

HONG KONG
STANDING COMMISSION ON CIVIL SERVICE
SALARIES AND CONDITIONS OF SERVICE

REPORT No. 47

REPORT 2010

CHAIRMAN

MR NICKY LO KAR-CHUN, SBS, JP

FEBRUARY 2011

公務員薪俸及服務條件常務委員會
Standing Commission on Civil Service Salaries and Conditions of Service

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22 February 2011

The Honourable Donald Tsang, GBM
The Chief Executive
Hong Kong Special Administrative Region
People's Republic of China
Government House
Hong Kong

Dear Sir,

On behalf of the Standing Commission on Civil Service Salaries and Conditions of Service, I have the honour to submit a report on our work during 2010.

Yours faithfully,



(Nicky Lo Kar-chun)
Chairman

Standing Commission on Civil Service
Salaries and Conditions of Service

Encl.

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STANDING COMMISSION ON CIVIL SERVICE
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Standing Commission on Civil Service Salaries and Conditions of Service

November 2010



Front Row: Mr Barry Cheung, GBS, JP Mr Andy Lo Mr Nicky Lo Kar-chun, SBS, JP (Chairman) Ms Virginia Choi The Hon Jeffrey Lam, SBS, JP

Back Row: Mr Patrick Li (Secretary General) Mr Owen Chan Mr Pang Yiu-kai, SBS, JP Miss Elaine Chan Miss Vega Wong (Assistant Secretary General)

Absent: Dr Miranda Chung Prof Ho Lok-sang

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Chapter 1

Introduction

1.1 Since its establishment in 1979, the Standing Commission on Civil Service Salaries and Conditions of Service has been advising the Chief Executive on the principles and practices governing pay, conditions of service and salary structure of non-directorate civil servants, other than judicial officers and disciplined services staff. The Commission provides independent advice and makes recommendations to the Chief Executive, after taking into full account relevant factors and views expressed by the parties concerned. The Commission's terms of reference are at **Appendix A**.

1.2 This is our forty-seventh report. It gives an account of our major undertakings in 2010. During the year, we held two Commission meetings, two core group meetings in relation to the 2009 Starting Salaries Survey and completed the 2010 round of informal meetings with the civil service staff councils/associations.

1.3 There are currently a total of ten Commission Members, who are all non-officials appointed in their personal capacity by the Chief Executive. We welcome Miss Elaine Chan who joined the Standing Commission in August 2010. The Commission's membership is at **Appendix B**.

1.4 We wish to thank Miss Denise Yue, GBS, JP, Secretary for the Civil Service, and her staff for their assistance and co-operation. Our appreciation also goes to Mr Patrick Li, Secretary General of the Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service, and his staff for their support during the year.

Chapter 2

2009 Starting Salaries Survey

2.1 As set out in our Report No. 45 “Report 2009”, in November 2008, the Commission accepted the Administration’s invitation to conduct the 2009 Starting Salaries Survey (SSS), using 1 April 2009 as the reference date, and make recommendations to the Administration on how the survey findings should be applied to the civil service civilian grades.

2.2 The 2009 SSS continued to be the main focus of the Commission’s work in the first half of 2010. On completion of the pay comparison survey (the Survey) by our Consultant (Hay Group Limited), we held engagement sessions with the Staff Sides of the four Central Consultative Councils¹ and the four service-wide staff unions² in January 2010 to exchange views on the principles and considerations for the application of Survey results. We also met key external stakeholders, including the Employers’ Federation of Hong Kong (EFHK), the Hong Kong Institute of Human Resource Management (HKIHRM) and the Hong Kong People Management Association (HKPMA). The Commission is grateful to all parties concerned for the useful exchanges of views at these engagement sessions.

Principles and Considerations for Application

2.3 The 2009 SSS was the first time the Commission undertook an SSS since the establishment of the *Improved Civil Service Pay Adjustment Mechanism*³. In view of the regularity of conducting SSSs, the Commission considered it necessary to formulate principles and considerations underlying its recommendations, which would provide guidance for future SSSs for consistency and sustainability. These principles and considerations are –

¹ The four Central Consultative Councils are the Senior Civil Service Council, the Model Scale 1 Staff Consultative Council, the Police Force Council and the Disciplined Services Consultative Council.

² The four service-wide staff unions include the Government Employees Association, the Hong Kong Civil Servants General Union, the Hong Kong Federation of Civil Service Unions and the Government Disciplined Services General Union.

³ Under the *Improved Civil Service Pay Adjustment Mechanism* approved by the Chief Executive-in-Council in May 2007, the three-yearly SSS complements the six-yearly Pay Level Survey and the annual Pay Trend Survey to maintain broad comparability between civil service pay and private sector pay.

- (a) ***“Broad comparability” with the private sector*** – this should be an important factor in applying the Survey results. Given the fact that an SSS is conducted every three years and the unpredictability of the changes in market entry pay, we should take a broader view and aim to maintain “broad comparability” with the private sector from a longer-term perspective;
- (b) ***Nature of SSS*** – the SSS is designed to complement the six-yearly Pay Level Survey and the annual Pay Trend Survey in maintaining the “broad comparability” of the civil service pay with private sector pay. Its scope is limited to basic ranks. Frequent adjustments to starting salaries to maintain strict comparability at the expense of inevitable disruption to existing arrangements, including internal relativities, may not be conducive to the stability of the civil service. Given the nature of SSS, flexibility should be adopted in applying the Survey results. The principle of “broad comparability” should be viewed from a longer-term perspective;
- (c) ***Attractiveness and stability of civil service pay*** – it is important to maintain civil service starting pay at a sufficient level to attract, retain and motivate staff of a suitable calibre. As civil service pay is far more structured than that of the private sector, with limited room to offer increase in pay for the sake of staff retention, it is important to ensure the attractiveness of civil service starting salaries to attract and retain talent in an increasingly competitive manpower market. Measures which would affect significantly the stability of civil service pay should be avoided. Volatility in the starting salaries is not conducive to the stability of the civil service. In addition, given the frequency of SSS, frequent changes to starting salaries might lead to unnecessary administrative costs for effecting the changes, which, in turn, might cause confusion to people aspiring to join the civil service, thereby affecting the recruitment process;
- (d) ***Inherent differences between the civil service and private sector*** – for instance, the private sector pay is exposed to

