

impossible, to identify suitable job analogues in the private sector. It is important that the survey should not fail by aiming at too complete a coverage of civil service jobs.

5.17 We suggest therefore that at least for the first survey, a comparatively small number of key or marker grades should be identified within the civil service according to two criteria. They should be jobs which are likely to have a close and readily identifiable functional counterpart in the private sector; and they should in sum cover as large a proportion of the civil service as possible. Such grades will probably include "generalist" staff at the administrative, executive, clerical and secretarial levels; and where possible some professional and technical groups. In the absence of any special reason for inclusion, smaller groups which at first sight may appear to have private sector counterparts (e.g. doctors, lawyers) should not be selected. As experience elsewhere has shown, it is extremely difficult to compare some professional groups in the fundamentally different conditions of the civil service and the private sector. In our view an attempt should not be made to do so unless there are compelling reasons.

5.18 The number of grades to be included in the survey cannot be prescribed in advance. It will depend upon the

degree of coverage achieved, the research capacity available and an estimate, when the time comes, of the degree of cooperation to be expected from the surveyed firms. It should however be possible to run an effective survey on the basis of relatively few grades provided they are well chosen. Ideally there should be two or three comparators for each civil service classification group although we recognize that this is not possible for some groups.

5.19 The survey indicators for the marker grades will then be used to extrapolate rates for groups of staff not covered by the survey on the basis of internal relativities. We recognize the difficulties inherent in determining what the key grades should be and, in some cases, which of these grades should be used to provide a pay link for groups not included in the survey. Again if staff are to have confidence in the survey, it is essential that these matters should be resolved in advance. Where difficulty is found in agreeing which grade should form the basis of a link, consideration should be given to using a "basket" of grades i.e. by passing on to the linked grade the average increase of several of the grades covered by the survey.

5.20 This process of extrapolation will not be easy

and it will place the whole issue of internal relativities in a new light. It is important therefore that there should be an adequate understanding of their nature. First, it is implicit in the whole concept of comparable rewards for comparable work in the two sectors that if market rates are followed the market relativities implied by those rates will have an effect on the civil service. It is right in principle that they should do so and if the process is thwarted unduly the system itself will soon cease to work.

5.21 Secondly, the civil service will have its own views about the pattern of internal relativities which best meets its management needs, reflects its own perception of comparative job weights and satisfies, so far as that is possible, the feelings or aspirations of the staff. The importance of traditional relativities, as some reactions to the Report of the Review Committee on Disciplined Services Pay and Conditions of Service (Rennie Report) showed, is deeply felt and they are not lightly to be disturbed. The effects of doing so on staff morale, and therefore ultimately on efficiency, have to be carefully weighed.

5.22 Thirdly, internal relativities may be affected by the need, on recruitment, retention or other grounds, to

respond to market rates beyond the point established through the fair comparisons process or, more usually, in cases where there are no outside comparators. Again, the most recent example was provided by the special increases granted to the Disciplined Services.

5.23 There is also an important fourth dimension to the problem of internal relativities. Comparability systems, to be effective, pre-suppose that in the civil service, staff are graded and grouped in a structure which broadly reflects their comparative responsibility and job weight. This requirement can be met even though staff are broadbanded over a fairly large span of job weight provided the band limits are observed and a truly representative and weighted internal field for the grade is selected for the purposes of a pay level survey. But if the structure does not broadly reflect comparative civil service job weights, then the already disturbing effect of importing market-based differentials is heavily compounded with potentially unacceptable results.

5.24 Matters of civil service structure are of course well beyond our terms of reference and we express no view about them. According to the press release of 21 November 1988 covering the Rennie Report, the Government is to consider inviting the Standing Commission to conduct a

review of the salary structure of grades in the "non-disciplined" services. It was pointed out that the last general review of the civil service structure had taken place some ten years ago and that it would be appropriate to start on the review in 1989 "to take account of general developments and any changes in workload and responsibilities of individual grades during this period".

