

**Brief for the Legislative Council
Review of Civil Service Pay Policy and System**

INTRODUCTION

At the meeting of the Executive Council on 18 December 2001, the Council ADVISED and the Chief Executive ORDERED that —

- (a) the Administration should invite the Standing Commission on Civil Service Salaries and Conditions of Service (Standing Commission), in conjunction with the Standing Committee on Disciplined Services Salaries and Conditions of Service (SCDS) and the Standing Committee on Directorate Salaries and Conditions of Service (Directorate Committee), to conduct a comprehensive review of the pay policy and system for the civil service;
- (b) as the first phase of the comprehensive review, the Standing Commission, in conjunction with the other two advisory bodies on salaries and conditions of service, should jointly conduct an analytical study on recent developments and best practices in pay administration in other Governments, and consider whether any useful reference can be drawn to facilitate a more detailed review in the second phase;
- (c) taking account of the findings of the analytical study referred to in paragraph (b) above and the views of all interested parties in this exercise (including the management, the staff sides and other concerned outside parties), the Standing Commission, in conjunction with the other two advisory bodies, should make recommendations to the Administration in the second half of 2002 on the conduct of the second-phase review, which should cover the following areas -
 - (i) a review of the existing civil service pay policy and system, including the annual pay adjustment mechanism;

- (ii) a comparability study between civil service pay and private sector pay, with due regard to the differences in job nature and in the measurement of output/performance; and
- (iii) the methodology to be adopted, as well as the timing and timeframe for completing the second-phase review;
- (d) the Administration should decide on the way forward as soon as it has received the Standing Commission's recommendations;
- (e) we should continue to adopt the existing mechanism for civil service pay adjustment based on the findings of the annual Pay Trend Survey and other usual considerations for the 2002 civil service pay adjustment exercise; and
- (f) we should hold the next periodic benchmark review on civil service starting salaries, which is due in 2002/2003, in abeyance.

BACKGROUND AND ARGUMENT

EXISTING PAY POLICY AND SYSTEM

2. The current pay policy for the civil service is to offer sufficient remuneration to attract, retain, and motivate staff of a suitable calibre to provide the public with an effective and efficient service. Such remuneration should be regarded as fair by both civil servants and the public which they serve. Within these parameters, broad comparability with the private sector is an important factor in setting civil service pay.

3. In addition to external comparability, internal pay relativity among individual grades based on the Qualification Benchmark System is another main feature of the current system, particularly for civilian grades. This system involves establishing benchmark pay points for key educational qualifications that are stipulated as entry requirements for appointment to the civil service by reference to the pay for private sector jobs requiring similar qualifications. The starting pay for an entry rank is then set with reference to the relevant qualification benchmark, having regard also to other factors relating to the job nature of that particular rank.

Grades with a similar qualification requirement for appointment are then broadbanded into qualification groups. Grades within the same qualification group share a common pay structure. There are now 12 qualification groups in the civil service pay system. The disciplined services have their own pay scales and a pay advantage over that of the civilian grades in recognition of their special job factors. In setting the pay scales for the disciplined services, while some reference is made to the Qualification Benchmark System, more importantly, internal relativity is maintained through comparison among disciplined services having regard to their job nature and particular job factors.

4. At present, there are 11 sets of civil service pay scale (such as the Master Pay Scale, the Directorate Pay Scale, the Police Pay Scale, the General Disciplined Services Pay Scales, etc.). Individual grades belong to the relevant pay scales and the pay scales for different ranks in a grade are expressed as a range of points on the relevant pay scales. Civil servants are remunerated according to the pay scales of their respective grade and rank. Subject to satisfactory performance, officers normally advance one increment a year within their respective rank scale until they reach the maximum point of the scale. Upon promotion, they will advance to the pay scale of the rank they have been promoted to.

5. Our policy on civil service pay adjustments is that adjustments should be considered annually and that changes should be broadly in line with pay adjustments in the private sector. Other factors such as the changes in the cost of living, the state of the economy, budgetary considerations, the staff sides' pay claims and civil service morale are also considered when deciding the size of civil service pay adjustment. The existing annual pay adjustment mechanism, which makes reference to the findings of the Pay Trend Survey, has been in place since 1974. The survey produces the gross pay trend indicators (PTIs), which represent the movements in private sector pay for different salary bands during the period from 2 April of the previous year to 1 April of the survey year. Starting from 1989, the payroll costs of civil service increments are deducted from the gross PTIs (which take account of additional payments such as year-end bonuses) to produce net PTIs. Such net indicators, together with other afore-mentioned factors, form the basis for a decision on the size of the civil service pay adjustment.

