

CHAPTER 1

SUMMARY AND CONCLUSIONS

- 1.1. Our remit from the Standing Commission was:
 - 1.1.1. "To assess whether or not the present remuneration of Hong Kong's Civil Service, below the Directorate Level, including both salary and fringe benefits, is broadly in line with that of employees in the private sector undertaking comparable work".
- 1.2. Our overall findings in summary are as follows.
 - 1.2.1. The total package for the Model Scale 1 Pay Band is below the Upper Quartile and slightly below the Average by comparison with equivalent private sector jobs.
 - 1.2.2. The position for the Lower and Middle Master Pay Scale Bands approximates the Upper Quartile and is above the Average compared to the private sector.
 - 1.2.3. The total packages for the Upper and the Upper Upper Master Pay Scale Bands are well above the Upper Quartile and the Average compared with the private sector.
 - 1.2.4. For the Upper and Upper/Upper Master Pay Scale Pay Bands, the major reason for the large gap between the private sector and the Civil Service total packages for local staff is a much larger Fringe Benefits component in the Civil Service (although the Base Salary practice in the Civil Service in these Pay Bands is also quite competitive).
 - 1.2.5. This gap is very largely made up of differences between the Housing Benefits available in the Civil Service and the private sector for local staff, with a much smaller contribution from the larger Retirement and Disability Benefits in the Civil Service.
 - 1.2.6. This gap remains large, although it is much reduced, if the Housing Benefits are calculated on the Basis of the pattern of actual utilisation of the benefits by employees in the Civil Service rather than on the basis of maximum notional value.

- 1.2.7. There is a wide range of other Fringe Benefits given to local employees by a considerable number of the private sector companies in the Survey which are either not provided in the Civil Service at all or not to the same extent.
- 1.2.8. Upper and Upper Upper pay bands Civil Servants have a similar range of benefits for local and expatriate staff unlike the private sector, with the pattern of Civil Service benefits more closely resembling that of expatriates in the private sector.
- 1.2.9. Model Scale 1 have fewer fringe benefits than staff of the Master Pay Scale or equivalent ranks.
- 1.3. Base Salary
- 1.3.1. The Civil Service has a comparatively uniform pay practice within which very different job types, considered to be of comparable rank, are placed in the same Pay Band. Civil Service pay levels must reflect the Government's need to recruit and retain able and educated personnel whose services are equally in demand in the Hong Kong private sector.
- 1.3.2. Some of this competition occurs with the financial sector, where we have evidence (independent of this Survey) that in 1985 the Average Base Salary practice was approximately the same as the Upper Quartile practice for the industrial and commercial sectors.
- 1.4. Fringe Benefits
- 1.4.1. We have valued Fringe Benefits by calculating the cost to the employee of replacing each benefit, based on its market value in Hong Kong, as prescribed by the methodology.
- 1.4.2. It is worth reflecting whether these benefits necessarily correspond entirely to the actual value of the benefits - in the sense of enhancement of living standards - perceived by the employee. These perceptions by employees are relevant if one is considering the competitiveness of different Fringe Benefits packages. Therefore it is possible that the Fringe Benefits package for Civil Service local staff may be less attractive to its employees than it appears. Furthermore it may be that a

Fringe Benefits package which more closely resembles a typical package for local staff in comparable jobs in the private sector would be more attractive. Indeed, such a package might be more competitive even if its total cost to the employer were lower than at present, for example, a package in which new benefits were introduced but Housing Benefits were reduced.

1.4.3. Apart from Housing Benefits, the major differences in individual Fringe Benefits are Retirement and Disability Benefits. The Civil Service pension value is comparatively high because of:

- * a relatively high formula (2% x final pay x years of service);
- * a normal retirement date of 55 rather than 60;
- * unreduced pensions for early retirement at 50 (or at 45 for police);
- * good disability benefits.

1.4.4. The fact that retirement benefits are entirely voided if retirement is taken before the age of 50 has not reduced the calculated value of the pension by much because the turnover is quite low (3.63% per annum for MPS and 3.84% for Model Scale 1). It is actuarial practice to use past turnover rates in this way. But it is for consideration whether the circumstances surrounding Hong Kong mean that past turnover rates are a good indicator of future ones. If this turnover rate were to rise to 10% per annum, to take an arbitrary alternative, the effect would be to reduce the calculated value of the pension for local staff in the Master Pay Scale Pay Bands by 26%.