

CHAPTER THREE

CIVIL SERVICE PAY POLICY

(This Chapter discusses the objective of civil service pay policy, including the total pay package concept, and reviews the general considerations to be taken into account in setting pay, as well as the existing arrangements for reviewing civil service pay)

I. Objective of Pay Policy

Historical Background

3.1 We have been advised that the Government's declared policy on civil service remuneration is that the pay and fringe benefits of the civil service should be broadly comparable with those paid by good employers in the private sector.

3.2 This concept of broad comparability originates from the principle of fair comparison, which aims at achieving fair pay for civil servants by paying them at rates broadly comparable to those paid in the private sector. This principle was first formulated by the 1965 Salaries Commission.

3.3 In 1968, the Government issued a Statement of Principles and Aims of Civil Service Remuneration (referred to as the 1968 Statement), in which the objective of civil service pay policy was set out in the following terms :-

"It is the duty and responsibility of Government 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".

3.4 In the interpretation of fair remuneration, the Government subscribed to the principle of fair comparison. Nevertheless, it recognized that there might be few or no

appropriate job analogues in the private sector for a substantial part of the public service to enable a fair comparison to be made. It therefore considered that this principle should not be a first principle in all circumstances.

3.5 The 1971 Salaries Commission, however, not only endorsed the principle of fair comparison but recommended that comparability with the private sector should override all other considerations including internal relativities. It attempted to apply this principle by introducing the occupational class system, which was subsequently tried and proved to be unworkable.

3.6 In our 1979 overall review, we reaffirmed the policy objective stated in the 1968 Statement. Recognizing fully the practical difficulties in implementing the principle of fair comparison, the Commission considered that while broad comparability with the private sector should continue to be an important factor in setting civil service pay, it should not necessarily be 'the first principle, the overriding principle or the major consideration'. Instead, the Commission stated the first principle of civil service pay in the following terms :-

"Salaries should be sufficient to attract and retain candidates of a calibre who would provide the public with an efficient service".

3.7 At the Government's request, the Commission conducted a pay level survey in 1986 to establish whether the remuneration of civil servants was broadly in line with that of private sector employees doing comparable work. The staff had reservations about the methodology for this survey and disputed the findings. In 1988, subsequent to dispute over the 1988 pay adjustment, a Committee of Inquiry was appointed by the Governor to look into the related matters.

3.8 In its submission to the Committee of Inquiry, the Administration stated that broad comparability with the private sector should be the guiding principle in setting civil service remuneration, although regard must be paid to such factors as the need for attracting and retaining suitable staff, maintaining morale and so on.

3.9 In its final report published in March 1989, the Committee of Inquiry recommended that pay level surveys 'should be mounted with a frequency which acknowledges ... the overriding importance of maintaining civil service pay at fair levels ...'.

Broad Comparability with Private Sector

3.10 There has therefore been a change in emphasis in the objective of pay policy over the past ten years. It has shifted from the need to pay civil servants sufficiently in order to recruit and retain suitable staff to the need to establish broad comparability with the private sector.

3.11 We feel that there are serious shortcomings in taking broad comparability with the private sector as a first principle or as an objective of pay policy. The 1965 Salaries Commission formulated the principle of fair comparison in the following terms : "Wherever any reasonably large number of persons can be found both within the public service and outside it engaged in closely comparable work, fair comparison with the remuneration in comparable employment outside Government should be adhered to as closely as possible ...". In practice, the application of this principle can be interpreted in two different ways. First, staff of individual grades from time to time use the principle to justify their demand for salary increases to match reported higher salary levels of their counterparts in the private sector. A second interpretation is that the general level of civil service pay should be broadly comparable to that of the private sector. This was the interpretation used in the 1986 Pay Level Survey. In our opinion, problems exist under both interpretations.

(a) Comparability in respect of individual grades

3.12 Several attempts were made in the past to identify private sector analogues for comparison with the civil service. The results showed that only a small number of grades in the civil service had job analogues in the private sector for which true comparisons could be made. There is no evidence to indicate that the position is significantly different today. Job-for-job comparisons with the private sector can therefore be achieved only for a small part of the civil service. For the rest, there are practical difficulties in making comparisons.

