

CHAPTER 2

CIVIL SERVICE PAY POLICY

Civil Service Pay Policy

2.1 The principle of the total package by taking into account both the pay and fringe benefits in comparing the general levels of remuneration between the civil service and the private sector was put forward in our Reports No. 7 and 9 and was accepted by the Government in March 1983.

2.2 In Report No. 17, we said that we started work in March 1986 on a pay level survey for the purpose of comparing the value of total packages in the civil service with that of comparable jobs in the private sector. Details on the background and conduct of the survey are given in the following paragraphs.

The 1986 Pay Level Survey

2.3 In August 1985, the Government increased Directorate salaries by a range of 6.4% to 13.5%. This gave rise to demands from non-Directorate civil servants for similar increases. We were then asked by the Administration to advise whether non-Directorate salaries had in general lagged behind those in the private sector. Since a pay level survey would take some time to complete, we made, as an interim measure, a cumulative comparison of Pay Trend Indicators and actual pay awards during the period 1979/80 to 1984/85. On the basis of our findings, 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. In February 1986, the Governor-in-Council ordered that the Commission should complete a pay level survey within the financial year of 1986/87.

2.4 We commenced preparatory work on the 1986 Pay Level Survey in March 1986. We engaged a consultancy firm, Hay Management Consultants (Hong Kong) Ltd., first to develop a methodology which would evaluate and compare jobs in the civil service with those in the private sector and which would also incorporate the methodology devised by the Pay Research Advisory Committee for the valuation of fringe

* The Pay Research Advisory Committee was set up in July 1984 to advise the Standing Commission on the valuation of fringe benefits and was disbanded after submitting its report to the Commission in May 1986.

benefits, and then to conduct the survey itself. In April 1986, we issued a consultative document to all interested parties to solicit their views on the scope and conduct of the survey. In May 1986, we set up a Pay Level Survey Advisory Committee to advise us on the methodology and on the interpretation of the findings of the survey. We also set up a Pay Level Survey Steering Group to monitor the conduct of the survey by the consultants. Details on the activities of these two Committees are given in paragraphs 5.1 to 5.8 of Chapter 5.

2.5 Having regard to the advice of the consultants, the views expressed by the Pay Level Survey Advisory Committee in its First Report presented to us in July 1986 on the methodology for the survey, and the views expressed in response to the consultative document, we submitted our recommendations on the proposed methodology and valuation of fringe benefits for the 1986 Pay Level Survey in our Report No. 16, the First Report on the Pay Level Survey, to His Excellency the Acting Governor in July 1986. These were endorsed by the Government in August 1986, subject to certain modifications.

2.6 We then instructed the consultants to commence the survey which took place between August and October 1986. In the course of the survey, the consultants selected a sample of 405 jobs within 141 civil service ranks (these ranks comprised about 80% of all staff at the non-directorate level) and 1,300 jobs from 52 companies in the private sector. In November 1986, the consultants presented to us their initial report on the 1986 Pay Level Survey which was then referred to the Pay Level Survey Advisory Committee for consideration. In January 1987, the Pay Level Survey Advisory Committee presented to us its Second Report on the findings and interpretation of the results of the 1986 Pay Level Survey. Taking account of the views expressed by the Pay Level Survey Advisory Committee, the consultants revised their initial report and presented a final report to us on 20 January 1987. Having regard to the views of the Pay Level Survey Advisory Committee, we submitted the findings and our observations on the 1986 Pay Level Survey in our Report No. 18, the Second and Final Report on the 1986 Pay Level Survey, to His Excellency the Acting Governor in February 1987. The results of the 1986 Pay Level Survey indicated that : -

- (a) (i) for the upper/upper band of the Master Pay Scale, civil service total packages (calculated on the basis of maximum notional value and maximum utilization of housing benefits) were well above the upper quartile for the private sector, over the entire range of job sizes;
- (ii) for the upper/upper band of the Master Pay Scale, civil service total packages

- (calculated on the basis of maximum notional value and the pattern of utilization of housing benefits) still lay well above the upper quartile of the private sector, using maximum notional value and maximum utilization as the basis of calculation for housing benefits in the private sector, over the entire range of job sizes;
- (b) (i) for the upper band of the Master Pay Scale, civil service total packages (calculated on the basis of maximum notional value and maximum utilization of housing benefits) were well above the upper quartile for the private sector, over the entire range of job sizes;
 - (ii) for the upper band of the Master Pay Scale, civil service total packages (calculated on the basis of maximum notional value and the pattern of utilization of housing benefits) still lay well above the upper quartile of the private sector, using maximum notional value and maximum utilization as the basis of calculation for housing benefits in the private sector, over the entire range of job sizes;
- (c) the total packages for the middle and lower bands of the Master Pay Scale approximated the upper quartile and were above the average for the private sector;
 - (d) the total packages for the Model Scale 1 band were slightly below the average for the private sector;
 - (e) for the upper/upper and upper bands of the Master Pay Scale, the major reason for the large gap between civil service and private sector total packages for local staff was the much larger fringe benefit component in the civil service, although the base salary in the civil service in these pay bands was also well above the average pay in the private sector. This gap was largely made up of differences between the housing benefits available to civil servants and those available to local staff in the private sector, with a much smaller contribution from the retirement and disability benefits in the civil service. The gap still remained large, even if the housing benefits in the civil service were calculated on the basis of maximum notional value and the pattern of utilization of the benefits, rather than on the basis of maximum notional value and maximum utilization as in the private sector;
 - (f) a considerable number of the private sector companies in the survey reported a wide range of other fringe benefits to local employees, which

were either not provided at all in the civil service or not provided to the same extent;

