

## CHAPTER V : FUTURE PAY DETERMINATION

### General Considerations

5.1 Having concluded in response to requirement (c) of our terms of reference that the 1986 Pay Level Survey does not provide an adequate basis for making adjustments to civil service pay, we now consider what might do so.

5.2 In our Interim Report we said that this aspect of our terms of reference raised fundamental questions about the way civil service pay might best be determined in future. We have not been asked however to review the existing pay system as a whole, still less to consider whether a radically different approach from the present one might better serve the needs of Hong Kong. On the other hand, we think that in discharging the tasks defined in our terms of reference we can be most useful if we interpret them as widely as possible. We shall therefore recommend improvements within the existing system where they seem to be called for; and make suggestions or observations where further study may be needed or where decisions can best be taken in the light of further fieldwork or during the normal processes of consultation.

5.3 In commenting in our Interim Report on the division of our task into two parts we referred to the link between pay level surveys and pay trend surveys. That link is so important for our approach to the issues arising in our Final Report that some preliminary consideration of it is necessary. We start from the fact that even the most unstructured system of civil service pay determination must have regard to outside pay levels if only as an aid to satisfying recruitment and retention needs. When, as in Hong Kong, the total remuneration "package" is intended, as a matter of deliberate policy, to be broadly comparable with that of private sector employees, there has to be a structured methodology for establishing a correct comparison. This involves the conduct of pay level surveys. If annual pay adjustments are an accepted practice in both sectors and if annual checks on the continuing correctness of the pay level comparison are either impossible or impractical, then there has also to be a mechanism for updating civil service pay in between the periodic checks on pay levels.

5.4 Conceptually therefore a pay trend survey is an adjunct to a pay level survey, a subsidiary mechanism for preventing civil service pay levels from falling too far out of line with those of the private sector in the intervals between pay level surveys. We cannot emphasize

too strongly this primacy of the pay level survey. It is the only means of ensuring that civil servants are correctly paid in accordance with the avowed aims of the pay system; and it is the sole mechanism which can assure the public and the civil service that justice is being done to everybody concerned. It is self-evident that this assurance depends crucially upon the establishment of an effective and convincing methodology for conducting the pay level survey. Although such a methodology will inevitably be complicated and at times controversial, we believe it can be devised.

5.5 By contrast, a pay trend survey says nothing about the correctness of civil service pay levels. Indeed the pay increases resulting from pay trend surveys may arouse public comment which actually diverts attention from the far more important question of the correctness of the pay levels to which such increases are applied. Moreover, pay trend surveys are of their nature only approximate reflections of what has been happening in the private sector. They lead to arguments over the types of outside pay increase to be included in the calculation of the pay trend indicators and how they should be weighted. Any errors arising from their broadbrush nature can produce excessive or inadequate adjustments to civil service pay

which are cumulative and compounding in their effect year by year.

5.6 For the above reasons we believe strongly that pay level surveys should be regarded as the foundation of the pay system and that the role of pay trend surveys, though still essential, should be reduced. It follows that pay level surveys should be conducted regularly and frequently. It will also then follow that the built-in inaccuracies of even the best possible pay trend methodology will matter less than they do at present. If rough justice for one party or the other cannot be avoided, it is more tolerable if the results are corrected quickly.

5.7 As a matter of history the emphasis on civil service pay determination in Hong Kong has rested on the pay trend survey system. At the non-directorate level there has indeed been no successful pay level survey, i.e. one leading to an acceptable pay settlement. Even the 1986 survey was mounted as an ad hoc exercise rather than as an element of pay policy. It is true that the pay trend system has worked well enough insofar as it has, until recently, produced annual settlements tolerable to both parties. But it is fundamentally unsatisfactory as the prime mechanism for pay determination because it leaves

unanswered the essential question - whether the agreed aims of the pay system are being achieved. These considerations will underlie our approach to the problems discussed in the following parts of this report.

5.8 A consideration of a different order is the degree of precision at which a pay level survey should aim and the extent to which its findings should determine the level of a pay settlement without modification. There are two issues here. The first is whether within the agreed methodology there is scope for legitimate differences of interpretation of the data or even whether the methodology should deliberately leave some elements in the comparisons open to argument.

