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Panel on Manpower

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 12 April 2012**

Annual Earnings and Hours Survey

Purpose

This paper summarizes past discussions held by Legislative Council ("LegCo") Members on the Annual Earnings and Hours Survey ("AEHS").

Background

2. AEHS was launched in May 2009 as a voluntary survey by the Census and Statistics Department ("C&SD") to collect wage, employment and demographic information of employees from about 10 000 business undertakings in Hong Kong. The information was required to compile statistics on -

- (a) the level and distribution of wages of employees in Hong Kong, including mean, median, quartiles and deciles spread of wage rates; and
- (b) the employment characteristics (e.g. whether full-time or part-time workers, and permanent or contract staff) and demographics (e.g. sex, age, educational attainment) of employees.

These statistics are essential inputs for analyses related to the implementation of the statutory minimum wage ("SMW"), in particular

the setting of the initial rate of SMW and the subsequent reviews of its level. They are also useful for studies on labour-related topics by the private sector, non-governmental organizations and the Government. Since the Census and Statistics (Annual Earnings and Hours Survey) Order ("the Order") came into operation in March 2010, AEHS has been conducted as a mandatory statistical survey from 2010 onwards.

Deliberations of the Subcommittee on Census and Statistics (Annual Earnings and Hours Survey) Order

3. The Order, which sought to implement C&SD's proposal to conduct AEHS on a mandatory basis, was published in the Gazette on 22 January 2010 and tabled in LegCo on 27 January 2010. A Subcommittee was formed at the House Committee meeting on 29 January 2010 to study the Order. The deliberations and concerns of members on the Order are summarized below.

Sampled business establishments by employment size

4. Members noted that AEHS enumerated around 10 000 business establishments across all employment sizes and industries covered by the Central Register of Establishments. Small and medium establishments constituted about 98% of the total number of establishments in Hong Kong. Whilst all the establishments engaging not less than 100 persons would be included in the AEHS sample, the smaller establishments engaging less than 100 persons would be randomly selected using stratified sampling. The Administration advised that as data collected from individual sampled establishments would be appropriately weighted to reflect the actual number of small, medium and large establishments in different industries, reliable statistics pertaining to the overall situation of Hong Kong employees could be compiled.

5. Some members considered that the apportionment of the sampled establishments by employment size should be determined in accordance with the corresponding distribution in the population, in order not to create a major bias in the overall survey findings. The Administration explained that even though the composition of the sample in terms of employment size might be different from the composition in the population, the survey results obtained would be unbiased by suitably applying weighting. Systematic deviation or error in the survey results was not envisaged.

Statistics on job types and employees engaged in outsourced services

6. Concern was raised on whether statistics would be compiled by job types straddling across different industry sectors such as cleansing and property management, as these would be of much reference value in determining the SMW rate. The Administration advised that as the SMW rate would be applicable to all jobs in Hong Kong regardless of type, AEHS was designed to measure the wage distribution of all employees in Hong Kong, instead of the wage situations in specific occupations. Nevertheless, wage statistics on some common job types could also be compiled from the AEHS data for reference.

7. In response to an enquiry about whether employment information pertaining to the business establishments employing outsourced services was required to be given under the Order, the Administration advised that persons engaged in the provision of outsourced services to a business establishment were not employees of the establishment employing outsourced services. Therefore, information pertaining to such persons would not be collected from the establishment which employed outsourced services. Instead, such persons were employees of the contractor establishment which provided the outsourced services and their information would be collected from the contractor establishment direct.

Issue on false self-employment

8. There was a suggestion that the employees rather than the employers of the selected business establishments in AEHS should be interviewed in order to address the concern about false self-employment. The information collected from the individual selected employees should be checked against the information provided by the sampled business establishments.

