

CHAPTER VI : PAY TREND SURVEYS

6.1 We have said in Chapter V that pay trend surveys should continue to provide the basis for civil service pay adjustments in the years between pay level surveys. In this Chapter we examine further the methodology for pay trend surveys.

Merit Pay and Increments

6.2 One of the Staff Side's main concerns in the present dispute is the treatment of merit pay in pay trend surveys. The Official Side have also recognized that there is a problem here. Since merit pay forms a significant and perhaps increasing part of the annual pay adjustments in some companies in the private sector, the manner in which it is dealt with is important.

6.3 Past practice has been to exclude merit pay from the pay trend indicators on the ground that it does not form part of the private sector's general pay award. Equally, and presumably for the same reason, no account is taken of the value of automatic scale increments either in the civil service or in the surveyed firms. The problem

which has arisen is that merit payments are awarded in a number of private sector companies on a scale which makes them difficult to distinguish from general pay increases.

6.4 Our Interim Report dealt with this problem by recommending that the pay trend indicators should be adjusted to include a proportion of the merit increases reported by the surveyed companies. This recommendation addressed the specific issue of the 1987-88 Pay Trend Survey. It proposed a change in the interpretation of the survey data but it remained within the traditional methodology of net pay trend indicators which has been used successfully for a number of years. We made it clear, however, that in the absence of adequate information in the survey, the proportion of merit increases to be included was necessarily arbitrary.

6.5 We drew attention in our Interim Report to the desirability of excluding from the pay trend indicators pay elements which are awarded to individuals for exceptional effort or which compensate for special inconvenience. At the same time we recognized that any attempt to distinguish between different types of merit pay could only lead to arguments over definition such as occurred in relation to the 1987-88 Pay Trend Survey. This pointed towards the use of gross pay trend indicators at least to the extent that

the inclusion of merit pay in the indicators would avoid the need to define and then identify it. We therefore undertook to consider in our Final Report more permanent ways of dealing with the problem of merit pay including the feasibility of using a gross pay trend indicator which would take account of merit pay on the one hand and civil service increments on the other.

6.6 There is a good deal of common ground to support the use of gross pay trend indicators. They have been advocated by both the Staff Side and Official Side, and by the Institute of Personnel Management. There is however no common ground to suggest how civil service increments should be treated. The Official Side, and others who have commented on this issue, believe that if merit pay is included in the pay trend indicators they should be discounted by the value of civil service increments. The Staff Side consider that increments should be left out of the equation.

6.7 As we understand them, the arguments against taking increments into account run as follows. First, there is no relationship between merit pay and increments. The latter are automatic and are stopped, if at all, only for disciplinary reasons. Secondly, the incremental scale represents progression towards the rate for the job or, as

we ourselves incline to think, the incremental scale considered as a whole is the rate for the job and progression up it does not involve an increase in that rate. The nature of the incremental scale is therefore such that it ought not to be taken into account for the purposes of calculating the pay trend indicators. Thirdly, even in years when there has been no pay increase, or a reduced increase because of budgetary considerations, the payment of increments has continued in full and has not even been a factor in discussion of the eventual pay settlement or in its public presentation. This strongly suggests that increments are not considered to constitute a pay increase for regulatory purposes. Finally, a large proportion of civil servants, some 43%, do not receive increments and would be aggrieved if these were brought to account so as to depress the level of a civil service pay increase.

6.8 On the other side it is argued that the purpose of the pay trend survey is to establish the comparative movement in pay between two distinct and dissimilar pay packages. The fact that certain of the components of those packages are unrelated does not necessarily mean that they should not be taken into account. The nature and purpose of increments and the fact that they are paid regardless of whether a pay award is made is irrelevant in the context of

a pay trend survey. These are simply elements peculiar to the civil service package which have to be compared with elements peculiar to the private sector package. Nor is the fact that a large proportion of civil servants do not receive increments a reason for ignoring them. A considerable proportion of private sector employees do not receive merit pay. The pay trend survey calculations are based on average percentages and these percentages are weighted to take account of the employees actually receiving the various elements in the pay package.

6.9 There are strengths and weaknesses on both sides of this argument. We do not think that the balance points unerringly towards a particular method of constructing a gross pay trend indicator.

6.10 We have considered whether an improved net pay trend indicator would be the best solution. Until the problem of merit pay emerged this system worked well. Indeed it seems to us that it is probably the best method conceptually of measuring those private sector pay increases which need to be reflected in civil service pay in order to maintain broad comparability with the private sector. But an improved net pay trend indicator would require fine distinctions to be drawn between different

kinds of merit pay and we do not believe that would be feasible.

