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LEGISLATIVE COUNCIL BRIEF

2007-08 CIVIL SERVICE PAY ADJUSTMENT

INTRODUCTION

At the meeting of the Executive Council on 5 June 2007, the Council ADVISED and the Chief Executive ORDERED that the following pay adjustment offer should be made to the staff sides of the four central consultative councils -

- (a) a pay increase of 4.96% (equal to the net pay trend indicator (PTI) for the upper salary band) for directorate and other civil servants in the upper salary band with effect from 1 April 2007;
- (b) a pay increase of 4.62% (equal to the net PTI for the middle salary band) for civil servants in the middle salary band with effect from 1 April 2007; and
- (c) a pay increase of 4.62% (equal to the net PTI for the middle salary band) for civil servants in the lower salary band, in accordance with the “bring-up” arrangement, with effect from 1 April 2007.

JUSTIFICATIONS

(A) Civil service pay policy

2. The Government's policy is to offer remuneration sufficient to attract, retain and motivate staff of a suitable calibre to provide the public with an effective and efficient service; and such remuneration is to be regarded as fair by both civil servants and the public they serve. For the latter, the Government accepts that comparability with the private sector should be an important factor in setting civil service pay.

(B) Management of civil service pay

3. The management of civil service pay comprises three main components: (a) the conduct of a pay level survey (PLS) every six years to ascertain whether civil service pay is broadly comparable with private sector pay; (b) the conduct of a starting salaries survey (SSS) every three years to ascertain whether the starting pay specified for different entry ranks in the civil service requiring different qualifications is comparable with private sector jobs requiring similar qualifications; and (c) the conduct of a pay trend survey (PTS) every year to ascertain the average year-on-year movements in private sector pay.

(C) The PTS mechanism

4. According to the established mechanism, the annual PTS is commissioned by the tripartite PTS Committee, comprising staff sides representatives, management representatives, and members of the Standing Commission on Civil Service Salaries and Conditions of Service and the Standing Committee on Disciplined Services Salaries and Conditions of Service. Under the supervision of the PTS Committee, the annual PTS is conducted by the Joint Secretariat for Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service. The survey findings are collated and condensed into three gross pay trend indicators (PTIs), one each for the upper, middle and lower salary bands¹. The payroll cost of increment incurred for serving civil servants in each salary band (expressed as a percentage of total salary payment) is then deducted from the relevant gross PTI to arrive at the net PTI.

5. Upon the production of PTIs from a PTS, the Chief Executive (CE)-in-Council is consulted on the specific pay adjustment offer to be made to the staff sides, having regard to the PTIs, the state of the economy, changes in the cost of living, the Government's fiscal position, the pay claims of the staff sides, and the state of the civil service morale. If the pay offer advised by the CE-in-Council is different from the staff sides' pay claims, the staff sides will be consulted again and then the CE-in-Council will be invited to make a final decision.

¹ The three salary bands are -

- Upper : Above Master Pay Scale (MPS) 33 to General Disciplined Services (Officer) Pay Scale (GDS(O)) 38 or equivalent, i.e. \$43,941 to \$87,430;
- Middle: From MPS 10 to 33 or equivalent, i.e. \$14,330 to \$43,940; and
- Lower : Below MPS 10 or equivalent, i.e. below 14,330.

(D) The 2007 PTS

6. The 2007 PTS, covering the 12-month period from 2 April 2006, has just been completed. For the first time, this PTS collected data from both large (i.e. with 100 or more employees) and smaller (i.e. with 50-99 employees) companies. Altogether pay adjustment information on 144,901 employees in 91 companies (made up of 72 large and 19 smaller companies) was obtained. Also for the first time, the data collected from the large and smaller companies were consolidated according to the 75%:25% weighting. The consolidated gross PTIs, the payroll cost of increment incurred for civil servants for 2006-07, and the consolidated net PTIs are set out below -

<u>Salary Band</u>	<u>Gross PTI</u>	<u>Payroll cost of increment</u>	<u>Net PTI</u>
	(a)	(b)	(a) minus (b)
Upper	5.59%	0.63%	4.96%
Middle	5.24%	0.62%	4.62%
Lower	4.28%	0.37%	3.91%

(E) State of the economy

7. The Hong Kong economy enjoyed a robust and broad-based expansion in 2006. The Gross Domestic Product (GDP) grew by 6.9% in real terms. Employment increased by 2.1%, and reached an all-time high of 3.47 million by the fourth quarter of 2006. The outlook for 2007 is continued balanced and solid growth. GDP is projected to grow by 4.5% to 5.5% in real terms. In early 2007, the unemployment rate at the upper and lower segments of the labour market fell to below 2% and 5% respectively.

