

10 September 1984

His Excellency Sir Edward Youde, G.C.M.G., M.B.E.,
Governor of Hong Kong.

Your Excellency,

Further Development
of Pay Trend Survey Methodology

In our letter of 5 October 1983, we put forward several recommendations for the improvement of the methodology used in the annual pay trend survey. These recommendations were accepted by the Government and put into effect in the 1983/84 survey. We also indicated that we would continue to keep the pay trend survey system under review and would submit further recommendations from time to time. This year, as in 1983, we have assessed our earlier proposals in the light of the experience gained in the 1983/84 Pay Trend Survey and in the following paragraphs we submit proposals for the further refinement of the pay trend survey methodology. In formulating our recommendations, we have taken account of the advice of the Pay Trend Survey Committee, one of whose functions is to advise on matters relating to the pay trend survey methodology. We are grateful to the Committee for the valuable advice it has given on the subject.

2. Our advice on the various subjects is set out in the same order as in our letter of 5 October 1983.

Timing

3. We previously recommended that the annual pay trend survey should cover the period from 1 February in each year to 31 January in the following year and that the data for each survey period should be adjusted to include one Lunar New Year bonus. We have found this timing practicable and we recommend no change in this regard.

4. We note that Lunar New Year's Day in 1985 will fall on 20 February and, in order to ensure that details of the

Lunar New Year bonuses relevant to the survey can be included in the calculations, we recommend that the deadline for the collection of data should be extended to 18 February. This arrangement may cause some delay in the pay adjustment exercise for 1985 but we understand from the Administration that every effort will be made to announce decisions on the general civil service pay adjustment as early as possible in May.

Salary Bands

5. In our letter of 5 October 1983, we recommended that, for the purpose of the 1983/84 Pay Trend Survey, the existing three bands used for the collection and collation of survey data should be retained but that the ranges of the middle and lower bands should be revised to provide a better balance between the survey population of the bands. We understand that there was no difficulty in implementing this proposal and the following bands were used for the 1983/84 survey :

Upper Band	MPS 38 - 51
Middle Band	MPS 14 - 37
Lower Band	MPS 1 - 13

6. Some staff representatives have suggested to us that the use of three salary bands is unsatisfactory. They consider that the existing middle band which covers 24 pay points is too wide and suggest that a more accurate picture of pay movements at different salary levels could be obtained if the middle and upper bands were divided up as follows :

Upper Band	MPS 42 - 51
Upper Middle Band	MPS 29 - 41
Lower Middle Band	MPS 14 - 28
Lower Band	MPS 1 - 13

7. We have given careful consideration to the number of salary bands to be used in the pay trend survey and we feel that there are both advantages and disadvantages in dividing the existing three salary bands into four as proposed. The disadvantages of the proposal are as follows :

- (a) The size of the population in the survey field for the upper, upper middle, and lower middle bands would be reduced and this could detract from the representativeness of the survey results.

- (b) An additional pay trend indicator would be introduced and this would increase the possibility of the indicator for a lower band being smaller than the indicator for an upper band. If this happened and the indicators were applied without modifications to the Master Pay Scale, a reverse taper situation would arise, and this might not be acceptable to the civil service and the public.
- (c) Additional work would be created for the survey companies as they would be required to classify their employees into more categories.

8. On the other hand, we recognise that an increase in the number of salary bands from three to four would produce a more detailed picture of private sector pay movements at various salary levels and, despite the resulting reduction in the survey population in the new upper, upper middle and lower middle bands, the results of the pay trend survey would not necessarily be less accurate than those obtained from the existing three bands. The problems which might arise from a reverse taper situation could be avoided if the Administration made appropriate adjustments when it recommended increases to various pay points on the Master Pay Scale, bearing in mind that the pay trend survey indicator is only one of the factors to be taken into consideration. Finally, although the use of more bands would create more work for the survey companies, this is not, by itself, an overriding problem.

9. We consider that the arguments for and against the proposal to divide the existing three salary bands into four are evenly balanced and, as far as the conduct of the pay trend survey is concerned, we do not have any strong views on the proposal. We recommend therefore that it should be left to the Administration to decide which of the options should be adopted for the 1984/85 Pay Trend Survey, taking into account any practical difficulties which might arise from an increased number of salary bands and a consequent increase in the number of pay trend indicators.

Survey Field

10. In our letter of 5 October 1983, we proposed a new set of criteria for the selection of companies to be included in the survey and these criteria were applied to the 1983/84 Pay Trend Survey.

