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Finance Committee of the Legislative Council

Minutes of the 31st meeting
held at the Legislative Council Chamber
on Friday, 2 July 2010, at 3:30 pm

Members present:

Hon Emily LAU Wai-hing, JP (Chairman)
Prof Hon Patrick LAU Sau-shing, SBS, JP (Deputy Chairman)
Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon LEE Cheuk-yan
Hon Fred LI Wah-ming, SBS, JP
Dr Hon Margaret NG
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon CHAN Kam-lam, SBS, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, GBS, JP
Hon WONG Yung-kan, SBS, JP
Dr Hon Philip WONG Yu-hong, GBS
Hon LAU Kong-wah, JP
Hon Miriam LAU Kin-ye, GBS, JP
Hon Andrew CHENG Kar-foo
Hon TAM Yiu-chung, GBS, JP
Hon LI Fung-ying, SBS, JP
Hon Tommy CHEUNG Yu-yan, SBS, JP
Hon Frederick FUNG Kin-kee, SBS, JP
Hon Audrey EU Yuet-mee, SC, JP
Hon Vincent FANG Kang, SBS, JP
Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Dr Hon Joseph LEE Kok-long, SBS, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, GBS, JP

Hon CHEUNG Hok-ming, GBS, JP
Hon WONG Ting-kwong, BBS, JP
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon KAM Nai-wai, MH
Hon Cyd HO Sau-lan
Hon Starry LEE Wai-king, JP
Dr Hon LAM Tai-fai, BBS, JP
Hon CHAN Hak-kan
Hon Paul CHAN Mo-po, MH, JP
Hon CHAN Kin-por, JP
Dr Hon Priscilla LEUNG Mei-fun
Dr Hon LEUNG Ka-lau
Hon CHEUNG Kwok-che
Hon WONG Sing-chi
Hon WONG Kwok-kin, BBS
Hon IP Wai-ming, MH
Hon IP Kwok-him, GBS, JP
Hon Mrs Regina IP LAU Suk-ye, GBS, JP
Dr Hon PAN Pey-chyou
Hon Alan LEONG Kah-kit, SC
Hon LEUNG Kwok-hung
Hon Tanya CHAN
Hon Albert CHAN Wai-yip
Hon WONG Yuk-man

Members absent:

Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon LEUNG Yiu-chung
Hon LAU Wong-fat, GBM, GBS, JP
Hon Timothy FOK Tsun-ting, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon Paul TSE Wai-chun
Dr Hon Samson TAM Wai-ho, JP

Public officers attending:

Professor K C CHAN, SBS, JP

Mr Stanley YING, JP

Ms Alice LAU, JP

Secretary for Financial Services and
the Treasury

Permanent Secretary for Financial
Services and the Treasury (Treasury)

Deputy Secretary for Financial
Services and the Treasury (Treasury)¹

Ms Elsie YUEN	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)
Mr YAU Shing-mu, JP	Under Secretary for Transport and Housing
Ms Maisie CHENG	Deputy Secretary for Transport and Housing (Transport) 1
Mr WAN Man-lung, JP	Acting Director of Highways
Mr Henry CHAN	Acting Principal Government Engineer (Railway Development), Highways Department
Mr Henry LAM	General Manager (SCL/KTE), MTR Corporation Limited
Miss Maggie SO	Senior Manager (Projects and Property Communications), MTR Corporation Limited
Miss Denise YUE, GBS, JP	Secretary for the Civil Service
Mr Brian LO	Deputy Secretary for the Civil Service (2)

Clerk in attendance:

Mrs Constance LI	Assistant Secretary General 1
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Staff in attendance:

Ms Anita SIT	Chief Council Secretary (1)5
Mr Simon CHEUNG	Council Secretary (1)7
Mr Frankie WOO	Senior Legislative Assistant (1)3
Ms Christy YAU	Legislative Assistant (1)1

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Item No. 1 - FCR(2010-11)27

**RECOMMENDATION OF THE ESTABLISHMENT SUBCOMMITTEE
MADE ON 17 JUNE 2010**

The Chairman advised that the only item discussed and recommended by the Establishment Subcommittee meeting on 17 June 2010 was concerned with the application of the findings of the 2009 starting salaries survey to concerned civilian grades in the civil service. As the Secretary for the Civil Service (SCS) was present

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at this Finance Committee meeting, she might be invited to respond to issues raised by members on this item.

