

File Ref: CSB CR/PG/085-001/46

BRIEF FOR THE LEGISLATIVE COUNCIL

DEVELOPMENT OF AN IMPROVED CIVIL SERVICE PAY ADJUSTMENT MECHANISM: CONDUCT OF A PAY LEVEL SURVEY

INTRODUCTION

At the meeting of the Executive Council held on 22 March 2005, the Council ADVISED and the Acting Chief Executive ORDERED that –

- (a) a pay level survey should be conducted in 2005 using the methodology as recommended by the consultant engaged for the design of the survey methodology and further refined following the recent consultation; and
- (b) with the conduct of a pay level survey in 2005, there should be no annual pay trend survey for 2004-05. The Administration will further consider the future of the pay trend survey under the improved civil service pay adjustment mechanism.

JUSTIFICATIONS

Previous Executive Council Decisions

2. On 25 February 2003, in the context of the annual civil service pay adjustment exercise for 2003¹, the Executive Council ADVISED and the Chief Executive ORDERED *inter alia* that –

- (a) as a separate exercise the Government should in consultation with staff develop, on the basis of the existing mechanism, an improved civil service pay adjustment mechanism which should comprise the conduct of periodic pay level surveys to

¹ For the 2003 civil service pay adjustment exercise, the Executive Council ADVISED and the Chief Executive ORDERED *inter alia* to restore civil service pay to the levels as at 30 June 1997 in dollar terms by two adjustments to be implemented from 1 January 2004 and 1 January 2005 respectively.

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 should aim to complete this exercise, including the conduct of a pay level survey, within 2004; and

- (b) no annual pay trend survey should be conducted for 2002-03 and 2003-04. The 2004-05 pay trend survey will be carried out on the basis of an improved survey methodology to be drawn up.

3. To take forward the exercise, we have set up the Steering Committee and the Consultative Group on Civil Service Pay Adjustment Mechanism² to deliberate on various issues relating to the exercise. Following discussion with the Steering Committee and the Consultative Group and with the assistance of a professional consultant engaged for the design of the survey methodology (Phase One Consultant³), we had worked out proposals on the pay level survey methodology and on the general approach for the application of the survey results. A consultation paper on the proposals on the methodology of the pay level survey and the application of the survey results (Consultation Paper) was issued on 4 November 2004 for a two-month extensive consultation.

Relevant policy considerations

4. It is the Government's civil service pay policy to offer sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an effective, efficient and high quality service. In order that civil service pay can be regarded as fair and reasonable by both the civil servants who provide the service and the public who foot the bill, we adopt the principle that the level of civil service pay should be broadly comparable with private sector pay.

5. We have undertaken to improve the civil service pay adjustment mechanism. Under the improved system, pay level surveys will be conducted periodically to compare the levels of civil

2 The Steering Committee comprises selected members drawn from the Standing Commission on Civil Service Salaries and Conditions of Service, the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Standing Committee on Directorate Salaries and Conditions of Service. The Consultative Group comprises staff representatives from the staff sides of the four central consultative councils and the four major service-wide staff unions.

3 The scope of work of the phase one consultancy is to develop a feasible and detailed methodology for conducting a pay level survey in a credible and professional manner. A separate consultancy will be commissioned in phase two to carry out the actual field work and the data analysis of the pay level survey.

service pay with those of private sector pay. This is essentially a technical, fact-finding exercise to ascertain, broadly, whether there are any differences between the pay levels of the two sectors. The results obtained from pay level surveys will facilitate the Government's further consideration of any necessary adjustments to civil service pay, having regard also to other relevant factors such as budgetary considerations, the state of the economy, changes in the cost of living, the views of staff as well as staff morale, so as to ensure that civil service pay remains broadly comparable to private sector pay in accordance with the established civil service pay policy.

6. In view of the inherent differences in the nature of operation and in employment/remuneration practices between the civil service and the private sector, it is neither practical nor appropriate to seek to make a precise comparison between civil service pay and private sector pay in the pay level survey. Nor is there a perfect survey methodology that will be able to address all the inherent differences between the two sectors. Such differences are factors which should appropriately be taken into account when the Government considers at a later stage how the survey results should be applied to the civil service.

7. The pay level survey will proceed on the basis of the existing internal pay relativities among civil service grades/ranks. We have undertaken to conduct grade structure reviews for individual grades, where justified⁴, after the completion of the current exercise. We shall adjust the existing internal pay relativities if and until the findings of the grade structure reviews support such adjustments.

Consultation on the proposals for the pay level survey

8. Following the close of the consultation exercise on 7 January 2005, we have received a total of 91 written submissions. Of these, 9 are from bureau/departmental management, 45 from staff bodies (including the staff sides of the central consultative councils, the staff sides of departmental consultative committees, and staff unions/associations), 13 from individual civil servants, and 24 from non-civil service organisations and members of the public.

⁴ After we have completed the development of an improved civil service pay adjustment mechanism, we intend to carry out individual grade structure reviews for those grades/ranks which have experienced significant changes in their job nature and requirements in recent years and which continue to have a recruitment need.

Consultation feedback on the proposed survey methodology

9. On the proposals regarding the methodology of the pay level survey⁵ (see section 3 of the Consultation Paper), the comments from staff bodies relate mainly to various technical issues, including whether the proposed methodology can take account of the inherent differences between the civil service and the private sector in terms of job requirements and work nature, etc., how to select civil service benchmark jobs for inclusion in the survey field, what should be the definition of pay for the purpose of making a pay comparison between the civil service and the private sector, how to analyse the pay data collected from the private sector for comparison with civil service pay scales, and whether customised pay trend surveys should continue to be conducted in between two pay level surveys under the improved civil service pay adjustment mechanism. In particular, a number of staff bodies comment that it is important to allow staff participation in the proposed job inspection process⁶.

10. While there are comments on, and criticisms of, the broadly-defined job family method recommended by the Phase One Consultant⁷, we have not received any suggestion for an alternative approach for job comparison between the civil service and the private sector.

5 Section 3 of the Consultation Paper sets out the Phase One Consultant's proposals on the pay level survey methodology, including the recommended broadly-defined job family method for identifying job matches in the civil service and the private sector, the recommended approach for selecting private sector organisations for inclusion in the survey field, the scope of pay data to be collected, and proposals on data consolidation and analysis.

6 The Phase One Consultant recommends that if the proposed broadly-defined job family method is adopted as the job comparison method in the pay level survey, an intensive job inspection process should be carried out as part of the survey field work. The purpose is to ascertain the details of the work nature and job characteristics of all civil service benchmark jobs so as to facilitate the identification of appropriate private sector job matches.

7 Under the broadly-defined job family method, civil service jobs and private sector jobs that are broadly comparable in job content, work nature, level of responsibility and typical requirements on qualification and experience are matched to serve as a basis for pay level comparison. The job matching will be carried out through an intensive job inspection process. Under this process, details of the work nature and job characteristics of all civil service benchmark jobs will be ascertained so as to facilitate the identification of appropriate private sector job matches. To facilitate analysis of the pay data collected from private sector organisations, the benchmark jobs will be categorised into job families according to job content and work nature and into job levels according to the level of responsibility and typical requirements on qualification and experience. The pay of private sector benchmark jobs within the same job family and job level will then be compared with the pay range of civil service benchmark jobs in the corresponding job family at the corresponding job level.

11. On the other hand, non-civil service organisations from the business sector and some members of the public indicate general support to various aspects of the survey methodology recommended by the Phase One Consultant. They suggest that a pay level survey should be conducted as soon as possible to ascertain whether civil service pay remains broadly comparable with private sector pay.

Consultation feedback on the application issue

12. As regards the general approach for applying the results of the pay level survey⁸, while some members of the public consider that civil service pay should be adjusted immediately following the pay level survey (should the survey reveal that civil service pay is higher than private sector pay), the general feedback from the consultation exercise is that it is reasonable and pragmatic not to apply the pay level survey result to serving staff immediately. Some staff bodies comment that the Government should consider the divisive effect of the proposed general approach on serving staff and new recruits and its impact on civil service morale.

13. The staff bodies from the disciplined services which have made written submissions object to the proposal of applying the survey results to the disciplined services grades/ranks on the basis of the existing system of internal pay relativities⁹. They suggest that a separate grade structure review should be carried out for the disciplined services as soon as possible.

14. The main views contained in the written submissions and the responses respectively of the CSB and the Phase One Consultant to these views are set out in **Annex A**.

8 We proposed in section 4 of the Consultation Paper that if the pay level survey findings reveal that the civil service pay levels exceed the private sector pay levels, we should freeze the pay of serving officers at the prevailing level until it is caught up by the private sector pay level. But the disparity will be noted and will be taken into account in the subsequent annual civil service pay adjustment exercises before the next pay level survey. For new recruits who join the civil service after a prospective date, they will be subject to a new set of civil service pay scales to be drawn up after the pay level survey.

9 Under a centralised civil service pay system, we adopt a uniform approach in determining the pay scales of individual ranks by reference to similar entry qualification requirements and taking account of the differences in job requirements and other relevant job factors. The system of internal pay relativities helps maintain fairness and consistency in setting the pay scales of a diverse range of civil service ranks while reflecting the differences in the job nature and requirements among different grades/ranks.

