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Panel on Public Service

Meeting on 15 June 2018

Updated background brief on 2018-2019 Civil Service Pay Adjustment

Purpose

This paper provides background information on the civil service pay adjustment exercises in recent years, and summarizes the major concerns expressed by members when the annual civil service pay adjustments were deliberated in meetings of the Panel on Public Service ("the Panel") and the Finance Committee ("FC") since 2014-2015 legislative session.

Background

2. Under the Improved Civil Service Pay Adjustment Mechanism endorsed by the Executive Council in 2007, civil service pay is compared with private sector pay on a regular basis through three different surveys, namely:

- (a) an annual pay trend survey ("PTS") to ascertain the year-on-year pay adjustment movements in the private sector;
- (b) a triennial starting salaries survey to compare the starting salaries of civil service civilian grades with the entry pay of jobs in the private sector requiring similar qualifications; and
- (c) a six-yearly pay level survey ("PLS") to ascertain whether civil service pay is broadly comparable with private sector pay.

The PTS Mechanism and the 2018 PTS

3. The annual PTS is commissioned by a tripartite Pay Trend Survey Committee ("PTSC"), which comprises representatives of the staff sides of the four

central consultative councils¹ ("the staff sides"), the Administration as well as the advisory bodies on civil service salaries and conditions of service.² An introduction to the PTS mechanism and methodology is provided in Annex A to the Legislative Council ("LegCo") Brief on the 2018-2019 Civil Service Pay Adjustment issued on 5 June 2018.

4. According to the aforesaid LegCo Brief, the 2018 PTS collected the basic pay and additional pay adjustment data of 157 504 employees in 112 companies, consisting of 155 863 employees in 86 larger companies and 1 641 employees in 26 smaller companies. The findings of the 2018 PTS are as follows:

Salary Band	Basic Pay Indicator (A)	Additional Pay Indicator (B)	Gross Pay Trend Indicator (A) + (B)
Upper (Above Master Pay Scale ("MPS") 33 to General Disciplined Services (Officer) Pay Scale 39, viz. \$67,066 to \$135,075)	3.87%	1.38%	5.25%
Middle (MPS 10 to 33, viz. \$21,880 to \$67,065)	4.83%	0.8%	5.63%
Lower (Below MPS 10, viz. below \$21,880)	4.39%	0.5%	4.89%

Factors considered in making pay adjustment decisions

5. According to the Administration, in deciding on the rates of civil service pay adjustment each year, the Chief Executive ("CE")-in-Council takes into account six factors ("the six factors") under the established mechanism, namely:

¹ The four central consultative councils are the Senior Civil Service Council, the Model Scale 1 Staff Consultative Council, the Police Force Council ("PFC") and the Disciplined Services Consultative Council ("DSCC"). The staff side of DSCC and three of the four constituent associations of PFC withdrew from PTSC since 2013. However, PTSC Secretariat has continued to send meeting invitations, papers and minutes of meeting to them.

² The two advisory bodies are the Standing Commission on Civil Service Salaries and Conditions of Service and the Standing Committee on Disciplined Services Salaries and Conditions of Service.

- (a) the net pay trend indicators³ ("PTIs");
- (b) the state of Hong Kong economy;
- (c) changes in the cost of living;
- (d) the Government's fiscal position;
- (e) the pay claims of the staff sides; and
- (f) civil service morale.

6. In respect of the 2018-2019 pay adjustment exercise, the Administration gives an account of these factors in paragraphs 6 to 13 of the LegCo Brief on the 2018-2019 Civil Service Pay Adjustment issued on 5 June 2018.

7. A table showing the approved annual rates of civil service pay adjustment, the annual net PTIs and the annual changes in the Composite Consumer Price Index since 1997-1998 is in **Appendix I**.

Pay offers for 2018-2019

8. Taking into account all relevant factors under the established mechanism, the CE-in-Council decided at the meeting on 5 June 2018 that the following pay offers for 2018-2019 should be made to the staff sides:

Salary band	No. of civil servants⁴	Net PTI	Pay offer
Directorate	1 368	N.A. ⁵	4.06%
Upper	18 993	4.06%	4.06%
Middle	117 958	4.51%	4.51%
Lower	33 114	2.84%	4.51%

³ The payroll cost of increments incurred for civil servants in each salary band (i.e. the increment payment made to civil servants who have not yet reached the maximum pay point of their rank, expressed as a percentage of total salary payment) is deducted from the relevant **gross** PTI to arrive at the **net** PTI.

