PART II

VALUATION OF FRINGE BENEFITS

CHAPTER 8

BASIC PRINCIPLES AND ASSUMPTIONS TO BE APPLIED TO THE VALUATION OF FRINGE BENEFITS

INTRODUCTION

8.1 Before considering whether particular benefits should be included in total packages for the purpose of pay comparisons and, if so, how they should be valued, the Pay Research Advisory Committee decided that it was necessary to establish what principles should be adopted and what assumptions should be made*.

PRINCIPLES AND ASSUMPTIONS

8.2 Notional Versus Actual Value of Total Packages for Comparable Jobs

Pay Research Advisory Committee's View

8.2.1 The Pay Research Advisory Committee considered two possible approaches to the valuation of total packages: the use of notional values and the use of actual values.

8.2.2 Under the notional value approach, total pay packages for comparable jobs in the public and private sectors would be calculated on the basis of the minimum and, if available, the maximum rates of pay, together with the notional maximum value of the fringe benefits attached to these jobs. The use of maximum values would be appropriate, because it was a reasonable assumption that employees would take maximum advantage of any benefits to which they were entitled. In the case of jobs in the public sector, total pay packages for a particular rank would be calculated on the basis of the pay scale for the rank and the notional value of the maximum level of fringe benefits to which members of the rank were entitled. For comparable jobs in the private

*In the course of the deliberations of the Pay Research Advisory Committee, the question arose as to whether fringe benefits should be taken into account in pay trend surveys as well as pay level surveys. Certain conclusions were reached on this issue, but, in the light of our recent decision that pay trend surveys should be surveys of pay only, the Pay Research Advisory Committee did not pursue this matter further.

sector, total packages would be calculated by obtaining information on the minimum and, if available, the maximum rates of pay and the notional maximum value of the fringe benefits which a company would offer for such jobs. The actual pay and benefits of employees in the jobs concerned at the time would be disregarded. Some of the benefits attached to jobs varied according to factors such as sex, individual family circumstances, local or overseas terms of service, etc. and a set of assumptions covering these factors would have to be made to ensure that benefits in the private and public sectors were assessed on a consistent basis.

8.2.3 Under the actual value approach, total pay packages offered to employees in comparable jobs in the private and public sectors would be calculated on the basis of a sample of the rates of pay received by individual employees in the jobs covered by the survey, and the value of the benefits actually enjoyed by these individuals. The use of actual values would be appropriate, because it had to be accepted that not all employees could take maximum advantage of the benefits to which they were entitled. No account would be taken of the theoretical range of salaries or the theoretical maximum value of the benefits attached to jobs in either sector. The sampling of comparable jobs to be covered by the survey would have to be as representative of each type of work as possible, so that the results of the survey would give an accurate picture of the value of total packages for comparable jobs in the two sectors. As the actual value of the benefits enjoyed by individuals during the period of the survey would be measured, there would be no need to make general assumptions about factors such as sex and family circumstances.

8.2.4 To assess the value of total packages for comparable jobs on the basis of the notional range of pay and the maximum value of the benefits attached to jobs, rather than the actual salary and level of benefits received by individuals, would, in theory, give a more accurate indication of the attractiveness of packages for comparable jobs in the two sectors, and the results of the survey would not be affected by variations in the individual circumstances of the employees concerned. However, this approach had the following disadvantages :

(a) The survey would not reflect the actual level of the packages offered to employees in comparable jobs in the private and public sectors, which might be to a certain extent different from the notional value of total packages as assessed by the survey.

(b) Some companies in the private sector might not be able to indicate the maximum rate of pay which they were prepared to offer for a particular job. This was most likely to happen in the case of the more senior posts, for which the survey might be able to assess only the minimum and not the whole range of the packages offered. A similar situation would arise in the case of companies which used individual rates of pay, rather than pay ranges for various jobs.

(c) As the level of the pay and benefits attached to the same job might vary, depending on the age, sex, length of service, terms of service and family circumstances of individual employees, it would be necessary to work out a set of assumptions covering these factors so that total packages attached to jobs were assessed on a consistent basis.