2. Dr PAN Pey-chyou said that the Hong Kong Federation of Trade Unions (HKFTU) did not support the Administration's proposal to lower the starting salaries of the concerned degree and related grades. He expressed grave concern that the salaries in both public and private sectors had gone down substantially in recent years. The Administration's proposal to lower the starting salaries of degree and related grades would set a bad example to employers in the private sector who would follow suit to lower the starting salaries of university graduates.

3. Mr WONG Kwok-hing said that another reason for HKFTU to object to the Administration's proposal was that it would aggravate the problem of "different pay for the same job" which was already affecting the civil service morale. Being the largest employer in Hong Kong, the Administration should set a good example for other employers to follow. To this end, he hoped that the Administration could reconsider or, if possible, withdraw the proposal.

4. The Chairman invited SCS to respond to the concerns raised.

5. SCS advised that the Administration's proposal was based on the findings of the Starting Salaries Survey (SSS) and the recommendations of the Standing Commission on Civil Service Salaries and Conditions of Service (the Standing Commission). The SSS was conducted every three years to ascertain whether broad comparability existed between the benchmark salaries of different qualification groups (QGs) within the civil service on the one hand and the entry pay of jobs in the private sector which had similar educational requirement on the other hand. With the findings of a SSS, the Standing Commission would consider a basket of factors in a holistic manner before putting forth its recommendations to the Administration.

6. SCS further advised that the 2006 SSS had led to the award of five additional pay points to the civilian grades in QG 9, i.e. the degree and related grades. In the 2009 SSS, the benchmark for QG 9 was found to be above the market entry pay by \$3,376. After considering a number of factors including staff morale, the Standing Commission recommended to reduce the benchmark salary of QG 9 by two pay points, from Master Pay Scale (MPS) 16 to MPS 14. In monetary terms, this would mean a reduction of around \$2,000. Although the existing mechanism might not be perfect, it was necessary for adjustments in civil service starting salaries to have regard to SSS findings. Otherwise, it would give an impression to the public that civil service starting salaries could only be adjusted upwards and not downwards notwithstanding the SSS findings.

7. Mr WONG Kwok-hing said that the findings of a survey carried out in 2009 might not be applicable to the fast-changing economy in 2010 which witnessed soaring inflation and salary increase in different sectors. SCS responded that SSS was conducted every three years, and another SSS would be conducted in 2012 to find out the difference, if any, in terms of the level of starting salaries between the

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government and the private sector. SCS advised that in recommending salary adjustments, the Standing Committee would not act in a mechanical way using SSS findings as the only basis for salary adjustment. She also pointed out that the survey had drawn reference from the third quartile (P75) level of the market entry pay (i.e. the better paying private sector jobs) for comparison.

8. Mr WONG Sing-chi said that Members belonging to the Democratic Party did not support the Administration's proposal which sought to reduce the benefits of young people entering the basic ranks. He considered that the proposal could also lead to strong repercussion amongst young people, widen the gap between the rich and the poor, and create a "spiralling down effect" on the salary levels of the non-degree grades. To avoid giving a wrong message that the Government paid little regard to the interests of young people, he asked whether it was possible for the Administration to temporarily withhold the proposed salary adjustment, and carry out a review.