The way forward

(a) Conduct of pay level survey

15. The methodology of the pay level survey as recommended by the Phase One Consultant and set out in the Consultation Paper has taken account of the concerns and comments raised during the discussions in the Steering Committee and the Consultative Group since April 2003. Indeed, most of the technical issues now raised by staff in the written submissions on the Consultation Paper have previously been deliberated in the two bodies, and have been considered carefully by the Phase One Consultant in drawing up his recommendations. In response to the consultation feedback, the Phase One Consultant has further refined his recommended methodology (the Phase One Consultant's refinements to the survey methodology are summarised at **Annex B**).

16. There is no perfect survey methodology that would be able to address all the inherent differences between the civil service and the private sector. After assessing the relative merits and shortcomings of four common job comparison methods, we are satisfied that the broadly-defined job family method⁶ as recommended and further refined by the Phase One Consultant is, on the whole, better able than the other job comparison methods¹⁰ to meet the objective of the pay level survey and to address technical considerations arising from a pay level survey. The Phase One Consultant's other recommendations, as further refined following the recent consultation where applicable, regarding the selection of benchmark jobs, the selection of private sector organisations for inclusion in the survey field, as well as data collection, consolidation and analysis, are also acceptable for the purpose of an objective and professional pay level survey. It was thus decided that the proposed methodology should be adopted for the coming pay level survey, and, barring any unforeseen circumstances, for future surveys as well.

17. It was also decided that we should commence the survey field work immediately with a view to capturing the pay adjustments in the private sector up to 1 April 2005. We shall, in accordance with the established procedures for the Government's procurement of consultancy services, select and appoint a professional consultant (Phase Two Consultant) to carry out the actual survey field work.

18. Taking account of the necessary work steps, we envisage that the survey field work will comprise the following three key stages:

¹⁰ The other three methods are the job matching method, the job factor comparison method and the qualification benchmark method.

- (a) preparatory stage (May – July/August 2005) : conducting job inspections of civil service benchmark jobs with the participation of grade management, departmental management, staff bodies including staff unions/associations and holders of representative posts in the benchmark jobs;
- (b) information gathering stage (August/September – October 2005) : collecting pay data and other relevant information from the private sector organisations in the survey field; and
- (c) information consolidation stage (October/November 2005): consolidating and analysing the collected data according to the survey methodology.

19. To safeguard the credibility of the results of the pay level survey, the Phase Two Consultant to be appointed will be required to carry out the survey field work in a professional and independent manner. Staff representatives at different levels will participate in various steps of the job inspection process. We shall also seek the comments of the staff side members of the Consultative Group on the draft report to be prepared by the Phase Two Consultant upon the completion of the survey field work.

(b) Implication on the pay trend survey

20. The Phase One Consultant has recommended that in future, with the conduct of periodic pay level surveys every three to five years, we may consider using pay trend analyses available in the market instead of conducting customised pay trend surveys to ascertain the year-on-year movement in the private sector pay trends. We shall further consider the future of the pay trend survey under the improved civil service pay adjustment mechanism. Since we commenced the process of improving the civil service pay adjustment mechanism in April 2003, we have ceased to conduct the annual pay trend surveys. Now that the 2005 pay level survey will capture the private sector pay adjustments up to 1 April 2005, it is neither necessary nor appropriate to conduct a pay trend survey for 2004-05¹¹.

(c) Application of the pay level survey results

21. As regards the general approach for the application of the pay

¹¹ Under the usual arrangement for pay trend surveys, a pay trend survey for 2004-05 would cover the year-on-year changes in the private sector pay trend for the 12-month period up to 1 April 2005.

level survey results, we have proposed in the Consultation Paper that if the pay level survey findings reveal that the civil service pay levels exceed the private sector pay levels, we should freeze the pay of serving officers at the prevailing level until it is caught up by the private sector pay level. But the disparity will be noted and will be taken into account in the subsequent annual civil service pay adjustment exercises before the next pay level survey. Based on the results of the pay level survey and other relevant factors, we will draw up new pay scales for application to new recruits. This remains our position at this stage. However, we shall consider the issue in due course upon the conclusion of the proceedings of the judicial review applications concerning the civil service pay adjustments legislation.¹²

22. We shall take account of the CFA's ruling, where applicable, in considering the application of the pay level survey results and its implementation (including the development of an effective means for implementing both upward and downward civil service pay adjustments), and will further consult staff in due course.

23. In considering the approach for the application of the pay level survey results, we shall also seek the advice of the three advisory bodies on civil service salaries and conditions of service. Specifically, we shall seek the advice of –

- (a) the Standing Commission on Civil Service Salaries and Conditions of Service on the new set of civil service pay scales to be draw up for application to new recruits to civilian non-directorate positions after a prospective date and on the application of the survey results to serving staff;
- (b) the Standing Committee on Directorate Salaries and Conditions of Service on the application of the survey results to the ranks on the directorate pay scales¹³; and

¹² On 29 November 2004, the Court of Appeal, by a majority, allowed the appeals against the rulings of the Court of First Instance on the judicial review applications regarding the Public Officers Pay Adjustment Ordinance (Cap.574), which effected the civil service pay reduction effective from 1 October 2002, and held that section 10 of Cap. 574 is inconsistent with Article 100 of the Basic Law. We have obtained leave to appeal against the Court of Appeal's decision to the Court of Final Appeal (CFA) and the CFA hearing has been scheduled for 20-23 June 2005. Bound by the Court of Appeal's judgment, on 4 February 2005, the Court of First Instance held that section 15 of the Public Officers Pay Adjustments (2004/2005) Ordinance (Cap.580), which implemented pay reductions effective from 1 January 2004 and 1 January 2005 respectively, is inconsistent with Article 100 of the Basic Law. We have obtained leave to appeal against the Court of First Instance's ruling in this respect to the CFA. The case will be heard together with the cases concerning Cap.574 at the same scheduled hearing in the CFA in June 2005.

¹³ The Phase One Consultant has recommended that the survey field should not

- (c) the Standing Committee on Disciplined Services Salaries and Conditions of Service on the application of the survey results to the disciplined services grades¹⁴.

IMPLICATIONS OF THE PROPOSAL

24. The proposal has Basic Law, financial and economic implications as set out in **Annex C**. The proposal does not have significant sustainability implications.

PUBLICITY

25. A press release will be issued in the afternoon on 24 March 2005 and a spokesman will be available to answer media enquiries. The Secretary for the Civil Service will write to all civil servants on the same day informing them of the decision.

SUBJECT OFFICER

26. Enquiries on this brief should be addressed to Mr. Eddie Mak, Principal Assistant Secretary for the Civil Service (Tel: 2810 3112).

Civil Service Bureau
24 March 2005

include ranks on the directorate pay scales because of the lack of reasonable private sector job matches, the need to adopt a different job comparison method for jobs at the directorate level and the technical problems arising from this in relation to data consolidation and data analysis.

¹⁴ The Phase One Consultant has recommended that the survey field should not include disciplined services grades in view of the absence of reasonably comparable private sector job matches.

Responses to consultation feedback on the proposals on the methodology of the pay level survey and the application of the survey results

Purpose

The consultation on the proposals regarding the methodology of the pay level survey and the general approach for the application of the survey results ended on 7 January 2005. This note summarises the main views contained in the submissions on the consultation paper and the responses of the Civil Service Bureau (CSB) and the consultant appointed to provide technical assistance in drawing up the methodology of a pay level survey (the Phase One Consultant).

Background

2. On 4 November 2004, CSB issued a consultation paper on the proposals on the methodology of the pay level survey and the general approach for the application of the survey results for extensive consultation until 7 January 2005. During the consultation period, the CSB organised briefing/consultation sessions for various parties, including departmental management, grade management, departmental consultative committees, civil service unions/associations, individual civil servants, the Legislative Council Panel on Public Service, and members of District Councils and Area Committees.

3. Following the close of the consultation, CSB has received a total of 91 written submissions. Of these, 9 are from bureau/departmental management, 45 from staff bodies (including the staff sides of the central consultative councils, the staff sides of departmental consultative committees and staff unions/associations), 13 from individual civil servants, and 24 from non-civil service organisations and members of the public. The main views contained in the submissions and the responses from the CSB and the Phase One Consultant to these views are summarised in paragraphs 4 – 91 below.

Consultation Feedback and the CSB's/Phase One Consultant's Responses

On the proposed methodology of the pay level survey

(i) Policy considerations

4. A constituent association of the staff side of a central consultative council considers that the Government should redefine the civil service pay policy in the light of the changing requirements on the civil service and seek a consensus with the staff side of the Consultative Group on this matter of principle and other relevant issues before taking forward the next steps of the current exercise. The management of a disciplined services department comments that the pay policy for its disciplined services grades should be to

provide sufficient remuneration to attract, retain and motivate staff of the best calibre, rather than staff of the “suitable calibre”. A constituent association of the staff side of a central consultative council considers that the pay level survey should be the key determinant of civil service pay. Other relevant factors (including the inherent differences between the civil service and the private sector and other relevant policy considerations) remain equivocal and politics-centric and should not even be considered.

