

5 October 1983

His Excellency Sir Edward Youde, G.C.M.G., M.B.E.,
Governor of Hong Kong.

Your Excellency,

Proposed Arrangements for the 1984
General Pay Adjustment

In our Second Report on Civil Service Pay Policy (Report No. 9) we expressed the view that future arrangements for determining the general levels of civil service remuneration should take into account the total package of pay and other benefits in both the civil service and the private sector. We noted that the development of the total package concept by means of pay level surveys would take a considerable time and we recorded our opinion that the present arrangements under which general civil service pay adjustments are decided principally on the basis of the results of pay trend surveys in the private sector should continue subject to certain modifications.

2. In the context of the 1983 general pay adjustment we noted that there was evidence that fringe benefits are much better at given salary levels in the civil service than in the private sector and that the effect of successive service-wide pay awards is to widen still further the gap between the total packages in the two sectors. In order to limit the widening of this gap we recommended that two steps should be taken in 1983. The first of these was that there should be no further improvements in the real value of civil service fringe benefits, and, secondly, we recommended that the pay trend indicators should be adjusted so as to ensure that an award based on them would not widen this gap. In Section VII of our Report No. 9 we suggested a way in which this could be done.

3. For the 1984 general pay adjustment we recommend that similar steps are taken to ensure that the difference between the value of the total packages in the civil service and the private sector does not widen.

Improvements in the Pay Trend Survey Methodology

4. In Section IV of Report No. 9 we suggested several improvements in the pay trend survey system. We were aware of the need to keep the effects of the proposed changes under review and we indicated that we would give further consideration to several aspects of the survey methodology. We have now completed an assessment of our earlier proposals in the light of the experience gained in this year's pay trend survey and in the following paragraphs we submit our proposals for the further refinement of the methodology to be used for the 1984 survey. In formulating these recommendations we have taken account of the advice of the Pay Trend Survey Committee, one of whose functions is to advise on matters relating to the pay trend survey methodology. We are grateful to the Committee for the valuable advice it has given on the subject.

5. Our advice on the various matters is set out in the same order as in Report No. 9.

Timing

6. In Report No. 9 we recommended that the annual pay trend survey should cover the period from 1 February in each year to 31 January in the following year, but that the data for each survey period should be adjusted to include one Lunar New Year bonus. Furthermore, we suggested that decisions on the general civil service pay adjustment should be announced preferably before 1 April or, at the latest, during that month.

7. We have noted that the experience in the two years since the introduction of the new survey period has been that the new timing is generally practicable. No change in our recommendation on the cut-off date for the survey is therefore necessary.

Salary Bands

8. In Report No. 9, we recommended the retention of the existing three bands for the collection and collation of survey data but we indicated that this matter would be given further consideration. The objective is to determine a suitable number of bands which will give a reasonably accurate indication of the average private sector pay movements at various salary levels, which can then be suitably applied to the corresponding civil service pay scales.

9. The three-band system was first used in the 1977/78 Pay Trend Survey. The original intention was to divide the Master Pay Scale, which then contained 48 points, into three equal segments, i.e. Band 1 for MPS 1 - 16, Band 2 for MPS 17 - 32 and Band 3 for MPS 33 - 48, but in view of the traditional cut-off point of the salary of the "senior officers", the cut-off point between the upper band and the middle band was raised to Point 37. The upper band was subsequently revised following the three-point extension of the Master Pay Scale in 1979. The present pay bands are :

Upper Band	MPS 38 - 51
Middle Band	MPS 17 - 37
Lower Band	MPS 1 - 16

10. Information on the pay movement of private sector employees corresponding to the Model Scale 1 staff used to be collected separately. On our recommendation this practice was discontinued from the 1982 Pay Trend Survey and the former Model Scale 1 band is now merged with the lower MPS band. This is appropriate because the Model Scale 1 salary range falls entirely within the lowest MPS band. Furthermore, the distinction between the types of employees in the two categories is becoming less clear in the civil service and it has even less relevance to most private sector companies.

11. As we have explained in Report No. 9, there would be merit, in theory at least, in having a large number of bands within the pay range corresponding to the civil service Master Pay Scale, as this would allow the survey to present a more accurate picture of private sector pay movements at various salary levels. In practice, however, this option would make it difficult to devise an even and continuous civil service pay scale. The use of more bands would also create additional work for the surveyed companies as they would have to break down their employees into more categories. On the other hand, it would not be desirable to reduce the number of bands as this would make the survey less sensitive to salary movements at different salary levels. Having regard to these factors we are of the view that there is considerable merit in retaining the present three bands. We consider however that the cut-off point between the lower and the middle bands should be revised so that the lower band ranges from MPS 1 - 13 and the middle band from MPS 14 - 37. The upper band, which ranges from MPS 38 - 51, would remain unchanged. The proposed revision would result in the top of the lower band coinciding with the maximum point on the Model Scale 1 (which is approximately equivalent to MPS 5 - 13 in dollar value) and, if adopted, would result in a slightly better balance between the survey populations in the lower and middle bands.

