

For information on  
1 February 2016

**Legislative Council Panel on Manpower  
Subcommittee to Study Issues Relating to Standard Working Hours**

**Progress of the Work of the Standard Working Hours Committee**

**Introduction**

Further to the report of the Labour and Welfare Bureau and the Labour Department (LD) to the Panel on Manpower on the work of the Standard Working Hours Committee (SWHC) on 15 December 2015, this paper briefs Members of this Subcommittee on SWHC's latest work progress and deliberations as well as its subsequent work directions.

**Background**

2. The Government set up SWHC on 9 April 2013 to follow up on the Report of the Policy Study on Standard Working Hours (the 2012 Report) released in November 2012. With a three-year term, SWHC is chaired by Dr Leong Che-hung and comprises 23 members drawn from the labour and business sectors, academia, the community and the Government, including all serving members of the Labour Advisory Board (LAB) who sit on SWHC as ex-officio members by virtue of their LAB membership<sup>1</sup>.

3. The terms of reference of SWHC are :

- (i) to follow up the Government's policy study on standard working hours (SWH) and conduct further in-depth studies, as necessary, on the key issues identified therein;
- (ii) to promote understanding of SWH and related issues including, among others, employees' overtime work conditions and arrangements; to engage the public in informed

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<sup>1</sup> The membership of SWHC is set out at Enclosure 1.

discussion on the relevant issues; and to gauge the views of stakeholding groups; and

- (iii) to report to the Chief Executive and advise on the working hours situation in Hong Kong, including whether a statutory SWH regime or any other alternatives should be considered.

## **Work Strategies and Major Work Areas**

4. SWHC has since its establishment taken forward its work in the following four strategic areas, namely, enhancing public understanding; collecting working hours statistics and information relevant to a working hours regime; launching public engagement; and adopting an evidence-based approach for discussion on the basis of a range of factors, with a view to promoting informed and in-depth discussion in the community on working hours issues, and jointly exploring and identifying working hours policy directions applicable to Hong Kong. As at January this year, SWHC and its working groups<sup>2</sup> had altogether convened 49 meetings to carry out the relevant work at full steam. Further elaboration on SWHC's work progress in the above four areas is set out in paragraphs 5 to 36 below.

### ***I. Enhancing Public Understanding***

5. SWHC has launched various public education and promotional activities all along to enhance public understanding of various working hours issues (for example, differences between SWH and maximum working hours (MWH), different policy objectives of working hours regimes) as well as the possible multifarious implications of working hours regulation, etc. These activities include :

- (a) **Dedicated website** – Launched in November 2013, SWHC's website ([www.swhc.org.hk](http://www.swhc.org.hk)) provides a convenient platform for disseminating and browsing information on working hours issues and work of SWHC including summaries of its

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<sup>2</sup> The working groups include: the two working groups on “Working Hours Consultation” and “Working Hours Study” set up in July 2013 to respectively conduct public consultation (see paragraphs 11 to 18) and a working hours survey (see paragraphs 6 to 10); and also the task force formed in February 2015 to preliminarily collate relevant information to assist SWHC's discussions and facilitate its further exploration of working hours policy directions (see paragraphs 23 to 36).

discussions and details of public engagement activities, etc.

- (b) **TV promotional programme** – To drive home the key features of a working hours regime, SWHC produced a series of bilingual TV promotional programme “Get to Know Standard Working Hours” with the assistance of a TV broadcaster. The programme introduced the work focus of SWHC, essential components of a working hours regime and major issues to be considered in deliberating a working hours policy. The programme has also been screened at SWHC’s consultation sessions, exhibitions on working hours issues and on its website. DVDs of the programme have been distributed to members of the public through different channels.
- (c) **Exhibitions on working hours issues** – SWHC produced a set of panels on “Touring around the World of Working Hours” to introduce the work focus of SWHC, essential components of a working hours regime, and issues to be considered in deliberating a working hours policy, etc. From March 2014 to January 2016, SWHC launched and participated in 21 exhibitions on working hours issues in various districts.
- (d) **Comic Books on “Touring around the World of Working Hours”** – SWHC also published comic books on “Touring around the World of Working Hours” for wide distribution to the public through channels including SWHC’s consultation sessions, community and workplace visits, roving exhibitions and the household survey on working hours, etc.

