

LEGISLATIVE COUNCIL BRIEF

DEVELOPMENT OF AN IMPROVED CIVIL SERVICE PAY ADJUSTMENT MECHANISM: FRAMEWORK FOR THE CONDUCT OF PAY LEVEL SURVEYS, FRAMEWORK FOR THE APPLICATION OF SURVEY RESULTS TO THE CIVIL SERVICE, AND APPLICATION OF 2006 PAY LEVEL SURVEY RESULTS TO THE CIVIL SERVICE

INTRODUCTION

At the meeting of the Executive Council on 24 April 2007, the Council ADVISED and the Chief Executive ORDERED that –

- (a) the general framework for the conduct of Pay Level Surveys (PLSs) should consist of the following key features:
 - (i) the adoption of a broadly defined job family and job level method,
 - (ii) the selection of civil service benchmark jobs in each job family and job level with comparators in the private sector,
 - (iii) the matching and comparison of civil service benchmark jobs with counterpart jobs in the private sector,
 - (iv) the selection of steady and good employers in the private sector for participation in PLSs,
 - (v) the collection of both basic cash and total cash compensation data from surveyed companies,
 - (vi) the adoption of the typical organisation practice approach for consolidation of data collected from surveyed companies,
 - (vii) the conduct of a PLS every six years, and
 - (viii) the continued conduct of a pay trend survey (PTS)

in the year when a PLS is conducted;

- (b) those key features in the methodology of PLSs which are different from that for the PTSs should be reviewed before the commencement of the next PLS;
- (c) the general framework for the application of PLS results to the civil service should consist of the following key features:
 - (i) the adoption of total cash compensation data at P75 for determination of the private sector pay indicator for each job level,
 - (ii) the adoption of the notional mid-point salary plus the actual average expenditure on fringe benefits paid in cash for determination of the civil service pay indicator for each job level,
 - (iii) the adoption of a plus/minus 5% as the acceptable range of difference between the civil service and private sector pay indicators for a job level. Where the difference is within this range, no downward/upward adjustment is to be made to the relevant civil service pay points. Where the difference falls outside this range, the downward/upward adjustment to the relevant civil service pay points is to be made to the upper/lower limit of the 5% range,
 - (iv) the application of PLS results, in accordance with items (i) to (iii) above, to all civil service pay scales on the basis of their internal relativities as at the reference date of the concerned PLS; and
- (d) all the civil service pay scales should remain unchanged as a result of the recently completed PLS since the difference between the civil service and private sector pay indicators for all job levels is within the acceptable range of plus/minus 5%.

JUSTIFICATIONS

Civil Service Pay Policy

2. The Government's established pay policy 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; and to ensure that civil service remuneration is regarded as fair by both civil servants and the public they serve through broad comparability between civil service and private sector pay. In addition, we also consider that the Government should be a good employer. The policy considerations underpinning the civil service pay policy are set out in the attached **Annex**.

Annex

Pay Level Survey

(A) General

3. Under the improved civil service pay adjustment mechanism, the periodic conduct of PLSs is the principal means to ascertain whether civil service pay is broadly comparable with private sector pay. With the help of a consultant, we have recently completed a PLS using 1 April 2006 as the reference date.

(B) Methodology

4. The methodology for conducting a PLS, as recommended by a consultant appointed by the Administration in late 2003¹, includes the following key features –

- (a) the adoption of the broadly-defined job family and job level method, under which civil service benchmark jobs in the civilian grades on the Master Pay Scale (MPS) and the Model Scale 1 Pay Scale (MOD 1) are matched with broadly comparable counterparts in the private sector in terms of job content, work nature, level of responsibility and typical requirements on qualification and experience;
- (b) the grouping of civil service benchmark jobs into five job families (having regard to the broad nature of their work) and five job levels (having regard to their general level of responsibility), giving rise to a matrix of 25 groups;
- (c) the selection of civil service benchmark jobs having regard, among others, to their establishment size (the total establishment size of the grades from which benchmark jobs are selected should be no less than 100) and to the availability of broadly comparable jobs in the market. There