⁴ The figures reflected the position as at 31 March 2018 and included some 19 700 civil servants seconded to/working in trading funds, subvented and other public bodies.

⁵ PTS does not cover private sector employees whose salary overlaps with directorate civil servants. The pay claims from the staff sides also do not cover directorate civil servants.

9. In gist, the pay offers are the same as the net PTIs for the respective salary bands, save for the lower salary band for which the "bring-up" arrangement⁶ will be invoked, so that the pay offer for civil servants in the lower salary band is the same as that for the middle salary band. The coverage of the annual PTS does not include directorate civil servants. Following the established practice, the pay adjustment rate for them is the same as that for the upper salary band.

10. According to the Administration, it conveyed the pay offers to the staff sides on 5 June 2018. Their responses would be further considered by the CE-in-Council, which would make a final decision on the pay adjustment for the civil service for 2018-2019.

Deliberations of the Panel and the Finance Committee

11. In June each year, the Administration briefs the Panel on the annual civil service pay adjustment decisions made by the CE-in-Council in the respective year. A funding proposal on the civil service pay adjustment is then submitted by the Administration to FC for approval in June or July. Views and concerns expressed by members when the subject was discussed by the Panel and FC since 2014-2015 session are summarized in the ensuing paragraphs.

Factors considered in making pay adjustment decisions

Calculation of net PTIs

12. Some members opined that the arrangement of deducting payroll cost of increments ("PCIs") from the gross PTIs to arrive at the net PTIs was unfair to those civil servants who had reached the maximum pay point of the pay scale of their ranks. The Panel passed a motion at the meeting on 22 June 2015 urging the Administration to review such arrangement to ensure that civil servants who had reached the maximum pay points of their ranks could be offered reasonable pay increase.

⁶ Under the "bring-up" arrangement, the pay adjustment for civil servants in the lower salary band will be aligned to the net PTI of the middle salary band if the latter is higher than the net PTI of the lower salary band. This arrangement was introduced in 1989 upon the recommendation of the 1988 Committee of Inquiry on the ground, amongst others, that the majority of the lower-paid staff had reached the maximum pay points and were no longer eligible for annual increments.⁷ Such factors include the employment market situation, recruitment results, staff retention needs, costs of living, civil service pay adjustment, prevailing statutory minimum wage, and compliance with the principles that the terms and conditions of service for NCSC staff should be no less favourable than those provided for under the Employment Ordinance (Cap. 57), and no more favourable than those applicable to civil servants in comparable ranks.

13. The Administration advised that this practice was recommended by a Committee of Inquiry set up in 1988. The Committee considered that the annual PTS should include all take-home pay by employees in the private sector, including merit pay and increments. For the sake of fairness, the increment payment made to civil servants who had not yet reached the maximum pay points of their ranks should also be taken into account. If the practice of deduction of PCIs was to cease, the established arrangement of including the private sector merit pay and in-scale increment in PTS might also need to be changed for fairness sake, and this would affect the PTI figures to be taken into account by the CE-in-Council in considering the annual civil service pay adjustment. Also, civil servants who had reached the maximum pay points had benefited and would continue to benefit from the inclusion of private sector merit pay in the computation of the gross PTIs. According to the Administration, the percentage of civil servants who had reached the maximum pay points of their ranks had already dropped from around 68% in 2010-2011 to around 48% in 2016-2017. The Administration saw no new circumstances that should warrant a comprehensive review on the existing practice. Besides, the Government also needed to consider the possible long-term financial implications if the practice were to be changed.