## ***II. Collecting Working Hours Statistics and Relevant Information on Working Hours Regimes***

6. SWHC has agreed to adopt an evidence-based approach for conducting objective and impartial discussion on relevant working hours information. A consulting firm (the Study Consultant) was engaged to conduct the first ever territory-wide household survey between June and August 2014. Working hours data and opinions on working hours arrangements/ a working hours policy were collected through successful enumeration of 10 275 employed persons. Moreover, the Study Consultant collected 2 277 self-administered questionnaires between mid-July and September 2014 from randomly sampled members of

organisations of 10 professions/ occupations<sup>3</sup> identified by SWHC as having relatively long working hours or distinctive working hours patterns, with a view to understanding the working hours situation of employees of these selected professions/ occupations and supplementing the findings of the household survey.

7. Apart from collecting working hours data and information on employment terms relating to working hours, each respondent of the household survey was invited to answer “agree”, “disagree” or “no comment” to each approach<sup>4</sup> listed in the survey question regarding the way forward of a working hours policy. According to the survey findings, **the approaches with which more employees agreed were**<sup>5</sup> :

- “providing for stipulation of hours of work, overtime arrangements and overtime compensation in employment contracts” (93.7%);
- “by mutual agreements between employers and employees” (92.2%);
- “setting voluntary guidelines having regard to requirements of a sector” (89.7%);
- “setting maximum working hours” (75.8%); and
- “setting standard working hours” (67.1%).

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<sup>3</sup> The 10 selected professions/ occupations are accountants, solicitors, engineers, doctors, employees of the educational profession, employees of the banking sector, information technology employees, journalists, estate agents, and tourist guides/ outbound tour escorts (listed in no particular order).

<sup>4</sup> The approaches of a working hours policy listed in the question included “by mutual agreements between employers and employees”; “setting voluntary guidelines having regard to requirements of a sector”; “providing for stipulation of hours of work, overtime arrangements and overtime compensation in employment contracts”; “setting standard working hours (i.e. employees receive compensation when they work overtime beyond the number of standard working hours and there is no upper limit on overtime hours)”; and “setting maximum working hours (i.e. on top of standard working hours, employees’ normal working hours plus overtime hours cannot exceed the limit as legislated)”.

<sup>5</sup> The approaches with which employees disagreed most were: “setting standard working hours” (31.0%); “setting maximum working hours” (21.6%); “setting voluntary guidelines having regard to requirements of a sector” (8.7%); “by mutual agreements between employers and employees” (6.8%); and “providing for stipulation of hours of work, overtime arrangements and overtime compensation in employment contracts” (5.7%).

8. Besides, 74.3% of all employees considered their working hours in the past seven days before enumeration “just right”, while 24.4% considered them “too long”. Of the latter group, 69.9% of the respondents did not wish to have their working hours reduced if their income would also decrease. Among all employees, 41.8% of them were willing to take up more overtime work if such would be reasonably compensated.

9. In the household survey, **the way forward of a working hours policy with which more employers agreed were**<sup>6</sup> :

- “setting voluntary guidelines having regard to requirements of a sector” (87.4%);
- “by mutual agreements between employers and employees” (84.0%);
- “providing for stipulation of hours of work, overtime arrangements and overtime compensation in employment contracts” (81.9%);
- “setting standard working hours” (56.1%); and
- “setting maximum working hours” (42.6%).

10. According to the findings of the self-administered questionnaire survey, the views of employees of selected professions/ occupations on the way forward on a working hours policy were generally consistent with the opinions of overall employees in the household survey :

- generally higher percentages of employees of the selected professions/ occupations agreed with the approaches of “providing for stipulation of hours of work, overtime arrangements and overtime compensation in employment contracts” (58.4% to 86.6%); “by mutual agreements between employers and employees” (60.8% to 77.9%), and “setting voluntary guidelines having regard to requirements of a sector” (52.4% to 70.9%); and

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<sup>6</sup> The approaches with which employers disagreed most were: “setting maximum working hours” (53.3%); “setting standard working hours” (40.4%); “providing for stipulation of hours of work, overtime arrangements and overtime compensation in employment contracts” (14.7%); “by mutual agreements between employers and employees” (14.5%); and “setting voluntary guidelines having regard to requirements of a sector” (11.1%).

- in comparison, lower percentages of employees agreed with the approaches of “setting maximum working hours” (44.8% to 75.7%) and “setting standard working hours” (44.2% to 67.9%).

### ***III. Promoting Public Engagement***

11. As a working hours policy would carry widespread implications, and employers and employees of various sectors hold divergent views on whether SWH should be implemented through legislative means, SWHC conducted a public consultation exercise (the first-stage consultation) between 28 January 2014 and 31 July 2014 to gauge the views of the community on working hours issues and to promote more informed discussions. The consultation covered organisations and individuals of the six relatively long-working-hours sectors<sup>7</sup> mentioned in the 2012 Report, specific occupations/ professions, the general public, and other major industries and organisations. A consulting firm (the Consultation Consultant) was commissioned to assist with the public engagement and consultation, and analyse the views received.

