

Appendix E

13 November 1990

His Excellency Sir David Wilson, K.C.M.G.,
Governor of Hong Kong.

Your Excellency,

Methodology for the Pay Trend Survey

In our letter of 16 October 1989, we recommended some improvements to the pay trend survey methodology. Our recommendations were accepted by the Government and implemented in the 1989/90 survey.

2. Following the decision of the Government of a 15% increase for the 1990 civil service pay adjustment, in which the Commission was not involved in any way, public attention once again focused on the pay trend survey system. In particular, the problem of time-lag in the survey data recurred. We therefore asked the Pay Trend Survey Committee which advises us on matters relating to the pay trend survey methodology to examine the problems identified. This was carefully done by the Committee which appointed a Working Group to consider specifically the problem of time-lag.

3. With the benefit of the advice of the Pay Trend Survey Committee, we have reviewed the survey system to identify any particular problems with the existing methodology and see whether further improvements are possible. Our views are set out in the following paragraphs. In formulating our recommendations, we have taken full account of the advice of the Pay Trend Survey Committee and have had regard to the public comments conveyed to us.

Time-lag Problem

4. At present the pay trend survey covers a twelve-month period from 1 February of the previous year to 31 January of the current year and the results form a basis for the annual civil service pay adjustment to take effect from 1 April. Over the years, there have been criticisms that the civil service pay adjustment is based on private sector data which are outdated by two to fourteen months. The problem is particularly serious following a sudden change in the economy,

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as the civil service pay adjustment will then be out of step with the current economic situation : if there has been a downturn, the adjustment will be high in comparison with the prevailing trend in the private sector; if there has been a recent upturn, the trend will not be fully reflected in the civil service pay adjustment until the following year.

5. Since it is the Government's policy that civil service pay should follow, rather than lead, the private sector, a time-lag between the private sector pay increases and the translation of such increases into the civil service pay adjustment is inevitable. Thus the problem cannot be completely avoided. Nevertheless, we are of the view that, to the extent possible, the pay trend survey system should be improved to minimise the time-lag so that the survey data reflect a more up-to-date position.

6. We understand that the most common month for annual pay increases in the private sector is January, followed by April and July. In the case of the 71 companies in the 1989/90 pay trend survey, two-thirds (47) of them usually award their annual or major pay adjustments between January and April, with the rest having their adjustments in July or scattered among the other months. Therefore, in order to include more current pay adjustment information in the pay trend survey, which is to be used as a basis for the civil service pay adjustment from 1 April, January and April of the current year should be included in the survey period. This will ensure that the bulk of the survey data reflects current pay increases in the private sector. There is thus a good case to change the survey period for the annual pay trend survey to run from 2 April of the previous year to 1 April of the current year.

7. We have also examined two other proposals for tackling the time-lag problem. The first is to confine the survey field to companies awarding their only or principal pay increases between January and April of the current year. This, however, would drastically limit the survey field and exclude a third of the existing survey companies. We do not consider this to be appropriate.

8. The other proposal, based on the method suggested by the Hong Kong Institute of Personnel Management, has been carefully considered. Under this proposal, two sets of pay trend indicators would be produced each year. The first set would cover the period January to April of the current year and only companies within the survey field which awarded pay increases during this period would be included. The second set of indicators would cover January to December of the previous year and all companies in the survey field would be included.

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With the exception of the transitional year, the civil service pay adjustment would have regard to the indicators covering January to April of the current year as well as the difference between the indicators for the whole of the previous year and those covering January to April of the previous year. Although the indicators produced under this method would include the current January to April data, they would also reflect the less current data of the previous year. Problems associated with the time-lag factor would, therefore, largely remain. This method does not result in a significant improvement over the existing system.

9. Changing the survey period to the 2 April - 1 April cycle would delay the survey results and the decision on the annual pay adjustment for the civil service. The Administration reckons that under the new arrangement, the survey results would be known in late May and the decision taken on the pay increase sometime in June, compared with March and April, respectively, under the present system; payment would then be effected in July as against May or June now. We are aware of the staff's concern about this. However, we have been assured by the Administration that every effort will be made to ensure that the annual pay adjustment exercise will be finalised as early as practicable. We regard such assurance vital to the acceptability of the new survey period. The objective should be to announce the civil service pay adjustment before the end of June and to effect payment in July. Such arrangements will also avoid large retrospective payments.