direct market forces and hence subject to more frequent adjustments. The private sector also has a more flexible organisation structure, which can expand when the economy is buoyant, and contract during economic downturns. In contrast, there is more uniformity and stability in the civil service, given the need to achieve continuity in the provision of public services. Moreover, the civil service stresses stability, and the majority of the staff recruited aim to pursue a life-long career in the civil service. Due regard must be paid to these inherent differences between the civil service and the private sector in considering the application of the findings;

- (e) ***Inherent discrepancies in statistical surveys*** – like other similar surveys, there are inevitably statistical discrepancies in the Survey caused by various elements of chance, including the selection of companies, the depth and breadth of the pay data provided by the participating companies, the staff profile and business performance of the participating companies, etc. All these might lead to different levels of statistical error. Instead of direct and mechanical application of the Survey findings, there should be room for considering some degree of flexibility. Apart from the quantitative results in the Survey, we should also look into the uniqueness and various qualitative factors in applying the Survey results; and
- (f) ***Wider community interest*** – Government is the largest employer in Hong Kong. The setting of civil service pay, including its starting salaries, will have a far-reaching impact on different sectors. Hence, it is important to take account of wider community interests, and give due regard to the social and economic landscape in formulating our recommendations on the application of the Survey findings.

2.4 Having regard to the above principles and considerations, the Commission adopted a ***holistic approach*** in considering the application of the Survey results for the 2009 SSS. We also recommended that this approach should be adopted in future SSSs, regardless of whether the Survey results indicate an increase or reduction in the starting pay in the private sector.

Recommendations

2.5 The Commission submitted its Report No. 46 on the 2009 SSS to the Chief Executive on 9 March 2010. The Report is accessible at the Joint Secretariat's website at <http://www.jsscs.gov.hk/reports/en/46/46.pdf>. In summary, the Commission had, after taking into account all relevant factors, made the following recommendations in respect of the 12 Qualification Groups (QGs) (**Appendix C**) –

- (a) **QG 2 Group I, QG 3 Group II, QGs 5, 6, 7 and 8** – as the benchmarks of these QGs showed only minimal differences from the market pay indicators, we recommended no change to the benchmarks of these QGs;
- (b) **QG 1** – in view of the relatively small difference between the market pay indicator and the benchmark of QG 1 (only \$507 or –5.6%, representing one pay point), and taking into account all relevant factors, including the nature of the entry-level jobs in QG 1 (mostly junior frontline positions in the forefront of service delivery to the public or providing fundamental internal support), we recommended that the benchmark for QG 1 should remain unchanged;
- (c) **QG 10** – as in the case of QG 1, the difference between the market pay indicator and the benchmark of QG 10 was relatively small (only \$573 or –6.4%, representing three pay points). The entry ranks in QG 10 were mainly junior ranks providing operational support for non-administrative services. Considering that the starting salary of the lowest paid in the civil service should not be governed solely by market forces, and looking at the matter sympathetically, we recommended that no change be made to the benchmark for QG 10;
- (d) **QG 9** – as the market pay indicator was significantly below the benchmark of QG 9 (\$3,376 or –15.4%, representing three pay points), it called for appropriate action be taken to adjust the benchmark. The entry ranks in QG 9 generally provided internal support, and performed administrative and managerial functions. With the rising expectations of the community in the past decade, it was not an overstatement to say that the Degree Grades were among the grades which had encountered

most challenges. Meanwhile, there had been an increasing supply of degree holders, which to a certain extent, had resulted in the drop in the market pay for degree holders. While noting the changes in wages in the labour market, we should give due recognition to the importance of degree education in the social and economic landscape, and err on the prudent side in recommending any change to the benchmark of QG 9, instead of directly applying the Survey results. Accordingly, we recommended a moderated reduction of two pay points in respect of the benchmark for QG 9;

- (e) ***QG 2 Group II, QG 3 Group I and QG 4*** – as these QGs had insufficient market data for comparison, we recommended that their benchmarks should be determined by their established internal relativities with that of QG 2 Group I, QG 3 Group II and QG 3 Group I respectively, i.e. remain unchanged;
- (f) ***QG 11*** – in line with the established relativities, we recommended that the starting salaries for the basic ranks in the Graduate Grades in QG 11 should be determined by internal relativity with QG 9, i.e. lowered by two pay points, and the starting salaries for the basic ranks in the Non-graduate Grades should be determined by internal relativity with QG 3 Group I, i.e. remain unchanged; and
- (g) ***QG 12*** – there was no benchmark pay for the basic ranks in QG 12, which were usually those which required the appointees to have special aptitude, skills or experience more than academic attainment, or those which could not be fitted suitably into any of the other QGs. In line with past practice, we recommended that the starting salaries for the relevant basic ranks should be set by reference to (i) established relativities with relevant grades in other QGs; and (ii) where such relativities were not readily identifiable, the relevant educational attainment for the grades.

2.6 We recommended that the starting salaries for individual basic ranks should be set based on the established job factors, and the maximum pay points should not be affected. We also recommended that existing staff should not be affected.