8.2.5 On the other hand, to assess the value of total packages for comparable jobs on the basis of a sample of the actual rates of pay and level of benefits enjoyed by employees in the jobs covered by the survey, would give a more direct indication of the value of total packages actually being paid for comparable work in the two sectors. Provided that the sample of jobs was representative, it should also give a reasonable indication of the general value of pay packages for comparable jobs in the two sectors. However, this approach had the following disadvantages :

(a) Companies in the private sector were generally reluctant to disclose the actual level of pay and benefits received by individuals, even on an anonymous basis. It would therefore be difficult to collect the necessary information to assess the actual value of a sample of total packages of employees in comparable jobs. Even if the information required could be obtained, it would be difficult to verify it, as any documents and guidelines on pay structure and fringe benefits which companies might have would normally refer to a particular rank, rather than to individuals.

(b) The results of the survey would be very much affected by the individual circumstances of the employees in jobs at the time of the survey and a large and representative sample of jobs would be required if the results were to give a true picture of average pay packages for comparable jobs in the two sectors. In many cases, this might not be possible, given the probable difficulty of finding a large number of private sector analogues for civil service jobs.

(c) For each rank under comparison, a survey of a sample of civil service posts would be necessary, in order to provide a fair comparison with the results of the survey of comparable jobs in the private sector. The sample of civil service posts would have to be selected carefully, in accordance with the same criteria used for the selection of the jobs sampled in the private sector.

8.2.6 Since it would be technically simpler to assess total packages on the basis of notional rather than actual values, and since pay level comparisons seek to compare jobs rather than individuals, the Pay Research Advisory Committee recommended that the value of total packages should be assessed on the basis of notional values from the outset.

Views expressed at Pay Level Survey Advisory Committee Meetings

8.2.7 The Association of Expatriate Civil Servants expressed the view that the value of total packages should be assessed on the basis of actual values. The Hong Kong Chinese Civil Servants' Association doubted how the valuation of total packages for comparable jobs could be assessed in the light of the arguments in paragraph 8.2.5(a) and 8.2.6(b) in the Report of the PRAC, which set out the disadvantages of using the notional as well as actual values. The Model Scale 1 Staff Consultative Council on the other hand reserved the right to comment on the use of notional values for the purpose of total package comparisons. (Paragraph 2.1 of the PLSAC's Report Part II at Appendix X refers).

Standing Commission's Recommendation

8.2.8 The Commission fully appreciates that both methods have their advantages and disadvantages. After taking all relevant factors into consideration, we recommend that the value of total packages should be assessed on the basis of notional values. Although the use of actual values may more accurately reflect the real situation at the time of the survey, the actual value may change from time to time and possibly be soon out of date, thus making this approach undesirable. As long as notional values are consistently applied in the valuation of fringe benefits in both sectors, results could be obtained accurately and fairly and more importantly, could be used for long term comparisons.

8.3 Local Versus Expatriate Terms

Working Group's View

8.3.1 In the civil service, local and expatriate employees received the same salaries but different benefits, such as housing, passages and leave. The Working Group, however, noted that, in the private sector, local and expatriate employees might receive different pay and benefits for the same job and considered that it was necessary to decide whether local or expatriate terms of employment should be used for the purpose of pay level comparisons. (Paragraph 5 of the Working Group's Report at Appendix VII refers).

Pay Research Advisory Committee's View

8.3.2 As expatriate staff accounted for less than 2% of the total strength of the civil service, and given that the Government was committed to localisation and equal pay for local and expatriate staff doing the same job, the Pay Research Advisory Committee recommended that pay level comparisons should have regard only to local terms of service. The problem created by differences between local and expatriate staff in the civil service would remain, but it should be tackled as one of the factors to be considered in applying the results of pay level comparisons, rather than as a definitive criterion prescribing the way in which pay level comparisons should be carried out. In the long term, the extent of the problem would be reduced as the proportion of expatriate staff in the civil service decreased.

Views expressed at Pay Level Survey Advisory Committee Meetings

8.3.3 The Association of Expatriate Civil Servants suggested that the Pay Level Survey should reflect the pay levels of the civil service and the private sector for both local and expatriate employees. Their view was supported by the Administration, which was of the view that although expatriate and local officers in the civil service should be treated as one homogeneous group as far as pay was concerned, the different benefits enjoyed by expatriates and local employees should be taken into account. Hay had subsequently confirmed that it would be possible to collect a separate set of data on expatriate benefits in the private sector, since there seemed to be sufficient expatriates in the survey field to permit such a survey to be carried out.

