

20th November 1996

The Right Honourable Christopher Patten
Governor of Hong Kong
Government House
Hong Kong

Dear Sir,

Methodology of Pay Trend Surveys

Under Clause 1(d) of our Terms of Reference, we are required to make recommendations on the methodology for surveys of pay trends in the private sector to be conducted by the Pay Survey and Research Unit, having regard to the advice of the Pay Trend Survey Committee (PTSC).

2. The current methodology governing the pay trend surveys conducted by the Pay Survey and Research Unit (copy at Annex I) was comprehensively reviewed in August 1996 by the PTSC Secretariat. At its meeting on 10th September 1996, the PTSC endorsed the findings of the review. The PTSC was satisfied that the methodology has basically worked well. However, a number of amendments are required to clarify intentions and to remove ambiguities. These include, inter alia, that -

- (a) criteria 5(c) and 9(3)(c) be reworded to indicate clearly that employees who happen to work less than 75% on the last day of the survey period will not be excluded;
- (b) a new sub-paragraph be added under criteria 5 and 9(3) respectively to clarify that no imported labour is included in the survey;
- (c) a new sub-paragraph be added under criterion 9(3) to clarify that employees whose salary adjustments are based on overseas factors will in future be automatically discounted; and

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- (d) the intention of criteria 9(5) be clarified by changing "... to take effect in the survey period" to "... relevant to the survey period".

A summary of the various amendments proposed by the PTSC, with justification, is at Annex II. A copy of the revised methodology, incorporating the amendments, is at Annex III.

3. The PTSC's proposals were considered by the Standing Commission on 7th November 1996. We note that the current methodology, which has been accepted by both the Administration and the Staff Side, is basically sound and effective. We agree with the PTSC that, in the light of experience, the methodology should be refined as recommended.

4. We recommend for your approval that -

- (a) criteria 5 and 9 of the current pay trend survey methodology be amended as proposed under paragraph 2(a) to (d) above; and
- (b) the revised methodology at Annex III be applied to the 1996/97 Pay Trend Survey.

Yours faithfully,

(Sidney Gordon)
Chairman

for and on behalf of
Members of the Standing Commission
on Civil Service Salaries & Conditions of Service

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Methodology of Pay Trend Surveys

Objective

The objective of the pay trend survey is to measure the movement of pay in the private sector. Fringe benefits, whether made in cash or in kind, do not fall within the ambit of the survey.

Survey Period

2. The pay trend survey covers the period from 2nd April of the previous year to 1st April of the current year.

Survey Field

3. The criteria used in the selection of companies for inclusion in the survey 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;
- (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 applying to Hong Kong rather than 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.

Salary Bands

4. Three salary bands are used for the collection of survey information. These are:

Lower band : Below Master Pay Scale (MPS) Point 10 or equivalent

Middle band : MPS Points 10-33 or equivalent

Upper band : Above MPS Point 33 to General Disciplined Services (Officer) Pay Scale (GDS(O)) Point 38 or equivalent.

Employees Covered

5. The survey should cover all employees in the participating companies with the exception of :

- (a) employees whose basic salaries are above the dollar term of GDS(O) Point 38 or equivalent;
- (b) craft and technician apprentices;
- (c) employees working less than 75% of the normal weekly working hours in the companies concerned on the last day of the survey period; and
- (d) employees remunerated at piece-rates.

Components of Pay Adjustment

6. Salary increases awarded to employees on account of the following factors are included in the calculation of the pay trend indicators :

- (a) Cost of living;
- (b) General prosperity and company performance;
- (c) General changes in market rates; and
- (d) Inscale increment and merit.

7. Changes in payments additional to basic salary such as year-end bonuses are also included.

8. Salary adjustments attributed to external and internal relativities and promotion and transfer are identified and reported for reference. They are excluded from the calculation of the pay trend indicators. (Note : Adjustments due to external relativities refer to those given to a specific group of employees in a company as a result of salaries paid by other companies for a similar job.)

Calculation Criteria

9. The following criteria will be used for the calculation of the pay trend indicators :

- (1) All companies participating in the survey will be included in the calculations provided that:
 - (a) they can furnish and confirm data on adjustments of salary and additional payments for not less than 75% of their total employees by a specified date;
 - (b) where appropriate, they can furnish, either separately or in an aggregate form, data on adjustments relevant to the calculation of the pay trend indicators, i.e. adjustments attributed to cost-of-living changes, general prosperity and

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company performance, general changes in market rates, inscale increment and merit;

- (c) they have not changed the basis of their salary structure to a pay scale or pay scales for some or all categories of their employees during the survey period; and
 - (d) their economic activities, company size or salary structure has not changed to such an extent that it is no longer appropriate for the data provided by them to be compared with the data provided in the previous year.
- (2) Only data on salary adjustments and additional payments relating to the survey period and additional payments for the 12 months before the survey period reported belatedly are included in the calculation of the pay trend indicators.
- (3) Data on salary and additional payments relating to the following employees are excluded from the calculation of the pay trend indicators:
- (a) employees whose basic salaries are above the dollar term of GDS(O) Point 38 or equivalent;
 - (b) craft and technician apprentices;
 - (c) employees working less than 75% of the normal weekly working hours in the companies concerned on the last day of the survey period; and
 - (d) employees remunerated at piece-rates.
- (4) Three salary bands, equivalent to the dollar terms of below MPS Point 10 (lower band), MPS Points 10-33 (middle band), and above MPS Point 33 - GDS(O) Point 38 (upper band), are used.

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- (5) Data on salary and additional payments for company employees in a particular band are included in the calculation of the pay trend indicators only if by a specified date the company has announced adjustments for not less than 75% of the employees in that band to take effect in the survey period.
- (6) Adjustments attributable to the following factors are excluded from the calculation of the pay trend indicators:
 - (a) external and internal relativities; and
 - (b) promotion and transfer.
- (7) Changes in bonus are taken into account and one month's bonus is taken as equal to 8.33% of the annual basic salary.
- (8) Changes in payments and monthly allowance reported in dollar terms are converted into annual percentage terms by relating them to the appropriate salary rates.
- (9) Where a range of percentage adjustments to a particular salary band is reported, the average figure is used.

Methodology of Pay Trend Surveys

Justification for Proposed Amendments

- (a) *criteria 5(c) and 9(3)(c) be reworded to indicate clearly that employees who happen to work less than 75% on the last day of the survey period will not be excluded*

Justification

— Criterion 5(c) now reads:-

"5. The survey should cover all employees in the participating companies with the exception of:

* * * * *

(c) employees working less than 75% of the normal weekly working hours in the companies concerned on the last day of the survey period;"

— The Pay Trend Survey Committee (PTSC) considers that the above wording may lead to the exclusion of full time employees who happen to work less than 75% on the last day of the survey period. For the sake of clarity, the PTSC recommends that the wording of criteria 5(c) be amended to read:

"part-time employees who are certified by the company concerned to work less than 75% of the normal weekly working hours in that company;"

— The PTSC also proposes to make consequential amendment to criteria 9(3)(c).