9. SCS advised that the proposed salary adjustment for degree and related grades was necessary in view of a substantial difference of over \$3,300 between the benchmark salary of QG 9 and the market entry pay level. The adjustment would demonstrate to the public that the existing mechanism, being fair and credible, would cater for both upward and downward salary adjustments. She added that based on the 2006 SSS findings, the Government increased the starting salaries of the basic ranks in the degree and related grades by five points. This had apparently not led to any immediate changes in the salary of comparators in the private sector as the Government's action was based on what had already taken place in the market. She stressed that the Standing Commission adopted a holistic approach and took into account all relevant considerations in making its recommendations. She cited that although the 2009 SSS revealed that the existing benchmark of QG 10 (Model Scale I grades) was \$572 higher than the market rate, the Standing Commission had recommended no change to the starting salaries of the concerned grades.

10. Mr LEE Cheuk-yan said that the Hong Kong Confederation of Trade Unions did not support the Administration's proposal. He believed that the findings of SSS should only serve as reference for the Administration in taking a decision on civil service salary adjustments as it was basically a political decision. He was disappointed that the Administration was using salary review as a means to demonstrate strong administration-led governance. With the lowering of starting salary levels for university graduates, the private sector would definitely follow suit to reduce the salaries for graduates, and this could be viewed as another example of collusion between Government and the business sector. He urged the Administration to give due attention to social problems arising from the widening gap between the rich and the poor, the lack of upward social mobility, and the deterioration of the quality of living in general. Effective strategies should then be formulated to enhance community stability and cohesion. Since the proposed salary reduction would only lead to nominal saving of public funds, he suggested the Administration reconsider the proposal in the light of the present economic conditions.

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11. SCS disagreed that the Administration was using starting salary revision as a means to demonstrate strong governance. She pointed out that starting salary reduction did take place after the 2000 SSS. She stressed that the Standing Commission would not interpret SSS findings in a mechanical way, and that there would be no change to the maximum salary points of the concerned grades.

12. Dr Margaret NG said that the Civic Party would support the salary adjustment proposal as it was based on an established mechanism. Nonetheless, she felt strongly that the existing mechanism warranted a review. Given the uniqueness of the civil service and the need to maintain a high degree of professionalism, continuity, loyalty and commitment within the civil service, she believed that the salary structures of civil servants should not be too market-oriented and susceptible to frequent adjustments.

13. While appreciating the uniqueness of the civil service and the importance to maintain its stability, SCS opined that the Administration had the responsibility to ensure that public funds were used in a prudent manner. Therefore, salaries of the civil servants should be broadly comparable with the prevailing pay level in the market. The Administration would continue to identify ways to improve the existing salary review mechanism to enhance its acceptability by the community.

14. Mr LEUNG Kwok-hung said that he did not support the Administration's proposal. He noted that the salary review mechanism was set up in 2000 when there was a sagging economy and a deficit government budget. With the revival of economy and the elimination of deficit budget in 2010, he could see no reason for the Administration to propose a reduction in the salary levels by adhering to a controversial mechanism. This would give the public an impression that the Administration colluded with the capitalists in suppressing the salaries of new recruits who had no bargaining power. SCS responded that it was the Government's policy to maintain broad comparability between civil service and private sector pay. The existing salary review mechanism, as evidenced by actual practice, could lead to upward or downward salary adjustments. In fact, an upward adjustment was made following the 2006 SSS.

15. Mr IP Kwok-him said that the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) supported the Administration's proposal which was made in accordance with a well established mechanism for reviewing the salaries of the civil servants. He asked if there would be any change to the maximum pay points of the concerned grades under the proposal. In response, SCS confirmed that there would be no change to the maximum pay points of the affected grades.