2.7 Upon publication of our Report on 9 March 2010, we issued a press release and conducted a briefing to the media to facilitate understanding of the recommendations in the Report. We also met with representatives from the EFHK, HKIHRM and HKPMA shortly thereafter to exchange views on the Survey results and the Commission's considerations and recommendations. We are pleased to note that our recommendations has generally been well-received by the community.

Implementation

2.8 In May 2010, the Chief Executive-in-Council accepted the Commission's recommendations on how the findings of the 2009 SSS should be applied to the civilian grades. The proposal was approved by the Finance Committee of the Legislative Council on 2 July 2010. As a result, the starting salaries for 36 basic ranks in the degree-qualification civilian grades were adjusted downward by two pay points, while the starting salaries for other basic ranks in the civilian grades remained unchanged. The new starting salaries were applied to new recruits appointed on or after 1 October 2010.

Future SSSs

2.9 We are pleased to note that the Administration has accepted our recommendation that a holistic approach covering the principles and considerations as outlined in paragraph 2.3 above should be adopted in applying the Survey findings, and this approach should be adopted as the guidelines for future SSSs for consistency and sustainability.

Chapter 3

Informal Meetings with Civil Service Staff Bodies and Other Activities

Liaison with the Major Civil Service Staff Bodies

Background

3.1 Since 1992, we have held regular informal meetings with the Staff Sides of the Senior Civil Service Council (SCSC) and the Model Scale 1 Staff Consultative Council (MOD 1 Council), the two Central Consultative Councils of the Government in respect of the civilian grades. The Staff Side of the SCSC is made up of the Association of Expatriate Civil Servants of Hong Kong, the Hong Kong Chinese Civil Servants' Association and the Hong Kong Senior Government Officers Association. In order to canvass a wider spectrum of views, the Commission decided in 1996 to meet also three major confederation-type unions not represented on the SCSC, viz. the Government Employees Association, the Hong Kong Civil Servants General Union, and the Hong Kong Federation of Civil Service Unions. These meetings have proven to be very useful in keeping the Commission apprised of issues of topical concern to civil servants.

Major development of matters discussed at previous meetings

3.2 As part of our follow-up actions after the last round of informal meetings, the Commission requested the Administration to advise on the actions taken in improving the provision of medical and dental benefits to civil service eligible persons (CSEPs). We noted that the Administration had taken a series of improvement measures and allocated additional resources to improve the medical and dental benefits for CSEPs, and would continue to work closely with the relevant parties to make further improvements.

3.3 The Commission also noted that, having conveyed to the Administration the Staff Sides' views on the new terms of appointment (i.e. three-year probationary terms followed by three-year agreement terms) in previous rounds of informal meetings, the Administration introduced modification to the entry system (i.e. removal of the three-year agreement

period from the original six-year period prior to the offer of permanent terms) with effect from 1 July 2010.

The 2010 round of informal meetings

3.4 For the 2010 round of informal meetings with the civil service staff bodies, we met with the SCSC, the MOD 1 Council and the three service-wide staff bodies respectively at three separate meetings in December 2010.

3.5 At the meetings, we thanked the staff bodies for their valuable input for the successful completion of the 2009 Starting Salaries Survey. While recognising that the Administration had endeavoured to improve medical and dental benefits to CSEPs in the past years, the staff representatives put forward ideas on how the existing level of service would be further improved. We also exchanged views with the staff bodies on other civil service issues, including, conditioned hours of work, recruitment of MOD 1 staff, manpower issues, and other issues related to staff retention and succession in the civil service.

3.6 We found the exchange of views with the staff bodies very useful. Their views will be conveyed to the Administration for consideration and follow-up as appropriate.

Liaison with External Stakeholders

3.7 In the course of the year, the Commission and the Joint Secretariat maintained close contact with major interested private sector organisations to keep track of developments in the private sector and exchange views on civil service pay, conditions of service and pay trend surveys.

Chapter 4

Pay Trend Survey System

4.1 The Pay Trend Survey (PTS) system aims to ascertain the year-on-year average movements in private sector pay. In accordance with the recommendations of a Committee of Inquiry in 1988, the Administration deducts the value of civil service increments at their payroll cost in the relevant year (expressed as a percentage of the total payroll cost for each salary band) from the gross pay trend indicators (PTIs) to produce the net PTIs. Having regard to the net PTIs derived from the PTSs and other pertinent considerations, namely, the state of the economy of Hong Kong, the Government's fiscal position, changes in the cost of living, pay claims of the Staff Sides and civil service morale, the Chief Executive-in-Council decides on the specific rates of adjustment for civil service pay.

Pay Trend Survey Committee

4.2 The Pay Trend Survey Committee (PTSC) is an independent committee established by the Administration on the Standing Commission's advice in 1983. Its Chairman and Alternate Chairman are nominated from Members of the Commission. Ms Virginia Choi and Mr Barry Cheung, GBS, JP, have been the Chairman and the Alternate Chairman of the PTSC respectively since January 2008. The PTSC also comprises representatives of the Standing Committee on Disciplined Services Salaries and Conditions of Service, the Administration and the Staff Sides. Its composition is at **Appendix D**.

4.3 The main function of the PTSC is to commission the annual PTS, analyse the results of the survey, ensure that the agreed criteria for the interpretation of the data collected have been properly applied and agree on its results. The PTSC is the only and final authority for the conduct of the PTS. Once the findings of a PTS have been agreed, neither the PTSC nor the Commission is involved in any way in subsequent discussions between the Administration and the Staff Sides on any pay adjustment based on the survey results. The PTSC held seven meetings in 2010.

4.4 In tendering advice to the Administration on the methodology for the PTS, the Standing Commission will, as prescribed by its terms of reference, have regard to the recommendations of the PTSC.