5. Several constituent associations of the staff sides of the central consultative councils and the management of a disciplined services department comment that the principle of broad comparability between civil service pay and private sector pay and how the inherent differences between the two sectors will be weighed and factored in the application of the pay level survey results should be clarified. The staff side of a central consultative council suggests that the unique job nature and requirements of the disciplined services should be taken into account in determining their pay levels. Two constituent associations of the staff side of another central consultative council comment that the distinctive and special responsibilities of the Police grades, in particular its role as the ‘resource of first and last resort’ should be taken into full account in determining the level of the Police pay.

6. Referring to the objective of the current exercise to develop an improved pay adjustment mechanism for long-term adoption in the civil service, some constituent associations of the staff side of a central consultative council consider that long-term issues concerning the conduct of pay level surveys in future (e.g. the principles guiding the conduct of pay level surveys) should be borne in mind in designing the survey methodology.

7. The majority of the members of the public who have made written submissions consider that a review of the existing civil service pay level is necessary. Several constituent associations of the staff sides of the central consultative councils, a number of staff bodies and some individual civil servants who have made written submissions suggest that the Government should review the timetable for the conduct of the pay level survey in view of the unfavorable economic climate and the high unemployment rate that are still prevailing. These staff bodies and the management of a disciplined services department comment that the pay level survey should not be conducted in a hasty manner.

The CSB’s Response:

8. The established objective of the civil service pay policy, i.e. to offer sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an effective and efficient service and that such remuneration should be regarded as fair by both civil servants and the public which they serve has been reaffirmed by the Task Force on Review of Civil

Service Pay Policy and System¹ in its Phase One Final Report submitted to the Administration in September 2002. In the context of civil service pay policy, we consider it more appropriate to use the term “suitable calibre” rather than “best calibre” to highlight the point that the policy aims to facilitate the most appropriate matching of jobs, talents and pay.

9. At the early stage of the current exercise to develop the improved pay adjustment mechanism, CSB has, in consultation with the Steering Committee on Civil Service Pay Adjustment Mechanism (Steering Committee) and the Consultative Group on Civil Service Pay Adjustment Mechanism (Consultative Group), revisited the civil service pay policy and identified those policy considerations that are of particular relevance to the current exercise. These relevant policy considerations, which are set out in the Progress Report on the Development of an Improved Pay Adjustment Mechanism for the Civil Service (Progress Report), the Phase One Consultant’s Final Report on the Methodology of a Pay Level Survey for the Civil Service (Final Report) and the Consultation Paper on the Proposals on the Methodology of the Pay Level Survey and the Application of the Survey Results (Consultation Paper) (see paragraph 2.2 therein), have been guiding the deliberations in the Steering Committee and the Consultative Group as we take forward the current exercise.

10. In considering any necessary adjustments to civil service pay following the pay level survey, apart from the pay level survey results and the inherent differences between the two sectors, the Government will, following the established practice adopted in the annual civil service pay adjustment exercises, take into account other relevant considerations, including, the budgetary considerations, the state of the economy, changes in the cost of living, the views of staff sides as well as staff morale. Under the principle of broad comparability of pay between the two sectors, we would seek to make the best judgment on the basis of all relevant factors, including the inherent differences between the two sectors in various aspects. Any attempt to attach a weighting factor to each of these considerations would only be arbitrary and impractical. As noted by the Standing Commission on Civil Service Salaries and Conditions of Service in its Report No. 23, “it would be inappropriate to design rigid and precise formulae for pay determination; instead, the approach should be to review all the relevant factors and to make the best judgement”.²

11. As far as the disciplined services are concerned, they will not be included in the survey field of the pay level survey because of the absence of comparable job matches in the private sector. It is our intention to apply the pay level survey results to the disciplined services grades based on the existing system of internal pay relativities. Any proposed changes to the existing pay

¹ The Task Force comprised members of the three advisory bodies on civil service salaries and conditions of service and was tasked to conduct a comprehensive review of the pay policy and system for the civil service.

² See Recommendation (11) on page vi of Report No. 23 of the Standing Commission on Civil Service Salaries and Conditions of Service.

relativities would be considered in the context of individual grade structure reviews to be carried out after the completion of the current exercise. We have agreed that priority should be given to the disciplined services for the purpose of individual grade structure reviews.

12. On the timetable for the pay level survey, the original plan was to have it completed by 2004. This has been deferred to allow time for discussion with the staff side members on various relevant issues concerning the conduct of the pay level survey and for extensive consultation with staff. Since the inception of the current exercise in April 2003 until March 2005, the Consultative Group has held 22 meetings/sessions to discuss various pertinent issues, including the work plan for the exercise, the relevant policy considerations, the broad framework of the improved civil service pay adjustment mechanism, the pay level survey methodology and the approach for applying the survey results to the civil service. The proposals put forward in the Consultation Paper have taken on board many of the suggestions made by the Consultative Group. It is important that progress continues to be made so that the exercise can be completed in a timely manner.

13. The CSB will continue its discussion with the staff side members of the Consultative Group on various issues relating to the exercise. Based on the latest progress, we plan to commence the field work of the pay level survey in the second quarter of 2005 with a view to completing the survey (including data analysis) in 2005.

The Phase One Consultant's Response:

14. The Phase One Consultant advises that no job comparison method can directly and satisfactorily address all the inherent differences between the two sectors, in terms of the nature of operation, the job requirements and the appointment/remuneration practices (see paragraph 2.3 of the Consultation Paper for details) in a pay level survey. Through the pay level survey, we seek to ascertain the pay levels of private sector jobs that are broadly comparable so as to provide a broad reference of the extent of comparability between civil service pay and private sector pay.

15. The Phase One Consultant has proposed a job inspection process to ensure that only those private sector jobs which are broadly comparable with the civil service benchmark jobs, in terms of job content, work nature, level of responsibilities and typical requirements on qualification and experience, will be included in the survey field. The differences in the content, nature and requirements of individual jobs between the two sectors, in particular the unique characteristics of individual civil service jobs, will be identified and recorded in the job inspection and alignment processes. These differences will serve as relevant factors for consideration of any necessary adjustment to civil service pay following the pay level survey.

(ii) Approach for job comparison

16. Some constituent associations of the staff sides of the central consultative councils, a few other staff bodies, the management of a disciplined services department and a few individual civil servants who have made written submissions consider that the proposed broadly-defined job family method too broadbrush to reflect the characteristics of the wide-ranging civil service jobs and to address the inherent differences between the civil service and the private sector. They have, in particular, expressed concern about the proposed categorisation of civil service benchmark jobs into five job families and five job levels³. They consider that the approach for job comparison should take account of the specialised nature and unique requirements pertinent to civil service jobs. Some constituent associations of the staff sides of the central consultative councils suggest that the shortcomings of the broadly-defined job family method should be examined and suitable remedial measures identified. Two constituent associations of the staff sides of the central consultative councils, a staff body and a staff representative of a civil service grade disagree with the survey methodology recommended by the Phase One Consultant.

17. A few staff bodies and a few individual civil servants who have made written submissions stress the importance of ensuring proper matching of civil service benchmark jobs with private sector jobs. They suggest that the functions of the civil service benchmark jobs, in particular the changes in their job nature and requirements in recent years, and the actual experience and qualifications possessed by civil servants should be taken into account in the job matching process⁴.

18. A constituent association of the staff side of a central consultative council comments that the proposed broadly-defined job family method cannot address the question of whether the existing internal pay relativities among civil service grades remain appropriate and up-to-date. It considers that another methodology, such as the job factor comparison method, might be more able to deal with this issue. The management of a disciplined services department

³ It should be clarified that under the consultant's recommendation, matching of civil service benchmark jobs and private sector benchmark jobs will be based on job content, work nature, level of responsibility as well as typical requirements on qualification and experience. The proposed categorisation of benchmark jobs by job family and job level is not directly relevant to the job matching process, and is intended to facilitate data consolidation and analysis after the collection of private pay data.

⁴ In view of the inherent differences between the civil service and the private sector, the pay level survey seeks to compare the overall pay practices between the two sectors rather than making precise comparison of the pay levels of individual jobs between the two sectors. In this regard, the Consultant advises that no job comparison method can directly and satisfactorily identify private sector matches for every civil service benchmark job that is comparable in every aspect in a pay level survey. Our current policy of maintaining broad comparability, rather than strict comparability, between civil service pay and private sector pay has taken account of such inherent differences. The pay level survey results will therefore serve only as a broad reference of the extent of comparability between civil service pay and private sector pay and any inherent differences and job characteristics which cannot be addressed in the survey will be recorded and taken into account as one of the relevant policy considerations for determining any necessary adjustment to civil service pay.

comments that while it may be acceptable to adopt the broadly-defined job family method for a pay comparison for civil service jobs which have similar matches in the private sector, the method is not suitable for application to civil service jobs with no private sector matches, including its disciplined services grades.

19. The majority of the staff sides of the central consultative councils which have submitted written comments consider that the proposed job inspection process would be a critical step of the survey field work and that the participation of staff unions/associations in the process would be of critical importance in ensuring the credibility of the survey results. They request the Government to put forward concrete proposals on how staff would participate in the job inspection process.