¹ The Phase One Consultant's recommendations are set out in its Final Report published in November 2004, and its Report published in March 2005 entitled "Refined Recommendations Following the Extensive Consultation Conducted between November 2004 and January 2005".

are no selected civil service benchmark jobs in the disciplined services grades or directorate grades in view of the absence or scarcity of comparable jobs in the market;

- (d) the selection of private sector companies for survey based on a set of criteria, including (i) they should be good and steady employers, (ii) they should normally employ no less than 100 staff, (iii) they should determine pay levels for their staff on the basis of factors and considerations applying to Hong Kong, and (iv) they should not use civil service pay scales or pay adjustments as the major factors in determining their pay levels. In view of the last criterion, there are no selected civil service benchmark jobs in the education, medical and health care, and social welfare grades;
- (e) the collection of both basic cash compensation data (i.e. base salary and contractually guaranteed bonus) and total cash compensation data (i.e. base salary and all variable pay and fringe benefits paid in cash); and
- (f) the consolidation of data collected on the basis of the typical organisation practice approach, under which each surveyed company is given equal weight irrespective of its employment size.

5. The above methodology was adopted for the recently completed PLS, which grouped civil service benchmark jobs into five job families (namely: clerical and secretarial, internal support, public services, works-related, and operational support) and five job levels (covering the lowest to the highest non-directorate level in the civil service). It has generally worked well. The CE-in-Council has decided that it should be adopted for future PLSs, subject to the review referred to in paragraph 13 below and subject to any refinements as deemed necessary in the light of experience gained from each PLS.

(C) Parameters for pay comparison

6. The CE-in-Council has also decided that the comparison between the civil service and private sector pay for each specified job level covered in a PLS should be made on the following basis -

- (a) total cash compensation: Pay comparison between the civil service and the private sector should be made on the basis of total cash compensation (rather than basic cash compensation) because of its more comprehensive coverage. The total cash compensation of the civil service includes salary and fringe benefits paid in cash (mainly housing, education and school passage allowances). Similarly, the

total cash compensation of the private sector includes base salary as well as all variable pay and fringe benefits paid in cash;

(b) P75 of private sector pay: The upper quartile (i.e. the 75th percentile, or P75) of the private sector total cash compensation, consolidated on the basis of the typical organisation practice approach (see paragraph 4(f) above), should be adopted for comparison purpose in view of the following considerations:

(i) this is in keeping with past practices, namely the 1986 PLS, the 1989 Salary Structure Review and the 1999 Starting Salaries Review,

(ii) this is consistent with the Government's pay policy of offering sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an effective, efficient and high quality service,

(iii) this accords with the general objective that the Government should be a good employer and, hence, civil service pay should be measured against the better paying private sector jobs, and

(iv) this takes into account the relevant policy considerations underpinning the Government's pay policy, including the inherent differences between the civil service and the private sector, as set out in the attached **Annex**; and

(c) notional mid-point salary of civil service: The notional mid-point salary for each specified job level plus the actual average expenditure on fringe benefits paid in cash form should be adopted for comparison purpose. Unlike the actual median or average salary, the notional mid-point salary would not be skewed by the age and seniority profile of the civil service at a particular point in time due to exceptional circumstances, as is currently the case owing to a prolonged freeze of open recruitment into the civil service (from 1 April 2003 to 31 March 2007).

Annex

(D) Application of broad comparability

7. As our established policy is to maintain broad comparability between civil service and private sector pay (see paragraph 2 above), the CE-in-Council has decided that the civil service pay scale of a specified job

level should not be adjusted where the relevant civil service pay indicator is within 95% to 105% of the comparable market pay indicator, i.e. an acceptable range of deviation of plus/minus 5% (rounded to the nearest integer²).

8. The CE-in-Council has also decided that where the civil service pay indicator of a specified a job level falls outside this acceptable range, then the relevant civil service pay scale should be adjusted to bring it back to the upper/lower limit of the range. To illustrate, if the civil service pay indicator for a specified job level is 6% lower than the comparable market pay indicator, it will be increased by 1% to lift it up to the lower acceptable limit of 95%. Conversely, if the civil service pay indicator for a specified job level is higher than its comparable private sector pay indicator by 6%, the relevant civil service pay scale will be reduced by 1% to bring it back to the upper acceptable limit of 105%.

