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Panel on Public Service

Meeting on 22 June 2015

Updated background brief on 2015-2016 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 four 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 2015 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 councils¹ ("the staff sides"), the Administration as well as the advisory bodies on civil service salaries and conditions of service². An introduction to the PTS mechanism and methodology is provided in Annex A to the Legislative Council Brief on the 2015-2016 civil service pay adjustment issued on 9 June 2015.

4 According to the aforesaid Legislative Council Brief, the 2015 PTS collected the basic pay and additional pay adjustment data of 167 443 employees in 105 companies, consisting of 165 892 employees in 82 larger companies and 1 551 employees in 23 smaller companies. The findings of the 2015 PTS are as follows –

Salary Band	Basic Pay Indicator (A)	Additional Pay Indicator (B)	Gross Pay Trend Indicator (A) + (B)
Upper (Above Master Pay Scale ("MPS") 33 to General Disciplined Services (Officer) Pay Scale 39, viz. \$59,486 to \$118,840);	4.75%	-0.29%	4.46% ³
Middle (MPS 10 to 33, viz. \$19,410 to \$59,485)	5.24%	-0.18%	5.06%
Lower (Below MPS 10, viz. below \$19,410)	4.89%	-0.16%	4.73%

¹ The four central consultative councils are the Senior Civil Service Council, the Model Scale 1 Staff Consultative Council, the Police Force Council ("PFC") and the Disciplined Services Consultative Council ("DSCC"). The staff side of the DSCC and three of the four constituent associations of the PFC announced their withdrawal from the PTSC in 2013 after the conclusion of the 2013-2014 Civil Service Pay Adjustment. Although the Government has made persistent efforts in persuading them to return to the PTSC, they have refused to do so. They have not participated in the 2015 PTS, although they have been duly kept informed of the deliberation on the 2015 PTS and were invited to contribute their views to the Committee.

² 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.

³ In considering the 2015 PTS Report, the PTSC noted that a company had adjusted the data it submitted in 2014. The PTSC decided to include this adjustment in the calculation of the 2015 PTIs. Accordingly, the gross PTI for the upper salary band is increased by 0.04%, i.e. from 4.42% as tentatively announced on 19 May 2015 to 4.46%.

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 indicators⁴ ("PTIs");
- (b) the state of Hong Kong 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 2015-2016 pay adjustment exercise, the Administration gives an account of these factors in paragraphs 6 to 14 of the Legislative Council Brief on the 2015-2016 civil service pay adjustment issued on 9 June 2015.

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 2015-2016

8 Taking into account all relevant factors under the established mechanism, the Acting CE-in-Council decided at its meeting on 9 June 2015 that the following pay offers for 2015-2016 should be put to the staff sides –

⁴ 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.

Salary band	No. of civil servants⁵	Net PTI	Pay offer
Directorate	1 339	N.A. ⁶	3.96%
Upper	18 574	3.46%	3.96%
Middle	116 456	4.12%	4.62%
Lower	27 196	3.02%	4.62%

9 In gist, the pay offers for the upper and middle salary bands are their net PTIs plus 0.5%. 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" arrangement⁷.

10 According to the Administration, it conveyed the pay offers to the staff sides on 9 June 2015. 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 2015-2016.

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 July⁸. Views and concerns expressed by Members when the subject was discussed by the Panel and FC in the past four years are summarized in the ensuing paragraphs.

⁵ The figures reflected the position as at 31 March 2015 and included some 19 600 civil servants seconded to/working in trading funds, subvented and other public bodies.

⁶ The PTS does not cover private sector employees whose salary overlaps with directorate civil servants. The pay claims from the staff sides also do not cover directorate civil servants.

⁷ 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.

⁸ Although the funding proposal on 2014-2015 civil service pay adjustment was on the agenda of FC meeting for 11 July 2014, such proposal was only approved by FC at its meeting on 16 January 2015 due to filibustering by some Members at FC meetings.

Factors considered in making pay adjustment decisions

12 In 2013, 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 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 judgment. 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.

The PTS mechanism and methodology

14. 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.

15. 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.

16. 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.

17. 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.

Civil service pay adjustment rates

18. 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.

19. 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.

