pensions Ordinance (i.e. the Old Pension Scheme —OPS) and the Pension Benefits Ordinance (i.e. the New Pension Scheme —NPS) were not covered by the VRS. The VRS also did not cover the following officers:

- (a) officers with less than one year of active service before normal retirement;
- (b) officers who had tendered notice to retire or resign, applied for early retirement, or in the case of those on trial, had applied to revert to their former grades to which the VRS did not apply;
- (c) officers against whom disciplinary proceedings or other actions had been, or were contemplated to be taken and the proceedings or actions, in the opinion of the Secretary for the Civil Service, might lead to the removal of the officers from the service; and
- (d) officers in the Housing Department to whom a Voluntary Departure Scheme was available.

1.7 Apart from the officers mentioned in paragraph 1.6 above, the VRS also did not cover Model Scale I (MOD I) officers on the OPS who held non-established offices. However, special administrative arrangements had been made for about 240 MOD I officers aged 45 or above on the OPS to apply for early retirement in accordance with the Pensions Ordinance within the same period in which other eligible officers were invited to apply for the VRS.

1.8 The VRS was strictly voluntary. There was no pre-determined number of retirees under the VRS and it would accommodate as many applicants as possible, subject to the approved financial ceiling (Note 2) and the exigencies of service. The introduction of the VRS to the designated grades would not be followed by forced redundancy in these grades. However, recruitment to the civil service for the designated grades would be frozen for five years until 2005-06.

Note 2: *For the VRS, the final financial ceiling, approved by the Finance Committee in December 2000, was \$2,780 million for making compensatory payments to officers retiring under the VRS, and \$10 million for making ex-gratia payments to MOD I officers who met selection criteria for the VRS and were approved to retire early in accordance with the Pensions Ordinance.*

The payments under the VRS

1.9 The amounts payable to an officer joining the VRS included:

- (a) ***the pension benefits for which the officer was eligible on the date of his VR.*** These included a commuted pension gratuity and a monthly pension payable immediately after the officer's VR; and

- (b) ***a lump-sum VR payment to the officer on the date of his VR.*** This was calculated on the basis of one month's final salary for every two complete years of service of the officer, plus nine months' final salary, up to a maximum amount equivalent to 20 months' final salary of the officer. Details are given in paragraph 3.3 below.

1.10 The upfront lump-sum payment (i.e. the VR payment and the commuted pension gratuity), in terms of months of salary, payable to officers with different lengths of service under the VRS is shown in Table 1 below.

Table 1

**Upfront lump-sum payment payable
under the VRS in terms of months of salary**

Length of service	VR payment	Pension gratuity (assuming a commutation rate of 50%)	Total upfront payment
	(a)	(b)	(c) = (a) + (b)
(Year)	(Month of salary)	(Month of salary)	(Month of salary)
2	10	3	13
4	11	6	17
6	12	9	21
8	13	12	25
10	14	15	29
12	15	18	33
14	16	21	37
16	17	24	41
18	18	27	45
20	19	30	49
22	20	33	53
24	20	36	56
26	20	39	59
28	20	42	62
30	17	45	62
32	14	48	62
34	11	51	62
36	8	54	62
38	6	56	62
39	6	56	62

Source: CSB's records

Note: The calculation of the VR payment and pension gratuity was based on an officer on the New Pension Scheme who joined the Government at the age of 20.

1.11 As shown in Table 1 above, depending on his length of service, an officer might receive an upfront payment up to 62 months of his final salary. According to the CSB, the package should be sufficiently attractive to officers with some 25 years of service or more. Younger officers might be less interested because they would get a relatively small pension since their service length was short, and because they might still be the key bread-winner of the families and would prefer the relatively higher job security of civil service employment.

Financial commitments approved by the Finance Committee

1.12 The VRS would incur pension expenditure (both the commuted gratuity and the monthly payments) and compensation cost in the form of the one-off VR payment. In the CSB's view, as pensions were the officers' earned benefits and the Government was not enhancing pensions, the VRS did not involve additional pension cost, and that only the additional cost of the one-off VR payment required the approval of the Finance Committee (FC) of the Legislative Council (LegCo).

1.13 In June 2000, the CSB proposed to the FC to create a new non-recurrent commitment of \$1,100 million for making the VR payments. This was based on the assumption that 3,500 (i.e. 5% of 70,000) eligible staff in the designated grades would opt for VR and that their average length of service was 25 years. The CSB further proposed the creation of another non-recurrent commitment of \$2.4 million for providing the retirees of MOD I officers in the designated grades for the VRS with ex-gratia payments equivalent to the VR payments. On 9 June 2000, the FC approved these non-recurrent commitments.

1.14 By the closing date for application on 3 October 2000, about 11,000 (i.e. 15.7% of 70,000) staff eligible for VR had submitted applications. As the number of applicants far exceeded the CSB's original estimate, approval was sought from the FC to increase the non-recurrent commitment by \$1,680 million to \$2,780 million for making VR payments, and that for the ex-gratia payments by \$7.6 million to \$10 million. On 1 December 2000, the FC approved the increased non-recurrent commitments.

Latest position on the implementation of the VRS

1.15 Up to 31 October 2002, a total of 9,788 applications for retirement under the VRS had been approved, and 9,422 officers (hereinafter referred to as VR takers) had left the service with retirement benefits and VR payments after taking all their pre-retirement leave. A list of the ten departments with the largest number of approved VR applications is at Appendix B. Table 2 below shows the details of the pension payment and VR payment for the financial years 2000-01 to 2002-03.

Table 2

**Lump-sum pension gratuity, monthly pension
and VR payment for the years 2000-01 to 2002-03**

Year	Number of VR takers who left the service	Lump-sum pension gratuity (\$ million)	Monthly pension (\$ million)	VR payment (\$ million)
2000-01	1,038	387	30	213
2001-02	6,567	3,251	282	1,571
2002-03 (Note)	1,817	1,148	106	538
Total	9,422	4,786	418	2,322

Source: Treasury's records

Note: The figures for 2002-03 were up to 31 October 2002.

Second VR Scheme

1.16 On 14 January 2003, ExCo advised and the Chief Executive ordered that a second VR Scheme should be approved. The estimated total lump-sum payment would be \$8.2 billion (i.e. \$2.1 billion for VR payment and \$6.1 billion for commuted pension gratuity), and the recurrent payment of monthly pension would be \$0.43 billion per year. On 21 February 2003, the FC approved the Second VR Scheme (Note 3).

Audit review

1.17 Audit has recently conducted a review of the VRS. The objectives of the review are to assess the economy and effectiveness with which the Government has implemented the VRS. The audit has identified that there is room for improvement in a number of areas.

Note 3: *The draft report of this audit review had been sent to the CSB and the FSTB for their consideration before the Second VR Scheme was discussed at the FC meeting held on 21 February 2003.*

PART 2: INCLUSION OF GRADES IN THE VRS

2.1 This PART examines the selection of grades by the Administration for inclusion in the VRS.

Nomination of grades for inclusion in the VRS

2.2 In October 1999, the Government identified a list of grades with surplus staff likely to arise in 2000-01 from the implementation of the EPP and the reorganisation of municipal services. These surplus staff were available for redeployment. In March 2000, the Secretary for the Civil Service requested Heads of Department (HoD) and Heads of Grade (HoG) to indicate whether there were surplus or likely surplus staff in their departments or in other grades under their purview from 2000-01 to 2002-03, and propose grades for inclusion in the VRS. The CSB requested HoD and HoG to take account of the following factors in assessing the staff position:

- (a) the operational requirements of the departments and grades, and exigencies of the service;
- (b) efficiency enhancement initiatives, organisational development plans, and alternative modes of service delivery introduced, or being contemplated by departments/grades; and
- (c) other circumstances specific to the departments and grades.

2.3 Based on nominations from HoD and HoG, the CSB and the FSTB compiled a list of 59 grades for inclusion in the VRS (see Appendix A). The list represented the grades readily recognisable as obsolete and replaceable because requirement for their services within the Government was diminishing and alternative modes of service delivery, either by modern technology or work practices, were readily available. In May 2000, ExCo approved the list of 59 grades for inclusion in the VRS (see para. 1.4 above).

Surplus staff reported in the manpower plans

2.4 Following the Financial Secretary's announcement in March 2000 of the Government's intention to reduce the total civil service establishment by 10,000 from 2000-01 to 2002-03, the CSB and the FSTB established a Joint Panel to deal with the matter. HoD and HoG were requested to supply their 2000-01 to 2002-03 manpower plans on a grade-by-grade basis by 31 May 2000.

Audit observations on the inclusion of grades in the VRS

Not all grades with reported surplus staff were included in the VRS

2.5 Based on the 2000-01 to 2002-03 manpower plans submitted by HoD and HoG, in June 2000 the CSB and the FSTB assessed that there were 4,080 surplus officers in 42 grades. However, Audit noted that, of these 42 grades:

- (a) only 31 grades (with surplus staff as reported by HoD and HoG) were included in the list of the 59 designated VR grades; and

- (b) 11 grades (with 97 surplus officers and a total notional annual mid-point salary (NAMS) of \$26.4 million) were not eventually designated as VR grades.

Details are given in Table 3 below.

Table 3

**11 grades with surplus staff
but not designated as VR grades
(Position in June 2000)**

Grade	Number of surplus staff reported by HoD/HoG for the years 2000-01 to 2002-03
Proposed by HoD/HoG for inclusion as VR grade (but was not accepted by the CSB)	
1. Law Clerk	15
2. Survey Officer (Planning)	8
3. Enrolled Nurse (SWD)	5
4. Tracer	2
5. Certificated Master (SWD)	1
Sub-total	31
Not proposed by HoD/HoG for inclusion as VR grade	
6. Analyst/Programmer	18
7. Computer Operator	10
8. Manager, Cultural Services	4
9. Building Services Inspector	32
10. Survey Officer (Engineering)	1
11. Solicitor (Lands)	1
Total	97

Source: FSTB's records

2.6 Audit noted that for 6 of the 11 grades with surplus staff, the HoD and the HoG concerned did not propose the inclusion of these grades in the VRS. For the other 5 grades with 31 surplus staff and a total NAMS of \$7.6 million, the HoD and HoG concerned had proposed the inclusion of these grades in the VRS (see Table 3 above). However, the CSB did not accept the proposal on the grounds that the surplus situation for these five grades was uncertain or not significant.

2.7 In response to Audit's enquiry as to why the CSB and the FSTB had not included the five grades with surplus staff in the VRS (as had been proposed by HoD and HoG):

(a) the Secretary for the Civil Service said that:

- (i) the manpower plans submitted by HoD and HoG were not collated for the purpose of designating VR grades. The CSB had separately invited HoD and HoG to nominate grades under their purview for the inclusion in the VRS. The Joint Panel of the CSB and the FSTB studied the manpower plans only after ExCo and the FC had endorsed the list of VR grades;
- (ii) for the Law Clerk grade, the CSB launched a service-wide exercise to identify redeployment opportunities for the surplus Law Clerks. The grade was also included in the Second VR Scheme;
- (iii) for the Survey Officer (Planning) grade and the Tracer grade, there were uncertainties about their surplus staff situation whilst the VRS had to be finalised by April 2000. Besides, the number of surplus staff of the two grades was small; and
- (iv) for the Enrolled Nurse (SWD) grade and the Certified Master (SWD) grade, the Administration preferred to arrange redeployment to solve the problem; and

(b) the Secretary for Financial Services and the Treasury said that:

- (i) the Joint Panel of the CSB and the FSTB reviewed on 17 June 2000 the 2000-01 to 2002-03 manpower plans submitted by HoD and HoG. This was after the 59 grades for the VRS had been approved by the FC on 9 June 2000; and
- (ii) the Joint Panel's general conclusion was that the surplus staff in grades other than the 59 grades was not substantial, and should be manageable without triggering a second VR. The two reviews were separate exercises, though both were concerned about the civil service size.

Grades without reported staff surplus problem but included in the VRS

2.8 However, Audit noted that 28 grades had been included in the VRS, notwithstanding that they did not have surplus staff as reported in the manpower plans submitted by HoD and HoG (see Appendix C). These 28 grades had a total establishment of 8,538 staff with a total NAMS of \$1,631 million. In Audit's view, the CSB should have ascertained whether these grades in fact had surplus staff before deciding to include them in the VRS.

2.9 In response to Audit's enquiry, the Secretary for the Civil Service said that all the 28 grades were nominated by their respective HoD and HoG for inclusion in the VRS before the submission of manpower plans by HoD and HoG (see para. 2.7(a)(i) above). Many of these grades had stopped recruitment for some time. Many of them were obsolescent grades and many had a declining need or could be replaced by other modes of service delivery.

