

**Legislative Council Panel on Public Service
Meeting on 20 March 2000**

Salary Levels Beyond Entry Level

PURPOSE

This paper examines the considerations involved in making a judgement on whether a review might be carried out at this stage to ascertain civil service salary beyond entry level and the implications arising from proceeding with such a review.

BACKGROUND

2. Our 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. Such remuneration should be regarded as fair both by civil servants and by the public which they serve and should be broadly comparable with private sector practices.

3. Our policy on civil service pay adjustment is that the adjustment should be considered annually and that changes should be broadly in line with pay adjustment in the private sector. Other factors like the cost of living, the state of the economy, budgetary considerations, the Staff Sides' pay claims, and civil service morale are considered when deciding the civil service pay adjustment. Against this, in the context of the 1998 Civil Service Pay Adjustment exercise, we froze the salary of officers at or above D3 and equivalent for one year in 1998-99 and awarded an increase of 6.03% for the upper pay band and the directorate below D3, and 5.79% for the middle and lower pay bands. In the 1999 Civil Service Pay Adjustment exercise, we froze the salary across the board for one year in 1999-2000.

4. The 2000 Civil Service Pay Adjustment exercise is now under way. We will follow the system of annual pay trend surveys, which has been in operation for more than 20 years. The purpose of the pay trend survey is to establish movements in pay in the private sector; pay adjustments in the public sector are measured against this information.

STARTING SALARIES REVIEW

5. In view of public concern that the starting salaries for certain civil service jobs might be out of line with that of the private sector, we commissioned the Standing Commission on Civil Service Salaries and Conditions of Service (the Standing Commission) to undertake an independent study on the starting salaries for civilian grades. We also passed the Standing Commission's Review Report to the Standing Committee on Disciplined Services Salaries and Conditions of Service (the Standing Committee) to consider whether, and if so how, the results of the Starting Salaries Review should be applied to the disciplined services.

6. The Establishment Sub-Committee recommended and Finance Committee approved at their meetings on 26 January and 18 February respectively the Administration's proposal to revise the starting salaries for the civilian and disciplined grades on the basis of the recommendations of the Standing Commission and Standing Committee to bring civil service starting salary levels more in line with private sector entry pay. The new starting salaries will apply to recruits and serving staff on in-service transfer offered appointment on or after 1 April 2000.

RELEVANCE OF THE STARTING SALARIES REVIEW

7. The Starting Salaries Review has not provided us with the necessary basis to adjust the salary levels beyond the entry level. The pay comparison survey conducted by the Standing Commission was for the purpose of finding out how starting pay in the private sector relates to the starting salaries for various entry ranks in the civil service, i.e. the minimum point on the pay scale, on the basis of similar entry qualifications. Data collected from the surveyed companies was confined to entry pay only. Hence, the survey results alone could not justify adjustment of the current maximum pay point at the basic ranks or to pay scales beyond the basic ranks. We certainly could not arbitrarily adjust the salary point above the entry level downwards on the basis of the results of this Review.

8. Comparison of salaries beyond the entry level is very complex in view of the very different nature of private sector and civil service jobs and the very different career structure and progression in the two sectors. If we want to ascertain whether civil service salaries beyond the entry level is in line with that in the private sector, we need to

undertake a pay level survey across the board.

PAY LEVEL SURVEY

9. It would be useful for us to take reference from the history and results of the last Pay Level Survey exercise in considering whether and if so when and how we could proceed with such a survey. The last time we undertook a full-scale pay review exercise was 1986. The review showed that generally, with the exception of Model Scale 1, civil service remuneration package compared favourably with the private sector. This resulted in a major dispute between the staff and management, leading eventually to the establishment of a Committee of Inquiry (C of I) to try to resolve the dispute, in accordance with the 1968 Agreement signed between the Management and the Central Civil Service Councils on the settling of disputes on matters concerning civil service benefits. The ultimate outcome was that the MOD 1 salary scale was adjusted upwards. No downward adjustment was made to the rest of the civil service. The whole process lasted nearly three years (starting with the review in May 1986 and ending with the C of I's recommendations in March 1989). **Annex A** outlines the mechanism used in and results of the 1986 Pay Level Survey (the 1986 Survey) and the findings of the C of I. The C of I concluded that the 1986 Survey did not provide a sufficient basis for making specific adjustments to civil service pay either then or in the future.