- (g) unlike staff in the private sector, local and expatriate civil servants in the upper/upper and upper bands were offered a similar range of benefits, with the pattern of civil service benefits more closely resembling that of expatriates in the private sector; and
- (h) Model Scale 1 staff were offered far fewer fringe benefits than staff on the Master Pay Scale or equivalent.

2.7 In April 1987, we were informed that the Government had accepted the results of the 1986 Pay Level Survey in principle.

The 1987/88 Pay Trend Survey

2.8 During 1987, we reviewed the methodology for the Pay Trend Survey again in the light of experience gained in previous surveys. We submitted the following recommendations to His Excellency the Governor : -

- (a) the 1987/88 Pay Trend Survey should cover the period from 1 February 1987 to 31 January 1988. As Lunar New Year Day will fall on 17 February 1988, the cut-off date for data collection should be set at 23 February 1988 to enable the data on Lunar New Year bonuses to be included in the calculations;
- (b) though it would be desirable to see continued effort being made to improve the representativeness of the survey field, it is considered that the size of the survey field should not be increased too frequently in order not to distort the trend. The companies which were included in the 1986/87 Pay Trend Survey should therefore be used again;
- (c) despite there having been some criticisms concerning the use of industrial weighting, such weighting is considered necessary to even out the discrepancies between the distribution of the surveyed population and the total working population, and should therefore continue to be used;
- (d) the practice of using three salary bands should be continued in the 1987/88 Pay Trend Survey;
- (e) the present system of calculating Pay Trend Indicators should continue to be used; and

- (f) Criterion 4 for the calculation of the Pay Trend Indicators should be amended to exclude the following categories of employees : -
- (i) employees earning more than \$29,910 per month (MPS 51 or equivalent);
 - (ii) craft and technician apprentices; and
 - (iii) employees who work less than 75% of the normal weekly working hours in the companies concerned in January.

2.9 These recommendations were set out in full in our letter of 3 October 1987 to His Excellency the Governor (Appendix VI). They were all accepted by the Government and will be put into effect in the 1987/88 Pay Trend Survey.

Review of Civil Service Housing Benefits

2.10 In May 1987, the Governor-in-Council ordered that the results of the 1986 Pay Level Survey should be reflected in the total remuneration packages for civil servants in future and that proposals aimed at encouraging home ownership and reducing or limiting the recurrent long-term costs of housing benefits for local officers should be forwarded to the Commission for consideration.

2.11 We were informed that a Working Group was established within the Administration in January 1987 to formulate the broad principles and proposals for the future provision of civil service housing benefits to local officers. Its objectives were to examine the existing housing benefits and to propose new arrangements which would bring housing benefits provided to local officers more into line with those enjoyed by their counterparts in the private sector; encourage home ownership, particularly among senior and middle-ranking local officers; and reduce or limit the Government's costs in the long term. We were also informed that the Working Group had developed some general principles and proposals, and had recommended that a consultant should be engaged to develop the future arrangements in detail, to calculate the costs and savings involved, and to consider the extent to which the Working Group's objectives would be met by the proposed measures. The consultant would also need to consider ways of ensuring that implementation of the measures would result in a reduction of recurrent costs and to advise the Administration on how best the objectives could be achieved.

2.12 We were asked by the Administration to advise whether the Working Group's proposals should be accepted in principle. We noted the principles and proposals made and endorsed the suggestion that a consultant be engaged to

carry out a study along the lines recommended by the Working Group. We also asked the Administration to seek our advice again when detailed proposals have been finalised.

2.13 We also drew the Administration's attention to the following points in considering the review of civil service housing benefits :

- (a) as the concept of promoting home ownership would be to the advantage of all parties concerned, viz. the civil servant (in terms of enabling him to enjoy the benefits of home ownership), the Government (in terms of reduced costs over the long term), and the tax payer (in terms of long-term reduction in expenditure from the public purse on housing for the civil service), the positive aspect of home ownership, which was one of the objectives of the current review, should be given greater emphasis in any revised arrangements;
- (b) greater flexibility and less restrictive terms and conditions should be built into any revised arrangement in order to enhance its attractiveness. For example, it is desirable that a civil servant be allowed to upgrade his flat in line with the progression of his career in the civil service and with the increase in the size of his family during his working life; and
- (c) since the total package concept had been accepted by the Governor-in-Council for the purpose of pay comparisons between the public and private sectors, the current Housing Benefits Review should represent a first step towards modifying the level of housing benefits for civil servants in order to reduce the value of civil service total packages and to bring it more into line with that in the private sector. It was recognised that this would be a gradual process and that it was impractical to compare the level of housing benefits alone in both sectors or to bring the two directly into line.

