

**Progress Report on the Development of
an Improved Pay Adjustment Mechanism for the Civil Service**

Civil Service Bureau

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I. PURPOSE

In April 2003, the Civil Service Bureau (CSB) embarked on an exercise to develop, with the assistance of the Steering Committee on Civil Service Pay Adjustment Mechanism (Steering Committee) and the Consultative Group on Civil Service Pay Adjustment Mechanism (Consultative Group), an improved pay adjustment mechanism for long-term adoption in the civil service. This report sets out the progress we (i.e. CSB) have made to date.

II. BACKGROUND

(a) Civil Service Reform

2. In March 1999, we launched the Civil Service Reform with the objective of modernising the management of the civil service so as to make it more flexible and preparing staff to face changes and increasingly demanding challenges in the years ahead¹. One of the priority areas of the Civil Service Reform is to modernise our civil service pay system. In 1999, a starting salaries review was conducted to facilitate the adjustment of civil service entry pay in line with the market situation. Following the review, the entry pay of the civilian grades was reduced by 6% to 31% and that of the disciplined services by 3% to 17%. The Civil Service Reform is an on-going process. The Government is committed to making continuous improvements to the management of the civil service.

(b) Need for an improved civil service pay adjustment mechanism

3. An outline of the existing civil service pay system and pay adjustment mechanism is at **Annex A**. In recent years, there have been increasing public

¹ The major initiatives undertaken as part of the Civil Service Reform include: reducing the civil service establishment through process re-engineering, organisational review and outsourcing from around 198 000 in early 1999 to around 175 000 by end June 2003, and further to about 160 000 by 2006-07 through natural wastage, voluntary retirement and the general civil service recruitment freeze; the introduction of a new entry system and new appointment terms for civil service new recruits offered appointment on or after 1 June 2000 to increase the flexibility of our appointment system; the introduction of a Provident Fund Scheme in place of the pension scheme for civil servants appointed on permanent terms on or after 1 June 2000; reviews of fringe benefits and various civil service allowances to bring them more in step with today's circumstances; streamlining the disciplinary procedures to punish misconduct and maintain a deterrent effect whilst maintaining the principle of natural justice; introduction of measures to strengthen performance management such as tightening rules on the award of increments; and more extensive training and development programmes to promote a culture of continuous learning within the civil service and to improve service quality.

concerns about a perceived pay disparity between the civil service and the private sector. To address these concerns, the Government launched a comprehensive review of the civil service pay policy and system with the assistance of 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 in December 2001. A Task Force was subsequently set up under the three advisory bodies to take forward the review.

4. In the review process, the Task Force studied the historical development of the civil service pay policy and system in Hong Kong, recent developments in civil service pay administration in five selected countries² as well as the views put forward by various concerned parties (including civil servants, department/grade management and members of the public) on the existing civil service pay policy and system. In its Phase One Final Report submitted to the Government in September 2002, the Task Force observed that the public perception of a pay disparity between the civil service and the private sector was attributable to the absence of a pay level comparison for many years. The Task Force further pointed out that there was room for improvement in the existing methodology of the annual pay trend survey. The Task Force recommended that priority should be given in the short term to devising a practical framework and methodology for conducting a pay level survey and reviewing the existing methodology of the pay trend survey. An extract of the Task Force's views on the civil service pay adjustment mechanism set out in its Phase One Final Report is at **Annex B**. The Task Force's recommendations in this regard received general support during the public consultation on the Task Force's Phase One Final Report. In February 2003, the Secretary for the Civil Service (SCS) reached a consensus with staff representatives³ that the Administration should in consultation with staff develop an improved civil service pay adjustment mechanism.

(c) Development of an improved civil service pay adjustment mechanism

5. On 25 February 2003, the Chief Executive in Council decided, among others, that the Administration should in consultation with staff develop, on the basis of the existing mechanism, an improved civil service pay adjustment mechanism which should comprise the conduct of periodic pay level surveys to compare civil service pay levels with those in the private sector, the conduct of annual pay trend surveys based on an improved methodology and an effective

² The five selected countries studied by the Task Force on Review of Civil Service Pay Policy and System were Australia, Canada, New Zealand, Singapore and the United Kingdom.

³ In September 2002, SCS set up the Working Group on Civil Service Pay Adjustment and Related Issues to discuss with staff representatives the approach for the handling of the 2003 civil service pay adjustment exercise and related matters. The Working Group comprised the staff sides of the four central consultative councils and representatives of the four major service-wide staff unions.

means for implementing both upward and downward pay adjustments. The aim was to complete this exercise, including the conduct of a pay level survey, within 2004.

(d) Institutional arrangements

6. To take forward the exercise, we set up in April 2003 –
 - (a) a steering committee comprising selected members drawn from the three advisory bodies on civil service salaries and conditions of service⁴ to provide independent and professional advice on matters related to the development of an improved civil service pay adjustment mechanism; and
 - (b) a consultative group involving staff representatives from the staff sides of the central consultative councils and the major service-wide staff unions to provide staff input to the exercise.

The membership lists of the Steering Committee and the Consultative Group, both under the chairmanship of SCS, are at **Annex C** and **Annex D** respectively.

III. PROGRESS REPORT

7. The Steering Committee and the Consultative Group held eight and six meetings respectively during the period from April to November 2003. Their discussion covered, among others, the work plan for the overall exercise, the relevant policy considerations as well as the broad framework of the improved civil service pay adjustment mechanism. Taking into account the views of the Steering Committee and the Consultative Group, we have worked out a proposal on the above issues as set out in paragraphs 8-45 below.

(a) Work Plan

8. To ensure that the exercise will be carried out in an orderly and timely manner, we have drawn up a preliminary work plan outlining the key steps involved. In brief, we shall take forward the exercise in two stages: the framework development stage and the detailed review and survey stage.

9. During the framework development stage, the primary focus is to examine the conceptual and structural issues underpinning the improved pay adjustment mechanism such as the relevant policy considerations.

⁴ The three advisory bodies are 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.

Consideration of these issues at the outset of the exercise would help set a broad framework and the broad parameters to facilitate subsequent discussions on matters of implementation details.

10. During the detailed review and survey stage, we shall carry out a pay level survey, review the pay trend survey methodology and develop an effective means for implementing both upward and downward pay adjustments. While the implementation details of the pay level survey will need to be further examined, we envisage that the following key tasks will be involved :

- (a) design of the survey methodology;
- (b) conduct of the field work for the survey; and
- (c) analysis and validation of data collected from the field work.

11. While the original intention was to complete the whole exercise in 2004, views have been expressed during the consultation process that adequate time should be allowed to examine the many complicated issues involved, in particular the detailed methodology of the pay level survey and how the outcome of the pay level survey should be applied to the civil service. We now propose to conduct thorough consultation at an early stage on the methodology of the pay level survey and general ideas on the application of the pay level survey results before embarking on the field work for the survey. We also consider it desirable to conduct more extensive consultation within the civil service and inform the public of progress from time to time so that different sectors of the community have an opportunity to express their views on this important subject.

