

立法會 *Legislative Council*

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Panel on Public Service

Meeting on 21 June 2021

Updated background brief on 2021-2022 Civil Service Pay Adjustment

Purpose

This paper provides background information on civil service pay adjustments, and gives a brief account of the past discussions of the Panel on Public Service ("the Panel") on the matter.

Background

2. The Government's civil service pay policy is to offer sufficient remuneration to attract, retain and motivate staff of suitable calibre to provide the public with an effective and efficient service; and to maintain broad comparability between civil service and private sector pay. 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")¹ to ascertain the year-on-year pay adjustment movements in the private sector;
- (b) the Starting Salaries Survey ("SSS")² to compare the starting salaries of civil service civilian grades with the entry pay of jobs in the private sector requiring similar qualifications; and

¹ PTS is commissioned and overseen by the Pay Trend Survey Committee and results of PTS are subject to its validation. Please see details of the PTS mechanism, the composition of the Pay Trend Survey Committee and the results of the 2021 PTS in the Legislative Council Brief issued on 8 June 2021.

² SSS was conducted once every three years previously. In December 2018, the Standing Commission on Civil Service Salaries and Conditions of Service completed a review on the pay level survey and SSS, and recommended, among others, that 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 accepted the above recommendations.

- (c) a six-yearly pay level survey to ascertain whether civil service pay is broadly comparable with private sector pay.

3. Civil service salary adjustments are considered by the Administration annually. Under the established annual civil service pay adjustment mechanism, the Administration decides on the size of the annual adjustment having regard to the following six factors ("the six factors"), namely, the net pay trend indicators ("PTIs")³ derived from the annual PTS, the state of Hong Kong economy, the changes in the cost of living, the Government's fiscal position, the pay claims of the staff sides and civil service morale. The Chief Executive ("CE")-in-Council decided at the meeting on 8 June 2021 that the following pay offers for 2021-2022:⁴

Salary band	No. of civil servants⁵	Net PTI	Pay offer
Directorate	1 400	N.A. ⁶	Pay freeze
Upper	20 068	-2.04%	Pay freeze
Middle	122 698	-0.54%	Pay freeze
Lower	34 239	-0.68%	Pay freeze

4. 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.⁷ According to the Administration, it conveyed the pay offers to the staff sides on 8 June 2021.

Deliberations of the Panel

5. In June each year, the Administration briefs the Panel on the annual civil service pay adjustment decisions made by CE-in-Council in the respective year. A funding proposal on the civil service pay adjustment (if any) is then submitted by the Administration to the Finance Committee for approval in June or July in that year. Major views and concerns expressed by Panel members in previous meetings and the Administration's responses are summarized in the ensuing paragraphs.

³ 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. From the 2019-2020 civil service pay adjustment, CE-in-Council put a cap on PCIs to be deducted from the gross PTIs.

⁴ The Administration's consideration on the six factors for the 2021-2022 civil service pay adjustment is listed in the Legislative Council Brief issued on 8 June 2021.

⁵ The figures reflected the position as at 31 March 2021 and included some 19 200 civil servants seconded to/working in trading funds, subvented and other public bodies.

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.

⁷ 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.

The established mechanism in making pay adjustment decisions

6. At the Panel meeting on 19 June 2020, members expressed dissatisfaction towards the Administration's pay freeze decision for civil servants in all salary bands in 2020-2021. They considered that the Administration had not given due consideration to the net PTIs and the opinions of the staff unions in making the pay adjustment decisions.

7. The Administration advised that CE-in-Council had made the decision having regard to the six factors and not just on the basis of the suggestion of any particular staff union. It was possible that the final decision on pay adjustment did not follow the net PTIs. This had happened nine times in the past 28 pay adjustment exercises when PTS was conducted.

8. Some members suggested the Administration building systematic communication networks with staff unions and meeting with civil servants more frequently to listen to their opinions about the pay adjustment exercise. The Administration advised that the communication with staff side regarding pay adjustment exercise had been working effectively over the years. Pay claims from the staff side had been fully reflected to and considered by CE-in-Council before the decision was made.

9. In response to members' concern on the accuracy of the findings of PTS to reflect the pay rise in the private sector and whether the Administration would review the established mechanism, the Administration advised that each year before PTS began, the Pay Trend Survey Committee would review and continuously improve the survey methodology. The Pay Trend Survey Committee would also review the composition of the companies included in PTS annually 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.

Civil service morale

10. Members raised concern that the pay freeze in 2020-2021 would bring huge disappointment to civil servants and thus affecting civil service morale, in particular that civil servants had been working very hard in 2019-2020 in dealing with social unrest and the outbreak of the Coronavirus Disease 2019. In reply to members' enquiry about the measures in place to boost civil service morale, the Administration advised that it would continue to communicate with the staff side on matters such as remuneration package and working environment of civil servants.

11. 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.

12. Given that some civil service ranks had shorter pay scales with fewer increments and 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 that 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.

Calculation of net PTIs

13. During the Panel meeting on 21 June 2019, members in general supported the Administration's arrangement to put a cap on the payroll cost of increments ("PCIs") as a response to the staff side's concern about the erosion of the net PTIs by the rising PCIs. Nevertheless, some members were of the view that PCIs deduction was unfair to civil servants who were currently at their maximum pay points and would not receive increments.

14. 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.

15. 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. 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.

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

16. 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. 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 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.

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 each pay adjustment exercise was a separate and independent exercise with regard to the six factors. 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. Imposing a binding order of priority for the six factors would be tantamount to impinging upon the discretionary power of CE-in-Council. The established civil service annual pay adjustment mechanism was flexible enough to cater for specific circumstances of each year.

Pay adjustment for non-civil service contract staff and staff in subvented organizations

19. Some members expressed concern that non-civil service contract ("NCSC") staff might not receive the same pay increases as civil servants. 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. The Civil Service Bureau 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

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.

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

20. At the Panel meeting on 19 June 2020, a member asked whether the pay freeze for civil servants would have any impact on subvented organizations, including the amount of funding they would be allocated under the Lump Sum Grant subvention system and the salary adjustment for their staff. The Administration replied that it would be up to the subvented organizations to draw up their own salary adjustment policies for employees who were not civil servants. In light of the pay freeze decision, there would not be any adjustment to the subventions for subvented organizations.

Latest development

21. The Administration will brief the Panel on the 2021-2022 civil service pay adjustment at the meeting on 21 June 2021.

Relevant papers

22. A list of relevant papers is in **Appendix**.

Council Business Division 4
Legislative Council Secretariat
17 June 2021

**List of relevant papers on
2021-2022 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

Meeting	Date of meeting	Paper
		<u>Minutes</u>
	19 June 2020	<u>Legislative Council Brief (issue on 2 June 2020)</u> <u>Updated background brief prepared by the Legislative Council Secretariat</u> <u>Minutes</u>
Finance Committee	28 June 2016	<u>Paper provided by the Administration</u> <u>Minutes</u>
	14 July 2017	<u>Paper provided by the Administration</u> <u>Minutes</u>
	16 July 2018	<u>Paper provided by the Administration</u> <u>Minutes</u>
	6 December 2019	<u>Paper provided by the Administration</u> <u>Minutes</u>