

# 立法會 *Legislative Council*

LC Paper No. CB(4)820/13-14(03)

Ref: CB4/PL/PS

## **Panel on Public Service**

**Meeting on 23 June 2014**

### **Updated background brief on 2014-2015 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 2014 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<sup>1</sup> ("the staff sides"), the Administration as well as the

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<sup>1</sup> The four central consultative councils are the Senior Civil Service Council, the Model Scale 1 Staff Consultative Council, the Police Force Council and the Disciplined Services Consultative Council.

advisory bodies on civil service salaries and conditions of service<sup>2</sup>. An introduction to the PTS mechanism and methodology is provided in Annex A to the Legislative Council Brief on the 2014-2015 civil service pay adjustment issued on 10 June 2014.

4. According to the aforesaid Legislative Council Brief, the 2014 PTS collected the basic pay and additional pay adjustment data of 170 010 employees in 110 companies, consisting of 168 040 employees in 80 larger companies and 1 970 employees in 30 smaller companies. The findings of the 2014 PTS are as follows –

<b>Salary Band<sup>3</sup></b>	<b>Basic Pay Indicator (A)</b>	<b>Additional Pay Indicator (B)</b>	<b>Gross Pay Trend Indicator (A) + (B)</b>
<b>Upper</b>	4.84%	2.07%	6.91%
<b>Middle</b>	5.24%	0.37%	5.61%
<b>Lower</b>	5.20%	0.12%	5.32%

#### 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 indicators<sup>4</sup> ("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.

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<sup>2</sup> The two advisory bodies are the Standing Commission on Civil Service Salaries and Conditions of Service and the Standing Committee on Disciplined Services Salaries and Conditions of Service.

<sup>3</sup> The pay ranges of the three salary bands for the 2014 PTS are –

(a) Upper: Above Master Pay Scale (MPS) 33 to General Disciplined Services (Officer) Pay Scale 39 or equivalent, viz. \$56 811 to \$112 155;

(b) Middle: From MPS 10 to 33 or equivalent, viz. \$18 535 to \$56 810; and

(c) Lower: Below MPS 10 or equivalent, viz. below \$18 535.

<sup>4</sup> 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.

6. In respect of the 2014-2015 pay adjustment exercise, the Administration gives an account of these factors in paragraphs 6 to 16 of the Legislative Council Brief on the 2014-2015 civil service pay adjustment issued on 10 June 2014.

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 1989-1990 is at **Appendix I**.

#### Pay offers for 2014-2015

8. Taking into account all relevant factors under the established mechanism, the CE-in-Council decided at its meeting on 10 June 2014 that the following pay offers for 2014-2015 should be put to the staff sides –

Salary band	No. of civil servants <sup>5</sup>	Net PTI	Pay offer
Directorate	1 321	N.A. <sup>6</sup>	<b>5.96%</b>
Upper	18 365	5.96%	<b>5.96%</b>
Middle	116 343	4.71%	<b>4.71%</b>
Lower	26 783	3.80%	<b>4.71%</b>

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. The pay adjustment for civil servants in the lower salary band has incorporated the "bring-up" arrangement<sup>7</sup>.

10. According to the Administration, it conveyed the pay offers to the staff sides on 10 June 2014. 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 2014-2015.

#### **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

<sup>5</sup> The figures reflect the position as at 31 March 2014 and include some 20 000 civil servants seconded to/working in trading funds, subvented and other public bodies.

<sup>6</sup> The PTS does not cover private sector employees whose salary overlaps with directorate civil servants.

<sup>7</sup> 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.

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.

Factors considered in making pay adjustment decisions

12. Last year's civil service pay adjustment exercise has aroused much concern and dissatisfaction among civil service staff unions/associations. The Panel discussed the 2013-2014 civil service pay adjustment at the meetings on 17 June 2013 and 2 July 2013, with representatives from civil service staff unions/associations attending at the latter meeting to give views. The Panel noted that the deputations were disappointed with the pay offers. They considered that the Administration had not given sufficient consideration to factors other than the net PTIs, especially changes in the cost of living and staff morale. Members requested the Administration to clarify how the various factors were considered in determining the salary adjustment.

