

## **BRIEF FOR THE LEGISLATIVE COUNCIL**

### **DEVELOPMENT OF AN IMPROVED CIVIL SERVICE PAY ADJUSTMENT MECHANISM: CONDUCT OF A PAY LEVEL SURVEY**

#### **INTRODUCTION**

At the meeting of the Executive Council held on 22 March 2005, the Council ADVISED and the Acting Chief Executive ORDERED that –

- (a) a pay level survey should be conducted in 2005 using the methodology as recommended by the consultant engaged for the design of the survey methodology and further refined following the recent consultation; and
- (b) with the conduct of a pay level survey in 2005, there should be no annual pay trend survey for 2004-05. The Administration will further consider the future of the pay trend survey under the improved civil service pay adjustment mechanism.

#### **JUSTIFICATIONS**

##### **Previous Executive Council Decisions**

2. On 25 February 2003, in the context of the annual civil service pay adjustment exercise for 2003<sup>1</sup>, the Executive Council ADVISED and the Chief Executive ORDERED *inter alia* that –

- (a) as a separate exercise the Government 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,

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<sup>1</sup> For the 2003 civil service pay adjustment exercise, the Executive Council ADVISED and the Chief Executive ORDERED *inter alia* to restore civil service pay to the levels as at 30 June 1997 in dollar terms by two adjustments to be implemented from 1 January 2004 and 1 January 2005 respectively.

the conduct of annual pay trend surveys based on an improved methodology and an effective means for implementing both upward and downward adjustments. We should aim to complete this exercise, including the conduct of a pay level survey, within 2004; and

- (b) no annual pay trend survey should be conducted for 2002-03 and 2003-04. The 2004-05 pay trend survey will be carried out on the basis of an improved survey methodology to be drawn up.

3. To take forward the exercise, we have set up the Steering Committee and the Consultative Group on Civil Service Pay Adjustment Mechanism<sup>2</sup> to deliberate on various issues relating to the exercise. Following discussion with the Steering Committee and the Consultative Group and with the assistance of a professional consultant engaged for the design of the survey methodology (Phase One Consultant<sup>3</sup>), we had worked out proposals on the pay level survey methodology and on the general approach for the application of the survey results. A consultation paper on the proposals on the methodology of the pay level survey and the application of the survey results (Consultation Paper) was issued on 4 November 2004 for a two-month extensive consultation.

### **Relevant policy considerations**

4. It is the Government's civil service pay policy to offer sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an effective, efficient and high quality service. In order that civil service pay can be regarded as fair and reasonable by both the civil servants who provide the service and the public who foot the bill, we adopt the principle that the level of civil service pay should be broadly comparable with private sector pay.

5. We have undertaken to improve the civil service pay adjustment mechanism. Under the improved system, pay level surveys will be conducted periodically to compare the levels of civil

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2 The Steering Committee comprises selected members drawn from 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. The Consultative Group comprises staff representatives from the staff sides of the four central consultative councils and the four major service-wide staff unions.

3 The scope of work of the phase one consultancy is to develop a feasible and detailed methodology for conducting a pay level survey in a credible and professional manner. A separate consultancy will be commissioned in phase two to carry out the actual field work and the data analysis of the pay level survey.

service pay with those of private sector pay. This is essentially a technical, fact-finding exercise to ascertain, broadly, whether there are any differences between the pay levels of the two sectors. The results obtained from pay level surveys will facilitate the Government's further consideration of any necessary adjustments to civil service pay, having regard also to other relevant factors such as budgetary considerations, the state of the economy, changes in the cost of living, the views of staff as well as staff morale, so as to ensure that civil service pay remains broadly comparable to private sector pay in accordance with the established civil service pay policy.

6. In view of the inherent differences in the nature of operation and in employment/remuneration practices between the civil service and the private sector, it is neither practical nor appropriate to seek to make a precise comparison between civil service pay and private sector pay in the pay level survey. Nor is there a perfect survey methodology that will be able to address all the inherent differences between the two sectors. Such differences are factors which should appropriately be taken into account when the Government considers at a later stage how the survey results should be applied to the civil service.

