

4. PAY SYSTEM AND UNDERLYING CONSIDERATIONS

- 4.1 In exchange of their services, public sector employees receive a package of financial and non-financial rewards contained in Conditions of Service. In addition, the employees generally have a career structure where they can progress to higher positions on satisfying the necessary promotional criteria. Altogether, these play an important role in maintaining an effective workforce by attracting new employees and motivating and retaining existing ones to deliver high quality public services. From the employer's perspective, the whole reward system represents a substantial cost that needs to be carefully managed.
- 4.2 Public Sector pay is reviewed by the Pay Research Bureau, normally, once every five years. However, compared to previous reviews, the present one has proved to be even more challenging. While on the one hand, there is need to redress the weaknesses of the existing pay system, address salary compression and relativity issues and meet the expectations of Trade Unions and Federations for higher pay and better Conditions of Service. On the other hand, the Bureau had to remain mindful of the current state of the economy, fiscal constraints and budgetary resources of Government. All in all, the Bureau had to come up with reward strategies to attract, retain and motivate staff of a suitable calibre to deliver high performance services to the public with the means that the country can afford.
- 4.3 Though pay and policies related thereto are only one of the factors that impinge on macro-economic stability, they however also contribute to economic development.
- 4.4 Hereunder, we elaborate on the key considerations underlying our pay policies and recommendations:

Minimum Wage Legislation and Internal Relativity

- 4.5 As a broader labour market policy, the then Government decided to adjust the National Minimum Wage (NMW) to Rs 15000 with effect from January 2024. With the implementation of this new NMW, employees drawing a gross salary of less than Rs 16500 (inclusive of Additional Remuneration 2024) had their salary adjusted to Rs 16500. In so doing, the lower segment of the 2021 Master Salary Scale was compressed as 17 salary points on the incremental scale had to be adjusted to Rs 16500. Higher-paid employees within the same grade have, therefore, felt the consequences of the compression in pay owing to a rapid increase in the NMW. Consequently, this led to an equity issue and Federations have been very vocal in this regard.
- 4.6 Since a periodic review of salary is normally carried out in the public sector where relativity is re-assessed within the broader framework of remuneration and set anew after considering various factors as opposed to the private sector,

the then Government decided to grant an interim allowance equivalent to 5% of the basic salary drawn in January 2024 subject to a maximum of Rs 2000 monthly to all public sector employees with effect from 01 July 2024 pending the implementation of the 2026 PRB Report. This allowance has, therefore, been integrated in the recommended salaries.

- 4.7 It is of note that Section (9) of the National Wage Consultative Council Act provides for the PRB to take the national minimum wage as the baseline for its salary review and this has been a major determinant in fixing the starting salary of the General Worker.
- 4.8 Once the starting salary has been determined, appropriate within grade salary differentials have been set, taking into account the need to remunerate differently employees with different years of experience. As regards inter grade relativity, grades need to be structured in a logical sequence to ensure coherence in job ranking and pay decisions. We have based ourselves on our job evaluated structure to develop a job hierarchy that reflects the relative value of jobs on the basis of compensable factors. Views were also sought from Federations on the pay relationships among grades that they would wish to see emerge. Unfortunately, the main Federations of the public sector did not respond to this crucial exercise. The Bureau, however, holds that Job Evaluation Techniques should continue to be used as a basis for a balanced and equitable pay structure.

Trends in Public Sector Pay

- 4.9 Since the past two reports, real-terms pay was held down for senior positions with below rate of inflation increases as compared to lower-level positions. As a result, the pre-tax salary ratio between the General Worker and the Permanent Secretary which was set at 1:7 in the 2016 PRB Report was further reduced to 1:6.2 in the 2021 PRB Report and as at December 2025 stands at 1:5.2, inclusive of 5% interim allowance. The post-tax ratio would obviously be much lower. Moreover, with the introduction of new tax rates and bands as from July 2025, the overall tax liability for high income earners has increased. All these elements have been considered in arriving at the total remuneration package.

Loss in Purchasing Power

- 4.10 The loss in purchasing power as measured by the difference between the cumulative rate of inflation and cumulative rate of compensation for the period January 2021 to December 2025 has been an important consideration in this Review. On average, the erosion in purchasing power for the aforementioned period is estimated to reach 18%. Given that compensation for the rise in cost of living is not granted at a uniform rate across all salary levels, the loss in purchasing power is more pronounced for employees at the higher echelon compared to those at the lower level. This loss is estimated to range from 0% at the lowest level to attain around 31% for the high earners. In this review, we

have to the extent possible and up to a certain level, compensated for the erosion in purchasing power.