Second VR Scheme

2.10 According to the FC paper dated 21 February 2003 on the Second VR Scheme, there were 229 grades with a strength of about 100,000 which were proposed to be included in the Scheme. However, due to exigencies of service, some of the grades may only include specified ranks/streams. For the same reason, some of the grades may apply to specified departments only. Detailed information will be included in the circulars to be issued to staff. **Audit considers that the CSB and the FSTB need to critically assess the future manpower requirements of government bureaux and departments before a final decision is made on the grades and ranks to be included in the Second VR Scheme.**

Audit recommendations on the inclusion of grades in the VRS

2.11 **Audit has recommended that, the Secretary for the Civil Service should, in consultation with the Secretary for Financial Services and the Treasury:**

- (a) **draw up appropriate criteria for determining the VR grades and ranks which best meet the objectives of the Second VR Scheme (e.g. tackling staff surplus problem, reducing staff establishment or achieving savings in payroll);**
- (b) **introduce control measures to ensure that the selection of grades and ranks for inclusion in the Second VR Scheme is in accordance with the prescribed criteria; and**
- (c) **provide full information (e.g. the surplus staff position of individual grades and the NAMS involved) to ExCo and the FC in seeking their approval of the grades and ranks to be included in future VR schemes.**

Response from the Administration

2.12 The **Secretary for the Civil Service** has said that:

- (a) apart from VR, there are other means to solve the staff surplus problem (e.g. redeployment of staff, retraining and natural wastage). In deciding whether a particular grade should be included in the VRS, HoD and HoG need to consider many factors including staff reaction, cost-effectiveness and recruitment freeze;
- (b) in inviting nominations of VR grades for inclusion in the Second VR Scheme, HoD and HoG would need to indicate the surplus staff information and reasons for surplus of the grades (such as services no longer required, diminishing service demands, alternative modes of service delivery, cost savings and other reasons). The Administration carefully studied this information before deciding whether a particular grade should be included as a VR grade; and
- (c) the CSB has fully briefed ExCo and LegCo the principle of designating VR grades. ExCo has given the Secretary for the Civil Service the authority to specify grades to be covered in the Second VR Scheme.

2.13 The **Secretary for Financial Services and the Treasury** has said that as regards the Second VR Scheme, the FSTB's primary focus is on the Government's achievement of the efficiency savings targets set for 2006-07. There would therefore be not much added value for the FSTB to duplicate the CSB's effort in the development and implementation of human resource strategies, including the designation of VR grades.

PART 3: DESIGN OF COMPENSATION PACKAGE UNDER THE VRS

3.1 This PART examines the design of the compensation package under the VRS.

Composition of the retirement and compensation package under the VRS

3.2 As the VRS was strictly voluntary with no pre-determined number of VR takers, the key principle for designing the VRS was that the compensation package should be fair and sufficiently attractive to staff. At the same time, the Government had to ensure that the VRS would bring about greater cost-effectiveness in the use of public funds.

3.3 The retirement and compensation package provided to eligible officers under the VRS included:

- (a) the pension benefits for which an officer was eligible on the date of his VR, irrespective of whether he had attained the minimum age of retirement or completed the minimum qualifying length of service. These included a commuted pension gratuity and a monthly pension payable immediately after the officer's VR;
- (b) a lump-sum VR payment to the officer on the date of his VR, based on one month's final salary for every two complete years of service of the officer plus nine months' final salary. The VR payment was subject to two ceilings:
 - (i) the VR payment should not exceed 20 months' final salary of the officer (hereinafter referred to as the first ceiling); and
 - (ii) the VR payment plus the commuted value of pension benefits for which the officer was eligible at his VR date should not exceed the commuted value of pension benefits for which the officer would be eligible at his normal retirement age plus 6 months' final salary (hereinafter referred to as the second ceiling); and
- (c) medical and dental benefits applicable to pensioners.

Determination of the VR payment

3.4 For the purpose of determining the VR payment, a fixed 50% commutation rate was used to calculate the commuted value of pension benefits, irrespective of whether the VR taker was on the OPS or the NPS. The formula for calculating the VR payment and pension gratuity is as follows:

$$\begin{array}{rcc}
 \text{VR payment} & & \text{Lump-sum pension gratuity} \\
 & & \text{at normal retirement age commuted at 50\%} \\
 + & & + \\
 \text{Lump-sum pension gratuity} & & \text{6 months' salary} \\
 \text{at VR date commuted at 50\%} & & \\
 & & \text{<=}
 \end{array}$$

3.5 Up to 31 October 2002, lump-sum VR payments of \$2,322 million were made to 9,422 VR takers. 53% of the VR takers received a VR payment equivalent to over 15 to 20 months of their final salary. Details are given in Table 4 below.

Table 4

**VR payment to VR takers
in terms of months of salary**

VR payment (Month of salary)	VR takers (Number)	VR takers (Percentage)
Over 5 to 10	1,572	17%
Over 10 to 15	2,802	30%
Over 15 to 20	5,048	53%
Total	9,422	100%

Source: Treasury's records

**Audit observations on the design of
compensation package under the VRS**

**Payment of monthly pensions not taken into account
in designing the compensation package under the VRS**

3.6 According to Audit's estimate, a significant amount of monthly pensions is payable to VR takers under the VRS. For the 9,422 VR takers (in addition to their VR payments):

- (a) the total amount of monthly pensions payable to them, from their VR date to their normal retirement date, would be \$3,806 million; and

- (b) 5,015 (or 53%) of them would receive monthly pensions equivalent to more than 20 months of their salary from their VR date to their normal retirement date (see Table 5 below).

Table 5

**Total amount of monthly pensions payable to VR takers
from their VR date to their normal retirement date in terms of months of salary**

(Month of salary)	Total amount of monthly pensions payable			VR takers	
	(\$ million)	(Number)	(Percentage)		
Up to 5	35	1,039	11%		
Over 5 to 10	109	1,075	11%		
Over 10 to 15	202	1,168	13%		
Over 15 to 20	293	1,125	12%		
Over 20	3,167	5,015	53%		
Total	3,806	9,422	100%		

Source: Treasury's records

3.7 Audit noted that the Administration had not taken into account the monthly pensions payable to VR takers from their VR date to their normal retirement date as a cost in determining the compensation package under the VRS. According to the ExCo Memorandum of May 2000, pensions were officers' earned benefits. Since pensions were not enhanced under the VRS, the VRS did not involve additional cost in this respect. The costs and savings figures of the VRS, as presented in the FC paper dated 1 December 2000, are shown in Appendix D.

3.8 However, in Audit's view, the monthly pensions payable to VR takers from their VR date to their normal retirement date should have been treated as extra cost of the VRS. This is because under normal circumstances, such monthly pensions are not yet due for payment as the provisions in the ordinances for the OPS and the NPS only allow the payment of monthly pensions after an officer's normal retirement. Audit estimated that the annual costs of the VRS were, as a result, understated by \$379 million in the FC paper dated 1 December 2000. Audit's computations are shown in Appendix E.

3.9 In response to Audit's enquiry, the Secretary for the Civil Service said that the payment of monthly pensions to VR takers from their VR date would in general be offset by the higher pension benefit which the staff would otherwise accrue, if they had continued service until the statutory retirement age. The pension benefit which might otherwise be accrued was affected by a

number of variable factors, including the length of remaining service, award of increment, pay adjustment and promotion. The pension benefit changed under different sets of assumptions.

Second VR Scheme

3.10 In the FC paper dated 21 February 2003, the Administration informed LegCo that the total cost of the VR payments, on the basis that 7,000 officers would opt for VR with an average service length of 22 years, was about \$2.1 billion. The related pension expenditure would be \$6.1 billion for the commuted pension gratuities and \$0.43 billion annually for the recurrent pension payments. There would be savings of \$2.4 billion per year in salaries if these savings were not then spent on other expenditure.

3.11 Under the Second VR Scheme, pension benefits including commuted pension gratuity and monthly pension would not be granted to officers with less than 10 years of service at the date of VR as these officers were not qualified for pension payment under the prescribed pensions legislation under normal circumstances. According to the FC paper, the lump-sum pension gratuity and monthly pension were civil servants' statutory entitlements and the Government's liabilities, and in that respect they were not regarded as additional costs.

3.12 **Audit notes that the monthly pensions payable to VR takers from their VR date to their normal retirement date have not been taken into account as a cost of the Second VR Scheme. In Audit's view, as these monthly pensions payable are significant in amount and would not have been payable if there were no VR schemes, the Administration needs to take account of such payment in determining the VR compensation package (e.g. the amount of VR payment) and for assessing the cost-effectiveness of future VR schemes.**

The use of a fixed 50% commutation rate to calculate VR payments

3.13 As at 31 October 2002:

- (a) 23% of OPS officers who were eligible for VRS opted for VR; and
- (b) 13% of eligible NPS officers opted for VR.

Details are given in Table 6 below.

Table 6

**Number of VR takers on the OPS
and the NPS as at 31 October 2002**

Pension scheme	Officers eligible for VRS		VR takers		Percentage of officers who opted for VRS $(c) = \frac{(b)}{(a)} \cdot 100\%$
	(a)		(b)		
	(Number)	(Percentage)	(Number)	(Percentage)	
OPS	4,134	6%	958	10%	23%
NPS	65,358	94%	8,464	90%	13%
Total	69,492	100%	9,422	100%	14%

Source: *Audit's analysis of the Treasury's records*

3.14 **Audit noted that, in determining the VR payments for VR takers on the OPS, instead of using a 25% pension gratuity commutation rate (i.e. the maximum commutation rate under the OPS), a fixed 50% commutation rate for all VR takers was used.** In April 2000, the CSB informed the FSTB that, if a commutation rate of 25% was used, officers on the OPS would lose out by a wide margin in their VR payments when compared with their counterparts on the NPS. To make the VR package more attractive to officers on the OPS, a fixed commutation rate of 50% was adopted.

3.15 **Audit has calculated the VR payments to the VR takers on the OPS based on 25% and 50% commutation rates.** The results are shown in Table 7 below.

Table 7

VR payments to the VR takers on the OPS
based on commutation rates of 25% and 50%

Length of service	Number of VR takers	VR payments based on 50% commutation rate under the VRS	VR payments based on the normal 25% commutation rate under the OPS	Difference
(Year)		(a)	(b)	(c) = (a) - (b)
		(\$ million)	(\$ million)	(\$ million)
Below 22	177	47.8	39.8	8.0
22-23	84	30.8	22.4	8.4
24-25	51	19.1	13.1	6.0
26-27	127	43.3	30.3	13.0
28-29	181	56.5	41.8	14.7
30-31	160	43.0	34.0	9.0
32-33	76	15.3	13.4	1.9
34 and over	25	4.1	3.7	0.4
Total	881	259.9	198.5	61.4

Source: Audit's analysis of the Treasury's records

3.16 As shown in Table 7 above, among the 958 VR takers on the OPS, 881 of them received more VR payments based on the commutation rate of 50%, instead of the 25%. (There was no significant difference in the VR payments for the other 77 VR takers on the OPS.) Had the Government used the normal 25% commutation rate to calculate the VR payments, the VR payments to the VR takers on the OPS would have been reduced by \$61.4 million.

3.17 Audit has found that, in deciding the adoption of a fixed 50% commutation rate for determining all the VR payments, the CSB had not assessed the total amount payable to a VR taker (i.e. the VR payment, the commuted pension gratuity, and the monthly pensions paid from the VR date to the normal retirement date and then to the end of an average normal life

expectancy of 81.5 years). According to Audit's computation, even based on a commutation rate of 25% to calculate the VR payments, the total amount payable to 884 (92%) of VR takers on the OPS would still be greater than the total amount payable to them as if they had switched from the OPS to the NPS before 1 January 1996 (Note 4). Details are given in Table 8 below.

