

CHAPTER FIVE

REVIEWING EXTERNAL PAY RELATIVITIES

(This Chapter looks into several ways of comparing civil service pay with the private sector, and sets out the approach that has been adopted for the review)

5.1 We have recommended in Chapter 3 that broad comparability with the private sector should continue to be an important factor in the determination of civil service pay. It is therefore necessary to conduct pay comparison surveys in the current review. In the first phase of our work, we have concentrated our efforts on formulating the methodology for the surveys and making arrangements for them to proceed smoothly so that the results can be available when we examine the salary structure of individual grades in the next phase.

Problems in Making Comparison

5.2 The principle of fair comparison stipulates that closely comparable jobs in the civil service and the private sector should as far as possible attract the same remuneration. The most commonly raised question about applying this principle is whether such jobs can indeed be found for a meaningful comparison. There are two aspects to this question :-

- (a) The contents of jobs bearing similar titles in the two sectors are often not comparable on close examination. One response to this is to identify job analogues for comparison. However, for many civil service grades, analogues in the private sector simply do not exist. No direct comparison with the private sector can therefore be made for these grades. Even for those grades where private sector analogues exist, the private sector jobs selected for comparison may not cover the entire span of the civil service jobs to be compared. An alternative approach is to use the factor-comparison method over which, as the 1986 Pay Level Survey experience indicates, there are many controversies.

- (b) Pay policies and conditions of employment are considerably different in the two sectors. It is extremely difficult to quantify such differences in the comparison. The only possible solution is to take account of them and exercise one's best judgement when considering how the results of the comparison are to be used in setting pay.

Broad Indicators versus Precise Indicators

5.3 The first issue for us to consider in the current pay comparison exercise is how the results should be reflected in the pay of individual grades. If the objective is to obtain precise indicators as a basis for setting the pay of each grade, the methodology to be adopted has to be very precise. It will also be necessary to conduct very thorough consultation with the staff concerned throughout the survey exercise. On the other hand, if the results are intended as broad indicators of the private sector position, as they were in our 1979 review, a relatively broad-brush approach can be adopted. It allows the survey results to be applied with more flexibility. Taking also into account the technical problems in making comparison as set out in the foregoing section, we have decided that for the purpose of this review, we should aim at obtaining broad indicators of the private sector position.

Approach to be Used for Comparison

5.4 There are two key issues. One is concerned with the method of comparison. The other relates to the subject of comparison.

Method of Comparison

5.5 In the 1979 review, we considered two possible methods of linking civil service and private sector pay :-

- (a) Educational qualification method

Under this arrangement, a range of jobs in the private sector for which a stated educational qualification is a normal requirement for appointment will be identified. The pay for all civil service grades requiring a similar qualification for appointment will be set by reference to the pay for these private sector jobs. In practical terms, this involves establishing a benchmark salary point for each essential educational qualification on the basis of which the starting pay for the relevant entry ranks in the civil service will be determined.

(b) Core grade method

A number of civil service jobs which could be fully and fairly compared with jobs in the private sector will first be identified. The grades for these jobs will become 'core grades' to which all other civil service grades would be linked according to certain defined criteria. The pay for those private sector jobs which are comparable with these core grades would then set the civil service pay for the core grades and all linked grades.

The educational qualification method was considered by us to be a more readily convenient approach and was therefore adopted.

5.6 In the current review, we have considered the following methods of comparison :-

(a) Grade by grade factor analysis method

The external relativities of each civil service grade are reviewed individually. Private sector jobs having certain functional similarity, but not necessarily analogues, with the particular civil service grade and normally held by persons possessing similar educational qualifications are identified. They are then compared with the relevant civil service jobs by a method employing the factor-point approach. The average pay of those private sector jobs scoring factor-points in the same range as those scored by the civil service jobs are used to set the pay for this particular grade. This method has the following advantages :-

- (i) it should be possible to cover most civil service grades; any exceptions would have their pay set by internal relativities and other relevant factors; and
- (ii) the principle of fair comparison could be applied to jobs of comparable size.