16. The Chairman put the item to vote. 28 members voted for and 15 members voted against the proposal. One member abstained. The individual voting results were as follows —

For:

Ir Dr Raymond HO
Mr CHAN Kam-lam
Dr Philip WONG
Mr LAU Kong-wah
Mr TAM Yiu-chung
Ms Audrey EU
Dr Joseph LEE
Mr Andrew LEUNG
Mr WONG Ting-kwong
Prof Patrick LAU
Dr LAM Tai-fai
Mr Paul CHAN
Mr IP Kwok-him
Mr Alan LEONG
(28 members)

Dr Margareft NG
Mrs Sophie LEUNG
Mr WONG Yung-kan
Ms Miriam LAU
Mr Tommy CHEUNG
Mr Vincent FANG
Mr Jeffrey LAM
Mr CHEUNG Hok-ming
Mr Ronny TONG
Ms Starry LEE
Mr CHAN Hak-kan
Mr CHAN Kin-por
Mrs Regina IP
Miss Tanya CHAN

Against:

Mr Albert HO
Mr Fred LI
Mr Andrew CHENG
Mr LEE Wing-tat
Dr LEUNG Ka-lau
Mr WONG Sing-chi
Mr IP Wai-ming
Mr LEUNG Kwok-hung
(15 members)

Mr LEE Cheuk-yan
Mr James TO
Mr WONG Kwok-hing
Mr KAM Nai-wai
Mr CHEUNG Kwok-che
Mr WONG Kwok-kin
Dr PAN Pey-chyou

Abstention:

Dr Priscilla LEUNG
(1 member)

The Committee approved the proposal

Item No. 2 - FCR(2010-11)30

**RECOMMENDATIONS OF THE PUBLIC WORKS SUBCOMMITTEE
MADE ON 9 JUNE 2010**

17. The Chairman put FCR(2010-11)30, except item PWSC(2010-11)11 on the Shatin to Central Link (SCL), to vote. The Committee approved these items.

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PWSC(2010-11) 11

58TR – Shatin to Central Link – construction of railway works – protection works

18. The Chairman advised that PWSC(2010-11)11 sought to upgrade part of 58TR relating to SCL to Category A for an estimated cost of \$152.6 million in money-of-the-day prices, and to retain the remainder of 58TR in Category B.

Construction costs and implementation timetable

19. Mr Andrew CHENG said while he supported early implementation of the proposed protection works for SCL, he was disappointed that the Administration had not included the protection works at Causeway Bay Typhoon Shelter in this proposal, and this could lead to substantial increase in construction costs. He was gravely concerned that due to lengthy delays and alterations in the designs, the cost for building SCL had escalated from \$38.1 billion to \$60 billion. In this regard, he noted from paragraph 4 of the Administration's paper (PWSCI(2010-11)5) that large scale traffic diversions in different areas to facilitate the construction SCL alone would be costing some \$7 billion of public funds. He requested the Administration to provide details of the planned traffic diversions as well as other funding commitments arising from latest changes to the SCL project before the project was considered by the Finance Committee, so that members could more effectively monitor the Administration's expenditure and progress in respect of SCL. In order to contain the overall project costs, he reiterated that the Administration should take forward the SCL project immediately without delay.

20. The Under Secretary for Transport and Housing (USTH) explained that construction of underground rail lines in built-up areas would be expensive. On the increase in construction costs, the Administration had incorporated in the project suggestions and requests of different stakeholders following wide public consultation. These included the construction of Hin Keng Station, improvement of the pedestrian links at Tsz Wan Shan and relocation of the International Mail Centre, etc. These alterations had contributed to the rise of construction costs of SCL to beyond \$60 billion. As regards the \$7 billion traffic diversions mentioned by Mr Andrew CHENG, he clarified that the sum would actually cover a wide spectrum of works mentioned in paragraph 4 of the Administration's paper. He stressed that at present these were only rough project estimates, and there might be changes following further consultation with the communities on the detailed designs. He assured members that the Administration would endeavour to kick off the SCL project as soon as possible, and submit reports on latest changes to SCL and progress of its work to the Subcommittee on Matters Relating to Railways (the Railways Subcommittee) for reference from time to time.

