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Panel on Public Service
Meeting on 17 June 2013

Updated background brief on
2013-14 Civil Service Pay Adjustment

Purpose

This paper provides background information on the civil service pay adjustment exercises in recent years, and summarizes the major concerns expressed by Members when the civil service pay adjustments were deliberated in meetings of the Panel on Public Service ("the Panel") and the Finance Committee ("FC") in the past three years.

Background

2. Under the Improved Civil Service Pay Adjustment Mechanism endorsed by the Executive Council in 2007, civil service pay is compared with private sector pay on a regular basis through three different surveys, namely –

- (a) an annual pay trend survey ("PTS") to ascertain the year-on-year pay adjustment movements in the private sector;
- (b) a triennial starting salaries survey to compare the starting salaries of civil service civilian grades with the entry pay of jobs in the private sector requiring similar qualifications; and
- (c) a six-yearly pay level survey to ascertain whether civil service pay is broadly comparable with private sector pay.

The PTS Mechanism and the 2013 PTS

3. The annual PTS is commissioned by a tripartite Pay Trend Survey Committee ("PTSC"), which comprises representatives of the staff sides of the four central consultative councils ("the staff sides"), the Administration as well as the advisory bodies on civil service salaries and conditions of service. An introduction to the PTS mechanism is provided in Annex A to the Legislative Council Brief on the 2013-14 civil service pay adjustment issued on 4 June 2013.

4. According to the aforesaid Legislative Council Brief, the 2013 PTS collected the basic pay and additional pay adjustment data of 180 253 employees in 109 companies, consisting of 178 332 employees in 82 larger companies and 1 921 employees in 27 smaller companies. The findings of the 2013 PTS are as follows –

Salary Band¹	Basic Pay Indicator (A)	Additional Pay Indicator (B)	Gross Pay Trend Indicator (A) + (B)
Upper	4.03%	-0.65%	3.38%
Middle	4.97%	-0.18%	4.79%
Lower	5.52%	-0.22%	5.30%

Factors considered in making pay adjustment decisions

5. According to the Administration, in deciding on the rates of civil service pay adjustment each year, the Chief Executive ("CE")-in-Council takes into account six factors under the established mechanism, namely –

- (a) the net pay trend indicators² ("PTIs");
- (b) the state of Hong Kong's economy;
- (c) changes in the cost of living;
- (d) the Government's fiscal position;
- (e) the pay claims of the staff sides; and
- (f) civil service morale.

6. In respect of the 2013-14 pay adjustment exercise, the Administration gives an account of these factors in paragraphs 4 to 12 of the Legislative Council Brief on the 2013-14 civil service pay adjustment issued on 4 June 2013.

¹ The pay ranges of the three salary bands for the 2013 PTS are –

- (a) Upper: Above Master Pay Scale (MPS) 33 to General Disciplined Services (Officer) Pay Scale 39 or equivalent, viz. \$54,666 to \$109,365;
- (b) Middle: From MPS 10 to 33 or equivalent, viz. \$17,835 to \$54,665; and
- (c) Lower: Below MPS 10 or equivalent, viz. below \$17,835.

² The payroll cost of increments incurred for civil servants in each salary band (i.e. the increment payment made to civil servants who have not yet reached the maximum pay point of their rank, expressed as a percentage of total salary payment) is deducted from the relevant **gross** PTI to arrive at the **net** PTI.

7. A table showing the approved annual rates of civil service pay adjustment, the annual net PTIs and the annual changes in the Composite Consumer Price Index ("CCPI") since 1989-90 is at **Appendix I**.

Pay offers for 2013-14

8. Taken into account all relevant factors under the established mechanism, the CE-in-Council decided at its meeting on 4 June 2013 that the following pay offers for 2013-2014 should be put to the staff sides –

Salary band	No. of civil servants ³	Net PTI	Pay offer
Directorate	1 281	N.A. ⁴	2.55%
Upper	18 198	2.55%	2.55%
Middle	116 201	3.92%	3.92%
Lower	24 914	3.92%	3.92%

9. The coverage of the annual PTS does not include directorate civil servants. Following the established practice, the pay adjustment rate for them is the same as that for the upper salary band.

