

are less exposed to market forces but whose jobs are nonetheless as exacting and responsible as the grades in question. On the other hand, although internal relativities are important, we consider that appropriate flexibility should be exercised in situations where market forces and the needs of the service are generating a greater demand for the skills and expertise of some grades than for others hitherto seen as equals. The difficulty, and the right approach, is to strike a suitable balance between external and internal relativities.

Remuneration Practices

3.34 We generally observe that private sector remuneration practices are more flexible and more responsive to changes in the market. Moreover, they are oriented towards rewarding performance and more emphasis is placed on the needs of employees. This is particularly so in smaller companies where individual performance carries even greater weight. In contrast, there is more uniformity and standardization in civil service pay practices. Merits are rewarded principally by promotion, and pay adjustment in response to general changes in pay rates are normally made annually.

3.35 These differences do not necessarily mean that civil servants are always at a disadvantage. The point should be noted that although in buoyant years, there is always the likelihood that private sector employees will fare better than civil servants, in lean years the latter will enjoy relatively more stable income and employment.

3.36 For the purpose of comparison between the two sectors, it is more appropriate to compare the civil service with the larger and more established companies since the Government itself is a major employer. Moreover, these companies have more systematic and stable pay practices than the smaller ones and are therefore more comparable with the civil service.

3.37 Some of the representations also make the point about the different pace of salary progression in the public and the private sectors. They suggest that salaries of private sector employees with relevant experience usually lead by a considerable margin those of employees having no experience. This is in contrast to the situation in the civil service where an officer normally progresses up the pay scale by annual increments of roughly the same size. We recognize such differences and have taken them into account in determining salary benchmarks in the past. In our view, consideration should continue to be given to the different objectives and requirements of the two sectors in this regard and to whether such differences could be rationalized.

Promotion Prospects

3.38 We realize that promotion prospects are a subject of great concern to staff as evidenced by the vast number of submissions on the subject. Many of them have complained that promotion prospects in the civil service are poor and that their pay should be pitched at higher levels relative to the private sector to reflect this.

3.39 We are unable to find conclusive evidence to suggest that promotion prospects in the civil service are in general worse than those in the private sector. To us, the problem appears to stem from the fact that there is greater mobility of employees in the private sector while the civil service encourages steady career employment. A civil servant on reaching the maximum point on his pay scale needs to be promoted to the next higher rank before further salary progression is possible. In our opinion, the issue is whether, and if so how, civil servants, particularly good, experienced and aspiring officers who are stuck in a rank without immediate prospects of promotion to the next higher rank, could be prevented from leaving the civil service. Because the civil service has a policy of offering career employment with promotion generally from within the organization, these officers are valuable assets to the civil service in providing experience and the necessary continuity and for filling senior positions in their respective grades. We feel that there is a need for civil service remuneration to be sufficiently attractive vis-a-vis the private sector practice in order to retain suitable officers.

Security of Tenure

3.40 It is almost inconceivable that the government as an employer would go bankrupt and most uncommon for it to lay off its employees for austerity reasons. In this respect, civil servants enjoy better job security than employees in the average private sector organization. We feel that job security is a valid factor to be taken into account in determining civil service pay levels.

3.41 The point is also made that civil servants are rarely dismissed on account of lack of diligence, inefficiency or mistakes, and that their take-home pay is hardly affected because their pay is not performance-related. To a large extent this comment is valid. However, we believe that to take this factor into account in setting salary levels would be a weak, and probably wrong remedy. From the pay policy objective point of view, such a measure may give a negative signal and would not be conducive to the recruitment and retention of

good and conscientious staff. Instead, we suggest that administrative measures should be taken to improve performance management in the civil service. This subject is examined further in Chapter 6.

Pressures of Change

3.42 A considerable number of representations point out that the civil service has been confronted with a barrage of changes in recent years. They include greater accountability arising from the development of representative government and public sector reforms such as privatization and value for money reviews. Furthermore, resource allocation reforms have imposed limitations on civil service growth at a time when there is greater public expectation for expansion in government services. The submissions contend that these changes have caused considerable strains on the civil service. Adding to these are feelings of uncertainty and apprehension among some civil servants towards the change of sovereignty in 1997. There is therefore a crucial need to boost staff morale.