20. Regarding the proposed starting salaries survey, a staff body suggests that due regard should be given to the differences between the civil service and the private sector in terms of the actual work experience of job-holders at the entry-level and the nature of the probation period. A constituent association of the staff side of a central consultative council comments that the existing qualification requirements of the civil service entry-level jobs have become outdated and do not reflect the actual qualifications of new recruits joining the civil service nowadays. The management of a disciplined services department suggests that for both the overall pay level survey and the starting salaries survey, a minimum sample size of private sector pay data for comparison with each civil service benchmark job and each level of qualification requirement should be specified to ensure that the survey data are representative.

21. Some non-civil service organisations and members of the public who have made written submissions indicate general support to various aspects of the survey methodology proposed by the Phase One Consultant (including the proposed approach for job comparison, the proposed criteria for selecting civil service benchmark jobs, and the proposed criteria for selecting the private sector organisations to be surveyed, etc.).

The Phase One Consultant's Response:

22. Having assessed the relative merits and shortcomings of four common approaches for job comparison, the Phase One Consultant advises that the broadly-defined job family method is better able than the other three proposed methods (i.e. job matching method, job factor comparison method and qualification benchmarking method) to meet the objective of the pay level survey and to address the various technical considerations arising from a pay level survey.

23. Specifically, the broadly-defined job family method is recommended because –

- (a) it facilitates the identification, according to a broad range of identifiable and readily comprehensible job characteristics, of a more wide-ranging sample of jobs matches in the two sectors as compared with the job matching method (the survey field of which is limited to close job matches). A broader representation of jobs in the civil service and the private sector will allow the collection of more pay data for the purpose of the pay level survey. Such pay data will give a more reliable reflection of how private sector pay levels compare with the relevant range of pay points on civil service pay scales at various job levels. The method also takes note of the differences in the content, nature and requirements of individual jobs between the two sectors, in particular the unique characteristics of individual civil service jobs, so that such differences can be taken into account when applying the pay level survey results;
- (b) it provides a more clearly-defined framework for job matching as compared with the job factor comparison methods. The latter methods are not so easily understood by those who are not experts in the application of the job factor evaluation methodology. As such, it will involve a greater degree of judgment in the job evaluation process based on specified job factors and more difficulty in seeking to reach a consensus on the evaluation results; and
- (c) it facilitates a more comprehensive comparison of jobs at various job levels (including the entry-level and beyond) as compared with the qualification benchmark method which is more suitable for comparing jobs at entry-level only.

24. There is no perfect job comparison method that can address all the inherent differences in the job comparison. For example, even if the job factor comparison method is adopted, it will still not be possible to identify and agree on a comprehensive and common set of job factors that can reflect all the job characteristics and requirements of a wide diversity of civil service jobs and private sector jobs for reviewing the external relativity of civil service pay and private sector pay, as well as the internal relativities among civil service grades. Whichever method of job comparison is adopted, ultimately we will have to exercise judgment, having regard to all relevant considerations (including the inherent differences between the civil service and the private sector) in determining the civil service pay level (see also paragraph 10 above).

25. The Phase One Consultant has refined the proposed broadly-defined job family method in various aspects to address its comparative shortcomings as set out in the Final Report. According to the Phase One Consultant, the main shortcoming of the broadly-defined job family method is that the comparability of the job matches may not be as obvious to establish as in the case of the job matching method, since civil service jobs are matched with private sector jobs that are broadly comparable in various job-related aspects rather than close job

matches. But since this approach is essentially based on job characteristics and job accountabilities, this shortcoming can be readily addressed by presenting a set of detailed job descriptions which set out all relevant factors (including job content, job requirement and work nature) for identifying private sector benchmark jobs. The Phase One Consultant recommends that the job descriptions for the identification of private sector benchmark jobs should be developed following a detailed job inspection process to obtain the up-to-date information on civil service benchmark jobs. This will ensure that the job matching process will be based on an assessment of all and up-to-date characteristics of civil service benchmark jobs.

26. In view of the inherent differences between the civil service and the private sector, it would not be appropriate or practical to compare the pay level of individual civil service jobs directly with the pay level of their private sector counterparts. The Phase One Consultant emphasises that matching of civil service jobs and private sector jobs will not be based on job families, but will be based on detailed job descriptions for the identification of private sector benchmark jobs to be developed following an intensive job inspection process. The primary purpose of categorising benchmark jobs into job families and job levels is to provide a systematic basis for analysing data so that we can ascertain the extent of pay comparability in broad terms (i.e. by job level and job family) between the two sectors. The five broadly-defined job families recommended by the Phase One Consultant have taken account of the job content and the work nature of civil service benchmark jobs, in particular the manner in which they provide services and contribute to the functioning of the Government. The five job levels reflect the established job hierarchies within the civil service.

27. Apart from ensuring that private sector benchmark jobs to be included in the survey field should be broadly comparable to civil service benchmark jobs in all job-related aspects, including, inter alia, typical requirements on qualification and experience, the Phase One Consultant recommends that the pay level survey should also collect certain demographic data of the employees (e.g. age) in the surveyed private sector organisations. Such information may provide relevant information for considering how the pay level survey results should be applied having regard to the unique characteristics of the civil service in this regard. Nevertheless, it should be noted that the demographic information collected will not in any way affect the pay data to be obtained from the pay level survey.

28. The starting salaries survey aims to compare the starting salaries of entry-level jobs in the civil service and the private sector with similar typical requirements on qualifications and experience. In both the civil service and the private sector, starting salaries are generally determined having regard to the qualification requirements for performing the job, not the actual qualifications the job-holders have. If higher qualifications deserve to be rewarded in terms of remuneration, the qualification requirements will have been raised. In conducting the starting salaries survey, the consultant conducting the survey

field work (the Phase Two Consultant) will collect the information from the participating organisations on the policy governing the determination of the starting salaries of entry-level jobs in the organisations. The policy information to be collected during the survey will be able to confirm that the starting salaries have been determined by making reference to the qualification requirements for performing the jobs, rather than the actual qualifications of the job-holders. It will also help keep track of any trend of changes to the above practice governing the determination of starting salaries.

29. In determining the sample size of private sector pay data, the primary consideration is the representation of private sector job matches within a job family and a job level, rather than the number of private sector job matches for each individual civil service job. The Phase One Consultant has addressed this issue by proposing that the total number of survey organisations should be sufficient to ensure that each single job family will have data coming from at least ten organisations. The same threshold of ten organisations will apply to each qualification group for the starting salaries survey.

The CSB's Response:

30. The job inspection process will involve the participation of grade management and/or departmental management and holders of representative posts to ascertain details on the work nature and job characteristics of the proposed civil service benchmark jobs. This will ensure that civil service benchmark jobs will be matched with reasonably comparable private sector jobs based on a detailed assessment of all relevant aspects of the job, rather than simply by reference to job titles. For instance, the various ranks of the Clerical Officer grade in the civil service will be matched with private sector jobs with corresponding job requirements and level of responsibility. These jobs may have the job titles of clerical officers, clerical supervisors, or administrative assistants, etc. Any unique characteristics of an individual civil service job which could not be addressed in the job matching process will be recorded during the job inspection process for consideration of any necessary adjustment to civil service pay. Those civil service jobs without private sector matches (e.g. the disciplined services grades) will not be chosen as benchmark jobs for inclusion in the survey field. The job inspection process will be carried out in consultation with staff and in a transparent manner so that the Phase Two Consultant can take staff views fully into account in making appropriate job matches.

(iii) Selection of civil service benchmark jobs

31. A constituent association of the staff side of a central consultative council expresses no objection to the proposal of excluding directorate jobs from the survey field of the pay level survey provided that the Government would conduct a pay review for directorate positions as a separate exercise after the completion of the upcoming pay level survey. A few constituent associations of the staff sides of the central consultative councils consider that there are private

sector matches for directorate jobs and thus disagree with the proposed exclusion of such jobs from the survey field. They are concerned that the survey will as a result fail to address the possible divergent outcome regarding the pay disparity at senior level and that at lower levels. The management of a disciplined services department seeks clarification as to whether the directorate pay level will be adjusted having regard to the results of the pay level survey before the conduct of the proposed grade structure review for directorate jobs, and whether the directorate posts in its disciplined services grade will be subject to the same arrangement for other civilian directorate jobs. The submissions from individual civil servants and members of the public hold divergent views on the proposed exclusion of directorate and disciplined services jobs from the survey field of the pay level survey.

32. A few constituent associations of the staff sides of the central consultative councils, the management of a disciplined services department and a few members of the public suggest that civil service jobs in the education field, the medical and health care field and the social welfare field should not be excluded from the survey field in order to ensure that the survey result is representative. Of these respondents, some point out that not all private sector jobs in these fields have their pay determined by reference to the civil service pay practice.

33. A few constituent associations of the staff sides of the central consultative councils and another staff body suggest that the Government should review whether the number of civil service benchmark jobs proposed by the Phase One Consultant for inclusion in the survey field (which represent 44% of the civil service establishment) is sufficiently representative of the civil service.