Pay Survey and Research Unit

4.5 The fieldwork of the PTS is conducted by the Pay Survey and Research Unit (PSRU), which is an independent unit under the Joint Secretariat. The PSRU collects information from companies/organisations in the survey field as approved by the PTSC on changes in basic salaries and additional payments relating to cost of living, general prosperity and company performance, general changes in market rates, inscale increments and merit during the survey period. These data are analysed to produce gross PTIs for three different salary bands. The findings are then presented to the PTSC for validation and agreement.

The Improved Methodology of the Pay Trend Survey

4.6 Starting from 2007, the PTS has adopted an improved methodology as approved by the Chief Executive-in-Council in March 2007. Under the improved methodology, the survey field is broadened to cover larger companies (with 100 or more employees) and smaller companies (with 50 to 99 employees) in order to enhance the representativeness and credibility of the PTS. To complement the broadening of survey field, the data consolidation method is modified to ensure that the data from smaller companies with 50 to 99 employees are suitably represented.

4.7 Since the 2008 PTS, a technical refinement in data collection has been adopted to facilitate future assessment on the feasibility of aligning the methodologies for the Pay Level Survey (PLS) and the PTS. Under the arrangement, five salary bands as adapted from the PLS are used for data collection, while maintaining the existing three-band system for data consolidation and calculation of PTIs.

The 2010 Pay Trend Survey

4.8 The 2010 PTS, commissioned by the PTSC in January 2010, was conducted between January and May 2010. It followed the improved PTS methodology with the technical refinement in data collection.

4.9 A total of 106 companies, comprising 81 larger companies (76%) and 25 smaller companies (24%), participated in the 2010 PTS. The PSRU collected information on pay adjustments in these 106 companies (comprising 179 967 employees) over the 12-month period from 2 April 2009 to 1 April 2010 and analysed the data in accordance with the improved methodology. The survey findings were released on 20 May 2010 and considered by the PTSC on 27 May 2010. A summary of the results of the survey is at **Appendix E**.

4.10 With the approval of the Chief Executive-in-Council in June 2010 and the funding support of the Finance Committee of the Legislative Council in July 2010, the 2010-11 civil service pay adjustment took retrospective effect from 1 April 2010. The approved salary increases were 1.60% for the civil servants in the upper salary band and 0.56% for those in the middle/lower salary bands. The revised pay scales relevant to the Commission's purview are shown at **Appendix F**.

4.11 The Commission is pleased to note that, with the adoption of the series of improved operational measures in the 2010 PTS, including the reporting of changes in the survey field, and more timely provision of information to facilitate PTSC Members' consideration of the PTS results, the 2010 PTS was completed smoothly.

Review of Survey Methodology

4.12 It has been an established practice for the PTSC, as assisted by the PSRU, to conduct a review of the PTS methodology and submit its recommendations to the Standing Commission before the conduct of the next PTS. This year, the PTSC, amongst others, conducted in-depth examination on the treatment of long-term incentive awards (LTIs) (such as shares and share options) and adjustments attributed to internal relativities (IR)/external relativities (ER) in the PTS. The PTSC completed the review and submitted its recommendations to the Commission in October 2010. A summary of the PTSC's key recommendations is at **Appendix G**.

4.13 On the two specific issues covered by the review this year, i.e. LTIs and IR/ER, the Commission noted that the PTSC had made reference to, among others, the professional and market practice in dealing with these matters in pay related surveys as summarised in paragraphs 4.14 to 4.17 below.

Long-term Incentive Awards

4.14 Under the existing methodology, it has been the long-established practice to exclude LTIs, such as shares and share options, from the calculation of PTIs. The Commission noted that, in 2010, the PTSC invited companies to provide information on whether they had changed additional payments to financial products which were saleable or exchangeable, e.g. shares, warrants and share options. The intention was to keep track of such change for reference.

4.15 In reviewing the treatment of LTIs in the PTS, the PTSC had taken into account, among others, the market practice in granting LTIs, the professional practice in conducting pay trend surveys and the technical infeasibility to evaluate LTIs accurately and objectively. Taking into account these factors, the PTSC recommended that the status quo should be maintained, i.e. LTIs should continue to be excluded from the PTI calculation. Operationally, the PTSC would continue to collect information on LTIs in lieu of additional payments for reference.

Internal Relativities / External Relativities

4.16 The exclusion of IR/ER adjustments from the PTI calculation in the existing PTS methodology is in line with the Commission's advice in its Report No. 7 published in 1982. In that Report, the Commission stated that IR/ER adjustments could be taken as private sector equivalents of changes to individual grade pay scales resulting from the Commission's recommendations. They were similar to changes to pay scales following Grade Structure Reviews on specific grades. Conceptually, IR/ER should not be included in the PTS which measured the year-on-year changes on general pay movements.

4.17 The Commission noted that, in reviewing how to deal with IR/ER in the PTS, the PTSC had taken into account the established practice, the prevailing market practice in granting IR/ER adjustments, and the professional practice in conducting pay trend surveys, and agreed that the

status quo should be maintained, i.e. IR/ER should continue to be excluded from the PTI calculation. Meanwhile, the PTSC would adopt operational measures to clarify the nature of “IR/ER adjustments” as distinct from “general changes in market rates” to minimise the possibility of misclassification by companies.

Conclusion

4.18 Overall speaking, the PTSC continued to be generally satisfied with the existing methodology, and recommended that the same methodology be used in the 2011 PTS.

The Commission’s Views on the Review of PTS Methodology

4.19 The Commission considered the PTSC’s recommendations at its meeting in November 2010. In considering the recommendations, we took into account, among others, the civil service pay policy, the improved civil service pay adjustment mechanism, the prevailing market/professional practice and the Commission’s previous deliberations. Specifically, we considered that, under the improved civil service pay adjustment mechanism, the PLS was the foundation to determine broad comparability of civil service pay with the private sector, whilst the PTS served to ensure that civil service pay adjustment was kept broadly comparable to general pay movements in the private sector in the interim years between PLSs. We had to be careful not to over-extend the scope of the PTS in our overall pay adjustment mechanism, or over-complicate the data to be collected through the PTS.

