

## CHAPTER 1

### INTRODUCTION

#### Historical Background to the Pay Level Survey for non-Directorate Civil Servants

1.1 In its "Statement of Principles and Aims of Civil Service Remuneration", compiled in 1968, the Government accepted "a duty and responsibility to maintain a civil service recognised as efficient and staffed by members whose conditions of service are regarded as fair both by themselves and by the public which they serve." The Government strove to fulfil this responsibility by the establishment of Salaries Commissions, periodically on an ad hoc basis, to review civil service salaries with a view to putting them on a more equal footing with those in the private sector.

1.2 From 1971 to 1973, Occupational Class Surveys were conducted by the then Pay Investigation Unit of the Civil Service Branch. Such surveys were, in effect, pay level surveys. However, the Occupational Class Surveys were not successful, because of an insufficient number of private sector analogues which could be identified for civil service jobs, technical difficulties, unwillingness on the part of many private sector companies to participate and strong resistance from the Staff Side. The idea of Occupational Class Surveys was therefore not pursued further.

#### Pay Trend Surveys

1.3 Since 1974, pay trend surveys have been used by the former Pay Investigation Unit, now known as the Pay Survey and Research Unit, as an alternative to Occupational Class Surveys. These involve the identification of salary bands in the civil service and the assessment of changes within each year in pay and certain cash benefits enjoyed by employees in similar salary bands in selected private sector companies. Such changes are expressed in Pay Trend Indicators, which are used by the Administration as a basis to determine whether and how adjustments should be made to civil service pay to enable it to keep pace with changes in the private sector during the year.

1.4 The Standing Commission has, however, identified shortcomings in pay trend surveys, in that pay increases in the private sector often include an element of compensation for rises in the cost of some items, such as housing, which are provided as fringe benefits to members of the civil

service. Because pay trend surveys take account of total pay rises in the private sector, however, this element cannot be isolated and is therefore automatically passed on to civil service salaries as part of general salary increases. There is consequently a danger that civil service salaries might be distorted by the use of pay trend surveys.

### The Concept of Total Packages

1.5 We believe that a pay level survey should take account of both pay and fringe benefits, so that a fair comparison can be made of the value of total packages in the public and private sectors. This concept of total packages was first outlined in a letter dated 27 November 1981 from the Chairman of the Standing Commission to the Governor.

1.6 The recommendation to adopt the concept of total packages was embodied in our Reports Nos. 7 and 9. It was accepted by the Executive Council in March 1982, and we then asked the Government to study the question of which benefits should be included in total packages and how they should be valued.

### The Working Group on the Valuation of Benefits for Pay Level Surveys

1.7 A Working Group was set up by the Administration in May 1983, comprising representatives of the Administration and members of the main staff councils, who were asked to investigate :

- (a) the general principles and assumptions to be adopted as the basis for the valuation of fringe benefits, for the purpose of pay level comparisons;
- (b) which benefits should be included in total packages for the purpose of pay level comparisons;
- (c) how the value of benefits to be included in total packages should be determined for the purpose of pay level comparisons; and
- (d) which other factors needed to be taken into account in comparing total packages of comparable jobs in the two sectors.

1.8 The Working Group submitted its Report on the Valuation of Benefits for Pay Level Surveys to the Administration in May 1984 and a copy can be found at Appendix VII. We decided that the issues raised in the Report of the Working Group should be examined in detail by a sub-committee of the Standing Commission, before we formulated our own recommendations.

#### The Pay Research Advisory Committee

1.9 The Pay Research Advisory Committee was accordingly set up in July 1984 to provide us with advice on the technical aspects of salary administration and pay research. The Pay Research Advisory Committee's first task was to examine the issues discussed in the Working Group's report and formulate a preliminary view on the principles to be adopted. A consultancy firm, Towers, Perrin, Forster and Crosby Inc. (TPF & C) was subsequently engaged to advise on specific issues, especially the development of a practical and feasible method of valuing some of the benefits to be included in total packages for the purpose of pay comparisons. TPF & C's report is included at Appendix VIII. After considering TPF & C's report, the Committee finalised its own recommendations and submitted a report to us in May 1986. The contents of the Pay Research Advisory Committee's report are referred to in Part II of this Report.

#### The Directorate Pay Increase in August 1985 and its Effect on the Pay Level Survey

1.10 Meanwhile, the Standing Committee on Directorate Salaries and Conditions of Service carried out a survey of pay and some fringe benefits at the Directorate level and concluded that Directorate salaries in the civil service had fallen behind those of their private sector counterparts. The Government's acceptance of the Committee's recommendation, that an increase of between 6.4% and 13.5% should be awarded on Directorate salaries, led to demands for similar increases from non-Directorate staff.

