

**BRIEF FOR THE LEGISLATIVE COUNCIL
CIVIL SERVICE PAY ADJUSTMENT 1999**

INTRODUCTION

At the meeting of the Executive Council on 8 June 1999, the Council ADVISED and the Chief Executive ORDERED that civil service pay be frozen across-the-board with effect from 1 April 1999 for 1999-2000.

BACKGROUND AND ARGUMENT

Existing Policy and Methodology

2. The Government's policy on civil service pay adjustments is that the adjustment should be considered annually and that changes should be broadly in line with pay adjustments in the private sector. To this end, a survey of private sector pay trends is carried out annually. The results of the pay trend survey, after being discounted by the payroll costs of civil service increments, provide the basis for considering the size of the annual pay adjustment. A note on the pay trend survey methodology is at the **Annex**. Other factors taken into account include increases in the cost of living, the state of the economy, budgetary considerations, the Staff Sides' pay claims, and civil service morale.

1998/99 Pay Trend Survey

3. The pay trend survey for 1998/99 covered a total of 128 414 employees in 77 companies. Data was collected over the period 2 April 1998 to 1 April 1999. The resulting pay trend indicators (PTIs) for the three non-directorate pay bands are as follows -

	1998/99 Gross PTIs	Payroll cost of civil service increments	1998/99 Net PTIs
	(a)	(b)	(a-b)
Upper pay band (\$46,486 - \$92,700 p.m.)	1.21%	1.34%	-0.13%
Middle pay band (\$15,160 - \$46,485 p.m.)	2.12%	1.28%	+0.84%
Lower pay band (below \$15,160 p.m.)	0.59%	1.13%	-0.54%

Cost of Living

4. The increases in the cost of living indices for the period 1 April 1998 to 31 March 1999, over the period from 1 April 1997 to 31 March 1998, are as follows -

Hang Seng Consumer Price Index (HSCPI) (i.e. average monthly household expenditure of \$35,500 to \$71,400 at 1998 prices)	1.6%
Consumer Price Index B [CPI(B)] (i.e. average monthly household expenditure of \$18,700 to \$35,500 at 1998 prices)	0.9%
Consumer Price Index A [CPI(A)] (i.e. average monthly household expenditure of \$4,700 to \$18,700 at 1998 prices)	1.0%
Composite CPI (i.e. based on the expenditure pattern of all the above households taken together)	1.1%

State of the Economy

5. The Hong Kong economy experienced a severe setback in 1998, amidst the volatility in the local financial markets and the asset price dip caused by the regional financial turmoil. For the year as a whole, consumer spending

and investment spending fell by 6.8% and 6.1% in real terms. Reflecting the setback in both external and domestic demand, Gross Domestic Product (GDP) was down by 4.1% in money terms over 1997. In real terms, GDP contracted by 5.1% in real terms in 1998, as compared to a 5.3% growth in 1997.

6. In the labour market, corporate adjustments gave rise to more lay-offs thereby lifting unemployment. At the same time, the unemployment situation was aggravated by a distinct rise in overall labour supply. Since the third quarter of 1997, the seasonally adjusted unemployment rate in the local economy has jumped from a low of 2.2% to the latest 6.3%, and the underemployment rate from 1.0% to 2.8%. In absolute terms, the number of unemployed has more than doubled, to slightly over 215 000. Median household income was down by 5.3% in money terms last year.

7. Consumer price inflation eased considerably over the course of 1998. On a year-on-year comparison, the Composite Consumer Price Index (CPI) moderated from a 5.0% increase in the first quarter of 1998 to a 0.8% decline in the fourth quarter. For 1998 as a whole, the Composite CPI rose by only 2.8%, markedly down from the 5.8% increase in 1997. On an annual basis, this was the lowest figure ever recorded since this Index began. In the first four months of 1999, consumer prices eased even further, to an average decline of 2.3% over a year earlier.

Budgetary Considerations

8. The budgetary situation is a significant consideration in this year's pay adjustment. The provisional deficit for 1998-99 is \$23.2 billion. This was mainly due to the reduction in revenue from land transactions, profits tax, stamp duty, bets tax and the 10% tax rebate announced in the 1999 Budget. For 1999-2000, the Financial Secretary estimated in the 1999 Budget a deficit of \$36.5 billion which is about 2.8% of GDP.

9. The Financial Secretary also announced in the 1999 Budget Speech that civil service pay will be frozen in 1999 for fiscal reasons. The announcement has established a limit to this year's annual pay adjustment exercise. The Financial Secretary said at the time that we would need to make reference to the results of the 1998/99 pay trend survey to see whether there was a need to go further than a freeze.

