

Appendix H

23 March 1989

His Excellency Sir David Wilson, K.C.M.G.,
Governor of Hong Kong

Your Excellency,

Final Report of the Committee of Inquiry

We refer to the final report of the Committee of Inquiry appointed by Your Excellency to inquire into the 1988 civil service pay adjustment and related matters.

2. As the findings and recommendations contained in this final report concern issues that fall within the Commission's terms of reference, we propose to make a number of observations on them. The following paragraphs give a summary of our views on the main issues. Our detailed comments are set out in the Annex to this letter.

1986 Pay Level Survey

3. We agree that the 1986 Pay Level Survey has, to a certain extent, been overtaken by events.

Future Pay Determination

4. We consider that the pay level survey system proposed by the Committee is analogous to an overall grade review based on the 'occupational class survey' system recommended by the 1971 Salaries Commission, which was tried and found to be unworkable.

5. It is our considered view that the proposed pay level survey system has far-reaching implications on the existing patterns of civil service pay determination, pay structure and staff consultation. We therefore recommend that the proposed system should not be endorsed pending a full assessment of its implications.

Pay Trend Surveys

6. We reiterate our support for the use of gross pay trend indicators. While the Committee of Inquiry's proposed method of discounting civil service increments will result in a deduction falling short of what we had recommended in the past, we would not oppose any agreement made on this basis between the Administration and the Staff Side.

7. We have no objection to the proposal that the present practice of applying industrial weightings to pay trend indicators should be discontinued.

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

(Sidney Gordon)
Chairman
For and on behalf of
Members of the Standing Commission
on Civil Service Salaries and
Conditions of Service

Annex to Appendix H

The Standing Commission's Detailed Comments on the
Final Report of the Committee of Inquiry

1986 Pay Level Survey

We note that the Committee has concluded that "there is a reasonable presumption that the broad thrust of the results of the 1986 Pay Level Survey reflected something like the actual position." We also agree that a broad-brush pay level survey should not on its own determine the levels of civil service remuneration. This indeed accords with the principle stated in our Report No. 1 that broad comparability with the private sector should not necessarily be the first principle, the overriding principle or the major consideration in setting civil service pay. Having regard to the changes in the employment and remuneration scene in Hong Kong since the survey was conducted in 1986, and the recent decision of the Government to proceed with an overall review of the civil service salary structure, we agree that the 1986 Pay Level Survey has, to a certain extent, been overtaken by events.

Future Pay Determination

2. The Committee of Inquiry considers that pay level surveys should be regarded as the foundation of the civil service pay system (para. 5.6 of the final report), and that as a matter of history, the emphasis on civil service pay determination in Hong Kong has rested on the pay trend survey system (para. 5.7 of the final report). In our view, these observations are not entirely correct.

3. As a matter of fact, the existing civil service pay determination system consists of two components. The first is a system of periodic overall reviews of individual grades in the civil service. Before the establishment of the Standing Commission, 'Salaries Commissions' were appointed in roughly five year intervals for such a purpose, and after the Standing Commission was set up, it conducted such an overall review in 1979. These reviews necessarily take into account both external relativities (i.e. broad comparability with the private sector) and

Annex to Appendix H (Cont'd)

internal relativities (in terms of functional duties, level of responsibilities, etc.). In the 1979 exercise, the pay of different grades had been set individually with reference to both external and internal relativities and in accordance with other principles (e.g. broadbanding) laid down in our Report No. 1. The Commission also established the principle that external relativities (i.e. fair comparison with the private sector) should not necessarily be the overriding or major criterion in determining civil service pay. To take account of broad comparability with the private sector, the Commission introduced the 'education qualification' method which uses educational qualification as the comparator with the private sector to establish benchmarks for the starting rates of pay for entry ranks in the civil service.

4. Since the formation of the Standing Commission, such overall grade reviews are supplemented by individual reviews of grades or ranks conducted by the Commission as and when the need arises.