21. Mr LEE Wing-tat expressed concern about the sharp increase in construction costs of public works projects, such as the cooling system in Kai Tak Development, in recent years. He queried if the Administration was confident with the accuracy of its project estimate on SCL. USTH responded that the forecast that

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the project costs might exceed \$60 billion for SCL was based on the tender prices of public works projects and other relevant indexes within the period of March 2007 to September 2009. There should be more accurate estimate based on the latest tender prices and movements in the relevant indexes. Mr LEE Wing-tat warned that that since September 2009, the construction costs of public works projects had soared to an unreasonably high level. He urged the Administration to make reference to the most updated indexes and tender prices in drawing up project estimates.

22. Ms Starry LEE declared that she owned certain properties along SCL, and said that Members belonging to DAB supported the funding proposal. She was however concerned about the increase in project costs and asked how the Administration would ensure that the cost estimates were accurate and reasonable. USTH advised that the Administration would draw up the cost estimates based on the latest tender prices and movements in the relevant Indexes near the time when the proposal was to be submitted to FC for consideration. He added that the construction of SCL would be wholly financed by the Government, and the Railway Development Office of the Highways Department would put in place a stringent mechanism throughout the construction period to ascertain that the public funds were put to the best use by the contractors. Progress reports would also be submitted to the Railways Subcommittee at fixed intervals.

23. Ms Starry LEE pointed out that the residents in the areas concerned had urged for early completion of the SCL. She asked about the planned completion date for SCL, as the Administration had failed to gazette the project in early 2010 as originally scheduled. USTH advised that the Administration's plan was to gazette SCL in 2011, and to complete the rail line at a date as close to 2015 as possible.

24. Mr CHEUNG Hok-ming expressed grave concern with the delay in the gazetting of the SCL. USTH responded that the Administration required time to respond to a lot of views and suggestions received from the affected residents on the construction of SCL. The Administration was currently working very hard in formulating feasible measures to address the residents' concerns about the designs of the SCL, for instance, the depot and the development at the former Tai Hom Village site, pedestrian connectivity, works site locations and ventilation shafts, etc. The Administration would balance the interests of different parties and revert to Wong Tai Sin District Council with the revised proposals in a few months' time. USTH stressed that the Administration aimed at arriving at feasible measures to address the concerns of the community, in order to ensure smooth implementation of SCL project.

25. Referring to paragraph 10 of PWSCI(2010-11)5, Dr Priscilla LEUNG expressed concern about the environmental impact assessment (EIA) of the SCL project and warned that the cement factories operating in To Kwa Wan district had caused serious concern to the local residents. She wondered whether the Kowloon City District Council would support the environmental measures given the complaints about the EIA. Ms Starry LEE expressed similar concerns and urged the Administration to exercise due care in addressing the concerns about environmental issues.

26. USTH clarified that the EIA mentioned by Dr LEUNG was related to the temporary reclamation in the Causeway Bay Typhoon Shelter. He assured members that the Administration would ensure that EIA would be conducted for individual projects under SCL. Inspections would be made to different locations along SCL including the concrete batching plant to monitor the on-site condition from time to time. According to his observation, the condition in respect of the concrete batching plant was acceptable.

27. As regards the timetable for completion of the project, USTH advised that the Administration would continue discussion with the residents to address the environmental issues, and it was not optimistic that the SCL could be completed in 2015. On the concern that MTRCL might accord low priority to the SCL project because of its expected low patronage, Miss Maggie SO of MTRCL advised that SCL was of great strategic value to the future development of Hong Kong's railway system, and MTRCL also looked forward to the early completion of SCL.

Services and facilities of MTRCL

28. Mr WONG Kwok-hing expressed support for the Administration's proposal seeking funds for the protection works of SCL. He considered that in response to members' support, MTRCL should improve its facilities and services, such as installation of platform screen doors and, if necessary, mechanical gap fillers at all stations including those of SCL. The Administration should also enhance its control and monitoring of the operation of MTRCL.