State of Hong Kong's economy and changes in the cost of living

14. Some members criticized the Administration that when deciding the civil service pay adjustment rates, it had not paid heed to factors other than the net PTIs, and the rates of salary adjustment offered by the Administration for some years could not catch up with inflation. In this connection, they urged the Administration to make it a policy that civil service pay adjustment should not be less than the prevailing inflation rate. The Administration replied that civil service pay adjustment was not aimed at tracking inflation although changes in the cost of living was one of the six factors. Under the current mechanism, civil service pay adjustment could be higher or lower than the inflation rate.

15. A member urged the Government to track the Consumer Price Index (A), instead of net PTIs, in making its decision in adjusting civil service pay annually so as to better maintain the purchasing power of civil servants. The Administration advised that the Consumer Price Index (A) was not a good reference in considering the factor of changes in cost of living as it only covered some 50% of households in the relatively low expenditure ranges. It was inappropriate to link the civil service pay adjustment to inflation figures of specific sectors. In any case, the CE-in-Council would consider all inflation figures before an annual pay adjustment decision was made.

Civil service morale

16. As to a member's suggestion that a survey should be conducted to assess the state of civil service morale, the Administration said that the Government

attached great importance to staff morale and would continue to work on various fronts to sustain staff morale. The Administration considered that as no significant recruitment or retention problem was observed after the implementation of the Civil Service Provident Fund Scheme in 2000, civil service jobs were still attractive in retaining and motivating staff, and in attracting persons of suitable calibre to join the civil service. Therefore, the Administration had no plan to conduct any survey on staff morale.

Weighting and order of priority of the six factors

17. Responding to a member's enquiry on the relevant weighting and order of priority of the six factors in deciding annual civil service pay adjustment, the Administration explained that the CE-in-Council had considered all the six factors in determining the civil service pay adjustment. Apart from the net PTIs, the other five factors could not be easily quantified and required the exercise of judgment. Also, imposing a binding order of priority for the six factors would be tantamount to impinging upon the discretionary power of the CE-in-Council.

PTS mechanism and methodology

18. Some members quoted that DSCC and three of the four constituent associations of PFC withdrew from PTSC as the Administration had failed to convince them that due consideration had been given to all the six factors in making the final decision on the rates of civil service pay adjustment. Members asked what measures had been taken to ensure that the findings of PTS could accurately reflect the year-on-year pay adjustment movements in the private sector.

19. The Administration responded that the annual PTS had built up its credibility on ascertaining the year-on-year pay adjustment movements in the private sector over the years. Since 1983, the annual PTS had been overseen by a tripartite PTSC mentioned in paragraph 3 above. Every year before the conduct of PTS, PTSC would convene meetings to review the survey methodology and the list of companies in the survey field, review would be conducted again after completion of each PTS with a view to further improving it. The Administration further advised that the PTSC Secretariat had continued to send meeting invitations, papers and minutes of meets to the withdrawn staff side representatives to keep them informed of the discussion of PTS and welcomed views from them. Before submitting the pay adjustment proposals to the Executive Council for decision, the Civil Service Bureau ("CSB") would arrange meetings with the staff side representatives of all the four central consultative councils, including representatives from DSCC and PFC who had withdrawn from PTSC with a view to understanding their pay claims.

20. To better collect views of all civil servants on PTS, a member suggested that the Administration should set up another central staff consultative council with

the staff side representing civil servants in the middle salary band, and appoint the representatives of staff side of this new central staff consultative council to sit in PTSC.

21. The Administration clarified that PTSC comprised not only the representatives of the four central consultative councils but also representatives from the two advisory bodies on civil service salaries and conditions of service, as well as the Administration. The existing PTS composition was in place for a long time and any changes to it should be considered carefully. The Administration added that individual constituent associations of the Senior Civil Service Council also represented civil servants in the middle salary band. Apart from the staff sides of the four central consultative councils, views were also collected from the four service-wide staff unions in considering the annual pay adjustment. In respect of the staff sides of PFC and DSCC, they represented all ranks of staff in the Police Force and in other disciplined services respectively.

Civil service pay adjustment rates and policy

22. Some members pointed out that junior civil servants would receive only a small amount of increase in dollar terms in the pay adjustment exercise every year as their salaries were way below those of directorate officers and senior civil servants, and their salaries would fall seriously behind officers in the senior ranks over time, particularly if the latter were given a higher rate of pay increase. At the Panel meeting on 19 June 2017, members suggested the Administration considering increasing the pay of civil servants in the lower salary band in the future, or making reference to the policy in the United Kingdom to cap the highest pay point of the civil service at 20 times of its lowest.