9. The above have regard to the following considerations –

- (a) statistical discrepancies: A PLS cannot offer an exact or precise picture of private sector pay at a particular reference point in time, notwithstanding our efforts to ensure the integrity of its methodology and the professional conduct of the survey. Some degree of discrepancy is inevitable for a survey of such a wide coverage and complexity; and
- (b) elements of chance: Apart from inherent statistical discrepancies, there are also various elements of chance inherent in the PLS methodology which could affect the outcome. These elements of chance include the setting of the reference date for a survey, the selection of companies for the survey, the willingness of selected companies to take part in a survey, the depth and breadth of the pay data provided by the participating companies, the availability of comparable job matches in the participating companies, the staff profile and business performance of the participating companies, etc;
- (c) stability of the civil service: The civil service (currently some 155 000 strong) is an important institution contributing to the effective governance of Hong Kong. It ensures continuity through changing times and changing political leadership. Stability within the civil service is, therefore, of overriding importance. This does not imply that civil service pay should

² In view of the broad comparability nature of the PLS, pay comparison between the civil service and the private sector expressed in percentage terms will all be rounded to the nearest integer (e.g. 104.4% will be rounded to 104% and 96.5% will be rounded to 97%).

not be adjusted upwards or downwards to keep it broadly in line with private sector pay. This also does not imply a 'mechanical' adjustment to civil service pay where the comparison with private sector pay shows that the gap between civil service and private sector pay is within an acceptable range;

- (d) even-handed treatment: To be credible, any acceptable range of difference – up or down – between civil service and private sector pay must be of the same magnitude. This means that no adjustment to civil service pay will be made when the PLS results show that civil servants are 'over-paid' by a certain percentage or less when compared with their counterparts in the private sector, as well as when the PLS results show that they are 'under-paid' by the same percentage or less when compared with their counterparts in the private sector; and
- (e) consistency of application: To maintain credibility and certainty for the civil service, the acceptable range of difference between civil service and private sector pay, once determined, must be applied to the results of all PLSs conducted in accordance with the general framework described in paragraphs 4 and 6 above. Any change to the determined acceptable range of difference would only be considered when there are major changes to the said framework or when there are fundamental changes in the civil service pay policy or in the pay arrangements adopted by most private sector companies.

(E) Application to disciplined services and directorate grades

10. As noted in paragraph 4(c) above, there are no or very few jobs in the market which are comparable to the jobs undertaken by civil servants in the disciplined services grades and the directorate grades. For this reason, the CE-in-Council has decided that the results of a PLS should be applied to the disciplined services based on the internal relativities within the civil service as at the reference date of the PLS. This means that the dollar value of the various disciplined pay scales will be adjusted in step with any adjustments to the equivalent ranges of pay points on the MPS. The adjustment to the dollar value of directorate pay scales, including the Directorate Pay Scale, Directorate (Legal) Pay Scale, General Disciplined Services (Commander) Pay Scale and Point 55 or above of the Police Pay Scale, will follow that for the highest job level in a PLS.

(F) Frequency of conduct of PLS

11. The last PLS, before the recently completed one, was conducted in

1986 (and the outcome was set aside upon the recommendation of a Committee of Inquiry set up to resolve the objections by the staff sides to the PLS results). For the reasons set out below, the CE-in-Council has decided that a PLS should be conducted every six years (counting from 1 April 2006 which is the reference date for the just completed PLS) -

- (a) pay alignment consideration: A long interval between two PLSs might render civil service pay to be significantly out of line with private sector pay;
- (b) time consideration: The conduct of a PLS is a time-consuming exercise. The one just completed has taken more than three years, with much of the time taken up in consultations with the staff sides. With an agreed framework for the conduct of the PLS and an agreed framework for applying the results of the PLS to the civil service, we expect that future PLSs would take around one year to complete; and
- (c) resource consideration: A PLS entails considerable work and resources not only for the Administration but also for the selected private sector companies. To encourage the latter to participate in a PLS, particularly as they are also likely to be invited to take part in the annual PTS, we need to allow a reasonable interval between two PLSs.