12. Accordingly, we propose the following work plan :

4 th quarter of 2003	To proceed with the consultancy on the design of the detailed methodology of the pay level survey
2 nd quarter of 2004	To present proposals on the pay level survey methodology and improvements to the pay trend survey methodology and to put forward general ideas on the application of the results of the pay level survey for consultation
4 th quarter of 2004	(a) To proceed with the field work for the pay level survey (b) To complete the preparation for any necessary draft legislation for implementing both upward and

downward pay adjustments for
consultation within the civil service

End 2004 / Early 2005

To complete the field work for the pay
level survey

2nd quarter of 2005

(a) To complete the analysis of the pay
level survey data and to present
proposals on the application of the
pay level survey results

(b) To introduce any necessary draft
legislation for implementing both
upward and downward pay
adjustments into the Legislative
Council

Where appropriate, we may adjust or refine the work plan in the light of further deliberations with the Steering Committee and the Consultative Group as well as comments from within and outside the civil service.

(b) Policy considerations guiding the development of an improved civil service pay adjustment mechanism

13. The improved pay adjustment mechanism should serve to achieve the Government's policy objectives. We should therefore first revisit our pay policy and identify those policy considerations that are of particular relevance to the current exercise of developing an improved civil service pay adjustment mechanism. Taking account of the views expressed by the Steering Committee and the Consultative Group, we shall be guided by the policy considerations set out in paragraphs 14-31 below when developing the improved civil service pay adjustment mechanism in fuller detail.

Civil service pay policy

14. A clean and efficient civil service is one of Hong Kong's fundamental strengths. To maintain this strength, it is the Government's firm commitment to continue to nurture a clean, efficient and dedicated civil service which is committed to serving the community. In pursuit of this and in keeping with the Government's aim to be a good employer in the territory, **our civil service pay policy is that we should offer sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an effective and efficient service and that 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.

15. The mechanism for pay adjustment constitutes a key component of the civil service pay system. In considering improvements to the existing pay adjustment mechanism, we need to have regard to the broad policy considerations underpinning the civil service pay system and policy.

Broad policy considerations

(i) upholding the core values of the civil service

16. Pursuant to the Government's civil service pay policy which 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, an important factor we should take into account is the core values and qualities which we seek to nurture and promote in the civil service. Apart from having to deliver results and to meet performance targets in serving the public, civil servants are required to uphold certain core values. These values have endured the test of good governance and shaped the present culture of our civil service. They include the following –

- (a) commitment to the rule of law;
- (b) honesty and integrity;
- (c) accountability for decisions and actions;
- (d) political neutrality;
- (e) impartiality in the execution of public functions; and
- (f) dedication, professionalism and diligence in serving the community through delivering results and meeting performance targets.

17. In discharging their responsibilities, civil servants must always act lawfully and are expected to attach the highest importance to due process, fairness and professionalism. Apart from these core values, civil servants also need to possess qualities such as an innovative spirit, a result-oriented attitude, responsiveness to community needs and leadership through changes.

18. In order to ensure the smooth operation of the Administration and the efficient delivery of key public services without disruption, we also attach importance to **the maintenance of a stable civil service** who will give of their best in serving the Government, with integrity, honesty, impartiality and objectivity. That said, we need to ensure that the civil service system is sufficiently flexible to adjust itself in response to community expectations and community needs in a rapidly changing socio-economic environment.

19. It is fully recognised that many of the core values and qualities ascribed to civil servants (such as commitment to the rule of law, honesty and integrity, and accountability for decisions and actions) are equally applicable to private sector employees, although the relative importance laid on various core competencies may differ between the civil service and the private sector.

(ii) External comparability

20. The principle of broad comparability is rooted in the concept of fair comparison, which was first highlighted by the 1965 Salaries Commission and subsequently accepted by the Government (details are at Annex A). The principle has since remained an important factor in setting civil service pay.

21. We consider that external comparability should remain an important factor in setting civil service pay under the improved civil service pay adjustment mechanism. For as long as the Government has to compete with the private sector for talents to join and stay in the civil service, the pay system for the civil service could not operate completely independently from the forces and conditions of the local labour market at large. That civil servants are paid out of the public purse also demands us to ensure that the remuneration paid to civil servants is fair and reasonable. In determining what is fair and reasonable pay for the civil service, a comparison with the pay levels in the private sector would be inevitable. The critical question is how such comparison should be made. We consider that a fair comparison should be made having due regard to the differences between the civil service and the private sector.

22. For the reasons set out below, we do not consider it appropriate, nor practically possible, to make a **direct comparison** of the pay of **every** civil service position with private sector pay and to require civil service pay levels to be adjusted **strictly** in accordance with the results of such comparisons –

- (a) First, the differences in the duties of individual jobs between the two sectors make it difficult to identify appropriate private sector analogues for direct pay comparison for **all** civil service grades and ranks. For illustration, it may be difficult to identify appropriate private sector comparators for certain positions that are unique to the civil service, e.g. air traffic control officers, firemen, police officers, etc.;
- (b) Even where private sector comparators can be found, there may be certain differences in the nature and conditions of work between private sector jobs and public sector jobs which may have different impacts on the pay levels. For example, while there are jobs in both the private sector and the public sector in certain professions such as engineers and surveyors, civil servants may have to take up certain responsibilities which are not required of their private sector counterparts, e.g. regulatory responsibilities. Conversely, in the private sector more emphasis may be laid on certain aspects that are not so relevant in a public sector context, e.g. profitability and product development;
- (c) The career progression of civil servants and private sector personnel differs significantly. Whereas civil servants have a relatively stable

career development under a clearly defined career path as reflected by the grade structure of their respective grade, there is greater variety in the pattern of career development for private sector employees even in the same field as a result of variations in company practices, market conditions and individual aspirations. This factor is particularly relevant in making comparisons between private sector pay and civil service pay beyond the entry levels;

- (d) There is a fundamental difference in the nature of operation of the public sector and the private sector. The emphasis of the former is on public well-being and the overall interest of the community whereas the latter is essentially driven by profit-making motives. Different approaches to pay are therefore adopted by the two sectors to meet their respective organisational goals and operational needs. Private sector pay levels are heavily influenced by the manpower supply and demand in the relevant fields, the state of the economy generally and of a particular trade/industry, the financial health and future prospects of individual firms, etc. As a result, as compared with the civil service, private sector pay is susceptible to more frequent, and at times wide, fluctuations. If civil service pay is required to closely mirror private sector pay, fluctuations in the former would inevitably result and as a consequence, a greater degree of volatility would be introduced into our civil service pay system. This would not be conducive to our policy objective of maintaining a stable civil service (see paragraph 18 above);
- (e) Private sector companies adopt a more flexible, hire-and-fire appointment policy and build in a larger measure of flexibility in their remuneration practices as reflected in the structuring of the remuneration packages for their staff (e.g. performance pay, company bonus, etc.). As a consequence, private sector employees have relatively lower job security but a more flexible remuneration package as compared with the civil service. On the other hand, the vast majority of civil servants are employed on permanent and pensionable terms under which, subject *inter alia* to good conduct and performance, they may remain in office until they reach the statutory retirement age. This fundamental difference in the approach to appointment and remuneration practices between the private sector and the civil service renders a direct comparison between private sector pay and civil service pay inappropriate; and
- (f) A strict requirement that civil service pay must be closely comparable to private sector pay would inevitably affect the internal pay relativities among various civil service grades and ranks.