3.43 We are generally sympathetic with the views expressed. However, we are aware of the fact that pressures of change are also experienced by employees in the private sector, though such changes are not necessarily of the same kind or degree as those experienced by civil servants. We nonetheless recognize a need to take these factors into account in an effort to maintain a committed, stable and effective civil service in the run-up to 1997.

Constraints on Personal Freedom

3.44 Many representations point out that civil servants are subjected to rules which regulate or restrict their activities or personal choice in respect of certain matters, such as engaging in part-time work, borrowing money, travelling, making investments, receiving gifts and so on. To a certain extent, we agree that these constraints on personal freedom may have caused inconvenience and loss of opportunity for bettering oneself financially. Where applicable, we shall give proper regard to such constraints in determining salary levels, primarily by reference to the significance of their impact on staff. We must add, however, that some of these constraints are to different degrees also experienced by private sector employees, and the situation is therefore not unique to the civil service.

3.45 Where appropriate, the factors set out in paragraphs 3.34 to 3.44 above should be taken together with the results obtained from the pay comparison with the private sector for determining the appropriate salary levels in the civil service. It will be extremely difficult, however, to assign specific weight to any particular factor for the purpose of pay determination. We reiterate our view stated in the Commission's Report No. 1 that in a civil service of the size, complexity and diversity of that in Hong Kong, any attempt to apply rigid and inflexible formulae to civil service pay is impracticable. The right approach, we firmly believe, should be to review all the relevant factors and to make the best judgement.

IV. Mechanisms for Reviewing Civil Service Remuneration

3.46 We mentioned in paragraph 3.7 that a Committee of Inquiry was appointed by the Governor in 1988 to look into matters connected with, among other things, the methodology for the 1986 Pay Level Survey. In its final report, this Committee recommended that pay level surveys based on job-for-job comparisons should be mounted at three-year intervals to determine the right levels of civil service pay relative to the private sector, and that such surveys should become the foundation of the pay determination system in the civil service.

3.47 We have reservations about the proposal. In our letter dated 23 March 1989 to the Governor (reproduced at Appendix H), we recommended that the proposed system should not be endorsed pending a detailed assessment of the implications. The Government subsequently decided to take note of the Committee of Inquiry's recommendations regarding the pay level survey system without endorsing them.

3.48 The decision on whether the proposed pay level survey system should be implemented will have a bearing on our recommendations regarding the civil service pay structure. We have therefore further examined the practicability of the proposed system. After careful deliberations, we conclude that our earlier reservations are valid and that the proposed pay level survey system should not be adopted. In the main, we have doubts over the following aspects of the proposed system.

3.49 Firstly, we are concerned about the practical difficulty in finding enough private sector job analogues for making job-for-job comparisons. As a matter of fact,

this long-standing difficulty was the reason behind the use of a factor-point system in the 1986 Pay Level Survey.

3.50 Secondly, we note that the Committee of Inquiry has put overriding importance on the need for maintaining broad comparability with the private sector. This is reflected in the proposed frequency of the pay level surveys and in the suggestion that such surveys should be the foundation of the pay system. Earlier in this chapter, we have argued that both internal and external relativities should be important factors in setting civil service pay. We do not consider that frequent adjustments to external relativities at the cost of inevitable disruption to internal relativities will be conducive to the stability of the civil service.

3.51 Finally, we are conscious that the proposed system would bring about considerable changes to the existing patterns of civil service pay structure, staff consultation and pay determination. There is no guarantee, however, that the new system would be more effective than the existing one in meeting the policy objective given the difficulties mentioned above, nor would it be more acceptable to staff as demonstrated by the reservations expressed by them over the proposal.

3.52 We take the firm view that the paramount concern should be to ensure the maintenance of a stable civil service in the run-up to 1997. We consider therefore that any proposals for improving the civil service pay system should be introduced prudently and preferably on the basis of the existing system.