8.3.4 On the selection of companies to be included in the survey field, the Hong Kong General Chamber of Commerce suggested that companies which had a common salary structure for expatriate and local employees should be deleted since expatriates in the common salary structure would influence the salary structure of the local employees. Hay however held a different view, in that the influence of expatriate and local employees within the salary structure would exist irrespective of whether expatriates were included in the survey. (Paragraph 2.2 of the PLSAC's Report Part II at Appendix X refers).

Standing Commission's Recommendation

8.3.5 Whilst noting the fact that civil servants, regardless of whether they are expatriate or local officers, receive the same salaries for the same job, we recognize that expatriates and local members of the civil service are two distinct groups which enjoy different fringe benefits. It is on this ground that we agree that the Consultants should collect data on fringe benefits for expatriates in the private sector. This set of data should form a separate chapter in their Report for reference purposes. In valuing fringe benefits and for comparing total packages in both the public and the private sector, we recommend that only local terms of service should be taken into account. We think that this approach is fair, considering that the expatriate group of civil servants only form about 2% of the total strength of the civil service and that they receive the same salaries as their local counterparts.

8.4 Terms of Service for Male and Female Staff

Working Group's View

8.4.1 It had been the established policy of the Government to offer the same conditions of service to male and female staff. However, the Working Group noted that, in the private sector, there were still instances where the pay and benefits offered to male and female staff for the same job differed. Against this background, the Working Group decided that, where there was a difference between the terms of service of male and female staff, the terms applying to male staff should be used for comparison. (Paragraph 6 of the Working Group's Report at Appendix VII refers).

Pay Research Advisory Committee's View

8.4.2 There were no statistics to indicate the extent to which the conditions of service of female staff differ from those of their male counterparts in the private sector. However, on the basis that :

(a) male employees accounted for 72% and 63.2% of all employees engaged in the public and private sectors respectively; and

(b) the overall labour force participation rate of 80.1% for men, was much higher than the figure of 48.5% for women;

the Pay Research Advisory Committee recommended that, where the terms offered to male and female staff differed, the valuation of total packages for pay level comparisons should have primary regard to male staff.

Views expressed at Pay Level Survey Advisory Committee Meetings

8.4.3 The Committee made no comments on this subject.

Standing Commission's Recommendation

8.4.4 We agree with the views of the Working Group and the Pay Research Advisory Committee on this subject and recommend that, where the terms offered to male and female staff differ, the valuation of total packages for pay level comparisons should have primary regard to male staff.

8.5 Family Circumstances

Working Group's View

8.5.1 The Working Group recommended that, where it was necessary to assess the value of a benefit by reference to an employee's family circumstances, it should be assumed that the employee was the sole breadwinner of a family consisting of a couple and two children. (Paragraph 9 of the Working Group's Report at Appendix VII refers).

Pay Research Advisory Committee's View

8.5.2 The Pay Research Advisory Committee considered the situation in the civil service. Fringe benefits in the civil service were not provided on the basis of any general assumption about family size and composition. Staff were eligible for different categories of quarters, depending on whether they were single, married or married with family - this last category being defined as a couple with one or more children - provided that the spouses of the married officers did not receive similar benefits. Regarding education allowances, an officer would be eligible to claim for a maximum of four children at any one time. As for holiday passages, an officer could claim a maximum of six full fare passages, which could cover a couple and four children over the age of 12.

8.5.3 However, statistics on the proportion of families in Hong Kong which had a single breadwinner were not available, although the relatively low labour force participation rate of 21% for married women suggested that the majority of families consisting of a married couple and dependent children were likely to have a sole breadwinner. Neither were statistics available on family size, in the case of families with at least one employed person, or with a sole breadwinner. However, the average household size in Hong Kong (as at the last quarter of 1985) was 3.7 persons, distributed as follows :

Household size (No. of persons)	% of all households
1	15.31
2	15.60
3	17.03
4	20.61
5	15.16
6	9.04
7	3.94
8	1.87
9 & over	1.44

8.5.4 As the notional value of certain benefits attached to comparable jobs in the public and private sectors would have to depend on family size and composition, the Pay Research Advisory Committee agreed that a standard should be laid down for this purpose. It therefore recommended that, 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 that it should consist of a married couple and two children. However, for the purpose of valuing leave passages in the private sector, the Pay Research Advisory Committee recommended that the assumption should be that a family had a single breadwinner and that it should consist of a married couple and two children of secondary school age. This was consistent with the principle of maximum utilization. (See paragraph 8.7).