4.20 Taking into account all relevant factors, the Commission supported the PTSC’s recommendation that the 2010 PTS methodology should continue to be adopted for the 2011 PTS. We considered that continuity and consistency were crucial to preserving the credibility of the PTS. We also supported the PTSC’s continued efforts to keep under review the various aspects of the methodology. A copy of our letter dated 18 November 2010 tendering advice to the Administration on the review of the PTS methodology is at **Appendix H**. In its reply to the Commission, the Administration agreed to our recommendation of keeping the PTS methodology unchanged since continuity and consistency of methodology were crucial to preserving the credibility of the PTS.

Chapter 5

Future Programme of Work

5.1 In view of the implementation of the “334” new academic structure for secondary and tertiary education, and the introduction of the Hong Kong Diploma of Secondary Education Examination (HKDSE) in 2012 to replace the Hong Kong Certificate of Education Examination (HKCEE) and the Hong Kong Advanced Level Examination (HKALE), the Civil Service Bureau has been working closely with relevant parties including the Education Bureau, the Hong Kong Examinations and Assessment Authority, and the Hong Kong Council for Accreditation of Academic and Vocational Qualifications on the proposed comparability of the results of the HKDSE with those of the HKCEE and HKALE for civil service appointments. In the light of the latest progress, the Administration plans to seek the Commission’s advice on its comparability proposals in the first quarter of 2011.

5.2 We shall continue to carry out our responsibilities under the Commission’s terms of reference and tender advice on any proposals from the Administration for changes to the pay and conditions of service for individual grades or for the civil service as a whole. We shall also keep the methodology of the pay trend survey under review to ensure that the data collected are as credible as possible.

5.3 As in the past, we shall maintain our contact with the major civil service staff bodies and interested private sector organisations to ensure that we keep abreast of developments relating to the discharge of our duties and responsibilities.

**Standing Commission on Civil Service
Salaries and Conditions of Service**

Terms of Reference

I. To advise and make recommendations to the Chief Executive in respect of the non-directorate civil service, other than judicial officers and disciplined services staff, on :

- (a) the principles and practices governing grade, rank and salary structure;
- (b) the salary and structure of individual grades;
- (c) whether overall reviews of pay scales (as opposed to reviews of the salary of individual grades) should continue to be based on surveys of pay trends in the private sector conducted by the Pay Survey and Research Unit, or whether some other mechanisms should be substituted;
- (d) the methodology for surveys of pay trends in the private sector conducted by the Pay Survey and Research Unit, subject to advice under I(c) and having regard to the advice of the Pay Trend Survey Committee;
- (e) matters relating to those benefits, other than salary, which the Commission advises as being relevant to the determination of the civil service remuneration package, including the introduction of new benefits or proposed changes to existing benefits;
- (f) suitable procedures and machinery to enable staff associations and staff to discuss with management their views on matters within the terms of reference of the Commission;
- (g) the circumstances in which it would be appropriate for the Commission itself to consider any issue, and how staff associations and management might present their views to the Commission in such circumstances; and
- (h) such matters as the Chief Executive may refer to the Commission.

II. The Commission shall keep the matters within its terms of reference under continuing review, and recommend to the Chief Executive any necessary changes.

III. The Commission shall give due weight to any wider community interest, including financial and economic considerations, which in its view are relevant.

IV. The Commission shall give due weight to the need for good staff relations within the Civil Service, and in tendering its advice shall be free to make any recommendations which would contribute to this end.

V. In considering its recommendations and advice, the Commission shall not prejudice the 1968 Agreement between the Government of the Hong Kong Special Administrative Region and the Main Staff Associations (1998 Adapted Version).

VI. The staff associations making up the Staff Side of the Senior Civil Service Council and the Model Scale 1 Staff Consultative Council may jointly or individually refer matters relating to civil service salaries or conditions of service to the Commission.

VII. The heads of departments may refer matters relating to the structure, salaries or conditions of service of individual grades to the Commission.

VIII. The Commission shall not consider cases of individual officers.

IX. The Commission may wish to consider in the light of experience whether changes in its composition or role are desirable.

X. In carrying out its terms of reference, the Commission should ensure that adequate opportunities are provided for staff associations and management to express their views. The Commission may also receive views from other bodies which in its view have a direct interest.

Membership of the Commission in 2010

Chairman

Mr Nicky Lo Kar-chun, SBS, JP

Members

Mr Owen Chan Shui-shing

Miss Elaine Chan Wing-yi (since 1 August 2010)

Mr Barry Cheung Chun-yuen, GBS, JP

Ms Virginia Choi Wai-kam

Dr Miranda Chung Chan Lai-foon

Professor Ho Lok-sang

The Honourable Jeffrey Lam, SBS, JP

Mr Andy Lo Kwong-shing

Mr Pang Yiu-kai, SBS, JP

Civil Service Qualification Groups (QGs)

| QG | Grades and Qualification Requirements |
|----|--|
| 1 | Grades not requiring five passes in Hong Kong Certificate of Education Examination (HKCEE) |
| 2 | School Certificate Grades Group I: Grades requiring five passes in HKCEE Group II: Grades requiring five passes in HKCEE plus considerable experience |
| 3 | Higher Diploma and Diploma Grades Group I: Higher Diploma Grades Group II: Diploma Grades |
| 4 | Technical Inspectorate and Related Grades: Higher Certificate plus experience |
| 5 | Technician, Supervisory and Related Grades Group I: Certificate or apprenticeship plus experience |
| 6 | Technician, Supervisory and Related Grades Group II: Craft and skill plus experience, or apprenticeship plus experience |
| 7 | Grades requiring two passes at Advanced Level in Hong Kong Advanced Level Examination plus three credits in HKCEE |
| 8 | Professional and Related Grades Group I: Membership of a professional institution or equivalent Group II: Grades with pay structure related to grades in Group I |
| 9 | Degree and Related Grades |
| 10 | Model Scale 1 Grades |
| 11 | Education Grades |
| 12 | Other Grades |

