

## CHAPTER IV

### SALARIES

58. We have obtained information on salaries paid by leading commercial and industrial organizations in Hong Kong; we have examined the salaries and pensions of the Higher Civil Service in the United Kingdom; and we have received recommendations from some heads of department.

#### Commercial Salaries in Hong Kong

59. We considered that it was essential to have some information on the general level or spread of senior salaries in the commercial world in Hong Kong. It is certainly not our intention that Government salaries at this level should be tied to commercial salaries. There are many other factors and conditions of service to be considered, and we have fully in mind the differences of security of employment and other considerations of service. Moreover, commercial systems of promotion and payment in the higher ranks are much more flexible than those of the Public Service. In the Government Service, promotion is based on qualifications, experience and merit. Although it is not unusual for an officer to be promoted out of turn, officers of normal ability can reasonably expect to rise steadily in the Service, although naturally not all can reach the top ranks. The salary of posts is fixed; Government pays the same salary to the holder of a post, whether or not he makes a conspicuous success of it. The rewards in commerce are more unevenly distributed. The exceptionally able may rise rapidly to senior posts, while the person of average ability may remain at a relatively low level. There is no 'pay for the job' for these senior posts, and salaries may vary greatly according to the merits of the occupant. But despite these differences of method, any reasonable assessment of fair remuneration for Government servants must take into account the range of corresponding commercial salaries.

60. In the circumstances of Hong Kong we did not think it appropriate to ask companies to supply information direct to the committee, but we considered that companies might be prepared to supply information to a firm of Chartered Accountants on the strict understanding that only analysed information, from which the company could not be identified, would be passed on to us. Mr. J. Y. V. HUNT of Messrs. Peat, Marwick, Mitchell & Co. and the Hon. S. S. GORDON of Messrs. Lowe, Bingham & Matthews kindly agreed to act as our intermediaries in this matter and we are most grateful for their assistance. We therefore wrote to 24 of the largest commercial and industrial organizations operating in Hong Kong and asked them to supply to either of these two firms particulars of the emoluments of their most senior staff.

61. The structure of companies differs so much that it was difficult to define precisely the posts in which we were interested, but what we had in mind were:

- (a) The Chief Executive of the organization;
- (b) His deputy;
- (c) Departmental Managers, if any. This could include the chief executive of a subsidiary or associated company;
- (d) The Chief Professional Executive. This would usually be a qualified Accountant acting as Secretary or 'Financial Controller'.

62. The term 'emoluments' was also difficult, because staff at this level are remunerated in several different ways. We asked for the information in three parts:

- (a) 'Salary': i.e. normal basic salary.
- (b) 'Other financial benefits, excluding rent': this included all income other than salary: i.e. fees, commission, bonuses paid in cash, any allowance and gratuities, and the value of any perquisites received by reason of or in connexion with the office or employment. Annual bonuses paid into a superannuation fund were excluded, but any part of the bonus paid in cash was to be included.
- (c) 'Quarters': if quarters were supplied by the company, the rent paid by the officer to the company. If quarters were not supplied, any housing allowance paid to the officer.

63. The question of pensions does not fall within our terms of reference, and we are interested in them only to the extent to which they affect current emoluments. Some companies have schemes which provide on retirement sufficient basic living costs, while others provide additional emoluments from which the staff is expected to save in order to provide for retirement. We asked for information on which of these two methods was employed.

64. We assumed that staff at this level either receives an entertainment allowance or may draw on a central fund in accordance with certain rules, and we requested particulars only if some such system was not in operation.

65. In asking for information from the companies we undertook that in our Report, which might be published, we would refer to this exercise but would not quote any figures. We gave our word that the figures analysed by the Accountants would be passed on to Government in confidence on the understanding that they would not be published or used for any other purpose than for comparison if a similar investigation became necessary in the future for the same purpose.

66. Twenty-one of the twenty-four firms replied and supplied information regarding the salaries of their senior executives. Seventeen of the companies operate for their top executives a retirement scheme no less favourable than that operated by Government; an appropriate adjustment was made to the remuneration of the other four. The salary was also adjusted by the Chartered Accountants to take account of any differences in rent payable by the officers. The analysed figures reveal a definite pattern which was of great assistance to us in determining appropriate salaries for senior Government officers. The original forms completed by the companies have now been destroyed and the anonymous analysed results have been transmitted to the Colonial Secretary.

### **United Kingdom Salaries**

67. In the United Kingdom the Advisory Committee on the Pay of the Higher Civil Service, at present under the Chairmanship of Lord Franks, advises the Prime Minister on this subject. The heads of a number of leading commercial and industrial firms supply details of the emoluments of their most senior staff in confidence personally to Lord Franks, who analyses the figures and presents anonymous information to this committee.

