

EXECUTIVE SUMMARY

The principle of taking into account the total packages of pay and fringe benefits in comparing the general levels of pay in both the civil service and the private sector was first accepted by the Governor-in-Council in March 1983. In February 1986, the Standing Commission on Civil Service Salaries and Conditions of Service (the Standing Commission) was invited to conduct a Pay Level Survey for non-Directorate civil servants to assess whether or not the existing remuneration of the civil service below the Directorate level, including both salaries and fringe benefits, was broadly in line with that of employees in the private sector undertaking comparable work.

2. Two consultancy firms, namely, Towers, Perrin, Forster and Crosby Inc. (TPF & C) and Hay Management Consultants (Hong Kong) Ltd. (Hay), were engaged by the Standing Commission at different stages in connection with the Pay Level Survey. TPF & C were responsible for advising on the development of a practical method of valuing those fringe benefits to be included in total packages for the purpose of pay comparisons. Hay were responsible for devising a methodology for evaluating and comparing jobs in the civil service with those in the private sector and for conducting the Pay Level Survey itself.

3. For consultation purposes in connection with the Pay Level Survey, the Standing Commission set up the Pay Level Survey Advisory Committee (PLSAC) with representatives from the Standing Commission, the Administration, civil service staff associations, OMELCO and private sector organizations. The function of the PLSAC was to advise the Standing Commission on the proposed evaluation of fringe benefits, the methodology for pay comparisons, the selection of grades for job and pay comparisons, the analysis and interpretation of the results of the Pay Level Survey and any other matters referred to it by the Standing Commission.

4. In its First Report on the Pay Level Survey (Report No. 16), the Standing Commission submitted its recommendations on the proposed evaluation of fringe benefits and methodology for the Pay Level Survey. These recommendations were endorsed by the Acting Governor with a few modifications. Hay carried out the survey in accordance with the approved methodology.

5. For the valuation of fringe benefits, the principles and assumptions adopted were those recommended by the Standing Commission in Report No. 16. They were as follows :-

- (i) Total packages for comparable jobs should be assessed on the basis of the notional values of the total packages;
- (ii) The valuation of total packages for pay level comparisons should only have regard to local terms of service. However, as suggested by the Acting Governor, no distinction was made between local and expatriate employees in the private sector in the case of base salaries which formed part of total packages;
- (iii) The valuation of total packages for pay level comparisons should have primary regard to male staff;
- (iv) For the valuation of benefits which related to an employee's family circumstances, the assumption should be that a family had a single breadwinner and consisted of a married couple and two children;
- (v) The value of a benefit should be assessed on the basis of the cost of an employee of replacing a benefit provided by his employer;
- (vi) All fringe benefits should be included in total packages, with the exception of those :
 - (a) which were provided at the employer's discretion;
 - (b) which were subject to restrictive regulations imposed by the employer to the extent that most employees could not make use of the benefit;
 - (c) the utilization rates of which were very low, such as 10% or less; and/or
 - (d) the values of which were impossible to ascertain and/or the data for which were difficult to capture;
- (vii) Once a benefit had been included in total packages, it should be valued on the assumption that maximum utilization would be made of it, and the actual rate of utilization should be disregarded. However, exceptions were made for two particular benefits, viz. housing benefits and medical benefits in the civil service, for which the pattern of utilization was used, although the values of these two benefits were still assessed on their notional values;
- (viii) Benefits provided for operational reasons should be excluded from total packages;
- (ix) The impact of taxation on the value of benefits should be taken into account in total packages; and

- (x) The value of benefits to be included in total packages should be expressed in absolute terms as well as in percentages of salary or pay.

6. The following benefits were included in total packages in the civil service and the private sector for the purpose of the Pay Level Survey :-

- (i) Retirement benefits, including pensions and annual allowances in the civil service, and pensions and lump sum payments calculated on final salaries or on provident fund contributions in the private sector;
- (ii) Death and disability benefits in both sectors;
- (iii) Housing benefits, including non-departmental quarters, Private Tenancy Allowances and Home Purchase Allowances in the civil service, and company quarters, housing allowances and housing loans in the private sector;
- (iv) Medical benefits, including hospitalization at concessionary rates in the civil service, and different types of medical benefits provided for employees in the private sector;
- (v) Dental benefits in both sectors;
- (vi) Leave passages in the private sector;
- (vii) Vacation and casual leave in the civil service and comparable leave in the private sector;
- (viii) Job-related allowances in both sectors; and
- (ix) All miscellaneous benefits, with the exception of those :-
 - (a) which were provided for operational reasons;
 - (b) which were provided at the employer's discretion;
 - (c) the utilization rates of which were extremely low;
 - (d) the value of which varied from one case to another and therefore could not be ascertained accurately; and/or
 - (e) the data for which were difficult to capture.

7. For job evaluation, Hay's methodology was used. Hay interviewed a sample of 405 job holders within 141 ranks on the Master Pay Scale, the Disciplined Services Pay Scales and

the Model Scale 1 of the civil service (these ranks comprised 137,165 officers, or approximately 80% of all staff at the non-Directorate level), and 1,300 jobs from 52 companies in the private sector which included two public utility companies. Each job was analysed in terms of three common factors, i.e. know-how, problem-solving and accountability, to which points (known as Hay points) were assigned. By so doing, the content of different jobs in the civil service and in the private sector could be compared, by contrasting the total scores assigned to each job.