12. We therefore recommend that the present three bands should be retained but that the ranges of the three bands should be revised as follows :

Upper Band	MPS 38 - 51
Middle Band	MPS 14 - 37
Lower Band	MPS 1 - 13

Survey Field

13. In Report No. 9 we commented that the companies making up the present pay trend survey field do not constitute an accurate cross-section of economic activities in Hong Kong as regards either size or type, and we recommended that the list of companies used in future pay trend surveys should be made more representative and that more medium-sized and small companies should be included. To achieve this objective, we now recommend that companies should continue to be used as the basic unit in the survey sample, but that the distribution of companies in the survey field should reflect the percentage distribution of Hong Kong's labour force by major economic activities, and that the survey results should then be adjusted by industrial weightings to even out discrepancies between the distribution of the survey population and the overall Hong Kong working population.

14. We have also taken note of the need to revise the criteria for the choice of individual companies to be included in the survey sample, as these criteria were set in 1975 and some of them are in need of change. In our deliberations on this subject, we have taken account of the proposals made by the former PIU Steering Committee which conducted a detailed examination of the criteria for the selection of companies and of the advice of Mr. Vernon Morgan, Director of the former United Kingdom Pay Research Unit who acted as Pay Adviser to the Commission and carried out a study of the pay trend survey system in Hong Kong. We have also given due consideration to the advice of the Pay Trend Survey Committee. Our proposals for a new set of criteria are as follows :

- (a) The distribution of companies by major economic sectors in the survey field should reflect closely the overall distribution of Hong Kong's economically active population broken down in accordance with the industrial classification and statistics of the Census and Statistics Department;

- (b) Individual companies in the survey field should :
- (i) be regarded as typical employers in their respective fields normally employing 100 employees or more;
 - (ii) be generally known as steady and good employers conducting wage and salary administration on a rational and systematic basis;
 - (iii) determine pay on the basis of factors and considerations indigenous to Hong Kong rather than on factors applying in another country;
 - (iv) if they form part of a group or consortium in Hong Kong, only be treated as separate companies where they have complete autonomy in setting and adjusting pay rates; and
 - (v) not use the Government pay adjustment as the main factor in determining pay adjustments.

15. While we are aware of the practical difficulties of achieving a full revision of the present pay trend survey field in one year, we would like to see earnest efforts made to make the field more representative in the next survey and, in consultation with the Controller of the Pay Survey and Research Unit we propose that about twelve new companies should be included in the survey for 1984.

Merit Payments and Pay Adjustments due to External and Internal Relativities

16. In Report No. 9, we proposed that all elements of pay increases given by the companies, with the exception of those relating to promotion or transfer, should be included in the pay trend survey, and the resulting pay trend indicators should be reduced by the average percentage value of civil service increments. This recommendation was intended to overcome the difficulty that some companies reportedly faced in identifying the various component parts of their pay increases. It has now been brought to our attention that there may be technical difficulties with the implementation of this proposal, particularly in calculating and reaching agreement on what average civil service increments should be deducted from the gross private sector pay increases. Furthermore, it would appear that the difficulty of identifying merit payments by the surveyed companies may not be as great as originally envisaged. For instance, in this year's survey, only 6 of the 49 companies in the survey could not properly identify separate

components of their pay increases. With a better understanding of the pay trend survey system, most companies now seem to be able to break down their pay increases into the various component factors.

17. In the light of this additional information, we consider that the most satisfactory arrangement is still for companies to report and identify the various elements of their pay increases and for those components which are not relevant to the annual pay trend adjustment to be omitted from the calculation, and we so recommend. If this is done, there will be no need to apply the method of dealing with merit payments which we recommended in Report No. 9. Where a particular company persistently fails to identify merit payments in its pay increases, consideration may be given to its deletion from the survey field altogether.

Late Adjustments

18. We recommended that companies which have not announced a pay adjustment by the cut-off date should be excluded from the overall weighting of the survey results, thus avoiding the need for any subsequent adjustment. We understand that no problems have been encountered in implementing this recommendation.

19. We also recommended that if a company has given two increases in one survey period merely because of a change in the effective date of salary adjustments from one year to another, the additional increase made on a date which is out of line with the company's previous normal practice should be ignored. The problem of multiple adjustments caused by companies changing the effective date of their salary revisions is not likely to be a common one, and our proposed method of treatment would be applied only after considering each case on its own merits.

General

20. As already mentioned, these recommendations are intended to achieve a further refinement of the existing pay trend survey methodology. All our proposals relate to the basic methodology recommended in Report No. 9, and all deal with practical aspects of implementing and developing our previous recommendations.

21. We shall of course continue to keep the pay trend survey system under review and submit further recommendations from time to time.

We have the honour to be
Your Excellency's obedient servants,

(S. Y. Chung)
Chairman