

IV. IMPROVEMENTS TO THE PRESENT SYSTEM

14. In our letter of 27 November 1981 we drew attention to a number of defects in the pay trend survey system as then operated and made several recommendations which we believed could improve the situation. One of these recommendations was that it is essential that arrangements for determining the general levels of civil service pay should take into account the total package of pay and benefits in both the civil service and the private sector. This suggestion involves an important point of principle and is discussed in a later section of this report. The other recommendations were concerned mainly with the timing and methodology employed in the survey and were accepted by the Government and implemented for the 1982 pay trend exercise. We have now had an opportunity of assessing the effects of the modifications which we proposed and our recommendations with regard to their continued use are set out in the following paragraphs.

Timing

15. A major criticism of the operation of the pay trend survey system up to 1981 was that the announcement in July or even August of a civil service pay adjustment effective from 1 April resulted in large retrospective payments, and influenced the next pay round in the private sector. To overcome this problem we recommended that the cut-off date of the pay trend survey should be advanced from 1 April to 31 January, thus enabling the civil service pay adjustment to be decided and announced preferably before 1 April or at the latest during April. The timing we proposed proved to be practicable and it was possible to announce the 1982 pay adjustment shortly before 1 April and to incorporate the adjustment in civil servants' April salaries, thus avoiding the need for any back-dating of the award. This was a very considerable improvement and we recommend that 31 January should remain the cut-off date for the survey; accordingly the 1982/83 survey period should run from 1 February 1982 to 31 January 1983.

16. We realise that a problem may arise from the use of 31 January as a cut-off date in relation to the payment of Lunar New Year bonuses in the private sector. This is because in some years the use of this date will result in a survey period in which there are two Lunar New Years, or, as is the case in the 1982/83 survey period, none. We do not see this as presenting any major difficulty. We believe that by the end of January companies should be able to predict the level of their Lunar New Year bonuses, even if they will not actually be paid

within the survey period. If necessary, information on the level of bonuses can be provided shortly after the cut-off date. It would thus be possible to ensure that for each survey period the data can be adjusted to include one Lunar New Year bonus. An alternative would be to set the cut-off date at the end of February, to ensure that the Lunar New Year will always fall within the survey period. This however would greatly shorten the period available for the determination of the award before 1 April, and accordingly we do not favour this alternative.

Salary Bands

17. In our letter of 27 November 1981, we recommended that for the purpose of the 1982 pay trend survey the Model Scale 1 band and the bottom band of the Master Pay Scale should be considered as one single pay band. We understand that there was no difficulty in merging these two bands this year and that it resolved a management problem of having to deal separately with two groups of staff in similar pay ranges. We therefore recommend that this arrangement be continued.

18. We have given some consideration to the ideal number of salary bands to be used in the pay trend survey; at present there are three. In theory at least, there would be advantage in increasing the number of bands within the pay range corresponding to the civil service Master Pay Scale, as this would enable the survey to present a more accurate picture of private sector pay movements at various salary levels. There are however practical difficulties inherent in the proposal since it would be likely to result in a number of different indicators which, if implemented, would cause distortions in the Master Pay Scale. To reduce the number of bands would avoid this problem but would make the survey less sensitive to differences at the various pay levels. We propose to give further consideration to this question, and in the meantime we recommend that the present three bands should be retained.

Survey Field

19. We share the view expressed in various quarters that the companies making up the pay trend survey field do not constitute an accurate cross-section of economic activity in Hong Kong with regard to either the size or type of companies represented. We proposed in our letter of 27 November 1981 that in order to achieve a better balance in the various types of company included in the survey, the data received from the companies should be weighted so as to reflect the major categories of employment in Hong Kong as classified by the Census and Statistics Department. We recommend that this

practice should be continued in 1983. However, this was only intended as an interim measure and we recommend that consideration should now be given to making the actual list of companies used in future surveys more representative of the major areas of economic activity in Hong Kong. As regards the size of companies, the problem cannot be resolved by statistical weighting, as is the case with types of company. In order to achieve a more representative sample of the various sizes of company, we therefore propose that, as suggested by the Chinese Manufacturers' Association and others, more medium-sized and small companies should be included.

Merit Payments and Pay Adjustments Due to External and Internal Relativity

20. In our letter of 27 November 1981 we drew attention to the fact that pay adjustments in the private sector often include elements in respect of factors which are compensated for in the civil service by other means; for example awards for merit or adjustments made for internal or external relativity reasons. We then proposed that the Pay Investigation Unit should make every effort to identify and report on the separate components of the pay increases awarded in the private sector. However, it is clear from the Pay Investigation Unit report that a number of companies found considerable difficulty in breaking down their pay awards into their component parts and that even where this proved possible, it frequently involved the company management in a considerable amount of extra work.

21. We now believe that there is a better solution to this problem. The principal difficulty in the method we proposed last year lies in identifying and then excluding those elements of a pay award which relate to merit and the other factors mentioned in the previous paragraph. To obviate this difficulty, we propose that in future companies should be asked to include all elements of pay increases (with the exception of those relating to promotion or transfers, which should not be difficult to identify) in the data which they provide. The resulting pay trend indicators should then be reduced by the average percentage value of civil service increments.

22. It has been suggested that to deduct the average civil service increment from the pay trend survey figures would be unfair in that not all civil servants receive increments. We would point out however, that the pay trend survey system as a whole deals with averages; not every employee in the private sector will have received a pay increase, let alone the average pay increases indicated in the survey. Civil service increments represent an increase of salary over and above the annual overall pay award, and to deduct the average value of such increments, weighted to allow for those

civil servants who do not receive them, would, we consider, be a reasonable means of arriving at an equitable comparison with the awards which have been given in the private sector.

Late Adjustments

23. Until 1981, when a company's pay award was announced too late for inclusion in the pay trend survey for a particular year, the company was regarded as having given a nil increase in that year and the level of the award was added into the following year's figures. This arrangement could and sometimes did lead to the civil service pay adjustment in a particular year being either artificially low or artificially high. We therefore proposed last November that in the 1982 survey, companies which had not announced a pay adjustment by the cut-off date should be excluded from the overall weighting of the survey result, thus avoiding the need for any subsequent adjustment. We recommend that this arrangement should be continued in future pay trend surveys. There may also be cases in which a company has given two increases in one survey period merely because of a change in the effective date from one year to the other. In such cases the increase made on a date which is out of line with the company's previous normal practice should be ignored.

V. THE PAY INVESTIGATION UNIT

24. The Pay Investigation Unit was set up in 1968 following the adoption of the principle that fair comparison of civil service remuneration (i.e. pay) with that of comparable employment in the private sector, taking account of differences in other conditions of service, should be adhered to as closely as possible in setting civil service pay. The Unit's task is to collect, analyse and present information on private sector pay and conditions of service, on the basis of which decisions can be taken on what adjustments to civil service pay are required. Since its establishment, the Unit has formed part of the Civil Service Branch of the Government Secretariat, although it has operated independently in the conduct of its surveys and has always carefully safeguarded the identity of the individual companies with which it deals.

25. In the course of our consultations on civil service pay policy it was suggested to us by a wide variety of organisations, both inside and outside the civil service, that