23. In view of the foregoing, we consider that the policy of maintaining **broad comparability**, rather than strict comparability, between civil service pay and private sector pay remains valid in present day circumstances and that any pay comparison between civil service pay and private sector pay should be

done in a **broadbrush** manner to take due account of the differences in the nature and requirements of jobs in the two sectors.

24. In setting the appropriate pay levels of the civil service, the Government should adhere to the established principle that the Government should follow, but not lead the private sector. Hitherto, in collecting pay data (e.g. under the 1999 Starting Salaries Review and the annual pay trend surveys) from the private sector for pay comparison, the Government has included in its survey field those private sector companies which are generally regarded as typical employers in their respective fields and which conduct wage and salary administration in accordance with a set of systematic and stable pay policy and practices. We consider that the above principle and criteria should continue to be a relevant consideration under the improved civil service pay adjustment mechanism.

(iii) Internal pay relativities

25. In addition to external comparability, internal pay relativity among individual civil service grades is another main feature of the current civil service pay system. In a nutshell, grades with a similar qualification requirement for appointment are broadbanded into education qualification groups. The entry pay of civil service grades of the same qualification group is determined having regard to both the entry pay for private sector jobs requiring similar qualifications for appointment and other factors relating to the job nature of the grades concerned, e.g. physical effort, working conditions, etc. Grades within the same qualification group share a common pay structure.

26. Under a centrally administered civil service pay system such as ours, the principle of maintaining internal pay relativities would help maintain a degree of consistency in determining the pay levels for a diverse range of civil service grades and ranks. This would help ensure fairness in the pay of civil service positions carrying approximately similar responsibilities and exercising skills which bear some resemblance in the training and aptitude required. The present system of internal pay relativities among various civil service grades and ranks was established as a result of previous grade structure reviews.⁵

27. We consider that for as long as our civil service pay system is administered centrally and until a conscious decision is made either to dispense with the system of internal pay relativities or to devolve the responsibility for pay administration to departmental management, the present exercise to develop an improved pay adjustment mechanism should proceed on the basis

⁵ The existing system of internal pay relativities was established as a result of the Review on the Pay and Conditions of Service for the Disciplined Services in 1988, the Salary Structure Review in 1989 (for non-directorate civilian grades) and the Directorate Pay Survey in 1989, subject to changes made to a small number of civil service grades/ranks in subsequent years to reflect changed job requirements.

that the existing internal pay relativities would not be unduly disturbed. This does not, however, rule out changes to the existing arrangement where justified. For instance, the qualification requirements for appointment, the job requirements and the job-related factors originally taken into account in setting the pay scale for a particular civil service grade/rank may have changed over time with the result that the grade structure and/or the pay scale of the concerned grade/rank should be reviewed and brought up to date. Where necessary, therefore, individual grade structure reviews should be carried out following the present exercise.

(iv) Basic Law and other legal considerations

28. The Government needs to keep the civil service pay policy and system under periodic review to ensure that it is in step with changing circumstances. In contemplating any changes to the existing arrangement, we need to ensure that they are consistent with the Basic Law insofar as they affect civil servants who were serving immediately before 1 July 1997. The Government should also take full account of the contractual considerations, those international obligations which apply to Hong Kong and other legal considerations relevant to the employment relationship between Government and civil servants.

(v) Budgetary and other considerations

29. In its Phase One Final Report, the Task Force pointed out that Government's affordability should be a very important, though not over-riding factor in determining pay adjustments. This factor, known otherwise as budgetary considerations, has in fact already been reflected in the prevailing annual civil service pay adjustment mechanism. As civil servants are paid out of the public purse, it is right and proper that the Government's affordability should continue to be an important factor for consideration in determining and adjusting civil service pay.

30. Civil service pay should also have regard to the economic circumstances of Hong Kong as a whole. If the economy is buoyant it is reasonable that civil servants are able to share the benefits. If the economy is depressed, it is equally reasonable that civil servants should share the burden of any necessary measures. Accordingly, any future adjustments to civil service pay should, among other things, have due regard to the state of the economy as well as changes in the cost of living, as required under the existing annual pay adjustment mechanism.

31. At present, we seek the views of the staff sides through established consultation procedures before taking a decision on any adjustments to civil service pay. This will continue under the improved pay adjustment mechanism. The Government will take account of the views of staff as well as staff morale in making any adjustments to civil service pay.

(c) Proposed broad framework of an improved civil service pay adjustment mechanism

32. The objective of the current exercise is to develop an improved civil service pay adjustment mechanism which will comprise the following constituent components -

- (a) conduct of periodic pay level surveys to compare civil service pay with private sector pay;
- (b) conduct of annual pay trend surveys based on an improved methodology; and
- (c) an effective means for implementing both upward and downward pay adjustments.

Pay level surveys

33. Under the improved civil service pay adjustment mechanism, pay level surveys will be carried out periodically to ascertain whether civil service pay remains broadly comparable with private sector pay. A critical task in the present exercise is to draw up a credible methodology for conducting pay level surveys with due regard to the differences between the civil service and the private sector in the nature and requirements of jobs.

34. On the technical question of how exactly the pay comparison should be made, we have examined a number of possible approaches, namely, the factor analysis method, the core grade/rank method and the education qualification method, drawing on the experience of various pay comparison studies/surveys carried out in the past. These approaches are further explained at **Annex E**.

35. These three approaches have their respective merits and shortcomings. The education qualification benchmark method is an effective and relatively simple method but it is suitable for setting entry pay only as education qualifications are more relevant to appointment to entry ranks. The factor analysis method facilitates pay comparison of jobs on the basis of the skills and responsibilities involved. However, the job factor analysis process and the allocation of scores to each job factor could be perceived as relatively subjective and open to dispute. The core grade/rank method is relatively straightforward to apply for those civil service positions with private sector analogues, but it leaves open the question as to how we may deal with the pay comparison for those jobs that are unique to the civil service.

36. In view of the foregoing, we consider that a distinction should be drawn between entry pay and pay beyond entry levels for the purpose of pay comparison. Pay comparison at the entry level is relatively straightforward

because at these levels we are dealing mostly with school leavers or university graduates with no previous working experience. Education qualification requirement is thus a key factor in determining the pay levels. We may thus consider adopting the education qualification method to set the benchmark pay for each civil service qualification group by reference to the entry pay of private sector jobs requiring similar education qualifications for appointment. In addition to the benchmark pay, due regard should be given to differences in job requirements among different civil service grades and ranks in setting starting salaries for different entry ranks in the civil service.

37. Pay comparison at levels above entry pay is less straightforward. Education qualification requirement is less relevant, in comparison with other job-related factors such as relevant experience and expertise in the appropriate field, career progression pattern, job security as well as internal pay relativities among different grades/ranks, etc, in determining pay above the entry levels. As discussed in paragraph 23 above, any pay comparison between civil service pay and private sector pay should be done in a broadbrush manner to take due account of the differences in the nature and requirement of jobs in the two sectors. In addition, for the reasons explained in paragraph 27 above, the present exercise to develop an improved pay adjustment mechanism should proceed on the basis that the existing internal pay relativities would not be unduly disturbed. Taking account of the foregoing, one possible approach is to compare civil service pay beyond the entry ranks with private sector pay at specified levels (such as junior, middle and senior levels) in a broadbrush manner using a representative sample of civil service positions and private sector jobs.

