

20 December 1985

His Excellency Sir Edward Youde, GCMG, MBE
Governor of Hong Kong

Your Excellency,

Pay Adjustment for Non-Directorate Staff

In a letter dated 8 November 1985 the Secretary for the Civil Service drew our attention to claims from staff associations for an increase in pay of 6.4% back-dated to 1 August 1985 and asked us to advise whether, in general, non-directorate salaries have lagged behind those in the private sector.

2. In his letter the Secretary for the Civil Service suggested that there were two specific methods, and possibly others, which the Standing Commission might wish to use to check the claim by staff that civil service salaries have fallen behind those in the private sector. The two are :-

- (i) a survey of pay levels covering pay only; and
- (ii) a historical comparison of cumulative pay adjustments as against pay trend movements in the private sector during the same period.

We have considered these alternatives and our conclusions are set out in the following paragraphs.

A Survey of Pay Levels

3. In a letter to Your Excellency dated 27 November 1981, which is included in our 7th Report, we expressed the view that it is essential that future arrangements for determining the general levels of civil service pay should take into account the total package of pay and other benefits in both the civil service and the private sector. It is fundamental to the validity of a pay trend

survey system that in the civil service the basic levels of pay and benefits taken altogether are broadly comparable with those in the private sector; if this is not so, reliance on surveys of trends alone would not only perpetuate but could also exacerbate pay inequalities that may already exist. It will also be necessary to carry out surveys of the actual levels of pay and benefits of comparable jobs in the civil service and the private sector. We went on to say that the problems involved in devising new arrangements to meet these requirements would involve a considerable amount of work and very careful consideration.

4. In fact, although a great deal of work has been done, it will still be some time before we are in a position to carry out surveys of the level of pay and benefits, not least because consultation with staff associations will be required. We have, therefore, considered whether, as suggested by the Administration, we should carry out a survey of pay only. Our conclusion is that this would be wrong in principle. Moreover, even a survey of pay alone would need a valid methodology and an acceptable way of relating those grades actually surveyed to other grades in the civil service if it were to be a reliable basis for a general pay adjustment, and at present, no such methodology exists. We decided, therefore, that this option should not be pursued.

Cumulative Comparison of Pay Adjustments and Trends

5. The alternative, which is referred to in paragraph 2(ii) above, is a historical comparison of pay trend indicators and the pay adjustments awarded by the Government. In the Legislative Council on 13 November 1985, in reply to a question, the Chief Secretary said that each year's pay adjustment is treated as a separate self-contained exercise with neither pluses nor minuses carried over from a previous year. He also said, however, that this principle does not rule out an overall review of salaries over a period of time to see if they are still at a realistic level in comparison with the private sector. We agree that, as a general principle, there should be no carry-over of the results of the pay trend survey in one year to the next. Nevertheless, as an interim solution and since we do not believe that it is possible to carry out a valid pay level survey at the present time, we have concluded that the only way that we can advise whether non-directorate salaries in the civil service are at a realistic level compared to those in the private sector is to examine the extent to which pay adjustments in the civil service have cumulatively fallen behind the pay trend indicators for the same period. For this purpose we have examined the figures for 1979/80 and subsequent years and the results are shown in the table attached.

6. We have given some thought to the base year which should be used for the purpose of comparison. We believe that it is fair and appropriate to use 1979/80 as the base year since there was a major structural review of non-directorate pay scales in 1979 as a result of which there was a general adjustment of pay levels. The assumption must be, therefore, that, after this review, civil service pay was at an appropriate level relative to the private sector. A comparison of the successive pay trend indicators and pay adjustments from 1979/80 to 1984/85 inclusive as detailed in the attached table, indicates the following cumulative differences for the three pay bands :-

<u>Upper Band</u>	<u>Middle Band</u>	<u>Lower Band</u>
2.70%	0.36%	0.32%

There have been changes in the way in which the annual pay trend survey is conducted and, from a statistical angle, the calculation of the cumulative differences is not entirely valid. Nevertheless, we believe that for practical purposes they provide a reasonable indication that salaries in the civil service may have lagged behind those in the private sector at the non-directorate level.

Conclusion

7. We make no recommendation on the size of any pay adjustment which the Government should make and we assume that, as in the case of the pay adjustments which result from annual pay trend surveys, the Government will wish to take into account social, economic and budgetary factors as well as the morale of the civil service and the beneficial effect that the freeze on the creation of new posts has had on productivity. Finally, we recommend that any pay adjustment which the Government may decide to make should take effect from a current date and not from 1 August 1985 as proposed by staff associations. In our view, the date from which the adjustment of Directorate salaries took effect is not relevant because of the different circumstances in which that adjustment was made. The review carried out on behalf of the Standing Committee on Directorate Salaries and Conditions of Service was intended to be an overall review of salary levels in the Directorate as compared

with the private sector, whereas our present recommendations are based on the results of previous pay trend surveys and are intended only to be an interim measure in advance of the pay level surveys which will be carried out at a later date.

We have the honour to be,
Your Excellency's obedient servants,

(S.Y. Chung)
Chairman

A Comparison Between Cumulative Pay Awards And
Pay Trend Survey Indicators 1979/80 - 1984/85

(Base Year 1979/80 = 100)

Salary Band	Year	Surveyed Companies			Civil Service			Cumulative Difference (c)=(a)-(b)	Percentage of Cumulative Difference $\frac{(c)}{(b)} \times 100$
		Pay Trend Indicator	Salary Before Increase	Salary After Increase (a)	Adjustment Awarded	Salary Before Increase	Salary After Increase (b)		
Upper	1979/80	17.15%	100.00	117.15	17.14%	100.00	117.14	0.01	0.01%
	1980/81	18.10%	117.15	138.35	18.03%	117.14	138.26	0.09	0.07%
	1981/82	15.65%	138.35	160.00	14.96%	138.26	158.94	1.06	0.67%
	1982/83	7.24%	160.00	171.58	4.48%	158.94	166.06	5.52	3.32%
	1983/84	8.45%	171.58	186.08	9.12%	166.06	181.20	4.88	2.69%
1984/85	8.77%	186.08	202.40	8.76%	181.20	197.07	5.33	2.70%	
Middle	1979/80	14.13%	100.00	114.13	16.16%	100.00	116.16	-2.03	-1.75%
	1980/81	17.16%	114.13	133.71	17.38%	116.16	136.35	-2.64	-1.94%
	1981/82	15.57%	133.71	154.53	14.95%	136.35	156.73	-2.20	-1.40%
	1982/83	7.88%	154.53	166.71	4.74%	156.73	164.16	2.55	1.55%
	1983/84	8.64%	166.71	181.11	9.93%	164.16	180.46	0.65	0.36%
1984/85	9.12%	181.11	197.63	9.12%	180.46	196.92	0.71	0.36%	
Lower	1979/80	13.76%	100.00	113.76	16.55%	100.00	116.55	-2.79	-2.39%
	1980/81	18.30%	113.76	134.58	18.20%	116.55	137.76	-3.18	-2.31%
	1981/82	16.18%	134.58	156.36	15.01%	137.76	158.44	-2.08	-1.31%
	1982/83	8.80%	156.36	170.12	5.53%	158.44	167.20	2.92	1.75%
	1983/84	9.86%	170.12	186.89	11.21%	167.20	185.94	0.95	0.51%
1984/85	10.77%	186.89	207.02	10.98%	185.94	206.36	0.66	0.32%	

Upper

Middle

Lower