

- (b) some private company employees have to make some contribution for the medical services received, either in the form of partial subscription to insurance schemes or meeting that part of medical expenses which are not reimbursed.

30. Quantification of medical benefits schemes is extremely difficult because in many cases there is no monetary ceiling, and the extent to which individual employees benefit from these schemes also varies widely. Having regard to these difficulties and the observations in paragraph 29, the Working Group proposed that a practical valuation method is to assign a notional value of, say, one percent of salary to those jobs where some form of medical benefits is provided, and a further notional, say, 1/2 percent of salary to those jobs where some form of dental benefits is provided. The effect would be, essentially, to differentiate a job with such benefits from one without them.

31. The Working Group noted that in practice the junior staff in both sectors enjoy less medical benefits than their more senior colleagues, but felt that this should not affect the notional value assigned.

(G) Education Allowances

32. Education allowances generally take two forms : those provided to assist employees to educate their children in overseas schools (Overseas Education Allowance), and associated school passages; and those provided to assist employees to educate their children in Hong Kong (Local Education Allowance).

33. Overseas Education Allowance (OEA) and associated school passages were introduced mainly to assist expatriate employees to

have their children educated in their country of origin. It has been extended to local employees in the civil service (including pensionable and agreement officers, but excluding Model Scale 1 staff). According to the PSRU 1983 Fringe Benefits Survey Report overseas officers in the majority of private companies and local employees in a small number of companies are eligible for OEA and associated school passages. Local Education Allowance (LEA) is provided in the civil service and in some of the private companies covered in the PSRU Report. The rates of the allowances and the rules governing the application of the allowances differ between individual schemes, but in general they cover only a proportion of the total cost of education.

34. In considering whether education allowances should be taken into account in calculating the total package, the Working Group noted the following points -

- (a) The extent to which employees can benefit from these allowances depends on individual circumstances and preference. Thus, they would be of no value at all for an employee who does not have any children; OEA would have no value to an employee who does not wish to have his children educated overseas; and LEA would have little value to an employee whose children are in Government or Aided Schools;
- (b) The cost of overseas education is extremely high and the OEA scheme in general does not cover the entire cost. Thus OEA is not extensively made use of, even by expatriate employees (see paragraph 4.10.1 of Part II of the Standing Commission's Report No. 7); and
- (c) As regards LEA, it should be noted that the Government provides nine years free education in Anglo-Chinese schools up to Form III. Thus the majority of local employees whose children are

educated in Government and aided schools up to Form III level do not need to claim any allowance. The cost of education beyond Form III may of course be partially assisted by LEA, but at least in the Government LEA scheme there is a basic charge of \$600 per annum (equivalent to the school fees for Government and aided schools) which civil servants have to bear before LEA can be claimed. Thus, in practice, only those employees with children in English-speaking schools and a handful of private schools in Hong Kong enjoy any significant benefit from the LEA scheme. The number is not large.

Nevertheless, the Working Group also took note of the fact that for those employees in receipt of education allowances, the benefits might be substantial and it would thus be equally misleading not to take this into account in some way in calculating the total packages.

35. Having regard to the factors set out in paragraph 34 above, and the technical difficulties involved in placing a value on education allowances, particularly those operated under complicated rules, the Working Group proposed that a notional value of, say, one percent of salary might be assigned to jobs with either LEA or OEA attached, and, say, two percent of salary to jobs with both LEA and OEA attached.

(H) Miscellaneous Benefits

36. The Working Group also examined miscellaneous benefits not otherwise classified, and its conclusions are set out below -

(a) Salary Advances

Salary advances, whether codified or not, exist in both the civil service and the private sector. The aim is to assist staff in a variety of situations (e.g. to meet additional expenses during Chinese New

Year period, or in case of domestic calamities) with advance payment of salary which would be recovered subsequently. The benefit to employees enjoying these advances is the difference between the interest charged for personal loans by banks/finance companies and the interest (if any) charged by the employer. Valuation in each case would be complicated, and the results are unlikely to make any significant difference to the overall total packages. The Working Group proposed that these schemes should be excluded.