(F) Changes in the cost of living

8. Inflation remains benign. The Composite Consumer Price Index registered an increase of 2% for the year ended 31 March 2007 and is projected to increase by 1.5% in 2007.

(G) Government's fiscal position

9. The Government's fiscal position remains robust. For 2006-07, total public expenditure was contained at 16.4% of GDP, operating surplus was \$40.4 billion and consolidated surplus was \$58.6 billion. For 2007-08, total public expenditure is estimated at 17.4% of GDP, operating surplus at \$7.2 billion, and consolidated surplus at \$25.4 billion. Premised on a

forecast economic growth of 4.5% a year, we expect that the government accounts will continue to be in surplus over the medium term.

(H) Staff sides' pay claims

10. The pay claims from the staff sides of the four central consultative councils are summarized below -

<u>Staff Side</u>	<u>Upper Band</u>	<u>Middle Band</u>	<u>Lower Band</u>
(I) Senior Civil Service Council			
(a) HK Chinese Civil Servants' Association	6%	6%	6%
(b) Association of Expatriate Civil Servants of Hong Kong	4.96% (= net PTI)	4.62% (= net PTI)	4.62% (= net PTI of middle band)
(c) HK Senior Government Officers Association	4.96% (= net PTI)	4.62% (= net PTI)	4.62% (= net PTI of middle band)
(II) Police Force Council	4.96% (= net PTI)	4.62% (= net PTI)	3.91% (= net PTI)
(III) Disciplined Services Consultative Council	4.96% (= net PTI)	4.62% (= net PTI)	3.91% (= net PTI)
(IV) Model Scale 1 Staff Consultative Council	-	-	4.62% (= net PTI of middle band)

(I) Staff morale

11. Given that the economy has bounced back and employees in the private sector have been generally rewarded with pay rises, civil servants have been expecting a pay rise in 2007-08 after the pay reductions and pay freeze in the past years.

(J) Pay offer for 2007-08

12. In accordance with the decision of the CE-in-Council, we have put the following pay increase offer to the staff sides of the four central consultative councils -

<u>Salary band</u>	<u>Net PTI</u>	<u>Pay offer</u>
Directorate	N.A.	4.96%
Upper	4.96%	4.96%
Middle	4.62%	4.62%
Lower	3.91%	4.62%

(a) Directorate civil servants

13. The coverage of the annual PTS does not include directorate officers. Following the practice adopted since 1990, the pay offer for directorate officers is set at the net PTI for the upper salary band (i.e. an increase of 4.96%)

(b) Upper and middle salary band civil servants

14. The pay offer for civil servants in the upper and middle salary bands is the same as their respective net PTIs, i.e. an increase of 4.96% and 4.62% respectively. The offer is made having regard to the PTS findings, the buoyant economy, moderate inflation, the Government's fiscal position, the staff sides' pay claims and staff morale.

(c) Lower salary band civil servants

15. The pay offer for civil servants in the lower salary band is 4.62%, i.e. the same as the pay offer for those in the middle salary band. This is in keeping with the practice adopted since 1989 upon the recommendation of the 1988 Committee of Inquiry, namely that where the net PTI for the lower salary band is below that of the middle salary band, the pay adjustment for the lower salary band should be brought up to the same level as the middle salary band, unless there are overriding reasons for not doing so.

(K) Effective date for the pay offer

16. In line with the established practice, the CE-in-Council has decided that the pay increase for the civil service should take effect retrospectively from 1 April 2007, except for the small number of civil servants set out in **Annex**.

