

4.17 However, before reaching any conclusions on a fundamental change of this nature we require more information and we need to study the practical consequences of such a recommendation. We also believe that such a change in the pay trend survey methodology should be looked at in conjunction with the question of pay level surveys. We shall therefore revert to this issue in our final report; and we shall have very much in mind the desirability of devising a simpler system which makes the minimum of demands on the private sector and leaves less room for argument in its application.

Other Aspects of the Pay Trend Survey Methodology

4.18 The Staff Side have referred to two other aspects of the pay trend survey methodology which they consider to be unsatisfactory. The first relates to the fact that there is a shortage in the survey field of jobs comparable to jobs paid from the upper salary band in the civil service. To overcome this weakness they propose that the survey field should be expanded. If suitable companies willing to participate in the pay trend survey can be found, we see no reason why the Staff Side's request should not be met.

4.19 In general, it is clearly advantageous to have as wide a survey field as practicable; the wider the field the less likelihood of distortion in the pay trend indicators as a result of special considerations in individual companies. In this connection, it has been suggested that some public utilities which were excluded from the pay trend survey because the Government pay award was the main factor in determining their own pay may have changed their policy in this respect. We also note from the pay survey conducted by the Institute of Personnel Management that multi-nationals generally follow local pay practices at least in so far as the level of staff covered by the pay trend survey is concerned. These areas may therefore provide useful scope for additions to the survey field. We would add that such additions should in our view only be made after consultation with Staff Sides.

4.20 The Staff Side's second suggestion is to increase the number of salary bands. The Model Scale 1 Staff Side have also proposed changes in the salary bands. We feel that these suggestions might best be considered in the forum of the Pay Trend Survey Committee. We recognise that an increase in the number of salary bands may lead to more variations in the pay trend indicators. The introduction of additional salary bands, if considered appropriate,

should therefore be subject to the acceptance by staff representatives that on occasions indicators may need to be rounded down as well as up in order to smooth out pay adjustments.

4.21 The Institute of Personnel Management in its submission to us has expressed the view that the practice of applying a weighting to bring the pay trend survey results into line with the distribution of the working population in major economic sectors is statistically unsound. This is because the economic sectors include companies, particularly small companies, of a type outside the pay trend survey field. We have enquired from the Census and Statistics Department who have advised that the Institute's view is not without foundation. We shall therefore include the subject of weighting in our further examination of the pay trend survey methodology in Phase II of our work.

The 1988 Pay Adjustment

4.22 In considering the 1988 pay adjustment we have had regard, as required by our terms of reference, to :-

- (a) the need to attract and retain staff of a calibre capable of providing an efficient service;
- (b) the need to maintain staff morale; and
- (c) the need for civil servants to share in the effects of changes in the economy.

We have not had regard to general budgetary considerations since we were advised by the Official Side that there were no particular budgetary factors which should affect our deliberations.

4.23 We note the Official Side's statement that there is no evidence to suggest that the level of the 1988 pay adjustment had adversely affected the recruitment and retention of staff. As regards morale the Staff Side said that from their contacts with their members and with colleagues in the work-place, there was widespread discontent within the civil service at what was seen as an unjustifiably low pay award. They also considered that morale was being affected. This view was supported by the submissions received from individual civil servants and groups. The Official Side, while acknowledging there was

some dissatisfaction within the civil service at the level of the pay adjustment, said that if performance was the measure of morale there was no indication that it had fallen.

4.24 Since the pay trend survey system was introduced, the civil service has on two occasions accepted a nil award or a reduced award on the ground that Hong Kong was experiencing economic difficulties. This underlines the importance, which we fully recognise, that civil servants should share in the benefits when the economy is prospering. However, a prosperous economy should be reflected in salary increases in the private sector and these in turn would be passed on to the civil service through the mechanism of the pay trend survey.

4.25 In deliberating on this issue we have also taken note of other economic indicators for the period : the growth in GDP by 13.5%; the unemployment rate of under 2% and the general labour shortage; inflation at 6.4%; a rise in the nominal wage index for employees earning \$6000 or less a month by 9.8% and in gross earnings by 12.5%. We have not, however, taken account of these indicators in arriving at our recommendations because they are not directly relevant to the tasks we have been set. It must

nevertheless be said that while these statistics may have no immediate implications for civil service pay, they have heightened expectations and lent colour to the view that the civil service pay increases of 1988 underestimated the extent of private sector pay movements. Had the same economic indicators signalled a downturn in the economy they would no doubt have acted as a constraint on the 1988 pay settlement.