7. The pay level survey will proceed on the basis of the existing internal pay relativities among civil service grades/ranks. We have undertaken to conduct grade structure reviews for individual grades, where justified<sup>4</sup>, after the completion of the current exercise. We shall adjust the existing internal pay relativities if and until the findings of the grade structure reviews support such adjustments.

### **Consultation on the proposals for the pay level survey**

8. Following the close of the consultation exercise on 7 January 2005, we have received a total of 91 written submissions. Of these, 9 are from bureau/departmental management, 45 from staff bodies (including the staff sides of the central consultative councils, the staff sides of departmental consultative committees, and staff unions/associations), 13 from individual civil servants, and 24 from non-civil service organisations and members of the public.

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4 After we have completed the development of an improved civil service pay adjustment mechanism, we intend to carry out individual grade structure reviews for those grades/ranks which have experienced significant changes in their job nature and requirements in recent years and which continue to have a recruitment need.

## *Consultation feedback on the proposed survey methodology*

9. On the proposals regarding the methodology of the pay level survey<sup>5</sup> (see section 3 of the Consultation Paper), the comments from staff bodies relate mainly to various technical issues, including whether the proposed methodology can take account of the inherent differences between the civil service and the private sector in terms of job requirements and work nature, etc., how to select civil service benchmark jobs for inclusion in the survey field, what should be the definition of pay for the purpose of making a pay comparison between the civil service and the private sector, how to analyse the pay data collected from the private sector for comparison with civil service pay scales, and whether customised pay trend surveys should continue to be conducted in between two pay level surveys under the improved civil service pay adjustment mechanism. In particular, a number of staff bodies comment that it is important to allow staff participation in the proposed job inspection process<sup>6</sup>.

10. While there are comments on, and criticisms of, the broadly-defined job family method recommended by the Phase One Consultant<sup>7</sup>, we have not received any suggestion for an alternative

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5 Section 3 of the Consultation Paper sets out the Phase One Consultant's proposals on the pay level survey methodology, including the recommended broadly-defined job family method for identifying job matches in the civil service and the private sector, the recommended approach for selecting private sector organisations for inclusion in the survey field, the scope of pay data to be collected, and proposals on data consolidation and analysis.

6 The Phase One Consultant recommends that if the proposed broadly-defined job family method is adopted as the job comparison method in the pay level survey, an intensive job inspection process should be carried out as part of the survey field work. The purpose is to ascertain the details of the work nature and job characteristics of all civil service benchmark jobs so as to facilitate the identification of appropriate private sector job matches.

7 Under the broadly-defined job family method, civil service jobs and private sector jobs that are broadly comparable in job content, work nature, level of responsibility and typical requirements on qualification and experience are matched to serve as a basis for pay level comparison. The job matching will be carried out through an intensive job inspection process. Under this process, details of the work nature and job characteristics of all civil service benchmark jobs will be ascertained so as to facilitate the identification of appropriate private sector job matches. To facilitate analysis of the pay data collected from private sector organisations, the benchmark jobs will be categorised into job families according to job content and work nature and into job levels according to the level of responsibility and typical requirements on qualification and experience. The pay of private sector benchmark jobs within the same job family and job level will then be compared with the pay range of civil service benchmark jobs in the corresponding job family at the corresponding job level.

approach for job comparison between the civil service and the private sector.

11. On the other hand, non-civil service organisations from the business sector and some members of the public indicate general support to various aspects of the survey methodology recommended by the Phase One Consultant. They suggest that a pay level survey should be conducted as soon as possible to ascertain whether civil service pay remains broadly comparable with private sector pay.

*Consultation feedback on the application issue*

12. As regards the general approach for applying the results of the pay level survey<sup>8</sup>, while some members of the public consider that civil service pay should be adjusted immediately following the pay level survey (should the survey reveal that civil service pay is higher than private sector pay), the general feedback from the consultation exercise is that it is reasonable and pragmatic not to apply the pay level survey result to serving staff immediately. Some staff bodies comment that the Government should consider the divisive effect of the proposed general approach on serving staff and new recruits and its impact on civil service morale.

13. The staff bodies from the disciplined services which have made written submissions object to the proposal of applying the survey results to the disciplined services grades/ranks on the basis of the existing system of internal pay relativities<sup>9</sup>. They suggest that a separate grade structure review should be carried out for the disciplined services as soon as possible.