12. During this first-stage consultation period, SWHC organised and participated in 40 consultation sessions, including consultation forums, symposia, meetings with individual organisations as well as community and workplace visits, and attended consultation activities upon invitation. Besides, SWHC received some 4 800 written submissions<sup>8</sup> through different channels. Apart from consultation activities, the Consultation Consultant conducted an opinion survey (the Opinion Survey) of working hours issues on randomly sampled members of trade associations and labour unions. Completed in end-September 2014, the Opinion Survey received a total of 1 507 opinion collection forms with a view to understanding the views of the sampled members on working hours issues.

13. On the way forward on a working hours policy, according to the major views collected by the Consultation Consultant during the period of consultation activities, employees generally expressed their aspirations

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<sup>7</sup> The relatively long-working-hours sectors identified in the 2012 Report are retail, estate management and security, restaurants, land transport, elderly homes, as well as laundry and dry cleaning services.

<sup>8</sup> Including pro-forma submissions in various forms expressing mostly the same views and suggestions.

for legislating for working hours regulation, and expressed that in view of the unequal status between employers and employees, as well as insufficient bargaining power of grassroots employees, legislation was the only effective means to protect employees' rights. The labour organisations generally suggested a weekly SWH at 44 hours, overtime compensation at 1.5 times of the basic pay rate and conferring employees the right to choose to work overtime, while some organisations expressed that MWH should be set at 50 to 72 hours per week.

14. Employers in general strongly objected to the introduction of uniform working hours legislation in Hong Kong, as employees of different sectors, occupations and skill levels, etc. could hardly follow a single model of working hours regulation owing to their widely varied working hours situations. Employers considered that clearly stipulated employment contracts would be sufficient for the purpose of achieving working hours arrangements as mutually agreed by employers and employees. They tended to accept formulation of voluntary working hours guidelines according to the needs of different sectors.

15. In the Opinion Survey, the respondent members of labour unions and trade associations had to choose whether and, if so, how the current working hours regime should be changed (respondents could choose more than one option)<sup>9</sup>. According to results of the Opinion Survey, **more labour union members chose options in the order of :**

- “requiring employers and employees to specify hours of work, overtime arrangements and overtime compensation in employment contracts” (55%);
- “legislating for standard working hours” (49%);
- “legislating for maximum working hours” (34%);
- “individual sectors setting their own voluntary guidelines” (31%);
- “no need to change the existing regime under which employers and employees are at liberty to agree on working hours arrangements” (14%); and
- “no comment” (11%).

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<sup>9</sup> The options set out in the relevant questions included “no need to change the existing regime under which employers and employees are at liberty to agree on working hours arrangements”; “individual sectors setting their own voluntary guidelines”; “requiring employers and employees to specify hours of work, overtime arrangements and overtime compensation in employment contracts”; “legislating for standard working hours”; “legislating for maximum working hours”; “other suggestions”; and “no comment”.

16. **More members of trade associations chose options in the order of :**

- “no need to change the existing regime under which employers and employees are at liberty to agree on working hours arrangements” (62%);
- “individual sectors setting their own voluntary guidelines” (51%);
- “requiring employers and employees to specify hours of work, overtime arrangements and overtime compensation in employment contracts” (38%);
- “legislating for standard working hours” (11%);
- “no comment” (9%); and
- “legislating for maximum working hours” (8%).

17. In the Opinion Survey, comparing to SWH, the respondent members of labour unions and trade associations expressed lower degree of support for and stronger opposition to MWH :

- 75% of labour union members and 48% of trade association members opined that SWH was suitable for Hong Kong, but 14% of labour union members and 42% of trade association members opined that SWH was not suitable; and
- 46% of labour union members and 22% of trade association members opined that MWH was suitable for Hong Kong, but 37% of labour union members and 67% of trade association members opined that MWH was not suitable.

18. The major findings of the abovementioned working hours survey and the first-stage consultation were reported to the Panel on Manpower on 17 March 2015. The reports of the relevant consultants have also been uploaded to SWHC’s website (<http://www.swhc.org.hk/en/resources/index.html>) for public viewing.

***IV. Evidence-based discussions on the basis of a range of factors***

19. The working hours policy involves a wide range of complex issues with widespread and far-reaching implications for the overall employment market, manpower demand, employment relations, work culture, business environment, economic development and business competitiveness, etc. SWHC considers that apart from the public



consultation and working hours survey, a range of factors should be identified for analysing the potential implications of the working hours policy for employees and employers of various trades, the overall economy, employment market, business environment, and long-term competitiveness, etc., so as to facilitate informed and objective discussions by SWHC and the community on various working hours issues. SWHC endorsed a framework covering a range of factors after discussion, which includes :

- (i) relationship between working hours and macroeconomics;
- (ii) the socio-economic characteristics of the relatively long-working-hours employees and the operational characteristics of the relatively long-working-hours sectors;
- (iii) the state of the local economy, labour market situation, and competitiveness; and
- (iv) social factors including quality of life, family life, employees' health as well as labour relations and social harmony.

