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Panel on Public Service

Meeting on 19 June 2020

Updated background brief on 2020-2021 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").

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) the Starting Salaries Survey ("SSS")¹ 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 to ascertain whether civil service pay is broadly comparable with private sector pay.

¹ SSS was conducted once every three years previously. In December 2018, the Standing Commission on Civil Service Salaries and Conditions of Service ("Standing Commission") completed a review on the pay level survey and SSS and recommended, among other things, that in future, SSS should be conducted "as and when necessary in response to specific circumstances" and the pay level survey should remain to be conducted six-yearly. On 9 April 2019, the Acting Chief Executive-in-Council decided that the recommendations of the Standing Commission as contained in its Report No. 59, including those relating to the future conduct of SSS, should be accepted in full.

The PTS Mechanism and the 2020 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 councils² ("the staff sides"), the Administration as well as the advisory bodies on civil service salaries and conditions of service.³ An introduction to the PTS mechanism and methodology is provided in Annex A to the Legislative Council ("LegCo") Brief on the 2020-2021 Civil Service Pay Adjustment issued on 3 June 2020.⁴

4. According to the aforesaid LegCo Brief, the 2020 PTS collected the basic pay and additional pay adjustment data of 146 434 employees in 107 companies, consisting of 144 679 employees in 80 larger companies and 1 755 employees in 27 smaller companies. The findings of the 2020 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. \$ 73,776 to \$ 147,235)	3.67%	-0.95%	2.72%
Middle (MPS 10 to 33, viz. \$ 24,070 to \$ 73,775)	4.19%	-1.18%	3.01%
Lower (Below MPS 10, viz. below \$ 24,070)	3.53%	-1.22%	2.31%

² 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 with the latter re-joined the meeting of PTSC in end 2018. However, PTSC Secretariat has continued to send meeting invitations, papers and minutes of meeting to the withdrawn parties.

³ 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.

⁴ [LegCo Brief on 2020-2021 Civil Service Pay Adjustment \(File Ref.: CSBCR/PG/4-085-001/85\)](#)

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 indicators⁵ ("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 2020-2021 pay adjustment exercise, the Administration gives an account of these factors in paragraphs 7 to 16 of the LegCo Brief on the 2020-2021 Civil Service Pay Adjustment issued on 3 June 2020. 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 2020-2021

7. Taking into account all relevant factors under the established mechanism, the CE-in-Council decided at the meeting on 2 June 2020 that the following pay offers for 2020-2021:

Salary band	No. of civil servants⁶	Net PTI	Pay offer
Directorate	1 374	N.A. ⁷	Pay freeze
Upper	19 462	1.68%	Pay freeze
Middle	121 171	1.98%	Pay freeze
Lower	35 590	1.15%	Pay freeze

⁵ The payroll cost of increments ("PCIs") 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 PTIs to arrive at the net PTIs. In considering the 2019-2020 civil service pay adjustment, the CE-in-Council also decided to put a cap on PCIs to be deducted from the gross PTIs. Specifically, from the 2019-2020 civil service pay adjustment onwards, the average PCIs from 1989-1990 to 2019-2020 for the upper, middle and lower salary bands, which are 1.04%, 1.03% and 1.16% respectively, or the actual PCIs for the particular salary band for the year, whichever is the lower, will be adopted for deriving the net PTI for that salary band.

⁶ The figures reflected the position as at 31 March 2020 and included some 19 600 civil servants seconded to/working in trading funds, subvented and other public bodies.

⁷ 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.

8. The decision is applicable to civil servants at all the three salary bands as well as the directorate who are not covered by the annual PTS.⁸ According to the Administration, it conveyed the pay offers to the staff sides on 2 June 2020.

Deliberations of the Panel and the Finance Committee

9. 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 session are summarized in the ensuing paragraphs.

Factors considered in making pay adjustment decisions

Calculation of net PTIs

10. During the Panel meeting on 21 June 2019, members in general supported the Administration's arrangement to adopt the average payroll cost of increments ("PCIs") for each salary band from 1989-1990 to 2019-2020, or the actual PCIs for the particular salary band for the year, whichever was the lower, for deriving the net PTI for that salary band, i.e. putting a cap on PCIs as a response to the staff side's concern about the erosion of the net PTIs by the rising PCIs. Nevertheless, noting that about 70 000 civil servants (40% of the civil service) were currently at their maximum pay points, some members were of the view that PCIs deduction was unfair to these civil servants who were no longer receiving increments.