Table 8

Comparison of the total amount payable to 958 VR takers under the OPS and the NPS

VR takers		Total amount payable based on the 25% commutation rate	Total amount payable based on the 50% commutation rate (as if they had switched to the NPS)	Difference
(Number)	(Percentage)	(a)	(b)	(c) = (a) - (b)
		(\$ million)	(\$ million)	(\$ million)
884	92%	3,832.1	3,092.4	739.7
74	8%	147.9	154.4	(6.5)
958	100%	3,980.0	3,246.8	733.2

Source: *Audit's analysis of Treasury's records*

Note: *The total amount payable was based on an average normal life expectancy of 81.5 years.*

Officers opted for a lower pension gratuity commutation rate

3.18 Audit noted that 154 VR takers opted for a pension gratuity commutation rate which was lower than the maximum commutation rate allowed (i.e. 25% for the OPS, and 50% for the NPS) in commuting their lump-sum pension gratuity. Audit estimated that these 154 VR takers would receive additional pension benefits amounting to \$102.8 million. Moreover, as the Government had used a fixed 50% commutation rate, and not the actual commutation rate opted by the VR takers, to calculate their VR payments, 118 of the 154 VR takers received \$14.8 million more in their VR payments. Details are shown in Appendix F. **In Audit's view, as VR takers would in general obtain more pension benefits by opting for a lower commutation rate, there is little justification for the Government to provide them with more VR payments based on the maximum 50% commutation rate.**

Note 4: *Officers appointed before 1 July 1987 on the OPS were allowed to exercise the option to join the NPS before 1 January 1996.*

Second VR Scheme

3.19 According to the FC paper dated 21 February 2003, a lump-sum VR payment to the officer on the date of his VR was calculated on the basis of one month's final salary for every two complete years of service of the officer. The Administration stated that the VR payment was subject to the ceiling that its amount, when added to the commuted value of the pension benefits for which the officer would be eligible upon retirement under the VR Scheme, would not exceed the commuted value of the pension benefits for which the officer would be eligible at his normal retirement age. For the purpose of computing the ceiling, the commuted value of pension benefits would be taken as the lump sum when 50% of the pension benefits was commuted, and the officer's highest annual pensionable emoluments calculated in accordance with the applicable pensions legislation at the date of VR would be used. In other words, the lump-sum VR payment plus the lump-sum pension gratuity at VR date commuted at 50% should be less than or equal to the lump-sum pension gratuity at normal retirement commuted at 50%.

3.20 **In Audit's view, in the light of the additional expenditure on VR payments arising from the use of a uniform 50% commutation rate for calculating VR payments (see paras. 3.16 and 3.18 above), the CSB needs to critically review whether the actual pension gratuity commutation rates opted by the VR takers should be used for calculating VR payments in future VR schemes.**

Audit recommendations on the design of compensation package under the VRS

3.21 **Audit has *recommended* that in the Second VR Scheme, the Secretary for the Civil Service should, in consultation with the Secretary for Financial Services and the Treasury:**

- (a) **ascertain and compare the total amount payable to VR takers on the OPS and the NPS based on different commutation rates, and provide full information to ExCo and the FC to enable them to make an informed decision on the pension gratuity commutation rate to be used for computing VR payments; and**
- (b) **critically review whether the actual pension gratuity commutation rates opted by the VR takers, instead of the fixed 50% commutation rate for all VR takers, should be used for calculating the VR payments.**

Response from the Administration

3.22 **The Secretary for the Civil Service has said that:**

- (a) **in devising the VR compensation package, the CSB had adopted a number of guiding principles. The package should:**

- (i) be transparent and easy to understand;
 - (ii) be reasonable and publicly defensible;
 - (iii) be based on a universally applicable computation formula for all officers;
 - (iv) be fair, cost-effective and sufficiently attractive to staff; and
 - (v) contain no compulsory elements; and
- (b) to adhere to these principles, the CSB considered it necessary to adopt a uniform 50% commutation rate in calculating the second ceiling for the VR payment irrespective of the pension status of the officers. If a lower commutation rate is applied to OPS officers, they would regard the compensation package unattractive and less officers would depart under the VRS. As a result, the Government would have to carry the surplus staff at a higher payroll cost. To take an example, an OPS officer who has 24 years of service will only receive 14 months VR payment. This compares to 20 months of VR payment to NPS and OPS officers (applying a 50% commutation rate). In view of the above considerations, the CSB concluded that using a uniform 50% commutation rate was appropriate (Note 5).

3.23 The **Secretary for Financial Services and the Treasury** has said that the second ceiling on the one-off VR payment based on the 50% pension commutation rate is part and parcel of the first VR package which the Government believes is necessary to attract staff to break their service. Applying one single commutation rate to all staff has the advantage of making the package simple to understand.

Note 5: *In Audit's view, in order to determine whether the compensation package under the VRS is attractive to VR takers, it is necessary to take into account not only the amount of VR payment they receive but also the total package (i.e. VR payment, lump-sum pension gratuities and monthly pensions). According to Audit's computations, the total amount payable to VR takers on the OPS, based on a commutation rate of 25%, would in general be greater than the amount payable to VR takers on the NPS based on a commutation rate of 50% (para. 3.17). Audit considers that the Administration should have provided full information to ExCo and the FC on the costs of the VR schemes based on different commutation rates to enable them to make an informed decision.*

PART 4: APPROVAL OF VR APPLICATIONS

4.1 This PART examines the approval of individual VR applications and identifies the need to make improvement in future VR schemes.

Criteria for approving VR applications

4.2 Pensionable officers of the 59 grades included in the VRS were eligible to apply for VR on a voluntary basis. Under the VRS, an officer with less than one year's active service before normal retirement was not eligible to lodge a VR application (see para. 1.6 above).

4.3 The number of applications that could be accepted under the VRS was originally limited by the amount of funds (i.e. \$1,100 million) approved by the FC in June 2000 for meeting the lump-sum VR payments to successful applicants. Operational exigency was the determining criterion in approving applications and deciding the release date of VR takers. Subject to the provision and quality of public service not being unduly affected by the retirement of the VR takers, HoD and HoG could approve the VR applications. In doing so, they had to ensure that officers were only released when:

- (a) their services were no longer required;
- (b) suitable replacements could be redeployed from elsewhere in the civil service if existing services were required to be maintained; or
- (c) more effective or alternative modes of service delivery were in place.

4.4 Up to 31 October 2002, 9,788 out of 11,081 applications for retirement under the VRS were approved. 1,293 applications were rejected, withdrawn or pending the outcome of disciplinary proceedings/investigations. Applications were rejected mainly on the grounds of continued operational need for the posts.

Savings to be achieved under the VRS

Savings reported in the FC paper of December 2000

4.5 According to the FC paper of December 2000, it was estimated that the VRS would achieve net annual savings of \$977 million from 2004-05 onwards (see Appendix D). The estimate was based on the following assumptions:

- (a) with the deletion of posts following the departure of the VR takers, annual savings in salaries of \$1,599 million would be achieved; and

- (b) alternative modes of service delivery through non-civil service means would be provided for the posts vacated by the VR takers at an annual cost of \$622 million.

Savings reported in the LegCo Panel paper of June 2002

4.6 According to a paper, dated 17 June 2002, submitted by the CSB to the LegCo Panel on Public Service following a post-implementation review of the VRS, a revised estimate was made. It was stated that the VRS would achieve net savings of about \$751 million a year, and the upfront VR payments of \$2,392 million would be paid back in 3.2 years' time. The estimate of the revised net savings was based on the following assumptions:

- (a) with the deletion of posts following the departure of the VR takers on a one-to-one basis, annual savings in salaries of \$1,416 million would be achieved; and
- (b) alternative modes of service delivery through non-civil service means would be provided for two-thirds of posts vacated by the VR takers at an annual cost of \$665 million.

Audit observations on the savings to be achieved under the VRS

Cost-benefit analyses of individual VR applications

4.7 Audit noted that, in the estimates of the savings (see paras. 4.5 and 4.6 above) that could be brought about by the VRS, only the VR payment, the cost of alternative modes of service delivery, and the saving in salaries of VR takers had been taken into account. In Audit's view, a more thorough analysis of the financial implications of the VRS should have taken into account the following additional costs and benefits:

Additional costs

- (a) payment of monthly pensions to VR takers from the VR date to the normal retirement date (see paras. 3.6 to 3.8 above); and

Additional benefits

- (b) payment of smaller amounts of the lump-sum pension gratuity and monthly pensions to the VR takers because they had a shorter length of service (i.e. up to the VR date, instead of their normal retirement date).

4.8 Audit noted that, in the majority of VR cases, the Government could achieve savings by allowing officers to retire under the VRS. However, by allowing those officers who were near their normal retirement age to retire under the VRS, the Government might incur additional expenditure instead of achieving savings. Examples of four such cases are given in Appendix G. **Audit estimated that if a cost-benefit analysis had been carried out on every VR application, the Government would have achieved estimated savings of \$60 million by rejecting those VR applications that would result in net additional expenditure to the Government. Audit's computations are given in Appendix H.**

4.9 Audit considers that, in order to assess the additional expenditure on VR cases, HoD and HoG should have conducted a cost-benefit analysis in processing every VR application. Considerations should have been made to reject those applications that would result in high net additional expenditure to the Government.

Years of active service of VR applicants before normal retirement

4.10 Under the VRS, any officer with not less than one year of active service, counting from 3 July 2000 (i.e. the date of the CSB Circular Memorandum inviting applications for VR) to the date on which he reached his normal retirement age, was eligible to lodge an application under the VRS.

4.11 Audit found that the eligibility criterion mentioned in paragraph 4.10 above would result in net additional expenditure to the Government. This was because the shorter the length of active service before the VR taker's normal retirement, the smaller would be the chance that the Government was able to achieve savings.

4.12 Audit has analysed all the 9,422 cases of VR takers who had left the service and found that there were 1,208 cases which would result in net additional expenditure to the Government, assuming that the services provided by VR takers were replaced by alternative modes of service delivery (Note 6). The audit findings are shown in Table 9 below.

Note 6: *According to the paper dated 17 June 2002 submitted to the LegCo Panel on Public Service, services provided by 67% of VR takers were replaced by alternative modes of service delivery.*

Table 9

Approved VR cases which resulted in net additional expenditure to the Government

Active service before normal retirement	Approved VR cases with net additional expenditure	
(Year)	(Number)	(Percentage)
Up to 2	439	36.3%
Over 2 to 3	357	29.6%
Over 3 to 4	136	11.3%
Over 4 to 5	63	5.2%
Over 5 to 6	75	6.2%
Over 6 to 7	73	6.0%
Over 7	65	5.4%
Total	1,208	100.0%

} 77.2%

Source: Treasury's records

4.13 As shown in Table 9 above, Audit noted that in 932 (77%) of the 1,208 cases which the Government would incur net additional expenditure, the VR takers had four years or less of active service before their normal retirement date.

4.14 In Audit's view, the one-year eligibility requirement of the VRS (see para. 4.10 above) could not ensure that the Government would not incur additional expenditure in the approved VR cases.

Second VR Scheme

4.15 According to the FC paper dated 21 February 2003, the Administration stated that the Second VR Scheme would not apply to those officers with five or less than five years of active service before reaching normal retirement age. Active service would be counted from the end date of the VR application period to the date the officer reached his normal retirement age in accordance with the relevant pensions legislation applicable to the officer. **In Audit's view, by requiring VR applicants to have more than five years of active service before their normal retirement age, the number of VR cases which will result in net additional expenditure to the Government will be reduced. However, there is still a chance that the Government may incur net additional expenditure for applicants with more than five years of active service (see Table 9 in para. 4.12 above). In Audit's view, the CSB needs to consider issuing guidelines to HoD and HoG to enable them to conduct a cost-benefit analysis on every application under the Second VR Scheme and to consider rejecting those applications which may result in high additional expenditure to the Government.**

4.16 In response to Audit's enquiry on conducting a cost-benefit analysis on every VR application:

- (a) the Secretary for the Civil Service said that:
 - (i) in the Second VR Scheme, in view of the financial constraint, the Government had had to consider the cashflow position and had therefore tightened up the eligibility criteria to exclude applicants with five or less years of active service before their normal retirement age from being eligible to join the Second VR Scheme; and
 - (ii) he did not think that it was practical to conduct a cost-benefit analysis on every VR application as it would significantly prolong the processing time and incur huge administrative cost (Note 7); and
- (b) the Secretary for Financial Services and the Treasury said that the one-off VR payment for buying off the otherwise stable careers of affected civil servants was indisputably an additional cost to the Government. He also said that:
 - (i) there were different approaches to assess the costs and benefits of the VRS, depending on the focus of the analysis. The VRS enabled the Government to achieve salary savings, as partly offset by the cost of providing a replacement service, if required. Such savings would otherwise only be achievable when the staff reached their normal retirement age;
 - (ii) purely in terms of cashflow, VR would lead to immediate payment of VR payment and pensions, which reduced the salaries savings. It would thus add pressure on the fiscal position over a medium-term planning horizon of say four to five years. However, the recurrent salary savings would improve the fiscal position in the long term;
 - (iii) in the FC paper dated 1 December 2000 on the VRS, the "Financial Implications" section set out the financial implications of the VRS in respect of the monthly pensions and commuted pension gratuity arising from the Scheme, together with estimates of the one-off VR payments. How such financial implications should be regarded depended on one's focus. In terms of cashflow, the VRS led to advanced payment of lump-sum pension gratuity and monthly pensions. Such payments were however smaller than the corresponding amounts payable, if VR takers were to continue their career in the civil service until normal retirement

Note 7: *According to Audit's analysis as shown in Appendix H, conducting a cost-benefit analysis on every VR application is not a time-consuming task. Audit considers that the CSB and the FSTB can devise a computerised cost-benefit analysis model and make use of the information from the database of the Treasury to conduct the cost-benefit analysis.*

age. This was because those staff's ultimate pensions would increase due to progression to higher salary points, annual pay adjustments, and longer service by the time they reached normal retirement;

- (iv) it was difficult to quantify those variables, as they were affected by changes in the economic condition and civil service policy (affecting pay level, salary increment and promotion opportunities) on a time-horizon spanning many years, and in some cases up to 20-30 years; and
- (v) given these complexities, and the cost-benefit assessment was highly dependent on the assumptions adopted to take into account the variables, the FSTB found it difficult to make a firm conclusion on whether the aggregate effect of all the variables translated into net costs or net benefits in all possible VR scenarios (Note 8). On the other hand, it was clear that surplus staff would remain a major impediment to re-engineering of the public service. Without VR, the room for government bureaux and departments to introduce further efficiency measures would be significantly constrained.

