

For Information

**LEGISLATIVE COUNCIL
PANEL ON PUBLIC SERVICE**

**Progress Update on an Improved Civil Service
Pay Adjustment Mechanism**

Purpose

This paper updates Members on the progress of –

- (a) the Pay Level Survey (PLS) conducted recently;
- (b) the drawing up of a general framework for the conduct of PLSs;
- (c) the drawing up of a general framework for the application of PLS results to the civil service;
- (d) the Starting Salaries Survey conducted recently; and
- (e) the ongoing 2007 Pay Trend Survey (PTS).

Background

2. We last briefed Members on the progress made in the development of an improved civil service pay adjustment mechanism in November 2006. On that occasion, we informed Members that the Phase Two Consultant was carrying out the field work of the PLS, using 1 April 2006 as the reference date (hereafter referred to as “the 2006 PLS”). We also gave an account of the preliminary job matching statistics based on the information to hand at that time.

(A) 2006 PLS

3. The Phase Two Consultant has collected pay-related data

from 97 private sector companies, in accordance with the methodology recommended by the Phase One Consultant. It has identified job matches for 166 (out of 193) civil service benchmark ranks.

4. A breakdown of the 97 private sector companies by economic sectors and employment size is set out below –

(i) *Breakdown by economic sector*

<u>Economic Sector</u>	<u>No. of Companies</u>
Community, Social and Personal Services	16
Construction	20
Financing, Insurance, Real Estate and Business Services	19
Hotels and Restaurants	5
Manufacturing	9
Transport, Storage, Communication and Utility	13
Wholesale, Retail and Import/Export	15

(ii) *Breakdown by employment size*

<u>Employment Size</u>	<u>No. of Companies</u>
Between 100 and 300 staff	25
Between 301 and 500 staff	13
Between 501 and 1000 staff	24
Between 1001 and 5000 staff	29
Above 5001 staff	6

5. According to the methodology recommended by the Phase One Consultant, private sector pay data should be collected from at least ten companies for each job family in the PLS to ensure that the collected data are meaningful and representative. The Phase Two Consultant has advised that this requirement is met as follows -

<u>Job Families</u>	<u>No. of Companies</u>
Job Family 1: Clerical and Secretarial Family	44
Job Family 2: Internal Support Family	68
Job Family 3: Public Services Family	41
Job Family 4: Works-Related Family	53
Job Family 5: Operational Support Family	46

6. The Phase Two Consultant has consolidated private sector pay data in accordance with the methodology recommended by the Phase One Consultant, and come up with market pay indicators for each of the five job levels. We have been consulting with the staff sides on how the PLS results should be applied to the civil service (please see paragraph 14 below).

(B) General Framework for the Conduct of PLSs

7. Based on the experience of the 2006 PLS and having regard to the methodology recommended by the Phase One Consultant, we are devising a general framework for the conduct of PLSs in future years in consultation with the staff sides and taking into account the advice of the three advisory bodies, namely, the Standing Commission on Civil Service Salaries and Conditions of Service (Standing Commission), the Standing Committee on Disciplined Services Salaries and Conditions of Service (Disciplined Services Committee), and the Standing Committee on Directorate Salaries and Conditions of Service (Directorate Committee).

8. To briefly recap, the PLS methodology recommended by the Phase One Consultant comprises the following key features -

- (a) the adoption of the broadly defined job family and job level method under which civil service benchmark jobs in the civilian grades on the Master Pay Scale (MPS) and the Model Scale 1 Pay Scale (MOD1) are matched with broadly comparable counterparts in the private sector in terms of job content, work nature, level of responsibility and typical requirements on qualification and experience;
- (b) the division of civil service benchmark jobs into five job families (having regard to the broad nature of their work)

and five job levels (having regard to their general level of responsibility), giving rise to a matrix of 25 groups. Each civil service benchmark job is then fitted into the most suitable group;

- (c) the selection of civil service benchmark jobs having regard to the availability of broadly comparable jobs in the market;
- (d) the selection of private sector companies for survey based on a set of criteria, including (i) they should be good and steady employers, (ii) they should normally employ no less than 100 staff, (iii) they should determine pay levels for their staff on the basis of factors and considerations applying to Hong Kong, and (iv) they should not use civil service pay scales or pay adjustments as the major factors in determining their pay levels;
- (e) the collection of both basic cash and total cash compensation data from surveyed companies; and
- (f) the consolidation of data collected on the basis of the typical organisation practice approach, under which each surveyed company is given equal weight irrespective of its employment size.