6.11 We have also considered whether any other approach would have fewer objections. One possibility would be to base the pay trend indicators on increases in total payroll costs assuming "constant volume", i.e. no changes in staff numbers, grade population, etc. Unfortunately this method cuts out all prior agreement on what pay elements should be included in the indicators and thus simply postpones the problem until a later stage in the salary determination process. The advantages of having an agreed indicator pointing to a particular increase are thus lost. We doubt very much whether this method is suitable in the circumstances of Hong Kong. Moreover, it is likely that the extensive information required, including that needed to establish "constant volume", would be very difficult to obtain.

6.12 Our conclusion is that a conceptually pure formula for building a demonstrably "correct" pay trend indicator is almost certainly unattainable given the differences between the civil service and the private sector, the difficulty of eliciting the necessary facts and the likelihood that some of these facts, when they become known, will not fit the formula. Any basis of constructing

a net pay trend indicator must therefore be arbitrary to some extent.

6.13 There remains the important objective of minimizing the burden on the surveyed firms by simplifying the information required of them. If their cooperation is lost, all is lost. This consideration of itself argues powerfully in favour of the gross pay trend indicator approach.

6.14 On the balance of all the foregoing factors we conclude that the gross pay trend indicator method is to be preferred. We are also clear that the inclusion of merit pay in the calculation of the private sector pay increases requires a balancing factor and that this can properly be related to the value of the civil service increments.

6.15 In proposing to adapt the pay trend system to take account of private sector merit pay and civil service increments we are well aware of the difficulties involved. A proposal to go down this path was made in 1982* but came to nothing because of the problems involved, particularly as regards the evaluation of increments for the lower pay

* Report No. 9 of the Standing Commission on Civil Service Salaries and Conditions of Service.

band. To overcome these difficulties we believe that a degree of pragmatism is required. Our conclusion that there can be no such thing as a completely accurate and "correct" pay trend indicator (paragraph 6.12) is consistent with a pragmatic approach.

6.16 We therefore need to devise a formula which does three things. It must respect the pay survey data while recognizing that precision is unattainable. It must, so far as possible, avoid harm to civil service morale and therefore to the public interest through the effect on civil service efficiency. It must not on the other hand unduly favour civil servants.

6.17 Against this background we think that the full value of civil service increments should not be offset against the gross pay trend indicators. As we have already pointed out, there is no quantitative match between private sector merit pay and increments on the one hand, and civil service increments on the other. There are moreover other grounds to support only a partial offset. The element in private sector merit pay to which we drew attention in our Interim Report and which led to our recommendation to treat part of it as equivalent to a general increase cannot be ignored in our new formula. Since a gross pay trend indicator does not require merit pay to be identified, an

adjustment for any part of the merit pay element which we consider should be treated as a general increase can be applied only by reducing the deduction for civil service increments in some degree.

6.18 We therefore recommend that, beginning in 1989, the pay trend survey system should be modified to take account of both private sector merit pay and increments and civil service increments. The percentage value of private sector merit pay and increments, weighted to take account of all the employees in the survey field, should be included in the pay trend indicators. From these pay trend indicators the value of civil service increments should be deducted but at a discounted rate. The discounting should be achieved by taking the value of increments at their payroll cost, i.e. their cost to the Government in the survey year, broken down into the different pay bands, rather than their average percentage value.

6.19 We further recommend that where the resulting pay trend indicator for the lower pay band is below that for the middle band, it should be brought up to the same level unless there are overriding reasons for not doing so. We make this recommendation for three reasons. First, it is Government's express policy that while it should not consciously lead the private sector in pay it "should set

an acceptable standard and be among the better paying employers in relation to the lowest paid".* Secondly, the lower pay band includes staff on Model Scale I some 80% of whom have reached the top of their scale and are no longer eligible for increments. Thirdly, it was in respect of this category of staff that the 1986 Pay Level Survey found the civil service lagging behind the private sector.

6.20 These proposals are unlikely to please everybody. Some may think that the method we recommend for valuing increments, i.e. taking the payroll cost rather than the average percentage value, and our provision for lower paid civil servants, amount to over-generous treatment of the civil service. Others may think that taking any account of increments unfairly penalizes the civil service. We ourselves are satisfied however that, in all the circumstances bearing upon this problem, the solution we propose is sensible, fair to all interests and charts a sound course for the future. Moreover, if our recommendation for regular and comparatively frequent pay level surveys is accepted, any distortions which the new methodology may produce will be quickly identified and corrected.

* Report No. 1 of the Standing Commission on Civil Service Salaries and Conditions of Service.