Improvement of the Value of the Total Package for Model Scale 1 Staff

2.14 We last reviewed the conditioned hours of work of Model Scale 1 staff in 1983. In the light of the findings of the review which established that civil service practices were broadly in line with those of the private sector, we decided to review the subject again in about two years' time. In our last progress report (Report No. 17), we mentioned that the Administration had carried out another review; and in considering a proposal by the Administration to reduce the conditioned hours of work of Model Scale 1 staff from 48 hours net per week to 45 hours net per week, we said that further consideration of the issue should be

deferred until the results of the 1986 Pay Level Survey were made known, since we expected the findings of the survey to indicate whether the total package of Model Scale 1 staff was broadly in line with that of their counterparts in the private sector.

2.15 During the year, we were informed by the Administration that, having considered the results of the 1986 Pay Level Survey, the Governor-in-Council had ordered that the Commission's advice be sought on whether a reduction in the conditioned hours of work for Model Scale 1 staff from the present 48 hours net per week to 45 hours net per week, with progressive reduction ultimately to 42 hours net per week, or an amalgamation of the Model Scale 1 with the Master Pay Scale should be pursued. The 1986 Pay Level Survey showed that, inter alia, the Model Scale 1 staff total package practice line, compared with that of their counterparts in the private sector, was below average throughout the entire range of job points. At the average job size, it was about 12% below the upper quartile and 2.5% below average, in terms of value of total packages.

2.16 We then conducted our examination of the issue, taking into account the Administration's guidelines that the Governor-in-Council had broadly accepted that the salary level for civil servants below D3 should be at about the upper quartile of private sector practice, and that consideration of other options intended to reflect the general results of the 1986 Pay Level Survey in the total pay package of Model Scale 1 staff should not be precluded.

2.17 We first considered the feasibility of amalgamating Model Scale 1 with the Master Pay Scale and concluded that this should not be pursued in view of the inordinate costs of such a proposal and the fact that its adoption would enhance the total package for Model Scale 1 staff beyond the level of that of their counterparts in the private sector, and, more importantly, would be a departure from the practice in the private sector.

2.18 Having examined other options which would help to bring the value of the Model Scale 1 total package in line with the upper quartile of the corresponding band in the private sector, we recommended that a combination of three measures should be adopted as follows : -

- (a) reduction of conditioned hours of work for Model Scale 1 staff from 48 hours net per week to 45 hours net per week (with corresponding reduction to 45 hours net per week for those grades on the Master Pay Scale whose present conditioned hours of work were more than 45 hours net per week);

- (b) a 3% upward pay adjustment of Model Scale 1 pay;
and
- (c) extension of the Model Scale 1 Pay Scale by one
step at the highest point.

2.19 Having regard to the average conditioned hours of work per week for Model Scale 1-type employees in the private sector and the financial implications involved in overtime payments, additional posts and the proposed reduction of conditioned hours of work for some Master Pay Scale staff, we considered that reducing the conditioned hours of work of Model Scale 1 staff to 45 hours net per week, which has the effect of increasing the value of the total package by about 5-6%, was both practicable and desirable. We felt, however, that after implementing the proposal, departments concerned should be directed to carry out value for money studies with a view to minimising the requirements for overtime payments and the creation of additional posts.

2.20 We also noted that a further reduction in conditioned hours to 42 hours net per week would have resulted in a further 5-6% benefit for Model Scale 1 staff. However, having regard to the practice in the private sector and preferring to provide some cash benefits to staff, we decided to consider other options and came to the view that a combination of a 3% upward pay adjustment with an addition of one point to the top of the Model Scale 1 Pay Scale would be the best way of increasing the value of the total package by another 5-6%, and, taken together with the proposed reduction of conditioned hours of work and the enhanced value of the new pension scheme, would bring the value of the total package for Model Scale 1 staff more or less in line with the upper quartile of the private sector practice. Regarding the extension of the pay scale, we recommended that the Model Scale 1 Pay Scale should be extended by the addition of a new Point 23. The salaries of all serving Model Scale 1 staff should then be converted to the next higher point on the revised scale and new employees at Workman II level should continue to be recruited at Point 1.

2.21 In considering the effective date for the implementation of these proposals, we recommended that reduction in conditioned hours of work should be implemented from a current date whereas 1 April 1987 should be used as the effective date for the proposed adjustments to pay and to the salary scale for Model Scale 1 staff.

2.22 Our recommendations are set out in full in our letter of 28 October 1987 to His Excellency the Governor (Appendix VII).