

**LEGISLATIVE COUNCIL PANEL ON PUBLIC SERVICE
MEETING ON 15 December 2003**

**Progress on the Development of an Improved
Civil Service Pay Adjustment Mechanism**

Purpose

As part of our on-going efforts to modernise the management of the civil service and to address public comments on the existing civil service pay adjustment mechanism, in April 2003 the Civil Service Bureau embarked on an exercise to develop an improved pay adjustment mechanism for long-term adoption in the civil service. This paper informs Members of the progress made with the exercise.

Background

2. On 25 February 2003, the Chief Executive in Council decided, among others, that we should in consultation with staff develop, on the basis of the existing mechanism, an improved civil service pay adjustment mechanism which should comprise the conduct of periodic pay level surveys to compare civil service pay levels with those in the private sector, the conduct of annual pay trend surveys based on an improved methodology and an effective means for implementing both upward and downward pay adjustments. The aim was to complete this exercise, including the conduct of a pay level survey, within 2004. The decision sought to address pressing public concerns about a perceived disparity between civil service pay and private sector pay. It has taken on board the recommendation of the Task Force on Review of Civil Service Pay Policy and System (Task Force), as set out in its Phase One Final Report, that priority should be given in the short term to devising a practical framework and methodology for conducting a pay level survey and to reviewing the pay trend survey methodology. It also reflected the consensus proposal reached between the Secretary for the Civil Service (SCS) and staff representatives in February 2003¹.

¹ On 21 February 2003, SCS reached a consensus with the staff sides of the four central consultative councils and representatives of the four major service-wide staff unions on the civil service pay adjustments in 2004 and 2005. The consensus proposal also covered the development by 2004 of an improved civil service pay adjustment mechanism in consultation with staff and on the basis of the existing mechanism.

Progress on the development of an improved civil service pay adjustment mechanism

3. To take forward the exercise of developing an improved civil service pay adjustment mechanism, we have set up under the chairmanship of the SCS :

- (a) a steering committee comprising selected members drawn from the three advisory bodies on civil service salaries and conditions of service² to provide independent and professional advice on matters related to the development of an improved civil service pay adjustment mechanism (the Steering Committee); and
- (b) a consultative group involving staff representatives from the staff sides of the four central consultative councils and the four major service-wide staff unions to provide staff input to the exercise (the Consultative Group).

In consultation with the Steering Committee and the Consultative Group, we have examined, among others, the policy considerations and broad parameters for the improved pay adjustment mechanism as well as the work plan for the exercise.

(a) Relevant policy considerations

4. We have identified a number of policy factors and broad parameters that are of particular relevance in developing an improved civil service pay adjustment mechanism as set out below:

- (i) The improved mechanism should meet the long-standing objective of our civil service pay policy, which is to offer sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an effective and efficient service. Such remuneration should be regarded as fair by both civil servants and the public which they serve;

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

- (ii) The improved mechanism should support our objective of upholding and nurturing the core values of the civil service³;
- (iii) The improved mechanism should contribute towards a stable civil service comprising officers who will give of their best in serving the Government. At the same time, it should not constrain the flexibility of our civil service system to adjust itself in response to community needs;
- (iv) Noting the differences in the nature of operation, appointment and remuneration practices, job nature and requirements between the civil service and the private sector, we should abide by our established principle of maintaining broad comparability, rather than strict comparability, between civil service pay and private sector pay;
- (v) The existing internal pay relativities among civil service grades/ranks are derived from the education qualification groups⁴ which, under a centrally administered pay system, help maintain a degree of consistency and fairness in determining the pay levels for a diverse range of grades/ranks. The improved pay adjustment mechanism should operate on the basis of the existing internal pay relativities pending any changes that may be introduced in this respect;
- (vi) We need to ensure that any changes to the existing civil service pay adjustment mechanism are consistent with the Basic Law and take full account of the contractual considerations, those international obligations which apply to Hong Kong and other legal considerations relevant to the employment relationship between the Government and civil servants; and

³ The core values include commitment to the rule of law; honesty and integrity; accountability for decisions and actions; political neutrality; impartiality in the execution of public functions; and dedication, professionalism and diligence in serving the community through delivering results and meeting performance targets.

⁴ Hitherto, grades with a similar qualification requirement for appointment are broadbanded into education qualification groups. The entry pay of civil service grades of the same education qualification group is determined having regard to both the entry pay for private sector jobs requiring similar qualifications for appointment and other factors relating to the job nature of the grades concerned, e.g. physical effort, working conditions, etc. Grades within the same education qualification group share a common pay structure.