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8 We proposed in section 4 of the Consultation Paper that if the pay level survey findings reveal that the civil service pay levels exceed the private sector pay levels, we should freeze the pay of serving officers at the prevailing level until it is caught up by the private sector pay level. But the disparity will be noted and will be taken into account in the subsequent annual civil service pay adjustment exercises before the next pay level survey. For new recruits who join the civil service after a prospective date, they will be subject to a new set of civil service pay scales to be drawn up after the pay level survey.

9 Under a centralised civil service pay system, we adopt a uniform approach in determining the pay scales of individual ranks by reference to similar entry qualification requirements and taking account of the differences in job requirements and other relevant job factors. The system of internal pay relativities helps maintain fairness and consistency in setting the pay scales of a diverse range of civil service ranks while reflecting the differences in the job nature and requirements among different grades/ranks.

14. The main views contained in the written submissions and the responses respectively of the CSB and the Phase One Consultant to these views are set out in [Annex A](#).

### **The way forward**

(a) Conduct of pay level survey

15. The methodology of the pay level survey as recommended by the Phase One Consultant and set out in the Consultation Paper has taken account of the concerns and comments raised during the discussions in the Steering Committee and the Consultative Group since April 2003. Indeed, most of the technical issues now raised by staff in the written submissions on the Consultation Paper have previously been deliberated in the two bodies, and have been considered carefully by the Phase One Consultant in drawing up his recommendations. In response to the consultation feedback, the Phase One Consultant has further refined his recommended methodology (the Phase One Consultant's refinements to the survey methodology are summarised at [Annex B](#)).

16. There is no perfect survey methodology that would be able to address all the inherent differences between the civil service and the private sector. After assessing the relative merits and shortcomings of four common job comparison methods, we are satisfied that the broadly-defined job family method<sup>6</sup> as recommended and further refined by the Phase One Consultant is, on the whole, better able than the other job comparison methods<sup>10</sup> to meet the objective of the pay level survey and to address technical considerations arising from a pay level survey. The Phase One Consultant's other recommendations, as further refined following the recent consultation where applicable, regarding the selection of benchmark jobs, the selection of private sector organisations for inclusion in the survey field, as well as data collection, consolidation and analysis, are also acceptable for the purpose of an objective and professional pay level survey. It was thus decided that the proposed methodology should be adopted for the coming pay level survey, and, barring any unforeseen circumstances, for future surveys as well.

17. It was also decided that we should commence the survey field work immediately with a view to capturing the pay adjustments in the private sector up to 1 April 2005. We shall, in accordance with the established procedures for the Government's procurement of consultancy services, select and appoint a professional consultant

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<sup>10</sup> The other three methods are the job matching method, the job factor comparison method and the qualification benchmark method.

(Phase Two Consultant) to carry out the actual survey field work.

18. Taking account of the necessary work steps, we envisage that the survey field work will comprise the following three key stages:

- (a) preparatory stage (May – July/August 2005) : conducting job inspections of civil service benchmark jobs with the participation of grade management, departmental management, staff bodies including staff unions/associations and holders of representative posts in the benchmark jobs;
- (b) information gathering stage (August/September – October 2005) : collecting pay data and other relevant information from the private sector organisations in the survey field; and
- (c) information consolidation stage (October/November 2005): consolidating and analysing the collected data according to the survey methodology.

19. To safeguard the credibility of the results of the pay level survey, the Phase Two Consultant to be appointed will be required to carry out the survey field work in a professional and independent manner. Staff representatives at different levels will participate in various steps of the job inspection process. We shall also seek the comments of the staff side members of the Consultative Group on the draft report to be prepared by the Phase Two Consultant upon the completion of the survey field work.

(b) Implication on the pay trend survey

20. The Phase One Consultant has recommended that in future, with the conduct of periodic pay level surveys every three to five years, we may consider using pay trend analyses available in the market instead of conducting customised pay trend surveys to ascertain the year-on-year movement in the private sector pay trends. We shall further consider the future of the pay trend survey under the improved civil service pay adjustment mechanism. Since we commenced the process of improving the civil service pay adjustment mechanism in April 2003, we have ceased to conduct the annual pay trend surveys. Now that the 2005 pay level survey will capture the private sector pay adjustments up to 1 April 2005, it is neither necessary nor appropriate to conduct a pay trend survey for 2004-05<sup>11</sup>.