20. SWHC has in its previous meetings examined the data and information having regard to this range of factors. The relevant analysis on economic factors is set out in paragraphs 26 to 36 below. SWHC has also discussed the above social factors and noted that employees and employers in Hong Kong generally recognised the importance of work-life balance and occupational safety and health. If working hours are shortened, it may help employees achieve better work-life balance, and reduce their potential health problems. Regulating working hours and overtime pay rates may improve employees' income and accordingly their quality of life, and may also encourage enterprises to review their manpower arrangements, so as to enhance operational efficiency and reduce the overtime work of employees. In addition, clearly defining working hours and arrangements for overtime compensation may help foster labour relations and social harmony, benefiting both employers and employees.

21. At the same time, SWHC also notes that should a working hours policy lead to an increase in labour cost, it may push up inflation, affecting the general public. Some employees may also face a decrease in income arising from the possible reduction of working hours to the SWH level. Besides, the causes leading to work-life imbalance and health problems are complex, and may be related to personal, family and/

or social dimensions. The formulation of a working hours policy needs to take into account Hong Kong's socio-economic circumstances, the preferences of employees and employers, and the different views of the community, with a view to maintaining good labour relations and social harmony.

## **SWHC's Overall Observations**

22. Having regard to the major common areas emerging from the findings of the working hours survey and the first-stage consultation on working hours policy directions, SWHC has generally come up with the following major overall observations :

- (i) Employees generally expressed their aspirations for legislating for working hours regulation. Employers and employees expressed through the first-stage consultation the view that because of the widely varied work nature, working hours and overtime situation among employees at different wage levels and in different sectors or occupations, a working hours policy had to take full account of the operational situations and practical needs of different sectors or occupations. A uniform ("across-the-board") working hours regulation for all sectors could result in serious impacts on individual sectors or even the society and the economy as a whole.
- (ii) The household survey revealed that the working hours of employees with lower income and engaged in lower-skilled occupations were relatively longer in general. Meanwhile, the views collected during the first-stage consultation indicated that employers were relatively receptive to a working hours policy focusing on helping grassroots employees with lower income, less bargaining power and who were required to work overtime without compensation. Although more employees engaged in higher-skilled occupations were required to work overtime without compensation, their wages were generally higher which may have taken into account the nature of the relevant work including the possible circumstances of overtime work.
- (iii) According to the statistics of the household survey, for those employees considering their working hours "too long", about 70% of them did not wish to have their working hours reduced

if their income would also decrease. Among all employees, over 40% of them were willing to work more overtime if the overtime work would be reasonably compensated. Overall speaking, about a quarter of employees had performed overtime work in the past seven days before enumeration, among which about 70% were engaged in uncompensated overtime work. Of all employees, close to 90% had their weekly hours of work specified in contracts/ agreements, and about 60% did not have the method of overtime compensation specified in their contracts/ agreements.

- (iv) Both the household survey and the self-administered questionnaire survey on selected professions/ occupations revealed that most employees agreed with “providing for stipulation of hours of work, overtime arrangements and overtime compensation in employment contracts”, followed by “by mutual agreements between employers and employees” and “setting voluntary guidelines having regard to requirements of a sector”. Over 80% employers also agreed with these three approaches. Some employees and employers also agreed with “setting standard working hours” or “setting maximum working hours”, but the relevant percentages were lower than the top three approaches, in particular the percentages of employers expressing agreement. The Opinion Survey also revealed that most labour union members (55%) preferred “requiring employers and employees to specify hours of work, overtime arrangements and overtime compensation in employment contracts”. This approach also received support from 38% of trade association members.

### **Working Hours Policy Directions being Explored by SWHC**

23. With reference to the findings of the working hours survey and the first-stage consultation, SWHC deduced through an evidence-based approach the following principles and suggestions on working hours policy directions, including :

- (i) a legislative approach to implement a policy to regulate working hours of employees;

- (ii) to provide the necessary flexibility, an “across-the-board” legislative approach would be inappropriate;
- (iii) an in-principle agreement to explore a legislative approach to mandate written employment contracts specifying working hours arrangements of employees in general (“big frame” as referred to by SWHC); and
- (iv) to explore, on the premise of the “big frame”, whether there is a need for other suitable measures to further protect grassroots employees with lower income, lower skills and less bargaining power (“small frame” as referred to by SWHC).

