

**BRIEF FOR THE LEGISLATIVE COUNCIL
CIVIL SERVICE PAY ADJUSTMENT 2001**

INTRODUCTION

At the meeting of the Executive Council on 19 June 2001, the Council ADVISED and the Chief Executive ORDERED that the original civil service pay adjustment proposal, i.e. a pay adjustment of 4.99% for the directorate and the upper pay band and 2.38% for the middle band and the lower band, with effect from 1 April 2001, should remain unchanged.

BACKGROUND AND ARGUMENT

Previous Executive Council Discussion

2. On 5 June 2001, the Council ADVISED and the Chief Executive ORDERED that an offer of a pay adjustment of 4.99% for the directorate and the upper pay band and 2.38% for the middle band and lower band, with effect from 1 April 2001, should be put to the Staff Sides of the four central consultative councils. The offer was made the same day.

Reaction of the Staff Sides of the Central Consultative Councils

3. The Police Force Council, the Disciplined Services Consultative Council and the Model Scale One Consultative Council (Mod 1 Council) have expressed disappointment at the pay offer. They reiterated their views that the workload and work pressure for civil servants at the junior and middle ranks have increased significantly as a result of the Enhanced Productivity Programme and the Voluntary Retirement Scheme. They pointed out that awarding a higher adjustment to the upper pay band and the directorate would be divisive and would damage the overall staff morale, thus undermining stability within the Civil Service. Externally, the proposed adjustment would widen the wealth gap in the community. They urged the Government to consider a pay adjustment of no less than 4.99% across-the-board for all pay bands.

4. Two of the three members of the Senior Civil Service Council (the Senior Non-Expatriate Officers' Association and the Association of Expatriate

Civil Servants of Hong Kong) have accepted the pay offer. The remaining member, the Hong Kong Chinese Civil Service Association (HKCCSA), has expressed disappointment at the pay offer. It said that the Government's pay offer, with varying adjustment rates for different pay bands, would have an adverse effect on staff morale. The offer had also failed to take account of the accumulated shortfall of adjustment at 1.61% for the middle band since 1989/90. HKCCSA urged the Government to narrow the disparity in the pay adjustment rates between the upper pay band and the middle/lower pay bands. But it had not put forward any specific counter-proposal on the pay adjustment rates in their submission.

5. Both the Mod 1 Council and HKCCSA argued that their proposal to reduce the discrepancy in the pay adjustment rates among the three pay bands would not amount to a departure from the established pay adjustment mechanism. In support of this argument, they quoted the pay adjustment in 1979/80 when the Government awarded an adjustment to the middle and lower pay bands over and above the net pay trend indicators (PTI) to even out the disparity in adjustment rates across pay bands.

----- 6. The five letters from the Staff Sides are at Annexes A to E.

Consideration

7. The Staff Sides of the central consultative councils do not have a consensus view on the pay offer. But none of them have challenged the results of the Pay Trend Survey or asked for a review of the prevailing pay adjustment mechanism. Three of the central consultative councils have counter-proposed a uniform adjustment at the highest rate of 4.99% for all pay bands. We find this hard to justify. The higher pay adjustment rate proposed for the upper pay band and the directorate vis-à-vis that of the middle and lower pay bands is a reflection of private sector practice, as revealed by the 2001 Pay Trend Survey. Given that different levels of pay adjustment are awarded in the private sector to the upper, middle and lower pay bands, and in view of our pay policy which is to follow the pay adjustment in the private sector, it is an inherent feature of the existing mechanism that pay adjustment rates will not be uniform across the civil service pay bands.

8. In accordance with our usual practice following a recommendation of the 1988 Committee of Inquiry, we have already decided to bring up the size of the adjustment for the lower pay band from the net PTI of 1.97% to that of

the middle pay band rate, i.e. 2.38%, at an additional cost of \$57 million to the Government. Critics with a business background have raised concern that the existing practice of aligning the pay adjustment rate for the lower pay band with that for the middle pay band as necessary has led to a growing disparity in pay between lower band civil servants and their counterparts in the private sector. Such criticism would mount if we further brought up the adjustment for the middle and lower pay bands to that of the upper band. The financial implication for the Government, estimated at \$2.2 billion, would also be significant.

