

**Legislative Council Panel on Manpower
(for Meeting on 20 December 2001)**

**IMPACT OF AN INCREASE IN APPLICATIONS
ON THE PROTECTION OF WAGES ON INSOLVENCY FUND**

INTRODUCTION

At the Panel Meeting held on 2 November 2001, Members noted the increase in cases of companies going into liquidation which are unable to pay outstanding wages and other statutory entitlements owed to employees and expressed concern over the financial implications over the Protection of Wages on Insolvency Fund (PWIF).

2. This paper seeks to analyse the latest trends of applications for ex-gratia payment from the PWIF and its impact on the financial position of the fund.

BACKGROUND

3. The PWIF was set up in 1985 under the Protection of Wages on Insolvency Ordinance (PWIO) to provide prompt relief in the form of ex-gratia payment to employees of insolvent employers. The current payment limits of PWIF are \$36,000 for arrears of wages, \$22,500 or one month's wages whichever is the less, for wages in lieu of notice, and \$50,000 plus 50% of remaining entitlements for severance paymentn.

4. The PWIF is mainly financed by a flat rate annual levy (\$250) on each Business Registration Certificate (BRC). Other sources of income include money recovered from remaining assets of insolvent employers through subrogation and returns from investment and deposits.

TRENDS OF APPLICATIONS RECEIVED BY THE PWIF

5. A table showing the trends of applications received by the PWIF in the last five financial years and up to October 2001 is tabulated below:

Financial Year	1996-97	1997-98	1998-99	1999-2000	2000-2001	Apr-Oct 2001
Applications						

Applications received	7 744	12 716	17 117	15 384	14 161	9 878
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6. The number of applications received by the PWIF is closely linked to the state of Hong Kong's economy. In the aftermath of the Asian financial crisis, the number of applications has jumped significantly from 12 716 in 1997-98 to a record high of 17 117 in 1998-99. Thereafter, with the transient pick-up in the economy, the numbers dropped to 15 384 in 1999-2000 and further to 14 161 in 2000-01.

7. Since July this year, however, there has been a renewed surge in the number of applications received. From July to October 2001, 6 438 applications were received, an increase of 64% as compared with the same period last year. As a result, for the 7-months period, April to October 2001, there were 9 878 applications.

FINANCIAL POSITION OF THE PWIF

8. During the first 12 years of its operation, the PWIF operated on annual surpluses. In late 1997, with the onset of the Asian financial crisis, the situation was reversed. A table showing the financial position of the PWIF in the last five financial years and recent months is as follows.

	96-97 (\$m)	97-98 (\$m)	98-99 (\$m)	99-00 (\$m)	00-01 (\$m)	Apr – Oct 2001 (\$m)
Income	241.4	261.8	254.3	268.6	236.1	121.3
Expenditure	194.0	286.5	439.6	473.2	366.2	206.1
Surplus/(Deficit)	47.4	(24.7)	(185.3)	(204.6)	(130.1)	(84.8)
Reserve (Accumulated Fund)	877.7	853.0	667.7	463.1	333.0	248.2

9. As shown above, whereas the income of the PWIF has remained comparatively stable in recent years, expenditure has increased substantially since 1997-98, due to an upsurge in claims payment, reaching a peak of \$473.2 million in 1999-2000. In 2000-01, with a drop in the number of applications, the expenditure decreased by 23% over 1999-2000.

10. With the surge in expenditure and no corresponding increase in income, the PWIF has been operating on annual deficits since 1997-98. The deficit reached a peak of \$204.6 million in 1999-00 followed by slight improvement in 2000-01 with deficit dropping to \$130.1 million.

11. However, the deficit position again worsened since the beginning of the current financial year. From April to October 2001, the PWIF recorded a deficit of \$84.8 million and its reserve dropped to \$248.2 million as at the end of October 2001.

IMPACT OF RECENT TRENDS

12. The rising trend of applications recorded since the beginning of this financial year is expected to continue for some time in the wake of the 11 September terrorist attack in the United States. The increase in applications received would generate more claims payment, thus leading to continued depletion of the PWIF in the coming year.

13. According to the 2001-02 estimates previously endorsed by the Protection of Wages on Insolvency Fund Board, the PWIF would register a deficit of \$126.9 million. However, in view of the recent upsurge in applications received, it is envisaged that the deficit for 2001-02 would be higher than projected. Nevertheless, the present reserve of the PWIF, which stood at \$248.2 million as at October 2001, should be adequate to meet current need for claims payment.

WAY FORWARD

14. The Administration has been monitoring the financial position of the PWIF closely. In the light of the present trend of upsurge of applications after the terrorist attack in September, we are assessing the feasibility of various options to maintain the financial viability of the PWIF. We will work closely with the Protection of Wages on Insolvency Fund Board on this.