23. The Administration pointed out that in the past few years, the pay for directorate civil servants at Directorate Pay Scale Point 8 (being the highest pay point in the civil service) remained at roughly 22 times of the pay for civil servants remunerated at the lowest pay point of the Model Scale 1 Pay Scale. In fact, the civil service pay adjustment was conducted according to established procedure and was not widening income disparity. Meanwhile, "bring-up" arrangement had been adopted with discretion in the annual civil service pay adjustment exercise, i.e. to align the rate of pay adjustment for civil servants in the lower salary band with that for the civil servants in the middle salary band if the latter is higher than the net PTI of the lower salary band.

24. In 2015-2016 and 2016-2017, the CE-in-Council decided to provide an extra 0.5% on top of the net PTIs for the pay rise of all civil servants. Some members queried the rationale of the decision and the basis to set the extra pay rise at 0.5%.

25. The Administration explained that each pay adjustment exercise was a separate and independent exercise with regard to the six factors, and each decision was made on the basis of the considerations pertinent to the prevailing circumstances. Although it was usual in the past that annual pay adjustment for civil servants followed the net PTIs, the extra 0.5% on top of net PTIs proved that the established civil service annual pay adjustment mechanism was flexible enough to cater for specific circumstances of each year, and there were also prior occasions where civil service pay adjustments did not follow the net PTIs, such as when the inflation rates were high. The Administration clarified that although an extra 0.5% was added to the net PTIs in the pay rise of civil servants, the overall rates of pay increases of civil servants in all three salary bands were still broadly comparable with those of the private sector as revealed by other pay surveys, and the decision would not be binding on future annual pay adjustments.

Stability in the civil service

26. At the Panel meeting on 19 June 2017, a member expressed concern about the drain of experienced civil servants to the private sector if the civil service pay was compared less favourably with the private sector.

27. In response, the Administration advised that to ascertain whether the level of civil service pay remained broadly comparable with that of the private sector, PLSs would be conducted every six years to collect relevant data from steady and good employers in the private sector on a voluntary basis. According to the Administration, findings of 2013 PLS indicated that the pay level of civil servants in all but one job level ("JL5", i.e. from Master Pay Scale points 45 to 49) remained broadly comparable with the upper third quartile (i.e. P75) level of private sector pay for jobs with comparable nature and similar level of responsibilities on the survey reference date, while the pay for civil servants in JL5 was found to be around 8% lower than the P75 level of private sector pay. The Administration eventually raised the salaries of civil servants in JL5 or equivalent and the Directorate by 3%.

Application of civil service pay adjustments to non-civil service contract staff and agency workers

28. Some members expressed concern that non-civil service contract ("NCSC") staff and agency workers working for the Government might not receive the same pay increases as civil servants. They suggested that a mechanism should be devised to adjust the pay of NCSC staff and set up a separate Head of Expenditure with additional funding to encourage Bureaux/Departments ("B/Ds") to increase their NCSC staff's pay.

29. The Administration responded that Heads of B/Ds/Offices ("HoDs") had full discretion on the pay adjustment rates for their NCSC staff. Reviews on the pay of NCSC staff could be conducted at different times of a year as and when HoDs considered it appropriate. If necessary, HoDs might engage consultants to conduct surveys on the relevant pay level in the private sector. CSB had also provided guidelines to HoDs on factors⁷ to be considered in reviewing the pay for their NCSC staff. According to a survey conducted by CSB on eight B/Ds which engaged about 6 400 NCSC staff out of the some 12 000 full-time NCSC staff as at 30 June 2015, the percentage of these 6 400 NCSC staff who received a pay rise 0.5% higher than the civil servants in comparable ranks was 34%, 24% and less than 1% in 2013-2014, 2014-2015 and 2015-2016 respectively. However, it should be noted that NCSC staff did not have fringe benefits and promotion prospects. Since civil servants and NCSC staff were employed under two different mechanisms, the Administration did not consider that the pay adjustment for civil servants should be automatically applied to them. The Administration would continue to seek to replace NCSC positions with established long-term service needs by civil service posts.