10. According to the Administration, it conveyed the pay offers to the staff sides on 4 June 2013. Their responses would be further considered by the CE-in-Council which would make a final decision on the pay adjustment for the civil service for 2013-14.

Deliberations of the Panel and the Finance Committee

11. In June each year, the Administration briefs the Panel on the civil service pay adjustment decisions made by the CE-in-Council in the respective year. A funding proposal on the civil service pay adjustment is then submitted by the Administration to FC for approval in July. Views and concerns expressed by Members when the subject was discussed by the Panel and FC in the past three years are summarized in the ensuing paragraphs.

³ The figures reflect the position as at 31 March 2013 and include some 19 000 civil servants seconded to/working in trading funds, subvented and other public bodies.

⁴ The PTS does not cover private sector employees whose salary overlaps with directorate civil servants.

Factors considered in making pay adjustment decisions

12. At the Panel meeting on 21 June 2010, some members expressed dissatisfaction with the 0.56% salary increase for the lower salary band, as they noted that the forecast inflation rate for 2010 was much higher. The members urged the Administration to place greater emphasis on changes in the cost of living when deciding on the civil service pay adjustment rates. The Administration responded that the decisions on the civil service pay adjustment rates would not mechanically follow the rate of inflation or deflation and regard would be given to all the six factors listed in paragraph 5 above.

Application of civil service pay adjustments to non-civil service contract staff and agency workers

13. Some Members expressed concern that non-civil service contract ("NCSC") staff and agency workers working for the Government might not receive the same pay increases as civil servants. They suggested that a mechanism should be devised to adjust the pay of NCSC staff. Noting that the additional cost for increasing the pay for NCSC staff had to be absorbed by the B/Ds concerned, a member suggested that to encourage B/Ds to increase their NCSC staff's pay, additional funds should come from a separate Head of Expenditure instead of from individual B/Ds' operating expenditure envelopes.

14. The Administration responded that as NCSC staff were not civil servants, their terms and conditions of employment were therefore different from those of the civil servants. The Administration did not consider that the pay adjustment for civil servants should be automatically applied to them. Heads of Bureaux/Departments/Offices ("HoDs") had full discretion on the pay adjustment rates for their NCSC staff. The Civil Service Bureau ("CSB") had provided guidelines to HoDs on factors⁵ to be considered in reviewing the pay for their NCSC staff. As for agency workers, CSB had issued a set of guidelines to B/Ds on the proper use of agency workers, covering the wage requirement to be followed by employment agencies providing agency workers to B/Ds.

15. At the Panel meeting on 18 June 2012, the Administration advised members that 95% of NCSC staff received a pay increase in the previous year. As the costs of pay increase for NCSC staff accounted for only a fraction of 1% of the annual departmental provisions, there had not been a single case in the past few years in which B/Ds were unable to increase the pay for NCSC staff owing to

⁵ Such factors include the employment market situation, recruitment results, staff retention needs, costs of living, civil service pay adjustment, prevailing statutory minimum wage, and compliance with the principles that the terms and conditions of service for NCSC staff should be no less favourable than those provided for under the Employment Ordinance (Cap. 57), and no more favourable than those applicable to civil servants in comparable ranks.

financial constraints. The Administration provided supplementary information on NCSC staff pay adjustment and relevant statistics after the meeting⁶.

Pay adjustments for staff of the subvented sector

16. Members expressed concern that some subvented organizations might not grant the same rates of salary increase to their staff as those for civil servants, despite that these organizations had received additional subventions for the purpose of salary increase. Members urged the Administration to set up a mechanism to monitor the use of such additional subventions in the subvented organizations. Some members considered that the Administration should take a further step to penalize those subvented organizations which held up the additional subventions for pay adjustments of their staff.