Release date of VR takers

4.17 Audit noted that more savings could be achieved under the VRS if the VR takers had been released earlier. In June 2000 (CSB Circular Memorandum No. 13/2000), the CSB advised HoD and HoG that the release dates for the purpose of the VRS might fall between 31 December 2000 and 31 December 2001, taking into account the following factors:

- (a) lead time for the option period (from the launching of the VRS on 3 July 2000 to 3 October 2000), and for processing applications (HoG were required to notify all VR applicants of the result of their applications by 12 December 2000); and
- (b) leave balance of the applicant, operational requirement, exigencies of service and other special circumstances or factors.

In June 2001, the CSB urged departments to release staff as early as possible and required departments to ensure that the successful VR applicants should leave the service at least six months before their normal retirement date.

4.18 Audit has analysed the release dates of all successful VR applicants. Audit noted that:

Note 8: *In view of the financial constraint and cashflow position of the Government, Audit considers that there is a need for the CSB and the FSTB to consider devising a cost-benefit analysis model which takes into account the various factors to ensure that the accepted VR applications will not result in net additional expenditure to the Government. Audit appreciates that there may be complexities in developing the model. However, the problems should not be insurmountable.*

- (a) the average application processing time was 5.3 months;
- (b) 2,873 (31%) VR takers were released to take their pre-retirement leave between 6 and 12 months after the scheduled date of approval of VR applications (i.e. 12 December 2000), and 2,860 (30%) VR takers were released more than 12 months after that date; and
- (c) **in 27 cases where there had been undue delay in the processing of applications and the release of officers, the VR takers actually retired at a date, ranging from five days to six months, after their normal retirement age. The total VR payment for these 27 VR takers, ranging from \$62,000 to \$286,000 for each of them, was \$3.8 million.**

4.19 In Audit's view, the CSB needs to critically ascertain the reasons for the long duration of releasing some VR takers and find ways of speeding up the whole process. According to Audit's estimate, for every one month advanced in the release of the VR takers, the Government could have achieved additional savings of \$81 million in salaries. Details are shown in Appendix I.

Freeze of recruitment of VR grade staff within five years

Departments' request to relax the recruitment freeze

4.20 According to CSB Circular Memorandum No. 29/2000 dated 1 December 2000, external recruitment to all VR grades should be frozen for five years until 2005-06. Departments were allowed to recruit non-civil service contract (NCSC) staff as a stopgap measure for a short period of no more than three years to maintain existing services before alternative modes of service delivery were in place. This enabled HoD and HoG to approve as many applications as possible for the VRS.

4.21 Up to 31 October 2002, VR applications from 9,788 (i.e. 14% of 70,000) eligible staff were approved. Despite the employment of about 1,271 NCSC staff as a stopgap measure to replace the VR takers since the implementation of the VRS, in June 2002 the CSB advised the LegCo Panel on Public Service that some departments considered that the freeze of recruitment should be made more flexible and should not be indiscriminately applied to all VR grades. The departments' comments were as follows:

- (a) for common grades where there were defined work streams, it was not easy to replenish staff from in-service appointment exercises; and
- (b) where the VR takers outnumbered the surplus staff in a particular department, some vacant posts would need to be filled pending replacements.

Effect of the relaxation of the freeze of recruitment on the payback of the VRS

4.22 Audit noted that the CSB had not responded to the request of departments to relax the recruitment freeze. Audit considers that, to address the question of whether the freeze of recruitment should be relaxed, there is a need to assess its effect on the payback period of the VRS (see paras. 4.23 to 4.25 below).

4.23 Audit has calculated the payback period of all successful VR applications based on the assumption that the services provided by VR takers would be replaced by alternative modes of service delivery. The results are given in Table 10 below.

Table 10

Payback period of VR costs

Payback period (Note)	VR takers	
	(Number)	(Percentage)
Up to 5	427	4.5%
Over 5 to 10	2,687	28.5%
Over 10 to 15	2,761	29.3%
Over 15 to 20	1,759	18.7%
Over 20	1,788	19.0%
Total	9,422	100.0%

(Note: Brackets in the original table indicate that 6,308 VR takers (67% of total) have a payback period of 10 years or more, and 8,995 VR takers (95.5% of total) have a payback period of 15 years or more.)

Source: Treasury's records

Note: The payback period refers to the number of years when the VR costs of the VR takers are fully recovered from the VR benefits (see para. 4.7 above).

4.24 From Table 10 above, Audit notes that:

- (a) the average payback period for the approved cases of the VRS (excluding those which cannot be paid back) is 12.3 years;
- (b) in 8,995 (95%) of the cases, the Government will incur additional expenditure if recruitment for the VR grades is resumed five years after the deletion of posts;
- (c) in 6,308 (67%) of the cases, the Government will still incur additional expenditure if recruitment for the VR grades is allowed ten years after the deletion of posts; and

- (d) **in 1,208 (13%) of the cases, the Government will not be able to recover the cost of VR, even if recruitment for the VR grades is never allowed (see Appendix H).**

4.25 According to the CSB in the paper dated 17 June 2002 submitted to the LegCo Panel on Public Service, the chance of the scenario where the services provided by VR takers were replaced by alternative modes of service delivery was 67%. In other words, there is a risk that the Government is unable to recover all VR related costs, if recruitment of posts of VR grades is resumed five years after the deletion of posts (see para. 4.24(b) above). **In Audit's view, the Government needs to strictly enforce the five-year civil service recruitment freeze to the VR grades. Even five years after the deletion of the VR posts, if the deleted posts of the VR grades have been replaced by alternative modes of service delivery, the Government still needs to critically examine the financial implications of recruitment to these VR grades.**

Second VR Scheme

4.26 According to the FC paper dated 21 February 2003, to ensure the cost-effectiveness of the Second VR Scheme, there will be a five-year civil service recruitment freeze to the VR grades counting from the date when the Scheme came into operation as designated by the Secretary for the Civil Service. **Audit considers that the Government needs to strictly enforce the five-year recruitment freeze requirement under the Second VR Scheme. The Government also needs to critically examine the need for recruitment after the recruitment freeze period.**

Audit recommendations on the savings to be achieved under the VRS

4.27 **For the VRS and the Second VR Scheme, Audit has *recommended* that the Secretary for the Civil Service should, in consultation with the Secretary for Financial Services and the Treasury:**

- (a) **strictly enforce the recruitment freeze to the VR grades within five years of the deletion of posts vacated by the VR takers; and**
- (b) **critically examine requests from departments to recruit staff of the VR grades after the five-year recruitment freeze period, having due regard to whether alternative modes of service delivery have been provided for the posts concerned.**

4.28 **Audit has *recommended* that in the Second VR Scheme, the Secretary for the Civil Service should, in consultation with the Secretary for Financial Services and the Treasury, introduce measures to expedite the processing of VR applications and releasing of VR takers within the pre-determined time schedule.**

Response from the Administration

4.29 The Secretary for the Civil Service has said that:

Recruitment freeze to VR grades within five years

- (a) in the Second VR Scheme, the five-year recruitment freeze will continue to be applied;
- (b) 56 of the 59 grades included in the VRS were also included in the Second VR Scheme. In other words, these grades will have a total recruitment freeze period longer than five years;

Release date of VR takers

- (c) the CSB had urged departments to release staff as early as possible. Where VR applicants could not be released earlier under the VRS, it was generally because some departments could not do so for operational reasons; and
- (d) in the Second VR Scheme, the VR application period will be reduced to two months and departments are requested to release their staff within one year of the VR approval date.

PART 5: DELETION OF POSTS UNDER THE VRS

5.1 This PART examines the arrangements for the deletion of posts vacated by VR takers. The audit revealed that some of the financial resources released from the deletion of such posts were used to create, upgrade or regrade other civil service posts.

Arrangements for deletion of posts under the VRS

5.2 According to CSB Circular Memoranda No. 13/2000 and No. 29/2000, HoD and HoG are responsible for ensuring that when an officer leaves on VR, a post must be deleted as follows:

- (a) in the case of a departmental grade officer, the HoD concerned must delete an established post in the same departmental grade, although not necessarily at the same rank; and
- (b) in the case of a general grade or common grade officer, the HoD and HoG concerned must delete an established post in the general grades or common grades. The post to be deleted might not necessarily be the post vacated by the VR taker.

5.3 CSB Circular Memorandum No. 13/2000 also stated that:

- (a) when a departmental grade officer leaves the service on VR, the Personal Emoluments (PE) of the post so deleted would be converted into Departmental Expenses (DE) and be retained by the department. Conversion of PE into DE would be calculated on the basis of the NAMS of the deleted post; and
- (b) in the case of general grades and common grades officers, the PE of the deleted post would be converted into DE and be retained by the department in which the deletion of post took place.

The establishment ceiling of the government bureau or department concerned will likewise be reduced by the NAMS of the deleted posts.

Monitoring the deletion of posts

5.4 To monitor the deletion of posts, in December 2000 the CSB required HoD and HoG to submit a report at the end of each quarter to the FSTB summarising the details of posts to be deleted by department, by grade and by rank in the next quarter. Based on the reports, the FSTB would:

- (a) request Controlling Officers to delete the posts from their departmental establishment before the end of the next quarter; and

- (b) lower the departmental establishment ceiling to reflect such deletions by reserving the corresponding NAMS at the end of the next quarter.

5.5 In December 2000, the FC was informed that, upon the departure of VR takers, the departments concerned would delete the same number of posts, though not necessarily in the same grade or rank of the VR takers. The Government pledged that the implementation of the VRS would bring about long-term savings through the deletion of posts from the civil service establishment. In his Budget Speech of March 2001, the Financial Secretary announced that the establishment of the civil service would be reduced to 181,000 by March 2003. The Secretary for the Civil Service and the Secretary for Financial Services and the Treasury were tasked to proactively monitor the progress of the deletion of posts to contain the size of the civil service. With effect from September 2001, HoD and HoG were required to submit, in addition to the quarterly reports, proformas projecting post deletion for the period up to 31 March 2003. They were also required to report all posts deleted under the VRS in their submission for the 2002-03 draft Estimates.

Audit observations on deletion of posts under the VRS

Delay in deletion of posts

5.6 According to the CSB, up to 31 October 2002, approval had been given for 9,788 officers to retire under the VRS. However, out of the 8,424 posts vacated by officers who had thus retired by 30 June 2002, only 6,874 posts (81.6%) were deleted. 1,550 posts (18.4%) remained on the civil service establishment. Details of the deletion of posts are shown in Table 11 below.

Table 11
Deletion of posts by grades
(Position as at 31 October 2002)

Grade	Number of approved VR takers (a)	Posts vacated by VR takers who had retired by 30.6.2002		Posts deleted as a result of posts vacated by VR takers who had retired by 30.6.2002	
		(b) (Number)	(c) = $\frac{(b)}{(a)} \times 100\%$ (Percentage)	(d) (Number)	(e) = $\frac{(d)}{(b)} \times 100\%$ (Percentage)
General	3,657	3,177	86.9%	2,177	68.5%
Common	5,856	4,985	85.1%	4,469	89.6%
Departmental	275	262	95.3%	228	87.0%
Total	9,788	8,424	86.1%	6,874	81.6%

Source: Audit's analysis of the FSTB's records and the Treasury's records

5.7 Audit found that the delay in the deletion of posts was particularly serious in respect of some posts in the general grades. Up to 31 October 2002, 31.5% of the posts which needed to be deleted under the VRS had not yet been deleted. Details are shown in Table 12 below.