(G) Interface with PTS

12. Under the improved civil service pay adjustment mechanism, an annual PTS is to be conducted under an improved methodology (ordered by CE on 13 March 2007) to ascertain the year-on-year pay movements in the private sector. The CE-in-Council has decided that a PTS should be conducted annually, including the year when a PLS is conducted, so as not to lose track of the private sector pay movements for that year.

(H) Alignment of PLS and PTS methodology

13. The two surveys - PLS and PTS - measure different aspects of private sector pay. The PLS measures the total cash compensation (in absolute dollar terms) paid to different jobs at different levels in the private sector at a particular point in time, while the PTS measures the year-on-year change (in percentage terms) in the pay to different levels of employees in the private sector. The results of the two surveys are used by the Administration for different purposes. The PLS results are used to help determine whether the pay scales for specific grades and ranks in the civil service should be adjusted, while the PTS results are used to help determine the annual pay adjustment for the whole civil service. However, how the results of PTS are applied to the

civil service may, over a period of time, impact on the pay level comparison between the civil service and the private sector. For this reason, we need to consider whether the methodology for conducting the two kinds of survey should be aligned. Currently, their methodology differs in three main aspects, namely: (i) the scope of companies covered (the PLS is limited to companies normally employing 100 or more staff while the PTS includes companies with 50-99 staff); (ii) the data consolidation method (the PLS uses the typical organisation practice approach which is in effect an un-weighted average approach, while the PTS uses the weighted average approach with gross-up factors); and (iii) the number of job levels (the PLS consists of five job levels while the PTS consists of three salary bands). The CE-in-Council has decided that the Administration should review whether and, if so, how these aspects should be aligned before the conduct of the next PLS.

(I) Results of 2006 PLS

14. The recently completed PLS, using 1 April 2006 as the reference date, has successfully collected pay data from 97 private sector companies³, and matched private sector comparators for 166 civil service benchmark jobs⁴. The results of the 2006 PLS are summarised below –

³ These 97 private sector companies were drawn from seven major economic sectors and their distribution is as follows:

<u>Economic Sector</u>	<u>No. of Companies</u>
Community, Social and Personal Services	16
Construction	20
Financing, Insurance, Real Estate and Business Services	19
Hotels and Restaurants	5
Manufacturing	9
Transport, Storage, Communication and Utility	13
Wholesale, Retail and Import/Export	15

⁴ To ensure that civil service benchmark ranks selected for the PLS would have a reasonable number of broadly comparable job matches in the private sector and are reasonably representative of the civil service as a whole, a total of 193 civil service ranks have been selected as benchmark ranks. These 193 civil service benchmark ranks have been fitted into 19 (out of 25) groups of the job family/job level matrix. There are six unfilled groups because there are no civil service benchmark ranks pitched at Job Level 3 or above for two job families, namely, (i) the Clerical and Secretarial Family; and (ii) the Operational Support Family.

Among these 193 civil service benchmark ranks, the Phase Two Consultant has identified broadly comparable job matches for 166 of them. Furthermore, in order to avoid distortion in the consolidation of pay data for analysis, it has discarded data collected for two groups, namely, (i) Job Family 4 of Job Level 1 and (ii) Job Family 5 of Job Level 2, in view of the insufficiency of data (there were fewer than 10 companies providing data for each of the two groups). The pay indicators for the five job levels are worked out based on the results of the remaining 17 job family/job level groups.

Job Level	Civil service pay indicator	Market pay indicator	Comparison ratio
Job Level 1 <i>(MPS 0 to 10 & MOD 1)</i>	\$139,055	\$135,113	103%
Job Level 2 <i>(MPS 11 - 23)</i>	\$275,575	\$280,758	98%
Job Level 3 <i>(MPS 24 - 33)</i>	\$479,243	\$457,722	105%
Job Level 4 <i>(MPS 34 - 44)</i>	\$790,947	\$794,965	99%
Job Level 5 <i>(MPS 45 - 49)</i>	\$1,049,361	\$1,106,342	95%

(J) Application of 2006 PLS results to the civil service

15. As shown in table above, the civil service pay indicator (i.e. notional mid-point salary plus actual expenditure on fringe benefits paid in cash) for each of the five job levels falls within the plus/minus 5% range of the P75 market pay indicator. Based on the principle of broad comparability set out in paragraphs 7 and 8 above, the CE-in-Council has decided that no adjustment should be made to the civil service pay scales as at 1 April 2006.