10. If we were to embark on a review of civil service pay above entry levels, we have to consider how we could avoid the problems associated with the 1986 Survey. We would also need to address a number of fundamental factors, namely the components of pay to be compared, the method of pay comparison, etc. These we examine in detail below.

A. Components of pay to be adopted in pay comparison

11. We need to consider whether we should cover –

- (a) pay only; or
- (b) total pay for a job, i.e. basic pay plus fringe benefits.

12. Normally, the remuneration for a job in the private sector covers basic pay, bonuses and fringe benefits. Comparison of basic pay only would not reflect the whole picture. On the other hand, the “total

pay” concept was adopted in the 1986 Survey, which was one of the main areas of contention. There was severe criticism from staff over the use of maximum notional value as a means of calculating the value of benefits, which was regarded as biased against civil servants. The C of I then concluded that the methodology used for the evaluation of fringe benefits tended to overvalue civil service benefits especially in relation to housing.

B. Pay Comparison Method

13. We also need to consider the method of pay comparison, which could take the form of –

- (a) factor analysis method; or
- (b) job-for job comparison method.

I) FACTOR ANALYSIS METHOD

14. Under the factor analysis method, the external relativity of each civil service grade is reviewed individually. Some private sector jobs having certain functional similarity with civil service grades are compared with the relevant civil service jobs by a method employing a factor-point approach (please see para. 2 of Annex A for details).

II) CORE GRADE JOB-FOR JOB COMPARISON METHOD

15. Under the core grade job-for-job comparison method, a number of civil service jobs which could be fully and fairly compared with jobs in the private sector would first be identified. The grades for these jobs would become "core grades" to which all other civil service grades (mainly those without private sector analogues) would be linked according to certain defined criteria. The pay for those private sector jobs which were comparable with these core grades would then set the civil service pay for the core grades and all linked grades.

16. The factor analysis method was used in the 1986 Survey. The C of I found this methodology sound and reputable, noting that "there is a reasonable presumption that the broad thrust of the results of the 1986 Survey reflected something like the actual situation". However, it commented that job-for-job comparisons would have been preferable and would have created greater confidence in the results. It also considered that the 1986 Survey was intended to provide broadbrush

comparisons, not precise indicators of the extent to which civil servants were judged to be over or underpaid. It noted, however, that the difficulty with a job-for-job comparison is that it would be difficult to reach agreement with the Staff Sides which jobs should form the core grades and how other grades should be linked to them.

17. In addition to external relativities, internal relativities among different grades in the civil service must also be a major consideration. If a survey needs to be done, we could not simply rely on a pay level survey which provides only for external comparison with the private sector. We also need to undertake internal examination of special job factors specific to individual grades so as to realign the internal relativities in a rational and acceptable way. This will add considerably to the time needed for the exercise.

18. If we were to embark on a pay level survey, we would have to invite the Standing Commission to conduct it. An initial estimate is that it will take some six to nine months to complete a consultancy study for the external comparison, and another 12 to 18 months for the Commission to undertake a comprehensive internal examination of special job factors for about 350 grades. The length of time required is due to the need to allow for and to consider staff representations. This does not include the time required for a C of I to examine and resolve possible disputes should the Staff Sides trigger the mechanism.

LEGAL CONSIDERATIONS

19. We need to examine the legal considerations arising from a possible pay reduction for serving staff, should the review indicate that civil servants are paid more favorably when compared with the private sector.

A. Basic Law

20. Article 100 of the Basic Law provides that “Public servants serving in Hong Kong government departments, including the police department, before the establishment of HKSAR, may all remain in employment and retain their seniority with pay, allowances, benefits and conditions of service no less favourable than before”. We have to consider whether this Article would severely limit the room for any possible downward adjustment.

B. Contractual Obligation

21. We also have to consider whether staff could challenge a reduction in pay on the grounds that it constitutes a breach of contract. It might be possible to reduce civil service pay without risking litigation, if agreement could be reached with the Staff Sides in accordance with the 1968 Agreement. However, such an agreement would be unlikely.

DISCIPLINED SERVICES

22. The results of the 1986 Survey were unanimously rejected by the disciplined services on the ground that there was a lack of private sector analogues for useful comparison. The above argument still stands today. Hence, including the disciplined services in any pay level survey to be conducted is likely to prove highly contentious. However, if we were to leave them out altogether, and just focus on the civilians, this would be very divisive. We therefore need to consider whether and if so how we should cover the disciplined services.