11. The Staff Side representatives of the Pay Trend Survey Committee have however proposed that the criteria be further refined to include a definition of "good employer" and that the existing criterion (b)(ii) which reads :

"be generally known as steady and good employers conducting wage and salary administration on a rational and systematic basis."

should be replaced by the following revised criterion :

"be generally known as steady and good employers as evidenced by :

- (i) the conduct of wage and salary administration on a rational and systematic basis, and
- (ii) the provision of termination/retirement benefits and medical benefits for at least 75% of their total employees."

12. We have given careful consideration to this proposal. While we accept that it would provide a more detailed definition of "good employer", a term which has, up to now, been interpreted subjectively, we consider that a company should be considered as a whole and that to define a good employer on the basis of whether it provides medical and retirement benefits would be unsatisfactory. Companies which do not provide these particular benefits to their staff are not necessarily bad employers and other factors such as the companies' policy on leave, housing and training, are also important. Moreover we believe that whether a company provides medical and retirement benefits depends largely on the pay policy it chooses to adopt, and that some may prefer to provide incentives which benefit their staff immediately rather than benefits such as retirement benefits which will not be realised within a short period of time.

13. For these reasons, we recommend no change in the existing criteria for the inclusion of companies in the survey field.

14. As regards the size of the survey field, we note that as a result of our recommendation eleven new companies were added to the 1983/84 survey and there has been some improvement in the representativeness of the survey field. While we would like to see continued efforts being made to make the survey field even more representative, we do not recommend that any new companies should be included in the 1984/85 survey since it is our view that more time is required for the eleven companies added to the survey field in 1983/84 to become familiar with the system. However, we propose to give further consideration to the possibility of adding new companies to the survey field in 1985/86.

Merit Payments

15. In our letter of 5 October 1983, we recommended that the companies surveyed should continue to report and identify the various elements in their pay increases and that those components which are not relevant to the annual pay trend adjustment should be excluded from the calculation of the pay trend indicator. We believe that this is still the most satisfactory arrangement for dealing with merit payments and we therefore recommend no change in this regard. In order to assist the companies included in the survey to identify the individual components in their pay adjustments and to calculate merit payments more accurately and uniformly, the Pay Survey and Research Unit will provide them with appropriate guidelines, including a set of definitions of the various elements in pay adjustments.

Late Adjustments

16. We previously recommended that companies which have not announced a pay adjustment by the cut-off date should be excluded from the overall weighting of the results. Where a company is unable to announce the salary adjustment for some, but not all, of its employees, it should therefore be excluded from the calculations. It has been pointed out to us that this arrangement is not entirely satisfactory and that it would be reasonable to include a company in the calculations of results if the pay adjustments affecting a majority of its staff had been announced. We accept this view and recommend that the criteria used for the analysis of company data should be amended so that :

- (a) where a company has announced salary adjustments and additional payments affecting not less than 75% of its employees, it should be included in the calculation of the industrial weightings; and
- (b) where a company has announced salary adjustments and additional payments affecting not less than 75% of the employees in a particular band, the data for employees in that band should be included in the calculation of the survey results.

We consider that these modifications will ensure that the data used in the pay trend calculation are representative not only of the company but also of the employees in each band.

17. As regards companies in the survey field that have been excluded from one year's calculations for whatever reason, it has been suggested to us that it may be difficult

to find a proper base for comparison when the Pay Survey and Research Unit comes to analyse the survey data for the following year. We have been advised by the Controller of the Unit that this problem only arises in the comparison of additional payments which are determined with reference to similar payments in the previous year and that it can be overcome by obtaining information on the additional payments awarded by the excluded companies after the completion of the survey, if necessary.

18. In the light of this information, we recommend that comparisons of additional payments should be made with those for the previous year on which information should be obtained regardless of whether the company concerned was included in the survey for that year.

Pay Adjustment for Apprentices and Trainees

19. At present, apprentices and trainees are included in the survey because they are counted as company employees by the Census and Statistics Department and are included in the figures for the total working population for Hong Kong from which the industrial weightings are established. It has however been suggested to us that it may not be appropriate to include apprentices and trainees in the survey because they are paid as employees learning skills rather than as productive workers and also because additional factors such as guidelines issued by the Vocational Training Council may affect the determination of their salaries. We accept this view and recommend that apprentices and trainees should be excluded from the survey calculations in future. We note that apprentices and trainees represent less than 0.5% of the working population covered by the survey and that their exclusion from the survey is unlikely to affect the results significantly.

General

20. These recommendations are intended to achieve a further refinement of the existing pay trend survey methodology. All our proposals relate to the basic methodology recommended in Report No. 9 and all of them deal with practical aspects of implementing and developing our previous recommendations.

21. We shall continue to keep the pay trend survey

system under review and submit further recommendations
from time to time.

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

(S.Y. Chung)
Chairman