Table 12

**Deletion of posts in the general grades
(Position as at 31 October 2002)**

HoG (Note)	Number of VR takers who had retired by 30.6.2002 (a)	Posts deleted as a result of posts vacated by VR takers who had retired by 30.6.2002		Posts not yet deleted	
		(b) (Number)	(c) = $\frac{(b)}{(a)} \times 100\%$ (Percentage)	(d) = (a) - (b) (Number)	(e) = $\frac{(d)}{(a)} \times 100\%$ (Percentage)
DGS	76	39	51.3%	37	48.7%
DGG	2,527	1,650	65.3%	877	34.7%
DITS	32	24	75.0%	8	25.0%
GLTA	364	282	77.5%	82	22.5%
C for OL	83	81	97.6%	2	2.4%
D of E	7	8	114.3%	(1)	(14.3%)
D of L	39	44	112.8%	(5)	(12.8%)
GP	36	36	100.0%	-	-
D of M	4	4	100.0%	-	-
C for T	9	9	100.0%	-	-
Total	3,177	2,177	68.5%	1,000	31.5%

Source: Audit's analysis of the FSTB's records and the Treasury's records

Note: The HoG of the 22 general grades in the VRS included the Director of Government Supplies (DGS), Director of General Grades (DGG), Director of Information Technology Services (DITS), Government Land Transport Administrator (GLTA), Commissioner for Official Languages (C for OL), Director of Education (D of E), Director of Lands (D of L), Government Printer (GP), Director of Marine (D of M) and Commissioner for Transport (C for T).

5.8 Audit noted that both the CSB and the FSTB had not established any effective mechanism to ensure that the deletion of posts vacated by VR takers was carried out promptly and completely. In particular, the CSB and the FSTB had not:

- (a) specified any timeframe for the deletion of vacant posts arising from the VRS;
- (b) maintained complete and up-to-date records for matching the posts vacated by VR takers with the corresponding posts deleted. As a result, the CSB and the FSTB were not informed about the progress of the deletion of posts vis-à-vis the posts vacated by VR takers; and
- (c) taken proactive follow-up action when there were delays by government bureaux and departments to delete the posts vacated by VR takers.

5.9 **Audit considers that the CSB and the FSTB should have established a proper monitoring system to ensure that the deletion of posts was carried out expeditiously in order to meet the policy objective of the VRS (i.e. to achieve savings). This would have included concerted efforts by the CSB and the FSTB to ensure that HoD and HoG took prompt action to delete the posts vacated by VR takers.**

Deletion of posts at a lower rank

5.10 Under the VRS, for every post vacated by an officer who leaves the service on VR, a post has to be deleted. For departmental grades, the posts to be deleted must be of the same grades as those of the VR takers. For general grades or common grades, the requirement was that a permanent post in the establishment of the grades was deleted accordingly (i.e. irrespective of the grade, rank and department of the VR taker).

5.11 Audit has reviewed the process of the deletion of posts in the general grades, departmental grades and common grades. Audit noted that HoD and HoG had deleted/would delete 1,890 posts (19.3% of 9,788 posts) at a lower rank, i.e. posts with NAMS smaller than that of the posts vacated by the VR takers. The audit findings are given in paragraphs 5.12 to 5.23 below. **As a result of the deletion of posts at the lower ranks, the total NAMS of the posts deleted/to be deleted would be \$213.8 million less than the total NAMS of the posts vacated by VR takers.** Details are shown in Table 13 and paragraphs 5.12 to 5.21 below.

Table 13

Difference in NAMS between posts vacated by the VR takers and posts deleted/to be deleted

Grade	Posts vacated by VR takers		Posts deleted/ to be deleted		Difference
	Number	NAMS	Number	NAMS	NAMS
		(a)		(b)	(c) = (a) - (b)
		(\$ million)		(\$ million)	(\$ million)
General	3,657	771.1	3,657	623.5	147.6
Common	5,856	791.5	5,856	733.5	58.0
Departmental	275	77.3	275	69.1	8.2
Total	9,788	1,639.9	9,788	1,426.1	213.8

Source: Audit's analysis of the FSTB's records

Note 1: Up to 31 October 2002, 539 out of the 9,788 posts remained to be identified for deletion by HoD/HoG. Audit assumed that these posts, valued at the pro rata NAMS, would be deleted.

Note 2: The NAMS of ranks as at 1 October 2002 was based on the Mid-point Salary Tables.

Deletion of posts at lower ranks in the general grades

5.12 22 general grades were designated under the VRS. Audit noted that, as a result of the deletion of posts at ranks lower than the posts vacated by the VR takers in these 22 general grades, the total NAMS of the deleted/to be deleted posts was less than that of the vacated posts by \$147.6 million. Details of the deletion of posts vacated by VR takers in these 22 general grades are shown in Appendix J.

5.13 As an illustration, Audit noted that for the eight general grades under the purview of the Director of General Grades, the total NAMS of the deleted/to be deleted posts was less than that of the posts vacated by VR takers by \$124 million. Details are shown in Table 14 below.

Table 14

Difference in NAMS of posts vacated by VR takers
and posts deleted/to be deleted for the general grades

Grade/Rank	NAMS per post (\$ million)	Posts vacated by VR takers		Posts deleted/ to be deleted		Difference	
		Number (a)	Total NAMS (Note) (b) (\$ million)	Number (c)	Total NAMS (Note) (d) (\$ million)	Number (e) = (c) - (a)	NAMS (f) = (d) - (b) (\$ million)
1. Clerical Officer grade							
Senior Clerical Officer	0.39	129	50.2	17	6.6	(112)	(43.6)
Clerical Officer	0.29	608	178.7	134	39.4	(474)	(139.3)
Assistant Clerical Officer	0.17	1,073	185.6	961	166.2	(112)	(19.4)
Sub-total		1,810	414.5	1,112	212.2	(698)	(202.3)
2. Clerical Assistant grade	0.14	512	73.2	1,021	146.0	509	72.8
3. Office Assistant grade	0.12	98	11.6	335	39.7	237	28.1
4. Personal Secretary grade							
Senior Personal Assistant	0.66	3	2.0	-	-	(3)	(2.0)
Personal Assistant	0.51	4	2.0	2	1.0	(2)	(1.0)
Senior Personal Secretary	0.39	10	3.9	1	0.4	(9)	(3.5)
Personal Secretary I	0.29	68	20.0	20	5.9	(48)	(14.1)
Personal Secretary II	0.18	103	18.9	113	20.7	10	1.8
Sub-total		188	46.8	136	28.0	(52)	(18.8)

Table 14 (Cont' d)

**Difference in NAMS of posts vacated by VR takers
and posts deleted/to be deleted for the general grades**

Grade/Rank	NAMS per post (\$ million)	Posts vacated by VR takers		Posts deleted/ to be deleted		Difference	
		Number (a)	Total NAMS (Note) (\$ million)	Number (c)	Total NAMS (Note) (\$ million)	Number (e) = (c) - (a)	NAMS (f) = (d) - (b) (\$ million)
5. Confidential Assistant grade							
Senior Confidential Assistant	0.32	3	1.0	–	–	(3)	(1.0)
Confidential Assistant	0.22	67	14.7	12	2.6	(55)	(12.1)
Sub-total		70	15.7	12	2.6	(58)	(13.1)
6. Supervisor of Typing Service grade	0.31	13	4.0	13	4.0	–	–
7. Typist grade							
Senior Typist	0.22	33	7.2	38	8.3	5	1.1
Typist	0.14	98	14.0	153	21.9	55	7.9
Sub-total		131	21.2	191	30.2	60	9.0
8. Telephone Operator grade	0.15	4	0.6	6	0.9	2	0.3
Total for the general grades under the DGG		2,826	587.6	2,826	463.6	–	(124.0)

Source: Audit's analysis of the FSTB's records

Note: The NAMS of ranks as at 1 October 2002 was based on the Mid-point Salary Tables.

5.14 As shown in Table 14 above, Audit found that the higher the ranks of the posts (in terms of NAMS per post) vacated by the VR takers, the smaller was the number of posts deleted from the same ranks. As a result, the total NAMS of the posts deleted/to be deleted was smaller than the total NAMS of the posts vacated by the VR takers.

Deletion of posts at lower ranks in the common grades

5.15 22 common grades were designated under the VRS. Audit noted that, as a result of the deletion of posts at ranks lower than the posts vacated by the VR takers in these 22 common grades, the total NAMS of the deleted posts was less than that of the vacated posts by \$58 million. Details of the deletion of posts vacated by VR takers in these 22 common grades are shown in Appendix K.

5.16 As an illustration, in the Foreman grade which had the greatest total NAMS difference (\$34.7 million) between the deleted/to be deleted posts and the vacated posts, 491 posts (i.e. 6 Senior Overseers, 68 Overseers, 94 Senior Foremen and 323 Foremen) were vacated by the VR takers. However, Audit found that:

- (a) no Senior Overseer (with NAMS of \$355,320 per post) and Overseer (with NAMS of \$280,020 per post) posts, which belonged to the senior ranks in the Foreman grade, were deleted/to be deleted;
- (b) 17 posts of Senior Foreman (with NAMS of \$219,240 per post) were deleted/to be deleted;
- (c) 91 posts of Foreman (with NAMS of \$172,980 per post) were deleted/to be deleted; and
- (d) the other 383 posts deleted/to be deleted were in the rank of Workman II of the Workman grade with NAMS of \$113,640 per post.

Deletion of posts at lower ranks in the departmental grades

5.17 15 departmental grades were designated under the VRS. Audit noted that, as a result of the deletion of posts at ranks lower than those of the posts vacated by the VR takers in these 15 departmental grades, the total NAMS of the deleted posts was less than that of the vacated posts by \$8.2 million. Details of the deletion of posts vacated by VR takers in the 15 departmental grades are shown in Appendix L.

5.18 As an illustration, in the Police Translator grade which had the greatest difference in total NAMS of \$3.8 million between the posts deleted/to be deleted and the vacated posts, 100 posts were vacated by the VR takers, which comprised:

- (a) 17 Senior Police Translators (NAMS of \$512,460 per post);
- (b) 50 Police Translators I (NAMS of \$388,980 per post); and
- (c) 33 Police Translators II (NAMS of \$241,800 per post).

5.19 According to the Hong Kong Police Force (Police Force), in 2002, 62 posts (1 Senior Police Translator, 24 Police Translators I and 37 Police Translators II) were deleted. Ultimately, 100 posts (6 Senior Police Translators, 44 Police Translators I and 50 Police Translators II) would be deleted. 17 out of the 100 posts deleted/to be deleted would be at a lower rank.

Reporting of deletion of posts to the FSTB

5.20 Audit noted that in the quarterly returns submitted to the FSTB, the Police Force had reported the deletion and proposed deletion of all 100 posts in the lowest rank of the Police Translator grade (i.e. Police Translator II). This differed significantly from the actual/proposed deletion of posts by the Police Force mentioned in paragraph 5.19 above. Based on the quarterly returns submitted by the Police Force, the difference in total NAMS between the posts deleted/to be deleted and the vacated posts was \$11.9 million. In fact, the actual difference in total NAMS was \$3.8 million (see para. 5.18 above).

5.21 Upon Audit's request to clarify the reporting of the deletion of posts to the FSTB, the Commissioner of Police said that:

- (a) he had quoted the deletion of 103 posts of Police Translator II (including the 100 VRS posts) under the EPP which represented the amount of savings for outsourcing of translation services that could be achieved through the deletion of the posts upon departure of the VR takers. The NAMS of the quoted posts would all be returned to the FSTB within 2002-03;
- (b) the savings for deletion of the posts were quoted in terms of the most junior rank of 100 Police Translators II since allowance had to be made for the additional costs to be incurred by contracting-out translation service and the results of the establishment review, which were yet to be available at the time of preparation of the 2002-03 Draft Estimates; and
- (c) at the end of the VRS, 17 posts would be deleted at a lower rank. The balance of NAMS obtained through deletion of the Police Translator posts of the promotion ranks (i.e. 6 Senior Police Translators and 44 Police Translators I) under the VRS would be returned to the FSTB in 2003-04. He had submitted a revised return to the FSTB in March 2003.

