

Appendix F

16 October 1989

His Honour Sir David Ford, K.B.E., L.V.O., J.P.,
Deputy to the Governor of Hong Kong.

Your Honour,

Methodology for the Pay Trend Survey

In our letter of 3 October 1987, we recommended several improvements to the pay trend survey methodology for use in the 1987/88 Pay Trend Survey. Our recommendations were accepted by the Government.

2. Although the 1987/88 Survey was conducted according to the approved methodology, there was disagreement within the Pay Trend Survey Committee on the interpretation of information regarding merit payments and external relativities provided by the surveyed companies. Subsequently the Government offered a pay increase to civil servants, but this was rejected by the staff. At the request of the Staff Side of the Senior Civil Service Council and in accordance with the 1968 Agreement between the Government and the main staff associations, a Committee of Inquiry was appointed in August 1988 to look into the dispute. The Committee was also asked to review the methodology used in the 1987/88 Pay Trend Survey.

3. In view of this development, we did not undertake a review of the pay trend survey methodology in 1988. However, we did make several observations on the recommendations of the Committee of Inquiry concerning the pay trend survey. These observations were set out in our two letters dated 6 December 1988 and 23 March 1989. We also indicated that we would resume our regular review of the subject at an appropriate time in 1989.

4. In the light of the experience of the 1988/89 Pay Trend Survey, we have now reviewed the methodology for future pay trend surveys. In formulating our recommendations, we have taken account of the Government's

Appendix F (Cont'd)

decisions on the recommendations of the Committee of Inquiry, as well as the advice of the Pay Trend Survey Committee.

Salary Bands

5. On the advice of the Pay Trend Survey Committee, the three-band system was retained in the 1988/89 Pay Trend Survey. However, in view of the revision of the pay scales for the disciplined services, the upper limit of the upper band was raised above Master Pay Scale point 51 to include the top non-Directorate pay point (i.e. point 38 of the General Disciplined Services (Officer) Pay Scale). The three salary bands for the 1988/89 Survey were as follows:-

Lower band : Below Master Pay Scale point 14 or equivalent

Middle band : Master Pay Scale points 14-37 or equivalent

Upper band : Master Pay Scale point 38 to General Disciplined Services (Officer) Pay Scale point 38 or equivalent.

6. When this banding system was considered by the Pay Trend Survey Committee, no change was proposed. We therefore recommend that the same three salary bands be used in future.

Data Collection

7. Pay adjustments in the private sector can be broken down into seven components reflecting the following factors :-

- (a) cost-of-living;
- (b) general prosperity and company performance;
- (c) general changes in market rates;
- (d) merit payments;
- (e) inscale increments;
- (f) internal and external relativities; and
- (g) promotion and transfer.

Appendix F (Cont'd)

8. Pay adjustments reflecting the first three factors are commonly known as general increases. They formed the basis for calculating the pay trend indicators in all the annual pay trend surveys conducted between 1973-74 and 1987-88. In these surveys, participating companies were asked to identify general increases and report them separately from adjustments due to the other four factors.

9. In the 1988/89 Pay Trend Survey, there was no change in the method of data collection. However, the Committee of Inquiry recommended in its Final Report that the formula for calculating future civil service pay adjustments should include the percentage values of private sector merit pay and inscale increments in the pay trend indicators, from which the values of civil service increments for individual salary bands should be deducted at their payroll cost. This recommendation was accepted by the Government in April 1989. As a result, data on merit payments and inscale increments were included together with data on general increases in the calculation of the 1988/89 pay trend indicators.

10. With this change in the method of calculating the pay trend indicators, there will be no need for companies to provide data on general increases separate from those relating to merit payments and inscale increments. An overall percentage figure representing these adjustments will serve the purpose. We recommend that companies participating in future surveys be asked to :-

- (a) report data on general increases, merit payments and inscale increments in an aggregated form; and
- (b) provide for reference separate data on adjustments due to internal and external relativities and promotion and transfer.

Industrial Weighting

11. Another recommendation made by the Committee of Inquiry was that the practice of adjusting survey data by industrial weighting in the calculation of the pay trend indicators should be discontinued. The requirement for industrial weighting is stipulated in criterion (a) for the selection of survey companies which is reproduced below :-

"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 broken down in

Appendix F (Cont'd)

accordance with the industrial classification and statistics of the Census and Statistics Department".

12. The practice was first adopted in the 1981/82 Pay Trend Survey. It was introduced in response to comments expressed in various quarters that the companies making up the survey field did not constitute a representative cross-section of economic activity in Hong Kong with regard to the type or size of the companies represented. However, the use of industrial weighting was intended only as an interim measure. The long-term objective was to make the survey field more representative of the major areas of economic activity in Hong Kong. Over the years, efforts have been made to achieve this objective by the gradual addition of new companies. In 1983-84, eleven new companies were invited to join the survey. In 1986-87, another fourteen companies were invited. As a result, the number of companies in the survey field has increased from 49 in 1981-82 to 68 in 1988-89.

13. In the light of the Committee of Inquiry's recommendation, the use of industrial weighting was reviewed by the Pay Trend Survey Committee. The Committee noted that the theoretical basis of applying industrial weighting was not entirely valid. Although the Staff Side of the Model Scale 1 Staff Consultative Council expressed the wish that the use of industrial weighting should be retained for one more year, it was agreed by the Committee that this measure should be discontinued forthwith.

14. The Committee also considered that while selection criterion (a) for the selection of survey companies reflected the long-term objective of improving the representativeness of the survey field, the reference to the employment statistics collected by the Census and Statistics Department would make it too restrictive for the objective to be achieved. The Committee concluded that this criterion should be amended as follows :-

"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".

15. Having regard to the views of the Pay Trend Survey Committee, we recommend that :-

- (a) the use of industrial weighting be discontinued forthwith; and

- (b) criterion (a) for the selection of survey companies be amended as stated in paragraph 14.

Survey Field

16. At the commencement of the 1988/89 Pay Trend Survey, there were 68 companies in the survey field. In the course of the survey, one company declined to continue to participate in the survey. As a result, only 67 companies remain in the survey field.

17. A recent review of these 67 companies by the Pay Trend Survey Committee showed that three companies had difficulty in providing the relevant survey data and that the situation would remain unchanged in future surveys. The Pay Trend Survey Committee agreed that these three companies should be excluded from the survey field. The Committee also suggested that new companies should be considered for inclusion in the next pay trend survey. This suggestion is in line with the long-term objective of improving the representativeness of the survey field. We therefore intend to add a suitable number of new companies to the 1989/90 Pay Trend Survey.

Conclusion

18. We believe that implementation of the foregoing proposals will serve to improve the methodology for the pay trend survey system, and we shall continue to keep under review the methodology for the surveys.

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

(Sidney Gordon)
Chairman
For and on behalf of
Members of the Standing Commission