The Phase One Consultant's Response:

34. The Phase One Consultant recommends that civil service jobs on the directorate pay scales be excluded from the survey field on the following considerations –

- (a) the lack of sufficient reasonable job matches in the private sector for civil service directorate positions under the recommended broadly-defined job family method in view of the policy-making role of these jobs, especially at the senior levels;
- (b) while it is possible to make a private sector pay comparison for directorate positions under the job factor comparison method, this method is entirely different from the broadly-defined job family method recommended for pay comparison at the non-directorate levels. The Phase One Consultant has advised that the private sector pay data obtained respectively for the directorate and non-directorate positions by different job comparison methods cannot present a coherent picture for data consolidation since different methods work

on different assumptions and philosophies; and

- (c) the inclusion of senior level jobs in the survey will greatly complicate the data collection process in view of the confidentiality consideration of the participating organisations. Such confidentiality consideration may cause potential private sector organisations to withdraw from the survey in its entirety, thus limiting the pay data that could be collected from the survey.

35. The Phase One Consultant had proposed that certain other civil service grades/ranks (namely, civil service jobs in the education, medical and health care fields) be excluded from the survey field because the pay levels of their private sector counterparts are determined under the heavy influence of the civil service pay practice, if not directly by reference to the latter. These included the education grades because around 89% of primary/secondary school teachers work in government or aided schools (which follow civil service pay practice), and the medical and health care field because over 85% of hospital beds are in the public sector. While the pay of some of the subvented social service providers may have been delinked from civil service pay scales, this has only been done recently and the actual pay levels may still reflect the legacy of civil service pay practices. Therefore, the Phase One Consultant had also recommended the exclusion of the social welfare field. The pay data collected from a field where most of the employers determine the pay level of their staff by reference to civil service pay or where the legacy of civil service pay practices is still reflected in the pay packages of the employees do not provide any meaningful data for comparing civil service pay with private sector pay.

36. Nevertheless, in view of the consultation feedback, the Phase One Consultant recommends that the Phase Two Consultant approach representative samples of the non-government organisations in these fields and obtain more information regarding their pay practices so as to confirm whether the exclusion of civil service jobs in these fields from the survey field is justified or whether any necessary adjustment to the survey field is warranted.

37. Based on the selection criteria proposed by the Phase One Consultant, the civil service jobs proposed to be included in the survey field represent about 44% of the total civil service establishment. Excluding disciplined services jobs (which obviously do not have private sector matches), directorate jobs (the inclusion of which in the survey field would necessitate a combination of survey methodologies, thus creating practical difficulties in data consolidation) as well as civil service jobs in the social welfare, education and medical and health care fields (the private sector matches of which make reference to civil service pay scales and practices in determining their pay levels), the civil service benchmark jobs represent about 73% of the remaining civil service establishment. The Phase One Consultant considers this a reasonably representative sample size. The Phase One Consultant considers it inappropriate to include the remaining 27%, because they comprise mostly civil service jobs which belong to small

grades/ranks (therefore not meeting the establishment size criterion which seeks to ensure that benchmark jobs are representative of the civil service) or do not have reasonably comparable private sector job matches.

The CSB's Response:

38. It is proposed that irrespective of whether certain civil service jobs have been included in the survey field, the results of the pay level survey should be applied to all civil service ranks based on the existing system of internal pay relativities among civil service grades. After the completion of the development of an improved civil service pay adjustment mechanism, CSB will carry out individual grade structure reviews for those grades/ranks which may have experienced significant changes in their job nature and requirements in recent years. In this connection, CSB will consider conducting a pay review for the directorate positions, which the Phase One Consultant has recommended not to include in the survey field of the upcoming pay level survey due to technical considerations.

(iv) Selection of private sector organisations to be surveyed

39. The staff side of a central consultative council and a constituent association of the staff side of another central consultative council object to the proposed inclusion of private sector organisations employing less than 100 staff members in the survey field on the ground that the salary administration of those organisations with a larger establishment size is normally more stable. The management of a disciplined services department and some non-civil service organisations suggest that small organisations, e.g. those employing less than 100 employees, should generally be excluded from the survey field, except in cases where their inclusion would ensure that there are appropriate private sector benchmark jobs for certain specialised job groups or for jobs which are usually found in small-scale establishments.

40. Some staff bodies which have made written submissions suggest that only those private sector organisations that are comparable to the civil service should be included in the survey field and that the inclusion of these organisations in the survey field should take into account the inherent differences between the two sectors in areas such as the nature of operation, etc. A few constituent associations of the staff sides of the central consultative councils suggest that staff unions/associations should be involved in the selection of private sector organisations for inclusion in the survey field.

41. There is a suggestion from the management of a department that in selecting private sector organisations for inclusion in the survey field, apart from its establishment size, consideration should be given to the number of private sector benchmark jobs available in the organisation to ensure that its inclusion will help enhance the representativeness of the survey data.

The Phase One Consultant's Response:

42. Under the Phase One Consultant's recommended criteria for selecting private sector organisations for inclusion in the survey field, all private sector organisations to be included in the survey field should be generally known as steady and good employers conducting wage and salary administration on a rational and systematic basis. This seeks to ensure that the survey field includes a representative sample of private sector organisations for the purpose of achieving a fair comparison of the pay practices between the two sectors.

43. Insofar as the size of the private sector organisations is concerned, the Phase One Consultant recommends that the selected organisations should be typical employers in their respective fields normally employing 100 or more employees, but flexibility over the employment size of the private sector organisations should be allowed where the inclusion of such organisations is necessary to enhance the coverage of benchmark jobs and provided that these organisations meet the other selection criteria. Such flexibility is justified in the context of a pay level survey because of the need to source a sufficient number of private sector jobs that are reasonable counterparts to the civil service benchmark jobs and to collect sufficient data for ascertaining the typical pay practice of certain benchmark jobs. As all the private sector organisations in the survey field of the pay level survey will have to meet the criterion of being steady and good employers (see paragraph 42 above), the inclusion of some organisations which meet all selection criteria save the one regarding employment of 100 or more employees ought not be a matter of concern. For the purpose of a pay trend survey, given that we are measuring the private sector pay trends for three broad salary bands without reference to the pay data of specific job matches, we do not face the same constraint in terms of having to source a sufficient number of comparable private sector jobs.

44. One of the criteria for selection of participating organisations is that they should have a broad representation of the selected benchmark jobs. This criterion must be balanced against the requirement of having sufficient participating organisations represented in the survey field for each job family. The requirement of a minimum number of benchmark jobs in each organisation may affect the overall representation of certain job families where jobs are mostly found in organisations employing a small number of staff.

45. The Phase One Consultant advises that the criteria serve only as broad guidelines for the selection of participating organisations for inclusion in the survey field. The Phase Two Consultant should identify any technical issues concerning the criteria for the selection of private sector organisations for inclusion in the survey field as set out in Table 9 of the Final Report, and make recommendations on these issues in the light of the views of parties concerned, including the Steering Committee and the Consultative Group.

(v) Data collection

46. Referring to the prevalent trend of providing variable compensation (i.e. discretionary bonuses) in the private sector, two constituent associations of the staff side of a central consultative council object to the proposal of excluding this component from the computation of the annual base salary in the private sector. Several constituent associations of the staff sides of the central consultative councils and the management of a disciplined services department express reservations about the proposed inclusion of housing and education allowances in the computation of the annual total cash compensation in the civil service because of the differences in the terms of provision of these allowances between the civil service and the private sector as well as among civil servants at different levels, and possible changes to the provision of such allowances arising from the on-going separate review of fringe-benefit type of civil service allowances. Another constituent association of the staff side of a central consultative council considers that a genuine and equitable comparison between the two sectors should be based on the total remuneration package. A constituent association of the staff side of a central consultative council and another staff body express concern that the pay data collected from private sector organisations may not be complete and accurate.

47. Some constituent associations of the staff sides of the central consultative councils, a few other staff bodies, the management of a disciplined services department and a few members of the public which have made written submissions suggest that the pay comparison should also take account of the provision of in-kind benefits in the private sector which are not found in the civil service (e.g. quarters, club membership, use of car for personal use, low-interest rate mortgage, stock options, etc.).

The Phase One Consultant's Responses:

48. The Phase One Consultant does not recommend making a pay comparison based on the total remuneration package approach because –

- (a) the benefits package for civil servants varies from officer to officer, depending on their term of appointment, salary point, personal circumstances (e.g. marital status, number of children), etc., rather than their jobs and ranks;
- (b) there are complexities involved in valuation of benefits based on entitlement rather than actual utilisation. It is also difficult to agree on a suitable approach to value benefits provided in kind (e.g. medical and dental benefits, quarters, etc); and
- (c) the provision and the cost of certain special type of allowances (e.g. overtime allowance, job-related allowances, etc.) vary from officer to officer depending on individual circumstances but are not directly related to the core duties of the jobs. There is thus not a consistent

basis for comparing the value of such allowances.

49. The survey field of the pay level survey will cover those non-directorate civil service benchmark jobs that meet the selection criteria and their private sector matches. The Phase One Consultant advises that it is not a common practice for private sector organisations to provide discretionary bonuses to those employees likely to be included in the survey field under the selection criteria as part of their base salary. He has therefore recommended that data on variable compensation (including discretionary bonus) be collected and consolidated as part of the total cash compensation rather than the base salary. In view of the consultation feedback, the Phase One Consultant proposes that we may consider incorporating the data on variable compensation with the base pay for the private sector, and comparing that aggregated value with the base salary of the civil service if it is found that variable compensation commonly and continuously forms a core element of base salary for particular groups of private sector job included in the survey field. The prevailing trend regarding the provision of variable compensation in the private sector can be ascertained from the policy information on the structuring of remuneration package which the Phase One Consultant recommends to collect from the pay level survey.