29. USTH responded that platform screen doors would be installed in all SCL stations. Miss Maggie SO of MTRCL advised that MTRCL would complete installation of platform screen doors in eight stations within 2012. As for the mechanical gap fillers for East Rail stations, MTRCL was reviewing findings of a recent assessment exercise on the fillers and their match-up with the platform screen doors. At the request of Mr WONG, Miss SO would find out whether it was possible to make a progress report to the Railways Subcommittee at the beginning of the 2010-2011 legislative session.

30. Mr IP Wai-ming sought clarification whether any complicated technical problems relating to mechanical gap fillers would need to be solved before platform screen doors could be installed at East Rail stations. If the bending of the stations along East Rail Line was a technical obstacle, he would expect MTRCL to carry out the improvement works elsewhere, for instance at stations along the Ma On Shan Line. He warned that further delays in these improvement works would lead to increased costs.

31. Miss Maggie SO of MTRCL explained that the installation of platform screen doors and mechanical gap fillers were closely related to each other due to the existence of curves in a number of East Rail stations. In order not to compromise passenger safety and service standards and the need to tie in with the overall signal

system, MTRCL had to conduct detailed assessment before the installation in different stations. MTRCL would report progress of its work to the Railways Subcommittee in due course.

Co-ordination with other infrastructure projects and on-site traffic arrangements

32. Given that quite some infrastructure projects such as Kai Tak Development would be implemented in Kowloon City district, Miss Tanya CHAN enquired whether there would be a high-level co-ordination between relevant government bureaux/departments to facilitate the smooth implementation of different projects and the traffic flows on site.

33. USTH said that similar to the construction of other rail lines, the Administration would have high-level co-ordination in place for making appropriate on-site arrangements including the re-routing of bus-services and road diversions, so that the disturbance caused by the SCL works and other infrastructure works could be minimized.

Other views

34. Ir Dr Raymond HO considered it necessary for the Administration to enhance inter-departmental coordination to align their priorities so as to speed up the SCL construction. He criticised that paragraph 4 of the Administration's supplementary paper (PWSCI(2010-11)5) had not explained clearly the additional cost of \$7 billion arising from revisions to the original plan. He urged the Administration to break up major projects into smaller ones so that more contractors could benefit from the construction of SCL. The Administration took note of Dr HO's concerns.

35. The Chairman put the item to vote. The Committee approved the item.

Item No. 3 - FCR(2010-11)31

2010-11 CIVIL SERVICE PAY ADJUSTMENT

36. Mr LEE Cheuk-yan, Chairman of the Panel on Public Service, reported that the Administration had consulted the Panel regarding the civil service pay adjustment for 2010-2011. Some members expressed concern that the proposed salary adjustment failed to catch up with the inflation, and might adversely affect staff morale. There were also concerns that employers in the private sector would follow suit in adjusting salaries of their staff.

37. Mr WONG Kwok-hing said that he reluctantly supported the Administration's pay adjustment proposal. He expressed concern that given the 2.5% inflation rate, the proposed salary increase of 0.56% to 1.60% would not be of help to

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the civil servants, especially those in the middle and lower ranks, to meet the increased costs of imported food and daily necessities. He criticised that the salary adjustment mechanism was based on data which lagged behind actual market conditions, and the Administration's meagre salary adjustment decision for the civil service would only encourage employers in the private sector to follow suit. He opined that the Administration should devise feasible ways to close the gap between the pay adjustment and the inflation rate, so as boost the morale of civil servants.

38. SCS advised that in determining salary adjustment for civil servants, the Chief Executive (CE)-in-Council would consider six factors including changes in the costs of living. She drew members' attention to the fact that against the findings of the 2009 Pay Trend Survey (PTS), the CE-in-Council had decided that no change should be made to the salaries of civil servants in the middle and lower salary bands in 2009-2010. Although the civil servants were offered a salary increase of 0.56% to 1.60% for 2010-2011, those not having reached the maximum salary points of their respective pay scales would, in addition to the annual pay increase, benefit from the annual increments upon satisfactory performance.