38. At present, under the annual pay trend survey, movements in private sector pay are ascertained for three salary bands, namely, lower salary band (below MPS 10 or equivalent); middle salary band (MPS 10-33 or equivalent); and upper salary band (above MPS 33 to GDS(O)38 or equivalent)⁶. The demarcation of the three salary bands reflects commonly accepted notions of relative rankings in the civil service and serves as a reasonable basis for pay comparison in the pay level survey.

39. In practical terms, this means that we could first identify a number of representative civil service jobs (taking account of, for instance, the number of staff in these jobs and/or the representative responsibilities/expertise involved) in each salary band and then compare the pay levels of these civil service jobs with the pay levels of appropriate job samples in the private sector. Based on the survey findings and taking account of other relevant considerations, e.g. the differences in the nature and requirements of jobs in the two sectors, we shall be able to find out, in broad terms, the corresponding pay levels in the private sector for each salary band. On this basis, suitable adjustment can be made to

⁶ The present salary levels are: \$15,270 for MPS 10, \$46,810 for MPS 33 and \$93,025 for GDS(O)38.

the dollar value of each pay point on the civil service pay scales⁷. The dollar value of the pay scales of individual civil service ranks which consist of a number of pay points can in turn be adjusted by reference to the adjusted civil service pay scales. We shall further examine the feasibility of the approach outlined above and alternative approaches, in the Steering Committee and the Consultative Group, with the assistance of a consultant. We aim to draw up a proposal on the detailed methodology of the pay level survey in the 2nd quarter of 2004 for extensive consultation.

40. We note that certain civil service grades/ranks (e.g. the disciplined services) may not have any private sector analogues for pay comparison purposes due to their unique job nature and work requirements. Our current thinking is that in order not to over-complicate the conduct of the upcoming pay level survey, the results of the pay level survey should be applied to all civil service grades/ranks based on the existing system of internal pay relativities. For those civil service grades/ranks which have experienced significant changes in their job nature and requirements with the result that adjustments to their pay scales may be warranted, individual grade structure reviews should be carried out at an appropriate time after the current exercise.

41. The development of the methodology of the pay level survey and the carrying out of the actual survey work involve a lot of technical considerations. To ensure that the pay level survey would be carried out in a credible and professional manner, we intend to seek professional assistance from outside consultants in two stages. At the first stage, we shall appoint a professional consultant to offer technical assistance in developing a feasible and detailed methodology for the pay level survey. At the second stage, we shall appoint a consultant to use the agreed methodology to carry out the field work and analyse the data for the survey. The selection and appointment process of the consultancies will be carried out in accordance with the established procedures.

42. We shall further discuss with the Steering Committee and the Consultative Group how the results of the pay level survey should be applied to civil servants, in particular serving officers. This is a complex issue on which the staff representatives in the Consultative Group have expressed considerable concern. We now propose to put forward general ideas on the application of the results of the pay level survey, together with the proposed detailed methodology of the pay level survey, for consultation in the 2nd quarter of 2004. Allowing sufficient time for extensive consultation and the preparatory work for the second-phase consultancy, we aim to commence the field work for the pay level survey in the 4th quarter of 2004 with a view to completing the

⁷ There are at present 11 sets of civil service pay scales, namely the Master Pay Scale, the Model Scale 1 Pay Scale, the Police Pay Scale, the General Disciplined Services (Commander) Pay Scale, the General Disciplined Services (Officer) Pay Scale, the General Disciplined Services (Rank and File) Pay Scale, the Directorate Pay Scale, the Directorate (Legal) Pay Scale, the Training Pay Scale, the Technician Apprentice Pay Scale, and the Craft Apprentice Pay Scale.

analysis of the survey data and presenting proposals on the application of the survey results in the 2nd quarter of 2005. In coming to a decision on the application issue, we shall be guided by the principles of lawfulness, fairness and reasonableness.

43. Pay level surveys are major undertakings involving considerable time and efforts. To strike a balance between the efforts and resources to be invested in the pay level surveys on the one hand and the policy objective of maintaining broad comparability between civil service pay and private sector pay on the other, our preliminary view is that pay level surveys should be conducted periodically every few years. With the conduct of periodic pay level surveys in future, a related issue which requires further consideration is whether the annual pay trend survey should continue broadly in its present form bearing in mind the considerable administrative efforts involved.

Pay trend surveys

44. Under the existing annual civil service pay adjustment mechanism, the net pay trend indicators derived from annual pay trend survey is one of the factors for determining the size of the annual pay adjustment to civil service pay. The existing pay adjustment mechanism is outlined in paragraphs 9-15 in **Annex A**. The methodology adopted in past annual pay trend surveys has been under criticism in recent years for failing to reflect accurately the movements in the salary levels of private sector employees. On the assumption that pay trend surveys will continue to be carried out on an annual basis broadly in its present form in future, we shall further consider how the survey methodology can be improved. In doing so, we would need to have regard to the methodology of the pay level survey so as to ensure that these two surveys will work in coordination within an integrated pay adjustment mechanism. We intend to review the pay trend survey methodology in parallel with the discussion on the detailed design of the methodology of the pay level survey. We plan to draw up the proposed improvement measures in the 2nd quarter of 2004 for extensive consultation.

Effective means for implementing upward and downward pay adjustments

45. Although it is inherent in the existing adjustment mechanism that some of the consideration factors for determining the annual civil service pay adjustment may have a positive or negative impact on the size of the pay adjustment, the contractual employment arrangements between the Government and the vast majority of serving civil servants do not contain an express provision authorising the Government to reduce pay. Our legal advice is that in the absence of such an express power, the most appropriate way to effect a justified civil service pay reduction is by means of legislation. This is the approach adopted for implementing the pay reduction in 2002 and the coming pay reductions in 2004 and 2005. To facilitate the implementation of future pay adjustments and to obviate the need to enact one-off legislation on

each occasion of pay reduction, we shall consider seeking the enactment of a piece of general enabling legislation to provide the necessary legal backing for adjusting civil service pay in future. We shall further explore this in the coming months with a view to completing the drafting of the proposed legislation, if a legislative approach is considered appropriate, for consultation within the civil service in the 4th quarter of 2004.

IV. NEXT STEPS

46. The current exercise to develop an improved pay adjustment mechanism is conducted amidst general public concern about the Government's fiscal position. We would like to emphasise, however, that it would not be appropriate to view this exercise as offering a quick solution in reducing the Government's operating expenditure. Our vision is to establish an effective mechanism for civil service pay adjustments, which will be more responsive to changes in the service needs of the community and the manpower situation in the market, for long-term adoption in the civil service.

47. The pay adjustment mechanism is but one aspect of our civil service pay system. While our immediate attention would have to focus on the three deliverables of the current exercise, i.e. the conduct of a pay level survey, the review of the pay trend survey methodology and the development of an effective means for implementing both upward and downward pay adjustments, we recognise that there are certain pay-related issues which also need to be addressed. To cite a few examples, we need to carry out grade structure reviews at an appropriate time after the current exercise for those grades which have experienced considerable changes to their job nature and requirements. We also need to consider feasible ways to enhance staff motivation as more and more serving officers reach the maximum pay point of their respective ranks⁸. CSB will not be able to satisfactorily address these and other pay-related issues in the course of the present exercise given the complexity of the issues involved. We shall pursue them after our immediate tasks set out in the report have been completed.