5.9 In Hong Kong, where experience is based on successive pay trend surveys, the pay data underlying settlements has traditionally pointed towards a precisely quantified outcome (or indicator). As we have noted, the results of the 1986 Pay Level Survey were widely regarded as more or less precise indicators that civil service pay was too high or too low, even though their accuracy was disputed. In its written evidence to us the Staff Side expressed the view that in a pay trend survey both a gross and a net pay indicator should be published and used as a basis for negotiating the annual pay adjustment. However,

no one has seriously urged that the methodology of either pay trend surveys or pay level surveys should leave deliberate scope for wide differences of interpretation. We believe that in the circumstances of Hong Kong both kinds of survey should as a general rule aim to produce, so far as possible, an agreed and precise set of indicators.

5.10 The second issue is the extent to which the pay level indicators may be modified after they have been calculated in order to take account of any factors extraneous to the data from which the indicators derive. In its written evidence the Staff Side said that the pay level survey on its own should not determine pay. It should rather form a basis for "informed collective bargaining" in which other factors such as civil service pay policy and social considerations are taken into account. As we observed in our Interim Report the aims of the present pay system already provide for regard to be had to certain "non-pay" factors such as, in particular, civil service morale and budgetary factors. There may also be unquantifiable factors arising from the comparison between working conditions in the civil service and the private sectors, such as, it may be argued, security of tenure or restrictions on political activities and secondary employment; and the parties may from time to time wish to give weight to them. This points towards somewhat more

flexibility in the use of pay level survey indicators than those of pay trend survey indicators. We think it important that any adjustments which are considered necessary should take place after the calculation of indicators. To do otherwise is to risk confusing, perhaps discrediting, the comparison process and complicating the task of defending it as fair to civil servants and to the public who pay them.

5.11 It should also be borne in mind that total inflexibility in the application of pay level comparisons to civil service grades or groups will sooner or later impose an unacceptable strain on internal civil service relativities. This is because the market relativities, as established by the pay level survey, may not match the management needs of the civil service and they may violate long-standing "felt-fair" civil service relativities with adverse effects on staff morale. The system must therefore envisage, indeed provide for, the possibility of some modification of the pay level comparisons where the efficiency of the service demands this. We revert to this issue in paragraphs 5.20 - 5.23.

5.12 Finally, as we have already noted elsewhere, no pay system based on sophisticated and tightly-drawn pay level comparisons will endure unless the methodology, both

in its theory and in its practice, has the confidence of all the parties. And the more precise the pay indicators produced by the system, the more complete that confidence needs to be. If the system throws up large increases at a time when the pace of wage increases in the private sector is declining, the Government must be able to defend those increases to the public by invoking the integrity of the system. If the opposite happens, the Staff Side must be able to explain the reasons to its members on the same grounds and in the confidence that the system, being basically fair, will best meet the long-term interests of the staff.

5.13 We have set out in the preceding paragraphs the general considerations which we think should influence the shape of any pay system which is intended, as in Hong Kong, to establish comparability between the total pay package of a civil service and that of the private sector. It is against this background that we now examine how the experience of the 1986 survey can help to secure more effective arrangements in the future.

5.14 Clearly we cannot hope to draw up a detailed specification for a modified system. That would be presumptuous on our part; it would negate one of the essential aims, that of maximum consultation between the



parties; and it would trespass on the role of the Standing Commission. It might also prejudice the solution of problems which can best be tackled as they arise. We therefore set out to do no more than suggest some of the main objectives which we think any future system should enshrine.

5.15 Our approach assumes that what is wanted is a system which will produce clear indicators of comparative remuneration levels and that whatever degree of flexibility is needed to allow for non-pay or unquantifiable factors should be provided for after the establishment of the indicators. In other words, such flexibility should not be exercised in the building up of the indicators with the result that the data base of the survey is obscured or lost.

#### A New Pay Level Survey System

5.16 Our main recommendation is that a new pay level survey should be mounted as soon as practicable and that it should be based so far as possible on job-for-job comparisons established by thorough fieldwork in representative areas within the civil service and the private sector. The evidence available to us suggests that for some civil service grades it will be difficult, indeed