9. We need to consider and decide whether the above methodology should be adopted for the conduct of future PLSs.

10. In addition, we also need to consider and come to a view on how frequent a PLS should be conducted, having regard to the need to ensure that civil service pay is broadly in step with the private sector pay level as well as the resources implications for the Administration, staff sides and private sector companies taking part in PLSs.

(C) General Framework for the Application of PLS Results

11. Along side with the discussion on the general framework for the conduct of PLSs, we are also devising a general framework on how the PLS results should be applied to the civil service, having regard to our civil service pay policy and the policy considerations underpinning it.

12. A clean and efficient civil service is one of Hong Kong's fundamental strengths. To maintain this strength, it is the Government's firm commitment to continue to nurture a clean, efficient and dedicated civil service committed to serving the community. In pursuit of this and in keeping with the Government's aim to be a good employer in the SAR, the civil service pay policy has been and remains: 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; and to ensure that the remuneration is regarded as fair by both civil servants and the public they serve through broad comparability with the private sector.

13. The above stated civil service pay policy is underpinned by the following considerations:

- (a) Upholding the core values of the civil service: Civil servants are required to uphold certain core values, including (i) commitment to the rule of law, (ii) honesty and integrity, (iii) accountability for decisions and actions, (iv) political neutrality, (v) impartiality in the execution of public functions, and (vi) dedication, professionalism and diligence in serving the community through delivering results and meeting performance targets. Some, if not all, of these core values are also applicable to the private sector, but the degree of importance attached to their faithful adherence may differ between the civil service and the private sector. Generally speaking, civil servants are subject to higher integrity expectations and very stringent rules on conduct and avoidance of real or potential conflicts of interest;
- (b) Maintaining the stability of the civil service: A stable, permanent civil service is important to ensure the smooth running of the Administration and the efficient delivery of public services without disruption. That is not to say the civil service pay system should not be reviewed and revised from time to time if justified to take into account changes in the society and community expectations. However, the elements of certainty, stability and gradual changes after thorough staff consultation feature more prominently in the civil service than in the private sector;

(c) Comparing with the private sector but also recognizing the inherent differences between the civil service and private sector: As the Government has to compete with the private sector for suitable calibre persons to join and stay in the civil service, it has to have regard to the pay levels in the private sector. Comparability with the private sector is necessary and appropriate. Comparability also satisfies the public, who pay the bill, that civil service pay is fair. Because of the inherent differences between the civil service and the private sector, broad comparability (rather than strict comparability) is justified. Accordingly, pay level surveys are to be done in a broad-brush manner and the survey results should be applied to the civil service having regard to the differences in the nature and requirements of jobs in the civil service and the private sector. Other than the differences stated in items (a) and (b) above, the other more significant differences include -

- (i) certain jobs are unique to the civil service (e.g. law enforcement, law drafting, rescue work, etc.), making it impossible to identify appropriate private sector comparators for a direct comparison with each and every civil service grade and rank,
- (ii) where reasonable private sector comparators are found, certain functions and conditions of work are still unique to the civil service (e.g. formulating policies, regulations or laws for SAR-wide application; explaining government policies; lobbying support for government policies from concerned stakeholders, political parties, District Councils, LegCo, etc.),
- (iii) career progression in the civil service tends to be more structured and progressive. Other than meritocratic consideration, the need to maintain the stability of the civil service also requires greater importance to be accorded to seniority and experience in the civil service than in the private sector. Resignation is rare, which contributes towards maintaining the stability of the civil service. Career progression in the private sector is generally

more varied and more influenced by market conditions, including the prevailing manpower supply and demand in the required areas of expertise. There is a greater propensity to change jobs and/or employers in the pursuit of career progression, resulting in a much greater turnover in the private sector,