IMPLICATIONS

16. The general frameworks and application packages set out in this paper are in conformity with the Basic Law including the provisions concerning human rights. It has no sustainability implications.

17. There are no financial implications for the application packages of the recently completed PLS. If the principle of strict comparability (meaning strict application of PLS results to the civil service), instead of broad comparability, were adopted for the application of the results of the recently completed PLS to the civil service, the financial implications in the form of additional payroll cost to the civil service per year would be around \$180 million.

18. As regards economic implications, since the decisions involve only minor changes to the civil service pay system, there would be virtually no impact on the civil service employment and wage bill, which make up about 4% and 8% of the total workforce and the overall employment remuneration in the economy respectively. Neither would there be any significant impact on the labour market and overall economic activity.

CONSULTATION

19. The general frameworks and application packages are drawn up after extensive discussions with the Steering Committee on Civil Service Pay

Adjustment Mechanism and the staff sides through the Consultative Group (CG)⁵. In addition, we have also consulted the Standing Commission on Civil Service Salaries and Conditions of Service (Standing Commission); the Standing Committee on Disciplined Services Salaries and Conditions of Service (Disciplined Services Committee); and the Standing Committee on Directorate Salaries and Conditions of Service (Directorate Committee). All three advisory bodies support our recommendations. Specifically, the Standing Commission reaffirms its support for the continued adoption of P75 as the private sector pay indicator for comparison with civil service pay set at notional mid-point salary plus actual average expenditure on fringe benefits paid in cash. The Disciplined Services Committee and the Directorate Committee endorse the arrangement of applying the results of a PLS to the disciplined services and the directorate grades based on the internal relativities within the civil service as at the reference date of the PLS.

PUBLICITY

20. We will inform the three advisory bodies on civil service salaries and conditions of service, chairman of the Public Service Commission, chairman and vice-chairman of the Panel on Public Service of the Legislative Council, permanent secretaries, heads of departments, the staff sides of the four central consultative councils, the four major service-wide staff unions and all civil servants of the CE-in-Council's decision. A press release will be issued and a spokesman will be available to answer media enquiries.

SUBJECT OFFICER

21. Enquiries on this brief should be addressed to Mr. Chris Sun, Principal Assistant Secretary for the Civil Service (tel.: 2810 3112)

Civil Service Bureau
24 April 2007

⁵ The Steering Committee and the Consultative Group on Civil Service Pay Adjustment Mechanism were set up in April 2003 to respectively provide professional and staff inputs to the task of developing an improved civil service pay adjustment mechanism. The Steering Committee comprises members drawn from the Standing Commission, the Disciplined Services Committee and the Directorate Committee. The Consultative Group comprises representatives from the staff sides of the four central consultative councils and the four major service-wide staff unions.

Policy Considerations underpinning the Civil Service Pay Policy

The civil service pay policy is underpinned by the following policy considerations -

- (a) Upholding the core values of the civil service: Civil servants are required to uphold certain core values, including (i) commitment to the rule of law, (ii) honesty and integrity, (iii) accountability for decisions and actions, (iv) political neutrality, (v) impartiality in the execution of public functions, and (vi) dedication, professionalism and diligence in serving the community through delivering results and meeting performance targets. Some, if not all, of these core values are also applicable to the private sector, but the degree of importance attached to their faithful adherence may differ between the civil service and the private sector. Generally speaking, civil servants are subject to higher integrity expectations and very stringent rules on conduct and avoidance of real or potential conflicts of interest;
- (b) Maintaining the stability of the civil service: A stable, permanent civil service is important to ensure the smooth running of the Administration and the efficient delivery of public services without disruption. That is not to say the civil service pay system should not be reviewed and revised from time to time if justified to take into account changes in the society and community expectations. However, the elements of certainty, stability and gradual changes after thorough staff consultation feature more prominently in the civil service than in the private sector;
- (c) Comparing with the private sector but also recognising the inherent differences between the civil service and private sector: As the Government has to compete with the private sector for suitable calibre persons to join and stay in the civil service, it has to have regard to the pay levels in the private sector. Comparability with the private sector is necessary and appropriate. Comparability also satisfies the public, who pay the bill, that civil service pay is fair. Because of the inherent differences between the civil service and the private sector, broad comparability (rather than strict comparability) is justified. Accordingly, pay level surveys are to be done in a broad-brush manner and the application of the survey results has to take into account differences in the nature and requirements of jobs in the civil service and the private sector. Other than the differences