### ***I. “Big Frame” under Exploration***

24. The “big frame” under SWHC’s exploration entails a proposed legislative approach to mandatorily require employers and employees in general to enter into written employment contracts specifying clearly terms that are related to working hours, e.g. the number of contractual working hours, contractual wages, overtime situation, arrangements for overtime work and overtime compensation, meal breaks and rest periods, rest days, and records of hours worked. Employers and employees will mutually agree on the details of these terms according to the actual circumstances.

25. The “big frame” under exploration aims to introduce statutory definitions of contractual working hours and overtime work, thereby providing a useful framework for a working hours regime. Specification of terms related to working hours in written employment contracts would help employers and employees clarify working hours arrangements and enhance their awareness of reviewing and agreeing on these arrangements. Moreover, the “big frame” may provide a more solid legal basis for handling labour disputes and claims in relation to the Employment Ordinance and employment contracts.

### ***II. “Small Frame” under Exploration***

26. On the premise of the “big frame”, SWHC has been in parallel exploring whether there is a need for other suitable measures to further protect grassroots employees with lower income, lower skills and less bargaining power (i.e. the “small frame”).

## **(a) Impact Assessment of 27 Parameter Combinations**

27. Along the principle that the discussion would be based on an evidence-based approach, SWHC conducted data analyses and assessments on the impacts of the following 27 parameter combinations on employees, enterprises and Hong Kong's medium- and long-term macroeconomic situation (including inflation, labour market flexibility, manpower requirement and Hong Kong's long-term competitiveness) :

- (i) **Employees with total monthly wages:** Not exceeding \$10,000, \$12,000, \$15,000 ;
- (ii) **Weekly working hours:** Over 44, 48, 52 hours ;
- (iii) **Overtime pay rates (i.e. the rates of original hourly pay to hourly overtime pay):** 1:1.0, 1:1.3, 1:1.5.

SWHC released on 30 September 2015 the key findings of the assessment of the potential impacts of the 27 parameter combinations above on employees and enterprises, as well as the medium- and long-term macroeconomic situation of Hong Kong (**Enclosure 2**). The ensuing paragraphs 28 to 31 set out the related observations.

### ***Potential Impact on the Involved Employees***

28. Based on the findings of the SWHC's dedicated working hours survey, it was estimated that there were some 140 000 to 770 000 employees (excluding government employees and live-in domestic workers) in 2014 with total monthly wages not exceeding \$10,000, \$12,000 or \$15,000, and weekly working hours over 44, 48 or 52 hours (i.e. the involved employees), equivalent to 4.7% to 25.8% of all employees (i.e. 2 972 200) in Hong Kong<sup>10</sup>.

29. Preliminary results of the impact assessment revealed that if the total hours of work of the involved employees were to remain unchanged, assuming that those hours above the working hours thresholds would be compensated by the overtime pay rates at 1:1.0, 1:1.3 and 1:1.5, the

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<sup>10</sup> The numbers of employees (excluding government employees and live-in domestic helpers) earning the Statutory Minimum Wage (SMW) rates in 2011 and 2013 (i.e. at \$28 and \$30 per hour respectively) were around 181 000 and 98 000 respectively, equivalent to 6.4% and 3.4% of all employees in Hong Kong.

potential average increases in wages of the involved employees would range from 0.7% to 1.2%, 4.0% to 6.2% and 6.2% to 9.5% respectively. However, if the hours of work of the involved employees were all to be reduced to the working hours thresholds, i.e. weekly working hours of 44, 48 or 52, with the same wage rates, the potential average decreases in wages of the involved employees would range from 10.2% to 15.8%.

### ***Potential Impact on Enterprises***

30. The immediate increase in enterprises' annual wage bill entailed would vary from \$103 million to \$10.38 billion<sup>11</sup> in the absence of adoption of any measure to mitigate the cost increases, equivalent to 0.02% to 1.84% of the total annual wage bill. Assuming the hours of work of the involved employees were to remain unchanged, if enterprises were to fully offset the increases in payroll expenses by profit reduction, around 2 200 to 7 000 enterprises would turn from profits to losses. If enterprises were to cut the hours of work of the involved employees to the working hours thresholds, and hence would require additional manpower, the number of full-time equivalent jobs so entailed would be around 17 100 to 194 500, equivalent to around 20% to 2.3 times of the number of vacancies (i.e. around 83 200) in September 2015.