Composition of the Pay Trend Survey Committee

Members

Two Members of the Standing Commission on Civil Service Salaries and Conditions of Service, one as Chairman and the other as Alternate Chairman

Up to two Representatives of the Standing Committee on Disciplined Services Salaries and Conditions of Service

Secretary General of the Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service

Two Representatives of the Administration

Three Staff Side Representatives of the Senior Civil Service Council

Three Staff Side Representatives of the Model Scale 1 Staff Consultative Council

Two Staff Side Representatives of the Police Force Council

Two Staff Side Representatives of the Disciplined Services Consultative Council

Observers

Three Staff Side Representatives of the Senior Civil Service Council

Three Staff Side Representatives of the Model Scale 1 Staff Consultative Council

A Management Side and two Staff Side Representatives of the Police Force Council

Three Staff Side Representatives of the Disciplined Services Consultative Council

Summary of the 2010 Pay Trend Survey

Introduction

Pay Trend Surveys (PTSs) yield information on the general movements of pay in the private sector over a given period. They are not concerned with the comparison of pay levels for specific occupational groups. Prior to 1983, PTSs were undertaken by the then Pay Investigation Unit, under the auspices of a Steering Committee of the Senior Civil Service Council. The Pay Survey and Research Unit (PSRU) was established in December 1982 and the Pay Trend Survey Committee (PTSC) shortly after. The 2010 PTS was the 33rd of its kind.

Survey Period

2. The survey covered a 12-month period from 2 April 2009 to 1 April 2010.

Participating Companies

3. A total of 106 companies took part in the survey including 81 larger companies (with 100 or more employees) and 25 smaller companies (with 50 to 99 employees) in the ratio of 76 : 24. The pay data of their 179 967 employees were used in the calculation of the 2010 gross pay trend indicators (PTIs).

Data Collection

4. Following the adoption of a technical refinement to the improved methodology for the PTSs (the methodology was endorsed by the Chief Executive-in-Council in March 2007), data collection in the 2010 PTS was based on five salary bands by subdividing the middle and upper salary bands into two bands while keeping the lower salary band intact. The classification was as follows –

- | | | |
|-----|--|-------------------------------|
| (a) | <u>Lower Salary Band</u> (below MPS ¹ Point 10) | below \$15,785 per month |
| (b) | <u>Middle Salary Band (I)</u> (MPS Points 10 to 23) | \$15,785 – \$30,615 per month |
| (c) | <u>Middle Salary Band (II)</u> (Above MPS Point 23 to 33) | \$30,616 – \$48,400 per month |
| (d) | <u>Upper Salary Band (I)</u> (Above MPS Point 33 to 44) | \$48,401 – \$73,500 per month |
| (e) | <u>Upper Salary Band (II)</u> (Above MPS Point 44 to GDS(O) ¹ Point 39) | \$73,501 – \$95,360 per month |

5. Data collection commenced in February 2010 and ended in May 2010. Questionnaires with guidance notes were sent to participating companies for completion. The staff of the PSRU followed up by field visits or telephone discussions. The companies were asked to provide data on changes in basic salaries and additional payments other than those relating to fringe benefits.

6. Information collected for the survey was recorded in individual company statements, after their accuracy had been confirmed by the company concerned. Strict confidentiality was observed in the handling of company data which were made non-attributable in survey reports, so as to preserve the anonymity of the participating companies.

Survey Findings

7. The PSRU analysed the company data in accordance with the approved methodology and presented its findings to the PTSC on 20 May 2010.

8. The PTSC validated the survey findings on 27 May 2010. Taking into account only those adjustments which related to the cost of living,

¹ MPS denotes Master Pay Scale; GDS(O) denotes General Disciplined Services (Officer) Pay Scale.

general prosperity and company performance, general changes in market rates, inscale increment and merit, the following pay adjustments had been made in the surveyed companies during the period from 2 April 2009 to 1 April 2010 –

| | | |
|-----|--|---------|
| (a) | Lower Salary Band (below \$15,785 per month) | + 0.90% |
| (b) | Middle Salary Band (\$15,785 to \$48,400 per month) | + 1.29% |
| (c) | Upper Salary Band (\$48,401 to \$95,360 per month) | + 2.20% |

Pay Trend Indicators

9. The findings of the PTSs were known as the gross PTIs. In accordance with the recommendations of a Committee of Inquiry in 1988, the Administration, after deducting the value of civil service increments at their payroll cost, which were 0.74%, 0.73% and 0.60% respectively for the lower, middle and upper salary bands in 2010, arrived at the net PTIs as follows –

| | | |
|-----|--------------------|---------|
| (a) | Lower Salary Band | + 0.16% |
| (b) | Middle Salary Band | + 0.56% |
| (c) | Upper Salary Band | + 1.60% |