48. Based on the proposals outlined in this progress report, we shall continue our discussion in the Steering Committee and the Consultative Group in earnest with a view to completing the exercise in the 2nd quarter of 2005. We appreciate that civil service pay policy is an important area of public policy in which the community has expressed considerable interest and concern. In finalising the detailed arrangements for the improved mechanism, we shall give due consideration to the views put forward by all concerned parties (staff and members of the public included) and be guided by the overall interests of the

⁸ At present, 68% of civil servants are at the maximum pay point of their respective ranks. The percentage is higher among junior staff. For example, 99% of Model Scale 1 staff have reached their maximum pay point.

community as a whole.

Civil Service Bureau
November 2003

An outline of the existing civil service pay system and pay adjustment mechanism

Policy objective

The objective of our civil service pay policy 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.

Pay system and structure

2. The principle of broad comparability is rooted in the concept of fair comparison. The Statement of Principles and Aims of Civil Service Remuneration issued by the Government in 1968 set out, among others, the basic principle that :

“It is the duty and responsibility of the Government to maintain a Civil Service recognised as efficient and staffed by members whose conditions of service are regarded as fair both by themselves and by the public which they serve. ...the Government subscribes to the principle of fair comparison with the current remuneration of outside staffs employed on broadly comparable work taking account of differences in other conditions of service...”

3. The principle of maintaining broad comparability between civil service pay and private sector pay was reaffirmed by the Standing Commission on Civil Service Salaries and Conditions of Service (Standing Commission) in its First Report on Principles and Practices Governing Civil Service Pay (Report No. 1) issued in 1979 and has remained a guiding principle for civil service pay over the years.

4. Under the broad comparability principle, the Government has in the past carried out various pay comparison studies to ascertain whether civil service pay remained broadly comparable with private sector pay. In 1971-74, the Government carried out a series of occupational class surveys and on the recommendation of the 1971 Salaries Commission adopted the occupational class method in making pay comparison with the private sector. The proposed system divided the civil service into a number of occupational classes, each with a range of jobs that had private sector analogues. However, due to difficulties in finding comparable jobs in the same occupational class in the

private sector, pay on an occupational class basis was not pursued. In 1986, the Government invited the Standing Commission to carry out a pay level survey to compare the pay of civil service positions with that of private sector jobs having the same level of functional requirement and/or complexity. The factor analysis method was adopted under which a representative sample of civil service jobs and a similarly representative sample of jobs in the private sector were selected for comparison on the basis of an analysis of their job content. The results of the pay level survey showed that generally, with the exception of the Model Scale 1, D3 and D4 pay packages, the civil service pay packages compared favourably with those of the private sector. The Staff Sides of the Senior Civil Service Council and the Police Force Council rejected the findings of the survey and criticised the survey methodology. Subsequently, the Committee of Inquiry appointed to look into the 1988 Civil Service Pay Adjustment and Related Matters pointed out that the methodology adopted by the 1986 pay level survey for pay comparisons was sound and reputable but job-for-job comparisons would have been preferable. The Committee of Inquiry 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 Government accepted this conclusion, subject to keeping intact the improvements already awarded to Model Scale 1 staff. In 1999, the Government commissioned the Standing Commission to conduct a review on the starting salaries for civil service entry ranks. The education qualification method was adopted under which the starting pay of civil service entry ranks was set by reference to the starting pay of private sector jobs requiring similar qualification requirements for appointment. The new benchmarks and new entry pay for new recruits took effect from 1 April 2000.

5. Apart from the afore-mentioned periodic pay surveys, the Government conducted a private sector pay trend survey on an annual basis from 1974 to 2002 with the objective of facilitating annual adjustments to civil service pay broadly in line with the pay movements in the private sector (see paragraphs 9-15 below).

6. 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. 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 for appointment. The starting pay for a civil service 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, e.g. physical effort, working conditions, etc. The present system of internal pay relativities among various civil service grades and ranks was established as a result of the Review on the Pay and Conditions of Service for the Disciplined Services in 1988, the Salary Structure Review in 1989 (for non-directorate civilian grades) and the Directorate Pay Survey in 1989, subject to changes made to a small number of

civil service grades/ranks in subsequent years to reflect changed job requirements.

7. Those civil service grades with a similar qualification requirement for appointment are 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 system¹.

8. At present, there are 11 sets of civil service pay scale² (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 civil service 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 at work (including conduct, diligence and efficiency) which is assessed through a performance appraisal process, an officer normally advances one increment a year within his respective rank scale until he reaches the maximum point of the scale. Upon promotion, he will advance to the pay scale of the rank he has been promoted to.

Existing annual civil service pay adjustment mechanism

9. Under the existing civil service pay adjustment mechanism, which has been in place since 1974, the size of the annual adjustment is decided having regard to the following factors: the net pay trend indicators (PTIs) derived from the private sector Pay Trend Survey, the state of the economy, budgetary considerations, changes in the cost of living, the views of staff as well as staff morale.

10. The Pay Survey and Research Unit (PSRU) of the Standing Commission carries out the annual private sector Pay Trend Survey in accordance with the methodology agreed by the Pay Trend Survey Committee (PTSC). The PTSC comprises representatives from the Standing Commission, the Standing Committee on Disciplined Services Salaries and Conditions of

¹ They include: 1) Grades not requiring five passes in the Hong Kong Certificate of Education Examination (HKCEE); 2) School Certificate Grades; 3) Higher Diploma and Diploma Grades; 4) Technical Inspectorate and Related Grades - Higher Certificate plus experience; 5) Technician, Supervisory and Related Grades Group I : certificate or apprenticeship plus experience; 6) Technician, Supervisory and Related Grades Group II : craft and skill plus experience, or apprenticeship plus experience; 7) Grades requiring two passes at Advanced Level in Hong Kong Advanced Level Examination plus three credits in HKCEE; 8) Professional and Related Grades; 9) Degree and Related Grades; 10) Model Scale 1 Grades; 11) Education Grades; and 12) Other Grades.

² They are the Master Pay Scale, the Model Scale 1 Pay Scale, the Police Pay Scale, the General Disciplined Services (Commander) Pay Scale, the General Disciplined Services (Officer) Pay Scale, the General Disciplined Services (Rank and File) Pay Scale, the Directorate Pay Scale, the Directorate (Legal) Pay Scale, the Training Pay Scale, the Technician Apprentice Pay Scale, and the Craft Apprentice Pay Scale.

Service, the Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service, the staff sides of the central consultative councils and the Administration.

11. The aim of the Pay Trend Survey is to assess the average pay movements of employees in the private sector over a twelve-month period from 2 April of the previous year to 1 April of the current year. The survey field of the Pay Trend Survey includes 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 in the survey field 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 outside Hong Kong;
 - (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.

12. The Pay Trend Survey studies pay movements of 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 service³. 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. The calculation method adopted for the survey reflects any increases in additional payments in the year of award, and likewise registers the cessation or reduction of such

³ For illustration, for the 2001-02 Pay Trend Survey, the survey population covered a total of 130 854 employees in the following three salary bands :

- (i) upper salary band (above Master Pay Scale Point 33 to General Disciplined Services (Officer) Pay Scale Point 38 or equivalent);
- (ii) middle salary band (Master Pay Scale Point 10 – 33 or equivalent); and
- (iii) lower salary band (below Master Pay Scale Point 10 or equivalent).