9. With reference to the pay adjustment in 1979/80, the decision was based on the particular circumstances at the time when there were separate indicators for the upper, middle and lower pay bands as well as for staff on the Model Scale One Pay Scale. One of the reasons which was taken into account in deciding to award an adjustment to the middle and lower pay bands over and above the net PTI was to avoid the overlapping of the Model Scale One Pay Scale and the lower end of the Master Pay Scale. In coming to a final decision on the size of the 2001 civil service pay adjustment, we should continue to be guided by the principle that each annual exercise is a separate exercise in itself and that we should take full account of the results of the Pay Trend Survey as well as other relevant factors.

10. For the community at large, views are diverse on the proposed pay adjustment rates. While the discrepancy in the adjustment rates between the upper and the middle/lower pay bands have been highlighted, there is little public support for the Staff Sides' claim for a uniform 4.99% pay adjustment across all pay bands. A number of editorials and academics supported the Government's pay offer. The business sector has voiced strong concern that the existing pay level for lower pay band civil servants has outstripped that of their private sector counterparts. In response to the suggestion that the existing pay adjustment mechanism should be reviewed, some commentators opine that the current practice should continue so as to ensure that civil service pay is in line with the overall pay trend in our economy.

11. Having considered all relevant factors, we remain of the view that there are no overriding considerations which would justify a departure from our established policy and practice on civil service pay adjustment and that the size of this year's adjustment should essentially follow the findings of the Pay Trend Survey. We therefore consider there should be no change to the pay adjustment proposals as offered to the Staff Sides.

FINANCIAL IMPLICATIONS

12. The cost of the proposed pay adjustment for the civil service and subvented organisations in terms of salary and allowances is estimated to be \$3,975 million in 2001/02. We will seek the approval of the Finance Committee of the Legislative Council on the civil service pay adjustment on 6 July 2001.

PUBLICITY

13. A press release was issued on 19 June 2001 to announce the decision.

Civil Service Bureau
June 2001

Civil Service Pay Adjustment 2001: Annexes

- Annex A Letter from the Staff Side of the Model Scale 1 Staff Consultative Council
- Annex B Letter from the Staff Side of the Police Force Council
- Annex C Letter from the Staff Side of the Disciplined Services Consultative Council
- Annex D Joint Letter from the Senior Non-Expatriate Officers' Association and the Association of Expatriate Civil Servants of Hong Kong
- Annex E Letter from the Hong Kong Chinese Civil Servants' Association

Letterhead

Our Ref.: (44) in SSMOD/SAL/PAY/5/7/1 Pt.V

Mr Joseph W P WONG
Secretary for the Civil Service
10/F, West Wing, Central Government Offices
11 Ice House Street, Central
Hong Kong

8 June 2001

Dear Mr WONG,

Civil Service Pay Adjustment 2001

We are very disappointed with the level of pay adjustment offered by the Executive Council and would like to reiterate our claim for a pay rise of 4.99% across the board for the civil service this year.

If the pay adjustment proposed by the Executive Council is adopted, the increase for the upper salary band will be more than double of that for the middle and lower bands, thus further widening the pay disparity among the various ranks. It will not only result in internal division within the civil service and intensify the problem of wealth gap in society, but will also further dampen staff morale.

Civil servants at the junior and middle levels are most affected by the Enhanced Productivity Programme and the Voluntary Retirement Scheme, which bring about a significant increase in both workload and work pressure on them. Now that the state of the economy of Hong Kong and the financial position of the Government have greatly improved, the civil servants at these two levels should also be offered a pay rise of 4.99%, so as to boost their morale and let them share the fruits of economic recovery.

Moreover, the Pay Trend Indicator (PTI) is only one of the factors to be considered by the management under the existing pay adjustment mechanism. There were previous cases in which the PTI for senior civil servants was higher than that for the middle and junior ranks. On these occasions, the management, having taken into consideration other factors, duly adjusted the rates of increase to narrow the pay discrepancy among staff at different levels. For example, in 1979/80, the pay adjustments for the junior and middle levels were brought up by 2.79% and 2.03% to 16.55% and 16.16% respectively while the pay increase for senior civil servants was 17.14%.

We strongly feel that in determining the 2001 pay adjustment for civil servants, the management and the Executive Council should also consider carefully factors such as staff morale, the state of the economy and the Staff Side's claim for a pay increase.

We would reiterate that a pay adjustment of 4.99% should be awarded across the board this year.