68. The Platt Commission 1959, when recommending salaries for superscale officers (see para. 195 of the 1959 Report), took into account the salaries of higher administrative posts in the United Kingdom which had been revised in 1959. As a result of the recommendations by the Franks Committee, the salaries of the British Higher Civil Service were substantially increased in 1963. The new salaries represent an increase over the 1959 salaries of about 27%/33% for Assistant Secretaries rising to 36% for Permanent Secretaries on *net* salary (i.e. gross salary less income tax and super-tax for a family man with two children). Part of this increase arises from a modification of the U.K. super-tax regulations in favour of the taxpayer.

69. The differentials between the salaries for the different superscale ranks have also been substantially increased, and now amount to £2,400 (£1,189 net) between a Permanent Secretary and his Deputy, £1,100 (£721 net) between a Deputy Secretary and an Under-Secretary, and £800 (£530 net) between an Under-Secretary and an Assistant Secretary. In Hong Kong the existing differentials are \$500 p.m. (£375 p.a.) between each superscale rank, and several directors have represented to us that this differential is too small. For some years after the War the range of salary levels in the United Kingdom, Hong Kong and elsewhere became compressed, the salaries of more junior posts rising at a higher rate than those of the top posts. In the course of the last few years the 'concertina' has been opened and top salaries have increased substantially in relation to the lower ones. The 1963 increases in the British Higher Civil Service are an example of this trend.

70. A direct comparison between the United Kingdom and Hong Kong emoluments is of limited value because of the differences in duties, levels of taxation, State benefits, fringe benefits, housing, pensions, the cost of living, retirement ages, etc. But we have taken account of the percentage increases in salary and the general trend noted above when framing our recommendations.

## Suggestions by Heads of Department

71. A number of heads of department made suggestions regarding the general level of salaries and the appropriate differential between different ranks in the superscale. We were particularly interested in one proposed scheme whereby each rank would, after a period of years, achieve the salary of the rank above. Although we do not favour a scheme of this sort applying to all superscale posts we were concerned about the position of deputies who after a period of years have not succeeded to the directorship either because of their own personal limitations or because of the youth of their directors, and we tried to devise an incremental scheme for application only to deputies. But we finally came to the conclusion that an incremental scheme limited to deputies and not applicable to other officers on the same salary point would be difficult to justify and to operate.

## Fringe Benefits

72. Superscale/upper scale officers receive all the fringe benefits mentioned in Appendix X of the Survey of Government Wages & Salaries 1963, and we do not consider it necessary to enumerate them here. But because many of the officers of this seniority are within sight of retiring age we paid particular attention to pensions. The question of pensions does not fall within our terms of reference, but the adequacy of the pension scheme and the treatment of past pensioners has an obvious bearing on the level of current emoluments.

73. In its simplest form, a pensionable officer (and most officers on the superscale are pensionable) may retire at the age of 55 and, if he has  $33\frac{1}{2}$  years service, may receive either:

(i) an 'unreduced pension' of 60% of his final salary

OR

(ii) a 'reduced' pension of 45% of his final salary

PLUS

a gratuity of nearly 2 years' salary.

74. Officers with shorter service earn proportionately smaller pensions.

75. In practice few officers, especially those professional officers who spend a long period of years in acquiring their qualifications, can serve for  $33\frac{1}{2}$  years by the time they reach retiring age. The average length of service of all present superscale/upper scale officers, if they all retire at 55, will be  $24\frac{1}{2}$  years, which would earn an 'unreduced' pension of 43.8% of final salary, or alternatively a 'reduced' pension of 32.8% of salary plus a gratuity of about  $1\frac{1}{2}$  years' salary.

76. After each general Salaries Revision, Government has reviewed the pensions of past pensioners and has approved '*ex-gratia* temporary increases'. These increases have been very substantial for junior staff, and less so for superscale officers. They do not, of course, fully make up for the steady erosion over the years of the value of money.

77. We have also examined the United Kingdom scheme, since many superscale officers retire to the United Kingdom. The schemes are difficult to compare, but we conclude that the Hong Kong scheme is rather more favourable, except for senior judicial officers. As we have noted above, most of the leading companies whom we consulted operate for their senior staff a retirement scheme no less favourable than that operated by Government.

78. In addition to the fringe benefits available for all officers, the Chief Justice, the Colonial Secretary, the Attorney General, the Secretary for Chinese Affairs and the Financial Secretary are entitled to an official car and chauffeur for duty or for private purposes at their discretion.

79. We note that all superscale/upper scale officers are entitled to first-class air passages. This appears to be more generous than normal commercial practice, and we recommend that this privilege be reserved for heads of department and officers of similar status.