This method, however, also has considerable drawbacks :-

- (i) it is extremely time-consuming to implement;
- (ii) the method would produce precise indicators for individual grades and therefore allow less room for manoeuvre in setting pay; and

(iii) some existing internal relativities might be changed.

(b) Core grade method

The main advantages of this method are that a reduced number of private sector jobs for the comparison would be needed, and that it can be claimed that truly comparable jobs are involved in the comparison. However, it has the following disadvantages :-

- (i) those grades other than core grades cannot be compared with those in the private sector;
- (ii) it could take considerable time to agree with staff which jobs should form the core grades and which grades should be linked to them;
- (iii) depending on the linkage, internal relativities might be disturbed; and
- (iv) the results of the comparison would also be quite precise thus providing less flexibility in setting civil service pay.

(c) Educational qualification method

The qualification method has the following advantages :-

- (i) it enables account to be taken of historical internal relativities based on educational qualifications;
- (ii) it permits a limited degree of flexibility in regulating civil service pay;
- (iii) because of (i) and (ii), it is less controversial and therefore could be implemented quickly.

The main disadvantage of the qualification method is that comparability with the private sector would be applied to a wide range of not necessarily comparable jobs.

5.7 In our deliberations, we have taken into account several major considerations. The first is our preference for broad indicators rather than precise indicators to allow more flexibility in the pay determination process. We are also conscious of the need to maintain continuity

and stability in the civil service. Moreover, we feel that a method of comparison which is relatively straightforward and less controversial will have a better chance of success and acceptance. Having carefully examined all the relevant factors, our conclusion is that the qualification method adopted in the last review should continue to be the basis for making comparison with the private sector in the current exercise.

5.8 As in our 1979 review, the primary aim of the comparisons under the educational qualification method is to establish benchmarks for starting rates of pay for entry ranks in the civil service. Nonetheless, we consider that where possible, information on private sector remuneration for comparable civil service upper ranks should also be obtained.

5.9 Since almost all grades in the civil service are already classified into different groups according to the entry qualifications required for appointment to each grade, it follows logically that each qualification group should be the subject of a separate survey under the educational qualification method. Moreover, jobs representing particular qualification groups, rather than jobs representing particular grades, are to be compared with private sector jobs. Under our methodology, jobs for comparison in the two sectors are selected on the basis of functional similarity as well as similar entry qualification requirements. Broad indicators for the civil service qualification group concerned will be produced from the starting pay data of the selected private sector jobs. The starting rate of pay for the entry ranks of grades in this qualification group will then be determined by reference to these broad indicators.

Subject of Comparison

5.10 The second issue concerns the items that should be included in the comparison. In the 1979 review, data on salary only were collected from the private sector. In applying the total pay package concept, differences in the provision of fringe benefits between the two sectors should be taken into account. However, as the experience of the 1986 Pay Level Survey has demonstrated, the major difficulty in taking such differences into account lies in valuing fringe benefits in a fair and consistent manner. This is because of the variety of fringe benefits and the diverse methods by which they are provided in the two sectors. We also recognize that gaps currently exist between the cost to the Government of some benefits and the value of those benefits as perceived by staff. These

problems make the application of the total pay package concept a very controversial subject. Apart from this, we have recommended in Chapter 3 that before applying this concept, we should review the various components of the total remuneration package in the civil service with a view to striking an appropriate balance among the various components.

5.11 Notwithstanding the difficulties, we consider that differences in the provision of fringe benefits between the two sectors should have a bearing on the determination of salary levels. Having regard to the points made in paragraph 5.10, we take the view that in our pay comparison exercise, information regarding fringe benefits in the private sector should be gathered separately from the salary component of the total package but no cash value should be assigned to those that are provided in kind. The broad picture in respect of the two sectors will then be brought before us and the differences between them will be suitably taken account of in our recommendations on salary levels.