### ***Potential Impact on the Overall Economy***

31. Taking the example of the parameter combination with total monthly wages not exceeding \$15,000, working hours threshold of 44 hours and overtime pay rate at 1:1.5, under the scenario of moderate economic growth at 2%, crude estimates from an econometric model showed that the increase in wage bill entailed would push up the Composite Consumer Price Index by around 2 percentage points, whilst

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<sup>11</sup> Wage bill was estimated based on the definition of wages under the Minimum Wage Ordinance, and did not include the pay for rest days and meal breaks that were not regarded as working hours as well as the impact of knock-on effect. According to its 2012 and 2014 Reports, the Minimum Wage Commission estimated that the potential additional wage bill (including rest day and meal break pay, as well as the impact of knock-on effect) entailed by the upward revisions of SMW rate to \$30 and \$32.5 per hour would be around \$2 billion and \$1.36 billion respectively.

resulting in a potential job loss of around 16 300<sup>12</sup>.

### **(b) Impact Assessment of the 28<sup>th</sup> Parameter Combination**

32. In addition to the above parameter combinations, SWHC has also conducted a detailed assessment on the 28<sup>th</sup> parameter combination (i.e. employees with monthly wages not exceeding \$25,000 and weekly working hours exceeding 44 hours, with the parameter of overtime pay rate at 1:1.5).

#### ***Potential Impact on the Involved Employees***

33. Based on the findings of the SWHC's dedicated working hours survey, it was estimated that there were around 1.12 million of employees (excluding government employees and live-in domestic workers) with total monthly wages not exceeding \$25,000 and weekly working hours over 44 hours (i.e. the involved employees), equivalent to 37.7% of all employees in Hong Kong.

34. Assuming the hours of work of the involved employees were to remain unchanged, and those hours above the working hours parameter of 44 per week were to be compensated by overtime pay rate at 1:1.5, the income of the involved employees would improve. Their potential average increase in wages would be around 10%. If the hours of work of the involved employees were to be reduced to the working hours parameter of 44, with the same wage rates, the potential average reduction in their wages would be 14%.

#### ***Potential Impact on Enterprises***

35. In the absence of adopting any measure to mitigate the cost increases, the 28<sup>th</sup> parameter combination would entail an immediate

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<sup>12</sup> Information released to the public on 30 September 2015 featured crude estimations of the impacts of different parameter combinations on inflation and potential grassroots job losses entailed at the macro level as obtained from an econometric model. As the 28th parameter combination (see paragraphs 32 to 36 below) explored by SWHC would cover a broader spectrum of involved employees, the potential job losses resulting from labour costs increase might not only be confined to the grassroots level. The econometric model was thus enhanced thereafter so as to conduct a more comprehensive assessment of the unemployment risks for all involved employees, covering employees beyond the grassroots level. The potential job loss figure quoted was crudely estimated based on such extended econometric model.

increase in wage bill by around \$21.6 billion, equivalent to 3.8% of the total annual wage bill. Assuming the hours of work of the involved employees were to remain unchanged, if enterprises were to fully offset the increases in payroll expenses by profit reduction, around 10 000 enterprises would turn from profits to losses. If enterprises were to cut the hours of work of the involved employees to the working hours thresholds, and hence would require additional manpower, the number of full-time equivalent jobs so entailed would be around 304 000, equivalent to around 3.7 times of the number of vacancies in September 2015.

### ***Potential Impact on the Overall Economy***

36. Under the scenario of moderate economic growth at 2%, crude estimates from the econometric model showed that the increase in wage bill entailed from the 28<sup>th</sup> parameter combination would push up the Composite Consumer Price Index by around 4 percentage points, whilst resulting in a potential job loss of around 34 000.

### **Way Forward**

37. SWHC has agreed to conduct the second-stage consultation on the above work and preliminary discussion outcomes so as to collect views of the public and relevant organisations to facilitate further discussion on working hours policy directions and for SWHC's reference in preparing its report. In addition to the relevant working hours issues, SWHC has agreed to consult the public on the following four policy directions which can be considered for taking forward the working hours policy, including (i) only implementing the "big frame"; (ii) only implementing the "small frame"; (iii) on the premise of implementing the "big frame", to implement the "small frame" as well; and (iv) not to implement the "big frame" nor "small frame" but recommend implementing other policies/measures pertaining to working hours (e.g. formulating voluntary guidelines according to the needs of individual sectors).

38. During the second-stage consultation period, SWHC will meet with relevant organisations and hold consultation sessions, and receive views in writing from the general public and organisations. SWHC is preparing the consultation documents with a view to commencing swiftly the second-stage consultation. SWHC plans to submit its report to the Government as soon as possible after completion of the second-stage consultation. Upon receipt of SWHC's report, the Government will thoroughly and holistically consider its recommendations.