(L) Other related issues

17. **Non-civil service contract (NCSC) staff:** They are not civil servants and their terms of employment are different from those of civil servants. They are employed by individual bureaux and departments to do

time-limited work, or work which is being considered for contracting out, or part-time work, etc. As the pay of NCSC staff is managed differently from that of the civil service, the pay increase offer and the final pay increase decision for civil servants will not be applied automatically to this group of staff. Bureaux and departments are authorized to determine the pay of NCSC staff under their employment having regard to the state of the employment market, the work the staff will be required to do, the recruitment and retention position, etc. The only provision is they cannot pay a NCSC staff more than the notional mid-point salary of a civil servant doing similar work. Bureaux and departments are also authorized to adjust the pay of serving NCSC staff from time to time having regard to the changes in wage levels in the market place.

18. **Subvented sector staff:** Generally speaking, remuneration for subvented staff is a separate matter from funding for subvented organisations. With the exception of those in the aided school sector who are paid according to the civil service pay scales, the Government is generally not involved in the determination of the pay or pay adjustment of staff working in subvented organisations. The pay and other appointment matters of staff working in these organisations are matters between the organisations as employers and their employees. The Government therefore will not directly impose any pay adjustment applicable to the civil service in the subvented sector. That said, it has been our established practice that following a civil service pay adjustment, the Government would adjust generally the subventions for those organisations with funding price-adjusted on the basis of formulae including a factor of civil service pay adjustment. This arrangement covers the majority of organisations receiving recurrent subventions from the Government, including the Hospital Authority, social welfare non-governmental organisations, and institutions funded by the University Grants Committee.

19. In line with the established practice and subject to the approval of the Finance Committee of the Legislative Council, we will increase the personal emolument portion of the recurrent subventions to these organisations on the basis of the weighted average of pay increase for the civil service. We have adopted the same approach and used the civil service weighted average in reducing the subventions of most subvented bodies following the civil service pay reductions in October 2002, January 2004 and January 2005. It would be up to the individual subvented organisations, as employers, to decide whether to increase the salaries of their own employees and if so the rate of increase using the additional subventions.

IMPLICATIONS

20. The pay increase offers are in conformity with the Basic Law, including the provisions concerning human rights. They also have no sustainability implications.

21. The financial implications for the civil service and the subvented sector arising from the pay increase offer are as follows-

	\$ million
(a) Civil Service	2,406 ²
(b) ICAC staff ³	21
(c) Subvented Organizations	2,855
(d) Auxiliaries	8
Total	5,290

22. The 2006-07 PTS findings, on which the pay offer is based, reflect the extent of pay increase generally awarded by employers in the private sector to their employees in the year when labour market conditions kept improving. The Government, just like any other employer, has to compete for the manpower and expertise it needs, through offering appropriate salaries and other terms of employment. Currently, the civil service accounts for about 4% of the total workforce and civil service emoluments account for about 8% of the overall employment remuneration in the economy. The civil service and employees in subvented organisations together account for around 17% of the overall employment remuneration in the economy.

PUBLICITY

23. The Secretary for the Civil Service has made the pay offer to the staff sides of the four central consultative councils earlier today (5 June 2007). Later today, a press release will be issued and a spokesperson will be available to answer media enquiries.

² The pay adjustment will also lead to an increase in pension payments for those who retire during the year, estimated at \$42 million in 2007-08.

³ ICAC staff are not civil servants. However, it has been the Government's policy to extend the civil service pay adjustment to the ICAC.

SUBJECT OFFICER

24. Enquiries on this brief should be addressed to Mr. Chris Sun, Principal Assistant Secretary for the Civil Service (tel: 2810 3112).

Civil service Bureau
5 June 2007

Effective Date For The 2007-08 Pay Adjustment In Respect Of Civil Servants Remunerated On The Reference Pay Scales

For new recruits remunerated on the reference pay scales on or after 1 April 2007, the 2007-08 pay adjustments will apply to them on -

- (a) the date when the new starting salaries take effect, or
- (b) the date when they migrate to the “normal” pay scales upon the award of the first annual increment,

whichever is earlier.

2. The above arrangement is necessary in view of the delinking arrangement implemented since 2000. Under the delinking arrangement, the reference pay scales will not be adjusted in accordance with annual civil service pay adjustment, but will instead be adjusted either upon a subsequent revision of the starting salaries following the conduct of a starting salaries survey or under exceptional circumstances (such as the pay reductions in 2004 and 2005).

3. In accordance with the decision of the Chief Executive-in-Council made on 15 May 2007, the delinking arrangement will be discontinued upon the implementation of the new starting salaries.