50. The Phase One Consultant advises that differences in practice concerning the provision of allowances between the civil service and the private sector do not change the fact that these allowances have an objective cash value to those receiving them. Complete exclusion of these elements would result in an incomplete picture for pay comparison. In view of the differences between the two sectors in the structuring of remuneration packages, a pragmatic approach is to collect data on all cash compensation elements actually paid by employers to employees during the survey reference period. The aggregation of such cost data by job level will reflect the differences in the terms of provision of allowances to staff of different seniority. Should there be any future changes to civil service policies on allowances, they would change the actual expenditure on these allowances in due course and will be reflected in the pay comparison with the private sector in future pay level surveys. The Phase One Consultant also advises that the Government should take into account the expected costs of allowances for new recruits of the civil service when applying the survey results to them.

51. The Phase One Consultant recommends that in-kind benefits in both the public and private sectors should be excluded from the survey field because it is difficult and impractical to agree on a consistent approach for valuing the benefits in the two sectors. While policy information will be collected on a range of benefits, perquisites and other items, it should be noted that at the levels of jobs included in this pay level survey, many of these benefits, e.g. cars, club membership (in luxury clubs) and education benefits for children of employees, and long-term incentives are exceptional rather than common.

(vi) Data analysis

52. A constituent association of the staff side of a central consultative council, the staff side of another central consultative council and the management of a disciplined services department indicate preference for the average job-holder pay approach (which gives equal weight to the pay data of each individual job-holder) to the recommended typical organisation practice approach (which gives equal weight to the consolidated pay data of each surveyed organisation) for data analysis. They consider that the former approach is more representative. Some non-civil service organisations which have made written submissions express support for the typical organisation practice approach, but point out that the approach may not be applicable in the circumstance where the jobs of an individual job family are dominated by a few private sector organisations in Hong Kong.

53. A constituent association of the staff side of a central consultative council, a staff body and the management of a disciplined services department consider that civil service pay should be benchmarked at the upper quartile of the market levels in the private sector.

The Phase One Consultant's Response:

54. The Phase One Consultant recommends the typical organisation practice approach because it –

- (a) takes a snapshot of the average actual pay levels within each organisation for the benchmark jobs which are determined having regard to the necessary relativities of jobs within the organisation. This provides relevant benchmark reference for comparison with the civil service where pay is determined having regard to internal pay relativities among jobs; and
- (b) avoids the risk that the findings of the pay level survey will be unduly influenced by a small number of exceptionally low-paying or high-paying organisations which employ a large number of staff for certain private sector benchmark jobs.

55. As regards the alternative approach, i.e. the average job-holder pay approach, the Phase One Consultant has illustrated with some made-up figures in the Phase One Consultant's Final Report the undue influence that could be exerted on the pay level survey findings by a small number of exceptionally low-paying or high-paying organisations which have a large number of certain private sector benchmark jobs.

56. Considering that the coming pay level survey is the first one to be conducted for the civil service under the recommended survey methodology, the Phase One Consultant recommends that it would be best to obtain as complete data as possible on all job-holders of private sector benchmark jobs as opposed to the collection of data on a small number of representative job-holders for each

participating organisation. This would also enable the Phase Two Consultant to ascertain the sensitivity of data analyses to both the average job-holder pay approach and the typical organisation practice approach. Nevertheless, the collection of data from all job-holders⁵ may generate unacceptable additional burden to some organisations which may refuse to participate in the survey, or possibly arouse concerns to some organisations that the confidentiality of individual job-holders may be compromised by the pay data provided. The Phase One Consultant therefore recommends that while the Phase Two Consultant should obtain as complete data as possible, it should have the flexibility to collect less comprehensive but still representative data as necessary to ensure maximum participation of private sector organisations selected for inclusion in the survey field.

57. The Phase One Consultant advises that data on the annual base salary and the annual total cash compensation of the private sector will be analysed at different benchmark levels, say, upper quartile, median, lower quartile and average, to facilitate a comprehensive comparison of the different ranges of private sector pay with the relevant range of the civil service pay scales / the civil service pay scales as adjusted by the costs of cash allowances at each job level. The Phase One Consultant also advises that the exact comparison benchmark level to be adopted is an issue for consideration at the application stage. The Phase One Consultant recommends that the following factors should be considered before drawing any conclusion on which comparison benchmark level should be adopted –

- (a) up-to-date information on the structuring of the remuneration package and the prevalence of in-kind employee benefits in the private sector for the relevant job levels as well as the in-kind benefits in the civil service; and
- (b) any special factors that are unique to the design of the civil service pay package in view of its nature of operation, job requirements, etc., which may or may not be quantifiable.

(vii) Implications on pay trend survey

58. The staff side of a central consultative council, two constituent associations of the staff sides of other central consultative councils and the management of a disciplined services department do not support the Phase One Consultant's recommendation that the Government may consider making reference to pay trend analyses available in the market, instead of conducting customised pay trend surveys, to ascertain the year-on-year movements in the private sector pay trends for any necessary fine-tuning of civil service pay in between two pay level surveys. On the other hand, a staff body, some non-civil service organisations and an individual member of the public who has submitted

⁵ A full set of information on all job-holders is a pre-requisite for data analysis under the average job-holder pay approach, say calculating quartile pay ranges.

written views support this recommendation in view of the ready availability of such data in the market and the resource implications of conducting customised pay trend surveys.

59. Two constituent associations of the staff sides of the central consultative councils request that the Phase One Consultant should explain the rationale behind his recommendation that the survey field for the pay trend survey should be aligned with that for the pay level survey.

The Phase One Consultant's Response:

60. The Phase One Consultant advises that under the improved pay adjustment mechanism, pay level surveys will be conducted frequently, say every three to five years, to ascertain the extent of broad comparability of civil service pay with private sector pay so that appropriate adjustments to civil service pay can be made. Any disparity in pay levels between the two sectors that has developed over time can readily be identified and addressed in the next pay level survey. With such a mechanism, the highly precise and thus resource-intensive methodology of the current pay trend survey, which seeks to measure the year-on-year movements in private sector pay to provide reference for making any necessary fine-tuning of civil service pay in between two pay level surveys, may then not be necessary. He therefore recommends that the Government may consider making reference to pay trend analyses available in the market, instead of conducting customised pay trend surveys.

61. The Phase One Consultant advises that if the Government is minded to put in the additional resources to conduct customised pay trend survey under the improved pay adjustment mechanism, then it would be preferable to align the survey fields of the two surveys to cover the same private sector organisations in the survey field as far as practicable to enhance consistency between the two surveys and help streamline the conduct of the otherwise resource-intensive pay trend survey. He, however, points out that for the purpose of providing reference figures on the year-on-year movements in private sector pay for fine-tuning civil service pay in between two pay level surveys, the results obtained from a customised pay trend survey would not necessarily provide an inherently superior indicator compared to the results obtained from pay trend analyses readily available in the market.

On the proposed general approach for applying the results of the pay level survey

(viii) Internal pay relativities among grades/ranks

62. The staff side of a central consultative council and a staff body object to the proposal of applying the pay level survey results to the disciplined services based on the existing system of internal pay relativities. They suggest that an individual grade review for the disciplined services grades should be

accorded priority and be conducted independently. Before the completion of the grade review, the pay level survey results should not be applied to the disciplined services grades. Some of these respondents suggest that given the proposed exclusion of certain grades (e.g. the disciplined services) from the survey field, it is unfair to apply the survey findings to the new recruits of these grades. A staff body considers it unfair to apply the survey findings to its grade given it is not included in the survey field.

63. The management and the staff associations of a disciplined service grade suggest that the Police grade should be treated separately from the general civil service in the current exercise in order to ensure the impartiality as well as the unique and apolitical nature of the work of their grade members. They express reservations about the existence of internal pay relativities between the Police grades and other civil service grades, and the need to maintain such pay relativities in determining Police pay. They comment that any proposal to determine Police pay by any formula based on comparability with the private sector or internal pay linkages overturns the principles adopted by the Rennie Committee and the Standing Committee on Disciplined Services Salaries and Conditions of Service. The departmental management comments that owing to the size of the Police grades and the principles underlying the independent Police Pay Scale, the Police grades should have an independent pay adjustment mechanism. It further suggests that the grade structure review for its grades should be confined to a review of pay and other closely related matters.

64. Two constituent associations of the staff sides of the central consultative councils comment that the review of the internal pay relativities among civil service grades should form part of the pay level survey, rather than being left to be dealt with by the proposed individual grade structure reviews after the completion of the current exercise. Another constituent association of the staff side of a central consultative council and the management of a disciplined services department suggest that the Government should consider the principles and the scope, as well as the approach, for carrying out the proposed individual grade structure reviews for specific grades concerned. The former further suggests that the Government should examine the question of whether internal pay relativities among different directorate jobs and among different jobs on the disciplined services pay scales should be maintained, and if so how this can be achieved.