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<sup>11</sup> Under the usual arrangement for pay trend surveys, a pay trend survey for 2004-05 would cover the year-on-year changes in the private sector pay trend for the 12-month period up to 1 April 2005.

(c) Application of the pay level survey results

21. As regards the general approach for the application of the pay level survey results, we have proposed in the Consultation Paper that if the pay level survey findings reveal that the civil service pay levels exceed the private sector pay levels, we should freeze the pay of serving officers at the prevailing level until it is caught up by the private sector pay level. But the disparity will be noted and will be taken into account in the subsequent annual civil service pay adjustment exercises before the next pay level survey. Based on the results of the pay level survey and other relevant factors, we will draw up new pay scales for application to new recruits. This remains our position at this stage. However, we shall consider the issue in due course upon the conclusion of the proceedings of the judicial review applications concerning the civil service pay adjustments legislation.<sup>12</sup>

22. We shall take account of the CFA's ruling, where applicable, in considering the application of the pay level survey results and its implementation (including the development of an effective means for implementing both upward and downward civil service pay adjustments), and will further consult staff in due course.

23. In considering the approach for the application of the pay level survey results, we shall also seek the advice of the three advisory bodies on civil service salaries and conditions of service. Specifically, we shall seek the advice of –

- (a) the Standing Commission on Civil Service Salaries and Conditions of Service on the new set of civil service pay scales to be draw up for application to new recruits to civilian non-directorate positions after a prospective date and on the

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<sup>12</sup> On 29 November 2004, the Court of Appeal, by a majority, allowed the appeals against the rulings of the Court of First Instance on the judicial review applications regarding the Public Officers Pay Adjustment Ordinance (Cap.574), which effected the civil service pay reduction effective from 1 October 2002, and held that section 10 of Cap. 574 is inconsistent with Article 100 of the Basic Law. We have obtained leave to appeal against the Court of Appeal's decision to the Court of Final Appeal (CFA) and the CFA hearing has been scheduled for 20-23 June 2005. Bound by the Court of Appeal's judgment, on 4 February 2005, the Court of First Instance held that section 15 of the Public Officers Pay Adjustments (2004/2005) Ordinance (Cap.580), which implemented pay reductions effective from 1 January 2004 and 1 January 2005 respectively, is inconsistent with Article 100 of the Basic Law. We have obtained leave to appeal against the Court of First Instance's ruling in this respect to the CFA. The case will be heard together with the cases concerning Cap.574 at the same scheduled hearing in the CFA in June 2005.



application of the survey results to serving staff;

- (b) the Standing Committee on Directorate Salaries and Conditions of Service on the application of the survey results to the ranks on the directorate pay scales<sup>13</sup>; and
- (c) the Standing Committee on Disciplined Services Salaries and Conditions of Service on the application of the survey results to the disciplined services grades<sup>14</sup>.

## **IMPLICATIONS OF THE PROPOSAL**

24. The proposal has Basic Law, financial and economic implications as set out in **Annex C**. The proposal does not have significant sustainability implications.

## **PUBLICITY**

25. A press release will be issued in the afternoon on 24 March 2005 and a spokesman will be available to answer media enquiries. The Secretary for the Civil Service will write to all civil servants on the same day informing them of the decision.

## **SUBJECT OFFICER**

26. Enquiries on this brief should be addressed to Mr. Eddie Mak, Principal Assistant Secretary for the Civil Service (Tel: 2810 3112).

Civil Service Bureau  
24 March 2005

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<sup>13</sup> The Phase One Consultant has recommended that the survey field should not include ranks on the directorate pay scales because of the lack of reasonable private sector job matches, the need to adopt a different job comparison method for jobs at the directorate level and the technical problems arising from this in relation to data consolidation and data analysis.

<sup>14</sup> The Phase One Consultant has recommended that the survey field should not include disciplined services grades in view of the absence of reasonably comparable private sector job matches.