

CHAPTER II : BACKGROUND

Government Pay Policy

2.1 The Government's policy towards civil service pay was first expressed in a 1968 statement which was accepted by the Staff Side of the Senior Civil Service Council. According to this statement the Government accepted a duty and responsibility "to maintain a civil service recognized as efficient and staffed by members whose conditions of service are regarded as fair both by themselves and by the public which they serve". This objective was to be achieved by adherence to the principle of fair comparison with the pay of private sector staff employed on broadly comparable work taking account of differences in other conditions of service. The Government then sought to fulfil this objective by the establishment of Salaries Commissions from time to time to review both the general levels of civil service pay and conditions of service.

Occupational Class Surveys

2.2 Following the recommendations of the 1971 Salaries Commission, a series of occupational class surveys

was conducted between 1972 and 1974 by the then Pay Investigation Unit of the Civil Service Branch (now the Pay Survey and Research Unit of the Standing Commission).

2.3 For the purpose of conducting the occupational class surveys, the civil service was grouped into a total of 46 occupational classes. For each class, jobs which had analogues in the private sector were identified. An assessment of the level of these jobs within the civil service was then made. The results of these assessments were compared with those obtained by assessing comparable jobs in the private sector.

2.4 These occupational class surveys were in fact pay level surveys. Between 1972 and 1974, over 30 such surveys were conducted by the Pay Investigation Unit. The results of the surveys revealed a number of problems : an insufficient number of private sector analogues, unwillingness on the part of the private sector to participate in these necessarily detailed surveys and resistance from civil service unions. In view of these problems it was considered inappropriate to use these pay level surveys as the basis for consultations with the Staff Side on a pay review. The Pay Investigation Unit however continued to conduct pay level surveys for certain grades until 1978.

The Pay Trend Survey System

2.5 In 1974, following the failure of the occupational class survey system, the pay trend survey system was introduced. Under this system a survey of pay trends in the private sector is conducted annually and the results, the pay trend indicators, used as the basis for determining annual pay adjustments for the civil service.

2.6 For the purpose of conducting pay trend surveys the civil service is divided into three salary bands and changes in pay and certain cash benefits enjoyed by employees within similar salary bands in selected private companies are assessed. While information on all elements contributing to pay increases is collected, the pay trend indicators only take account of increases relating to cost of living, general prosperity and company performance and general increases in market rates. Increases arising from in-scale increments, merit payments, promotion, transfer and internal and external relativities are excluded. The methodology for conducting pay trend surveys was initially agreed with the Staff Side although for a number of years they have expressed reservations about certain defects they perceive in the system.

2.7 Civil service annual pay adjustments have closely

followed the pay trend indicators in most years since the pay trend survey system was introduced. In 1975 no pay adjustment was made because of the economic situation but the pay trend indicators for that year were taken into account, together with those for 1976, in determining the level of the 1976 award. In 1983, again for economic reasons, the pay adjustment was some 2.5% to 2.75% below the pay trend indicators. This was not made up in the 1984 pay award.

The Standing Commission

2.8 In 1979 the Standing Commission on Civil Service Salaries and Conditions of Service was appointed as an independent body to advise on pay and conditions of service. In its first report it reaffirmed the principle of fair comparison with the private sector but said that this should not be the only factor in determining civil service pay. The policy according to the Commission should be as follows :-

"..... broad comparability with the private sector should continue to be an important factor in setting civil service pay. We believe that no other means of regulating levels of pay in general will

ensure public acceptance and we consider it essential that civil service salaries do not get out of line with that sector of the economy producing the income from which they are paid. We do not, however, consider it should necessarily be the first principle, the overriding principle or the major consideration. If there is to be a first principle of civil service pay, it should be the old but well-tried principle that salaries should be sufficient to attract and retain candidates of a calibre who will provide the public with an efficient service."

This policy was accepted by the Government and remains in force today.

2.9 Between 1979 and 1980 the Standing Commission also carried out a comprehensive review of the civil service as a result of which a new pay structure was established. It is this pay structure, together with the annual adjustments deriving from the pay trend survey, which forms the basis of civil service pay practice today.

2.10 The pay trend survey system has regard only to

movements in pay and cash benefits. In 1982, however, the Standing Commission recommended that future arrangements for determining the general levels of civil service pay should take into account the total package of pay and fringe benefits in both the civil service and the private sector. Subsequently the Commission urged the Government to accept this proposal and to consult staff on how it should be implemented. The Government accepted the "total package" concept as proposed by the Commission but little progress has been made towards its implementation. In 1982 the Standing Commission also assumed responsibility for the Pay Survey and Research Unit, the unit responsible for conducting the annual pay trend surveys.

Directorate Pay Adjustment

2.11 In mid-1985 the Standing Committee on Directorate Salaries and Conditions of Service (the Ross Committee) conducted an overall review of salaries and conditions of service of directorate staff (Government's senior management staff). As part of this review, they arranged for an independent survey of comparable pay levels in the private sector. This revealed that top level salaries had fallen considerably behind private sector rates and, as a result, the Ross Committee recommended that directorate salaries be increased by from 6.4% at the lowest level to

13.8% at the maximum with effect from 1 August 1985.