The CSB's Response:

65. Apart from the principle of maintaining broad comparability with private sector pay, internal pay relativity among civil service grades is another main feature of the existing civil service pay system. The system of internal pay relativity seeks to maintain fairness and consistency in setting the pay scales of a diverse range of civil service grades and ranks, including both civilian and

disciplined services grades. For as long as our civil service pay system is administered centrally and until a conscious decision is made either to dispense with the system of internal pay relativities or to devolve the responsibility for pay administration to departmental management, we consider it necessary and appropriate to uphold the principle of maintaining internal pay relativity.

66. The existing internal relativities among civil service grades/ranks have evolved principally through a series of large-scale, service-wide pay reviews carried out in the 1980s and 1990s. The system of internal pay relativities resulting from the above process reflects the differences in the job requirements and working conditions among different civil service jobs.

67. The system of internal pay relativities in the civil service is not immutable. Indeed, it has undergone adjustments from time to time to reflect any revisions to the pay scales of individual grades/ranks following salary reviews or grade structure reviews (e.g. the reviews carried out in the 1990s for Junior Police Officers to address recruitment and retention difficulties and to reflect an increase in workload). However, unless and until the findings of such reviews support an adjustment to such relativities, we consider it reasonable and fair to maintain the existing internal pay relativities in making any necessary adjustments to civil service pay. As a matter of established practice, the annual civil service pay adjustments and the adjustments to starting salaries following the 1999 Civil Service Starting Salaries Review have proceeded on the basis of the prevailing system of internal pay relativities. The pay advantages of the disciplined services vis-à-vis civilian grades in recognition of the special job factors pertaining to different disciplined services grades have been retained following these pay adjustments (see paragraphs 69 and 70 below).

68. The existing pay scales for the disciplined services grades, including the Police grades, were developed as a result of the review conducted in 1988 by the Review Committee on Disciplined Services Pay and Conditions of Service (the Rennie Committee). One of the recommendations by the Rennie Committee was that the Committee did not propose either an equation or a formula to relate police pay with that of any other group in the civil service. Such recommendation was made to set out clearly that the Police pay scales should be determined by exercising the best judgment based on an examination of all the relevant factors. It should not be taken to mean that internal pay relativities between the Police grades and other civil service grades do not exist. As a matter of fact, the Rennie Committee was appointed to, among other things, review the work of the disciplined services and in the light of the conclusions reached following the review, consider appropriate levels of remuneration of the disciplined services in relation to the rest of the civil service. As noted in the Final Report of the Rennie Committee, the pay scales proposed for the disciplined services “are recommended as appropriate levels of remuneration in relation to the rest of the civil service”.⁶ In other words, pay relativity with other

⁶ The Rennie Committee took the Master Pay Scale as the yardstick in considering whether the pay relativities between the Police pay points and the remuneration of the rest of the civil service were

civil service grades was a key factor taken into consideration by the Rennie Committee in determining the pay levels of the disciplined services (including the Police grade) alongside other special factors relevant to disciplined services jobs.

69. It is relevant to note that the current practice of adjusting the corresponding range of pay points on the 11 civil service pay scales, including the Master Pay Scale, the Police Pay Scale and the Disciplined Services Pay Scales, in tandem in the annual pay adjustment exercises was supported by the Rennie Committee. The Rennie Committee recommended that “we do not consider that the annual pay award to non-directorate staff, which is intended to reflect trends in the community outside the public service and currently based on the Pay Trend Survey, should be different for the disciplined services from that for the rest of the public service.”⁷

70. In its Fourth Report published in December 2000, the Standing Committee on Disciplined Services Salaries and Conditions of Service affirmed that adjustment would need to be made to the disciplined services salaries following the 1999 Starting Salaries Review for the civilian grades carried out by the Standing Commission on Civil Service Salaries and Conditions of Service. In this connection, the Standing Committee advised that “the adjustment should be confined to that element of disciplined services pay based on qualification benchmark while that element of pay which recognised the special/job factors should be preserved intact”.⁸ This, once again, reflect that the internal pay relativities between the disciplined services grades, including the Police grades, and civilian grades exist.

71. As regards the reviews of internal pay relativities among individual civil service grades, there have been established principles guiding the conduct of the grade structure reviews, e.g. the review require deliberations between the grade management and the grade members and in the process should take into account the latest changes to the job characteristics of the grades concerned. The individual grade structure reviews should be carried out separately from the pure fact-finding exercise of the pay level survey. CSB intends to carry out individual grade structure reviews for those grades/ranks which have experienced significant changes in their job nature and requirements in recent years concerned after we have completed the development of an improved civil service pay adjustment mechanism. In doing so, we shall accord priority to the disciplined services grades because of their different circumstances and the need for continued recruitment. In addition, we shall consider conducting a pay review for the directorate positions including those on the directorate pay scales

appropriate, having regard to its assessment of the various pay factors in relation to the Police. The details are set out in paragraphs 4.11 and 10.22 of the Final Report of the Rennie Committee.

⁷ Paragraph 8.21 of the Rennie Committee’s Final Report.

⁸ Paragraph 3.6 of the Fourth Report of the Standing Committee on Disciplined Services Salaries and Conditions of Service.

and the disciplined services pay scales, which the Phase One Consultant has recommended not to include in the survey field of the upcoming pay level survey due to technical considerations.

(ix) Adjustment to civil service pay scales after the pay level survey

72. A number of staff bodies and individual civil servants who have made written submissions consider that the application of the pay level survey results to civil service pay should take full account of the civil service pay policy, the Basic Law as well as contractual and other relevant legal considerations. Some constituent associations of the staff sides of the central consultative councils and individual staff bodies which have submitted written comments suggest that in formulating any proposals on the application issue, the Government should have regard to the various relevant factors, including the inherent differences between the civil service and the private sector, the economic burden of civil servants, staff morale and the implications of the proposals on the civil service in general and on different categories of civil servants.

73. Some members of the public who have made written submissions urge for a timely adjustment to civil service pay following the pay level survey, while some others highlight the importance of enhancing the motivation of civil servants in making further improvement in their performance.

The CSB's Response:

74. In making a decision on any necessary adjustment to civil service pay following the pay level survey, the Government will take account of the results of the pay level survey as well as other relevant considerations, including the Basic Law and other legal considerations, staff morale, state of the economy, budgetary considerations, the views of the staff sides, changes in the cost of living and any inherent differences between the two sectors which cannot be addressed in a technical pay level survey.

75. There are established performance monitoring and staff motivation schemes in the civil service. Following the completion of the current exercise, we shall proceed to examine other broader pay-related initiatives in a step-by-step manner including exploring the feasibility of developing a more flexible salary structure that is more performance-oriented.

(x) Application of the adjusted pay scales to new recruits and serving staff

76. A constituent association of the staff side of a central consultative council supports the proposed general approach for the application of the pay level survey results. It further suggests that if the pay level survey reveals that civil service pay is higher than private sector pay, in considering subsequent pay adjustments following the pay level survey, the Government should, after taking account of other relevant factors (such as the economic situation, civil service

morale, etc.), exercise flexibility and discretion in awarding a slight degree of upward pay adjustment rather than freezing civil service pay indefinitely until the identified pay disparity disappears.

77. Some constituent associations of the staff sides of the central consultative councils point out that the Government should consider the divisive effect on the civil service of the proposal to adopt different approaches for serving staff and new recruits, and its impact on civil service morale.

78. Two constituent associations of the staff sides of the central consultative councils object to the proposed approach of freezing the pay of serving staff if the pay level survey indicates that civil service pay is higher than private sector pay. One of them comments that the proposed approach deviates from the established practice that each year's pay adjustment is a separate and independent exercise. The other proposes to set a limit on the duration of the pay freeze period.

79. The staff side of another central consultative council considers that the proposed application approach reasonable, except for the application of the survey results to the disciplined services on the basis of the existing internal pay relativities.

80. Some members of the public who have made written submissions support the proposal of freezing the pay of serving staff to maintain the stability of the civil service. Some other members of the public who have made written submissions consider that the civil service, as part of the community, should share the ups and downs of the Hong Kong's economy. They are concerned that the proposal of freezing the pay of serving staff would not help rectify the pay disparity between the civil service and the private sector and would be a disincentive to the civil service for further improvement in their performance.

The CSB's Response:

81. The pay level survey results will serve as a broad reference of the extent of comparability between civil service pay and private sector pay. In considering any necessary adjustments to civil service pay following the pay level survey, the Government will take into account the survey results as well as other relevant considerations, including the inherent differences between the civil service and the private sector, the budgetary considerations, the state of the economy, changes in the cost of living, the views of the staff sides as well as staff morale.

82. Regarding the general approach for the application of the pay level survey results, the proposals as contained in the consultation paper of November 2004 remain our position at this stage. However, the Government will consider the issue in detail upon the conclusion of the proceedings of the judicial review applications concerning the civil service pay reductions

legislation (details are set out in paragraph 89 below) and having regard to the views received during the consultation exercise. We shall further consult staff on the detailed application proposals in the light of the results of the pay level survey.