6. In addition to annual pay adjustments, other pay review mechanisms that are currently in place for the civil service include –

- (a) periodic overall salary structure review; and
- (b) review of the grade structure or salary structure of particular grades or groups of grades as the need arises.

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A note on the periodic reviews on civil service pay conducted since mid-1980s is at Annex A.

RECENT PUBLIC DISCUSSIONS ON CIVIL SERVICE PAY

7. Following the 1999 Review of Civil Service Starting Salaries, the Legislative Council Panel on Public Service discussed in March 2000 the merits of conducting a pay review beyond the entry level. Views were divided. Members with a business background supported such a review and urged the Administration to consider selecting one or two marker grades with private sector analogues for comparison before reviewing the other grades. Many Members, however, objected strongly to a review on civil service pay levels. Some of them opined that civil service pay could not be expected to follow private sector pay movements closely as the latter could adapt quickly to the economic situation. Others considered that it was not an appropriate time then to conduct such a review.

8. The 2001 civil service pay adjustment exercise sparked a public debate on civil service pay. Some critics argued that the net PTIs obtained from the 2001 Pay Trend Survey (i.e. 4.99% for the upper salary band, 2.38% for the middle salary band and 1.97% for the lower salary band) did not accurately reflect the pay movements in the private sector. The business sector considered that the existing pay levels for civil servants, especially those for the lower salary band, had outstripped that of their private sector counterparts. There were also calls for a review on the methodology of the Pay Trend Survey and the adjustment mechanism for civil service pay, in particular whether bonuses given to private sector employees should be included in the calculation of the PTIs and whether the practice of pulling up the adjustment rate for the lower salary band to that of the middle salary band should continue.

9. In recent months, the prevailing economic downturn has prompted a suggestion from some LegCo Members and others for a pay cut for civil servants as a political gesture. At the same time, concerns that civil service pay beyond the entry ranks for certain grades had fallen out of line with private sector pay have revived. In response, the Administration has firmly rejected the call for an arbitrary and out-of-cycle pay reduction for civil servants, reiterating that there is a long-established mechanism and timetable for civil service pay adjustments. But the Administration notes that it had been over a decade since we last conducted an overall review of the civil service pay policy and system and that there is a need to examine whether the current arrangements continue to meet present day circumstances.

NEED FOR A COMPREHENSIVE REVIEW AND CONSIDERATIONS

10. There have been significant economic, social and political developments in Hong Kong in the past decade with a rapidly changing external environment. It is essential that the civil service keeps pace with the developments in the community it serves, striving to improve itself both in terms of service quality as well as its efficiency and productivity. Although the recent public debate on civil service pay has focused on the question of comparability with private sector pay, the conduct of a pay level survey would not be able to address all the issues hitherto identified within our civil service pay system. Given the way the current civil service pay structure underpins the entire civil service structure, we consider that we should take this opportunity to conduct a comprehensive review of our civil service pay policy and system with a view to bringing it more in line with the best practices elsewhere; making it simpler and easier to administer; and building in more flexibility to facilitate matching of jobs, talents and pay.

11. This is a highly complex and controversial exercise. While we have an open mind on the detailed scope of the comprehensive study, we consider that the study will need to cover at least the following areas –

- (a) a review of the fundamental principles underpinning our present civil service pay policy, especially the principle of broad comparability with private sector pay;

- (b) the methodology for determining pay levels in the civil service (including the timing and frequency of conducting a full-scale private sector pay comparability study if it is decided that the principle of broad comparability with the private sector should be upheld);
- (c) rationalisation of the grading structure and salary structure of some 400 grades and over 1 000 ranks in the civil service, and a review of the principle of internal pay relativity among grades with a view to building in greater flexibility in the civil service grading and pay structure;
- (d) motivation of the civil service through an improved and more flexible salary system;
- (e) the annual pay adjustment mechanism; and
- (f) preservation of the integrity and stability of the civil service system while system changes take place.

12. The review will cover directorate and non-directorate staff in both civilian grades and the disciplined services. The judicial service will not be included in the exercise as their pay and conditions of service are determined separately from those of the civil service in recognition of the independent status of the Judiciary. If in the course of the comprehensive review, there are particular issues which merit the attention of the Judiciary or the Standing Committee on Judicial Service Salaries and Conditions of Service, we shall inform them accordingly and seek their advice as appropriate.

13. Having regard to our experience in carrying out the series of civil service pay reviews in the eighties, we consider it crucial that we take forward the matter in a prudent manner and adopt a step-by-step approach. To facilitate an informed discussion on this complex subject and to prepare the ground for the comprehensive review, the review will proceed in two phases.