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.

13. In preparation of each new round of Pay Trend Survey, the PTSC reviews the survey methodology and makes necessary changes as appropriate. It also considers whether any changes need to be made to the companies included in the survey field.

14. The Pay Trend Survey produces three gross PTIs, each representing the weighted average pay adjustment for all surveyed employees within each salary band. The PTSC submits these gross PTIs, following validation, to the Government for determining the size of the annual civil service pay adjustment. The Government then deducts from the indicators the payroll cost of civil service increments to produce the net PTI for each salary band. This increment deduction formula was introduced in 1989.

15. In accordance with the established procedures, the Government consults the staff sides of the central consultative councils before taking a decision on the annual civil service pay adjustment.

**Extract from the Phase One Final Report of the Task Force on
Review of Civil Service Pay Policy and System**

**Task Force's comments
on the civil service pay adjustment mechanism**

The Task Force's Views

Pay Levels and Pay Trends

6.17 Since the economic downturn in recent years, the pay adjustment mechanism has been under severe criticism, particularly as regards whether the method of comparing with the private sector is reasonable and fair. The public is increasingly questioning whether the existing civil service pay adjustment mechanism is still compatible with the present socio-economic circumstances.

6.18 As we see it, the fundamental problem with the perceived pay disparity between the civil service and the private sector lies in the absence of a proper pay level comparison. In the 1989 Final Report of the Burrett Committee, it has been emphasised that there is an important link between pay level surveys and pay trend surveys. It is pointed out that –

“... even the most unstructured system of civil service pay determination must have regard to outside pay levels if only as an aid to satisfying recruitment and retention needs. When, as in Hong Kong, the total remuneration ‘package’ is intended, as a matter of deliberate policy, to be broadly comparable with that of private sector employees, there has to be a structured methodology for establishing a correct comparison. This involves the conduct of pay level surveys. If annual pay adjustments are an accepted practice in both sectors and if annual checks on the continuing correctness of the pay level comparison are either impossible or impractical, then there has also to be a mechanism for updating civil service pay in between the periodic checks on pay levels.

Conceptually therefore a pay trend survey is an adjunct to a pay level survey, a subsidiary mechanism for preventing civil service pay levels from falling too far out of line with those of the private sector in the intervals between pay level surveys. ... By contrast, a pay trend survey says nothing about the correctness of civil service pay levels. Indeed the pay

increases resulting from pay trend surveys may arouse public comment which actually diverts attention from the far more important question of the correctness of the pay levels to which such increases are applied. Moreover, pay trend surveys are of their nature only approximate reflections of what has been happening in the private sector. They lead to arguments over the types of outside pay increase to be included in the calculation of the pay trend indicators and how they should be weighted. Any errors arising from their broadbrush nature can produce excessive or inadequate adjustments to civil service pay which are cumulative and compounding in their effect year by year.

From the above reasons, we believe strongly that pay level surveys should be regarded as the foundation of the pay system and that the role of pay trend surveys, though still essential, should be reduced. It follows that pay level surveys should be conducted regularly and frequently. It will also then follow that the built-in inaccuracies of even the best possible pay trend methodology will matter less than they do at present. If rough justice for one party or the other cannot be avoided, it is more tolerable if the results are corrected quickly.”³⁵

Regarding frequency, the Burrett Committee has recommended that “*the aim should be to mount a pay level survey at intervals of about every three years.*”³⁶

6.19 We fully agree that pay level surveys should be the foundation of the pay determination mechanism while pay trend surveys play a complementary role to ensure that the civil service pay is updated in between the periodic checks on pay levels. The comparison with the private sector may be distorted if reliance is placed solely on the PTSs, which reflect only broadbrush changes in the pay of surveyed companies, in the absence of regular pay level surveys. Any disparity may be compounded in effect year by year.

Pay Level Surveys

6.20 Despite its important role in checking the appropriateness of pay levels, however, we note that a *comprehensive* pay level survey has not been conducted *successfully* (i.e. with results accepted by all parties concerned) for a very long time. The pay level survey conducted in 1986 was comprehensive, but the results and conclusions made were not accepted by the staff sides. The civil service starting salaries reviews conducted in 1979, 1989 and 1999 were

³⁵ Committee of Inquiry into the 1988 Civil Service Pay Adjustment and Related Matters (Burrett Committee), Final Report, Paras 5.3-5.6

³⁶ Ibid, Para 5.38

limited in scope in that only benchmarks of salaries for entry-level jobs were established³⁷. Hence, the question of whether civil service pay levels are comparable with those in the private sector has, in effect, been left unanswered for many years.

6.21 Given the large number of civil service grades and ranks, and the complexity in determining the actual pay level of different jobs, we appreciate that it is very difficult to find sufficient comparable jobs in the private sector to effectively carry out a comprehensive pay level comparison, and for the outcome of such a survey to be accepted by all concerned. We consider that it is necessary to examine this subject as a matter of priority so that a practical framework and methodology of pay level survey can be established and applied as soon as possible to provide much needed data to establish some form of comparability of civil service pay level with the private sector.

Pay Trend Surveys

6.22 Although we believe that the root of the present controversy over civil service pay lies in the absence of a pay level survey, we agree that there are a number of issues which must be addressed in respect of the existing PTS system, as has been pointed out by some of the respondents during consultation. To start with, the “broad comparison” principle is historically premised on a comparison with big companies with 100 employees or more. The established practice is that comparison should only be drawn with employers that are generally known as steady and good employers who conduct wage and salary administration on a rational and systematic basis. As such, PTSs only collect data from large and reputable firms with 100 employees or more. To some extent, data so collected may be biased as the majority of the working population in Hong Kong work for small and medium sized enterprises with less than 100 employees. Unlike large firms, these enterprises are believed to be more volatile. To exclude them in the PTS could render the survey results less representative.

6.23 However, whether or not we include more smaller companies in the survey field, the ultimate question lies in the appropriate benchmarking sample for the pay adjustment survey. Consideration must be given to the representativeness of the economic sectors in general, the fulfilment of the criteria of a “good and steady” employer by companies in the sample, and the practical difficulty concerning participation.

6.24 Apart from comments on company size, the sample of surveyed companies is also subject to criticism for not being able to reflect accurately the territory-wide distribution of the economic population. Due to difficulty in

³⁷ The starting salaries reviews in 1979 and 1989 were conducted as part of the overall salary structure reviews.

finding companies to participate in the PTS in the past, and the need to maintain continuity in the survey sample, the survey population is heavily biased towards utility companies. This has led to allegations that the PTS results do not reflect accurately the general picture of pay adjustment, taking into account the economic population of all sectors as a whole. To address this inadequacy, the Pay Trend Survey Committee has, in recent years, included new companies from other economic sectors to the survey field, such as the “Wholesale, Retail and Import/Export” and the “Community, Social and Personal Service” sectors, with a view to securing a distribution that is more proportional to that of the territory as a whole. Nevertheless, progress made so far is slow due to the difficulty of finding and adding large number of surveyed companies in the under-represented sectors and the sheer size of the utility companies which are not easy to counter-balance over a short period of time.