2.12 The implementation of the pay award for the directorate led to widespread pressure from the rest of the civil service for similar salary increases. In September 1985 the Staff Sides of the three central consultative councils asked for a pay award of 6.4% (equivalent to the lowest directorate salary adjustment) backdated to 1 August 1985 for all non-directorate civil servants. They renewed their claim for the "shortfall" in the 1983 pay adjustment to be made up (see paragraph 2.7 above) and expressed the view that the pay of non-directorate staff, like that of the directorate, was lagging behind the private sector.

2.13 In the light of staff requests the Government asked the Standing Commission to arrange a pay level survey of both pay and benefits for the civil service generally and, since this would take time, to advise on whether there should be an interim award. On the basis of a cumulative comparison of the pay trend indicators and actual pay awards during the period 1979-80 to 1984-85, and after some consultation, the non-directorate staff were offered a pay increase of 2.7% on the understanding that a full pay level survey would be conducted as soon as possible. Although this offer was not accepted by all the major staff associations, pay was increased accordingly with effect

from 1 January 1986.

Pay Level Survey

2.14 In May 1986 Hay Management Consultants (Hong Kong) Ltd. (Hay) were commissioned to carry out a pay level survey, for both non-directorate and directorate officers, using methodology agreed by the Standing Commission. The aim of the survey was to assess whether the present remuneration of the civil service, including both salaries and fringe benefits, was broadly in line with that of employees in the private sector doing comparable work. The non-directorate survey was commissioned and monitored by the Standing Commission and the directorate survey was monitored by the Ross Committee.

Findings of the Pay Level Survey

2.15 The results of the survey suggested that in general, but with the exception of Model Scale I staff, non-directorate civil servants on local terms of appointment enjoyed better salary and fringe benefits than those offered to comparable private sector employees.

2.16 As regards salaries, the results were as follows :-

- (a) Model Scale I salaries were around the private sector Average (-0.88%) and below the Upper Quartile (-11.22%);

- (b) Lower Pay Band (Master Pay Scale 1 - 13 or equivalent) salaries were above the private sector Average (+26.47%) and the Upper Quartile (+7.28%) ;

- (c) Middle Pay Band (MPS 14 - 37 or equivalent) salaries were above the private sector Average (+34.72%) and the Upper Quartile (+14.52%);

- (d) Upper Pay Band (MPS 38 - 47 or equivalent) salaries were above the private sector Average (+38.28%) and the Upper Quartile (+8.63%); and

- (e) Upper/Upper Pay Band (MPS 48 - 51 or equivalent) salaries were above the private sector Average (+28.59%) but below the Upper Quartile (-2.03%).

2.17 As regards the total remuneration package, i.e. salaries and fringe benefits, the results were as follows :-

- (a) the Model Scale I total package was below the private sector Average (-2.30%) and the Upper Quartile (-11.84%);
- (b) the Lower Pay Band (MPS 1 - 13 or equivalent) total package was above the private sector Average (+22.92%) and the Upper Quartile (+2.20%);
- (c) the Middle Pay Band (MPS 14 - 37 or equivalent) total package was above the private sector Average (+24.76%) and the Upper Quartile (+3.99%);
- (d) the Upper Pay Band (MPS 38 - 47 or equivalent) total package was above the private sector Average (+48.06%) and the Upper Quartile (+19.12%);
and

(e) the Upper/Upper Pay Band (MPS 48 - 51 or equivalent) total package was above the private sector Average (+52.30%) and the Upper Quartile (+24.59%).

2.18 These findings were rejected by the Staff Sides of both the Senior Civil Service Council and the Police Force Council.

1987-88 Pay Trend Survey

2.19 While discussions were taking place between the Administration and staff on the results of the pay level survey, work had gone ahead with the 1987-88 Pay Trend Survey. This survey was conducted against the background of a buoyant economy, practically full employment, a Government surplus of \$11 billion and reports of double digit pay increases in the private sector. In the event, the pay trend indicators resulting from the survey were :-

Pay Trend Indicators

Upper Pay Band	+6.54%
Middle Pay Band	+7.28%
Lower Pay Band	+8.50%

2.20 As a basis for the 1988 civil service pay adjustment these pay trend indicators were considered by all three central consultative councils to be unacceptably low. The Staff Side of the SCSC therefore submitted a claim for a pay increase of 12.5% based on the growth in GDP for the year. This was rejected by the Administration which offered a pay increase based closely on the pay trend indicators. The Staff Side then submitted a revised claim for a pay increase of between 10.66% and 10.1% (depending on salary band). This was based on the pay trend indicators but with the element for merit pay, which had been excluded, added back in, and with a small upward adjustment in respect of the lower salary band to bring the increase into line with that for the middle pay band. This revised claim was also rejected by the Administration which continued to offer a settlement based on the pay trend indicators.

2.21 At this point, in accordance with the 1968 Agreement between the Government and the staff associations represented on the Senior Civil Service Council (as revised in 1982) the Staff Side declared that they were in dispute with the Official Side as regards the findings of both the 1986 Pay Level Survey and the 1987-88 Pay Trend Survey. They accordingly sought the appointment of a Committee of

Inquiry. The Staff Side's request was met and our appointment followed.