

## Increment Cost Deduction Formula

### Background

Prior to the appointment of the Committee of Inquiry into the 1988 Civil Service Pay Adjustment and Related Matters (Burrett Committee), there was a growing concern on the part of the Staff Side over the exclusion of *merit pay* from pay trend surveys (PTS). The concern arose from the observation that merit pay formed a significant and increasing part of the annual pay adjustments in some companies in the private sector. The manner in which merit pay was dealt with was important and the Management Side also recognised the need to address the issue.

2. Past practice before 1988 was to exclude merit pay from the calculation of the pay trend indicators (PTIs)<sup>1</sup> on the ground that it did not form part of the *general pay award* in the private sector. Presumably for the same reason, no account was taken of the value of automatic *scale increments* either in the civil service or in the surveyed firms. However, the difficulty in distinguishing merit payments awarded in a number of private sector companies from general pay increases presented a problem. Exclusion of such data in the calculation of the PTIs would mean suppression of the actual pay increases awarded by private sector companies.

3. The Burrett Committee considered different views from interested parties in order to tackle the problem. It came to the conclusion

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<sup>1</sup> The average pay movements of employees of private sector companies over the preceding 12 months.

that if merit pay was to be included in the calculation of the PTIs, a balancing factor would be required and that this could be related to the value of the civil service increments.

### **The Formula**

4. On balancing the pros and cons of possible alternatives in treating merit pay of the private sector companies, the Burrett Committee recommended in its 1989 Final Report that beginning in 1989, the PTS system should take account of both private sector merit pay and civil service increments and that “the formula for calculating future civil service annual pay adjustments should include the percentage values of private sector merit pay and increments in the PTIs, from which the values of civil service increments for individual salary bands should be deducted at their payroll cost.”<sup>2</sup> In actual calculation, the value of civil service increments is expressed as a percentage of the total payroll cost for each salary band.

### **Impact on Civil Servants**

5. In recent years, there is a general impression that civil servants have the privilege of a double adjustment every year as they receive not only an annual increment on their service anniversaries but also a general adjustment (usually an increase in the past) applicable to all civil servants in April.

6. In fact, this is only true for civil servants who have *not* reached the maximum point of their pay scales. For this group (comprising

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<sup>2</sup> 1989 Final Report of Burrett Committee, Para 7.18

about 40% of the total number), the value gained through obtaining an increment is greater than the value of increment costs deducted from the PTIs. However, civil servants who have reached the maximum point of their pay scales will receive less than the average PTI increases because of the deduction of increment costs and the fact that they are not entitled to increments. In a way, this is a cost neutral system. Those who lose out after reaching their maximum pay points have arguably gained previously.