9. The Administration advised that self-employed persons were not employees of the sampled establishments and therefore data pertaining to such persons would not be collected in AEHS. Measures were being taken to tackle the problem of false self-employment. The Labour Department ("LD") had undertaken to keep relevant statistics on cases relating to claims of false self-employment to facilitate better understanding of the problem, and would report the findings to the Panel on Manpower ("the Panel") after one year. In line with the international practice where questionnaires were delivered to the employers for completion and return, census officers from C&SD would visit the

sampled establishments and help them complete the questionnaires and verify the information provided by the employers. The suggestion of interviewing the individual employees of selected establishments might not be feasible as most employees did not keep their own detailed wage records.

Survey reference period

10. Members noted that survey reference period in relation to a business undertaking meant either the month of April, May or June of the calendar year in which a survey was carried out. Some members were of the view that as the months of May and June were within the low season of business activities by tradition, the figures collected in these two months might have an unfavourable impact on SMW. They suggested that AEHS should be conducted on a quarterly basis to even out the seasonal fluctuations in order to align with other surveys such as the General Household Survey.

11. The Administration advised that wage figures of the first quarter and the fourth quarter were relatively more volatile for year-on-year comparison, whereas those of the third quarter were clouded by the summer work factor. Wage figures in the second quarter were relatively stable and more suitable for year-on-year comparison. Whilst seasonal deviations and fluctuations were inevitable, year-on-year comparison on the basis of wage data pertaining to the same reference period in each year would be meaningful and of good reference value. It would be impractical and contrary to the prudent use of resources to extend the survey reference period to the whole year, and this would also cause undue time lag for releasing the survey results.

Deliberations of the Panel on Manpower

12. The Panel discussed the major findings of AEHS at its meetings on 23 March 2010 and 17 March 2011. The deliberations are summarized in the ensuing paragraphs.

Reference period of the 2009 survey

13. Some members expressed concern whether the survey, which was conducted in the second quarter of 2009 when Hong Kong was adversely affected by the financial tsunami and had a high unemployment rate, was

an appropriate reference for determining the initial SMW rate. They enquired whether the Provisional Minimum Wage Commission ("PMWC") would take into account the findings of AEHS to be conducted in the second quarter of 2010 when determining the initial SMW rate.

14. The Administration responded that the wage statistics in the second quarter were adopted since they were relatively more stable than those in other quarters. In addition, year-on-year comparison on the basis of wage data pertaining to the same reference period in each year would be meaningful, consistent and of good reference value. The results contained in AEHS provided essential inputs for analyses relating to the initial SMW rate, although its statistics might not be the most updated due to the inevitable time lag between data collection and compilation of the AEHS report. PMWC would take more recent information such as the standard of living, labour market conditions, economic growth and inflation into account, which would offset the inherent limitation of AEHS. In view of the time required to collect data for AEHS and to compile a report, PMWC would unlikely take account of the findings of AEHS in 2010 in determining the initial SMW rate.

Definition of wages in AEHS

15. In response to an enquiry about the definition of wages in AEHS and the employees covered by AEHS, the Administration explained that analysis of the distribution of hourly wage in AEHS was based on wages which followed the definition adopted in the Employment Ordinance (Cap. 57) ("EO") and comprised basic wage/salary, commission, tips, allowances, bonuses of non-gratuitous nature and overtime payment. All the paid overtime hours and overtime payment were counted for the purpose of computing the hourly wage for the survey. AEHS was conducted on all employees under the coverage of EO, except live-in domestic workers.

16. There was also concern about the quality of wage data. The Administration responded that C&SD had consulted chambers of commerce, employers' associations, trade unions, academia and other relevant stakeholders on the methodology of the survey, the design of the sample, and the method for data collection and processing. In addition, lecturers in the statistical faculty of tertiary institutions were consulted on the computation formulae to ensure that the method adopted was compatible with the sampling method.

Level of hourly wages of employees in 2010

17. Members expressed concern that according to the 2010 Report on AEHS, the hourly wages of female employees for different age groups, except for the group of female employees aged 15 to 24, were significantly lower than those of male employees of the corresponding age groups.

