

政府總部
公務員事務局
香港添馬添美道2號
政府總部西翼



**CIVIL SERVICE BUREAU
GOVERNMENT SECRETARIAT**
WEST WING
CENTRAL GOVERNMENT OFFICES
2 TIM MEI AVENUE, TAMAR
HONG KONG

本函檔號 Our Ref.: CSBCR/PG/4-085/001/75
來函檔號 Your Ref.: CB4/PL/PS

電話號碼 Tel. No.: 2810 3112
傳真號碼 Fax No.: 2147 3292
電郵地址 E-mail Address: csbts@csb.gov.hk
網 址 Homepage Address: <http://www.csb.gov.hk>

22 December 2015

Miss Mary So
Clerk to LegCo Panel on Public Service
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Miss So,

**Panel on Public Service
Motion passed at the meeting on 22 June 2015**

The following motion was passed at the meeting of the Panel on Public Service on 22 June 2015 –

“That this Panel requests the Administration to immediately review the policy of deducting the payroll cost of increments implemented since 1989 so that more than half of the civil servants who have reached the maximum pay points of their ranks can be offered reasonable pay increase, and to provide the review outcome to this Panel in six months.”

The Government’s reply to this motion is as follows.

Background of the deduction of payroll cost of increments

The annual pay trend survey (PTS) conducted for the purpose of civil service adjustment aims to ascertain the year-on-year pay adjustment movements in the private sector. The results of the PTS, i.e. the gross Pay Trend Indicators (PTIs) for the three salary bands, from which the payroll cost of increments (PCIs) is deducted, provide the

net PTIs which are one of the factors to be considered in the annual civil service pay adjustment¹.

The practice of deduction of PCIs has been implemented since 1989. Prior to 1989, merit pay and inscale increments in the private sector were not included in the calculation of the PTIs since they were not regarded as part of the "general pay award" (i.e. pay award that general staff members would receive).

In 1988, the Government set up the "Committee of Inquiry into the 1988 Civil Service Pay Adjustment and Related Matters" (the Committee of Inquiry) comprising independent persons to review matters relating to civil service pay adjustment, including the methodology of the PTS. Upon a thorough review, the Committee of Inquiry arrived at the following conclusion on how merit pay of private sector companies should be dealt with –

- (a) Regarding the PTS, "there can be no dispute about the principle of excluding from pay comparisons individual payments which reward special effort"².
- (b) Before 1989, merit pay was excluded from the PTIs on the ground that it did not form part of the private sector's "general pay award". However, the Committee of Inquiry noted that merit pay formed a significant and perhaps increasing part of the annual pay adjustments in some companies in the private sector³. Merit payments were awarded in a number of private sector companies on a scale which made them difficult to distinguish from general pay increases⁴. Therefore, there was no reason to completely exclude merit pay in the computation of PTIs. The Committee of Inquiry considered that a proportion of the merit pay should be included in the computation of PTIs while pay elements which were awarded to individuals for exceptional effort or which compensate for special inconveniences should be excluded.

¹ The other five factors are the state of Hong Kong economy, changes in the cost of living, the Government's fiscal position, the staff sides' pay claims and civil service morale.

² Paragraph 4.10, Chapter IV, Interim Report of the Committee of the Inquiry into the 1988 Civil Service Pay Adjustment and Related Matters.

³ Paragraph 6.2, Chapter VI, Final Report of the Committee of the Inquiry into the 1988 Civil Service Pay Adjustment and Related Matters.

⁴ Paragraph 6.3, Chapter VI, Final Report of the Committee of the Inquiry into the 1988 Civil Service Pay Adjustment and Related Matters.

- (c) However, “any attempt to distinguish between different types of merit pay could only lead to arguments over definition”⁵. It was also operationally infeasible to request companies participating in the PTS to exclude certain types of merit pay from the pay data of its employees. Therefore, the Committee of Inquiry recommended that, a more pragmatic way should be to include merit pay and inscale increments of private sector companies (including rewards given to individual employees “for outstanding performance or as special compensation”, which should have been excluded) in the PTIs. However, as a balancing factor, discounted civil service PCIs should be deducted at the same time.

According to the conclusion of the Committee of Inquiry, if the merit pay and inscale increments in the private sector (including those parts that should have been excluded) were taken into account in full without the balancing factor of deducting civil service PCIs, the PTI data would be skewed. The Government subsequently adopted the recommendations of the Committee of Inquiry, and from the 1989 PTS onwards, the merit pay and inscale increments in private sector companies were included, with the deduction of civil service PCIs as a balancing factor.

It should be noted that, according to the recommendations of the Committee of Inquiry, the PCIs deducted are “discounted” as each of which are expressed as the percentage of “the actual increment cost for civil servants who have not reached the maximum pay points of their ranks in each salary band” in “the total payroll cost for all civil servants in the respective salary band” in the survey year. This figure is lower than the percentage of average increments for civil servants who have not reached the maximum pay points of their ranks. To illustrate this point, we can assume that there are a total of 100 civil servants in a certain salary band, and 40 of them have not reached the maximum pay points of their ranks. If the annual salary for each civil servant in this band is \$100,000, and the annual cost for pay increment per person is \$2,000, the undiscounted civil service PCI would be $2\% \left(\frac{\$2,000 \times 40}{\$100,000 \times 40} \right)$. However, according to the present arrangement, the Government only deducts $0.8\% \left(\frac{\$2,000 \times 40}{\$100,000 \times 100} \right)$ from the PTI as a balancing factor regarding the inclusion of private sector merit pay and inscale increments in the PTS.

⁵ Paragraph 6.5, Chapter VI, Final Report of the Committee of Inquiry into the 1988 Civil Service Pay Adjustment and Related Matters.

Impact on civil servants who have reached the maximum pay points

There are views that the deduction of PCIs should not be applied to civil servants who have reached their maximum pay points as they are not eligible for further annual pay increments. Such views are inaccurate as they have mistakenly taken the recommendations of the Committee of Inquiry as a means to offset civil service pay increments. According to the recommendations of the Committee of Inquiry, the deduction of PCIs does not aim at offsetting the annual pay increments of civil servants. Instead, it serves as a balancing factor for the inclusion of private sector merit pay and inscale increments (including those parts which should have been excluded). Since the gross PTIs which apply to all civil servants (irrespective of whether they are still eligible for pay increments) have taken into account the merit pay and inscale increments in the private sector, the deduction of PCIs should also apply to all civil servants according to the recommendations of the Committee of Inquiry.

The Government's position

The practice of deduction of PCIs is closely related to the methodology of the PTS as well as the composing factors and calculation of gross PTIs. Any proposal to change the existing practice will have significant and lasting impacts on the long-established annual civil service pay adjustment mechanism. It is therefore important to act with prudence. The Government understands that some civil service groups hold different views over the practice of deduction of PCIs. The Civil Service Bureau will continue to communicate with the staff sides and consider the justifications they put forth on this matter.

Yours sincerely,



(Paul Cheung)

for Secretary for the Civil Service

c.c. Hon POON Siu-ping, BBS, MH
Chairman of the Panel on Public Service