

**Legislative Council Panel on Public Service
Meeting on 17 December 2001**

Civil Service Pay Policy and System

PURPOSE

This paper sets out the existing pay policy, pay structure and pay adjustment mechanism for the civil service and gives an account of the previous reviews conducted on civil service pay. It also covers the recent public discussion on civil service pay and the Administration's latest thinking on the subject.

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. 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 changes to 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. A note on the pay trend survey methodology is at Annex A. 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. In the 27 years since the pay trend survey was introduced, the Government has followed broadly

the PTIs in adjusting civil service pay on most occasions.

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.

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

RECENT PUBLIC DISCUSSION ON CIVIL SERVICE PAY

7. In the context of the 2001 civil service pay adjustment exercise, some opined 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 annual 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.

8. 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.

THE ADMINISTRATION'S CONSIDERATIONS

9. In response to various public concerns raised about civil service pay, 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 has 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 address public concerns about possible erosion of broad comparability of civil service pay with private sector pay over time. We consider the central issue to be addressed relates to the extent to which our existing civil service pay policy and system continue to suit today's circumstances. Being a responsible government, we need to address these concerns; hence we have undertaken to consider as a matter of priority whether the current civil service pay policy and system are in keeping with present day circumstances. Following earlier discussions with staff representatives, we are in the process of drawing up concrete proposals to tackle the matter. Our initial thinking is to cover the total remuneration package, including salaries and fringe benefits, in the exercise. We appreciate that this is a subject of considerable public interest and will take a decision on the way forward as soon as possible.

10. We would like to emphasize that this is a highly complex subject and we need to approach it with care. As we proceed, we shall keep two factors in the forefront of our considerations. First, a stable and motivated civil service is a cornerstone for the stability and prosperity of Hong Kong. We must be able to continue to offer an attractive and worthwhile career, which includes appropriate pay and conditions of service, to our civil servants. Second, as a civil service of the people and for the people, we will at every step take full account of the wider costs and benefits to the community as well as the prevailing political and economic realities.

December 2001

Methodology for the Pay Trend Survey

The system of annual pay trend surveys was introduced in 1974. The survey is commissioned by the independent Pay Trend Survey Committee (PTSC) and the Pay Survey and Research Unit (PSRU) of the Standing Commission on Civil Service Salaries and Conditions of Service carries out the surveys in accordance with the methodology agreed by the PTSC.

2. Each year, the PSRU collects data from some 80 Hong Kong companies selected on the following criteria -

- (a) The distribution of companies by major economic sector in the survey field should reflect closely the overall distribution of Hong Kong's economically active population.
- (b) Individual companies should -
 - (i) be regarded as typical employers in their respective fields normally employing 100 employees or more;
 - (ii) be generally known as steady and good employers conducting wage and salary administration on a rational and systematic basis;
 - (iii) determine pay on the basis of factors and considerations applying to Hong Kong rather than factors applying in another country;
 - (iv) if they form part of a group or consortium in Hong Kong, only be treated as separate companies where they have complete autonomy in setting and adjusting pay rates; and
 - (v) not use the government pay adjustment as the main factor in determining pay adjustments.

3. The pay trend survey covers the period from 2 April of the

previous year to 1 April of the survey year. It includes all full-time employees who work 75% or more of the normal weekly working hours and whose basic salaries are equivalent to the three salary bands of the non-directorate staff in the civil service. Basic salary increases relating to changes in the cost of living, overall changes in market rates, general prosperity and company performance, merit payments and in-scale increments are accounted for in the survey. Changes in payments additional to basic salary such as year-end bonuses, whether permanent or temporary, are also included. Our calculation method reflects any increases in additional payments in the year of award, and likewise registers the cessation or reduction of such payments in the subsequent year. Any one-off special payment in a private sector company would not have a permanent effect on civil service salaries.

4. The survey produces three gross pay trend indicators (PTIs), each representing the weighted average pay adjustment for all surveyed employees within each salary band. These gross PTIs, following validation by the PTSC, will be submitted to the Administration for considering the size of the annual civil service pay adjustment.

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 officers at 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 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 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 starting salaries for entry ranks to maintain broad comparability with the private sector.