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Panel on Public Service

Meeting on 21 June 2019

Updated background brief on 2019-2020 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 2019 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 2019-2020 Civil Service Pay Adjustment issued on 11 June 2019.

4. According to the aforesaid LegCo Brief, the 2019 PTS collected the basic pay and additional pay adjustment data of 146 116 employees in 108 companies, consisting of 144 221 employees in 80 larger companies and 1 895 employees in 28 smaller companies. The findings of the 2019 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. \$ 70,091 to \$ 140,560)	4.57%	1.22%	5.79%
Middle (MPS 10 to 33, viz. \$ 22,865 to \$ 70,090)	5.49%	0.8%	6.29%
Lower (Below MPS 10, viz. below \$ 22,865)	4.93%	0.39%	5.32%

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:

- (a) the net pay trend indicators³ ("PTIs");

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.

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.

- (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 2019-2020 pay adjustment exercise, the Administration gives an account of these factors in paragraphs 7 to 16 of the LegCo Brief on the 2019-2020 Civil Service Pay Adjustment issued on 11 June 2019.

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 2000-2001 is in **Appendix I**.

Pay offers for 2019-2020

8. Taking into account all relevant factors under the established mechanism, the CE-in-Council decided at the meeting on 11 June 2019 that the following pay offers for 2019-2020 should be made to the staff sides:

Salary band	No. of civil servants ⁴	“Revised” Net PTI ⁵	Pay offer
Directorate	1 390	N.A. ⁶	4.75%
Upper	19 191	4.75%	4.75%
Middle	119 985	5.26%	5.26%
Lower	34 258	4.16%	5.26%

⁴ The figures reflected the position as at 31 March 2019 and included some 19 900 civil servants seconded to/working in trading funds, subvented and other public bodies.

⁵ The CE-in-Council decided, from 2019-2020 onwards, to adopt the average PCIs for each salary band from 1989-3090, i.e. the year when the PCIs deduction arrangement was first introduced, to 2019-2020, or the actual PCIs for the particular salary band for the year, whichever is the lower, for deriving the net PTI for that salary band.

⁶ 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" arrangement⁷ 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 11 June 2019. 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 2019-2020.

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.

13. The Administration advised that the practice of deducting PCIs from the gross PTIs started in 1988 upon a recommendation of a Committee of Inquiry. 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

⁷ 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.

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, 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. The Government needed to consider the possible long-term financial implications if the practice were to be changed. Besides, civil servants who had reached the maximum pay points would continue to benefit from the inclusion of private sector merit pay in the computation of the gross PTIs.

14. In response to the concern on the relation between the rising trend of PCIs and increasing intake of civil servants, the Administration advised that PCIs varied from time to time, and the Administration would explore whether there were other options to address the issue.

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

15. Concerns were raised that the civil service pay adjustment rates could not catch up with the upsurge cost of living and whether the Administration would take measures to alleviate the economic burden of civil servants, in particular that the soaring housing expenses had accounted for an increasing share of the income of civil servants in middle and lower salary bands.

16. The Administration replied that although changes in the cost of living was one of the six factors, civil service pay adjustment was not aimed at relieving the pressure of housing expenses on civil servants nor tracking inflation. Under the current mechanism, civil service pay adjustment could be higher or lower than the inflation rate.

17. 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

18. As to the suggestion of conducting a survey to assess the state of civil service morale, the Administration said that it had no such plan as civil service jobs were still attractive in retaining and motivating staff, and in attracting persons of suitable calibre to join the civil service.

19. Given that some civil service ranks had shorter pay scales with fewer increments, staff of these ranks would reach their maximum pay points after a few years, a member asked whether adding more pay points to the civil service pay scales would be a possible option as a means of motivation for these staff. The Administration replied since the above proposal would represent an overhaul to the civil service pay scales, the matters should be considered carefully. For civil servants who had reached the maximum point of their ranks, they would still be awarded with annual increment if they were promoted to a higher rank.

Weighting and order of priority of the six factors

20. 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

21. Having regard that the participation of companies in PTS was voluntary, some members cast doubt on the accuracy of the findings of PTS to reflect the pay rise in the private sector and urged for a review of PTS.

22. 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 survey fields. PTSC would also review the composition of the companies included in PTS so that the distribution of companies by major economic sectors could generally reflect the distribution of Hong Kong's economically active population employed in companies of comparable scales.

23. As regards members' concern on the withdrawal of the Disciplined Services Consultative Council and three of the four constituent associations of the Police Force Council from PTSC, the Administration advised that the PTSC Secretariat had continued to send meeting invitations, papers and minutes of meetings to these staff side representatives to keep them informed of the discussion of PTSC. 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 the Disciplined Services Consultative Council and the Police Force Council, with a view to understanding their pay claims. The

Administration would continue the effort to persuade the staff side representatives to attend PTSC meetings.

Civil service pay adjustment rates and policy

24. 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. In this connection, members suggested the Administration 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.

25. The Administration pointed out at the FC meeting held on 16 July 2018 that in the past ten years, the accumulated pay increase for the lower salary band was 45.9% whereas the increase for the upper salary band was 38.3%, and the pay differentials between the highest and lowest paid officers remained at about 22 times. In some years, the "bring-up" arrangement to align the pay adjustment for civil servants in the lower salary band with the net PTI for the middle salary band had been adopted if the latter is higher than that of the lower salary band.