- (iv) nature of operation of the Government and the private sector is very different. For example, the Government places emphasis on public well-being and the overall interest of the community, while the private sector is driven by the interest of shareholders and profit-making motives. Necessarily, private sector pay is susceptible to more volatile fluctuations which, if mirrored closely in the pay for the civil service, would not be conducive to maintaining a stable civil service and effective and efficient governance, which is in the overall interest of the community, and
- (v) the private sector operates in a more volatile environment heavily affected by the state of the economy generally and of a particular trade/industry at a given point in time. Entities in the same business niche in the private sector compete with each other. Necessarily, the private sector adopts more flexible hire-and-fire and remuneration practices. The civil service operates in a more stable environment and employment in the civil service, subject to good conduct and performance, is normally 'permanent' until the statutory retirement age. The different environment makes it inappropriate for the civil service pay to closely mirror the fluctuations in private sector pay;
- (d) Following the private sector: Broad comparability with the private sector is adhered to under the principle that the Government should follow, but not lead the private sector. This principle applies to both the determination of pay levels in the civil service and the annual adjustment of civil service pay, and is manifested in the form of collection of private sector pay data for the

12-month period immediately preceding a pre-determined date in the past (for the periodic pay level surveys) and private sector pay adjustments over a 12-month period from 2 April of the preceding year to 1 April of the current year (for the annual pay trend surveys). The information collected, together with other relevant considerations, will help to determine the civil service pay adjustments with effect from either the pre-determined reference date (upon completion of the concerned pay level survey) or from 1 April of the current year (upon completion of the concerned pay trend survey);

- (e) Maintaining internal relativities within the civil service: The civil service is centrally administered. Maintaining internal relativities ensures a degree of consistency and fairness in determining the pay levels for a total of about 390 civil service grades and around 1,100 ranks. It also overcomes the practical constraint that some grades or ranks do not have any direct private sector comparators. Internal pay relativities are revised as justified following individual grade structure reviews. Until they are revised, the existing internal relativities are adhered to;
- (f) Taking account of Basic Law and other legal considerations: Any change to the existing civil service pay adjustment mechanism must be consistent with the Basic Law and must take full account of the contractual considerations, those international obligations which apply to Hong Kong and other legal considerations relevant to the employment relationship between the Government and civil servants; and
- (g) Taking account of the Government's fiscal position and other considerations: As civil servants are paid out of the public purse, the Government's overall fiscal position is an important consideration. Civil service pay also needs to have regard to the economic circumstances of Hong Kong, including changes in the cost of living, as a whole. In addition, the views of civil servants as well as staff morale have been and remain relevant considerations in the Government's determination of adjustments to civil service pay.

14. We have been conducting extensive consultations with the staff sides and the advice of the Standing Commission, the Disciplined Services Committee and the Directorate Committee. We will take into account their views before finalizing a general framework for the application of the PLS results to the civil service.

15. The finalized general framework will be adopted for the application of the 2006 PLS results to the civil service. And any consequential changes to the pay scales in the civil service will be submitted to the Finance Committee of the Legislative Council for approval.

(D) Starting Salaries Survey

16. The starting salaries for civil service grades are set based on a broad-banding education qualification grouping (QG) method, with established internal relativities among and within the QGs. Each QG has one (or two) benchmark, which is adjusted from time to time having regard to entry pay in the private sector for similar qualifications as determined through a Starting Salaries Survey (SSS). And the starting salary of a civil service grade in a particular QG is set on par with, or one or more points higher¹ (where justified for reasons of special job requirements or recruitment difficulties) than the benchmark of that QG. At present, there are 12 QGs in the civil service as set out below –

<i>QGs</i>	<i>Qualification Requirements</i>	<i>Examples of Ranks Included</i>
1	Grades not requiring five passes in HKCEE	Clerical Assistant, Office Assistant, Postman, Typist

¹ Except for special cases such as the assistant ranks for professional grades, for which the starting salaries are one or more points below the benchmark of their respective QG.

