

4.13 Our conclusion is that, wherever possible and sensible, the assessment of fringe benefits should be based on the replacement cost to the employee (i.e. on his necessary expenditure to replace a benefit if it were withdrawn by the employer) and on actual utilization. In practice we think that different fringe benefits may require different treatment according to the nature of the benefit and the availability of information. There must also be scope for adjusting methodology in order to deal sensibly with particular problems when they arise.

4.14 Housing benefits we regard as a special problem. It has been created largely by the decision to extend to local staff the housing benefits fashioned to meet the needs of expatriates. As we understand it, this was a policy decision and was not based on the perceived housing needs of local staff. As a result many civil servants are receiving housing benefits of a notional value far above that of the accommodation they would have chosen if left to themselves. In our view this special circumstance would justify some departure from the doctrine that fringe benefits must be assessed at full value whether or not they match the wishes of the employee. Even in its own terms the method used to value housing benefits in the 1986 survey was open to serious question in the account it took of the rental value of government quarters. These quarters

have no marketable value to the civil servants living in them and it is surely unreasonable to suggest that when the market rate for quarters increases, by say 50%, there is a corresponding increase in the value to the occupant which should be 'counted' against his salary.

4.15 We therefore consider there is substance in the view that housing benefits of civil servants were overvalued in the 1986 Pay Level Survey. We suggest later (paragraphs 5.30 - 5.31) alternative methods of valuing housing benefits.

4.16 We have no grounds for thinking that pensions were overvalued as they were based on an actuarial assessment which has not been challenged. It is nevertheless understandable, especially in Hong Kong's present situation, that the prospect of a distant pension, as opposed to immediate benefits on premature departure, should fail to appeal to some civil servants. But the Government as an employer is entitled, if it wishes, to set a pensions pattern which promotes a career service; or to set a 'good employer' example which it hopes others may follow. We therefore endorse the principle of full valuation of pensions for the purpose of total package comparisons. There may however be legitimate reasons for discounting the pension factor in some degree in the

post-survey stage when unquantifiable factors are considered and we return to this possibility later in this report.

4.17 The Staff Side have also criticized the evaluation of other civil service fringe benefits, in particular medical and dental benefits. They, and a number of other civil servants who have written to us, contend that these are overvalued on the grounds that the Government medical and dental services are inadequate and that many civil servants now seek treatment privately, either under a medical insurance scheme to which they contribute, or at their own expense. The Model Scale I Staff Side also felt strongly that, because of the restrictions placed on them, the valuation of personal loans available to civil servants was excessive. These are clearly important issues for the staff and need to be examined in the context of any future pay level surveys. However, in the 1986 survey, different methods of evaluating these and other benefits, apart from housing and pensions, would not have affected the overall results significantly.

Consultation

4.18 We have received much evidence from many quarters about the degree of consultation achieved in the 1986 Pay

Level Survey and, perhaps understandably, no entirely clear picture emerges. We see no point however in trying to decide stage by stage, what, if anything, went wrong. Clearly, however, the Staff Side feel strongly that consultation was both formally inadequate and also that, where it did take place, their views were heard but not adequately answered. We think that this feeling is genuine and does not simply derive from their dislike of the results of the survey.

4.19 We shall revert later to the question of adequate consultation. In the meantime we cannot emphasize too strongly that full consultation between the parties is a crucial element in a successful pay system. It is as much a part of a proper methodology as the selection of adequate techniques to identify and measure comparable jobs. If a pay level survey is to bear the weight of determining the rates at which civil servants are to be paid, it must have the confidence of the staff and this cannot be achieved without adequate consultation. While the same is true of the employer, the need for Staff Side involvement is, in the nature of things, particularly necessary. Such confidence is especially important if the survey results prove disappointing to the Staff Side as they inevitably will from time to time. We think that in 1986, possibly because of the time factor, not enough was done to win that confidence.

Time Allowed for Survey

4.20 The Staff Side asserted that inadequate time had been allowed for a thorough survey to be mounted and conducted; and that this restriction must cast doubt on the accuracy of the result. We were assured by the consultants that, while the time available was less than they would have liked, they were able to compensate for this by deploying extra resources on the survey and did not think that the outcome had been adversely affected. We see no reason to dissent from that view.

Conclusions

4.21 We therefore conclude as follows :-

- (a) the methodology used by Hay for the pay comparisons was sound and reputable but job-for-job comparisons would have been preferable and would have created greater confidence in the results;
- (b) the methodology used for the evaluation of fringe benefits tended to overvalue civil service benefits especially in relation to housing;

- (c) there are nevertheless no convincing grounds for disputing the general tenor of the results though the degrees of discrepancy between the private sector and the civil service must be in doubt.

4.22 There remains the question of the validity of the survey findings as a basis for making adjustments to civil service pay. The specific task laid upon Hay was to provide the Standing Commission with information and consultancy services which would enable them (the Commission) to determine whether the present remuneration of the civil service, including both salary and fringe benefits, "is broadly in line with that of employees in the private sector undertaking comparable work". We have noted that the Hay system, though it has some regard to comparable work, places the main emphasis on points/factor comparisons. Indeed Hay were briefed to make broadbrush comparisons and were expressly precluded from looking at individual jobs. To this extent the resulting report may be said to have fallen short perforce of fully achieving the "comparable work" objective set out in its terms of reference.

4.23 It is important also to pause over "broadly in line". We have already observed that the report came to be

widely regarded as identifying precise indicators of the extent to which civil servants were over or underpaid. This was not through lack of prior warning by the consultants who made clear to the Standing Commission and the Administration that in their view a survey of pay levels should not on its own determine remuneration policy; and they explained in detail the combination of factors which they thought should be taken into account by any employer apart from those arising directly from the particular pay level survey.

4.24 In this connection the Standing Commission, as noted in paragraph 2.8, expressed the view as long ago as 1979 that broad comparability with the private sector, though important, should not necessarily be the first principle or major consideration for determining civil service pay and emphasized the importance of recruitment, retention and efficiency. In fact the declared aims of the civil service pay system already explicitly refer to such extraneous factors as morale and budgetary considerations (i.e. in the case of the private sector employer, capacity to pay); and the objective of being a good employer. To these could be added such factors as job satisfaction, recruitment and retention problems, security of tenure, promotion prospects and the need for internal relativities which meet the organization's own needs.

4.25 The problem here is to strike the right balance between a pay system which sufficiently reflects the remuneration of the private sector and at the same time allows enough flexibility to cater for these other factors. However the balance is struck the result must be defensible both to the civil service and to the public in general. For present purposes we think that the Hay reservations cast serious doubt on the validity of the survey results as an exact indicator of what civil service pay levels should have been even in 1986.

4.26 Clearly it would not be possible now to reconstruct what kind of settlement might have been based on the survey data had all relevant factors been taken into account at the time. And these factors might have a very different weighting now. Moreover, the survey data base would itself be entirely different. All the evidence suggests that since the 1986 survey was conducted, the employment and remuneration scene in Hong Kong has altered radically, particularly as a result of severe labour shortages. If a similar pay level survey were to be conducted in 1989 there is reason to believe that the results would be markedly different with a presumption that the reported discrepancies between civil service and private sector pay would have been narrowed.

4.27 To these doubts about the usefulness of the 1986 survey data as an accurate indicator for civil service pay in 1989 must be added the inadequate association of the Staff Side with the survey methodology which produced the evidence. Nor can the lapse of time as such be ignored.

4.28 Our conclusion, inevitably, is that the 1986 Pay Level Survey does not provide a sufficient basis for making specific adjustments to civil service pay either now or in the future.