Implications of allowing HoD and HoG to delete posts at a lower rank

5.22 According to the CSB, as stated in the FC paper of December 2000, the justification for deletion of posts at a lower rank was to retain an adequate career structure for staff remaining in service. Where operationally justified, lower rank posts might be deleted to retain promotion posts of the departed VR takers in order to retain promotion opportunities for staff. **However, Audit noted that:**

- (a) **because of the general tendency for HoD and HoG to delete posts at a lower rank, the promotion opportunities for some of the VR grades had been enhanced (e.g. the Clerical Officer grade, Foreman grade and Police Translator grade). HoD and HoG were not required to provide justifications to the CSB as to why the posts of a higher rank had to be retained; and**
- (b) **HoD and HoG were not required to provide explanation as to why it was feasible to delete more posts in certain grades which exceeded the number of posts vacated by the VR takers, without affecting the operational efficiency (e.g. the Clerical Assistant grade, Office Assistant grade and Typist grade mentioned in Table 14 of paragraph 5.13 above). Audit has not seen explanations as to why earlier action had not been taken to delete such posts.**

5.23 In response to Audit's enquiry, the Secretary for the Civil Service said that:

- (a) it was a specific aim of the VRS to release as many VR applicants as possible. Therefore, it was a conscious decision under the VRS to allow deletions to be made at lower ranks. Although deletion of posts lower than the VR takers' rank resulted in less savings in NAMS, this had enabled the release of the maximum number of staff; and
- (b) in the Second VR Scheme, in view of the financial constraint, the CSB had additionally taken into account the cashflow position and tightened up the flexibility in the post deletion arrangement. As a general rule, departments had to delete the VR takers' post or post of the same rank as the VR takers.

Second VR Scheme

5.24 According to the FC paper dated 21 February 2003, the FC was informed that departments were required to delete a VR taker's post or a post of the same rank of the VR taker upon the departure of the VR taker. If there were more VR takers in a particular rank than the number of posts which could be deleted in that rank, HoD and HoG might delete posts one rank below to facilitate departure of staff on condition that they could demonstrate substantial savings could still be derived and subject to seeking exceptional approval from the CSB. **Audit welcomes this new control requirement.**

Use of NAMS arising from the deletion of posts under the VRS to create/upgrade/regrade posts

5.25 According to Financial Circular No. 4/94 dated 17 February 1994, the FSTB has laid down the requirement that, before a Controlling Officer exercises his delegated authority to create a permanent non-directorate post, he has to ensure that the resulting total NAMS of his departmental permanent non-directorate establishment will not exceed the establishment ceiling (i.e. the total NAMS of all approved non-directorate posts in the permanent establishment).

5.26 In November 2001, the Director of General Grades forwarded to the FSTB a return on the deletion of posts in respect of the clerical and secretarial grades up to 31 March 2003. According to the return, the total NAMS of \$76 million, released from the 400 posts of the clerical and secretarial grades deleted under the VRS, would be used to create, upgrade or regrade other posts (e.g. posts of Executive Officer II and Treasury Accountant).

5.27 In late November 2001, the Secretary for Financial Services and the Treasury advised the Director of General Grades that:

- (a) the Government had a clear commitment to delete posts upon the departure of staff under the VRS. Such deletions were to achieve recurrent savings to more than pay back the upfront VR expenditure; and
- (b) as the NAMS released from the 400 posts deleted was used to create other posts and did not give rise to savings, the FSTB did not see the Government's commitment as being fulfilled.

In response, on 3 December 2001, the Director of General Grades said that he would send copies of his approval for HoD to delete VR posts to the FSTB on each occasion, so that the FSTB could immediately freeze the NAMS of the deleted posts.

5.28 On 19 December 2001, the FSTB requested the Director of General Grades that whenever agreeing to the deletion of any posts proposed by departments, the Director of General Grades would confirm in writing with the HoD concerned that these were deletions under the VRS. Hence the NAMS could not be used for creation of other posts.

5.29 On 24 December 2001, the Secretary for the Civil Service advised the FSTB that:

- (a) according to CSB Circular Memorandum No. 29/2000, resources released from the deletion of VR posts might be redeployed for providing services through alternative modes, meeting EPP requirements or funding new or additional services to meet growing needs. In case virement of funds from PE to DE was required, Controlling Officers were requested to assess and discuss with the FSTB the actual requirement for DE supplementary provision in 2001-02. **There was no requirement that the NAMS saved from the deletion of VR posts could not be used for the creation of other posts;** and

- (b) to help achieve the target of containing the size of the civil service to 181,000 by March 2003, the CSB supported the proposal to reserve the NAMS of the posts arising from VR deletions.

5.30 In response, in mid-January 2002, the FSTB advised the CSB that:

- (a) in the FC paper of December 2000 seeking a funding commitment of \$2,790 million for the VRS, the Government stated that “concerned departments will delete the same number of posts” upon “the departure of VR takers”. The Government further pledged to bring about long-term savings to the Government, through the deletion of posts from the civil service establishment; and
- (b) **with the Government’s clear commitment to reduce the civil service establishment under the VRS, the FSTB could not see the logic why resources of the VR posts could be allowed to be “reused” to create other civil service posts. To do so would defeat the fundamental objective of the VRS.**

5.31 On 21 January 2002, the CSB advised the FSTB that:

- (a) **the purpose of the VRS was to bring about long-term savings to the Government through deletion of posts from the civil service establishment. However, neither FC paper FCR (2000-01) 49 nor CSB Circular Memorandum No. 29/2000 stipulated that the NAMS saved from the deletion of VR posts could not be used for the creation of other non-VR posts; and**
- (b) the problem could be resolved if the Director of General Grades could inform the relevant HoD of the proper arrangement (see paras. 5.27 and 5.28 above).

5.32 Audit agrees with the FSTB’s view that, with the Government’s clear commitment to reducing the civil service establishment under the VRS, it will defeat the fundamental objective of the VRS if the NAMS arising from the deletion of VR posts is allowed to be used to create other civil service posts. However, Audit noted that up to 31 December 2002, the Director of General Grades and the departments concerned had not frozen the total NAMS of \$76 million (see para. 5.26 above) and prevented it from being used for the creation, upgrading or regrading of other civil service posts.

5.33 **In Audit’s view, the CSB and the FSTB should have issued clear guidelines to HoD/HoG, before the launching of the VRS in July 2000, to prevent them from using the NAMS arising from the deletion of posts under the VRS for the creation, upgrading or regrading of other civil service posts.**

Audit recommendations on deletion of posts under the VRS

5.34 Audit has *recommended* that the Secretary for the Civil Service should, in consultation with the Secretary for Financial Services and the Treasury:

Delay in deletion of posts under the VRS

- (a) request HoD and HoG to draw up plans for the timely deletion of posts under the VRS;
- (b) closely monitor compliance with the plans and take prompt action to address any significant deviations from the plans; and

Use of NAMS arising from the deletion of posts under the VRS to create/upgrade/regrade posts

- (c) take action, in conjunction with the departments concerned, to ascertain and claw back the NAMS arising from the deletion of posts under the VRS, which has been used for the creation, upgrading or regrading of other civil service posts.

5.35 Audit has *recommended* that in the Second VR Scheme, the Secretary for the Civil Service and the Secretary for Financial Services and the Treasury should:

- (a) specify a timeframe for the deletion of posts in order to realise the savings as soon as possible; and
- (b) ensure that HoD and HoG will not use the NAMS arising from the deletion of posts under the Scheme to create, upgrade or regrade other civil service posts.

Response from the Administration

5.36 The Secretary for the Civil Service has said that:

Delay in deletion of posts

- (a) as the relevant HoG needed to arrange redeployment and in-service appointment exercises for general grade staff, the time taken for post deletion was naturally longer;
- (b) in the general grades, the posts vacated by the incumbents are not necessarily the posts to be deleted. The time lapse between the departure of the VR takers and the deletion of posts arose because of the policy decision to release all VR takers by 31 December 2001

as far as possible so as to save costs, whereas according to the departments' operational needs, a number of the deletable posts would not become surplus until 2002-03;

- (c) in the Second VR Scheme, HoD and HoG are required to delete posts within 18 months and submit regular post deletion reports to the CSB;

Use of NAMS arising from the deletion of posts to create/upgrade/regrade posts

- (d) when the Director of General Grades subsequently clarified the matter with the FSTB, the CSB supported the FSTB's view that NAMS should be frozen to stop creation of posts; and
- (e) for the Second VR Scheme, it is considered not necessary to impose a moratorium on post creation as the Government has introduced an overall establishment control of reducing the size of the civil service by 10% to 160,000 by 2006-07. Besides, bureaux and departments are required to achieve the saving targets imposed by the Government under the Operating Expenditure Envelope approach (Note 9), amounting to an overall saving of \$20 billion by 2006-07.

5.37 **The Secretary for Financial Services and the Treasury** has said that:

- (a) the need to delete posts in the civil service establishment upon the departure of staff under VRS is set out in the FC Paper dated 1 December 2000 on the VRS. As stipulated under CSB Circular Memorandum No. 13/2000, HoD and HoG are tasked to ensure that whenever an officer leaves on VR, a permanent post is deleted accordingly. The CSB and the FSTB have proactively monitored progress on deletion of posts and have required HoD and HoG to report on progress on a quarterly basis. Based on the reports, the FSTB will reserve the corresponding NAMS and facilitate departments in the virement of funds from PE to DE for provision of services; and
- (b) where the deletion of posts involves simultaneously a Head of Department and a separate Head of Grade, the FSTB recognises that the more complex situation does require higher coordination efforts between the parties concerned. The establishment procedures promulgated in Financial Circular No. 4/94, which set out the authorities and responsibilities of respective HoD and HoG in the creation and deletion of posts, provide an effective framework to support the VR post deletion process.

Note 9: *Under the Operating Expenditure Envelope arrangement to be introduced from 2003-04 onwards, each policy bureau has been given an expenditure ceiling (i.e. the operating expenditure envelope). Directors of Bureau have greater flexibility to deploy resources within their operating expenditure envelope.*

PART 6: USE OF VR SCHEMES TO SAVE GOVERNMENT EXPENDITURE

6.1 This part examines the use by government bureaux and departments of the savings realised from the VRS.

Use of NAMS savings from posts deleted under the VRS

Use of savings by government bureaux and departments

6.2 The recurrent expenditure of a government bureau or department consists of the following main items:

- (a) **PE.** The PE vote is controlled by NAMS. This is the provision for civil service staff salaries and allowances. For some departments, PE amounts to 80% to 90% of their total recurrent expenditure; and
- (b) **DE.** This includes the provision for employment of NCSC staff or hire of services and other departmental expenditure.

6.3 To provide Controlling Officers with flexibility to adjust the resource requirements under their control, virement of funds from the PE vote to the DE vote is permitted. Controlling Officers are required to approach the FSTB at the beginning of the year to obtain agreement in principle for such virement of funds in accordance with Financial Circular No. 12/95 dated 23 June 1995. In doing so, Controlling Officers are required to release the corresponding amount of NAMS. The NAMS so released will be reserved by the FSTB. Provision for additional DE in the course of the year will be approved as and when needed by the relevant authority.

6.4 Following the implementation of the EPP with the aim of achieving a 5% saving in annual operating expenditure (see Note 1 to para. 1.3 above), bureaux and departments had deleted a total of 882 posts to deliver the mandated 1% saving in 2000-01. The CSB and the FSTB estimated that the delivery of the remaining 4% EPP saving by 2002-03 could involve a deletion of another 3,500 posts.

6.5 Government bureaux and departments were allowed to use NAMS of the deleted posts under the VRS to meet the EPP requirements, or convert the NAMS into DE for providing services through alternative modes, or funding new or additional services.

Audit observations on the use of NAMS savings from posts deleted under the VRS

6.6 According to the FC paper dated 1 December 2000 on the VRS, the implementation of the Scheme would bring about long-term savings to the Government through the deletion of posts from the civil service establishment. Audit noted that in the Government's submissions to ExCo and the FC, estimates about the amount of savings to be achieved from the VRS were

made. However, there was no mention of the use of these savings and the impact of these savings on the overall level of government expenditure.

6.7 Audit has reviewed the use of the annual savings of \$1,426 million in NAMS from the 9,788 posts deleted/to be deleted under the VRS (see Table 13 in para. 5.11 above). The audit findings are as follows:

- (a) \$1,014 million (71%) from the deletion of 7,109 posts would be retained for use by departments. According to the FSTB, the total amount of virement from PE to DE between 2000-01 and 2002-03 would be about \$350 million; and
- (b) \$412 million (29%) from the deletion of 2,679 posts would be returned to the Government as EPP savings. Details are shown in Table 15 below.