30. As for agency workers, the Administration advised that CSB had issued a set of guidelines to B/Ds on the proper use of agency workers, covering the wage requirement to be followed by employment agencies providing agency workers to B/Ds.

Pay adjustments for staff of the subvented organizations

31. A member expressed concern that some subvented organizations, particularly those receiving subventions under one line vote, would withhold part of the addition subvention despite that they had received additional subventions for the purpose of salary increase. The Administration advised that subvented organizations under the purview of the Social Welfare Department were required to pay their employees according to the new pay scale after the pay adjustment, or otherwise, they had to provide an explanation to the Social Welfare Department. While the Administration would provide sufficient provisions for subvented organizations to enable them to adjust the salary of their staff according to the civil service pay adjustment rates, it would be up to the individual organizations to decide whether and if so, how to adjust the salaries of their employees. The Administration would however remind subvented organizations that the additional provision from the Government was meant to allow room for pay adjustment for their staff.

⁷ Such factors include the employment market situation, recruitment results, staff retention needs, costs of living, civil service pay adjustment, prevailing statutory minimum wage, and compliance with the principles that the terms and conditions of service for NCSC staff should be no less favourable than those provided for under the Employment Ordinance (Cap. 57), and no more favourable than those applicable to civil servants in comparable ranks.

32. On the enquiry as to whether subvented organizations were mandated to provide back pay to employees resigned after the retrospective effect date on 1 April in the respective year, the Administration replied that as subvented organizations were not under the Government's control, the Administration could not mandate the payout of back payments to resigned employees.

Back pay arrangements for disciplined services staff on interdiction

33. Responding to a member's enquiry about the back pay arrangement for civil servants in disciplinary forces on interdiction, the Administration responded that the back pay would be applied to civil servants on interdiction in full if they were eventually found not guilty upon completion of disciplinary procedures. The pay arrangement for individual officers on interdiction would be considered on a case-by-case basis.

Time lag in implementation of pay adjustments

34. Some members considered that due to the time taken to conduct PTS and make pay adjustment decisions, civil service pay adjustments always lagged behind the economic cycle. They considered that there should be greater flexibility in the established mechanism to ensure that the salary adjustments would not lag behind the prevailing market trends, especially when the cost of living was on the rise.

35. The Administration advised that there would inevitably be time lags as the existing civil service pay adjustment mechanism was operating with reference to PTS, which collected data on the actual year-on-year pay adjustment movements in the private sector in the past 12 months. If PTS was to be based on the projections of the private sector salary adjustments in the current financial year, the accuracy and credibility of such projections would be a concern.

Latest development

36. The Administration will brief the Panel on the 2018-2019 Civil Service Pay Adjustment at the meeting on 15 June 2018.

37. A list of relevant papers is in **Appendix II**.

Appendix I

Civil Service Pay Adjustments since 1997-1998

(Sources: Annex to LC Papers No. CB(1)2901/09-10(01) and the Monthly Reports on the Consumer Price Index issued by the Census and Statistics Department)

Financial Year	Salary Band	Net PTI (%)	Pay Adjustment Rate (%) #	Annual Change in the Composite Consumer Price Index (%)
1997-1998	Upper	6.90	6.90	5.6
	Middle	6.81	6.81	
	Lower	6.38	6.81 *	
1998-1999	Upper	6.03	6.03	1.1
	Middle	5.79	5.79	
	Lower	5.01	5.79 *	
1999-2000	Upper	-0.13	Pay freeze	-4.8
	Middle	0.84	Pay freeze	
	Lower	-0.54	Pay freeze	
2000-2001	Upper	-0.41	Pay freeze	-3.0
	Middle	-1.97	Pay freeze	
	Lower	-1.78	Pay freeze	
2001-2002	Upper	4.99	4.99	-1.8
	Middle	2.38	2.38	
	Lower	1.97	2.38	
2002-2003 ¹	Upper	-4.42	-4.42	-2.9
	Middle	-1.64	-1.64	
	Lower	-1.58	-1.58	
2003-2004 ²	Upper	-	-3.01	-2.6
	Middle	-	-3.07	
	Lower	-	-3.13	

¹ The pay reduction took effect from 1 October 2002.