3.13 A second point is that private sector pay, being exposed to direct market forces, is prone to more frequent adjustments. In contrast, there is more uniformity and stability in the civil service, given the need to achieve continuity in the provision of public services. If comparability with the private sector were to be maintained, the pay for individual grades would have to be adjusted more frequently in response to the pay movements of their respective counterparts in the private sector. There would therefore be more volatility in the civil service pay system.

3.14 Furthermore, a strict application of the principle may disturb established internal equity and undermine morale and stability. This is because the award of higher salaries to only some civil service grades which are exposed directly to market forces might lead to less fair treatment for other grades whose work may be just as exacting and responsible, but whose worth may not be fully recognized in the absence of direct market forces.

(b) Broad comparability in respect of general pay level

3.15 Likewise, there are practical difficulties in pursuing broad comparability in respect of the general pay levels between the public and the private sectors. The basic concept behind the principle of fair comparison is that comparable work in the two sectors should be remunerated at roughly the same level. In comparing the general levels of remuneration between the two sectors, regard must be paid to the comparability of the work to which such levels of remuneration attach. Comparisons made in this way are bound to be broad-brush. Consequently, where the comparison results are unfavourable to the staff of particular grades, any attempt to restore parity between the two sectors would arouse opposition from them. They would contend that the results do not apply to their grades.

3.16 Moreover, it is arguable whether setting and maintaining the general pay level of the civil service at a rigidly defined level of private sector remuneration is in all circumstances compatible with the objective that remuneration should be sufficient to recruit and retain suitable staff for maintaining an efficient civil service.

Comparability in Perspective

3.17 We stated in our Report No. 1 that the concept of the principle of fair comparison as a first and overriding principle of civil service pay existed in theory rather than in practice. This remark is as valid today as it was ten years ago. Indeed, over the past few years, the over-emphasis on maintaining broad comparability with the private sector contributed to the disagreement between the Government and its staff over how civil service remuneration could be made broadly equivalent in value to that provided by the private sector. We remain of the firm view that the first objective of civil service pay policy should be to attract and retain staff of a suitable calibre to perform effectively and efficiently the duties required of them.

3.18 Bearing in mind the fact that the civil service must compete with the private sector for recruiting suitable staff from the same source, and the need for securing the confidence of the public in the system for determining civil service pay, we consider that fair comparison with the private sector should continue to be an important factor in setting civil service pay. We reiterate however that, as expressed in our Report No. 1, it should not necessarily be the first principle, the overriding principle or the major consideration.

Civil Service Human Resource Management Policy

3.19 From our preliminary analysis of all the representations made by staff, it becomes evident to us that some of the problems associated with individual grades are not related purely to pay, and that a solution based solely on improved pay would be a weak remedy in such circumstances. These problems may be connected with other aspects of human resource management in the civil service, including management systems and practices (e.g. organizational structure, discipline), staff relations (e.g. consultative machinery, staff welfare), staff training and development and so on. We feel that the objective of maintaining an effective and efficient civil service cannot be achieved by pursuing an appropriate remuneration policy only. Other aspects of human resource management would need to come into play as well. Such a clarification will give us a proper perspective in examining the problems of individual grades in our review.

Pay as Motivation

3.20 A considerable number of representations suggest that the need for motivating staff should be included as a pay policy objective. They contend that the existence of uncertainty over the transition in 1997 and the greater expectations from the public of the civil service have made the task of motivating staff all the more important. Quite apart from these considerations, we feel that motivating staff to better their performance, in addition to recruiting and retaining them, should also be a general objective of pay policy.

3.21 In summary, we consider that the objective of civil service remuneration policy should be as follows :-

"To offer sufficient remuneration to attract, retain and motivate staff of a suitable calibre to provide the public with an effective and efficient service. Such remuneration should be regarded as fair both by civil servants and by the public which they serve".

Within these parameters, broad comparability with the private sector is an important factor in setting civil service pay.

II. Total Pay Package Concept

3.22 The objective of civil service pay policy reaffirmed in the foregoing section calls for setting civil service remuneration at a suitable level for attracting, retaining and motivating staff. To this end, remuneration is taken to mean the total remuneration package including both salary and fringe benefits.

3.23 Application of the 'total remuneration package' concept involves treating all aspects of salary and benefits policy as a whole. The aim is to maintain a proper perspective in the overall system of salary and benefits planning and to create a framework within which different elements of the package can be adjusted according to the needs of the employer and the employees. The cost to the organization and the value to the individual of each element are assessed with a view to achieving an appropriate balance between the various components of remuneration. In assessing the best mix of possible components of the package, the management should consider, both from its own and from the employees' point of view, what it wants to achieve and how the package meets organizational needs as well as individual aspirations.