4.26 We conclude that, on balance, these general factors are not weighty enough in themselves to affect our conclusions on the 1988 pay adjustment. But we think it right to make the general point that a civil service which is unhappy about its pay or its pay system - and there seems to be general agreement that such unhappiness does exist - will sooner or later suffer a loss of morale and then of efficiency. The particular need for a highly-motivated and efficient civil service at this point in the history of Hong Kong appears to be widely accepted.

4.27 We have concentrated on the question of whether the exclusion of pay increases for certain factors may have depressed the 1988 civil service pay award. We have

therefore examined the data available from the pay trend survey leading to the award to see to what extent this may have been the case. As regards the exclusion of increases for promotion, transfer and internal and external relativities we have found no evidence that these have been inflated. Moreover, according to our calculations, the difference between the percentage increases awarded for these factors in the private sector and the percentage increases awarded for promotions, transfers and individual grade adjustments in the civil service is insignificant. We therefore see no value in tinkering with the methodology relating to these factors.

4.28 We are firmly of the opinion, however, that some merit payments are of a type which should be included in the calculation of the pay trend indicators for the reasons given earlier in this chapter. We hasten to add that this is not because their classification as merit pay is incorrect but because of the nature of the merit they reward. The problem is in determining what proportion of the merit payments made during the 1987-88 Pay Trend Survey period should be taken into account in the 1988 pay adjustment. We have already explained that it is not possible to identify different types of merit payments from available pay trend data. We have therefore been left with

no alternative but to make an arbitrary assessment. Bearing in mind that any proposal for the treatment of merit payment in this report is an interim measure for the purpose of the 1988 pay adjustment only, and that it will not affect our further review of the pay trend survey methodology to be undertaken as part of Phase II of our work, we think that a broad brush approach within the limits of what we consider the situation to justify is not only correct but is the only possible one.

4.29 We have therefore taken the view that a benchmark should be set in the form of a percentage of employees receiving merit payments which if exceeded in a company would lead to merit payments being included in a re-calculation of the pay trend indicators for the 1988 pay adjustment. We further consider that this benchmark should be set where merit payments are made to some 90% or more of employees.

4.30 We are aware that there are arguments for setting the benchmark percentage at a lower level. However, we are conscious of the fact that even among those companies giving merit payments to 90% or more of their staff there may well be a proportion of those merit payments which should rightly be excluded. But equally

there may be cases of companies giving merit payments to less than 90% of their staff where a proportion of those merit payments should be included. There is also the fact that we have made no allowance for the value of civil service increments. We therefore think it right to err on the side of caution. A 90% benchmark strikes us as an equitable balance between all the considerations bearing upon this problem.

4.31 The effect of our proposed method of calculating an adjustment to the pay trend indicators to take account of a proportion of merit pay is as follows :

Pay Trend Indicators

	<u>Original</u>	<u>Revised*</u>
Upper Pay Band	6.54%	9.56%
Middle Pay Band	7.28%	9.93%
Lower Pay Band	8.50%	9.62%

(*We have calculated the merit pay addition to the indicators by having regard to the merit payments made by those companies making such payments to 90% or more of their staff (including one which made such payments to 89.7% of its staff) at each band

level, having regard to the employee population of those companies able to identify the merit pay element in their pay awards.)

4.32 We recommend that the revised pay trend indicators be adopted as the indicators for the 1988 pay award and that any adjustment arising from them be implemented with effect from 1 April 1988. We are conscious of the fact that the indicator for the lower band is slightly less than that for the middle band, but we consider it is for the Administration to consider whether any smoothing out is necessary in accordance with their usual practice.

The 1988-89 Pay Trend Survey

4.33 One of the reasons why we were asked to submit an interim report on the pay trend survey methodology and the 1988 pay adjustment by 21 November 1988 was in order that our recommendations could be taken into account in the conduct of the next pay trend survey. While we have decided to give further consideration to the pay trend survey methodology in Phase II of our work, we do not consider that any of the paths along which we may go should affect the collection of data for the 1988-89

survey. We would, however, suggest, that to the extent that it is available, more data should be sought on the range and breakdown of merit payments and that explanations should be sought for any apparent anomalies. As regards merit payments, what we have in mind is that where a company has a range of merit payments, details of that range and the number of employees paid at each level should be obtained rather than a weighted average. We appreciate that the pay trend survey already imposes a burden on companies and that more detailed information may not always be available. We do not believe, however, that simply asking for such information will discourage companies from participating.

4.34 Finally, we emphasize that our recommendations are exclusively concerned, as our terms of reference require, with matters arising from the 1987-88 Pay Trend Survey i.e. with the attempt to assess what has happened to private sector pay during the survey period and the implications for civil service pay. We have not been concerned in any way with civil service pay levels and our recommendations imply no view whatsoever as to the correctness of those levels.