5. The other component of the civil service pay determination system is connected with overall reviews of civil service pay scales i.e. the general levels of civil service pay. Such reviews originated in the early seventies when soaring inflation was first experienced in the Hong Kong economy. There was a need for a more frequent review of civil service remuneration to account for changes in the cost of living. These reviews, however, should not be concerned with individual grade(s). Since civil service pay must have regard to the economic circumstances of Hong Kong as a whole, a purely index-linked review system was considered inappropriate. The pay trend survey system was thus introduced with a view to capturing the general movements of pay trends in the private sector due to changes in the cost of living and economic prosperity.

6. In 1981, having regard to the fact that fringe benefits of civil servants were substantially higher than that of private sector employees, the Commission suggested in a letter to Your Excellency that it was fundamental to the validity of a pay trend survey system that total packages, i.e. pay and benefits taken together, rather than pay in the two sectors should be compared. Otherwise, reliance on surveys of pay trends alone would exacerbate the inequalities in the total package that already existed. It was considered necessary to carry out surveys of the actual levels of pay and benefits of comparable jobs in the civil service and the private sector periodically to 'calibrate' any irregularities in the relative levels of civil service and private sector total packages.

Annex to Appendix H (Cont'd)

7. The pay trend survey and the pay level survey are therefore complementary in a system which adjusts civil service pay scales for maintaining broad comparability with the private sector with reference to the general levels of civil service pay set by an overall review of individual grades. They are not intended for reviews of the remuneration of individual grades or groups of grades, which should be determined in an overall grade review exercise.

8. Paragraphs 3 to 7 above show that the foundation of the civil service pay determination system has been, and still is, based on overall reviews of individual grades. The issue then is whether the proposed pay level survey system fits well in the existing pattern, and what the implications will be if this new system is introduced.

9. The proposed pay level survey divides the civil service into a number of classification groups, each having its own marker grades and pay level indicators. It is more akin to an overall review of individual grades based on the 'occupational class survey' system introduced in 1971 but much reduced in scale. The 'occupational class survey' system had to be abandoned because in many of the occupational classes, no truly comparable jobs existed in the private sector. Moreover, traditional relativities within the civil service were disturbed and there were staff disagreements over how the survey results should be applied. The proposed system also bears certain similarity to the 'core-grade' method considered by the Standing Commission in the 1979 review. This method was subsequently not pursued because too much time would have been spent negotiating and agreeing which grades should form the "core-grades" and which grades should be linked to those grades. In the circumstances, the Commission decided to employ the 'educational qualification' approach.

10. While the Committee of Inquiry indicates that it would recommend improvements mainly within the existing system (para. 5.2 of the final report), the marker-grade system proposed will effectively upset the entire foundation of the civil service pay determination system.

11. The Commission believes that it would be very difficult to establish the various civil service classification groups and select the marker grade(s) for each of them. The Committee emphasises that marker grades should be truly representative of the grades within their respective groups. However, the selection of marker grades is very much constrained by the existence or otherwise in the private sector of job analogues of such grades.

Annex to Appendix H (Cont'd)

12. Furthermore, if the civil service were divided into a number of classification groups, each having its own marker grade(s), the pay level indicators would be relevant only to the individual groups. Negotiations for the subsequent pay settlement would naturally be between the affected grades and the Government. On that basis, the existing central consultative machinery would not be compatible with such a system.

13. The Committee's proposed flexibility in the application of the pay level indicators to individual grades and the proposed frequency of the surveys would likely burden the Government with the enormous task every three years of negotiating concurrently with a large number of grades on the methodology for the survey and subsequently on the final settlement. Moreover, as it may involve adjusting internal relativities among individual grades, the process could become very much more complex and time consuming. We also consider that frequent adjustments of internal relativities among individual grades would inevitably generate discontent in the civil service. Indeed this was what happened in the late 1970s leading to the establishment of the Standing Commission.