Table 15

EPP savings in terms of NAMS of posts deleted under the VRS

Year	Number of posts deleted	EPP savings (\$ million)
2001-02	614	99.7
2002-03	2,065	312.4
Total	2,679	412.1

Source: FSTB's records

6.8 Audit has the following observations on the use of savings in NAMS from the deletion of posts under the VRS:

- (a) **Need to recover savings of NAMS in full by the Government.** Audit estimated that the total cost of VR for 9,422 VR takers (out of the 9,788 approved applicants) was \$6,128 million consisting of \$2,322 million of VR payment (see Table 2 in para. 1.15 above) and \$3,806 million of monthly pensions payable from VR date to normal retirement date (see para. 3.6(a) above). The Government may not be able to recover the cost of the VRS if the amount saved by deleting the VR posts was retained and used by departments;
- (b) **Lack of justifications for increasing the DE.** The FSTB allowed the virement of \$350 million (see para. 6.7(a) above) of saving in NAMS by government bureaux and

departments to DE. Audit has not seen evidence of thorough vetting of the virements by the FSTB. In fact, the total of \$1,014 million retained for use by departments concerned was much more than the estimated annual cost of \$665 million (see para. 4.6(b) above) required by departments to deliver the services (previously provided by the VR takers) through non-civil service means. It is questionable whether the large amounts retained in the DE by the departments concerned, based on the deletion of posts under the VRS, was justified on operational grounds; and

- (c) ***Lack of mechanism to ensure the return of VR savings to the Government.*** Other than reserving the NAMS for the posts deleted under the VRS, there was no control mechanism in the CSB or the FSTB to ensure that the savings in NAMS (apart from those required for the temporary employment of NCSC staff) were returned to the Government. Besides, as the CSB had indicated in a paper to the LegCo Panel on Public Service in November 2000, some departments might need to recruit NCSC staff as a stopgap measure (not exceeding three years) to maintain existing services before the alternative mode of service delivery was in place. In Audit's view, a control mechanism is needed to ensure and monitor the return of VR savings arising from the deletion of posts under the VRS to the Government.

Second VR Scheme

6.9 According to the LegCo Panel paper dated 14 January 2003, the costs of compensation and the pension payments under the Second VR Scheme could be paid back in around five years if all the savings of \$2.4 billion per year in salaries were not then spent on other expenditure (see also paras. 3.10 and 3.11 above). The CSB envisaged that, given the significant reduction in operating expenditure that the CSB and the FSTB were requiring from bureaux/departments, they would probably have to use most if not all of the savings from the Scheme to deliver the reduction in operating expenditure funding. The Administration considered that there was no need to put in place a separate mechanism to claw back part of such savings.

6.10 **In Audit's view, the CSB and the FSTB need to ensure the full recovery of the upfront cost of the Second VR Scheme. Audit considers that the CSB and the FSTB need to critically examine the arrangements for the utilisation of the savings generated from the Second VR Scheme. Otherwise, the intended level of reduction in the Government's overall expenditure might not be achieved.**

Audit recommendations on the use of NAMS savings from posts deleted under the VRS

6.11 **Audit has recommended that the Secretary for the Civil Service should, in consultation with the Secretary for Financial Services and the Treasury:**

- (a) **critically re-examine the existing arrangements for the utilisation of savings generated from the VRS with a view to ensuring that the savings, other than those needed for alternative modes of service delivery, are returned to the Government; and**

- (b) **in the Second VR Scheme, promulgate clear guidelines to government bureaux and departments that they should return all savings, other than those needed for the alternative modes of service delivery, to the Government to ensure that the Government's target of reducing the overall expenditure is achieved.**

Response from the Administration

6.12 **The Secretary for the Civil Service** has said that:

- (a) while government bureaux and departments were not required to return the VR savings directly to the Government under the VRS, a significant portion of the savings were returned as EPP contributions; and
- (b) in the Second VR Scheme, government bureaux and departments are required to achieve the saving targets imposed by the Government under the Operating Expenditure Envelope approach amounting to an overall saving of \$20 billion by 2006-07. With the significant reductions in the Directors of Bureau's operating expenditure envelope, there is no need and hence no plan for a separate mechanism for the Government to claw back such savings (Note 10).

6.13 **The Secretary for Financial Services and the Treasury** has said that:

- (a) there was no policy intention to require departments to return VR savings separately from their EPP savings. The VRS is a human resource strategy to address surplus staff and to create room for bureaux and departments to deliver the EPP savings. The EPP target, which is to be achieved by government bureaux and departments from 2002-03, is a saving of \$5,400 million per year;
- (b) VR savings may either be used to contribute to EPP savings, or redeployed for the provision of services. Where required, the FSTB would facilitate government bureaux and departments in the virement of funds from PE to DE to meet their requirement. In putting up proposals to the FSTB for virement of funds, departments have in the majority of cases set out the purposes of the virement of funds; and
- (c) the Chief Executive has announced in his 2003 Policy Address the target to reduce the Government's overall operating expenditure by \$20 billion by 2006-07. Given the

Note 10: *According to the FC paper dated 21 February 2003, the Second VR Scheme was put in place to help reduce the civil service size and the corresponding expenditure on personal emoluments. In Audit's view, the implementation of VR schemes will help achieve the Government's target of reducing civil service expenditure provided that the Administration is able to fully recover the cost of the VR schemes. The introduction of a clawback mechanism will ensure that the savings of the VR schemes are used to meet the full cost of VR schemes.*

significant reduction in operating expenditure which the Government required from government bureaux and departments, it is likely that they will have to use most if not all of the savings from the Second VR Scheme to achieve the target. The Administration has no plan to introduce a separate mechanism to claw back savings arising from the Second VR Scheme (see Audit's comment in Note 10 to para. 6.12(b) above).

Posts vacated by officers due to natural wastage and normal retirement

6.14 In the years 2000-01 and 2001-02, the numbers of officers leaving the civil service through natural wastage and normal retirement were 3,503 and 2,819 respectively. These 6,322 officers left the civil service without additional compensation payment. In comparison, under the VRS, the Government had to pay the 9,422 VR takers VR payments of \$2,322 million and monthly pensions of \$3,806 million from their VR date to their normal retirement date. In terms of reducing the civil service establishment, the VRS was a much more costly means than natural wastage and normal retirement.

Audit observations on the posts vacated by officers due to natural wastage and normal retirement

6.15 In his Policy Address of January 2003, the Chief Executive stated that the fiscal deficit had reached a critical stage and solving the deficit problem would be the Government's top priority. To achieve the goal of reducing public expenditure, an overall target of cutting the civil service establishment by 10% to about 160,000 by 2006-07 through natural wastage and normal retirement was set, and that the Government would launch the Second VR Scheme.

6.16 According to the LegCo Panel paper dated 14 January 2003, the CSB estimated that around 7,000 officers would opt for VR. The estimated total VR related expenditure would be \$10 billion, as compared to a total savings of \$9.6 billion for the period up to the end of 2006-07. From this perspective, the Second VR Scheme would in terms of cashflow add pressure to the fiscal situation for the period.

6.17 **Audit noted that as at 31 March 2002, there were 174,550 civil servants. Audit estimated that the number of civil service posts to be vacated during the years 2003-04 to 2006-07 by officers leaving the civil service through natural wastage and normal retirement would be around 12,000. If a large proportion of such vacated posts or the consequential vacant posts were to be deleted, this would greatly help achieve the target of reducing the civil service establishment to 160,000 by 2006-07.**

Audit recommendations on the posts vacated by officers due to natural wastage and normal retirement

6.18 **To help achieve the target of reducing the civil service establishment to 160,000 in line with the Policy Address of January 2003, Audit has *recommended* that the Secretary for the Civil Service should, in consultation with the Secretary for Financial Services and the Treasury:**

- (a) **consider requesting HoD and HoG, in the coming years up to 2006-07, to delete:**
 - (i) **the posts vacated by officers leaving the civil service through natural wastage and normal retirement; or**
 - (ii) **the consequential vacant posts arising from the filling of the vacated posts in (i) above; and**
- (b) **take due account of the number of officers leaving the service through natural wastage and normal retirement in assessing the number of officers who would be authorised to retire under the Second VR Scheme and its financial implications.**

Response from the Administration

6.19 The **Secretary for the Civil Service** has said that:

- (a) HoD and HoG will be in the best position to determine whether they can afford to delete posts vacated by officers due to natural wastage and normal retirement on operational grounds. The Administration will require departments to delete vacant posts which are not functionally required; and
- (b) HoD and HoG will take into account the natural wastage situation and their operational requirement to assess the number of VR applications which can be approved.

Appendix A
(paras. 1.5 and 2.3 refer)

The 59 grades included in the VRS

Departmental Grades

1. Building Supervisor
2. Court Reporter
3. Dental Technician
4. Inoculator
5. Launch Master
6. Launch Mechanic
7. Midwife
8. Police Communications Assistant
9. Police Communications Computer Operator
10. Police Translator
11. Printing Officer
12. Proof Reader
13. Radiographic Technician
14. Sailor
15. Workshop Attendant

Common Grades

16. Artisan
17. Car Park Attendant I
18. Car Park Attendant II
19. Chainman
20. Cook
21. Darkroom Technician
22. Electrical Inspector
23. Foreman
24. Ganger
25. Head Property Attendant
26. Laboratory Attendant
27. Lift Operator
28. Mechanical Inspector
29. Photographer
30. Photoprinter

31. Projectionist
32. Property Attendant
33. Senior Artisan
34. Timekeeper
35. Ward Attendant
36. Workman
37. Works Supervisor

General Grades

38. Calligraphist
39. Chauffeur
40. Chinese Language Officer
41. Clerical Assistant
42. Clerical Officer
43. Confidential Assistant
44. Data Processor
45. Education Assistant
46. Land Inspector
47. Motor Driver
48. Office Assistant
49. Personal Secretary
50. Printing Technician
51. Ship Inspector
52. Special Driver
53. Supervisor of Typing Service
54. Supplies Attendant
55. Supplies Supervisor
56. Telephone Operator
57. Traffic Assistant
58. Transport Services Officer
59. Typist

Source: CSB's records

Appendix B
(para. 1.15 refers)

**Ten departments with the largest number
of approved applications under the VRS**

Department	Number of approved applications
1. Food and Environmental Hygiene Department	2,872
2. Leisure and Cultural Services Department	1,122
3. Hong Kong Police Force	618
4. Water Supplies Department	536
5. Department of Health	324
6. Housing Department	293
7. Education Department	239
8. Lands Department	211
9. Social Welfare Department	173
10. Agriculture, Fisheries and Conservation Department	162

Source: CSB's records

Appendix C
(para. 2.8 refers)

**The 28 grades included in the VR list but without
reported surplus staff for the years 2000-01 to 2002-03
(Position in June 2000)**

	Grade	Reported shortfall of officers for the years 2000-01 to 2002-03
1.	Confidential Assistant	18
2.	Chauffeur	2
3.	Land Inspector	-
4.	Printing Technician	-
5.	Ship Inspector	-
6.	Traffic Assistant	-
7.	Transport Services Officer	-
8.	Senior Artisan	145
9.	Darkroom Technician	1
10.	Electrical Inspector	31
11.	Ganger	1
12.	Laboratory Attendant	5
13.	Photoprinter	-
14.	Works Supervisor	141
15.	Mechanical Inspector	11
16.	Building Supervisor	-
17.	Dental Technician	-
18.	Inoculator	-
19.	Launch Master	-
20.	Launch Mechanic	-
21.	Sailor	-
22.	Midwife	-
23.	Police Communications Assistant	-
24.	Police Communications Computer Operator	-
25.	Police Translator	-
26.	Printing Officer	-
27.	Proof Reader	-
28.	Radiographic Technician	-

Source: FSTB's records

Appendix D
(paras. 3.7 and 4.5 refer)

**Cost-benefit analysis of the VRS
as shown in the FC paper dated 1 December 2000**

	2000-01	2001-02	2002-03	2003-04	2004-05
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Costs					
VR payment	176	1,553	827	224	-
Ex-gratia payment for MOD I staff	2	8	-	-	-
Recurrent costs for alternative modes of service delivery	39	386	571	622	622
Total (a)	217	1,947	1,398	846	622
Savings					
Savings in salary (b)	101	989	1,461	1,599	1,599
Net savings (b) – (a)	(116)	(958)	63	753	977
Net accumulative savings	(116)	(1,074)	(1,011)	(258)	719

Source: Enclosure 2 to FCR(2000-01)49 dated 1 December 2000

Appendix E
(para. 3.8 refers)

**Audit's computations on the annual cost of monthly pensions
from VR date to the date of normal retirement of the VR takers (Note)**

Pension scheme	Number of VR takers	Total monthly pension from VR date to normal retirement date	Average period from VR date to normal retirement date	Average annual payment of monthly pensions from VR date to normal retirement date
	(a)	(b)	(c)	(d) = $\frac{(b)}{(c)}$
		(\$ million)	(Year)	(\$ million)
NPS	8,464	3,223	10.47	307.9
OPS	958	583	6.23	93.6
Total	<u><u>9,422</u></u>	<u><u>3,806</u></u>	10.04	379.1

Source: Audit's analysis of the Treasury's records

Note : For the purpose of this computation, the retirement age of the VR takers was 55 for the OPS and 60 for the NPS.