3.24 Under the existing civil service pay policy, the total pay package concept has a more limited application. It refers specifically to the need to take into account the total package of salary and benefits in the comparison between civil service and private sector remuneration. Under the principle of broad comparability with the private sector, the total remuneration of civil servants should be broadly in line with that of private sector employees.

3.25 The first attempt to apply this concept was the 1986 Pay Level Survey. In that exercise, the total pay package was taken to mean a numerical value, in monetary terms, that represented the remuneration package comprising both salary and fringe benefits. Benefits provided in kind were given a cash value and the total cash value of all fringe benefits were then added to the salary component to arrive at the final figure for comparison with the private sector.

Problems

3.26 There are controversies over the way the total pay package concept was used in the 1986 Pay Level Survey. In many of the representations received by us, we note the general feeling of staff that the notional value of some benefits represents the cost of these benefits to the employer rather than the recipients' perceived value of these benefits, which is much smaller. In the view of staff, this discrepancy is caused by the inflexibility in the provision of benefits and the many restrictions imposed on the recipients. Many of the representations argue therefore that while fringe benefits should be taken into account in setting remuneration levels, their value should be considerably discounted.

3.27 Another controversy relates to the basic difference between salary and benefits. Because fringe benefits are provided for specific purposes, one dollar's worth of a benefit cannot always be equated with the same amount of salary. In other words, there is no automatic trade-off between salary and benefits. Adding the two together arithmetically for making comparison may not therefore be appropriate.

3.28 The root cause of these problems appears to be that, in applying the total pay package concept, too much emphasis has been placed on the determination of a particular level of total remuneration. As noted in paragraph 3.23, the concept has been developed with the aim of creating a framework within which the different elements of remuneration can be adjusted according to the needs of both the employer and the employees. Apart from setting an intended level of total remuneration, it is equally important to achieve an appropriate balance among the various components of the package. To this end, both the cost of the items to the employer and their value to the employees should be assessed.

Application of the Concept

3.29 As evidenced by the views expressed by staff, there does appear to be a gap between the cost of some benefits (notably housing benefits) to the Government as an employer and the perceived value of those benefits to the recipients. Therefore, in applying the total pay package concept, apart from looking at the level of total remuneration which is primarily related to the Government's cost, as much emphasis must be put on the needs of employees. This includes striking an appropriate balance among the various components of remuneration given a certain level of total remuneration, and providing more choices and flexibility.

3.30 Furthermore, we consider it inappropriate to adjust the salary component of the civil service package on the sole basis of a disparity in the packages between the public and the private sectors. Instead, a critical review of the various components of the total package should be conducted. If adjustments are necessary, they should be applied to the right components of the package.

3.31 Hence, before the total pay package concept can be meaningfully applied, the civil service remuneration package needs to be examined with a view to finding a right balance of the components within the package. While this exercise would take some considerable time to complete, an immediate task should be to reduce the gap between the cost of certain benefits to the Government and the perceived value of those benefits to staff. As a first step, we recommend that the Administration should explore the feasibility of making the provision of benefits more flexible, e.g. civil servants might opt to receive a benefit in kind or in cash, and relaxing certain restrictions imposed on the recipients. The objective should be to yield the maximum perceived value of benefits given the existing costs. We believe that this will provide a good start for implementing the total remuneration package concept in the civil service. It will also be more cost-effective in meeting the objective of attracting, retaining and motivating staff.

III. General Considerations in Setting Salary Levels

Internal versus External Relativities

3.32 We have reaffirmed that the principle of broad comparability with the private sector should be one of the important considerations in determining civil service salary levels. Another important factor is the internal pay relativities among individual grades. In a large organization like the Government which offers career employment with promotion generally from within, particularly where the needed skills are not readily transferable, internal relativities or differentials should carry considerable weight in the determination of pay. This is because staff would tend to be more concerned about internal equity than external comparisons.

3.33 While both internal and external relativities are important factors, the two are very often found to be in conflict in the pay determination process. As pointed out in paragraph 3.14 above, awarding pay increases to particular grades in recognition of a disparity with the private sector may not be equitable to other grades which