14. For the first phase of the review, we will invite the Standing Commission, in conjunction with the SCDS and the Directorate Committee, to research into the latest developments in civil service pay administration in other Governments, analyse their pros and cons, and identify best practices that may be of particular relevance to Hong Kong. In carrying out this study, the advisory bodies are required to have regard to the history and development of the civil service pay policy and system in Hong Kong. This analytical study will not immediately lead to adjustments to the civil service pay levels.

15. The study findings will be made public and be made available to the staff sides so as to facilitate a proper discussion on whether there should be any fundamental changes to our civil service pay policy and system and on the scope of the comprehensive review to be undertaken in the second phase. This is an essential pre-requisite for us to take forward an exercise of this nature with such wide implications. The terms of reference of this analytical study is at Annex B. The Standing Commission and the other two advisory bodies should aim to report to the Administration on the findings of the analytical study on pay administration by the middle of 2002.

16. Based on the findings of the analytical study and taking account of the ensuing discussions with the concerned parties, the Standing Commission and the other two advisory bodies will be asked to make recommendations to the Administration in the second half of 2002 on the scope of the comprehensive review on civil service pay policy and system to be conducted in phase two, the factors which may need to be taken into account in conducting this exercise, the methodology to be adopted, as well as the timeframe for completing the review. The Standing Commission and the other two advisory bodies should also advise us on the methodology and timing for conducting a comparability study between civil service pay and private sector pay, with due regard to the differences in job nature and in the measurement of output/performance. We shall, after considering the recommendations of the advisory bodies, decide on the best approach to take forward the second phase of the review exercise.

17. For this review exercise to be successful, effective communication with the staff sides and other concerned parties would be crucial. We expect that the review exercise will have wide ramifications

for the civil service and beyond. Thus, throughout the review process, we must at every step assess the implications of various options arising from the review against the wider costs and benefits to the community while taking account of the political and economic realities at the time. We should be mindful that any changes to the civil service system must be conducive towards maintaining the stability and development of a clean, trustworthy, quality and efficient civil service.

18. As we proceed with the overall review, we will continue to adopt the existing mechanism for civil service pay adjustment based on the findings of the annual Pay Trend Survey and other usual considerations for the 2002 civil service pay adjustment exercise. The next periodic benchmark review on civil service starting salaries, which is due in 2002/2003, will also be held in abeyance pending the outcome of the overall review on civil service pay.

FINANCIAL AND STAFFING IMPLICATIONS

19. Depending on the outcome of the comprehensive review, adjustments may need to be made to the current civil service pay policy and system. At this stage, it is too early to make an assessment on the financial implications of the recommendations which may arise from the review.

20. We envisage that the Standing Commission, in conjunction with the other two advisory bodies, may engage a consultant to assist them in carrying out the analytical study on the latest developments and best practices in pay administration in other Governments under phase one of the review. The Civil Service Bureau will absorb the additional cost from within its global allocation. The Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service will provide secretariat support to the Standing Commission and the other two advisory bodies in carrying out the review on civil service pay policy and system. For this purpose, the Joint Secretariat may require additional resources, which cannot be established at this stage. It will review its workload and the Civil Service Bureau may need to bid for additional resources in future if necessary.

ECONOMIC IMPLICATIONS

21. A comprehensive review of the civil service pay policy and system, in keeping with the evolution in pay levels, structures and practices of the private sector and the on-going structural change in the economy, will be useful in helping to pitch civil service pay in a fair, balanced and effective manner. It should be commensurate with the need to attract personnel of the right calibre for the respective civil service posts on the one hand, yet not to an excessive degree as to breed wastage in financial resources on the other. Currently, the civil service makes up about 6% of the total workforce and civil service emoluments account for about 9% of the overall employment remuneration in the economy. Taking account of the subvented sector, the civil service and employees in subvented organisations together account for about 10% of the total workforce and their emoluments account for about 18% of the overall employment remuneration in the economy. A well constituted civil service pay system compatible with the functioning of the labour market as a whole, whilst recognising the characteristics of specific civil service appointments, is conducive to a robust and efficient civil service and sound deployment of manpower resources for the economy at large.

PUBLICITY

22. The Secretary for the Civil Service will hold two briefings, one for the staff sides of the four central consultative councils and major staff associations and the other for the Heads of Departments/Grades. He will also meet the media. A spokesman will be available to handle media enquiries.

SUBJECT OFFICER

23. Enquiries concerning this brief should be addressed to Angelina Fung, Principal Assistant Secretary for the Civil Service (2) (Tel: 2810 3112).