stated in items (a) and (b) above, the other more significant differences include -

- (i) certain jobs are unique to the civil service (e.g. law enforcement, law drafting, rescue work, etc.), making it impossible to identify appropriate private sector comparators for a direct comparison with each and every civil service grade and rank,
- (ii) where reasonable private sector comparators are found, certain functions and conditions of work are still unique to the civil service (e.g. formulating policies, regulations or laws for territory-wide application; explaining government policies; lobbying support for government policies from concerned stakeholders, political parties, District Councils, the Legislative Council; etc.),
- (iii) career progression in the civil service tends to be more structured and progressive. Other than meritocratic consideration, the need to maintain the stability of the civil service also requires greater importance to be accorded to seniority and experience in the civil service than in the private sector. Resignation is rare, which contributes towards maintaining the stability of the civil service. Career progression in the private sector is generally more varied and more influenced by market conditions, including the prevailing manpower supply and demand in the required areas of expertise. There is a greater propensity to change jobs and/or employers in the pursuit of career progression, resulting in a much greater turnover in the private sector,
- (iv) nature of operation of the Government and the private sector is very different. For example, the Government places emphasis on public well-being and the overall interest of the community, while the private sector is driven by the interest of shareholders and profit-making motives. Necessarily, private sector pay is susceptible to more volatile fluctuations which, if mirrored closely in the pay for the civil service, would not be conducive to maintaining a stable civil service and effective and efficient governance, which is in the overall interest of the community, and
- (v) the private sector operates in a more volatile environment heavily affected by the state of the economy generally and of a particular trade/industry at a given point in time.

Entities in the same business niche in the private sector compete with each other. Necessarily, the private sector adopts more flexible hire-and-fire and remuneration practices. The civil service operates in a more stable environment and employment in the civil service, subject to good conduct and performance, is normally 'permanent' until the statutory retirement age. The different environment makes it inappropriate for the civil service pay to closely mirror the fluctuations in private sector pay;

- (d) Following the private sector: Broad comparability with the private sector is adhered to under the principle that the Government should follow, but not lead the private sector. This principle applies to both the determination of pay levels in the civil service and the annual adjustment of civil service pay, and is manifested in the form of collection of private sector pay data for the 12-month period ending at a pre-determined date in the past (for the periodic pay level surveys) and private sector pay adjustments over a 12-month period from 2 April of the preceding year to 1 April of the current year (for the annual pay trend surveys). The information collected, together with other relevant considerations, will help to determine the civil service pay adjustments with effect from either the pre-determined reference date (upon completion of the concerned pay level survey) or from 1 April of the current year (upon completion of the concerned pay trend survey);
- (e) Maintaining internal relativities within the civil service: The civil service is centrally administered. Maintaining internal relativities ensures a degree of consistency and fairness in determining the pay levels for a total of about 390 civil service grades and around 1,100 ranks. It also overcomes the practical constraint that some grades or ranks do not have any direct private sector comparators. Internal pay relativities are revised as justified following individual grade structure reviews. Until they are revised, the existing internal relativities are adhered to;
- (f) Taking account of Basic Law and other legal considerations: Any change to the existing civil service pay adjustment mechanism must be consistent with the Basic Law and must 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

- (g) Taking account of the Government's fiscal position and other considerations: As civil servants are paid out of the public purse, the Government's overall fiscal position is an important consideration. Civil service pay also needs to have regard to the economic circumstances of Hong Kong, including changes in the cost of living, as a whole. In addition, the views of civil servants as well as staff morale have been and remain relevant considerations in the Government's determination of adjustments to civil service pay.