² PTS was suspended in 2003-2004 and 2004-2005. The dollar values of civil service pay points below Directorate Pay Scale Point 3 (D3) or equivalent were restored to the level as at 30 June 1997 in cash terms by two broadly equal adjustments effective from 1 January 2004 and 1 January 2005; and the dollar values of civil service pay points at D3 and above or equivalent were restored to the level as at 30 June 1997 in cash terms with effect from 1 January 2004.

Financial Year	Salary Band	Net PTI (%)	Pay Adjustment Rate (%) #	Annual Change in the Composite Consumer Price Index (%)
2004-2005	Upper	-	-3.10	0.1
	Middle	-	-3.17	
	Lower	-	-3.23	
2005-2006 ³	Upper	-	-	1.5
	Middle	-	-	
	Lower	-	-	
2006-2007	Upper	-	-	2.0
	Middle	-	-	
	Lower	-	-	
2007-2008	Upper	4.96	4.96	2.7
	Middle	4.62	4.62	
	Lower	3.91	4.62 *	
2008-2009	Upper	6.30	6.30	3.6
	Middle	5.29	5.29	
	Lower	3.90	5.29 *	
2009-2010 ⁴	Upper	-5.38	-5.38	0.6
	Middle	-1.98	Pay freeze	
	Lower	-0.96	Pay freeze	
2010-2011	Upper	1.60	1.60	2.9
	Middle	0.56	0.56	
	Lower	0.16	0.56 *	
2011-2012	Upper	7.24	7.24	5.6 (5.8)
	Middle	6.16	6.16	
	Lower	5.16	6.16 *	
2012-2013	Upper	5.26	5.26	3.7 (4.1)
	Middle	5.80	5.80	
	Lower	4.56	5.80 *	

³ PTS was suspended in 2005-2006 and 2006-2007 pending the completion of the six-yearly pay level survey using 1 April 2006 as the reference date. No civil service pay adjustment was effected.

⁴ The pay reduction for the upper salary band took effect from 1 January 2010.

Financial Year	Salary Band	Net PTI (%)	Pay Adjustment Rate (%) #	Annual Change in the Composite Consumer Price Index (%)
2013-2014	Upper	2.55	2.55	4.4 (4.0)
	Middle	3.92	3.92	
	Lower	3.92	3.92	
2014-2015	Upper	5.96	5.96	4.5 (3.2)
	Middle	4.71	4.71	
	Lower	3.80	4.71 *	
2015-2016	Upper	3.46	3.96	2.6 (2.5)
	Middle	4.12	4.62	
	Lower	3.02	4.62 *	
2016-2017	Upper	4.19	4.19	1.9 (1.9)
	Middle	4.68	4.68	
	Lower	3.08	4.68 *	
2017-2018	Upper	1.38	1.88	2.0 (2.0)
	Middle	2.44	2.94	
	Lower	1.82	2.94 *	
2018-2019	Upper	4.06%	4.06%	Available in April 2019
	Middle	4.51%	4.51%	
	Lower	2.84%	4.51% *	

All pay adjustments took effect from the beginning of the financial year (i.e. 1 April) unless otherwise stated.

* The "bring-up" arrangement was invoked.

() Denotes the rate of change upon removing the effects of all Government's one-off relief measures.

**List of relevant papers on
2018-2019 Civil Service Pay Adjustment**

Meeting	Date of meeting	Paper
Panel on Public Service	20 June 2016	Legislative Council Brief (issue on 7 June 2016) Legislative Council Brief (issue on 14 June 2016) Minutes
	19 June 2017	Legislative Council Brief (issue on 6 June 2017) Legislative Council Brief (issue on 13 June 2017) Updated background brief prepared by the Legislative Council Secretariat Minutes
Finance Committee	28 June 2016	Paper provided by the Administration Minutes
	14 July 2017	Paper provided by the Administration Minutes

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