39. SWHC needs time to complete the remaining work (including conducting the second-stage consultation, formulating appropriate and feasible working hours policy directions, as well as preparing SWHC's report). Noting that the term of SWHC will last until early April this year, SWHC will in due course submit a proposal to the Government on the extension of its term. Upon receiving SWHC's proposal, the Government will facilitate the necessary arrangements.

### **Conclusion**

40. The Government will continue to fully support the work of and act in concert with SWHC.

Labour and Welfare Bureau  
Labour Department  
January 2016

**Membership of the Standard Working Hours Committee (SWHC)**

**Chairperson**

Dr Hon Leong Che-hung, GBM, GBS, JP

**Non-official members**

Dr Jane Lee Ching-yee, JP

Mr Ma Ho-fai, SBS, JP

Prof Chong Tai-leung

Prof Joe Leung Cho-bun, MH, JP

Ms Susanna Chiu Lai-kuen, MH

Mr Lau Chin-shek, JP

Dr Kevin Lau Kin-wah, JP

Prof Raymond So Wai-man, JP

**Members of the Labour Advisory Board as ex-officio members**

Mr Emil Yu Chen-on

Ms Wong Siu-han

Hon Ho Sai-chu, GBM, GBS, JP

Mr Ng Chau-pei

Mr Chau Siu-chung

Mr Irons Sze, BBS, JP

Mr Cheung Sing-hung, BBS

Ms Chan So-hing

Mr Charles Chan Yiu-kwong

Dr Kim Mak Kin-wah, BBS, JP

Mr Leung Chau-ting

Mr Stanley Lau Chin-ho, SBS, MH, JP

**Members who are public officers**

Permanent Secretary for Labour and Welfare

Commissioner for Labour

Government Economist

## Standard Working Hours Committee

### Preliminary results of assessing the impacts of different scenarios for the “small frame” study

### Parameters solely for exploring and studying the “small frame”

(1) Coverage:  
Employees (excluding government employees and live-in domestic workers) with monthly wages not exceeding the relevant levels

Parameters : ≤\$10,000;  
≤\$12,000; ≤\$15,000



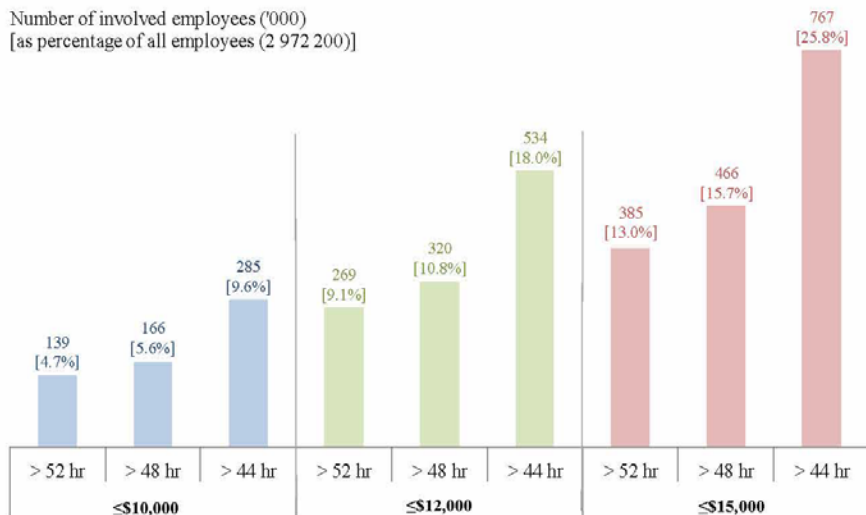
(2) Regime design:  
Weekly working hours threshold –  
Parameters: 44 hours (hr);  
48 hr, 52 hr per week  
Overtime (OT) pay rate –  
Parameters: 1:1.0; 1:1.3; 1:1.5

Conduct data analysis and impact assessment

- Employees
- Enterprises
- Overall Economy

**Under different combinations of “small frame” parameters:  
The number of involved employees would lie between some 140 000 to 770 000,  
equivalent to around 4.7% to 25.8% of all employees in Hong Kong**

Number of involved employees ('000)  
[as percentage of all employees (2 972 200)]



Note: Working hours in this chart refer to weekly total working hours.