13. The Administration explained that in determining the 2013-2014 civil service pay adjustment, the CE-in-Council had considered all the six relevant factors as mentioned in paragraph 5 above. Apart from the net PTIs, the other five factors could not be easily quantified and required the exercise of judgement. The CE-in-Council's decision to adjust the pay according to the net PTIs for the respective salary bands had struck a balance between all the relevant considerations and was in line with the policy of maintaining broad comparability between civil service and private sector pay. In fact, the CE-in-Council had, after considering all relevant factors, decided to adjust the civil service pay in accordance with the net PTIs on most occasions since 1989-1990, although there were occasions where civil service pay adjustments did not follow the net PTIs, e.g. when the inflation rates were high at double-digit level or when the net PTIs were negative. Each pay adjustment exercise was a separate and independent exercise, and each decision was made on the basis of the considerations pertinent to the prevailing circumstances.

14. Noting that the rates of salary adjustment offered by the Administration could not catch up with inflation, some members urged the Administration to make it a policy that civil service pay adjustment should not be less than the prevailing inflation rate. The Administration replied that civil service pay adjustment did not aim at tracking inflation. Under the current mechanism, civil service pay adjustment could be higher or lower than the inflation rate. Since 1989-1990, there had been 13 occasions on which the annual civil service pay adjustment for all salary bands was higher than CCPI and eight occasions with the opposite result.

### The PTS mechanism and methodology

15. Sharing the deputations' concern that the 2013 PTS might not have fully reflected other incomes/additional benefits received by employees in the private sector, members urged the Administration to review the existing pay trend adjustment mechanism. The Administration advised that PTSC had convened meetings to discuss the methodology of the 2013 PTS prior to the conduct of survey. It was agreed that long-term incentive awards such as shares and options should not be included in the PTI calculation due to the difficulty in quantifying these payments in monetary terms. Any fundamental change to the mechanism would need to be thoroughly considered by PTSC and major changes had to be endorsed by the independent advisory bodies on civil service salaries and conditions of service and approved by the CE-in-Council. For the 2014 PTS, PTSC had been invited to commence the review of the PTS methodology with a view to identifying improvements which would be acceptable to the public and civil servants.

16. Some members opined that the arrangement of deducting the "payroll cost of increments" from the gross PTIs to arrive at the net PTIs was unfair to those civil servants who had reached the maximum pay point of the pay scale of their ranks. The Administration advised that this approach was recommended by a Committee of Inquiry set up in 1988. The Committee considered that the annual PTS should include all take-home pay by employees in the private sector, including merit pay and increments. For the sake of fairness, the increment payment made to civil servants who had not yet reached the maximum pay points of their ranks should also be taken into account. At members' request, the Administration provided supplementary information on the arrangement and statistics on civil servants who had reached the maximum pay point of their ranks<sup>8</sup>.

17. Noting that some deputations were dissatisfied with the way the Administration had handled the 2013-2014 pay adjustment exercise, which had provided a very short period for the staff sides to respond to the pay offers and caused misunderstanding among the public of the staff sides' counter-proposals, members urged the Administration to review the consultation arrangement for future civil service pay adjustments.

18. On members' concern over the withdrawal of staff sides' representatives from PTSC, the Administration assured members that it would continue to work on various fronts to sustain staff morale and maintain active and close communication with relevant staff representatives.

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<sup>8</sup> LC Paper No. [CB\(4\)882/12-13\(01\)](#)

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

19. 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.

20. 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 factors<sup>9</sup> 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.

21. 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 financial constraints. The Administration provided supplementary information on NCSC staff pay adjustment and relevant statistics after the meeting<sup>10</sup>.

### Pay adjustments for staff of the subvented organizations

22. Members expressed concern that some subvented non-governmental organizations ("NGOs") 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 NGOs. Some members considered that the

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<sup>9</sup> 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.

<sup>10</sup> LC Paper No. [CB\(1\)2419/11-12\(01\)](#)

Administration should take a further step to penalize those subvented NGOs which held up the additional subventions for pay adjustments of their staff or require subvented NGOs to return to the Government the amount of provision that was not given to staff as salary adjustment.