8. In order that standards would be consistent throughout the job evaluation process, two quality control mechanisms were incorporated. First, the relationship of the scores for each of the three factors was studied to ensure that it conformed to an acceptable standard for the job and the total score was then discussed by an evaluation committee. Second, each individual job score was correlated with scores for similar jobs in other civil service and private sector organizations from Hay's international database.

9. The base salaries and total packages of job-holders in the private sector were plotted against their job sizes (Hay points) on separate charts, and on each chart three lines were drawn, which showed :-

- (a) the average base salaries or total packages for each job evaluation score;
- (b) the upper quartile (Q3) base salaries or total packages (i.e. 25% of the private sector companies were above the line and 75% were below the line); and
- (c) the lower quartile (Q1) base salaries or total packages (i.e. 75% of the private sector companies were above the line and 25% were below the line).

10. The base salaries or total packages of job holders in the civil service were also similarly plotted against their job sizes (Hay points). A comparison was then made by superimposing the charts for the civil service upon those of the private sector.

11. Hay completed the survey as scheduled and presented their findings to the Standing Commission on 13 November 1986. The findings were in turn referred to the PLSAC for comment. In accordance with the comments made by members of the PLSAC and with the approval of the Standing Commission, Hay adjusted some aspects of their method of calculation and submitted their final report to the Standing Commission on 20 January 1987.

12. The results of the Pay Level Survey show that :-
- (a) (i) For the upper/upper band, civil service total packages (calculated on the basis of maximum notional value and maximum utilization of housing benefits) are well above the upper quartile for the private sector over the entire range of job sizes;
 - (ii) For the upper/upper band, civil service total packages (calculated on the basis of maximum notional value and the pattern of utilization of housing benefits) still lie well above the upper quartile of the private sector, using maximum notional value and maximum utilization as the basis of calculation for housing benefits in the private sector over the entire range of job sizes;
 - (b) (i) For the upper band, civil service total packages (calculated on the basis of maximum notional value and maximum utilization of housing benefits) are well above the upper quartile for the private sector over the entire range of job sizes;
 - (ii) For the upper band, civil service total packages (calculated on the basis of maximum notional value and the pattern of utilization of housing benefits) still lie well above the upper quartile of the private sector, using maximum notional value and maximum utilization as the basis of calculation for housing benefits in the private sector over the entire range of job sizes;
 - (c) The total packages for the middle and lower bands of the Master Pay Scale approximate the upper quartile and are above the average for the private sector;
 - (d) The total packages for the Model Scale 1 band are below the upper quartile and slightly below the average for the private sector;
 - (e) For the upper/upper and upper bands of the Master Pay Scale, the major reason for the large gap between civil service and private sector total packages for local staff is due to a much larger fringe benefit component in the civil service, although the base salary in the civil service in these pay bands is also well above the average pay in the private sector. This gap is very largely made up of differences between the housing benefits available to civil servants and those available to local staff in the private sector, with a much smaller contribution from the retirement and disability benefits in the civil service. This gap

still remains large, even if the housing benefits in the civil service are calculated on the basis of maximum notional value and the pattern of utilization of the benefits, rather than on the basis of maximum notional value and maximum utilization as in the private sector;

- (f) A considerable number of the private sector companies in the survey provide a wide range of other fringe benefits given to local employees, which are either not provided at all in the civil service or not provided to the same extent;
- (g) Unlike staff in the private sector, local and expatriate civil servants in the upper/upper and upper bands are offered a similar range of benefits, with the pattern of civil service benefits more closely resembling that of expatriates in the private sector; and
- (h) Model Scale 1 staff are offered far fewer fringe benefits than staff on the Master Pay Scale or equivalent.

13. Hay have commented separately on the Disciplined Services and their findings are as follows :-

- (a) At the median job size of the Disciplined Services (Officers) Pay Scale, i.e. 323 Hay points, the base salary is \$176,000, which is approximately 14% above that of a job with the same Hay points on the Master Pay Scale at \$154,000; and
- (b) At the median job size of the Disciplined Services (Rank and File) Pay Scale, i.e. 148 Hay points, the base salary is \$68,000, which is approximately 3% above that of a job with the same Hay points on the Master Pay Scale at \$66,000.

14. Hay also noted the following points :-

- (a) The differences in pay levels between the Disciplined Services Pay Scales and the Master Pay Scale for the same job scores may reflect payments for special factors, such as danger, stress and restraints on personal freedom;
- (b) There are significant differences between the hours worked by some staff on the Disciplined Services Pay Scales and those on the Master Pay Scale, which might also have had an impact on determining the pay levels for these services in the past; and

- (c) It was not possible for Hay to obtain information from the private sector to comment on the special factors mentioned in (a), because there were no positions within the jobs surveyed which embodied factors corresponding to those in the Disciplined Services. The results of the survey, in this particular aspect, are therefore incomplete.

15. The findings of the survey give a general picture of the difference between levels of pay, in terms of both base salaries and total packages, in the civil service and the private sector. From these findings, the Standing Commission has made a number of observations which are set out in Chapter 9. However, it would be pertinent to highlight the following points :-

- (a) The levels of pay for the upper/upper and upper bands of the civil service are well above the upper quartile of the private sector and those for the middle and lower bands approximate the upper quartile and are above the average of the private sector. The levels of pay of the Model Scale 1 band fall below the upper quartile and slightly below the average of the private sector; and
- (b) The difference between the levels of total packages in the civil service and the private sector can be attributed largely to the different levels of fringe benefits provided in the two sectors. Housing benefits and retirement benefits have been identified as the two most prominent benefits which account for the difference.