10. On the issue of retrospective payments, we have considered the possibility of changing the effective date of civil service pay adjustments to July. This would lead to other intractable problems, however, and we reaffirm our previous view that for practical purposes 1 April should continue to be used as the effective date of the annual civil service salary adjustment.

11. The new survey period would involve reverting to the practice in use before 1982. In that year we proposed the change to the present survey period mainly to address the problems of substantial back-pay and the psychological pressure on the private sector of a civil service pay adjustment announced, in those days, in August. The issue of time-lag, however, did not arise. In proposing a reversion to the former survey period, we have been mindful of whether the same problems which led to its change in 1982 will resurface. If the Administration is able to announce the decision on the pay adjustment not later than June and make payment in July, however, much of the difficulty with large retrospective payments and the effect on the next round of private sector pay awards will have been removed. Moreover, the benefit that the pay trend survey would reflect the more current private sector practice should outweigh any residual problems.

12. We have also considered the problem of the transitional year. If the survey period is changed from 1 February - 31 January to 2 April - 1 April, the period 1 February to 1 April in the previous year will be omitted from either the previous survey or the current survey in the transitional year. Since pay trend survey periods have been consecutive, we consider it reasonable that some account should be taken of the pay adjustments made in the 'missing period'. We therefore propose that the survey for the transitional year should be extended to include the period 1 February to 1 April of the previous year. However, for companies which make their usual adjustment between 1 February and 1 April, the data relating to the previous and the current year should be collected separately and averaged before inclusion in the pay trend calculations.

13. We have indicated that the time-lag problem cannot be completely resolved. We nonetheless believe that the proposed change in the survey period will go some way towards tackling the problem and enhance the credibility of the pay trend survey system. We recommend its implementation with effect from the 1990/91 survey.

Deduction of Civil Service Increments from the Pay Trend Indicators

14. With effect from 1989, the pay trend survey takes into account private sector pay increases relating to cost of living, general changes in market rates, company performance, merit payment and in-scale increment. The results, after being discounted by the percentage value of civil service increments at their payroll cost, provide a basis for the annual civil service pay adjustment. This method of deduction was proposed by the Committee of Inquiry into the 1988 Civil Service Pay Adjustment and Related Matters as a compromise solution to protracted debate between the Administration and the staff. Although the method does not account for the full cost of such increments, we consider that, since it has been accepted by the Government and the staff, no useful purpose would be served by reopening the issue unless a better alternative is available.

Survey Field

15. In our letter of 16 October 1989, we stated our intention to add a suitable number of new companies to the 1989/90 pay trend survey. Nine new companies were subsequently included and the existing survey field comprises 71 companies, compared with 51 in 1979/80.

16. Continued efforts should be made to expand the survey to include more companies, particularly those of small and medium size. On the other hand, as the surveys serve to measure the trend of movements of salaries in the private

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sector, and not salary levels for specific jobs or sectors, a more stable survey field provides a more constant basis for assessing changes. As the survey field has just been expanded, we do not recommend the inclusion of new companies in the 1990/91 survey, particularly if the proposed change in the survey period is implemented. We shall however give further consideration to the addition of new companies in later years.

Surveyed Employees

17. At present the survey covers all employees in the participating companies except for the following three categories :

- (a) employees whose salaries exceed those of non-Directorate civil servants;
- (b) craft and technician apprentices; and
- (c) employees who work less than 75% of the normal weekly working hours in the companies concerned in January.

There is no restriction on whether the surveyed employees should be remunerated at hourly rates, piece rates or on a monthly basis.

18. We have received a suggestion from the Pay Trend Survey Committee that since civil servants are remunerated on a monthly basis and none at hourly or piece rates, piece-rated and hourly-rated employees should not be included in the survey. We understand however that such employees are also full-time staff of the companies concerned and we are not entirely clear of the impact of such a proposal. Furthermore, with the major change in the survey period proposed above, it may be desirable to avoid disturbing the survey system further at this time. Accordingly, we do not recommend any change in the existing practice.

Conclusion

19. We believe the changes proposed above will serve to improve the pay trend survey system, but we shall continue to keep it under review.

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

(Sidney Gordon)
Chairman
For and on behalf of
Members of the Standing Commission