23. The Administration advised that the pay and conditions of service for employees of the subvented sector had already been delinked from those of the civil service. While the Administration would provide sufficient provisions for subvented NGOs to enable them to adjust the salary of their staff according to the civil service pay adjustment rates, it would be up to the individual NGOs, as employers, to decide whether and if so, how to adjust the salaries of their employees. The Administration would however remind NGOs that the additional provision from the Government was meant to allow room for pay adjustment for their staff.

#### Time lag in implementation of pay adjustments

24. 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.

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

#### Impact of civil service pay adjustment on the private sector pay

26. At the FC meeting on 12 July 2013, some members commented that the mild increase in civil service pay in 2013-2014 might suppress the salary increases in the private sector. The Administration responded that while the Government was Hong Kong's largest employer, the impact of the pay adjustment on the overall labour market should not be significant because the size of the civil service was not dominant in the overall work force in Hong Kong. In fact, civil service pay adjustment aimed at following instead of leading the market and the annual PTS captured only the year-on-year changes in the private sector pay of the previous year.

**Latest development**

27. The Administration will brief the Panel on the 2014-2015 civil service pay adjustment at the meeting on 23 June 2014.
28. A list of relevant papers is in **Appendix II**.

Council Business Division 4  
Legislative Council Secretariat  
19 June 2014



**Civil Service Pay Adjustments since 1989-1990**

(Sources: Annex to LC Papers No. CB(1)2901/09-10(01) and the Monthly Reports on the Consumer Price Index issued by the Census and Statistics Department)

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.

<b>Financial Year</b>	<b>Salary Band</b>	<b>Net PTI (%)</b>	<b>Pay Adjustment Rate (%) #</b>	<b>Annual Change in CCPI (%)</b>
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 <sup>11</sup>	Upper	-4.42	-4.42	-2.9
	Middle	-1.64	-1.64	
	Lower	-1.58	-1.58	
2003-2004 <sup>12</sup>	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 <sup>13</sup>	Upper	-	-	1.5
	Middle	-	-	
	Lower	-	-	

# 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.

<sup>11</sup> The pay reduction took effect from 1 October 2002.

<sup>12</sup> 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.

<sup>13</sup> 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 <sup>14</sup>	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 (5.8)
	Middle	6.16	6.16	
	Lower	5.16	6.16 *	
2012-2013	Upper	5.26	5.26	3.7 (4.1)
	Middle	5.80	5.80	
	Lower	4.56	5.80 *	
2013-2014	Upper	2.55	2.55	4.4 (4.0)
	Middle	3.92	3.92	
	Lower	3.92	3.92	
2014-2015	Upper	5.96	5.96	Available in April 2015
	Middle	4.71	4.71	
	Lower	3.80	4.71 *	

# 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.

( ) Denotes the rate of change upon removing the effects of all Government's one-off relief measures.

<sup>14</sup> The pay reduction for the upper salary band took effect from 1 January 2010.

**List of relevant papers on  
2014-2015 Civil Service Pay Adjustment**

Meeting	Date of meeting	Paper
Panel on Public Service	21 June 2010 (item IV)	<a href="#">Legislative Council Brief</a>  <a href="#">Minutes</a>
Panel on Public Service	20 June 2011 (item IV)	<a href="#">Legislative Council Brief</a>  <a href="#">Minutes</a>
Panel on Public Service	18 June 2012 (item II)	<a href="#">Legislative Council Brief</a>  <a href="#">Minutes</a>  <a href="#">Administration's follow-up paper</a>
Panel on Public Service	17 June 2013 (item IV)	<a href="#">Legislative Council Brief (issue on 4 June 2013)</a>  <a href="#">Legislative Council Brief (issue on 11 June 2013)</a>  <a href="#">Minutes</a>  <a href="#">Administration's follow-up paper</a>
Panel on Public Service (Special meeting)	2 July 2013 (item I)	<a href="#">Legislative Council Brief (issue on 4 June 2013)</a>  <a href="#">Legislative Council Brief (issue on 11 June 2013)</a>  <a href="#">Minutes</a>
Finance Committee	12 July 2013	<a href="#">Paper provided by the Administration</a>  <a href="#">Minutes</a>