

Views expressed at Pay Level Survey  
Advisory Committee Meetings

8.5.5 The Association of Expatriate Civil Servants suggested that the general assumption of family size and composition should be a married couple and one child. (Paragraph 2.4 of the PLSAC's Report Part II at Appendix X refers).

Standing Commission's Recommendation

8.5.6 We recommend that for the valuation of those benefits which need to take account of family circumstances, the assumption should be that a family has a single breadwinner consisting of a married couple with two children, having regard to the average household size and structure in Hong Kong. We are therefore in agreement with the Working Group and the Pay Research Advisory Committee. To adopt the assumption of a married couple and one child as suggested would understate the average family size and composition. Furthermore, we also endorse the Pay Research Advisory Committee's recommendation that for valuing leave passages in the private sector, the assumption that a family has a single breadwinner consisting of a married couple and two children of secondary school age should be adopted.

8.6 Value to Employee and Cost to Employer and  
Exclusion of Benefits of Insignificant Value

Working Group's View

8.6.1 The Working Group considered that a benefit should only be included in total packages for the purpose of pay level comparisons if it was of significant value to the employee, and that the cost to the employer of providing the benefit should not be taken into account. In assessing the value of a benefit, their approach was to determine the cost to the employee of replacing that particular benefit if it were withdrawn by his employer. (Paragraph 7(a) of the Working Group's Report at Appendix VII refers).

Pay Research Advisory Committee's View

8.6.2 Having considered the Working Group's recommendation, the Pay Research Advisory Committee agreed that it would not be cost-effective to try to quantify benefits which were small in value, bearing in mind the large number of assumptions which would have to be made in the valuation process. Furthermore, provided that a consistent method was used for dealing with benefits which were of

little value to both public and private sector employees, their inclusion or exclusion should not materially affect the results of pay level comparisons. The Pay Research Advisory Committee recommended, therefore, that those benefits which had an insignificant value in both the public and private sectors be excluded from total packages. However, where a particular benefit had a minimal value in private sector packages but a significant one in public sector packages, or vice versa, it should be included in total packages for both sectors for the purpose of pay level comparisons. As regards the method of valuation, the Pay Research Advisory Committee agreed with the views of the Working Group on this point and recommended that the value of a benefit should be assessed on the basis of the cost to an employee of replacing a benefit provided by his employer.

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8.6.3 The Association of Expatriate Civil Servants agreed with these principles. However the Model Scale 1 Staff Consultative Council held the view that if a value could be attached to a benefit, that benefit should be included. (Paragraph 2.5 of the PLSAC's Report Part II at Appendix X refers).

Standing Commission's Recommendation

8.6.4 We agree with the Working Group and the Pay Research Advisory Committee on the approach to assessing the value of benefits and recommend that the value of a benefit should be assessed on the basis of the cost to an employee of replacing a benefit provided by his employer.

8.6.5 As regards the issue of excluding those benefits the value of which are small, we have taken note of the Pay Research Advisory Committee's recommendation that fringe benefits of insignificant value should be excluded on the grounds of cost-effectiveness. However, after much careful consideration, we decided that we could not accept the recommendation for the following reasons. Firstly, we feel that it would be very difficult, and indeed, entirely arbitrary to determine at what value a benefit should be considered insignificant and therefore be excluded from total packages. Secondly, we consider cost-effectiveness alone does not provide a sufficient reason on which to base the inclusion or exclusion of benefits. We therefore recommend

that all fringe benefits which could be valued should be included in total packages, with the exception of those benefits :

- (i) which are provided at the employer's discretion;
- (ii) the utilization rates of which are very low (see paragraph 8.7.4); and
- (iii) the value of which is impossible to ascertain and/or for which the data is difficult to capture.

We consider this to be the fairest and most consistent way of dealing with an assortment of fringe benefits the availability and value of which differ widely in the public and private sectors.