- (vii) The other factors that are taken into consideration in determining the size of the civil service pay adjustment under the prevailing annual pay adjustment mechanism, such as budgetary considerations, state of the economy, changes in the cost of living, the views of staff as well as staff morale, will continue to be given due consideration under the improved mechanism for determining and adjusting civil service pay.
- (b) Broad framework of an improved civil service pay adjustment mechanism

5. The improved civil service pay adjustment mechanism will comprise the following constituent components -

- (i) conduct of periodic pay level surveys to compare civil service pay with private sector pay;
- (ii) conduct of annual pay trend surveys based on an improved methodology; and
- (iii) an effective means for implementing both upward and downward pay adjustments.

Following consultation with the Steering Committee and the Consultative Group since April 2003, our views on these individual constituent components are set out in paragraphs 6-11 below.

(i) Pay level survey

6. Under the improved civil service pay adjustment mechanism, pay level surveys will be carried out periodically every few years to ascertain whether civil service pay remains broadly comparable with private sector pay. A critical task in the present exercise is to draw up a credible methodology for conducting pay level surveys. Drawing on the experience of various pay comparison studies/surveys carried out in the past, we intend to adopt a combination of survey methodologies to facilitate pay comparison at different levels. At the entry level, we intend to adopt the education qualification benchmark method to set the benchmark pay for each civil service qualification group by reference to the entry pay of private sector jobs requiring similar education qualifications for appointment. In determining pay above the entry level, we intend to compare the pay levels

for a representative sample of civil service positions and private sector jobs at specified levels (such as junior, middle and senior levels)⁵ in a broadbrush manner. Based on the pay comparison results as well as the policy considerations and broad parameters set out in paragraph 4 above, we can make appropriate adjustments to the dollar values of individual pay points on the civil service pay scales⁶. The dollar value of the pay scales of individual civil service ranks can in turn be adjusted accordingly.

7. As pointed out in paragraph 4(v) above, we do not propose to disturb the existing internal pay relativities among civil service grades/ranks in the current exercise. We recognise, however, that certain civil service grades may have experienced considerable changes to their job nature and requirements in recent years with the result that adjustments to their pay scales may be warranted. To tackle this, we propose conducting grade structure reviews for the concerned grades separately after the completion of the current exercise.

8. We shall further explore the feasibility of our proposed approach for conducting the pay level survey and alternative approaches and develop a detailed and credible survey methodology with the technical and professional input from a consultant. For this purpose, we have appointed a consultant in accordance with the established procedures. We shall also engage the assistance of a consultant, under a separate consultancy, in carrying out the field work and the data analysis of the pay level survey.

9. We shall further discuss with the Steering Committee and the Consultative Group how the results of pay level survey should be applied to civil servants. This is a complex issue which, understandably, is of much concern to staff. We intend to put forward general ideas on the application of survey results in the second quarter of 2004 for extensive consultation and to present detailed proposals on the application issue in the second quarter of

⁵ The specified levels may correspond to the three salary bands currently adopted in the annual pay trend surveys, i.e. lower salary band (below Master Pay Scale Point 10 (MPS10) or equivalent), middle salary band (MPS10-33 or equivalent) and upper salary band (above MPS33 to General Disciplined Services (Officer) Pay Scale Point 38 or equivalent). The demarcation of the three salary bands reflects commonly accepted notions of relative rankings in the civil service and serves as a reasonable basis for pay comparison in the pay level survey.

⁶ At present, there are 11 sets of civil service pay scales, namely the Master Pay Scale, the Model Scale 1 Pay Scale, the Police Pay Scale, the General Disciplined Services (Commander) Pay Scale, the General Disciplined Services (Officer) Pay Scale, the General Disciplined Services (Rank and File) Pay Scale, the Directorate Pay Scale, the Directorate (Legal) Pay Scale, the Training Pay Scale, the Technician Apprentice Pay Scale and the Craft Apprentice Pay Scale.

2005. In coming to a decision on the matter, we shall be guided by the principles of lawfulness, fairness and reasonableness.