17. The Administration advised that additional subventions provided to subvented bodies were meant to enable them to adjust the pay of their staff. The Administration had, through the relevant controlling officers, reminded the subvented bodies concerned that the additional subventions from the Government were meant to allow room for pay adjustment for their staff. However, the Administration did not find it appropriate to specify how these bodies should adjust the pay of their staff, the reason being that the pay of subvented sector staff had already been delinked from the pay scales and pay adjustment of the civil service. It was inappropriate for the Government to intervene the remuneration matters between subvented bodies and their employees.

18. At the FC meeting on 13 July 2012, the Administration informed that the Labour and Welfare Bureau and Social Welfare Department were in the course of formulating a set of guidelines on best practices for subvented organizations which would cover the salary adjustment arrangements for these organizations.

Time lag in implementation of pay adjustments

19. Some members considered that due to the time taken to conduct PTS and make pay adjustment decisions, civil service pay adjustments always lagged behind the economic cycle. They considered that there should be greater flexibility in the established mechanism to ensure that the salary adjustments would not lag behind the prevailing market trends, especially when the cost of living was on the rise.

20. The Administration advised that there would inevitably be time lags as the existing civil service pay adjustment mechanism was operating with reference to the PTS, which collected data on the actual year-on-year pay adjustment movements in the private sector in the past 12 months. If PTS was to be based on

⁶ LC Paper No. [CB\(1\)2419/11-12\(01\)](#)

the projections of the private sector salary adjustments in the current financial year, the accuracy and credibility of such projections would be a concern.

Latest development

21. The Administration will brief the Panel on the 2013-14 civil service pay adjustment at the meeting on 17 June 2013.
22. A list of relevant papers is in **Appendix II**.

Council Business Division 4
Legislative Council Secretariat
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Civil Service Pay Adjustments since 1989-90

(source: Annex to LC Papers No. CB(1)2901/09-10(01))

Financial Year	Salary Band	Net PTI (%)	Pay Adjustment Rate (%) #	Annual Change in CCPI (%)
1989-1990	Upper	13.43	13.43	10.2
	Middle	14.81	14.81	
	Lower	14.66	14.81 *	
1990-1991	Upper	17.00	15.00	10.8
	Middle	16.46	15.00	
	Lower	15.11	15.00	
1991-1992	Upper	11.88	10.43	11.0
	Middle	12.49	10.43	
	Lower	12.09	10.43	
1992-1993	Upper	11.17	11.17	9.4
	Middle	10.82	11.60	
	Lower	10.68	11.60 *	
1993-1994	Upper	9.76	9.76	8.5
	Middle	10.66	10.66	
	Lower	10.54	10.66 *	
1994-1995	Upper	9.47	9.47	9.2
	Middle	9.89	9.89	
	Lower	9.69	9.89 *	
1995-1996	Upper	9.98	9.98	8.4
	Middle	10.14	10.14	
	Lower	9.61	10.14 *	
1996-1997	Upper	7.68	7.68	6.1
	Middle	7.67	7.67	
	Lower	6.83	7.67 *	
1997-1998	Upper	6.90	6.90	5.6
	Middle	6.81	6.81	
	Lower	6.38	6.81 *	

All pay adjustments took effect from the beginning of the financial year (i.e. 1 April) unless otherwise stated.

* The "bring-up" arrangement was invoked. Under the "bring-up" arrangement, the pay adjustment for civil servants in the lower salary band will be aligned to the net PTI of the middle salary band if the latter is higher than the net PTI of the lower salary band. This arrangement was introduced in 1989 upon the recommendation of the 1988 Committee of Inquiry on the ground, amongst others, that the majority of the lower-paid staff had reached the maximum pay points and were no longer eligible for annual increments.

