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Panel on Public Service

Meeting on 17 November 2014

Background brief on the Pay Level Survey for the civil service

Purpose

This paper provides background information on the Pay Level Survey ("PLS") for the civil service, and summarizes the major views and concerns on the subject expressed by members of the Panel on Public Service ("the Panel") during previous discussions.

Background

Development of an Improved Civil Service Pay Adjustment Mechanism

2. The Government's civil service pay policy is to offer sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an effective and efficient service; and to ensure that civil service remuneration is regarded as fair by both civil servants and the public they serve through maintaining broad comparability between civil service and private sector pay.

3. In response to calls for a review of the civil service pay levels and pay adjustment mechanism, the Administration announced on 18 December 2001 its decision to conduct a comprehensive review of the civil service pay policy and system to identify means and ways to improve the civil service pay system.

Three advisory bodies on civil service salaries and conditions of service¹ subsequently setup the Task Force on Review of Civil Service Pay Policy and System to take forward the review.

4. On 25 February 2003, the Chief Executive ("CE")-in-Council decided that the Government should in consultation with staff develop, on the basis of the existing system, an Improved Civil Service Pay Adjustment Mechanism ("the Improved Mechanism") which should comprise, amongst others, the conduct of periodic PLSs to compare civil service pay levels with those in the private sector and an effective means for implementing both upward and downward pay adjustments. To take forward the exercise, the Civil Service Bureau ("CSB") set up in April 2003 a Steering Committee comprising selected members drawn from the three advisory bodies on civil service salaries and conditions of service to provide independent and professional advice for the exercise. A Consultative Group on Civil Service Pay Adjustment Mechanism ("CG") involving staff representatives from the Staff Sides of the central consultative councils and the major service-wide staff unions was also formed to provide staff input to the exercise.

5. The Improved Mechanism was endorsed by the Executive Council in 2007 and comprises, amongst others, the conduct of (a) a PLS every six years; (b) a starting salaries survey ("SSS") every three years; and (c) a pay trend survey annually, including the year when a PLS was conducted.

The 2006 PLS

6. To ensure that the PLS would be carried out in a credible and professional manner, the CSB developed the survey methodology and carried out the actual survey work and data analysis with professional assistance from outside consultants in two phases as follows:

(a) Phase one

the CSB appointed a consultant (Phase One Consultant) in November 2003 to provide technical assistance in developing a feasible and credible survey methodology. Taking account of the Phase One Consultant's recommendations, the outcome of extensive consultation and other relevant considerations, the CSB decided to conduct a PLS for the civil service using the methodology as recommended by the Phase One Consultant.

¹ The three advisory bodies are the Standing Commission on Civil Service Salaries and Conditions of Service ("the Standing Commission"), the Standing Committee on Disciplined Services Salaries and Conditions of Service, and the Standing Committee on Directorate Salaries and Conditions of Service.

Under the survey methodology, a job inspection process was carried out with the participation of management and staff to gather detailed job-related information on the civil service benchmark jobs to facilitate identification of broadly comparable jobs in the private sector on which pay data would be collected. Key features of the methodology are in **Appendix I**; and

(b) Phase two

the CSB appointed a consultant (Phase Two Consultant) in June 2005 to carry out the field work of the PLS in accordance with the methodology developed under the Phase One Consultancy. From September to October 2005, the Phase Two Consultant carried out staff consultation on the approach for the job inspection process. Taking account of the consultation feedback, the Phase Two Consultant finalized the job inspection approach and commenced the job inspection process in December 2005.

7. The Phase Two Consultant completed the PLS, using 1 April 2006 as the reference date, and submitted its final report to the CSB in April 2007. The findings of the 2006 PLS revealed that civil service pay indicators for five respective job levels (covering the lowest to the highest non-directorate level in the civil service) fell within the plus/minus 5% range of the respective market pay indicators². Based on the principle of broad comparability between civil service and private sector pay, the CE-in-Council decided on 24 April 2007 that no adjustment should be made to the civil service pay scales as at 1 April 2006. In endorsing the results of the 2006 PLS, the CE-in-Council also endorsed the general framework for the conduct of the PLS (**Appendix II**), and the general principles of application of PLS findings to non-directorate civilian grades of the civil service (**Appendix III**).

The 2013 PLS

8. With a view to enhancing the credibility of the PLS and having regard to the rich experience of the Standing Commission in the conduct of surveys on private sector pay-related matters and the profound knowledge about the civil service, the CSB invited the Standing Commission in late 2011 to conduct the 2013 PLS, as well as to advise the Administration on how the survey findings should be applied to the non-directorate civilian grades of the civil service. In order not to undermine the independence of the Standing Commission, the

² The disciplined services grades and the directorate grades were not covered in the 2006 PLS because of the lack of market comparators for the former, and the need to adopt a different survey methodology for the latter.