External Relativity

- 4.11 Though the pay structure and conditions of service of the Public Sector have to be determined on their own merits, it is essential to make an assessment of the general climate of pay in the country and to take account of the market realities with a view to ensuring the external competitiveness of the pay structures. For this purpose, the Bureau relied on published Salary Surveys, Remuneration Orders and other secondary data sources.
- 4.12 An examination of remuneration packages payable in the private sector and large State-Owned Enterprises reveals that the base salary of Chief Executives normally ranges from Rs 175000 per month to Rs 800000 monthly depending on sectors. In a few cases, in private companies, they even earn seven-figure salaries.
- 4.13 During their oral submissions, employees in higher grades desired a linkage with the salaries in the private sector as well as some large State-Owned Enterprises on grounds of broad comparability. Admittedly, salary fixation for these positions is more complex. Although from the market stance, high increases for top level positions appear justifiable, past experience has, however, shown that these are not easily acceptable. Moreover, the inherent differences between the two sectors and the capacity of Government to pay set limit to the extent to which salaries can be aligned.
- 4.14 However, we are also cognisant to the fact that lower salaries for highly skilled professionals and employees of the upper echelon may demotivate serving employees and lead to recruitment and retention issues. We have thus tried, to partially address this issue through the recommended pay packages.

Demands of Federations

- 4.15 The Federation of the Civil Service and Other Unions (FCSOU) has proposed a starting salary of Rs 18500 for a General Worker. It has also submitted a salary grid to the Bureau for consideration. The State and Other Employees Federation (SEF) and the All Workers' Trade Unions Federation (AWTUF) consider that the setting of the minimum salary has created certain anomaly and distortion in the salary ratio and these have to be addressed by the PRB. Almost all the Federations proposed that the salary ratio should be calculated based only on the salary of the General Worker to that of the Senior Chief Executive instead of the Permanent Secretary. It has also been submitted that employees drawing a monthly salary above Rs 50000 have been deprived of the payment of additional remuneration and the 14th month Bonus that was paid in 2 instalments in December 2024 and January 2025.

- 4.16 Due consideration was given to all the demands and salary proposals of the Federations in connection with relativity adjustment and the need for internal equity. However, these have been assessed within the broader sphere of the total remuneration package of the Public Sector pay system which comprises a basic salary and other financial and non-financial benefits. We have further borne in mind the adverse consequences such as under employment and lower incentives for education if the lowest starting salary is set too high.

Capacity of Government to Pay

- 4.17 In determining the revised salaries, affordability has been very important though not an overriding factor. As public officers are paid from public funds, it is right and proper that Government's affordability and sustainability of pay increases be given due consideration in a review exercise of such magnitude.

Other General Pay Considerations

4.18 (i) **Job Characteristics**

Job related factors originally taken into account in setting the pay scale of certain grades may have evolved over time with a result that the salary grading may have to be reviewed and so where necessary and justified changes were brought. In so doing, we have also considered the wider implications of such adjustments on other grades and beyond.

(i) **Existing Pay Relationships**

Some existing internal pay relativities that have strong traditional relationships have been maintained.

(ii) **Remuneration Policies**

By virtue of Government decision, some Parastatal Bodies have been brought under the purview of the PRB. These organisations already have their own compensation policies which are not in line with those of the PRB. Necessary adjustments had, therefore, to be made in such cases.

Pay Strategies

- 4.19 The Bureau has, alongside the various pay considerations adopted certain pay strategies to achieve multiple objectives as enunciated in the subsequent paragraphs.

Performance Related Pay Progression/Annual Increment

- 4.20 Almost all grades in the Public Sector have a salary scale with incremental steps. Normal movement along the scale is subject to satisfactory performance so that increments have to be earned.
- 4.21 A robust and objective evaluation process is used to rate employee performance on key tasks and competencies. The performance ratings determine whether increment is to be granted or not. In case of

underperformance or in specific circumstances, it may be withheld, stopped or deferred.

Long Service Increment/Enhanced Career Earnings

- 4.22 Owing to few or non-existence of promotional posts, some employees with long years of service in certain grades, on reaching the top of their salary scale, find themselves stagnating on the same salary point for years. To provide enhanced earnings to these employees, the long service increment was introduced.
- 4.23 In the 2021 PRB Report, some improvement was brought to this pay strategy as it has proved to be effective in terms of boosting the employees' morale with positive results on performance. We are, therefore, in this Report bringing further amelioration.