## 8.7 Utilization

### Working Group's View

8.7.1 The Working Group considered that, in determining whether a benefit should be included in total packages, some weight should be given to the extent to which the benefit was utilized. However, once a benefit had been included in total packages, the actual utilization rate of the benefit should not be taken into account in placing a value upon it. The main considerations which led the Working Group to draw this conclusion were :

- (a) pay level comparisons were primarily concerned with the value of pay and benefits attached to a job and not to the circumstances of individuals which might vary, so that the extent to which benefits were actually used by employees was irrelevant;
- (b) a benefit which was little used by eligible employees was an indication that it was perceived to be of little value by the employee; and
- (c) an accurate account of the rate of utilization would require the collection and verification of detailed information and this could be difficult and complicated.

(Paragraph 8 of the Working Group's Report at Appendix VII refers).

Pay Research Advisory Committee's View

8.7.2 Taking into account the decision that pay level surveys should assess the value of total packages on the basis of the maximum notional value of the benefits attached to the jobs concerned, the Pay Research Advisory Committee recommended that the value of benefits should be assessed on the basis of the notional maximum value of the benefits to which employees were entitled, without regard to the actual rate of utilization. This recommendation was in line with that of the Working Group. In general, before individual fringe benefits were included in total packages, they should be examined to see whether they should be regarded as entitlements. Where an employer imposed regulations so restrictive that most employees could not make use of a benefit, it might be appropriate to assume that the benefit was not an entitlement and to exclude it from total packages.

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8.7.3 The Model Scale 1 Staff Consultative Council disagreed with the general assumption of maximum utilization and felt that the actual rate of utilization should be used because a lot of benefits, such as Overseas Education Allowances and medical benefits, were not widely utilized by civil servants and the benefits enjoyed by different categories staff varied greatly. The Association of Expatriate Civil Servants on the other hand wished to reserve their right to comment until the survey results would be available, but considered that utilization should be a factor in calculating the benefits. The Hong Kong Chinese Civil Servants' Association was opposed to the proposal of maximum utilization and held the view that the actual rate of utilization should be used, because the benefits enjoyed by different categories of staff varied greatly. (Paragraph 2.6 of the PLSAC's Report Part II at Appendix X refers).

Standing Commission's Recommendation

8.7.4 In general, we agree that criteria should be set for the inclusion or exclusion of benefits from total packages. Once included, these benefits should be assessed on the basis of notional maximum value. The criteria for inclusion should be as follows :

- (i) A benefit should be included if it is deemed an entitlement. However, if the employer imposes regulations so restrictive thereby limiting the use of a benefit by most employees, the benefit should not be regarded as an entitlement; and

- (ii) The benefit should have a reasonable rate of utilization. Where the rate of utilization is very low, even though most employees are entitled to the benefit, it should not be included in total packages. We however recognize that it is extremely difficult to set a criterion for the inclusion or exclusion of a benefit based on utilization rate alone. Any such rule would be arbitrary and subjective. We have, therefore, chosen to operate on the principle of fairness; that is, a benefit which is rarely utilised should be excluded if its inclusion would project a value unfairly on to other employees.

In paragraph 8.6.5 we have already recommended that the value of a benefit should not be part of the criteria for inclusion.

8.7.5 We therefore recommend that a benefit should be included in total packages in the public and private sector if it falls within the criteria outlined in paragraph 8.7.4. We further recommend that once a benefit is included in total packages, it should be assessed on the basis of notional maximum value, and not according to the actual rate of utilization.

## 8.8 Benefits Provided for Operational Reasons

### Working Group's View

8.8.1 In both the civil service and the private sector, some benefits were provided for the primary purpose of enabling employees to perform their duties, or to meet expenses arising from the performance of them. Examples included quarters provided for operational reasons and the reimbursement of operational expenses. The Working Group took the view that, where benefits were provided for operational reasons and not as additional allowances, they should not be included in total packages for the purpose of pay level comparisons. (Paragraph 7(b) of the Working Group's Report at Appendix VII refers).

### Pay Research Advisory Committee's View

8.8.2 The Pay Research Advisory Committee shared the view of the Working Group and recommended that benefits that were provided solely for operational reasons be excluded from total packages. As long as the same treatment was applied

consistently in both the civil service and private sector, their exclusion should not significantly affect the results of pay level comparisons.