6.25 Another common criticism is that the PTS does not take adequate account of the possibility that employees in a company may have received a pay increase only after the company has been downsized or restructured. In the private sector, pay increase is a result of higher productivity in terms of output or value-added per employee, but in the civil service, productivity is difficult to measure and has not been a determinant of pay adjustment.

6.26 Under the existing pay-scale system, civil servants who have not reached the maximum points of their pay scales receive an annual increment in addition to the salary adjustment made in April each year. About 40% of the civil servants are in this group. Such practice is rare in the private sector and is therefore perceived as a kind of double adjustment. Although an increment deduction is applied to the gross PTIs every year, some critics argue that the value deducted does not adequately offset the value of increments, i.e. for those who have not reached the maximum points of their pay scales. (See also Appendix XI.)

6.27 Following the recommendation of the Burrett Committee in 1989, the Administration has established the practice that where the resulting PTI for the lower salary band is below that for the middle band, it is brought up to the same level unless there are overriding reasons for not doing so. With changes in the distribution of the labour force and the socio-economic environment over the past ten years leading to an oversupply of labour and smaller increases in salaries at the lower end, the deliberate policy decision in the past may have aggravated the pay level imbalance between this group of civil servants and their private sector counterparts.

6.28 The fact that Hong Kong has experienced sustained economic growth from the 1970s to 1990s means that affordability, a factor for pay consideration at least on paper, had never been a prominent issue. Hence, the pay adjustment system in practice has become more or less a formula-based mechanism, which has the benefit of being straightforward and avoiding much argument with the

staff sides. Whether this can continue is a matter that deserves serious consideration by the Administration given the current prolonged economic downturn.

6.29 In the past, pay increases for the civil service are applied across the board, without any regard to performance. Pay had only been upwardly flexible and the reduction this year is only achieved by the introduction of highly controversial legislation. It is often a defence for objecting to pay cuts in the civil service that private sector bonuses in good years are not captured in the annual PTSs. Hence, it would be unfair for the civil service to follow private sector companies in cutting pay during bad times. This defence appears to be based on a misinterpretation of the PTS, as changes in bonuses are captured in the calculation of the PTIs.

6.30 To some extent, the responding stakeholders acknowledge that there are inadequacies in the existing pay adjustment system and some fine-tuning is required. We suggest that the existing PTS should be modernized to cope with the changing expectations from various stakeholders. The Administration should consider whether and what interim operational measures should be adopted, including whether or not the annual PTS in its current form should continue to be conducted in the interim period, pending the overall review of the pay adjustment system.

**Steering Committee on
Civil Service Pay Adjustment Mechanism**

Membership

Chairman:

The Hon. Joseph W. P. Wong, GBS, JP Secretary for the Civil Service

Members :

Professor Chan Yuk-shee, JP

Professor Anthony Cheung Bing-leung, BBS, JP

Dr. Thomas Leung Kwok-fai, BBS, JP

Mrs. Eleanor Ling Lee Ching-man, SBS, JP

Mr. Nicky Lo Kar-chun

Mr. Eddie Ng Hak-kim

The Hon. Tam Yiu-chung, GBS, JP

The Hon. Howard Young, SBS, JP

Mrs. Rebecca Lai, JP	Permanent Secretary for the Civil Service
Mrs. Jessie Ting, JP	Deputy Secretary for the Civil Service (2)
Mr. Eddie Mak	Principal Assistant Secretary for the Civil Service (Pay & Leave)
Miss Susanne Ho (Secretary)	Assistant Secretary for the Civil Service (Pay & Leave)

**Consultative Group on
Civil Service Pay Adjustment Mechanism**

Membership

Chairman:

The Hon. Joseph W. P. Wong, GBS, JP Secretary for the Civil Service

Management Side:

Mrs. Rebecca Lai, JP	Permanent Secretary for the Civil Service
Mrs. Jessie Ting, JP	Deputy Secretary for the Civil Service (2)
Mr. Eddie Mak	Principal Assistant Secretary for the Civil Service (Pay & Leave)
Mr. Andrew Lai (from April to September 2003)	Principal Assistant Secretary for the Civil Service (Staff Relations) (Acting)
Mr. Patrick Chan (from October 2003 onwards)	Principal Assistant Secretary for the Civil Service (Staff Relations)
Miss Susanne Ho (Secretary)	Assistant Secretary for the Civil Service (Pay & Leave)

Staff Side:

Senior Civil Service Council

Ms. Cecilia So Chui-kuen (from April to 4 November 2003)
Mr. Peter Wong Hyo
Ms. Li Kwai-yin
Mr. Tam Chi-hang (from 5 November 2003 onwards)
Mr. Paul Pang Tat-choi (from April to 26 October 2003)
Mr. Peter Chan Pak-fong
Mr. Philip Kwok Chi-tak (from 27 October 2003 onwards)
Mr. Barry Brown
Mr. Garry Laird

Model Scale I Staff Consultative Council

Mr. Lung Wing-fat (from April to 4 September 2003)
Mr. Chan Cheung-ye (from 5 September 2003 onwards)
Mr. Leung Tat-wah
Ms. Fung Mei-lan
Ms. Li Kit-ching
Mr. Lee Wai
Mr. Chow Yiu-kwong

Police Force Council

Mr. Tse Shu-chun (from April to 27 May 2003)
Mr. Suen Kwai-leung, Bill (from 28 May 2003 onwards)
Ms. Wong Wing-sze, Vincy (from April to 12 August 2003)
Ms. Wan Miu-ling (from 13 August 2003 onwards)
Mr. Francis Carroll
Mr. Lau Kam-wah

Disciplined Services Consultative Council

Mr. Yuen Fong-him
Mr. Ngai Sik-shui
Mr. Ho Pui-lam
Mr. Lam Kwok-ho
Mr. Kwan Leung-wah

Hong Kong Civil Servants General Union

Mr. Cheung Kwok-bui
Mr. Yau Yan-hung

Government Employees Association

Mr. Chan Che-kwong
Mr. Tang Fuk-ki

Government Disciplined Services General Union

Mr. Chiu See-wai
Mr. Poon Chi-ming

Hong Kong Federation of Civil Service Unions

Mr. Leung Chau-ting
Mr. Chu Wai-hung

Possible approaches for carrying out a pay level survey

Factor analysis method

Using the factor analysis method, civil service jobs are compared, not directly with their private sector analogues of a similar job nature, but with those private sector jobs having the same level of functional requirement and/or complexity. In assessing the level of functional requirement and/or complexity, the job content of each job is evaluated based on a specified set of job-related factors (e.g. professional or other job-related skills, experience, know-how, degree of involvement in decision-making, level of responsibility, etc.) For each factor, the higher the level of difficulty involved, the higher the score will be given to the job concerned. The scores for individual factors are then added up to give the total score for the job. The pay of civil service jobs is compared with that of private sector jobs receiving the same range of total scores. This method of pay comparison was adopted for the 1986 Pay Level Survey.

Core grade/rank method

2. Under the core grade/rank method, the pay of representative civil service jobs is compared directly with the pay of comparable jobs in the private sector. A representative sample of civil service jobs (i.e. the core grades/ranks) and their corresponding analogues in the private sector are identified for pay comparison purposes. The survey findings will set the basis for determining the pay of the civil service core grades/ranks, and will be applied to civil service jobs outside the core grades/ranks through certain defined criteria (such as internal pay relativities).

