

5 November 1985

His Excellency Sir Edward Youde, GCMG, MBE
Governor of Hong Kong

Your Excellency,

Further Development of Pay Trend Survey Methodology

In our letter of 10 September 1984, we put forward recommendations for the improvement of the methodology on the basis of which the annual pay trend survey is conducted. Our recommendations were accepted by the Government and implemented in the 1984/85 survey. As the development of the total package concept for use in pay level surveys will take a considerable amount of time, we have previously suggested that general civil service pay adjustments should continue to be based on the results of pay trend surveys in the private sector, subject to continuing refinement of the procedures used. We have also indicated that we will continue to keep the pay trend survey system under review and will submit further recommendations from time to time.

2. This year we have once again assessed the procedures used in the light of the experience gained in the 1984/85 Pay Trend Survey and proposals for the further improvement of the pay trend survey are outlined in the following paragraphs. In formulating our recommendations, we have taken full account of the advice of the Pay Trend Survey Committee, one of whose terms of reference is to advise the Standing Commission on matters relating to pay trend survey methodology, and we are grateful to the Committee for the valuable advice which it has given.

3. Our recommendations are set out in the same order as in our letter of 10 September 1984.

Timing

4. We previously recommended that the annual pay trend survey should cover the period from 1 February in each year to 31 January in the following year and that the data for each survey period should be adjusted to include one Lunar New Year

bonus. We consider this timing to be both satisfactory and practicable and we recommend no change in the existing arrangement.

5. We recommend that the deadline for the collection of data on Lunar New Year bonuses should be 13 February 1986, in order to take into account the fact that Lunar New Year's Day will fall on 9 February. This is one week earlier than in 1985 and, provided that there are no unforeseen circumstances, we hope that the announcement of the annual civil service pay adjustment can be made in April 1986 as we recommended in our Seventh Report.

Salary Bands

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6. In our letter of 10 September 1984 we commented that we had examined the question whether the number of salary bands should remain at three or increase to four. Our conclusion was that the arguments on both sides were evenly balanced and we therefore left the final decision to the Administration. The Administration subsequently decided that the number should remain unchanged as the possible configurations resulting from the use of four salary bands might give rise to difficulties in devising a pay adjustment which would be generally acceptable to all the parties concerned.

7. This year the Staff Side members of the Pay Trend Survey Committee again proposed that the number of salary bands should be increased from three to four, the present upper, middle and lower bands to be divided into upper, upper middle, lower middle and lower bands. In terms of the working population in the 1984/85 survey, this would mean splitting the top 19.1% of the surveyed employees from two bands (1.7% in the upper band and 17.4% in the middle band) into three. Whilst there is, in theory, merit in the creation of a larger number of bands within the pay range which would correspond more closely to the civil service pay scale and reflect more accurately the movement of pay in the private sector, it is doubtful whether, in practice, the arrangement proposed would have any significant effect on the pay trend indicators or the civil service pay adjustment. Moreover it would make the survey more complicated and create additional work for the surveyed companies. Whilst, therefore, we have re-examined this proposal we consider that the arguments for and against a change are still evenly balanced, and we recommend that, as for the 1984/85 Pay Trend Survey, it should be left to the Administration to decide which of the options should be chosen for the 1985/86 Pay Trend Survey.

Survey Field

8. In our letter of 10 September 1984, we recommended no change in the criteria to be used for the inclusion of

companies in the survey field since it is our view that a company should be regarded as a "good employer" on the basis of its performance as a whole and not because it provides any particular benefits. Some Staff Side members of the Pay Trend Survey Committee suggested that for the 1985/86 survey, companies which had suffered losses due to mismanagement and which, contrary to the practice of the majority of the other companies in the same economic sector during the same period, had not made any salary adjustments or improvements in fringe benefits to their employees for two consecutive years, should not be regarded as steady and good employers and should be deleted from the survey field. We consider that this point is already covered adequately in the criteria which apply to the selection of individual companies for inclusion in the survey sample and which we recommended in our letter of 5 October 1983. Moreover, the addition of a qualification based on the profitability of the majority of the companies in an economic sector as a whole and the salary adjustments made by them would create considerable technical difficulties. We therefore recommend no change in the criteria for the selection of companies in the survey field.

