

**Legislative Council Panel on Public Service  
Meeting on 18 March 2002**

**Civil Service-related issues featuring in the 2002-03 Budget**

**PURPOSE**

This paper sets out the issues featuring in the 2002-03 Budget which are related to the Civil Service.

**2002-03 BUDGET SPEECH**

2. The Financial Secretary's speech delivered in the Legislative Council on 6 March 2002 on the 2002-03 Budget touches on two issues which relate to the Civil Service: the 2002 Civil Service pay adjustment and the progress of the Containing the Size of the Civil Service exercise. Relevant extract of the Budget Speech is at the Annex.

**Civil Service Pay**

3. The Financial Secretary has said in his 2002-03 Budget Speech that for financial planning purposes, he has assumed in the Medium Range Forecast that civil service pay will be cut by 4.75% and the salary-related portions of subventions to the various organizations will also be reduced by the same rate with effect from 1 October 2002. The Financial Secretary has also stated that the Government will continue to adopt the existing mechanism on civil service annual pay adjustment in deciding the 2002 pay adjustment.

4. Under the existing mechanism, the Government will consider the results of the private sector Pay Trend Survey and other important factors including budgetary considerations, the state of the economy, changes in the cost of living, the staff sides' pay claims and civil service morale before deciding on the size of the civil service annual pay adjustment. The results of the 2002 Pay Trend Survey will be available in May 2002. The Government will make a final decision on this year's civil service pay adjustment after careful consideration of all relevant factors.

5. We should emphasise that the Government has not so far made any decision on the 2002 civil service pay adjustment. The percentage of 4.75% is an assumed figure for financial planning purposes

only and it has taken into account the cumulative pay rises for civil servants of certain ranks (i.e. Directorate Pay Scale Point 3 (D3) and above) since July 1997. As the pay for D3 and above officers has been adjusted upward only once since 30 June 1997, in the 2001 civil service pay adjustment exercise by 4.99%, a downward adjustment of 4.75% would reverse that increase. The Government will decide on the actual adjustment for each salary band having considered all relevant factors in accordance with the existing mechanisms.

6. In the event of a decision on a civil service pay reduction for 2002-03, we intend to implement it by legislation in the interest of certainty and to ensure smooth implementation. It is also our intention to implement a civil service pay reduction, if finally decided, from a prospective date, assumed to be 1 October 2002.

7. The assumption made in the Medium Range Forecast for the 2002-03 Budget on a possible pay cut for the civil service will not affect the 2002 Pay Trend Survey which is now underway. It is noteworthy that companies included in the Pay Trend Survey have to meet certain criteria, including that the company should be generally known as steady and good employers conducting wage and salary administration on a rational and systematic basis and that the company does not use the government pay adjustment as the main factor in determining pay adjustment. Nor will the assumption on a possible civil service pay reduction have any bearing on the on-going review of civil service pay policy and system being undertaken by the Standing Commission on Civil Service Salaries and Conditions of Service, the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Standing Committee on Directorate Salaries and Conditions of Service. The results of the first-phase civil service pay review, which is an analytical study on the best practices in civil service pay administration in other Governments, will be available in mid-2002.

8. We fully appreciate the concerns expressed by our civil service colleagues about a possible pay cut. In considering any issues which may affect civil service pay, we will adhere to the principles of lawfulness, fairness and reasonableness. We will be fair to the civil service while being accountable to the public.

### **Containing the Size of the Civil Service**

9. We updated Members of the progress in containing the size of the Civil Service at the last Panel meeting held on 18 February 2002

vide LC Paper No. CB(1) 1034/01-02(02). As at 1 January 2002, the civil service establishment was about 184 300, a reduction of 7% from that in March 2000. The civil service establishment has gone back to the level in 1986/87, while the population of Hong Kong has increased by 20% or 1.14 million between 1987 and now.

10. We will achieve the target of reducing the civil service establishment to 181 000 by 31 March 2002. As indicated in the Estimates for 2002/03, the civil service establishment will further drop to 180 130 by then. The reduction in civil service establishment has also contributed to containing public expenditure. After discounting civil service pay rise and salary increment, the expenditure on civil service salaries in 2001/02 will be reduced by some \$1.43 billion as compared with that of 1999/2000.

11. In addition, departments will continue to streamline procedures, simplify structures and economize on manpower in order to release resources to meet new and increased service needs. Furthermore, we will increase private sector's participation in the delivery of public services. We are determined to ensuring that both the standard and scope of public services will not be undermined as a result.

Civil Service Bureau  
March 2002

**2002-03 Budget : Extract from the Financial Secretary's Speech**  
**delivered in the Legislative Council on 6 March 2002**

## **Civil Service Pay**

67. I have mentioned earlier that it is necessary to control the growth of government expenditure in money terms. Personnel-related expenses account for 70% of government operating expenditure. Given our serious fiscal position, I have assumed in the Medium Range Forecast, for financial planning purposes, that civil service pay will be cut by 4.75% and the salary-related portions of subventions to the various organisations will also be reduced by the same rate. This assumed 4.75% pay cut has taken into account the respective cumulative pay rises for civil servants of different ranks since July 1997.

68. Under the existing mechanism, the Government will consider, among other things, the results of the private sector pay trend survey and its own budgetary position before deciding on an annual civil service pay adjustment. We will continue to adopt this mechanism and make a final decision after the outcome of this year's survey is known in May. Any decision on a civil service pay cut needs to go through the legislative process before it can be implemented. Assuming that the pay cut takes effect from 1 October this year and that the level of reduction is 4.75%, the Government will achieve savings of about \$3 billion in 2002-03 and about \$6 billion in a full year.

69. Last month, I met with representatives of the civil service central consultative councils and a number of civil service staff unions. I appreciate their position. I believe many colleagues in the civil service and the subvented organisations understand that we are facing a serious fiscal situation and that persistent fiscal deficits will adversely affect Hong Kong as a whole. In fact, many colleagues told me that they were willing to stand by the rest of the community in this time of difficulty and share the burden.

## **Doing More with Less**

70. In addition, we will stringently contain the growth of the civil service in all ranks. Last year, the Government proposed to reduce the civil service establishment to around 181 000. Thanks to the efforts of all departments and grades, we will achieve this target as scheduled in 2002-03.

71. We will also review the demand for services and our priorities for the deployment of resources. Departments will streamline procedures, simplify structures and economise on manpower in order to release resources to meet additional needs. Furthermore, we will make use of market forces and strengthen our co-operation with the private sector to provide better and more efficient services to the public through various means.