18. According to the Administration, in the second quarter of 2010, the median hourly wage for male employees was \$65.1 while that for female employees was \$54.4. The median hourly wage of male employees was higher than that of female employees mainly because the proportion of male employees who had completed education at Secondary 6 level and above was higher than the corresponding proportion of female employees. The wage earned by an employee would depend primarily on the nature and skill set requirement of the job.

19. Members noted that in the second quarter of 2010, the 10th, 25th, 50th, 75th and 90th percentile hourly wages of employees in Hong Kong were \$28.1, \$39.5, \$59.5, \$96.7 and \$176.0 respectively, representing an across-the-board increase over 2009. They held the view that the initial SMW rate of \$28 per hour was rather unrealistic without giving full consideration to inflation, wage increase and economic growth when it was set based on the wage data collected in the second quarter of 2009. They enquired whether the Administration would commence the review of the initial SMW rate immediately so that the second SMW rate could be implemented as soon as possible.

20. The Administration advised that when the Subcommittee on Subsidiary Legislation Relating to Statutory Minimum Wage scrutinized the four Notices under the Minimum Wage Ordinance (Cap. 608) ("MWO") which sought to stipulate, among others, the initial SMW rate, the Administration had advised that in recognition of an inevitable time lag between data collection and availability of statistics, PMWC had already taken into account relevant indicators with more up-to-date data sources, especially with regard to business operating conditions, the latest wage trend, the latest inflation and economic forecasts. MWO had clearly specified that the Minimum Wage Commission should make a report on the SMW rate at least once every two years. While the SMW rate would be determined in accordance with the evidence-based principle, C&SD would undertake an AEHS to collect the related information. This would facilitate a review of the SMW rate, when

supported by relevant data and when there was a need for it.

Statistics on the working hours of employees in 2010

21. Members were advised that the 2010 AEHS covered 2 793 000 employees in Hong Kong, including employees of contractors of government outsourced service contracts but excluding live-in domestic workers and government employees. Noting that in the second quarter of 2010, the 75th percentile weekly working hours of Hong Kong employees was 49.6, representing an increase of 0.6 hour as compared to 2009, members sought information on the occupations of those employees who needed to work longer hours in 2010.

22. According to the Administration, results of the 2010 AEHS were subject to sampling and non-sampling errors. The estimates contained in the Report were based on information obtained from a particular sample, which was one of many samples that could be selected using the same sampling design. The slight increase of 0.6 hour in 2010 might be due to sampling error and might not be statistically significant.

23. Members expressed reservations about the accuracy of the reported data concerning the weekly working hours of employees. It was their understanding that a vast majority of employees at the managerial level were required to bring work home given the heavy workload. They enquired whether overtime hours were taken into account. The Administration advised that "hours worked" was the sum of the working hours in accordance with the contract of employment, or with the agreement or at the direction of the employer plus overtime hours worked at the direction of employers. In response to members' further enquiry about insurance agents, the Administration advised that self-employed insurance agents were not covered in the survey.

24. Members also enquired about the Administration's study on the subject of standard working hours. As advised by the Administration, the Chief Executive had already stated in his 2010-2011 Policy Address that LD would embark on a policy study on working hours in Hong Kong. Against this background, LD had commissioned C&SD and the Economic Analysis and Business Facilitation Unit to collect the data required and provide support on data analysis for the study.

Relevant papers

25. A list of the relevant papers on LegCo website is in the **Appendix**.

Council Business Division 2
Legislative Council Secretariat
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Appendix

Relevant papers on Annual Earnings and Hours Survey

Committee	Date of meeting	Paper
Panel on Manpower	20.11.2008 (Item V)	<u>Agenda</u> <u>Minutes</u>
Panel on Manpower	23.3.2010 (Item III)	<u>Agenda</u> <u>Minutes</u>
Subcommittee on Census and Statistics (Annual Earnings and Hours Survey) Order	--	<u>Report of the Subcommittee on Census and Statistics (Annual Earnings and Hours Survey) Order to the House Committee meeting on 5 March 2010</u>
Panel on Manpower	17.3.2011 (Item VI)	<u>Agenda</u> <u>Minutes</u>

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