

**LEGISLATIVE COUNCIL PANEL ON PUBLIC SERVICE
Meeting on 15 November 2004**

**Development of an Improved
Pay Adjustment Mechanism for the Civil Service:
A Consultation Paper on the Proposals on the
Methodology of the Pay Level Survey and
the Application of the Survey Results**

Purpose

On 4 November 2004, the Civil Service Bureau (CSB) issued a paper entitled “A Consultation Paper on the Proposals on the Methodology of the Pay Level Survey and the Application of the Survey Results”, which sets out the recommendations made by a consultant engaged by CSB on the methodology of the pay level survey, as well as the proposals of CSB on the application of the survey results to the civil service. This paper briefs Members on these proposals and invites their comments.

Background

2. In April 2003, CSB embarked on an exercise to develop an improved pay adjustment mechanism for long-term adoption in the service¹. To take forward the exercise, CSB set up the Steering Committee on Civil Service Pay Adjustment Mechanism (the Steering Committee) and the Consultative Group on Civil Service Pay Adjustment Mechanism (the Consultative Group)² to respectively provide professional and staff input to the exercise. CSB has also engaged a consultant to provide technical assistance in drawing up a detailed and feasible methodology for the pay level survey.

3. In November 2003, CSB issued the “Progress Report on the Development of an Improved Pay Adjustment Mechanism for the Civil Service” to outline the relevant policy considerations, the proposed framework of the improved mechanism and the work plan for taking forward the exercise. In June 2004, we updated Members on the progress on the exercise, including the initial recommendations of the consultant on the pay level survey

¹ The Chief Executive in Council decided in February 2003 that the Government should in consultation with staff develop 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.

² The Steering Committee comprises selected members drawn from the Standing Commission on Civil Service Salaries and Conditions of Service, the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Standing Committee on Directorate Salaries and Conditions of Service. The Consultative Group comprises staff representatives from the staff sides of the four central consultative councils and the four major service-wide staff unions.

methodology, *vide* the Panel paper on “Progress on the Development of an Improved Pay Adjustment Mechanism for the Civil Service” (LC Paper No. CB(1)2118/03-04(03)).

4. Taking account of the views expressed by the Steering Committee and the Consultative Group, the consultant has drawn up recommendations on the methodology of the pay level survey. In parallel, following discussions with the Steering Committee and the Consultative Group, CSB has formulated proposals on the application of the pay level survey results. These recommendations and proposals are set out in a consultation paper for extensive consultation until 7 January 2005 before the field work of the pay level survey commences.

Policy Considerations

5. It is the Government’s civil service pay policy to offer sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an effective, efficient and high quality service. In order that civil service pay can be regarded as fair and reasonable by both the civil servants who provide the service and the public who foot the bill, we adopt the principle that the level of civil service pay should be broadly comparable with private sector pay.

6. In addition to the above policy, the following policy considerations are relevant to the development of an improved civil service pay adjustment mechanism -

- (a) The improved pay adjustment mechanism should support our objective of upholding and nurturing the core values of the civil service³. It should be conducive to maintaining a stable civil service, ensuring the efficiency and quality of the service rendered in response to the needs of the community;
- (b) Given the inherent differences in the nature of operation and the employment/remuneration practices between the civil service and the private sector, we should seek to maintain broad comparability, rather than strict comparability, between civil service pay and private sector pay;
- (c) Factors such as budgetary considerations, the state of the economy, changes in the cost of living, the views of staff as well as staff morale are also relevant in considering any adjustment to civil service pay following the pay level survey;

³ 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.

- (d) As the civil service pay system remains centrally administered, the existing internal pay relativities⁴ among civil service ranks should be maintained unless and until the findings of grade structure reviews to be carried out for individual grades/ranks, where appropriate, support an adjustment to such relativities; and
- (e) Any changes to the existing civil service pay adjustment mechanism should be consistent with the Basic Law and should 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.

