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Panel on Manpower

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 18 November 2010**

**Report of the Provisional Minimum Wage Commission - the initial
statutory minimum wage rate**

Purpose

This paper summarizes the discussions of the Bills Committee on Minimum Wage Bill ("the Bills Committee") on the Provisional Minimum Wage Commission ("PMWC") and the initial statutory minimum wage ("SMW") rate.

Background

2. Prompted by cases of local workers being paid excessively low wages, there have been calls for decades, notably from pro-labour groups, for the introduction of a statutory minimum wage in Hong Kong. The lack of a consensus on whether a legislative approach should be adopted in preventing excessively low wages led to the launch of a two-year voluntary Wage Protection Movement by the Administration in 2006. As a review of the Movement in October 2008 exposed the limitations of promoting wage protection through voluntary participation, the Chief Executive ("CE") announced in his 2008-2009 Policy Address that a bill on SMW would be introduced into the Legislative Council ("LegCo").

3. The Minimum Wage Bill was introduced into LegCo on 26 June 2009. At the House Committee meeting on 10 July 2009, a Bills Committee was formed to study the Bill. The Bills Committee had completed its scrutiny work and the Bill was enacted at the Council meeting of 14 July 2010.

4. PMWC was established on 27 February 2009 to advise CE on the initial SMW rate. PMWC comprises a chairperson and 12 members drawn from the labour sector, business community, academia and relevant government bureaux/departments. The chairperson and the non-official members are appointed on an ad personam basis.

Deliberations of the Bills Committee

5. In the course of examining the Bill, the Bills Committee discussed the criteria and methodology adopted by PMWC in setting the initial SMW rate. The deliberations are summarized in the following paragraphs.

6. Some Bills Committee members expressed concern about how PMWC would take forward its work in recommending the initial prescribed minimum hourly wage rate. Some members expressed concern about the methodology to be adopted by PMWC in deliberating the initial SMW rate. PMWC advised that its terms of reference was mainly to advise CE on the initial SMW rate on the basis of an evidence-based approach with a view to ensuring a sensible balance between forestalling excessively low wages and minimizing the loss of low-paid jobs, while sustaining Hong Kong's economic growth and competitiveness. PMWC had received written submissions and oral presentation of views from various stakeholders and interested parties. After discussions and having regard to the views of stakeholders, PMWC was of the preliminary view that a basket of indicators, factors relevant to SMW policy and the impact assessment of SMW should be taken into consideration in deliberating on the initial SMW rate.

7. PMWC advised that since November 2009, it had met with stakeholders and interest groups to gauge their views and concerns on the mechanism in setting the initial SMW rate. Following the release of the 2009 Report on Annual Earnings and Hours Survey by the Census and Statistics Department in mid-March 2010, PMWC had conducted further meetings with stakeholders to collate their analyses of the statistical data and comments on the preliminary views of PMWC on the basket of indicators and other considerations in deliberating on the initial SMW rate. PMWC was assessing the possible impact of different SMW levels on the labour market, firms' costs and profits, as well as prices of goods and services. It was also gathering additional information on the characteristics and modus operandi of the sectors concerned to facilitate prudent, comprehensive and objective analyses and deliberations on the initial SMW rate.

8. Some members suggested that the SMW rate should be set at a level higher than that of the Comprehensive Social Security Assistance ("CSSA") Scheme. The Administration advised that SMW was a wage floor to forestall excessively low wages and not a living wage. Wages were returns for individual employees' labour. Eligible families in need could separately obtain assistance from the CSSA Scheme. The CSSA Scheme provided assistance to needy persons on a household basis. The current CSSA Scheme had already provided a safety net for those households that could not financially support themselves. It was designed to bring their income up to a level to meet their basic needs.

9. A member considered that the income ceiling of \$6,500 for the Transport Support Scheme ("TSS") and the pilot Employment Navigation Programme ("ENP") should be converted into an hourly rate and adopted as the basis for setting the SMW rate.

10. The Administration explained that TSS was launched on 25 June 2007 on a one-year pilot basis as one of the poverty alleviation measures. The objective of TSS was to provide time-limited transport subsidy to needy job-seekers and low-income employees living in four designated remote districts, namely, Yuen Long, Tuen Mun, North and Islands, to find jobs and work across districts. Under the pilot TSS, one of the criteria for the Cross-District Transport Allowance was the engagement of the applicant in full-time employment and their monthly income levels should be less than or equal to \$5,600. It was roughly the sum of half of the monthly median income (\$5,000) then prevailing and part of the travelling expenses incurred by those living in remote areas and having to commute to work across districts (\$600).

11. The Administration pointed out that upon implementation of the pilot TSS, it was identified that most of the unsuccessful applications were ineligible because the applicants' monthly income exceeded the then income ceiling. With salary increasing and inflation picking up, there were views that the income ceiling of \$5,600 per month was too low. There were demands for raising the income ceiling so that those earning slightly more than the amount might also benefit from TSS to help them develop and sustain a work habit. The Labour Department ("LD") subsequently introduced a number of relaxation measures, including raising the monthly income ceiling for eligible persons from \$5,600 to \$6,500. It was estimated that 26% of salaried employees in the four designated districts would be covered under the revised income ceiling.

12. Regarding the proposed ENP, the Administration advised that it sought to address the problem of manpower mismatch, in order to fully utilize the labour productivity and encourage employment. Under the proposed ENP, an

incentive of up to \$5,000 would be offered to each eligible ENP participant. This was to encourage the participant to land on and stay in a job for at least three months. One of the eligibility criteria for the incentive was that the job-seeker had to be employed to fill a vacancy listed under LD's employment service and the job concerned was a full-time post offering a salary of \$6,500 or less per month.

13. The Administration advised that in arriving at the threshold of \$6,500 for ENP, reference had been made to the eligibility criteria under TSS. It had also matched this against the salary of vacancies posted by LD and found that a sizable number of job-seekers would benefit should a \$6,500 threshold be adopted. For instance, in the first quarter of 2010, the median salary offered for job-seekers with no previous experience was around \$6,500 per month for posts like sales representatives and shop sales/assistants where manpower mismatch was commonly found.

Relevant papers

14. Members are invited to access the website of the Legislative Council at <http://www.legco.gov.hk> to view the relevant papers and report of the Bills Committee.

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