3.53 With this preamble, we now turn our attention to the pay review mechanisms in the civil service. The existing system includes :-

- (a) periodic overall salary structure review;
- (b) review of salaries and structures of particular grades or groups of grades as the need arises;
- (c) review of individual fringe benefits as the need arises; and
- (d) annual adjustment to pay scales based on the average pay movements in the private sector.

As explained in paragraph 3.33, internal and external relativities are often conflicting considerations. Since both are important factors in setting pay, we feel that any large-scale adjustments to such relativities should be made

in the context of an overall review of the civil service salary structure. This would ensure that all the relevant factors can be adequately taken into account and carefully balanced. To provide a better understanding of the operation of the existing pay determination mechanisms and to clarify any possible confusion, we set out the objective and functions of each component of the existing pay review system in the following paragraphs.

(a) Periodic overall salary structure review

3.54 Overall salary structure reviews aim at establishing appropriate pay structures for the civil service and the right salary levels of individual grades that meet the pay policy objective, i.e. to recruit, retain and motivate suitable staff. In the process, regard should be given to private sector practices, internal relativities as well as other factors relevant to achieving the policy objective. Where fair comparison with the private sector is concerned, the salary levels of civil service grades established in an overall review, taken individually or collectively, should be regarded as the appropriate levels of pay relative to the private sector position.

(b) Review of salary and structure of particular grades

3.55 Between consecutive overall salary structure reviews, the salary and structure of particular grades or groups of grades may be reviewed as and when necessary to take account of changes in circumstances for meeting the pay policy objective.

(c) Review of fringe benefits

3.56 Fringe benefits should be reviewed as the need arises. The right level of the provision of particular benefits, however, is not determined by considering the matter purely from the remuneration angle. Instead, other aspects of Government's social policy or civil service human resource management policy would have to be taken into account. Hence, the level of total remuneration in the civil service vis-a-vis the private sector practice might be affected by factors not necessarily connected with remuneration, but with the wider objectives of social or human resource management policy.

(d) Annual adjustment to pay scales

3.57 The annual adjustment to civil service pay scales is intended to maintain the income level of civil servants

relative to that of the private sector between consecutive overall salary structure reviews. They originate from the early 1970's when soaring inflation was first experienced in the territory. Initially, adjustments were made on the basis of cost-of-living data. It was subsequently decided that such adjustments should also have regard to the economic circumstances of Hong Kong and that a purely index-linked review scheme would be inappropriate. It is considered right that if the economy is buoyant, civil servants should share in the benefits. On the other hand, if the economy is depressed, civil servants should also share the burden. Their pay increases, if any, should thus be no more than the average pay increase received by employees in the private sector for that particular year.

3.58 At present, such adjustments are based on a pay trend survey system that annually produces indicators of the average pay movements in the private sector over that one year period. This system enables the adjustment to take account of changes, taking one year with another, in the cost of living and in the general economic circumstances of Hong Kong. Using pay trend indicators as a basis to adjust civil service pay scales will ensure that the size of the adjustment is broadly comparable to that, on average, received by employees in the private sector. The final adjustment is also subject to other factors such as budgetary constraints.

3.59 The validity of this pay trend survey system rests on the assumption that the appropriate levels of civil service remuneration relative to the private sector have been set in an overall salary structure review.

3.60 By its design, the annual pay trend survey is able to capture general changes in salary in the private sector due to such market forces as economic prosperity or a tight labour market situation. Provided the pay trend survey is conducted properly, the annual adjustment to civil service pay scales based on the pay trend survey system should by and large restore the relativity between pay levels of the civil service and the private sector. Of course, there will be situations in which particular grades are affected by forces to an extent that will give rise to particular problems of recruitment or retention or both. Such cases are dealt with by conducting individual reviews as and when necessary.

3.61 On the whole, the existing system comprising the four components examined above has been providing a logical and sound framework for reviewing civil service remuneration. We are satisfied that this system will be

able to ensure that the objective of civil service pay policy can be met under changing circumstances and are in favour of retaining this approach. We shall however keep the system under review and make recommendations for improvements where appropriate.