Staff Sides' Pay Claims

10. Though the Staff Sides were unhappy about the Financial Secretary's decision to freeze civil service pay before the announcement of the pay trend survey results, they accept the Government's decision. All the four councils urged the Government to adhere to the pay freeze decision and make no further adjustment despite the negative pay trend for some salary bands. Their submissions largely cover similar ground. The Police Force Council Staff Associations reiterated their objection to the announcement of the pay freeze before the completion of the survey, which was considered to have undermined the importance of the Pay Trend Survey as an established and effective pay adjustment mechanism. Given the pay trend indicator for the middle band is a positive figure, the Model Scale 1 Staff Consultative Council has demanded that there should be higher adjustment when the economy recovered.

1999 PAY ADJUSTMENT

11. Having regard to the results of the pay trend survey, movements in the cost of living, the state of the economy, budgetary considerations, the Staff Sides' pay claims, and civil service morale, *civil service pay, including that for the directorate, is frozen across-the-board with effect from 1 April 1999 for 1999-2000.*

FINANCIAL IMPLICATIONS

12. The pay freeze proposal will have no financial implication.

ECONOMIC IMPLICATIONS

13. Government, just like any other employer, has to compete for the manpower and expertise it needs, through offering appropriate salaries and other terms of employment. The results of the pay trend survey for 1998/99 reflected that the pay adjustment awarded by employers in the private sector to their employees in the preceding year were generally minimal. Currently, civil servants make up about 5.86% of the total workforce, with their emoluments accounting for about 9% of the overall employment remuneration in the economy or about 5% of GDP. (If employees in the subvented organisations are also included, the proportion of employment in the civil service and the subvented organisations in total workforce is estimated at around 10%. The

respective shares of their emoluments in overall employment remuneration and GDP will be around 18% and 9%). While the actual significance of any civil service pay adjustment on the overall labour market should not be taken out of proportion, its psychological impact could be much greater under the present circumstances.

PUBLICITY

14. The Secretary for the Civil Service informed the Staff Sides of the four central consultative councils of the Government's decision to freeze civil service pay across-the-board in the afternoon of 8 June. A press release was issued on the same day.

SUBJECT OFFICER

15. Enquiries concerning this brief should be addressed to Ms Cecilia Yen, Principal Assistant Secretary for the Civil Service (Special Duties) (Tel : 2810 3113).

Civil Service Bureau
8 June 1999

Methodology for Determining the Civil Service Pay Adjustment

Annual Pay Trend Survey

The system of annual pay trend surveys was introduced in 1974. The survey is conducted by the independent Pay Survey and Research Unit (PSRU) of the Standing Commission on Civil Service Salaries and Conditions of Service.

2. The PSRU collects data from 77 Hong Kong companies on the following criteria :

- (a) The distribution of companies by major economic sectors in the survey field should reflect closely the overall distribution of Hong Kong's economically active population.
- (b) Individual companies should -
 - (i) be regarded as typical employers in their respective fields normally employing 100 employees or more;
 - (ii) be generally known as steady and good employers conducting wage and salary administration on a rational and systematic basis;
 - (iii) determine pay on the basis of factors and considerations applying to Hong Kong rather than factors applying in another country;
 - (iv) if they form part of a group or consortium in Hong Kong, only be treated as separate companies where they have complete autonomy in setting and adjusting pay rates; and
 - (v) not use the government pay adjustment as the main factor in determining pay adjustments.

3. The pay trend survey covers the period from 2 April of the previous year to 1 April of the current year. It includes all full time

employees who work 75% or more of the normal weekly working hours and whose basic salaries are equivalent to the three salary bands of the non-directorate staff in the civil service. Basic salary increases relating to changes in the cost of living, overall changes in market rates, general prosperity and company performance, merit payments and inscale increments are accounted for in the survey. Changes in payments additional to basic salary such as year end bonuses, whether permanent or temporary, are also included¹ .

4. The survey produces three gross PTIs, each representing the weighted average pay increases for all surveyed employees within each salary band. The payroll costs of civil service increments are then deducted from the gross PTIs to produce net indicators which form the basis for a decision on the civil service pay adjustment.

¹ Our calculation method reflects any increases in additional payments in the year of award, and likewise registers the cessation of such payments in the subsequent year. Any one-off special payment in a private sector company would not have a permanent effect on civil service salaries.