The consultant's recommendations on the pay level survey methodology

7. The salient features of the consultant's recommendations of the pay level survey methodology are highlighted below:-

Purpose of the survey

- (a) In accordance with the principle of maintaining broad comparability between civil service pay and private sector pay and having regard to the inherent differences between the civil service and the private sector, the survey should aim to obtain private sector pay data in a professional manner, based on broadly comparable job matches, in order to establish the extent to which civil service pay is broadly comparable to private sector pay.

Job comparison method

- (b) Under the proposed broadly-defined job family method, civil service benchmark jobs will be matched with private sector jobs that are broadly comparable in terms of job content and work nature (categorised into the same job family) as well as level of responsibility and requirements on qualification and experience (categorised into the same job level). The pay of private sector jobs within the same job family and job level will then be compared with the pay range of civil service jobs in the corresponding job family and job level.

⁴ Hitherto, grades with a similar qualification requirement for appointment are broadbanded into education qualification groups. The entry pay of civil service grades in the same education 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 education qualification group share a similar pay scale.

Starting salaries survey

- (c) The survey will include a starting salaries survey to compare the benchmark pay in each civil service qualification group with the starting salaries of those entry-level jobs in the private sector having similar requirements on qualification and experience.

Selection of civil service benchmark jobs

- (d) The survey field will exclude those civil service grades/ranks that are not sufficiently representative of the civil service (e.g. those with less than 100 posts on the establishment), those without reasonable job matches in the private sector (e.g. disciplined services grades) and those with private sector counterparts only in organisations that make reference to the civil service pay scales or have done so in the past five years in determining the pay levels of their staff (e.g. grades in the medical and health, social welfare and education fields).

Collection and analysis of data

- (e) The survey will collect information on all cash compensation elements that are paid directly to the staff of the surveyed organisations during the survey reference period. These would include basic salary, guaranteed bonus, cash allowances and variable pay⁵. Based on this information, the following two aggregates of cash compensation will be analysed to facilitate a comprehensive pay comparison between the two sectors -
 - (i) Annual base salary of the private sector benchmark jobs compared to the annual civil service salary paid according to the corresponding range of civil service pay points pertaining to civil service benchmark jobs. In essence, this is a comparison of the level of the basic element of cash compensation for the relevant job matches but do not take into account cash allowances and variable pay.
 - (ii) Annual total cash compensation of the private sector benchmark jobs compared to the annual civil service salary paid according to the corresponding range of civil service pay points pertaining to civil service benchmark jobs with suitable adjustments to reflect

⁵ Cash allowances refer to any regular cash compensation the payment of which is subject to a pay policy and determined without reference to the job-holder's circumstances or choices and without reference to specific working conditions. Variable pay refers to those elements of pay which are determined periodically with regard to individual or organisational performance, including profit sharing bonus, annual incentive payment, performance bonus, merit awards, sales commissions, attendance awards, etc.

the annual cost to the Government of the provision of major cash allowances to civil servants. This aggregate provides a comprehensive measure of all cash compensation elements.

Implications on pay trend survey

- (f) If pay level surveys are conducted frequently (say every three to five years), the precision (in terms of following the existing method for calculating the pay trend movements) and comprehensiveness (in terms of the coverage of pay elements) required of the pay trend surveys will not be as critical as compared to the existing arrangements where pay level surveys are not conducted periodically. We may therefore make reference to pay trend analyses available in the market, instead of conducting customised pay trend surveys, in considering any necessary fine-tuning of civil service pay levels in between two pay level surveys.

CSB's proposals on the application of pay level survey results

Adjustment to civil service pay scales on the basis of internal pay relativities after the pay level survey

8. The civil service pay system is centrally administered. There are at present 11 sets of civil service pay scales⁶, each with a range of pay points based on which the pay scales of individual civil service grades and ranks are represented. We adopt a uniform approach in determining the pay scales of individual ranks by reference to similar entry qualification requirements and taking account of the differences in job requirements and other relevant job factors, such as special working conditions, recruitment difficulties, etc. The existing internal pay relativities among civil service grades and ranks therefore reflect the differences in their job nature and requirements. Such pay relativities have evolved principally through a series of large-scale, service-wide pay reviews carried out in the 1980s and 1990s.⁷ The internal pay relativities among civil service grades and ranks mean that there is also a pattern of relativities among the 11 civil service pay scales.