1.11 We were asked by the Administration to advise whether non-Directorate salaries had, in fact, fallen behind those in the private sector. Since a Pay Level Survey of both pay and benefits would take a considerable time to complete, we decided that a cumulative comparison of the Pay Trend Indicators and actual pay awards during the period 1979/80 to 1984/85 should be made, as an interim measure.

1.12 On the basis of our findings, submitted to the Governor on 20 December 1985, the Government made an offer of a 2% increase, subsequently revised to 2.7%, to non-Directorate staff, on the understanding that a full pay level survey would be conducted as soon as possible.

1.13 On 28 January 1986, the Governor-in-Council ordered that the Pay Level Survey should be completed by March 1987. This was noted by us on 10 March 1986 and work on the Pay Level Survey was accordingly accelerated, in order to complete the considerable amount of work in the short time available.

### Pay Level Surveys

1.14 At our meeting on 17 March 1986, we made several decisions concerning pay level surveys. We felt that the purpose of pay level surveys should be to establish whether the total packages of non-Directorate civil servants were broadly in line with those of their private sector counterparts and should be conducted regularly, at intervals of about 5 years, with pay trend surveys, of pay only, being carried out annually in the intervening years. Furthermore, pay level surveys should not be regarded as structural reviews of the civil service, nor used to alter the present broadbanding system or internal relativities of the civil service.

1.15 We also decided that a firm of consultants should be employed to develop a comprehensive methodology for the Pay Level Survey, incorporating the methodology devised by the Pay Research Advisory Committee for the valuation of fringe benefits. The consultants, with the assistance of the Pay Survey and Research Unit and the Commission Secretariat, should also conduct the survey itself and submit a final report to this Commission by the end of 1986.

1.16 We were also of the view that the survey field for the Pay Level Survey should correspond, as closely as possible, to the list of private companies used in previous pay trend surveys, to which further companies could be added from the consultants' database or elsewhere, subject to their satisfying the criteria laid down for the pay trend survey field. The actual civil service grades to be surveyed would be identified by the consultants. (A provisional list of survey companies for the Pay Level Survey is at Appendix XI.)

### The Engagement of Hay Management Consultants

1.17 We invited several management consultancy firms to submit to us their proposals for the methodology for the Pay Level Survey. We finally engaged Hay Management Consultants (Hong Kong) Ltd. (Hay) to conduct a study which would enable us to assess whether or not the present remuneration of Hong Kong's civil service, below the Directorate level, including both salary and fringe benefits, was broadly in line with that of employees in the private sector undertaking comparable work.

1.18 Part of Hay's responsibility was to devise a methodology for evaluating and comparing pay in the public and private sectors, which would be compatible with the methodology recommended to us by the Pay Research Advisory Committee for the evaluation of fringe benefits. A full description of Hay's methodology can be found in their report at Annex C to Appendix IX.

### The Pay Level Survey Advisory Committee

1.19 In order to gather a wide variety of views, we set up the Pay Level Survey Advisory Committee, composed of representatives of the civil service staff associations, the Administration and the private sector. The Committee was tasked to advise us on matters relating to the Pay Level Survey with particular reference to Hay's 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, the Pay Research Advisory Committee's Report on the Valuation of Fringe Benefits, and any other matters referred by us to the Committee. Committee members presented their views at a series of six meetings held during June and July 1986 and the Committee's report was presented to us on 10 July 1986. A copy of Part I of this report, dealing with the Hay methodology for the Pay Level Survey, is at Appendix IX and a copy of Part II, dealing with the valuation of fringe benefits, is at Appendix X.

### The Title of the Survey

1.20 One final point concerns the title of the Pay Level Survey. Some of our members felt that the word "pay" did not adequately reflect the fact that the survey was concerned with total packages - i.e. pay plus fringe benefits. It was felt that the title "Remuneration Level Survey" might be more accurate. However, since this issue was raised only at a very late stage, just before this Report was due to be

completed in July 1986, we decided that a change of name at that stage was likely to cause confusion and the title "Pay Level Survey" was accordingly retained.

### The Structure of the Report

1.21 The remainder of this Report is presented in two parts. Part I deals with the methodology for the Pay Level Survey, which is based on the methodology drawn up by Hay. Part II concerns the valuation of fringe benefits for the purpose of the Pay Level Survey and is based, in part, on the methodology devised by TPF & C.