## Proposed New Salaries

80. Having taken all these matters into account we came to the conclusions given below.
81. The salaries of the more junior posts in the superscale/upperscale are equitable in relation to the more senior posts in the time-scale and also in relation to commercial salaries in Hong Kong.
82. The salaries of the senior superscale posts are materially lower than corresponding posts in the commercial world in Hong Kong, and the differentials in salary between directors and their deputies do not adequately represent the additional duties and responsibilities undertaken by the director. We also take into account the fact that the steadily increasing size and complexity of departments places a burden on the head of department personally (and to a lesser extent on his deputy) that is not shared to the same extent by his assistants. We consider that the responsibilities of the director should be recognized by a salary approximately 25% higher than that of his deputy.
83. We consider also that, for the reasons given by the Platt Commission, all heads of department should receive higher salaries than all deputies.
84. While it can be said that senior officers cannot claim increases in pay on the basis of their needs, yet we are of the opinion that it is of the first importance to the public interest that remuneration of senior Government servants in the Colony should not be too much out of line with their commercial counterparts (see paragraph 59), and that it should be increased broadly in step with corresponding Government servants elsewhere. This is partly to preserve the morale of the Service (no man can for long put his whole heart into work for which he is obviously underpaid in relation to his commercial counterparts), but perhaps more important still for its effect on recruiting. One of the prime needs of the Civil Service in Hong Kong is to attract young men from the local community of the calibre to take them to the top of the Service. At the present time it is evident that too many young men of talent and education prefer a career in private practice or business to Government service, with the result that the Colony depends to an unhealthy extent on expatriates for its higher Civil Servants. To improve the financial prospects at the top to something comparable with prospects outside Government service may not be the whole remedy, but at any rate is an essential prerequisite to recruiting more and better local staff.
85. We consequently recommend substantial increases at the top of the superscale and more modest increases for the more junior staff.
86. The proposed new salaries would give an increase of about 7% to most assistant directors. The increase would amount to about 26% for directors in the main group, 27% for most directors who are at present in Grade I and 33% for the three directors in the highest group. Increases on net salaries (i.e. less Salaries Tax for a family man) would amount to 6% to 31% for these same posts.
87. The salaries we recommend for each post in the superscale/upperscale (other than judicial and legal posts) are shown in Appendix A. This appendix also includes a list of posts *Appendix A* to which, for different reasons (given in Appendix C), we have not allotted salaries.
88. In order that the relative salaries within departments may be more easily seen, we also show in Appendix B the salaries in departmental columns. *Appendix B*
89. In Appendix C we include notes on individual departments and posts. *Appendix C*
90. The 'grading factors' which we have employed in considering the administrative departments have little relevance to judicial or legal posts. We include at Appendix D a note on these *Appendix D* posts and a table of proposed salaries.
91. Special considerations also apply to the Administrative Service, which we describe in Appendix E. *Appendix E*

**Cost**

92. As we have explained in the previous chapter, we have not adopted a rigid pattern of salaries and it is therefore not easy to summarize our new salary structure (as we described the present structure in paragraph 14). But the following table shows the salary structure and the number of posts on each salary point:

*Executive Departments:*

<i>Point</i>	<i>Number of Posts</i>	<i>Salary</i>	<i>Total Cost</i>
1	1	\$10,000	\$ 10,000
2	2	9,000	18,000
3	3	7,900	23,700
4	7	7,500	52,500
5	27	6,800	183,600
6	1	6,300	6,300
7	16	6,000	96,000
8	6	5,800	34,800
9	8	5,600	44,800
10	15	5,400	81,000
11	63	5,250	330,750
12	7	5,000	35,000
13	39	4,800	187,200
		195	\$1,103,650

*Judicial/Legal Posts:*

<i>Number of Posts</i>	<i>Salary</i>	<i>Total Cost</i>
1	\$10,000	\$ 10,000
1	9,000	9,000
1	7,500	7,500
5	7,100	35,500
12	5,800	69,600
2	5,000	10,000
2	4,800	9,600
24		\$151,200

93. The cost of our recommendations is \$1,146,420 p.a., calculated as follows:

Monthly Cost of Proposed New Salaries:

(a) Executive Departments ... ..	\$1,103,650	
(b) Judicial/Legal Posts ... ..	151,200	
Add Present Cost of 8 posts not yet graded.	42,200	
		\$1,297,050
Monthly Cost of Present Salaries (para. 14).	1,144,300	
Add 5% Interim Allowance ... ..	57,215	
		1,201,515
Additional Monthly Cost ... ..		\$ 95,535
Additional Annual Cost ... ..		\$1,146,420

94. This sum would be reduced by about \$290,000 p.a. if our recommendation is approved that only heads of department and officers of similar status should receive first-class air passages, and would be reduced by a further sum of about \$190,000 p.a. if our recommendations in Chapter V are approved concerning education allowances and children's allowances. The cost of our proposals would thus be reduced from \$1,146,420 to about \$660,000 p.a.

**Effective Date**

95. We recommend that the effective date of the proposed increases be 1st September, 1964.