DIRECTORATE

23. We need to consider whether and how we should cover the directorate in the review. In previous pay level surveys, separate exercises were undertaken for the directorate. The last such exercise was undertaken in 1989. If we were to embark on a pay review for the civil service as a whole, it would be consistent with previous practices that we should also embark on a similar review of directorate salaries.

JUDICIARY

24. Likewise, we need to consider whether and how we should cover the Judiciary in the review. The Judiciary is a self-administering body directly responsible to the Chief Executive and with pay and conditions of service for Judicial Officers dealt with separately from the civil service. The Standing Committee on Judicial Salaries and Conditions of Service (SCJS) is responsible for advising on the pay scale of the Judiciary. In 1988, a separate pay scale for Judicial Officers was approved by the Legislative Council to strengthen the independence of the Judiciary by enabling the pay and conditions of service of Judicial Officers to be determined separately from the civil service. In its 1989 report, SCJS concluded that the 1989 pay adjustment for Judicial Officers below the equivalent of the directorate should be the same as for their civil service counterparts. In addition, it considered appropriate to

incorporate the changes to pay levels and structure of the Directorate Pay Scale as recommended by the Standing Committee on Directorate Salaries and Conditions of Service to the Judicial Officers Salary Scale in the 1989 overall review for the directorate officers. Given the independent status of the Judiciary, we would have to invite the Judicial Administrator to consider whether and how best a review of judicial salaries could be taken forward.

STAFF REACTION

25. We met the Staff Sides on this subject on 16 February 2000. On the basis of their very strong views, we anticipate that it could be very difficult to reach agreement with the Staff Sides on the timing and methodology for such a review. If we were to proceed with the review unilaterally, we would have to prepare for the consequence of a prolonged dispute with the Staff Sides, involving the triggering of the C of I mechanism and possible litigations.

SUBVENTED SECTOR

26. Given the present subvention policy requires that remuneration in the subvented sector should not be superior to that of comparable ranks in the civil service, any changes to the civil service pay scales will apply to those subvented organisations which follow the civil service pay scales. Such changes will also affect the level of subvention to organisations the funding for which is based on the principle of cost comparability. In the context of the Starting Salaries Review, there was concern that subvented sector was not consulted on the proposal. Given the wider impact of a review beyond entry level, which would affect serving staff, we need to be mindful of the implications on the subvented sector.

ADVICE SOUGHT

27. An across the board pay level survey will take considerable time. Whether the results may be implemented will be subject to significant legal constraints. Such an exercise will also have a major effect on the morale of the civil service at a time when fundamental changes in civil service structure arising from our Civil Service Reform initiatives will just be starting to take effect.

28. On the other hand, it has been a long time since we last undertook a civil service wide pay level survey. There is a view that

civil servants may be overpaid on the whole, hence a pay reduction would not only be in line with our pay policy, but would also be necessary to help our economy in bringing cost down thus enhancing our competitiveness as a whole. There is also another view that since civil service and subvented sector pay accounts for the bulk of Government's recurrent expenditure, cutting pay would help to control public sector expenditure.

29. The subject is complex and we need to proceed with care. Members' views will be taken into serious account in our further consideration on whether, when and how such a review should be taken forward.

Civil Service Bureau
March 2000

1986 Pay Level Survey

BACKGROUND

The 1986 Pay Level Survey was conducted against a background of Staff Side requests for increase in the salaries of the non-directorate civil service following increase in the salaries of the directorate officers in 1985 and allegations of a shortfall in the annual pay adjustment for 1983. The Government decided that a pay level survey should be conducted to establish whether civil servants' remuneration was in line with that of their counterparts in the private sector. The survey for the non-directorate was carried out by the Standing Commission on Civil Service Salaries and Conditions of Service which in turn appointed Hay Management Consultants to undertake the survey. In tandem with this, a similar survey was conducted by the Hay Management Consultants for the directorate and monitored by the Standing Committee on Directorate Salaries and Conditions of Service.

METHODOLOGY AND APPROACH

2. Since many civil service jobs do not have analogues in the private sector, it was decided not to directly match jobs in the civil service with those in the private sector. Instead a method of job evaluation was employed under which a representative sample of civil service jobs were compared with a similarly representative sample of jobs in the private sector based on three elements:

- (a) know-how, i.e. the qualifications, knowledge, skills, and experience required to be carried out properly;
- (b) problem-solving, i.e. the original thinking required by the job for analysing, evaluating, creating, reasoning, arriving at and making conclusions; and
- (c) accountability, i.e. the answerability for decision/actions and for the consequences thereof.