(ii) Pay trend survey

10. Under the existing annual civil service pay adjustment mechanism, the net pay trend indicators derived from the annual pay trend survey is one of the factors for determining the size of the annual adjustment to civil service pay. The methodology adopted in past pay trend surveys has been under criticism in recent years for failing to reflect accurately the movements in the salary levels of private sector employees. We shall, as part of this exercise, consider whether the pay trend surveys will continue to be carried out on an annual basis broadly in its present form in future. If so, we shall further consider how the survey methodology can be improved. In doing so, we would need to have regard to the methodology of the pay level survey to be developed so as to ensure that these two surveys will work in coordination within an integrated pay adjustment mechanism.

(iii) Effective means for implementing upward and downward pay adjustments

11. Although it is inherent in the existing adjustment mechanism that some of the consideration factors for determining the annual civil service pay adjustment may have a positive or negative impact on the size of the pay adjustment, the contractual employment arrangements between the Government and the vast majority of serving civil servants do not contain an express provision authorising the Government to reduce pay. Our legal advice is that in the absence of such an express power, the most appropriate way to implement a justified civil service pay reduction is by means of legislation. We have accordingly sought the enactment of one-off legislation for implementing the pay reduction which took effect from 1 October 2002 and the pay reductions which are to take effect from 1 January 2004 and 1 January 2005 respectively. To facilitate the implementation of future pay adjustments and to obviate the need to enact one-off legislation on each occasion of pay reduction, we shall consider seeking the enactment of a piece of general enabling legislation to provide the necessary legal backing for adjusting civil service pay in future.

(c) Work plan for the development of an improved civil service pay adjustment mechanism

12. While the original intention was to complete the whole exercise in 2004, views have been expressed to us during the last few months that adequate time should be allowed for detailed examination of the many complicated issues involved, in particular the detailed methodology of the pay level survey and the application of the pay level survey results. We consider it desirable to conduct more extensive consultation within the civil service and inform the public of progress from time to time so that different sectors of the community have an opportunity to express their views on this important subject. To allow sufficient time for more extensive consultation and in view of the complexity of the issues involved, we now aim to complete the exercise in the second quarter of 2005.

13. To ensure that the exercise will be carried out in an orderly and timely manner, we have drawn up a work plan with the following milestones:

4 th quarter of 2003	To proceed with the consultancy on the design of the detailed methodology of the pay level survey
2 nd quarter of 2004	To present proposals on the pay level survey methodology and improvements to the methodology of the pay trend survey and to put forward general ideas on the application of the results of the pay level survey for consultation
4 th quarter of 2004	(a) To proceed with the field work for the pay level survey (b) To complete the preparation for any necessary draft legislation for implementing both upward and downward pay adjustments for consultation within the civil service
End 2004/ Early 2005	To complete the field work for the pay level survey

2nd quarter of 2005

- (a) To complete the analysis of the pay level survey data and to present detailed proposals on the application of the pay level survey results
- (b) To introduce any necessary draft legislation for implementing both upward and downward pay adjustments into the Legislative Council

Where appropriate, we may adjust or refine the work plan in the light of further deliberations with the Steering Committee and the Consultative Group as well as comments from within and outside the civil service.

Next steps

14. To keep individual civil servants and interested parties posted on developments, we issued a report on 26 November 2003 setting out the progress made with the exercise. In working out the detailed arrangements for the improved mechanism, we shall give due consideration to the views put forward by all concerned parties including staff and members of the public.

15. The pay adjustment mechanism is but one aspect of our civil service pay system. While our immediate attention would have to focus on the three deliverables of the current exercise, i.e. the conduct of a pay level survey, the review of the pay trend survey methodology and the development of an effective means for implementing both upward and downward pay adjustments, we recognise that there are certain broader pay-related issues which also need to be addressed. For example, we need to carry out grade structure reviews at an appropriate time after the current exercise for those grades which have experienced considerable changes to their job nature and requirements. The Civil Service Bureau will not be able to satisfactorily address these and other pay-related issues in the course of the present exercise given the complexity of the issues involved. We shall pursue them after our immediate tasks set out in the progress report have been completed. Meanwhile, we shall continue with our efforts to improve progressively the prevailing civil service remuneration-related

measures such as the review of various civil service allowances.

16. The current exercise is part of our on-going efforts to modernise the management of the civil service. The primary objective is to put in place an improved pay adjustment mechanism, which will be more responsive to changes in the service needs of the community and the manpower situation in the market, for long-term adoption in the civil service. Based on the proposals set out in paragraphs 4-11 above, we shall continue our discussion in the Steering Committee and the Consultative Group in earnest with a view to drawing up an improved civil service pay adjustment mechanism in the second quarter of 2005.

Civil Service Bureau
26 November 2003