On other issues

83. There are comments from some staff bodies, individual civil servants and the management of some departments on proposals relating to their respective grades, including the inclusion or otherwise of the concerned grades in the preliminary list of civil service benchmark jobs, the matching of the concerned grades/ranks with appropriate private sector jobs and the categorisation of the concerned grades/ranks into the appropriate job family and job level.

84. Three constituent associations of the staff sides of the central consultative councils suggest that the Government should clarify whether the improved pay adjustment mechanism currently under development will be valid beyond the current term of the Administration.

85. Some non-civil service organisations which have submitted written comments render support for conducting individual grade structure reviews, exploring the feasibility of a more flexible salary structure for the civil service and decentralising civil service pay administration to individual departments. Some staff bodies and individual civil servants who have submitted written comments suggest that staff should be fully consulted on any further proposals concerning civil service remuneration.

86. The management of a disciplined services department comments that decentralisation of pay administration of the civil service involves fundamental changes and requires very careful exploration. A constituent association of the staff side of a central consultative council comments that proposals regarding the introduction of performance pay, flexible pay ranges and a clean wage policy are not applicable to the Police grades.

87. The staff side of a central consultative council and a constituent association of the staff side of another central consultative council note that their comments are subject to revision after the Court of Final Appeal has ruled on the Government's appeals in relation to the Public Officers Pay Adjustment Ordinance (the POPA Ordinance). A few constituent associations of the staff sides of the central consultative councils suggest that the Government should examine the implications of the Court of Appeal's judgment in relation to the POPA Ordinance and the outcome of the Government's appeal to the Court of Final Appeal for the current exercise, in particular whether the effective means for implementing both upward and downward pay adjustments to civil service pay should be provided for in legislation.

The CSB's Response:

88. Under the recommended broadly-defined job family method, an intensive job inspection process with the participation of departmental management, grade management, staff bodies including staff unions/associations and job-holders of representative posts will be carried out as a preparatory step for the collection of pay data from the private sector. The process will be carried out in consultation with staff and in a transparent manner so that staff views can be taken fully into account in making appropriate matches of civil service benchmark jobs with reasonably comparable private sector jobs. In proceeding with the proposed job inspection process, the Phase Two Consultant will be required to take into account the feedback received during the consultation exercise concerning the civil service benchmark grades.

89. Regarding the general approach for the application of the pay level survey results, the Government will consider the issue in detail upon the conclusion of the proceedings of the judicial review applications concerning the civil service pay reductions legislation. The Court of Appeal has recently, by a majority, allowed the appeals against the rulings of the Court of First Instance on the judicial review applications regarding the Public Officers Pay Adjustment Ordinance, which implemented the civil service pay reduction effective from 1 October 2002. The Government has obtained leave to appeal against the Court of Appeal's decision to the Court of Final Appeal (CFA) and the CFA hearing has been scheduled for June 2005. Bound by the Court of Appeal's judgment, the Court of First Instance has recently held that section 15 of the Public Officers Pay Adjustments (2004/2005) Ordinance (Cap.580) is inconsistent with Article 100 of the Basic Law. The Government has obtained leave to appeal against the Court of First Instance's ruling in this respect to the CFA. The Government will take account of the CFA's judgment, where applicable, and the views received during the consultation exercise in considering the application of the pay level survey results and its implementation (including the development of an effective means for implementing both upward and downward civil service pay adjustments), and will further consult staff in due course.

90. As clearly explained in the Progress Report and the Consultation Paper, the development of an improved civil service pay adjustment mechanism is intended for long-term adoption in the civil service. It aims to provide a coherent framework for periodic reviews of civil service pay levels and civil service pay adjustments in accordance with the established civil service pay policy.

91. The proposals on other aspects of our civil service pay system set out in the Consultation Paper outlined very broad and general directions for the reform. It is our intention to pursue other pay-related initiatives in a step-by-step manner following the completion of the current exercise. We shall develop more concrete proposals regarding these reform initiatives and

fully consult civil service colleagues in due course. In taking forward the current exercise as well as other review proposals, we shall take full account of the views put forward by all parties concerned and be guided by the overall interests of the community as a whole.

Civil Service Bureau
March 2005

Summary of the Phase One Consultant's Refined Recommendations

After further consideration of the consultation feedback, the Phase One Consultant has recommended a number of refinements or clarifications to the methodology of the pay level survey which are summarised below –

- (a) The job briefs of the civil service benchmark jobs and the job descriptions for the identification of private sector benchmark jobs developed in the job inspection process will reflect the areas of similarity between civil service jobs and counterpart jobs in the private sector. In conducting the job inspection process, the consultant conducting the survey field work (the Phase Two Consultant) should also identify and record the inherent differences between benchmark jobs in the civil service and private sectors so that there is clear documentation of the extent of job comparability.
- (b) The Phase Two Consultant should investigate a representative sample of non-government organisations in the education field, medical and health care field and social welfare field to confirm whether or not civil service pay practice continues to have a heavy influence on the pay levels of a substantial proportion of major non-government organisations in these fields. If not, the Phase Two Consultant may recommend the inclusion of relevant civil service grades/ranks in the list of civil service benchmark jobs, conduct the necessary job inspections, propose representative organisations in these sectors for participation in the pay level survey, and identify reasonable job matches in the non-government organisations.
- (c) As part of the starting salaries survey, the Phase Two Consultant should also collect information on policies for determining starting salaries, to ascertain whether pay levels are set by reference to job requirements or the actual qualifications of newly hired staff.
- (d) The number of organisations selected for invitation to participate in the pay level survey should be sufficient to ensure that pay data are available from at least ten organisations for each of the proposed job families. A similar threshold should also apply to each qualification group for the starting salaries survey.
- (e) Consideration may be given to incorporating variable pay with base pay for the private sector and comparing that aggregated value with civil service base salary, if it is ascertained from the pay level survey

that variable pay forms a core element of the compensation policy in private sector organisations. This comparison would be in addition to the base salary and total cash compensation analyses called for in paragraph 7.18 and Table 13 of the Phase One Consultant's Final Report submitted in November 2004.

- (f) In drawing up any adjusted civil service pay scales for application to new recruits following the pay level survey, the Government should also take into account the expected costs of allowances for which new recruits to the civil service will be eligible.
- (g) As this is the first pay level survey to be conducted under the recommended survey methodology, the Phase Two Consultant should endeavour to collect information on all job-holders of benchmark jobs in the participating private sector organisations. This would help obtain the maximum possible information for analysis of workforce demographics (e.g. experience profiles), which the Government can make reference to in determining any necessary adjustment to the civil service pay scales in the light of the pay level survey results and other relevant considerations. Such information on workforce demographics will not, however, in any way affect the pay data obtained from the survey.
- (h) Collection of pay data on all job-holders in private sector benchmark jobs would also facilitate sensitivity analyses on the proposed typical organisation practice approach and the average job-holder pay approach to data analysis to ascertain whether the survey results are being affected by either small or large organisations whose pay practices happen to represent an extreme. It must be recognised, however, that not all participating organisations will be willing to provide complete data samples (which may number in the thousands in some cases). Keeping in mind the over-riding objective of having representative information from many organisations, the Phase Two Consultant should retain the flexibility to accept information on representative job-holders only, if necessary, in order to secure the participation of as many organisations in the survey as possible.
- (i) The Phase Two Consultant should only provide data to the Government in a form that protects the confidentiality of the information of the participating organisations. Failure to observe these standards, which are norms for private sector pay level surveys, may affect the willingness of invited organisations to participate in the pay level survey.

IMPLICATIONS OF THE PROPOSAL

(i) Basic Law Implications

The decision on the conduct of a pay level survey in 2005 and the suspension of the conduct of the annual pay trend survey for 2004-05 are in conformity with the Basic Law, including the provision concerning human rights.

(ii) Financial Implications

2. The Government will engage an outside consultant to carry out the field work of the survey. The Civil Service Bureau will absorb the cost for the consultancy service from within its global allocation.

3. The financial implications arising from the results of the pay level survey can only be assessed after the results of the pay level survey are known and a decision is made on how the results will be applied to the civil service.

4. Under the existing arrangement, the pay of NCSC staff is capped at the mid-point salaries of comparable civil service ranks or ranks of comparable level of responsibilities. Any adjustment to the civil service pay scales following the pay level survey will therefore have implications on the pay offered to NCSC staff. Any such adjustment will also have a knock-on effect on the subvented sector. An assessment of the financial implications in the above regards can only be made after the results of the pay level survey are known and a decision is made on how the results will be applied to the civil service.

(iii) Economic Implications

5. The conduct of pay level survey is an important component of the improved civil service pay adjustment mechanism, which is being developed to ensure that civil service pay is broadly comparable to private sector pay. This would be commensurate with the need to attract personnel of the right calibre for the respective civil service posts on the one hand, yet not to an excessive degree as to breed wastage in financial resources on the other.

6. Currently, the civil service makes up about 5% of the total workforce and civil service emoluments account for about 10% of the overall employment remuneration in the economy. Taking account of the subvented sector, the civil service and employees in subvented organisations together account for about 20% of the overall employment remuneration in the economy. A well-constituted civil service pay system compatible with the functioning of the labour market as a whole, whilst recognising the characteristics of specific civil service appointment, is conducive to a robust and efficient civil service and sound deployment of manpower resources for the economy at large.