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LC Paper No. CB(1)939/02-03(01)

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22 February 2003

The Hon Tam Yiu-chung, G.B.S., J.P.
Chairman, Legislative Council Panel on Public Service

A handwritten signature in cursive script, appearing to read 'Tam Yiu-chung'.

Civil Service Pay Adjustment

Since last August, I have been holding consultations with the staff sides of the four central consultative councils and representatives of the four major service-wide on the handling of the 2003 civil service pay adjustment. I have also continued with my weekly departmental visit programme and evening sessions with staff representatives, through which I collected views on civil service pay issues from a wide spectrum of civil servants of different levels and grades. I am writing to inform you of the latest developments of these staff consultations.

At a meeting held yesterday, I reached a consensus with the staff representatives that civil service pay should be brought back to the levels as at 30 June 1997 in cash terms by two adjustments of broadly equal amount to be implemented on 1 January 2004 and 1 January 2005 respectively. Taking account of the annual adjustments since July 1997, this means that the dollar value of all civil service pay points below D3 or equivalent will be reduced by around 3% from 1 January 2004 and another 3% from 1 January 2005. For civil service pay points at D3 and above or equivalent, their dollar values are only marginally above the levels as at 30 June 1997 in cash terms (due to the pay freeze for officers at these levels in 1998 while the rest of the civil service received a pay increase) and those pay points will be brought back to the 30 June 1997 levels in cash terms as from 1 January 2004. The proposed pay reduction will be implemented by legislation.

In reaching the above consensus, we have carefully considered the relevant factors under the prevailing civil service pay adjustment mechanism. We note that the local economy is still in an adjustment phase and there is continuing downward pressure on prices. Meanwhile, the Government is facing a serious fiscal deficit which must be resolutely tackled through a comprehensive

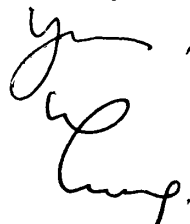
three-pronged programme of measures (i.e. boost the economy, control government expenditure and raise revenue). It is recognized that the success with which the Government is able to control its operating expenditure would impact on the extent of public acceptance of any revenue-generating measures which the Government may propose, and how we handle the civil service pay adjustment issue will have a significant impact on the Government's operating expenditure in the next few years.

The results of the annual pay trend survey have hitherto been one of the factors for consideration in determining the magnitude of the annual pay adjustment. In my discussion with the staff representatives, we have taken note of public criticisms about the existing methodology of the annual pay trend survey as well as the recommendation of the Task Force on Review of Civil Service Pay Policy and Review in its Phase One Final Report that the pay trend survey methodology should be reviewed in the short term. Against this background, we do not consider it appropriate to conduct a pay trend survey for 2002/03 based on the existing methodology as the survey results would lack credibility.

The consensus which I have reached with the staff representatives on the impending civil service pay adjustment has taken reasonable account of all the relevant factors in the present circumstances. It will contribute towards reducing the fiscal deficit. At the same time, it has due regard to the need for maintaining a stable civil service and the morale of the civil service.

In addition, I have reached consensus with the staff representatives that as a separate exercise, we should work together on an improved civil service pay adjustment mechanism to better reflect the policy that civil service pay should be broadly comparable to private sector pay. The improved mechanism would comprise the conduct of periodic pay level surveys to compare civil service pay levels with those in the private sector, the conduct of annual pay trend surveys based on an improved methodology and an effective means for implementing both upward and downward adjustments. We would aim to complete the exercise, including the conduct of a pay level survey, within 2004.

I shall seek a decision from the Chief Executive in Council on this matter as soon as possible. In taking a decision on the matter, the Chief Executive in Council will take full account of my recent discussions with the staff representatives and the overall interests of the community as a whole.



(Joseph W P Wong)
Secretary for the Civil Service