14. The Committee's proposed pay level survey could also produce different indicators for different groups. This would render the adjustment of the pay for individual grades by fixed percentage revisions to the Master Pay Scale and other civil service pay scales extremely difficult, if not impossible. The alternative would be the establishment of separate pay scales for different classification groups, which in effect would bring us back to the system the Government discarded in 1971.

15. The Commission has recently been invited to conduct an overall review of the salary structure of the non-disciplined services to take account of general developments and any changes in workload and responsibilities. As in the 1979 review, this exercise will require a thorough review of both internal and external relativities of individual grades. The relationship between this exercise and the proposed pay level survey to be conducted in 1990 is unclear to us.

16. A further point is connected with the proposal that no pay trend survey should be conducted in the year in which the proposed pay level survey is to be carried out. Since the latter only covers the non-disciplined service, the Standing Committee on Disciplined Services Salaries and Conditions of Service will have to devise a method of adjusting disciplined services pay in that year.

Annex to Appendix H (Cont'd)

17. Having regard to paragraphs 11 to 16, we consider that the system proposed by the Committee will have far-reaching implications on the existing systems of civil service pay determination, pay structure and staff consultation.

18. We therefore recommend that the proposed system should not be endorsed pending a full assessment of its implications.

Valuation of Housing Benefits

19. We have reservations on the 'replacement cost' concept proposed by the Committee for the valuation of civil service housing benefits. The main problem with such a method is the difficulty of defining in a fair and consistent way what the perceived 'replacement' benefit should be to individual officers.

The Pay Trend Survey

20. The Commission first proposed the use of gross pay trend indicators in 1982. This proposal was withdrawn in 1983 because of the difficulties experienced by the Government and the Staff Side in arriving at an acceptable amount by which to discount the gross figures. Whilst we note that the suggested method of discounting civil service increments does not account for the full cost of such increments to the Government, we would not oppose any agreement made on this basis between the Administration and the Staff Side.

21. The application of industrial weightings to pay trend indicators was introduced by the Commission in 1981/82 as an interim measure to reflect the relative weights of Hong Kong's workforce in the major economic sectors pending a more balanced and representative sample of private sector companies being taken from the survey population. With the size of the sample being increased from 49 companies in 1981/82 to 60 in 1983/84 and 68 in 1987/88, the application of such weightings has resulted in relatively small adjustments to the pay trend indicators only (see Appendix). It appears that discontinuing the practice will not materially affect the survey results. Accordingly we concur that the practice should be discontinued to eliminate any unnecessary dispute.

Pay Trend Indicators for the years
1981/82 to 1987/88

(with or without the application of industrial weightings)

Year	Before Industrial Weighting	After Industrial Weighting	Upward Adjustment	Downward Adjustment
<u>Lower Band</u>				
1981/82	15.20%	15.42%	+0.22%	-
1982/83	10.83%	8.80%	-	-2.03%
1983/84	9.53%	9.86%	+0.33%	-
1984/85	10.46%	10.77%	+0.31%	-
1985/86	7.27%	6.73%	-	-0.54%
1986/87	6.73%	7.13%	+0.40%	-
1987/88	8.09%	8.50%	+0.41%	-
<u>Middle Band</u>				
1981/82	15.59%	14.96%	-	-0.63%
1982/83	9.50%	7.88%	-	-1.62%
1983/84	8.62%	8.64%	+0.02%	-
1984/85	8.88%	9.12%	+0.24%	-
1985/86	6.50%	6.33%	-	-0.17%
1986/87	6.20%	6.40%	+0.20%	-
1987/88	7.15%	7.28%	+0.13%	-
<u>Upper Band</u>				
1981/82	15.81%	15.43%	-	-0.38%
1982/83	8.24%	7.24%	-	-1.00%
1983/84	8.63%	8.45%	-	-0.18%
1984/85	8.48%	8.77%	+0.29%	-
1985/86	6.64%	6.96%	+0.32%	-
1986/87	6.16%	6.30%	+0.14%	-
1987/88	6.49%	6.54%	+0.05%	-