Education qualification method

3. Under the education qualification method, the starting pay of civil service entry ranks are set by reference to the starting pay of private sector jobs requiring similar qualification requirements for appointment. In practical terms, this involves establishing a benchmark salary point for each civil service qualification group (in which civil service positions share the same entry qualification requirements for appointment) on the basis of which the starting pay for the relevant civil service entry ranks is determined. The pay beyond the entry level is then considered having regard to job factors relevant to the civil service grade concerned such as post-qualification experience, special skills or knowledge required for the jobs and the relevant working conditions. This method was adopted for the 1999 Starting Salaries Review.

Development of an Improved Pay Adjustment Mechanism for the Civil Service

As part of our on-going efforts to modernise the management of the civil service and to address public comments on the existing civil service pay adjustment mechanism, in April 2003 the Civil Service Bureau (CSB) embarked on an exercise to develop an improved pay adjustment mechanism for long-term adoption in the civil service. CSB issued a report in November 2003 setting out the progress made with the exercise.

Background

On 25 February 2003, the Chief Executive in Council decided, among others, that the Administration should in consultation with staff develop, on the basis of the existing mechanism, an improved civil service pay adjustment mechanism which should comprise the conduct of periodic pay level surveys to compare civil service pay levels with those in the private sector, the conduct of annual pay trend surveys based on an improved methodology and an effective means for implementing both upward and downward pay adjustments. The aim was to complete this exercise, including the conduct of a pay level survey, within 2004.

To take forward the exercise of developing an improved civil service pay adjustment mechanism, we (i.e. CSB) have set up under the chairmanship of the Secretary for the Civil Service:

- (a) a steering committee comprising selected members drawn from the three advisory bodies on civil service salaries and conditions of service¹ to provide independent and professional advice for the exercise (the Steering Committee); and
- (b) a consultative group involving staff representatives from the staff sides of the four central consultative councils and the four major service-wide staff unions to provide staff input to the exercise (the Consultative Group).

In consultation with the Steering Committee and the Consultative Group, we have examined the relevant policy considerations and the broad framework for the improved pay adjustment mechanism as set out below.

Relevant policy considerations

The improved civil service pay adjustment mechanism should –

- (a) meet the long-standing objective of our civil service pay policy (i.e. to offer sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an effective and efficient service);
- (b) support our objective of upholding and nurturing the core values of the civil service²;
- (c) contribute towards a stable civil service comprising officers who will give of their best in serving the Government. At the same time, it should not constrain the flexibility of our civil service system to adjust itself in response to community needs;
- (d) abide by our established principle of maintaining broad comparability, rather than strict comparability, between civil service pay and private sector pay;
- (e) operate on the basis of the existing internal pay relativities among civil service grades/ranks pending any changes in this regard;
- (f) ensure that any changes to the existing civil service pay adjustment mechanism are consistent with the Basic Law and take full account of the contractual considerations, those international obligations which apply to Hong Kong and other legal considerations relevant to the employment relationship between the Government and civil servants; and
- (g) take into consideration the relevant factors under the prevailing annual pay adjustment mechanism, such as budgetary considerations, the state of the economy, changes in the cost of living, the views of staff as well as staff morale, for determining and adjusting civil service pay.

Broad framework

The improved civil service pay adjustment mechanism will comprise the following constituent components -

- (a) conduct of periodic pay level surveys to compare civil service pay with private sector pay;
- (b) conduct of annual pay trend surveys based on an improved methodology; and
- (c) an effective means for implementing both upward and downward pay adjustments.

Our proposals on these individual constituent components are set out below.

(a) Pay level survey

Under the improved civil service pay adjustment mechanism, pay level surveys will be carried out periodically

¹ The three advisory bodies are 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.

² The core values include commitment to the rule of law; honesty and integrity; accountability for decisions and actions; political neutrality; impartiality in the execution of public functions; and dedication, professionalism and diligence in serving the community through delivering results and meeting performance targets.

every few years to ascertain whether civil service pay remains broadly comparable with private sector pay. We propose to adopt a combination of survey methodologies to facilitate pay comparison at different levels:

- (i) For pay at the entry level, we propose to adopt the education qualification benchmark method, as at present, to set the benchmark pay for each civil service qualification group by reference to the entry pay of private sector jobs requiring similar education qualifications for appointment.
- (ii) For pay above the entry level, we propose to compare the pay levels for a representative sample of civil service positions and private sector jobs at specified levels (such as junior, middle and senior levels) in a broadbrush manner.

We propose that the pay level survey should be carried out on the basis of the existing system of internal pay relativities. For those civil service grades/ranks which have experienced significant changes in their job nature and requirements with the result that adjustments to their pay scales may be warranted, individual grade structure reviews should be carried out at an appropriate time after the current exercise to bring their pay scales up-to-date. To ensure that the pay level survey will be carried out in a credible and professional manner, we shall develop a feasible and detailed methodology for the pay level survey and carry out the field work and data analysis for the survey with technical assistance from outside consultants.

(b) Pay trend survey

We shall examine whether the annual pay trend survey should continue broadly in its present form in future and if so, how the existing methodology of the pay trend survey can be improved having regard to the comments received and the methodology of the pay level survey to be developed so as to ensure that these two surveys will work in coordination within an integrated pay adjustment mechanism.

(c) Effective means for implementing upward and downward pay adjustments

We shall consider seeking the enactment of a piece of general enabling legislation to provide the necessary legal backing for adjusting civil service pay in future.

Work Plan

While the original intention was to complete the exercise in 2004, views have been expressed during the consultation process that adequate time should be allowed to examine the many complicated issues involved. We also consider it desirable to conduct more extensive consultation within the civil service and inform the public of progress from time to time so that different sectors of the community have an opportunity to express their views on this important subject. We now propose the following work plan:

4 th quarter of 2003	To proceed with the consultancy on the design of the detailed methodology of the pay level survey
2 nd quarter of 2004	To present proposals on the pay level survey methodology and improvements to the pay trend survey methodology and to put forward general ideas on the application of the results of the pay level survey for consultation
4 th quarter of 2004	To proceed with the field work for the pay level survey; and to complete the preparation for any necessary draft legislation for implementing both upward and downward pay adjustments for consultation within the civil service
End 2004/ Early 2005	To complete the field work for the pay level survey
2 nd quarter of 2005	To complete the analysis for the pay level survey data and present detailed proposals on the application of the pay level survey results as well as to introduce any necessary draft legislation for implementing both upward and downward pay adjustments into the Legislative Council

Next steps

The current exercise forms part of the ongoing development of the civil service management system. Our vision is to establish an effective mechanism for civil service pay adjustments, which will be more responsive to changes in the service needs of the community and the manpower situation in the market, for long-term adoption in the civil service. Based on the above proposals, we shall continue our discussion in the Steering Committee and the Consultative Group in earnest with a view to drawing up an improved civil service pay adjustment mechanism in the second quarter of 2005. In finalising the detailed arrangements for the improved mechanism, we shall give due consideration to the views put forward by all concerned parties (staff and members of the public included) and be guided by the overall interests of the community as a whole.