⁶ The 11 sets of civil service pay scales are: Master Pay Scale, Model Scale 1 Pay Scale, Police Pay Scale, General Disciplined Services (Commander) Pay Scale, General Disciplined Services (Officer) Pay Scale, General Disciplined Services (Rank and File) Pay Scale, Directorate Pay Scale, Directorate (Legal) Pay Scale, Training Pay Scale, Technician Apprentice Pay Scale and Craft Apprentice Pay Scale.

⁷ 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 Rennie Review), the Salaries Structure Review in 1989 and the Starting Salaries Review 1999, subject to changes made to a small number of civil service grades/ranks in subsequent years to reflect changed job requirements.

9. We propose that after taking account of the results of the upcoming pay level survey and other relevant policy considerations, we should, based on the existing system of internal pay relativities, draw up a new set of civil service pay scales to reflect broad comparability between civil service pay and private sector pay at different job levels. With adjustments made to the 11 civil service pay scales after the upcoming pay level survey, the dollar value of each pay point on the pay scales of individual civil service ranks will be drawn from the adjusted civil service pay scales.

10. Under the above approach, the existing pay relativities among different civil service grades and ranks will be maintained. The existing system of internal pay relativities among civil service grades/ranks is, however, not immutable. We recognise that certain civil service grades/ranks may have experienced significant changes in their job nature and requirements in recent years. We intend to carry out individual grade structure reviews for the grades/ranks concerned after we have completed the development of an improved civil service pay adjustment mechanism. In doing so, we shall accord priority to the disciplined services grades because of their different circumstances and the need for continued recruitment. In addition, we shall consider conducting a pay review for the directorate positions, which the consultant has recommended not to include in the survey field of the upcoming pay level survey due to technical considerations.

Application of the adjusted pay scales to new recruits

11. Consistent with the established principle of broad comparability between civil service pay and private sector pay, we propose that the new set of civil service pay scales to be drawn up after the pay level survey (see paragraph 9 above) should be applied to new recruits who join the civil service after a prospective date. As civil servants recruited after the implementation of the new pay scales based on the result of the pay level survey will be paid at levels broadly comparable to the private sector, they may be subject to annual pay adjustments in subsequent years, depending on the pay trends of the private sector as well as other relevant factors, until the next pay level survey exercise.

Application of the pay level survey results to serving officers

12. In considering the application of the survey results to serving officer who joined the Government before 1 July 1997, we have taken into account the relevant provisions of the Basic Law⁸ as well as the following considerations –

⁸ Those Basic Law provisions which expressly mention civil service pay and are thus of particular relevance are Article 100 and Article 103. Article 100 provides that “Public servants serving in all Hong Kong government departments ... before the establishment of the Hong Kong Special Administrative Region, may all remain in employment and retain their seniority with pay, allowances, benefits and conditions of service no less favourable than before.” Article 103 provides that “ ... Hong Kong’s previous system of employment ... and management for the public service ... shall be maintained...”

- (a) It is the current Administration's policy that during its term of office ending 30 June 2007, the pay of civil servants who were serving immediately before 1 July 1997 will not be reduced to below the levels as at 30 June 1997 in dollar terms; and
- (b) Following the civil service pay adjustment on 1 January 2005 in accordance with the Public Officers Pay Adjustments (2004/2005) Ordinance, the pay pertaining to each pay point on the civil service pay scales will be restored to the level it was at, in dollar terms, on 30 June 1997.