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8.8.3 This principle was supported by the Association of Expatriate Civil Servants and the Hong Kong Chinese Civil Servants' Association. The Hong Kong Institute of Personnel Management and the Hong Kong Industrial Relations Association, whilst not disputing the general principle recommended by the Pay Research Advisory Committee, were concerned that the principle should only be applied to those benefits which were genuinely provided for operational reasons. (Paragraph 2.7 of the PLSAC's Report Part II at Appendix X refers).

Standing Commission's Recommendation

8.8.4 We recommend that benefits that are provided for operational reasons be excluded from total packages.

8.9 Taxation

Working Group's View

8.9.1 The Working Group considered that, where salaries were paid tax-free, they should be expressed as gross figures before being included in total packages. In doing this, it might be necessary to adopt a set of assumptions on family income and composition, in order to assess the potential tax liability. (Appendix IV to the Working Group's Report at Appendix VII refers).

Pay Research Advisory Committee's View

8.9.2 The Pay Research Advisory Committee initially considered that, ideally, the value of pay and benefits which were tax-free or which carried de facto tax benefits should be expressed as gross figures to ensure that all pay and benefits were assessed consistently. However, in practice, it would be extremely difficult to assess the tax advantage associated with benefits attached to jobs, even on the general assumption that a family should consist of a couple and two children with a sole breadwinner. The marginal and average tax rates to be used for expressing the value of each benefit as a gross figure might vary significantly and much

would depend on the value and composition of total packages of pay and benefits attached to each job. However, the Pay Research Advisory Committee noted the facts to which TPF & C drew attention in Section VI of their Report at Appendix VIII, that many fringe benefits were tax-free and that there might be wide variations in the way in which taxable and non-taxable benefits were combined. Since these considerations might have a significant effect on total packages, the Pay Research Advisory Committee recommended that the effect of taxation should be taken into account in the calculation of total packages and that the method of its incorporation should follow that described in TPF & C's Report.

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8.9.3 The Committee made no comments on this point.

Standing Commission's Recommendation

8.9.4 In view of the implication that taxation may have on the value of fringe benefits, we recommend that the effect of taxation should be taken into account using the method recommended in TPF & C's Report.

8.10 Calculation of Benefits

Working Group's View

8.10.1 The Working Group considered that the value of benefits should be expressed in terms of their dollar value. This applied particularly to those benefits which were provided in cash terms or could readily be converted into cash values - for example, housing benefits, passages, leave and some forms of job-related allowances. However, for certain benefits, such as retirement benefits, medical and dental benefits and education allowances, where actuarial calculations or notional values were used in the valuation, the Working Group considered that they might initially be expressed as a percentage of basic salary and a dollar value could then be established by applying the percentage figures to the minimum and maximum of the pay rates for the job. (Paragraph 10 of the Working Group's Report at Appendix VII refers).

Pay Research Advisory Committee's View

8.10.2 The Pay Research Advisory Committee did not consider that the use of this method was appropriate in the present exercise, which was concerned with the comparison of pay levels. Since it would be necessary, in any case, to determine the absolute value of benefits for the purpose of pay level surveys, it appeared to be unnecessary to convert them initially into a percentage of basic salaries. Furthermore, it was doubtful whether it would be appropriate to do so, bearing in mind that basic salary in the private sector did not include some forms of take home pay, such as Lunar New Year bonuses, commission, and so on. In addition, expressing the value of benefits as a percentage of basic salary, rather than total take home pay, might artificially increase the value of private sector packages. For these reasons, the Pay Research Advisory Committee recommended that, as far as the valuation of benefits was concerned, the absolute value of benefits should be used to compare total packages of similar jobs in the public and private sectors.

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8.10.3 The Committee made no comments on this point.

Standing Commission's Recommendation

8.10.4 Since it is intended that the total package concept should be applied in pay level surveys, it is essential that fringe benefits should be shown in their absolute value to be added on to the actual level of salaries so that the value of total packages could be determined. We therefore recommend that the absolute value of benefits should be used in calculating the value of total packages. We further recommend that the assessment of different fringe benefits be separately identified to allow detailed comparisons to be made.