20. Some Members expressed disappointment at the widening income disparity between civil servants in the directorate and upper salary bands and those in medium and lower salary bands. They pointed out that the income of a civil servant at the highest pay point on the Directorate Pay Scale would be 23.6 times of that of the civil servant at the lowest pay point on the MPS after the pay rise in 2014-2015. The Administration responded that the civil service pay adjustment was conducted according to established procedure, and was not widening income disparity. Moreover, the cumulative increase in pay for directorate and upper salary bands since 2007 was 31.56%, which was lower than the 35.38% cumulative increase for medium and lower salary bands for the same period.

21. Responding to the question as to whether the Administration would enhance the Improved Civil Service Pay Adjustment Mechanism, the Administration responded that upon completion of the annual PTS, PTSC would explore improvements to the mechanism, such as the choice of comparable private sector companies for pay trend survey.

Civil service morale

22. Noting that the request from some staff side representatives for aligning the pay offers for the middle and lower salary bands with that for the upper salary band was not acceded to in the 2014-2015 civil service pay adjustment, members expressed concern over the civil service morale. Having considered that the civil service morale had already been on the decline owing to the increasing work pressure and replacement of pension benefits by the Civil Service Provident Fund ("CSPF") Scheme for civil servants appointed on or after 1 June 2000, a member suggested that the Administration should conduct a survey to assess the state of civil service morale.

23. The Administration advised that the Government attached great importance to staff morale and would continue to work on various fronts to sustain staff morale, including the provision of additional manpower to alleviate the increasing work pressure among civil servants. The Administration considered that as no significant recruitment or retention problem was observed after the implementation of the CSPF Scheme in 2000, civil service jobs were still attractive in retaining and motivating staff, and in attracting persons of suitable calibre to join the civil service. The Administration had no plan to conduct a survey on staff morale.

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

24. 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.

25. 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 factors⁹ 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.

Pay adjustments for staff of the subvented organizations

26. 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 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.

27. 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.

⁹ 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.

28. On the enquiry as to whether subvented NGOs were mandated to provide back pay to employees resigned after the retrospective effect date on 1 April in the respective year, the Administration replied that subvented NGOs were not under the control of the Government, and the Administration could not mandate the payout of back payments to resigned employees.

Time lag in implementation of pay adjustments

29. 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.

30. 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.

Latest development

31. The Administration will brief the Panel on the 2015-2016 civil service pay adjustment at the meeting on 22 June 2015.

32. A list of relevant papers is in **Appendix II**.

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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.

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 ¹	Upper	-4.42	-4.42	-2.9
	Middle	-1.64	-1.64	
	Lower	-1.58	-1.58	
2003-2004 ²	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 ³	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.

¹ The pay reduction took effect from 1 October 2002.

² 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.

³ 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 ⁴	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	4.5 (3.2)
	Middle	4.71	4.71	
	Lower	3.80	4.71 *	
2015-2016	Upper	3.46	3.96	Available in April 2016
	Middle	4.12	4.62	
	Lower	3.02	4.62 *	

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.

⁴ The pay reduction for the upper salary band took effect from 1 January 2010.

**List of relevant papers on
2015-2016 Civil Service Pay Adjustment**

Meeting	Date of meeting	Paper
Panel on Public Service	21 June 2010 (item IV)	Legislative Council Brief Minutes
	20 June 2011 (item IV)	Legislative Council Brief Minutes
	18 June 2012 (item II)	Legislative Council Brief Minutes Administration's follow-up paper
	17 June 2013 (item IV)	Legislative Council Brief (issue on 4 June 2013) Legislative Council Brief (issue on 11 June 2013) Minutes Administration's follow-up paper
	2 July 2013 (Special meeting) (item I)	Legislative Council Brief (issue on 4 June 2013) Legislative Council Brief (issue on 11 June 2013) Minutes
Finance Committee	12 July 2013	Paper provided by the Administration Minutes
Panel on Public Service	23 June 2014 (item IV)	Legislative Council Brief (issue on 10 June 2014) Legislative Council Brief (issue on 17 June 2014) Minutes

Meeting	Date of meeting	Paper
Finance Committee	16 January 2015	Paper provided by the Administration Minutes

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