

For information on
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Legislative Council Panel on Manpower

Preparatory Work for Introducing a Statutory Minimum Wage for Cleaning Workers and Security Guards if the Wage Protection Movement Fails to Yield Satisfactory Results

Mechanism for Reviewing the Level of the Statutory Minimum Wage

Purpose

To follow up discussion at the previous LegCo Manpower Panel meetings, this paper briefs Members on the progress of the preparatory work in respect of the mechanism for reviewing the level of the statutory minimum wage (SMW) should the Wage Protection Movement (WPM) eventually fail to yield satisfactory results and SMW for cleaning workers and security guards be introduced.

Background

2. Under the mandatory wage requirement for Government out-sourced contracts, Government service contractors must pay their non-skilled workers a monthly wage rate not lower than the monthly average of the relevant occupation as stipulated in the Quarterly Report of Wage and Payroll Statistics (Quarterly Report) published by the Census & Statistics Department (C&SD) at the time the tenders are invited. The wage level thus set would remain in force throughout the contract period.

3. Drawing reference from the arrangements for Government out-sourced contracts, the WPM reference wage rates for cleaning workers and security guards are the prevailing market averages of the two covered occupations as stipulated in the Quarterly Report.

Major aspects for consideration

4. To ensure that the wage floor is effective in protecting the intended beneficiaries, a mechanism needs to be introduced to review the level of the SMW from time to time. In formulating a mechanism for reviewing the level of the SMW, the following aspects are pertinent for consideration.

(i) The review mechanism

5. Overseas experience suggests that there are different forms of review mechanism ranging from an independent body capable of setting and adjusting/recommending the level of SMW to a legislative act. However, regardless of the form, the common tasks of a review mechanism usually include carrying out researches and studies on the relevant social, employment and economic factors that are pertinent to reviewing the wage level; undertaking consultation with stakeholders including the business sectors and small enterprises on the impact of the wage level; keeping track of the possible displacement of disadvantaged workers; collecting feedbacks of stakeholders on the adjustment of the wage level; and proposing a new wage level after taking into account all the relevant factors and indicators.

6. In the local context, it would be best for the SMW rate to be determined and reviewed by a mechanism capable of taking account of the need to protect the intended beneficiaries on the one hand, and the possible displacement of disadvantaged workers and the holistic needs of the Hong Kong economy on the other, bearing in mind our reliance on wage flexibility to weather external shocks, especially given the monetary rigidity arising from the linked exchange rate. The mechanism would also be required to engage in consultations with stakeholders as part of the deliberation process.

(ii) The adjustment of the level of SMW

7. In many jurisdictions, minimum wage is determined having regard to a wide variety of social, economic and employment factors. Should the SMW be in place in Hong Kong, a basket of factors/indicators should be taken into account given its wide implications. We consider that a “basket of indicators” approach allowing us to take account of all pertinent considerations such as inflation, impact on business, employment situation, wage levels, general economic outlook, etc. would be more appropriate. Meanwhile, since the existing statistical surveys were not designed with the needs of SMW in mind, the Administration is looking into the need for new/modified surveys for relevant data collection and the design of such in support of the “basket of indicators” approach.

(iii) Impact Assessment

8. In order to accurately assess the displacement, if any, and the degree thereof, of disadvantaged workers and the impact on the business and economy resulting from the implementation of the SMW, it would be necessary to conduct an impact assessment on a regular basis. The results obtained from the assessment would form a solid basis for reviewing the subsequent wage levels. This is also the established practice in most economies with SMW.

9. The relevant data required for conducting the impact assessment can be collected from surveys conducted by C&SD. The existing surveys, such as the General Household Survey and the Labour Earnings Survey are, however, not designed to meet the specific data needs for the implementation of an SMW. To facilitate the adjustment of the minimum wage level, the existing surveys need to be refined or new surveys may have to be mounted. C&SD is currently conducting studies on the approaches adopted in official statistical agencies in other countries, including the Office for National Statistics in the United Kingdom. An appropriate approach will be designed having regard to the approaches adopted in other countries and with due regard to the local data needs.

(iv) Frequency of review

10. Regarding the frequency of reviewing the wage level, practices in other jurisdictions differ. Some stipulate a specified frequency while others leave the frequency flexible and review the wage level only on a need-basis. Consideration should be given to the factors that are relevant for frequency of review.

11. Frequency of review will have significant enforcement implications. From the perspectives of monitoring and collection of evidence, adjustments on a too frequent basis would incur significant resources, render verification difficult, and can affect prosecution effectiveness and efficiency. Besides, it would bring about an increase in employers' compliance cost. As discussed by the Labour Advisory Board (LAB) on 10 December 2007, having regard to the practical problems arising from WPM's quarterly adjustment of the reference wage rates, LAB members agreed that an alternative to adjusting the wage level on a quarterly basis should be adopted after October 2008 irrespective of the outcome of the overall review of the WPM.

12. In addition, the decision on the frequency and timing of regular reviews should also take into account the time required to collect updated data on the “basket of indicators” and impact assessment. In fact, most of the relevant data on wage and operating costs sourced from C&SD’s existing annual surveys are subject to a time lag of about one year between the survey reference time period and the data availability date, though some other indicators may have a shorter time lag. Nevertheless, as aforesaid, there would likely be a need to enhance the current surveys for collection of additional and more precise information for the purpose of the SMW (e.g. detailed occupational profile of persons engaged in business enterprises of different employment size), the time required for data collection and compilation may be prolonged.

13. A specified frequency of review may facilitate employees’ financial planning and employers’ budgeting on business costs. Yet, the time required to collect the relevant data for conducting the impact assessment has to be taken into account in determining an appropriate frequency.

Way Forward

14. LAB members have noted in broad terms the issues in relation to the mechanism for reviewing the level of the SMW for cleaning workers and security guards. LAB will continue its deliberation in this regard.

15. Members are invited to note the content of this paper.

Labour and Welfare Bureau
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