Financial Year	Salary Band	Net PTI (%)	Pay Adjustment Rate (%) #	Annual Change in CCPI (%)
1998-1999	Upper	6.03	6.03	1.1
	Middle	5.79	5.79	
	Lower	5.01	5.79 *	
1999-2000	Upper	-0.13	Pay freeze	-4.8
	Middle	0.84	Pay freeze	
	Lower	-0.54	Pay freeze	
2000-2001	Upper	-0.41	Pay freeze	-3.0
	Middle	-1.97	Pay freeze	
	Lower	-1.78	Pay freeze	
2001-2002	Upper	4.99	4.99	-1.8
	Middle	2.38	2.38	
	Lower	1.97	2.38	
2002-2003 ⁷	Upper	-4.42	-4.42	-2.9
	Middle	-1.64	-1.64	
	Lower	-1.58	-1.58	
2003-2004 ⁸	Upper	-	-3.01	-2.6
	Middle	-	-3.07	
	Lower	-	-3.13	
2004-2005	Upper	-	-3.10	0.1
	Middle	-	-3.17	
	Lower	-	-3.23	
2005-2006 ⁹	Upper	-	-	1.5
	Middle	-	-	
	Lower	-	-	

⁷ The pay reduction took effect from 1 October 2002.

⁸ The PTS was suspended in 2003-2004 and 2004-2005. The dollar values of civil service pay points below Directorate Pay Scale Point 3 (D3) or equivalent were restored to the level as at 30 June 1997 in cash terms by two broadly equal adjustments effective from 1 January 2004 and 1 January 2005; and the dollar values of civil service pay points at D3 and above or equivalent were restored to the level as at 30 June 1997 in cash terms with effect from 1 January 2004.

⁹ The PTS was suspended in 2005-2006 and 2006-2007 pending the completion of the Pay Level Survey using 1 April 2006 as the reference date. No civil service pay adjustment was effected.

Financial Year	Salary Band	Net PTI (%)	Pay Adjustment Rate (%) #	Annual Change in CCPI (%)
2006-2007	Upper	-	-	2.0
	Middle	-	-	
	Lower	-	-	
2007-2008	Upper	4.96	4.96	2.7
	Middle	4.62	4.62	
	Lower	3.91	4.62 *	
2008-2009	Upper	6.30	6.30	3.6
	Middle	5.29	5.29	
	Lower	3.90	5.29 *	
2009-2010 ¹⁰	Upper	-5.38	-5.38	0.6
	Middle	-1.98	Pay freeze	
	Lower	-0.96	Pay freeze	
2010-2011	Upper	1.60	1.60	2.9
	Middle	0.56	0.56	
	Lower	0.16	0.56 *	
2011-2012	Upper	7.24	7.24	5.6 ¹¹
	Middle	6.16	6.16	
	Lower	5.16	6.16 *	
2012-2013	Upper	5.26	5.26	3.7 ¹²
	Middle	5.80	5.80	
	Lower	4.56	5.80 *	
2013-2014	Upper	2.55	2.55	Available in April 2014
	Middle	3.92	3.92	
	Lower	3.92	3.92	

¹⁰ The pay reduction for the upper salary band took effect from 1 January 2010.

¹¹ The underlying inflation netting out all Government's one-off-relief measures for the 12-month period ended March 2012 averaged at 5.8%.

¹² The underlying inflation netting out all Government's one-off-relief measures for the 12-month period ended March 2013 averaged at 4.1%.

**List of relevant papers on
2013-14 Civil Service Pay Adjustment**

Date	Meeting/Event	Relevant Link
21 June 2010	Panel on Public Service	Administration's papers on 2010-2011 civil service pay adjustment Legislative Council Brief CSBCR/PG/4-085-001/67 Minutes of the meeting LC Paper No. CB(1)201/10-11
20 June 2011	Panel on Public Service	Administration's papers on 2011-2012 civil service pay adjustment Legislative Council Brief CSBCR/PG/4-085-001/69 Minutes of the meeting LC Paper No. CB(1)173/11-12
18 June 2012	Panel on Public Service	Administration's papers on 2012-2013 civil service pay adjustment Legislative Council Brief CSBCR/PG/4-085-001/70 Minutes of the meeting LC Paper No. CB(1)2602/11-12 Administration's follow-up paper LC Paper No. CB(1)2419/11-12(01)