The total number of points scored for each job were then calculated and matched with the salary and the total remuneration of the job. As regards fringe benefits, the Consultants valued them mainly on the basis

of maximum notional value to employees.

RESULTS

3. The results of the 1986 Survey showed that generally, with the exception of Model Scale 1, and D3 and above pay packages, civil service remuneration package compared favourably with the private sector. The pay packages for Model Scale 1, D3 and D4 were found to be below private sector levels. There was not sufficient information to make a valid comparison with the private sector on pay packages for ranks above D4. The general results of the survey were accepted by the Government.

4. Having regard to the results of the 1986 Survey, the hours of work of Model Scale 1 staff were reduced from 48 hours net to 45 hours net, Model Scale 1 pay scale was adjusted upwards by 3% in value and extended by adding a new pay point so that all serving officers would receive a salary benefit of one pay point on conversion to the next higher point on the revised pay scale. No adjustment was proposed for the D3 and above pay as a result of this survey.

STAFF REACTION AND SUBSEQUENT DEVELOPMENT

5. The findings outlined in paragraph 3 above were rejected by the Staff Sides of both the Senior Civil Service Council and the Police Force Council. The main complaint about the 1986 Survey was centred on the defects which were perceived in the pay level survey methodology, in particular, the method of job evaluation and the valuation of fringe benefits. More specifically, the Staff Sides felt that:

- (a) the methodology of the survey was too broadbrush and had a limited statistical basis. The Consultants' methodology took into account only three factors i.e. know-how, problem solving and accountability. This method was highly subjective, prone to error and open to manipulation. This ignored other important factors e.g. physical effort, working conditions, etc. It was therefore unsuitable for evaluating complex civil service jobs;
- (b) the use of maximum notional value as a means of calculating the value or benefits was biased against civil servants and the valuation of civil service benefits e.g. housing, medical and

retirement benefits were inflated;

- (c) the time-table for the Staff Sides to comment on the survey was too tight and they were not provided with adequate information; and
- (d) the methodology did not take into account the special features of disciplined services work, e.g. danger, stress, on call, restriction of personal freedom.

6. The Staff Sides reacted strongly to the Government's decision to accept in principle the general results of the survey and indicated that implementation would seriously affect staff morale and would be strongly resisted. While discussion on this continued, there was further disagreement between the Administration and the Staff Sides over the size of the 1988 pay adjustment. In the event a Committee of Inquiry was appointed in August 1988 to examine, inter alia, the methodology and findings of the 1986 Pay Level Survey and comment on their validity as a basis for making adjustments to civil service pay. The Committee concluded that:

- (a) the methodology used by the Consultants for the pay comparisons was sound and reputable but job-for-job comparisons would have been preferable and would have created greater confidence in the results;
- (b) the methodology used for the evaluation of fringe benefits tended to overvalue civil service benefits especially in relation to housing; and
- (c) there were nevertheless no convincing grounds for disputing the general tenor of the results though the degrees of discrepancy between the private sector and the civil service must be in doubt.

7. At the same time, the Committee of Inquiry noted that while the Consultants were only asked to make broadbrush comparisons, the results of the survey came to be widely regarded as identifying precise indicators of the extent to which civil servants were over or underpaid. The Committee of Inquiry also noted the Standing Commission's view that broad comparability with the private sector, though important, should not necessarily be the first principle or major consideration for

determining civil service pay. Having regard to these and the fact that the employment and remuneration scene in Hong Kong had altered radically between 1986 and 1989, the Committee of Inquiry concluded that the 1986 Pay Level Survey did not provide a sufficient basis for making specific adjustments to civil service pay either then or in the future. This was accepted by Government subject to the improvements already awarded to Model Scale 1 staff (outlined in paragraph 4 above) remaining intact.

8. When commenting on the system of pay level surveys in respect of the Committee of Inquiry's findings in 1989, the Standing Commission made the following points -

- (a) there is practical difficulty in finding enough private sector job analogues for making job-for-job comparisons;
- (b) frequent adjustments to external relativities at the cost of inevitable disruption to internal relativities would not be conducive to the stability of the civil service; and
- (c) frequent pay level surveys would bring about considerable changes to the existing patterns of civil service pay structure, staff consultation, and pay determination.