11. 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 reached the maximum pay points of their ranks should also be taken into account.

12. The Administration did not consider that there were strong justifications to cease the PCIs deduction arrangement. The arrangement was meant to offset exceptional merit pay (that could not be distinguished from general merit pay) and in-scale increment in the private sector. According to the 2019 PTS, 74% of the private sector companies participating in the survey still took merit pay as one of the considerations when deciding pay adjustment for their employees. Besides,

⁸ It has been the established practice since 1989-1990 that the annual pay adjustment for the upper salary band would also apply to the directorate civil servants.

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.

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

13. 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.

14. 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.

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 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.

17. 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

18. 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

19. 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.

20. 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.

21. As regards members' concern on the withdrawal of the staff side of the Disciplined Services Consultative Council since 2013, 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, 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

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. 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.

23. 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 was higher than that 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. 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 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.

Pay adjustment for non-civil service contract staff

26. 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.

27. 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 factors⁹ to be considered in reviewing the pay for their NCSC staff. Since civil servants and NCSC staff were

⁹ 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.

employed under two different mechanisms, the Administration did not consider that the pay adjustment for civil servants should be automatically applied to them.

Time lag in implementation of pay adjustments

28. 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. At the Panel meeting on 21 June 2019, some members showed their concern on the delay in the pay adjustment exercise which would have an adverse impact on the staff morale of the civil service.

29. The Administration advised that the pay adjustment proposal would be submitted to FC as soon as practicable after securing the support of the Panel. In determining the order of items on the FC agenda, the Administration would adopt a holistic approach by taking into account a host of factors including the importance and urgency of the funding proposals. Generally speaking, any delay in the pay adjustment exercise would affect civil servants in the lower salary band more than those in the other salary bands.

Separate treatment of individual departments in pay adjustment

30. Given that there were allegations of suspected excessive use of force and arbitrary arrests by police officers against the demonstrators in the social unrest since June 2019, some members requested that the pay adjustment for members of the Hong Kong Police Force should be handled separately in the deliberation and voting during the discussion on the "2019-2020 civil service pay adjustment" during FC meetings from December 2019 to February 2020.

31. Some other members disagreed with the above view and said that if it was members' concern about the alleged misconducts of some police officers, they could demand investigations on the persons concerned. Separating the pay adjustment of all members of the Hong Kong Police Force from other civil servants would be unfair to those police officers who were not deployed to handle the demonstrations. It was also opined that the civil service pay adjustment bore no relationship with performance of individual B/Ds.

32. The Administration emphasized that the civil service was considered as a whole without any particular consideration for staff of individual departments or grades. Once the approval for the decision on the annual civil service pay

adjustment had been obtained from FC, the pay adjustment would apply to all civil servants according to their respective salary bands, regardless of their departments or grades. There was no justification for departing from the established mechanism to separate the pay adjustment for police officers from the proposal on the 2019-2020 civil service pay adjustment.

Latest development

33. The Administration will brief the Panel on the 2020-2021 Civil Service Pay Adjustment at the meeting on 19 June 2020.

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

Council Business Division 4
Legislative Council Secretariat
12 June 2020

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	2.8 (3.0)
	Middle	5.26 [^]	5.26	
	Lower	4.16 [^]	5.26 *	
2020-2021	Upper	1.68	Pay freeze	Available in April 2021
	Middle	1.98	Pay freeze	
	Lower	1.15	Pay freeze	

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 1989-1990, 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
2020-2021 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
	21 June 2019	Legislative Council Brief (issue on 11 June 2019) Legislative Council Brief (issue on 19 June 2019) Updated background brief prepared by the Legislative Council Secretariat Minutes
Finance Committee	28 June 2016	Paper provided by the Administration Minutes

Meeting	Date of meeting	Paper
	14 July 2017	Paper provided by the Administration Minutes
	16 July 2018	Paper provided by the Administration Minutes
	6 December 2019	Paper provided by the Administration