Incremental Movement Beyond Top Salary

- 4.24 Incremental movement has been granted for the acquisition of additional/higher qualification, the successful completion of a sponsored course by Management or for performing additional/higher duties which normally devolve upon the next higher level in the cadre and for limited number of higher posts which has a direct impact on earnings.
- 4.25 At present, certain category of officers who have drawn their top salary for a year are allowed to move by either one or two or three increments in the Master Salary Scale after having been consistently efficient and effective in their performance, as evidenced by the Performance Appraisal Report during the preceding two years, and have not been adversely reported upon on ground of conduct. This is being maintained.

Pay Supplement

- 4.26 To reflect their in-demand expertise and maintain salary competitiveness, a pay supplement allowance has been introduced for experienced employees in certain grades requiring specialist/professional skills and involved in engineering work and infrastructural development of the country.

Entry Grades requiring Science Subjects

- 4.27 The qualifications requirement of some entry grades in the Public Sector is at least 2 science subjects at 'A' level. It has been represented that many incumbents tend to move to other generalist grades e.g Management Support Officer within the service as the latter has a higher starting salary. This movement consequently leads to issues of retention, non-response to advertisement and additional recruitment and training costs. In that context, a reward strategy has been devised to attract and retain incumbents who are starting their career in the field of science.

Recruitment and Retention Issues

4.28 There exists a shortage of professionals in a few areas in the Public Sector. In some cases, there have been prolonged recruitment and retention issues due to several factors e.g better pay packages in the private sector, courses are not dispensed locally and limited supply of labour on the market, among others. These are discussed more elaborately under the Chapter Recruitment, Promotion and Retention. A better salary package has been worked out for posts facing persistent and prolonged recruitment issues e.g in the Marine Class.

Enhanced Salary Conversion

4.29 An enhanced salary conversion has been applied where officers in certain grades are effectively performing some specific additional duties not within the normal scope of their schedule of work.

Remuneration for Changes in Job Content

4.30 In some cases, based on our systematic evaluation, where officers would be called upon to perform additional duties due to an evolution in their work, they would benefit from an additional increment at salary point reached as from the day they effectively start to carry out these duties.

Non-Monetary Conditions of Service

4.31 Besides their salaries, Public Sector employees are provided with a set of non-monetary conditions of service. Many of these have been maintained, a few others have been enhanced and new ones introduced. The assessment of pay adequacy therefore should not be limited to the basic salary only but should equally take into account the above elements. Though some are not tangible, they, however, serve the same purpose as monetary compensation that is to attract, retain and motivate employees.

Revision of Allowances

4.32 In view of the difficult financial situation, we found it unreasonable to grant the same percentage increase in revising the quantum of the different allowances. Depending on their utility and other characteristics, different rates have been applied.

Conclusion

4.33 While observing the parameters of national affordability and social acceptability, the Bureau had regard, among others, to:

- (i) ensuring that the starting salary of the lowest paid is not less than the NMW and addressing the relativity distortion where necessary;
- (ii) the need for a fair, reasonable and socially acceptable pay for public sector employees;

- (iii) setting an acceptable salary ratio between highest and lowest earners. Pre-tax ratio between the General Worker to Permanent Secretary which was 1:6.2 in 2021 and 1:5.2 as at December 2025, has been maintained at 1:5.4. Moreover, the salary ratio between the General Worker and the Senior Chief Executive now works out to 1:6.7;
- (iv) devising a comprehensive remuneration package that paves the way for simultaneously improving service delivery and public service performance and productivity;
- (v) monetary value of the array of non-monetary benefits that form part of the total remuneration package which accrue to public sector employees;
- (vi) ensuring the recruitment and retention of the right mix of employees who are motivated to deliver high quality public services;
- (vii) provision for enhanced earnings as a retention measure where deemed necessary;
- (viii) the key principles of compensation including equity, transparency, competitiveness and employee performance;
- (ix) having an internal aligned pay structure established through job evaluation techniques;
- (x) incentivising employees through the grant of annual increment and further incremental movement beyond top salary for sustained performance or long years of service;
- (xi) restoring appropriate differentials at certain levels as an incentive for officers to aspire to those positions and also to reflect the level of responsibility devolving thereon; and
- (xii) the need for compensating, to the extent possible, for the loss in purchasing power.

4.34 After considering all the relevant factors including the demands of the Federations, views of staff as well as staff morale, a comprehensive remuneration package has been evolved for public sector employees. In framing its salary recommendations, the Bureau has attempted to reconcile the need for improved service delivery and public service performance with broader pressures on the public finances. Overall, the end has been a balancing act between fiscal responsibility and the need to maintain an effective Public Service.