<i>QGs</i>	<i>Qualification Requirements</i>	<i>Examples of Ranks Included</i>
2	<p>School Certificate Grades</p> <p>Group I: Grades requiring five passes in HKCEE</p> <p>Group II: Grades requiring five passes in HKCEE plus considerable experience</p>	<p>Group I: Assistant Clerical Officer, Postal Officer</p> <p>Group II: Confidential Assistant, Assistant Taxation Officer</p>
3	<p>Higher Diploma and Diploma Grades</p> <p>Group I: Higher Diploma Grades</p> <p>Group II: Diploma Grades</p>	<p>Group I: Dental Therapist, Physiotherapist</p> <p>Group II: Technical Officer, Survey Officer</p>
4	<p>Technical Inspectorate and Related Grades: Higher Certificate plus experience</p>	<p>Assistant Clerk of Works, Assistant Inspector of Works</p>
5	<p>Technician, Supervisory and Related Grades Group I: certificate or apprenticeship plus experience</p>	<p>Amenities Assistant III, Works Supervisor II</p>
6	<p>Technician, Supervisory and Related Grades Group II: craft and skill plus experience, or apprenticeship plus experience</p>	<p>Forest Guard, Motor Driver</p>
7	<p>Grades requiring two passes at Advanced Level in Hong Kong Advanced Level Examination plus three credits in HKCEE (2A3O)</p>	<p>Land Executive, Liaison Officer II</p>
8	<p>Professional and Related Grades</p> <p>Group I: Membership of a professional institution or equivalent</p> <p>Group II: Grades with Pay Structure Related to Grades in Group I</p>	<p>Group I: Architect, Engineer</p> <p>Group II: Economist, Administrative Officer</p>
9	<p>Degree and Related Grades</p>	<p>Executive Officer, Assistant Librarian II, Assistant Labour Officer II</p>

<i>QGs</i>	<i>Qualification Requirements</i>	<i>Examples of Ranks Included</i>
10	Model Scale 1 Grades	Workman II, Ganger
11	Education Grades	Certificated Master/Mistress. Assistant Education Officer
12	Other Grades	Air Traffic Control Officer III, Assistant Hawker Control Officer, Assistant Information Officer

17. Apart from the 2006 PLS, we have also commissioned the Phase Two Consultant to conduct a SSS (using 1 April 2006 as the reference date) for the civil service based on the education qualification approach. The Consultant has completed the survey and we are considering the application issues in consultation with the staff sides and departmental management. Before finalizing the application proposals, we also need to seek the advice of the Standing Commission and the Disciplined Services Committee. Any change to the starting salaries of specific civil service grades and ranks will be submitted to the Establishment Sub-committee and the Finance Committee of the Legislative Council for endorsement and approval respectively.

(E) 2007 Pay Trend Survey

18. On 13 March 2007, the CE-in-Council endorsed the improvements to the methodology of the PTS and ordered that the 2007 PTS (covering the period 2 April 2006 to 1 April 2007) should be conducted based on the improved methodology. The improvements are in two main aspects, namely: (a) broadening the PTS survey field to include smaller companies employing 50 to 99 staff, subject to a set of prescribed selection criteria; and (b) the introduction of two gross-up factors (0.25 for smaller companies and 0.75 for the rest) for data consolidation so that the impact of pay adjustment in smaller companies is appropriately reflected in the PTS results. Details of the improved PTS methodology are set out in the Legislative Council brief issued on 13 March 2007.

19. The tri-partite Pay Trend Survey Committee (consisting of representatives from the staff sides, the Civil Service Bureau, and the

Standing Commission and Disciplined Services Committee) has commenced work on the 2007 PTS, which will survey the year-on-year changes in private sector pay for the period 2 April 2006 to 1 April 2007. The results of this survey, together with other relevant factors (such as the economy, the inflation situation, the Government's fiscal position, staff morale, staff claim, etc.), will determine the pay adjustment, if any, for the civil service in 2007-08. Any adjustment to civil service pay will be submitted to the Finance Committee of the Legislative Council for approval.

Next Step

20. We will continue to keep Members updated on the development of an improved civil service pay adjustment mechanism. We will provide further information to Members as and when further progress is made on the PLS, SSS and the 2007 PTS.

Civil Service Bureau
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