(b) Travelling Expenses on Home-to-Office Journeys

A number of private sector companies provide free or subsidised transport to their staff on home-to-office journeys. In the civil service, certain travelling expenses are reimbursed, and home-to-office mileage allowance is payable if the officer is required to use his car for official duty. As these benefits are given to employees mainly on operational grounds, the Working Group proposed that they should be excluded in calculating the total packages if the guideline set out in paragraph 7(b) above were to be followed.

(c) Long Service Travel Award

Some private companies provide other benefits to reward long service. It will be necessary to obtain details when conducting pay level surveys before a decision is taken as to whether or not they should be taken into account. A number of private companies provide passages to local officers as a reward for long service or good performance. These are similar to the civil service Long Service Travel Award Scheme. As the number of awards in both the civil service and private sector companies is small, and the award is entirely discretionary, the Working Group proposed that they should be excluded in calculating the total packages.

(d) Canteen Facilities/Subsidised Meals

Canteen facilities are found in some Government offices as well as some private sector companies. There are also some companies which provide a cash meal allowance. In view of their limited availability and the difficulties involved in quantifying their value, the Working Group proposed that they should be excluded in calculating the total packages.

(e) Purchasing Discount/Free Travel for Employees and Dependants of Transport Companies/Employers' Subsidised Recreational Travel/Club Membership

These benefits only exist in the private sector. Valuation is difficult, particularly with regard to purchasing discount because the value would be affected by the personal circumstances of the employee and the type of commodity concerned. While these benefits might be of significant value, it would be virtually impossible to quantify their value. The Working Group proposed that they should be excluded in calculating the total packages.

(f) Utility Expenses borne by Employers

This benefit could be substantial for those in receipt of it. The Working Group considered it reasonable to include this benefit in the total package with its basic value assessed having regard to the average consumption, subject to the prescribed maximum (if any). Further adjustment to the basic value should be made if the benefit is not subject to tax. Examples illustrating how this may be done are at Appendices VI and VII.

App VI & VII

(g) Tax-free Salaries

The Working Group proposed that where salaries are tax-free, they should be grossed up before inclusion in the total package. Appendix VIII illustrates how this could be done.

App VIII

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PART III - OTHER PRINCIPLES AND PRACTICES GOVERNING CIVIL SERVICE PAY

General

37. The Working Group noted that comparison with the private sector, important though it may be, is but one of the principles in the determination of civil service pay. In the words of the Standing Commission, "we do not, however, consider it should necessarily be the first principle, the overriding principle or the major consideration. If there is to be a first principle of civil service pay, it should be the old and well-tried principle that salaries should be sufficient to attract and retain candidates of a calibre who will provide the public with an efficient service" (see paragraph 19 of the Standing Commission's Report No. 1). In other words, while comparison with the private sector is relevant, the Working Group considered that its application must have regard to other established principles and practices governing civil service pay. Some of these are examined in paragraphs 38 to 42 below.

Broadbanding and Relativity

38. The result of significantly different pay-level adjustments to the pay scales of individual grades could cause relativity problems. It may also destroy the degree of broadbanding achieved in the present civil service pay structure.

Remuneration for the Lowest Paid

39. The Government has accepted the Standing Commission's recommendation, in its Report No. 1, that in determining the remuneration for the lowest paid, the Government should set an acceptable standard and be among the better-paying employers in the private sector. It would therefore be necessary, when comparing the total pay package of the lowest-paid jobs in the civil service with

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that of the private sector, to take this policy into account. Thus, for these jobs the level of their total package should be set in relation to that of the better companies in the private sector, rather than the average total pay package for the private sector as a whole.