Administration had made it clear that the Standing Commission might modify the general framework and the general application principles as it saw fit.

Past discussions

The 2006 PLS

9. In reviewing the progress of the conduct of the PLS in November 2006, concern was raised that of the 208 private organizations invited to take part in the survey, only some 100 of them had agreed to join. Concern was also raised that if the numbers of staff employed by these organizations were small, the findings of the PLS might not accurately reflect the suitable pay levels for the civil service posts.

10. The Administration advised that based on the Phase One Consultant's recommended methodology, the findings of the PLS would be professionally recognized as credible if about 70 private organizations were involved in the survey. The Administration further advised that in the selection of the 208 private organizations for the PLS, the Government had consulted the CG. The staff sides fully understood that under the adopted methodology, it was acceptable for about 70 to 100 private organizations, each having more than 100 staff, to join the PLS. The Administration informed the Panel after the November 2006 meeting in December 2006 that the numbers of staff employed by the 98 private organizations participating in the PLS were as follows:

<u>Number of staff</u>	<u>Number of companies</u>
Between 100 and 300	23
Between 301 and 500	20
Between 501 and 1 000	25
Between 1 001 and 5 000	24
Above 5 001	6

11. On the question as to whether the private organizations which had agreed to take part in the PLS represented the economic sectors suitable for comparison with the civil service, the Administration advised that these organizations covered all major economic sectors in Hong Kong. The Administration further advised that the objective was to make available about 10 private organizations which had jobs with similar job nature and level of responsibilities for comparison with each benchmark civil service post. Based on the information collected from the private organizations, the consultant would assess the nature and contents of the jobs and report to the CSB whether

the private sector jobs were suitable for comparison with civil service posts for the purpose of the PLS.

12. Noting that the PLS would be carried out every six years, a member opined that the methodology for conducting the PLS could be refined to enable more precise comparison of the pay levels of comparable jobs in the public and private sectors. The Administration advised that the methodology for conducting the 2006 PLS was developed after extensive consultation and detailed discussion within and outside the civil service. The Administration would consult the staff sides and the relevant advisory bodies on ways to further improve the methodology for conducting the PLS in future.

13. Responding to the enquiry as to why the total cash compensation data at the upper third quartile (i.e. P75) for determination of the private sector pay indicator for each job level, instead of the medium point of the total cash compensation, was adopted in the PLS for pay comparison with the civil service, the Administration advised that it was the Government's established pay policy to offer sufficient remuneration to attract, retain and motivate staff of a suitable caliber to provide the public with an effective and efficient service, and to ensure that civil service remuneration was regarded as fair by both civil servants and the public they served. As the largest employer in Hong Kong, the Government needed to set an example as a good employer. The Administration further advised that P75 had been adopted in previous PLSs since the 1970s and had been accepted by the three advisory bodies on civil service salaries and conditions of service.

The 2013 PLS

14. A member queried the need of conducting a SSS every three years, as the starting salaries of civil servants could be determined in the context of PLS. The Administration explained that SSS and PLS were essentially different from each other as the two surveys measured different aspects of private sector pay. The PLS measured the total cash compensation (in absolute dollar terms) paid to different jobs at different levels in the private sector at a particular point in time, whilst the SSS compared the prevailing starting salaries of different basic ranks of civilian grades (categorized by minimum qualification requirements) with the entry pay of jobs in the private sector requiring similar qualification requirements.

15. As pay stability was important to employees including civil servants, question was raised as to whether downward adjustment would be made to the civil service pay points if the PLS results revealed that the relevant civil servant pay points exceeded the pay points of the comparable posts in the private sector

by 5% or more. The Administration responded that the adoption of a plus/minus 5% as the acceptable range of difference between the civil service and private sector pay indicators for a job level was a decision made by the CE-in-Council in 2007. Where the difference fell outside this range, the downward/upward adjustment to the relevant civil service pay points would be made to the upper/lower limit of the 5% range. The three advisory bodies on civil service salaries and conditions of service had been consulted on such arrangement.

16. On the suggestion of setting the reference date of the 2013 PLS survey taking into account the effective date of the new Statutory Minimum Wage ("SMW") rate, the Administration advised that it did not intend to give any directive regarding the reference date to the Standing Commission as the pay levels of the private sector could be subject to various factors such as the economic environment, and the prevailing SMW rate might be just one of them. Even if the member's suggestion were to be adopted, there would still be a time gap between the setting of a new SMW rate and the actual timing of making the comparison between the private sector pay and the civil service pay because the pay data collection process and other preparation work for the survey would take some time to complete. Nevertheless, the Administration undertook to convey members' views to the Standing Commission for consideration.