13. While the Government reserves its views on the scope of pay adjustment permissible under the Basic Law, the considerations stated in items (a) and (b) under paragraph 12 above mean that between now and 30 June 2007, there is in practice no room for any further pay reduction for serving officers who joined the Government before 1 July 1997 even if the results of the upcoming pay level survey indicate that civil service pay is above the private sector pay. Given this and taking account of the feedback from the staff side members of the Consultative Group, we propose that if the pay level survey findings reveal that the civil service pay levels exceed the private sector pay levels, we should freeze the pay of these officers at the prevailing level until it is caught up by the private sector pay level. But the disparity will be noted and will be taken into account in the subsequent annual civil service pay adjustment exercises before the next pay level survey. In other words, it is reasonable to expect that there will be no upward adjustments to the pay of these officers in subsequent years until the identified pay disparity disappears through the cumulative effect of pay freezes for a number of years or as a result of a subsequent pay level survey or an individual grade review where applicable.

14. Neither the Basic Law nor the current Administration's policy not to reduce civil service pay to below the June 1997 level (see paragraph 12 above) applies to serving officers who joined the Government on or after 1 July 1997. As at 30 September 2004, there were about 17 000 such officers. In theory, if the pay level survey results indicate that civil service pay is above private sector pay, we may consider adjusting the pay of these officers downwards immediately to reflect the market pay levels. We note, however, the views expressed by the staff side members of the Consultative Group that officers joining the Government before and after the handover should be treated in like manner to avoid any divisive effect on the civil service. On staff management and staff morale grounds, we propose to adopt the same approach for all serving officers, irrespective of whether their appointment dates were before or after the handover, in applying the results of the pay level survey.

15. The above has assumed that any pay disparity revealed by the upcoming pay level survey will suggest that the pay level of serving officers is higher than private sector pay level. In the event that the pay disparity shows that civil service pay at certain levels is lower than private sector pay at the

corresponding level, we propose that the identified pay disparity, together with other relevant factors, will be taken into account in considering whether there should be any upward pay adjustment in the annual pay adjustment exercise of the immediate following year, say 2006.

Next Steps

16. Following the close of the consultation exercise, we shall, taking account of the consultation feedback and other relevant considerations, take a decision on the methodology of the pay level survey and the general approach for the application of the survey results. The CSB will then commission a separate consultancy for carrying out the survey field work according to the finalised methodology.

17. Allowing time for consideration of the views received during the consultation period and the relevant preparatory work, we expect that the survey field work will commence in the first quarter of 2005. Our intention is to complete the whole exercise on the development of an improved civil service pay adjustment mechanism within 2005.

18. The development of an improved civil service pay adjustment mechanism forms part and parcel of our ongoing efforts to modernise the civil service pay system. Following the completion of the current exercise, we shall proceed to examine the other pay-related measures recommended by the Task Force on Civil Service Pay Policy and System⁹ for further study in the medium and long term. Specifically, we shall, after the current exercise, pursue the following initiatives –

- (a) conduct grade structure reviews for those grades/ranks which have experienced considerable changes in their job nature and requirements in recent years;
- (b) explore the feasibility of introducing a more flexible salary structure for application, in the first instance, to new recruits; and
- (c) explore the feasibility of decentralising the administration of civil service pay.

19. With these very broad and general directions for the future reform of our civil service pay system, we shall develop more concrete proposals and

⁹ In December 2001, we invited the three advisory bodies on civil service salaries and conditions of service to conduct a comprehensive review of civil service pay policy and system. The Task Force on Review of Civil Service Pay Policy and System was set up under the three bodies to take forward the exercise. In September 2002, the Task Force submitted its Phase One Final Report to the Administration, proposing various issues for consideration in the short, medium and long term. The current exercise to develop an improved pay adjustment mechanism has stemmed from the recommendations arising from the review.

fully consult civil service colleagues in due course. In taking forward the current exercise as well as other review proposals, we shall take full account of the views put forward by all parties concerned (staff and members of the public included) and be guided by the overall interests of the community as a whole.

20. We shall keep Members posted on the outcome of the consultation as well as further developments of the exercise.

Civil Service Bureau
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