Yours sincerely,

Signed

(LUNG Wing-fat)
Chairman, Staff Side of Model Scale I
Staff Consultative Council

(Translation)

Letterhead

Our Ref.: SS/DSCC/P-3

Mr Joseph W P WONG
Secretary for the Civil Service
10/F, West Wing
Central Government Offices
Hong Kong

8 June 2001

Dear Mr WONG,

Civil Service Pay Adjustment 2001

We are very disappointed with the Government's pay adjustment proposals and would request the reconsideration of granting a uniform rate of not less than 4.99% to the three pay bands. We think the Government has not duly considered the overall actual situation and its pay adjustment proposal for the middle and lower bands is biased. Our views are as follows:

Despite the pay freeze in the past two years, civil servants have stood firm to their posts. The Enhanced Productivity Programme and the initiatives to contain the size of the Civil Service have also subject them to additional work pressure. The Government should take every opportunity to boost staff morale. A pay rise after two years of pay freeze is indeed good news. Salary adjustment will improve staff morale, but if it is not a balanced one, there will be negative effect, which is highly undesirable.

The great disparity between the Net Pay Trend Indicators (NPTIs) for the three pay bands as revealed in the survey this year is unprecedented. Instead of further widening the pay difference between the upper band and the middle and lower bands, the Government should carefully examine the issues involved. Besides, unequal pay inevitably intensifies the problem of wealth gap and would have adverse effect on the economic development and social stability of Hong Kong.

In our letter of May 19, we pointed out that the Mandatory Provident Fund Scheme was a contributory factor of the range of pay rise for junior staff, and the findings of the pay trend survey must not be superficially interpreted as an indication of the bargaining power of the labour market. Any unfair treatment in the private sector should not be applied to the Civil Service.

As a good employer, the Government should pay due regard to the overall staff morale and unity of the Civil Service. There were previous cases in which the level of pay adjustment for the lower band was brought up to that for the middle band. Such a practice helps to adjust the pay discrepancy between different bands to a reasonable level. We consider that appropriate adjustment based on this principle should be made.

Yours sincerely,
Signed

(LAU Kon-ching)
Chairman, Staff Side of the
Disciplined Services Consultative Council

(Translation)

Annex E

Letterhead

Our Ref.: (49) in 2/7/CCSA (XIII)

8 June 2001

Mr Joseph W P WONG
Secretary for the Civil Service

Dear Mr WONG,

Civil Service Pay Adjustment 2001/02

On 5 June 2001, the Executive Council proposed this year's civil service pay adjustment, which is based strictly on the Net Pay Trend Indicators (NPTIs), i.e. 4.99% for the upper pay band and 2.38% for the middle and lower pay bands. Having failed to take into full consideration factors such as past practices of narrowing the discrepancy, the low morale of the middle/lower ranks because of their disparity with the upper ranks, the need to alleviate the problem of wealth gap for the sake of social justice, and the accumulated shortfall of 1.61% in pay rise due to the middle pay band since 1989/90, the proposal will result in the anomaly of a high adjustment rate for the upper band and a low rate for the middle/lower bands, thereby further enlarging the gap between the two.

We are disappointed and discontented with this.

There are views that any attempt by the Government to narrow the gap between the upper and middle/lower salary bands would amount to "disrespect for" or "departure from" the existing mechanism. It must be pointed out that such views not only represent misunderstandings but also reflect ignorance of the past operation of the present mechanism. Since the introduction of the civil service pay adjustment mechanism in 1974, there have been five occasions on which the Pay Trend Indicators (PTIs) for the upper band were higher than those for the middle band but eventually the discrepancy between the two bands in terms of salary adjustment was either narrowed (In 1979/80, the PTI difference of 3.02%, which was much greater than this year's 2.61%, was reduced to less than 1%), or removed or even slightly reverted, so as to narrow the growing chasm between the upper and middle ranks. This long-standing approach has given due regard to social justice and the morale of staff at middle and junior levels. It has neither deviated from nor undermined the pay adjustment mechanism.

The Government is requested to face the problem squarely and take practical measures to narrow the gap between the upper and middle/lower salary bands.

We hope the Executive Council will re-consider its proposal.

Yours faithfully,

Signed

(Ms Cecilia SO)

President, the Hong Kong Chinese
Civil Servants' Association