5.25 Such a review would of course be directly relevant to a future pay level survey system and we are confident that if our recommendations are accepted, the Standing Commission will bear this dimension in mind. It would however be unfortunate if the proposed structure review were to delay the carrying out of a new pay level survey. We feel strongly that while ideally the civil service should sort out any structural and grading problems before launching another pay level survey, the need to test civil service pay levels is far too urgent to wait until after this has been done.

5.26 It will be obvious from what we have said about internal relativities that in the application of pay level survey results to the pay of particular grades, a degree of articulation in the pattern of existing relativities must be allowed for. Equally there may have to be some flexibility in the application of the pay level survey

indicators. The pay adjustments eventually made must in effect be a resolution of sometimes conflicting forces - the pay data, any relevant non-pay factors or 'unquantifiables', the pull of existing differentials, and the need, where identified, to change relativities for internal management, market or other compelling reasons.

5.27 Our final and perhaps most important point on internal relativities is that the point of departure for a new pay level survey should be the relativities as they exist at the time. For the purposes of the survey there should be a strong presumption that they are correct (or at least acceptable) unless there are positive and sufficient reasons for changing them. The time between pay level surveys should be the occasion for deciding grading and structure issues. If pay level surveys, particularly the first one, are regarded as the opportunity for establishing ideal relativities between all civil service groups, it is all too likely that the surveys will be intolerably delayed or never take place at all.

Valuation of Fringe Benefits

5.28 We fully endorse the view that pay level surveys should involve a comparison of civil service and private sector total pay packages, i.e. pay and fringe benefits.

This raises the thorny question of how fringe benefits should be valued. In Chapter IV we have already said that we consider certain aspects of the methodology used in the 1986 Pay Level Survey to be unsatisfactory and that, wherever sensible and possible, the assessment of fringe benefits should be based on the replacement cost to the employee and on actual utilization. We recognize that for practical reasons the methodology may need to vary according to the type of benefit concerned. What is important is that, so far as possible, the methodological approach should be agreed with staff before the pay level survey takes place. This is essential if the staff are to have confidence in the survey. That said we would comment on three categories of benefits, the valuation of which has aroused contention.

Housing Benefits

5.29 We noted in Chapter IV that the provision of housing for local officers was the result of a policy decision to equate their terms and conditions with those of expatriate staff and concluded that for this reason a change in the method of valuation would be justified. We do not however accept the argument that on this account their value should be totally excluded from the calculation of fringe benefits. Nor do we accept that for this reason

comparison should be drawn only with the housing benefits of expatriates in the private sector. Civil service housing benefits clearly have a value, and the point at issue is how that value should be assessed in a pay level survey.

5.30 For the reasons given in paragraph 4.16 we consider that the method of valuing housing benefits in the 1986 Pay Level Survey led to their being over-valued. We therefore recommend that housing benefits for staff on the upper/upper band and the upper band should in future be valued in accordance with one of the following two methods. The first method would have regard to the replacement value, i.e. what would be the likely size of accommodation that a local civil servant could be expected to rent if the government housing benefit was not available? One possibility would be to assume a 75m² flat* for staff on the upper/upper band and a 60m² flat for staff on the upper band. Under this method, it is the market rent for such flats, weighted to take account of

* Assumption used by consultants, Wyatt Company (HK) Ltd., in their investigation into the pay trend survey exercise (Report No. 7 of the Standing Commission on Civil Service Salaries and Conditions of Service).

actual utilization, which would determine the value of the civil service housing benefits for pay survey purposes. A similar assumption would of course be used in valuing the provision of quarters in the private sector.

5.31 The alternative method would have regard to the proposed new housing benefits scheme at present the subject of discussion between the staff and the Administration. This scheme accepts that the provision of quarters to local civil servants is an anachronism and aims to replace it with a revised Home Purchase Scheme. It appears to us that these new arrangements would provide a sound basis for assigning a fair value to the housing element in civil service remuneration and that, in future, account should be taken only of the value of the benefits deriving from the new Home Purchase Scheme, as it eventually emerges, weighted to take account of actual utilization and to allow for the limited period of provision.

5.32 While our preference is positively for the second of these two methods, we appreciate that it may be some considerable time before new civil service housing benefits are finalized and introduced. We would therefore see no objection to the use of the first method as an interim measure.