Difference in Pay and Benefits of Local and Expatriate Employees

40. The pay and benefits for local and expatriate staff, according to Wyatt Company's findings in Report No. 7, differ substantially in the private sector, particularly at the senior levels. The Government adheres to the policy of equal pay to its local and expatriate employees; differences only occur in the provision of fringe benefits, and the extent of such differences is much smaller than in the private sector. This is because civil service pay rates are determined on the basis of 'pay for the job'. It would clearly be unacceptable for local and expatriate civil servants to be paid differently.

Civil Service Housing

41. According to the Wyatt Company's findings, disparity in the value of benefits between the civil service and the private sector is most marked in the senior local band, largely on account of better housing benefits in the civil service. The Working Group noted that the extension in 1960 of eligibility for non-departmental quarters to senior local officers on or above a point which is equivalent to the present MPS 48, and the extension of eligibility for Private Tenancy Allowance to senior local officers on or above MPS 38 in 1971, were in fact deliberate policy decisions which did not arise from any comparison with private sector practice. Proper account should be taken of this in comparing the total pay packages between the civil service and the private sector.

Differences between Civil Service and Private Sector

42. There are important differences between the conditions of service offered by the Government and by private sector companies. The Government is accountable to the public and the package of pay and other benefits which it offers its employees must be seen by the public as reasonable. The package is designed to promote continuity and retention of experience. In many fields the Government employs staff to undertake duties which have little or no parallel in the private sector. About 30% of the civil service is engaged in law enforcement duties e.g. crime fighting and prevention, air traffic control, health and hygiene standards, licensing matters, building and geotechnical standards. A company in the private sector is, in certain respects, less accountable and therefore more flexible. It can give its employees cash bonuses and other benefits when times are good and withdraw them when times are bad. The package of pay and other benefits offered in the private sector is generally designed to attract and retain employees in a competitive and mobile labour market, and is less oriented towards long term retention of staff than the civil service package. In trying to compare total packages it is important to bear these differences in mind.

PART IV - SUMMARY OF CONCLUSIONS

43. The conclusions reached by the Working Party and its proposals, referred to in Part II of this Report, are summarised below :

(A) General (paragraphs 5 - 10)

- (i) The valuation of total packages in the context of pay level comparisons should have primary regard to local terms of service (however note AECS' reservations in paragraph 5).

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- (ii) Terms of service pertaining to male staff should be used for pay level comparisons.
- (iii) A benefit should only be included if it is seen as of significant value to the employee.
- (iv) A benefit should not be included if it is provided to assist the employee to perform his duties or meet expenses arising from them.
- (v) Utilisation should be a factor in determining whether a benefit is to be included but not in calculating the benefit's value.
- (vi) Where necessary for calculation, the employee should be assumed to be the sole breadwinner of a family consisting of one couple and two children.
- (vii) The value of benefits should be expressed as a percentage of salary.

(B) Retirement and Termination Benefits
(paragraphs 11 - 19)

- (i) The Working Group felt unable to recommend whether or not retirement and termination benefits should be taken into account in the total package. If these benefits were to be included, the calculation of value would need to be in fairly general terms as follows :
 - (a) there is a need to assign the same value to the pension scheme and contract gratuity arrangements,

- (b) the annual allowance for Model Scale 1 staff may be given a value of 75% of that assigned to the civil service pension scheme, and
 - (c) the technique of discounted cash flow may be used in calculating the value of retirement and termination benefits.
- (ii) The Working Group felt that if retirement and termination benefits were to be included, the results of any calculation of value should be treated with caution since the perceived value of such benefits differs widely between employees.
- (iii) Death and disability benefits should be excluded from the total package calculation.

(C) Housing Benefits (paragraphs 20 - 21)

- (i) Civil Service. Private Tenancy Allowance rates may be used to calculate the value of housing benefits covered by Non-Departmental Quarters and Private Tenancy Allowance. It would probably be necessary to exclude from any total package calculations Departmental Quarters, Home Purchase Scheme, Housing Loan Scheme, co-operative housing schemes and the public housing quota.
- (ii) Private Sector. The value of rental allowance and subsidised loan schemes should be included in the total package; operational quarters and the priority allocation of housing units should be excluded.