39. Mr LEE Cheuk-yan criticised that despite the improving economy and rising inflation, the Administration had proposed earlier to reduce the starting salaries for the degree and related grades, and now a salary adjustment which did not take into account the impact of inflation on civil servants' standard of living. He was disappointed that the Administration had colluded with the business sector in suppressing the salary level of the employees. He asked about the number of civil servants who were at the maximum pay point of their rank, as they would suffer most without the annual pay point increment. Even for those with annual pay point increment, the salary adjustment might still be insufficient for them to cope with the impact of inflation on their living standard. He urged the Administration to reconsider the pay adjustment rate by pegging it with inflation.

40. SCS disagreed with Mr LEE that there was collusion between the Administration and the business sector in suppressing salary levels of the employees, and that salary adjustment for civil servants would have much impact on the salary level in the private sector. SCS pointed out that the 5.38% salary reduction for civil servants in the upper salary band and the directorate, implemented with effect from 1 January 2010, was partly based on the change in pay trend in the private sector for the period 2 April 2008 to 1 April 2009. The 2010 PTS revealed that there had been salary increase in the market in the 12 months from 2 April 2009 to 1 April 2010. The fluctuation in salary levels in the private sector was subject to a host of factors such as the overall economy, and those were beyond the control of the Administration. In the past 18 years, the CE-in-Council did not always revise civil service pay in strict accordance with the net pay trend indicators (PTIs). For instance, the CE-in-Council decided to freeze the salaries of civil servants in the middle and lower salary bands in 2009-2010, and not reduce these salaries had the net PTIs been adhered to strictly. Regarding the annual increments, SCS advised that the increments generally ranged from 3% to 6% of the monthly salary of the concerned civil servants. At present, about 70% of the civil servants were at the maximum pay point of their rank, and the

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percentage would reduce in the next five to 10 years as a large number of civil servants would retire from the civil service. She stressed that it was necessary to deduct the payroll cost of increments in the calculation of the net PTIs for the sake of fairness.

Salary adjustment for subvented bodies

41. Mr CHEUNG Kwok-che said that due to the lump-sum grant policy, employees of subvented bodies might not have any salary adjustment. He enquired whether the Administration had effective measures to ensure that staff in the subvented sector could receive the same salary increases as the civil servants. He pointed out that around 10% of the subvented bodies did not follow the civil service pay rise. As differential salaries could adversely affect poor staff morale and service quality, he urged the Administration to address the issue seriously.

42. SCS advised that the salaries of teaching and related staff in the aided school sector were pegged to the civil service pay scales and hence the adjustment would be applied to their pay accordingly. The Administration, as a general rule, was not involved in the determination of pay or pay adjustment of staff working in other subvented bodies. That notwithstanding, in accordance with the established practice, the Administration would adjust the provisions for subvented bodies whose fundings were price-adjusted on the basis of formulae including a factor of civil service pay adjustment after the Finance Committee approved the civil service pay adjustment proposal. The Administration would remind the subvented bodies through the relevant controlling officers that the additional subventions were meant for pay adjustment of their staff. She understood that the LegCo Panel on Welfare Services might follow up the issue if subvented bodies were found not providing salary adjustment for their staff. SCS added that since the spirit of the lump-sum grant was to encourage flexible utilisation of resources, the Administration could only "encourage" subvented bodies to have regard to the civil service pay rise. The Administration was not in a position to interfere with the employment relationship between the management and the employees of subvented bodies.

43. The Chairman said that the meeting would end at 5:30 pm, and discussion of this and the remaining items would continue in the subsequent meeting at 5:35 pm.

44. The meeting was adjourned at 5:30 pm.