Latest development

17. On 30 October 2014, the Standing Commission submitted its report on the 2013 PLS to the CE. The Administration will brief members on the findings of the 2013 PLS and the recommendations of the Standing Commission at the Panel meeting on 17 November 2014.

Relevant papers

18. A list of relevant papers is in **Appendix IV**.

Council Business Division 4
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Appendix I

Methodology for conducting a Pay Level Survey

The methodology for conducting a PLS, as recommended by a consultant appointed by the Administration in late 2003, includes the following key features –

- (a) the adoption of the broadly-defined job family and job level method, under which civil service benchmark jobs in the civilian grades on the Master Pay Scale ("MPS") and the Model Scale 1 Pay Scale ("MOD 1") are matched with broadly comparable counterparts in the private sector in terms of job content, work nature, level of responsibility and typical requirements on qualification and experience;
- (b) the grouping of civil service benchmark jobs into five job families (having regard to the broad nature of their work) and five job levels (having regard to their general level of responsibility), giving rise to a matrix of 25 groups;
- (c) the selection of civil service benchmark jobs having regard, among others, to their establishment size (the total establishment size of the grades from which benchmark jobs are selected should be no less than 100) and to the availability of broadly comparable jobs in the market. There are no selected civil service benchmark jobs in the disciplined services grades or directorate grades in view of the absence or scarcity of comparable jobs in the market;
- (d) the selection of private sector companies for survey based on a set of criteria, including (i) they should be good and steady employers, (ii) they should normally employ no less than 100 staff, (iii) they should determine pay levels for their staff on the basis of factors and considerations applying to Hong Kong, and (iv) they should not use civil service pay scales or pay adjustments as the major factors in determining their pay levels. In view of the last criterion, there are no selected civil service benchmark jobs in the education, medical and health care, and social welfare grades;
- (e) the collection of both basic cash compensation data (i.e. base salary and contractually guaranteed bonus) and total cash compensation data (i.e. base salary and all variable pay and fringe benefits paid in cash); and

- (f) the consolidation of data collected on the basis of the typical organization practice approach, under which each surveyed company is given equal weight irrespective of its employment size.

General Framework for the Conduct of Pay Level Survey¹

- (a) The adoption of a broadly defined job family and job level method;
- (b) the selection of civil service benchmark jobs in each job family and job level with comparators in the private sector;
- (c) the matching and comparison of civil service benchmark jobs with counterpart jobs in the private sector;
- (d) the selection of steady and good employers in the private sector to participate in the survey;
- (e) the collection of both basic cash and total cash compensation data from surveyed companies; and
- (f) the adoption of the typical organization practice approach for consolidation of data collected from surveyed companies.

¹ The Executive Council endorsed in 2007 the general framework for the conduct of future Pay Level Survey (PLS) subject to a review of the following three main differences between the PLS and the Pay Trend Survey (PTS) –

- (a) companies surveyed: the PLS covers companies with 100 or more employees only while the PTS also covers companies with 50-99 employees;
- (b) data consolidation method: the PLS uses the typical organization practice approach (which is in effect an un-weighted average approach) while the PTS uses the weighted average approach with gross-up factors; and
- (c) number of job levels and salary bands: the PLS categorizes the surveyed employees into five job levels, while the PTS uses a three-salary band categorization.

General Principles of Application of Pay Level Survey Findings to Non-directorate Civilian Grades of the Civil Service

- (a) The adoption of total cash compensation data at the upper third quartile (or P75) for the determination of the private sector pay indicator for each job level;
- (b) the adoption of the notional mid-point salary plus the actual average expenditure on fringe benefits paid in cash for the determination of the civil service pay indicator for each job level;
- (c) the adoption of a plus/minus 5% as the acceptable range of difference between the civil service and private sector pay indicators for a job level. Where the difference is within this range, no downward/upward adjustment is to be made to the relevant civil service pay points. Where the difference falls outside this range, the downward/upward adjustment to the relevant civil service pay points is to be made to the upper/lower limit of the 5% range; and
- (d) the application of Pay Level Survey (PLS) results, in accordance with items (a) to (c) above, to all civil service pay scales on the basis of their internal relativities as at the reference date of the concerned PLS.

Appendix IV

Pay Level Survey for the civil service

List of relevant papers

Meeting	Date of meeting	Paper
Panel on Public Service	19 June 2006 (Item IV)	Administration's paper Minutes
Panel on Public Service	20 November 2006 (Item V)	Progress Update provided by the Administration Background Brief Minutes Administration's follow-up paper
Panel on Public Service	21 May 2007 (Item IV)	Legislative Council Brief Minutes
Panel on Public Service	20 February 2012 (Item III)	Administration's paper Updated background brief Minutes Administration's follow-up paper