Civil Service Pay Scales Relevant to the Commission's Purview
(with effect from 1 April 2010)

| <u>Master Pay Scale</u> | | <u>Model Scale 1 Pay Scale</u> | | <u>Craft Apprentice Pay Scale</u> | |
|-------------------------|-----------|--------------------------------|-----------|-----------------------------------|-----------|
| <u>Point</u> | <u>\$</u> | <u>Point</u> | <u>\$</u> | <u>Point</u> | <u>\$</u> |
| 49 | 89,140 | 13 | 11,770 | 4 | 8,015 |
| 48 | 86,045 | 12 | 11,535 | 3 | 7,345 |
| 47 | 83,060 | 11 | 11,295 | 2 | 6,640 |
| 46 (44B) | 80,145 | 10 | 11,080 | 1 | 5,970 |
| 45 (44A) | 77,375 | 9 | 10,865 | 0 | 5,630 |
| 44 | 74,675 | 8 | 10,655 | | |
| 43 | 72,075 | 7 | 10,455 | | |
| 42 | 69,105 | 6 | 10,250 | | |
| 41 | 66,255 | 5 | 10,045 | | |
| 40 | 63,510 | 4 | 9,840 | | |
| 39 | 60,890 | 3 | 9,635 | | |
| 38 | 58,195 | 2 | 9,430 | | |
| 37 | 55,640 | 1 | 9,230 | | |
| 36 (33C) | 53,130 | 0 | 9,035 | | |
| 35 (33B) | 50,775 | | | | |
| 34 (33A) | 49,480 | | | | |
| 33 | 48,670 | | | | |
| 32 | 46,490 | | | | |
| 31 | 44,400 | | | | |
| 30 | 42,410 | | | | |
| 29 | 40,515 | | | | |
| 28 | 38,685 | | | | |
| 27 | 36,945 | | | | |
| 26 | 35,290 | | | | |
| 25 | 33,710 | | | | |
| 24 | 32,235 | | | | |
| 23 | 30,785 | | | | |
| 22 | 29,400 | | | | |
| 21 | 28,065 | | | | |
| 20 | 26,735 | | | | |
| 19 | 25,460 | | | | |
| 18 | 24,255 | | | | |
| 17 | 23,115 | | | | |
| 16 | 22,005 | | | | |
| 15 | 20,950 | | | | |
| 14 | 19,945 | | | | |
| 13 | 18,990 | | | | |
| 12 | 17,905 | | | | |
| 11 | 16,855 | | | | |
| 10 | 15,875 | | | | |
| 9 | 14,975 | | | | |
| 8 | 14,065 | | | | |
| 7 | 13,195 | | | | |
| 6 | 12,380 | | | | |
| 5 | 11,645 | | | | |
| 4 | 10,910 | | | | |
| 3 | 10,250 | | | | |
| 2 | 9,620 | | | | |
| 1 | 9,040 | | | | |
| 0 | 8,505 | | | | |

| <u>Training Pay Scale</u> | | <u>Technician Apprentice Pay Scale</u> | |
|---------------------------|-----------|--|-----------|
| <u>Point</u> | <u>\$</u> | <u>Point</u> | <u>\$</u> |
| 16 | 20,900 | 4 | 10,140 |
| 15 | 19,900 | 3 | 9,245 |
| 14 | 18,945 | 2 | 8,355 |
| 13 | 18,115 | 1 | 7,685 |
| 12 | 17,005 | 0 | 7,210 |
| 11 | 15,595 | | |
| 10 | 14,320 | | |
| 9 | 13,485 | | |
| 8 | 12,660 | | |
| 7 | 11,885 | | |
| 6 | 11,165 | | |
| 5 | 10,470 | | |
| 4 | 9,830 | | |
| 3 | 9,245 | | |
| 2 | 8,660 | | |
| 1 | 8,140 | | |

Summary of the Pay Trend Survey Committee's Recommendations on the Review of the Methodology of the Pay Trend Survey

A. Methodology

Overall Recommendation

- (a) The 2010 Pay Trend Survey (PTS) methodology should continue to be adopted for the 2011 PTS.

Survey Field

- (b) The status quo should be maintained, i.e. the inclusion of smaller companies (with 50 to 99 employees) alongside with larger companies (with 100 or more employees), in the ratio of 25 : 75, with the flexibility of a deviation of around plus/minus 5 percentage points. The 2010 PTS was the fourth year that smaller companies were included in the survey field. The intention of including smaller companies was to better reflect the employment profiles in Hong Kong and to improve the credibility and representativeness of the PTS.

Salary Bands

- (c) The technical arrangement to collect data based on five salary bands, while consolidating data and calculating the pay trend indicators (PTIs) based on three salary bands was adopted since the 2008 PTS to explore the feasibility of aligning the salary band demarcation of the PTS and the Pay Level Survey (PLS). Experience in the past three PTSs shows that it is technically feasible to collect data by five salary bands. This arrangement should continue to collect more yearly figures for further examination of the feasibility of aligning the methodologies of the PTS and the PLS.

Employees Covered

- (d) The status quo should be maintained, i.e. employees whose basic salaries are beyond the highest pay point for the non-directorate civil servants are not covered in the PTS.

Components of Pay Adjustment

- (e) It has been the long-established practice to exclude long-term incentive awards (LTIs), such as shares and share options, from the calculation of PTIs. In view of the market practice in granting LTIs, the professional practice in conducting pay trend surveys, and the technical issues relating to the evaluation of LTIs, LTIs should continue to be excluded from the calculation of PTIs.

Calculation Criteria

- (f) Taking into account the established practice since 1982, the trend of internal relativities (IR)/external relativities (ER) in previous PTSs, the general practice in pay adjustments in the private sector, and the general practice in conducting pay trend surveys, IR/ER adjustments should continue to be excluded from the calculation of PTIs.

B. Operational Measures

- (a) LTIs – Information on LTIs in lieu of additional payments in the annual PTS would continue to be collected for reference.
- (b) IR/ER – Measures would be adopted to clarify the nature of “IR/ER adjustments” as distinct from “general changes in market rates”.