Appendix F
(para. 3.18 refers)

**Comparison of VR payments to 118 VR takers
based on the 50% commutation rate and the commutation rates they have opted**

Pension scheme	Number of VR takers	VR payments based on 50% commutation rate	Commutation rates opted	VR payments based on opted commutation rates	Difference
		(a)		(b)	(c) = (a) – (b)
		(\$ million)		(\$ million)	(\$ million)
NPS	98	36.4	0% to 45%	24.8	11.6
OPS	20	6.6	0% to 20%	3.4	3.2
	—	—		—	—
Total	118	43.0		28.2	14.8

Source: Audit's analysis of the Treasury's records

Appendix G
(para. 4.8 refers)

VR cases with net additional expenditure under the VRS

Case	Active service before normal retirement (Note 1)	Payment of VR compensation	Payment of monthly pension from VR date to normal retirement date	Savings in salary before normal retirement date (Note 2)	Savings in lump-sum pension gratuity due to early retirement under VRS	Savings in monthly pension due to early retirement under VRS (Note 3)	Net additional expenditure
	(a)	(b)	(c)	(d)	(e)	(f)	(g) = (b) + (c) - (d) - (e) - (f)
	(Year)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
1	1.2	426,251	135,061	152,028	63,064	94,678	251,542
2	2.3	485,079	453,618	298,487	69,647	386,914	183,649
3	3.2	316,889	428,628	281,016	65,570	365,111	33,820
4	3.7	246,639	320,425	221,481	55,124	195,316	95,143

Source: Audit's analysis of the Treasury's records

Note 1: This referred to the period from 3 July 2000 (i.e. the launching date of the VRS) to the date on which the officer reached his normal retirement age.

Note 2: The savings in salary were based on an assumed cost estimated at 70% of the salary of the VR taker for providing alternative modes of service delivery.

Note 3: The savings in monthly pension payment were based on an average normal life expectancy of 81.5 years.

Appendix H
(paras. 4.8 and 4.24(d) refer)

Savings that could have been achieved if cost-benefit analyses had been carried out on all VR applications

Scenario	Number of VR takers (Note 1)	Payment of VR compensation	Payment of monthly pension from VR date to normal retirement date	Savings in salary before normal retirement date	Savings in lump-sum pension gratuity due to early retirement under VRS	Savings in monthly pension due to early retirement under VRS (Note 2)	Net additional expenditure (Notes 3 and 4)
	(a)	(b)	(c)	(d)	(e)	(f)	(g) = (b) + (c)-(d)-(e)-(f)
		(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
1: VR posts replaced by alternative modes of service delivery	1,208	173.7	244.7	194.9	34.2	102.0	87.3
2: VR posts not replaced by alternative modes of service delivery	101	10.6	3.0	8.5	0.5	1.1	3.5

Source: *Audit's analysis of the Treasury's records*

Note 1: *Audit analysed all the 9,422 cases of VR takers who had left the service and found that there were 1,208 cases (Scenario 1) and 101 cases (Scenario 2) which resulted in net additional expenditure to the Government.*

Note 2: *The savings in monthly pension payment were based on an average normal life expectancy of 81.5 years.*

Note 3: *According to the paper dated 17 June 2002 submitted to the LegCo Panel on Public Service, services provided by 67% of VR takers were replaced by alternative modes of service delivery (Scenario 1) and 33% were not replaced (Scenario 2).*

Note 4: *The total savings that could be achieved if cost-benefit analyses had been carried out:*

$$\begin{aligned}
 & (67\% \text{ of net additional expenditure for Scenario 1 cases}) + (33\% \text{ of net additional expenditure for Scenario 2 cases}) \\
 & = (\$87.3 \text{ million} \times 67\%) + (\$3.5 \text{ million} \times 33\%) \\
 & = \$58.4 \text{ million} + \$1.2 \text{ million} \\
 & = \underline{\underline{\$59.6 \text{ million}}} \quad \text{(say } \mathbf{\$60 \text{ million)}}
 \end{aligned}$$

**Audit's estimate of salary savings
if the release of the VR takers was advanced by one month**

Scenario	Number of VR takers	Savings in salaries	Weighted savings in salaries (Notes 1 and 2)
		(\$ million)	(\$ million)
Scenario 1: VR posts replaced by alternative modes of service delivery	9,422	45.8	30.7
Scenario 2: VR posts not replaced by alternative modes of service delivery	9,422	152.7	50.4
		Total	<u>81.1</u>

Source: *Audit's analysis of the Treasury's records*

Note 1: *According to the paper dated 17 June 2002 submitted to the LegCo Panel on Public Service, services provided by 67% of VR takers were replaced by alternative modes of service delivery, and 33% were not replaced.*

Note 2: (a) *The weighted savings of Scenario 1 are:*
\$45.8 million × 67%
= \$30.7 million

(b) *The weighted savings of Scenario 2 are:*
\$152.7 million × 33%
= \$50.4 million

Appendix J
(para. 5.12 refers)

**Deletion of posts vacated by VR takers in 22 general grades
(Position as at 31 October 2002)**

Grade	Number of VR takers	NAMS of the posts vacated by VR takers (Note 2)	Number of posts deleted/ to be deleted	NAMS of the posts deleted/to be deleted (Note 2)	Difference in NAMS
		(a)		(b)	(c) = (a) - (b)
		(\$ million)		(\$ million)	(\$ million)
1-8 Eight grades under the purview of the Director of General Grades (Note 1)	2,826	587.6	2,826	463.6	124.0
9 Calligraphist	43	8.0	43	7.5	0.5
10 Chinese Language Officer	71	39.7	71	29.0	10.7
11 Data Processor	33	5.5	33	5.1	0.4
12 Education Assistant	8	3.7	8	1.4	2.3
13 Land Inspector	44	12.4	44	8.9	3.5
14 Chauffeur	6	1.2	6	1.0	0.2
15 Motor Driver	240	36.6	240	36.6	-
16 Special Driver	226	39.1	226	39.0	0.1
17 Printing Technician	36	7.2	36	6.8	0.4
18 Ship Inspector	4	2.3	4	2.0	0.3
19 Supplies Attendant	17	2.4	17	2.4	-
20 Supplies Supervisor	88	20.8	88	17.0	3.8
21 Traffic Assistant	9	1.6	9	1.5	0.1
22 Transport Services Officer	6	3.0	6	1.7	1.3
Total	3,657	771.1	3,657	623.5	147.6

Source: Audit's analysis of the FSTB's records

Note 1: These were the Clerical Officer grade, Clerical Assistant grade, Office Assistant grade, Personal Secretary grade, Confidential Assistant grade, Supervisor of Typing Service grade, Typist grade and Telephone Operator grade.

Note 2: The NAMS of ranks as at 1 October 2002 was based on the Mid-point Salary Tables.

Deletion of posts vacated by VR takers in 22 common grades
(Position as at 31 October 2002)

Grade (Note 1)	Number of VR takers	NAMS of the posts vacated by VR takers (Note 2) (a) (\$ million)	Number of posts deleted/ to be deleted	NAMS of the posts deleted/to be deleted (Note 2) (b) (\$ million)	Difference in NAMS (c) = (a) - (b) (\$ million)
1 Artisan	713	108.6	713	100.6	8.0
2-3 Car Park Attendant I/II	1	0.1	1	0.1	-
4 Chainman	96	14.7	97	13.7	1.0
5 Cook	134	20.4	134	20.4	-
6 Darkroom Technician	18	2.7	18	2.7	-
7 Electrical Inspector	1	0.8	1	0.6	0.2
8 Foreman (Note 3)					
Senior Overseer	6	2.1	-	-	2.1
Overseer	68	19.0	-	-	19.0
Senior Foreman	94	20.6	17	3.7	16.9
Foreman	323	55.9	91	15.7	40.2
Workman (Note 4)	-	-	383	43.5	(43.5)
Sub-total	491	97.6	491	62.9	34.7
9 Ganger	112	13.8	112	13.4	0.4
10 Head Property Attendant	6	0.9	5	0.8	0.1
11 Laboratory Attendant	52	7.9	52	7.9	-
12 Lift Operator	1	0.1	1	0.1	-
13 Mechanical Inspector	6	3.2	6	1.6	1.6
14 Photographer	11	1.7	11	1.6	0.1
15 Photoprinter	7	1.0	7	0.9	0.1
16 Projectionist	2	0.4	2	0.4	-
17 Property Attendant	118	14.5	118	14.6	(0.1)
18 Senior Artisan	91	15.7	91	12.9	2.8
19 Timekeeper	6	0.9	6	0.9	-
20 Ward Attendant	375	46.2	375	46.2	-
21 Workman	3,411	396.7	3,411	395.8	0.9
22 Works Supervisor	204	43.6	204	35.4	8.2
Total	5,856	791.5	5,856	733.5	58.0

Source: Audit's analysis of the FSTB's records

Note 1: According to CSB Circular Memorandum No. 13/2000, the Director of General Grades acts as the HoG for the common grades designated under the VRS.

Note 2: The NAMS of ranks as at 1 October 2002 was based on the Mid-point Salary Tables.

Note 3: A detailed breakdown of the Foreman grade was highlighted for illustration purpose.

Note 4: In respect of the posts vacated by the VR takers in the Foreman grade, 383 Workman II posts were deleted/to be deleted in the Workman grade.

Appendix L
(para. 5.17 refers)

**Deletion of posts vacated by VR takers in 15 departmental grades
(Position as at 31 October 2002)**

Grade	Number of VR takers	NAMS of the posts vacated by VR takers (Note 1)	Number of posts deleted/ to be deleted	NAMS of the posts deleted/to be deleted (Note 1)	Difference in NAMS
		(a)		(b)	(c) = (a) - (b)
		(\$ million)		(\$ million)	(\$ million)
1 Building Supervisor	3	1.4	3	0.8	0.6
2 Court Reporter	14	6.8	14	6.8	-
3 Dental Technician	6	2.7	6	1.4	1.3
4 Inoculator	8	1.4	8	1.3	0.1
5 Launch Master	38	6.8	38	5.8	1.0
6 Launch Mechanic	5	0.9	5	0.9	-
7 Sailor	6	1.0	6	1.0	-
8 Midwife	55	12.7	55	12.7	-
9 Police Communications Assistant	2	0.3	2	0.2	0.1
10 Police Communications Computer Operator	1	0.3	1	0.1	0.2
11 Police Translator (Note 2)					
Senior Police Translator	17	8.7	6	3.1	5.6
Police Translator I	50	19.4	44	17.1	2.3
Police Translator II	33	8.0	50	12.1	(4.1)
Sub-total	100	36.1	100	32.3	3.8
12 Printing Officer	2	1.2	2	0.5	0.7
13 Proof Reader	7	1.6	7	1.3	0.3
14 Radiographic Technician	4	1.1	4	1.0	0.1
15 Workshop Attendant	24	3.0	24	3.0	-
Total	275	77.3	275	69.1	8.2

Source: Audit's analysis of the FSTB's records

Note 1: The NAMS of ranks as at 1 October 2002 was based on the Mid-point Salary Tables.

Note 2: A detailed breakdown of the Police Translator grade was highlighted for illustration purpose.

Appendix M

Acronyms and abbreviations

CSB	Civil Service Bureau
DE	Departmental Expenses
EPP	Enhanced Productivity Programme
ExCo	Executive Council
FC	Finance Committee
FSTB	Financial Services and the Treasury Bureau
HoD	Heads of Department
HoG	Heads of Grade
LegCo	Legislative Council
MOD I	Model Scale I
NAMS	Notional annual mid-point salary
NCSC	Non-civil service contract
NPS	New Pension Scheme
OPS	Old Pension Scheme
PE	Personal Emoluments
Police Force	Hong Kong Police Force
VR	Voluntary retirement
VRS	Voluntary Retirement Scheme