Civil Service Bureau
December 2001

Periodic Reviews on Civil Service Pay Conducted since Mid-1980s

Pay Level Survey 1986

The Administration commissioned a Pay Level Survey in 1986 in response to staff sides' requests for an increase in the salaries of the non-directorate civil service following an increase in the salaries of the directorate officers in 1985 and allegations of a shortfall in the 1983 annual pay adjustment. The objective of the survey was to establish whether remuneration for the civil service was in line with that of the private sector. The survey for non-directorate pay was carried out by the Standing Commission on Civil Service Salaries and Conditions of Service (Standing Commission) and a similar survey for directorate pay was undertaken by the Standing Committee on Directorate Salaries and Conditions of Service.

2. Since many civil service jobs did not have analogues in the private sector, the two pay level surveys adopted a job evaluation method whereby a representative sample of civil service jobs were compared with a similarly representative sample of jobs in the private sector based on the following three elements: know-how, problem-solving and accountability. The total number of points scored for each job were then calculated and matched with the salary and the total remuneration of the job. Fringe benefits were also taken into account and were valued on the basis of maximum notional value to employees.

3. The results of the Pay Level Survey showed that generally, with the exception of Model Scale One grades and the D3 and D4 ranks whose pay packages were found to be below private sector levels, the civil service remuneration package compared favourably with the private sector. There was not sufficient information to make a valid comparison with the private sector on pay packages for ranks above D4. The Administration accepted the general results of the survey. But the staff sides of both the Senior Civil Service Council and the Police Force Council raised strong criticism against the survey methodology and rejected the survey findings.

4. The controversy led to the appointment of an independent Committee of Inquiry in 1988, which concluded that the 1986 Pay Level Survey did not provide a sufficient basis for making specific adjustments to civil service pay either then or in the future. The ultimate outcome of this pay review exercise was that the remuneration package for Model Scale One grades was improved but no downward adjustment was made to the rest of the civil service.

Review on the Pay and Conditions of Service for the Disciplined Services in 1988

5. In the wake of the strong objection raised by the Police Force Council to the findings of the 1986 Pay Level Survey, the Standing Commission appointed an independent committee (the Rennie Committee) in 1988 to review the pay and conditions of service for the disciplined services. The Rennie Committee's recommendations formed the basis of the remuneration package of the disciplined services up to the present day.

Salaries Structure Review in 1989

6. In 1989, the Administration invited the Standing Commission to conduct an overall review on the pay policy and the salaries structure of the non-directorate ranks in civilian grades. The review basically re-affirmed the pay structure and the grading structure of the concerned grades and ranks, subject to certain improvements. There have not been further major changes to the pay packages of non-directorate ranks in civilian grades since the 1989 review.

Directorate Pay Survey in 1989

7. Directorate pay levels used to be reviewed periodically. Prior to 1990, the Standing Committee on Directorate Salaries and Conditions of Service advised the Government on directorate pay adjustments on the basis of a private sector survey which took into account the pay levels and pay trend in the private sector, the responsibilities of the directorate grades and relativities with non-directorate staff. In between overall reviews, directorate salaries were adjusted annually on an interim basis in line with the adjustment for the upper salary band of non-directorate staff. The last overall review was completed in June 1989. Since then, the annual adjustment of directorate pay has followed the adjustment for the upper salary band of non-directorate staff.

Starting Salaries Review in 1999

8. In 1999, we commissioned the Standing Commission to conduct a review of the starting salaries for entry ranks to ascertain if entry pay remained comparable to pay in the private sector for similar qualifications, and to advise on ways to ensure the continuing broad comparability between civil service entry pay and private sector pay for similar qualifications. We also invited the Standing Committee on Disciplined

Services Salaries and Conditions of Service to consider how the Standing Commission's recommendations should be applied to the disciplined services. The new benchmarks and entry pay for new recruits took effect from 1 April 2000. There is a built-in mechanism for regular reviews and interim annual updating of civil service starting salaries for entry ranks to maintain broad comparability with the private sector.

**Study on Recent Developments and Best Practices
in Pay Administration in Other Governments**

Terms of Reference

The Standing Commission on Civil Service Salaries and Conditions of Service (the Standing Commission), in conjunction with the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Standing Committee on Directorate Salaries and Conditions of Service, are invited to examine recent developments and best practices in civil service pay administration in other Governments in order to advise the Government on whether there are lessons to be learnt for the existing civil service pay policy and system.

2. The advisory bodies are requested to focus on pay administration, including the following aspects -

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

3. The deliverables of the study will include detailed examples of the systems and practices that are widely adopted by other Governments, an analysis on their respective pros and cons, and advice on best practices.

4. The advisory bodies are required to take account of the views of all interested parties in this exercise, including the staff sides, departmental/grade management and other interested parties.

5. The study findings should be submitted to the Administration by the middle of 2002.