9. In our Second Report on Civil Service Pay Policy (Report No. 9) we recommended that the list of companies should be enlarged to make it more representative of the major areas of economic activity in Hong Kong. We further suggested, as an interim measure, that statistical weighting should be used to achieve a better balance between different economic sectors while the Pay Trend Survey Committee should consider the size and composition of the future survey field. For the 1983/84 survey the number of companies was increased to 60 and the same number was used in the 1984/85 Pay Trend Survey. It is only two years since the number of companies was increased to 60 and since our aim is to measure trends, it is not desirable that the size of the survey field should be increased too frequently. Accordingly, we recommend that for the 1985/86 survey the number of companies should remain unchanged. We recommend also that the companies which participated in the 1984/85 Pay Trend Survey should be used again. As a result of the withdrawal of one company and the deletion of another which has been unable to provide all the necessary information for the past three years, and since there will not be sufficient time to find new and suitable companies to join in the survey field, the actual number of companies to be included for the 1985/86 Pay Trend Survey will be 58.

10. It has been suggested to us that the composition of the survey field should reflect the contribution made to the Gross Domestic Product by different economic sectors rather than the number of people that they employ. In our view this

proposal would not be consistent with the aims and objects of the annual pay trend survey, which is to identify changes in salaries in the main economic sectors. We therefore recommend no change in the existing practice which is to take account of the working population in particular economic sectors.

Merit Payments

11. We have previously recommended that the companies surveyed should identify and report the separate elements in their pay increases and that those components which are not relevant to the annual pay trend adjustment should be excluded from the calculation of the pay trend indicators.

12. The Staff Side representatives suggested that the different elements in pay adjustments, that is, inscale increments, merit, promotions and transfers and external and internal relativities should be defined in even greater detail. At present, the companies which have difficulty in identifying the different elements are allowed to combine one with another when separating these non-pay-trend-related factors from those to be used in the calculation of the pay trend indicators. Some Staff Side representatives, however, proposed that the companies participating in the pay trend survey should be asked to show and report separately, for each category of employees, the adjustments they received in respect of each of the following elements : (i) inscale increments, (ii) the merit of individual employees, (iii) external and internal relativities and (iv) promotions and transfers.

13. We do not consider this suggestion acceptable, because it would make the survey very much more complicated. The participating companies would be required to provide information in much greater detail and some of them might not be able or wish to comply in which case they would have to be excluded from the survey field. Moreover, it should not be forgotten that the success of the pay trend survey depends to a large extent on the goodwill of the participating companies which may be reluctant to participate if the survey becomes too complex and laborious and if it takes up too much of their staff time for no obvious benefit to themselves.

14. In Report No. 9, we recommended that all elements in the 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 that the resulting pay trend indicators should be reduced by the average percentage value of civil service increments. The purpose of the recommendation was to overcome the difficulty that some companies reportedly faced in identifying the various component parts of their pay increase. However we subsequently withdrew this recommendation

because of the technical problems that it would create, particularly the difficulty of calculating and reaching agreement on the average civil service increments to be deducted from the gross private sector pay increases.

15. This year, the Staff Side representatives again suggested that the aim of the survey should be to collect a gross pay trend indicator which would include increases attributable to all factors including merit, promotion, transfer and so on in the calculations. Discussions between the Administration and the Staff Side on the amount of the annual pay adjustment would then be based on the gross figures and be conducted outside the context of the pay trend survey. This approach would make the collection of information much simpler and would be welcomed by the participating companies. Companies which could not separate merit payments from other factors could in future be included in the survey. On the other hand, the use of gross figures would add to the difficulty of discussions about pay adjustments and would introduce a further point of contention on the exact amount of the merit increase to be deducted from the gross figures. We have carefully considered the pros and cons of the existing and proposed systems and have concluded that the existing system should be continued. We accordingly recommend that salary increases which are the result of promotions, transfers, merit, internal and external relativities and inscale increments, should continue to be deducted from the calculations.

Late Adjustments

16. In our Second Report on Civil Service Pay Policy (Report No. 9) we recommended that where a company had given two increases in one survey period merely because of a change in the effective date of its salary adjustments from one year to another, the increase made on a date which was out of line with the company's previous normal practice should be ignored. In our letter dated 5 October 1983 we also recommended that each case should be considered on its own merits. In the light of experience gained from past surveys, it has been pointed out to us that a company may award an additional increase in order to top up the level of a smaller increase in the same survey year or to compensate for a nil increase in the previous survey year. Since those companies which make no annual increase are included in the calculations, we consider it appropriate to include those which give two smaller awards rather than one larger annual increase. Moreover it would be inequitable to count only one pay increase out of two in a total period of twenty-four months. It has also been found that employers are reluctant to commit themselves openly to any official effective date for a general pay award and it would be difficult to be absolutely sure why a company has awarded two general increases in a year.

17. For these reasons, we recommend that any additional salary adjustments made by surveyed companies within a survey year should be included in the calculations of the pay trend indicators.

General

18. These recommendations are intended to achieve a further refinement of the existing pay trend survey methodology. All our proposals deal with the practical aspects of implementing and developing our previous recommendations which stemmed from the basic methodology recommended in Report No. 9.

19. We shall 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