26. 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%.

27. 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. 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. In fact, the provision of an extra 0.5% on top of the net PTIs in the pay rise of civil servants would not be binding on future annual pay adjustments.

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, agency workers working for the Government and staff of Government contractors might not receive the same pay increases as civil servants.

29. The Administration responded that Heads of Bureaux/Departments/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 factors⁸ to be considered in reviewing the pay for their NCSC staff. 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.

30. As for agency workers and staff of Government contractors, CSB had issued a set of guidelines to Bureaux/Departments on the proper use of agency workers, covering the wage requirement to be followed by employment agencies providing agency workers to Bureaux/Departments. In October 2018, the Chief Executive announced in the 2018 Policy Address that the Government would introduce new measures to enhance the protection of the employment terms and conditions as well as labour benefits of non-skilled workers engaged under government service contracts that rely heavily on the deployment of non-skilled workers. The new measures took effect from 1 April 2019.

Pay adjustments for staff of the subvented organizations

31. A member expressed concern that some subvented organizations withheld part of the additional subvention arising from the civil service pay adjustment. The Administration advised that according to the established mechanism, whenever civil servants received annual pay adjustment, the Administration would also make corresponding adjustments to subventions based on a formulae with a factor on civil service pay adjustment. As staff remuneration was a matter between the organization concerned as an employer and its employees, the Administration would not be involved in determining or adjusting the remuneration of employees in subvented organizations. The Administration would, through the Secretaries of bureaux or heads of departments responsible for supervising these subvented bodies, remind the subvented organizations that the back-payment was allocated to them as result of the annual civil service pay increase.

32. Concerns were also raised that some staff of subvention organizations who left or retired from the organizations after 1 April but before FC's approval of the civil service pay adjustment would not be compensated for the salary difference resulting from the pay adjustment, and whether these organizations were mandated to provide back pay to employees resigned after the retrospective effect date on 1 April in the respective year. There was also a suggestion that the

⁸ 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.

Administration should issue guidelines to remind these subvented organizations to compensate the employees concerned with the salary difference.

33. 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. Such matters should be handled in accordance with the terms and conditions of employment of the staff concerned.

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, and the Administration should give higher priority to the civil service pay adjustment proposal for discussion and approval at FC. Given that it was an annual routine exercise to conduct PTS and seek FC's approval for civil service pay adjustment proposal, some members were of the view that the Administration could speed up the process with a view to putting forward the proposal to the Panel and FC by June.

35. The Administration advised that there would inevitably be time lags. After the preliminary findings of the PTS were available in mid-May, PTSC had to study the findings and consider whether to validate the results within a very short time frame. Following this, the Administration had to consult the staff side, consolidate and present the relevant considerations for deliberation and decision of the Executive Council. The Panel would have to be consulted next before the pay adjustment proposal could be submitted to FC for consideration. The Administration had already done its best in submitting the pay adjustment proposals to FC as soon as possible.

Latest development

36. The Administration will brief the Panel on the 2019-2020 Civil Service Pay Adjustment at the meeting on 21 June 2019.

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

Civil Service Pay Adjustments since 2000-2001

(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 pay trend indicator ("PTI") (%)	Pay Adjustment Rate (%) #	Annual Change in the Composite Consumer Price Index (%)
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	
2004-2005	Upper	-	-3.10	0.1
	Middle	-	-3.17	
	Lower	-	-3.23	
2005-2006 ³	Upper	-	-	1.5
	Middle	-	-	
	Lower	-	-	

¹ The pay reduction took effect from 1 October 2002.

² Pay trend survey ("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.

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.

Financial Year	Salary Band	Net pay trend indicator ("PTI") (%)	Pay Adjustment Rate (%) #	Annual Change in the Composite Consumer Price Index (%)
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 *	
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 *	

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

Financial Year	Salary Band	Net pay trend indicator ("PTI") (%)	Pay Adjustment Rate (%) #	Annual Change in the Composite Consumer Price Index (%)
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	2.4 (2.7)
	Middle	4.51	4.51	
	Lower	2.84	4.51 *	
2019-2020	Upper	4.75 [^]	4.75	Available in April 2020
	Middle	5.26 [^]	5.26	
	Lower	4.16 [^]	5.26 *	

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.

[^] The Chief Executive-in-Council decided, from 2019-2020 onwards, to adopt the average payroll cost of increments ("PCIs") for each salary band from 1989-3090, i.e. the year when the PCIs deduction arrangement was first introduced, to 2019-2020, or the actual PCIs for the particular salary band for the year, whichever is the lower, for deriving the net PTI for that salary band.

**List of relevant papers on
2019-2020 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
	15 June 2018	Legislative Council Brief (issue on 5 June 2018) Legislative Council Brief (issue on 12 June 2018) Updated background brief prepared by the Legislative Council Secretariat Minutes Administration's follow-up response to issues raised at the Panel meeting
Finance Committee	28 June 2016	Paper provided by the Administration Minutes
	14 July 2017	Paper provided by the Administration Minutes
	16 July 2018	Paper provided by the Administration Minutes