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**Paper for the House Committee meeting
on 25 May 2007****Report of the Bills Committee
on Rail Merger Bill**

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Impact on railway staff

132. The Bills Committee is very concerned about the impact of the merger exercise on staff. It has received views from the Staff Consultative Council of MTRCL, KCRC Staff Consultative Committee, The Coalition of Five Unions of MTRCL and KCRC, and Hong Kong Mass Transit Railway Staff General Association, and urged the Administration and the two railway corporations to make every effort to allay the concerns expressed by the staff side, including, inter alia, the definition of frontline staff and job security for frontline staff, appointment, selection and appeal mechanism for merger-related staff issues, salary protection principles and status of the MergeCo grading structure design, major Terms and Conditions of Employment for MergeCo, staff arrangement process and the Voluntary Separation Scheme ("VSS"), etc.

133. The two railway corporations have advised that since the announcement of the merger proposal in April 2006, they have maintained close communication with their staff on subjects which are of their concern and organized over 200 briefing sessions for staff. The Bills Committee notes that the two railway corporations have reached mutual agreement/understanding with their staff organizations and the five unions on various staff-related matters. Notwithstanding, it has urged the two railway corporations to continue liaising with the staff side and The Coalition of Five Unions of MTRCL and KCRC with a view to resolving the differences between the management and staff side over the remaining staff-related matters.

Protection of job security for frontline staff and related matters

134. The Bills Committee notes that after a thorough staff consultation exercise, the two corporations have agreed to a list of frontline positions which covers 8,460 staff members, accounting for more than 80% of the non-managerial staff of the two corporations. Frontline staff do not need to go through selection and will be transferred directly to MergeCo upon the rail merger. The Bills Committee has examined the need of providing similar job security for non-frontline staff as well.

135. The two railway corporations advise that due to business growth including commissioning of new railways as well as retirement and turnover, a total of 1,300 job vacancies will be available in the first 3 years after the merger, which is more than adequate to absorb the estimated 650 - 700 staff synergies. Therefore in overall terms, there would be more career development opportunities for staff after the rail merger. The two corporations envisage that majority of their staff would stay in their current jobs after the rail merger. MergeCo would make every effort to re-deploy affected staff to available vacancies.

136. The Bills Committee notes that a VSS will be provided for all eligible non-frontline staff, and has examined whether the VSS can be extended to cover frontline staff as well. The Bills Committee notes that some members take the view that for non-frontline staff where selection is required, an alternative arrangement should be provided by MergeCo to allow the concerned staff to opt for the VSS after the completion of the selection process. This could ensure that staff who are not selected for the relevant posts could have a choice to leave the company instead of accepting the re-deployment arrangement which would create uncertainty to staff.

137. The two railway corporations indicate that after the rail merger, all the MTR and KCR railways will continue to be operated, and hence, there should not be any redundancy posts for frontline staff, and hence, the need for launching VSS for this group of staff. Regarding the alternative arrangement for offering VSS to non-frontline staff after the selection process, this would have the effect of encouraging staff to defer submitting the application for VSS until the completion of the selection process. As a policy consideration, this is not desirable.

Protection of salary, benefits and salary scale

138. The Bills Committee notes that staff are most concerned about matters relating to their individual salaries and their job grading. The two railway corporations have advised that in 2006, they have already committed to protecting staff's existing salaries and benefits associated with each staff member's existing grade, as well as protecting the existing salary scales of

non-managerial staff. As a result of this commitment, for non-managerial staff, if the new salary scale is higher than the existing one, he/she will immediately enjoy a higher scale upon appointment to the new grade. Otherwise, he/she will retain the existing scale, which will be frozen until the new scale matches or exceeds his/her existing one. The two railway corporations have advised that this arrangement represents maximum protection to staff and therefore staff should not have any concerns over the impact of the new grading structure. The Bills Committee however notes the worries expressed by some members that individual staff may have to face with salary freeze for a very long period, and urged the two railway corporations to review the matter or consider imposing a cap on the duration of the salary freeze. There is also a need to fully consult staff and keep them informed of any latest development.

139. The Bills Committee has expressed concern about the grading structure design and the resultant changes to salary scales. The two railway corporations advise that the review is complex, as it involves a thorough study of the structure and functions of every department of MergeCo, as well as careful consideration on how the existing grading structures of the two corporations can fit into the new structure to ensure a smooth transition. On salary scales, they would take into account the 2007 market data on pay revisions before a final decision is made. The Bills Committee has examined whether the unilateral change of the salary scale of staff by the railway corporations is a breach of the employment contract. MTRCL confirms that the corporations have the legal right to do so, adding that there would be continued communication between the corporations and their staff on the subject before a final decision is made.

Major terms and conditions of employment

140. The Bills Committee has relayed the concerns expressed by the staff side over the need to further reduce the working hours and enlarge the scope of the retirement benefits as announced. The two railway corporations have advised that staff of MTRCL currently working at 42 hours per week will maintain the same working hours; while those working at 39.25 hours per week will have their weekly working hours reduced to 39 hours. For KCRC, staff currently working at 45 hours per week will have their weekly working hours reduced to 42 hours, equivalent to a 7% reduction; while those working at 39 hours will maintain the same hours. Regarding other benefits, staff of MergeCo will enjoy free travel on the combined network upon the rail merger. As the existing KCRC staff's parents are eligible for free travel on the KCR network, the corporations consider that the staff affected may need some time to adjust to the new arrangement and have therefore agreed to offer a transitional arrangement. The corporations have also agreed to relax the eligibility criteria for overtime allowance after the rail merger, taking into account concerns of staff on overtime allowance and the unique nature of a few

types of jobs.

Issuance of employment letter to staff

141. To allay the concerns expressed by the Bills Committee, the two railway corporations confirmed that all staff would receive a formal letter before implementation of the rail merger indicating that the transfer of staff to MergeCo upon the rail merger will be based on the prevailing terms. Such letter will also specify the MergeCo grade, terms and conditions for employment for frontline staff.

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