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## Potential impact on involved employees

### ◆ If total hours of work were to remain unchanged:

- OT pay rate 1:1 : potential average increases in wages of involved employees would range from 0.7% to 1.2%;
- OT pay rate 1:1.3 : potential average increases in wages of involved employees would range from 4.0% to 6.2%;
- OT pay rate 1:1.5 : potential average increases in wages of involved employees would range from 6.2% to 9.5%

### ◆ However, if the hours of work of involved employees were to be cut down to the working hours thresholds:

- potential average decreases in wages of involved employees would range from 10.2% to 15.8%

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## Potential impact on enterprises

- ◆ **If total hours of work of involved employees remain unchanged, immediate cost increase faced by enterprises:**
  - Increase in annual wage bill entailed would vary from \$103 million to \$10.38 billion, equivalent to around 0.02% to 1.84% of the total annual wage bill
- ◆ **Assuming the hours of work of involved employees remain unchanged, if enterprises were to fully offset the increases in payroll expenses by profit reduction**
  - Around 2 200 to 7 000 enterprises would turn from profits to losses, in which around 14 000 to 187 000 employees were engaged
- ◆ **If enterprises were to cut the hours of work of involved employees to the working hours thresholds, and hence would require additional hands:**
  - The number of full-time equivalent jobs so entailed would be around 17 100 to 194 500

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Enterprises strive to make profit. In face of increasing cost pressures, they would adopt different mitigation measures. But as different industries/enterprises have different operating characteristics, the actual mitigation measures so adopted would also be vastly different, depending on the macroeconomic environment.

- **Raise price:** The ability to raise price depends to some extent on the macroeconomic environment. If the economic situation is favourable, enterprises would be more capable to raise price, though it would lead to higher inflation. Should the economy dip into recession, enterprises would find it more difficult to raise price. In turn, employees may face higher risks of working hours cut or even being laid off.
- **Reduce profit :** As for those enterprises that cannot fully pass through their costs by raising price, additional cost pressure would squeeze their profit margins, thereby affecting industries' capability in sustainable operations, to the extent of undermining the diversification of Hong Kong's industry structure and economic vitality.
- **Reorganisation of manpower :** Enterprises may enhance operational efficiency and reduce wage bill of employees through adjusting their mode of operations (e.g. reduce operation hours or employees' working hours), but this may, in so doing, affect the income and employment prospects of employees. Besides, Hong Kong will face the challenge arising from a shrinking labor force in the medium- to long-term, which may further intensify the wage-cost spiral.

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## Potential impact on the overall economy

- ◆ Should enterprises raise price to mitigate the cost pressures, it would push up inflation, thereby hampering the competitiveness of Hong Kong. In the scenario that the economic situation turns sour, the income and employment prospects of employees would be more affected.
  - E.g. Under the combination of parameters with a monthly wage level: ≤\$15,000; weekly working hours threshold: 44 hr; OT pay rate 1:1.5, the impact of increase in labor cost so entailed on inflation as well as labor supply and demand would be:
    - Under the “mild economic growth” scenario (assuming real economic growth at 2%): The increase in wage bill for grassroots employees would push up the price level by about 2 percentage points; potential job losses at grassroots level would be around 11 600 (equivalent to around 1.5% of the 770 000 involved employees under this combination of parameters)
    - Under the “economic downturn” scenario (assuming real economic growth slows to 0%): Enterprises would be less capable to raise price. The impact of cost increase on inflation would be smaller. The potential risks of job loss would however increase. Under this scenario, it is estimated that the potential job losses at grassroots level would increase to around 34 400 (equivalent to around 4.5% of the 770 000 involved employees)
- ◆ The above crude estimates have **not** yet taken into account the **knock-on impact** arising from the increase in wage bill. Also, the assessment could not quantify the impact on some employees’ **pay due to possible reduction of working hours**.

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## Potential impact on the overall economy (Con’t)

- ◆ In the medium- and long-term, the labor force is projected to peak in 2018. This alone would pose significant issues to Hong Kong in terms of labor shortage, manpower resources imbalance and longer term competitiveness. If manpower shortage turns even more acute, Hong Kong’s longer term economic development would be inadvertently affected.
  - For illustration, under the combination of parameters with wage level: ≤\$15,000; working hours threshold: 44 hr
    - Should the hours of work of involved employees be reduced to the working hours threshold, even if only 20% of full-time equivalent jobs so entailed would need to be filled (i.e. around 30 000), overall manpower resources would already be in severe shortage

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## **Overall observations on the preliminary results of impact assessment**

- **Need to strike an appropriate balance between employees' and employers' interests, with careful consideration to the potential pros and cons under different scenarios**
- **Thoroughly examine the impacts on employees, employers, as well as on the overall economy and labor market**
  - Some employees may benefit from pay rise and improved living standard
  - Some employees may work less hours which would help them achieve better work-life balance
  - Some employees would face the risk of working hours cut or even being laid off
  - Some enterprises would pass through their costs to consumers, leading to higher inflation
  - Maintain labor market flexibility for responding to external shocks is of utmost importance to Hong Kong's competitiveness and sustainable economic development
- **Build community consensus and formulate appropriate and feasible working hours policy options**