公務員薪俸及服務條件常務委員會
Standing Commission on Civil Service Salaries and Conditions of Service

本會檔號 Our Ref.: JS/SC6/PIU/10 Pt.15

尊函檔號 Your Ref.: CSBCR/PG/4-085-001/67

電話 Tel.: 2912 8518

18 November 2010

Miss Denise Yue, GBS, JP
Secretary for the Civil Service
10th Floor, West Wing
Central Government Offices
11 Ice House Street
Hong Kong

Dear Denise,

Review of the Methodology of the Pay Trend Survey

I am writing on behalf of the Standing Commission (SC) to offer our advice, under Clause I(d) of our terms of reference, on the methodology of the Pay Trend Survey (PTS).

Background

Since 2007, the conduct of the PTS has been based on the improved methodology as approved by the Chief Executive-in-Council in March 2007. A technical refinement was introduced in the 2008 PTS to facilitate assessment on the feasibility of aligning the methodologies of the PTS and the Pay Level Survey (PLS). Under the arrangement, five salary bands as adapted from the PLS are used for data collection while maintaining three salary bands for data consolidation and calculation of the Pay Trend Indicators (PTIs). The 2010 PTS was conducted in accordance with the methodology adopted for the 2009 PTS.

Current Review

In keeping with the established practice, the Pay Trend Survey Committee (PTSC) has conducted a review of the PTS methodology after the completion of the 2010 PTS and submitted a report to the SC. This year, in response to the comments of individual PTSC Members, in-depth examination was conducted on the treatment of long-term incentive awards (LTIs) (such as shares and share options) and adjustments to internal relativities (IR)/external relativities (ER) in the PTS.

Overall Comments

Overall speaking, the PTSC continues to be generally satisfied with the existing methodology, and has recommended the continued adoption of the 2010 PTS methodology for the 2011 PTS.

The SC considered the PTSC's recommendations at its meeting held on 2 November 2010. Taking into account, among others, the civil service pay policy, the improved civil service pay adjustment mechanism, the prevailing market/professional practice and SC's previous deliberations, the SC supported the PTSC's recommendation that the 2010 PTS methodology should continue to be adopted for the 2011 PTS. The PTSC's recommendations are summarised in the ensuing paragraphs.

Survey Field

The 2010 PTS was the fourth year that smaller companies (with 50 to 99 employees) were included in the survey field, alongside with those larger companies (with 100 or more employees), in the ratio of 25 : 75, with the flexibility of a deviation of around plus/minus 5 percentage points. The inclusion of smaller companies has enhanced the credibility and representativeness of the PTS. We support the PTSC's recommendation to maintain the status quo. We understand that the PTSC would continue to monitor the impact of the inclusion of smaller companies in the survey field.

Salary Bands

We support the PTSC's recommendation to continue with the current approach to collect data based on five salary bands while consolidating data and calculating the PTIs based on three salary bands. This will provide more yearly figures for further examination of the feasibility of aligning the methodologies of the PTS and the PLS.

Employees Covered

Under the existing methodology, the PTS does not cover employees whose basic salaries are beyond the highest pay point for the non-directorate civil servants. We support the PTSC's recommendation to maintain the status quo for the 2011 PTS.

Components of Pay Adjustment

It has been the long-established practice to exclude LTIs, such as shares and share options, from the calculation of PTIs. We note that in the 2010 PTS, the PTSC invited companies to provide information on whether they had changed additional payments to financial products which were saleable or exchangeable, e.g. shares, warrants and share options. The intention was to keep track of such change for reference.

We note that, in reviewing the treatment of LTIs in the PTS, the PTSC has taken into account the market practice in granting LTIs, the professional practice in conducting pay trend surveys, and the technical infeasibility to evaluate LTIs accurately and objectively. We support the PTSC's recommendation that the status quo should be maintained, i.e. LTIs should continue to be excluded from the PTI calculation, as it is professionally unsound and technically infeasible to include LTIs in the PTS.

Operationally, we understand that the PTSC will continue to collect information on LTIs in lieu of additional payments for reference.

Calculation Criteria

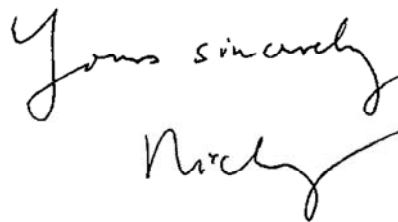
In accordance with the established methodology, adjustments attributable to IR/ER are excluded from the calculation of the PTIs. We note that, having regard to the established practice, the prevailing market practice in granting IR/ER adjustments, and the professional practice in conducting pay trend surveys, the PTSC agreed that the status quo should be maintained, i.e. IR/ER should continue to be excluded from the PTI calculation. We support the PTSC's recommendation.

We understand that the PTSC will adopt operational measures to clarify the nature of "IR/ER adjustments" as distinct from "general changes in market rates" to minimise the possibility of misclassification by companies.

Conclusion

We consider that, under the improved civil service pay adjustment mechanism, the PLS is the foundation to determine broad comparability of civil service pay with the private sector, whilst the PTS serves to ensure that civil service pay adjustment is kept broadly comparable to general pay movements in the private sector in the interim years between PLSs. We have to be careful not to over-extend the scope of the PTS in our overall pay adjustment mechanism, or over-complicate the data to be collected through the PTS.

In conclusion, we support the PTSC's recommendation that the 2010 PTS methodology should continue to be adopted for the 2011 PTS. We also support the PTSC's continued efforts to keep under review the various aspects of the methodology. We consider that continuity and consistency is crucial to preserving the credibility of the PTS.

A handwritten signature in black ink, appearing to read "Yours sincerely Nicky". The signature is written in a cursive, flowing style.

(Nicky Lo Kar-chun)
Chairman

