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Construction Industry Council (No.2) Bill
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Bills Committee on the Construction Industry Council (No.2) Bill

**Financial Position of the
Construction Industry Training Authority**

The Administration has undertaken to revert with historical and projected financial data of the Construction Industry Training Authority (CITA).

Relevant data showing the financial position of CITA from 2002 to 2004 is set out at **Annex A**. I wish to point out that while the accumulated reserves has risen by \$34.9 million during this period, it was achieved as a result of conscious efforts to cut down on operating costs against a reduction of income accrued from construction levy and training/trade testing by 14% and 41% respectively. As for future projections, the delayed effect of economic downturn begins to kick in from 2000, resulting in a gradual deterioration of the financial position leading up to 2010 as shown at **Annex B**.

Since various measures are being explored by CITA to cope with the situation, we have presented three scenarios by factoring a number of these measures into the future projections. Some salient observations are highlighted below –

- (a) widening annual operating deficits will fully deplete the accumulated reserves in 2009/10 despite efforts to reduce operating costs and capture savings derived from natural wastage;
- (b) annual operating deficits would attenuate if CITA were downsized by 15% to 30% through, say, non-renewal of contract for fixed-term employees and introduction of an exit scheme for eligible staff; and
- (c) given the prevailing broad-based economic recovery, there might be a case to adjust the annual levy income from \$40 billion to \$45 billion.

In order to secure endorsement by the industry on its proposed course of action and ensure a smooth transition, we have arranged for CITA to brief the Provisional Construction Industry Co-ordination Board on this subject. Meanwhile, we will liaise closely with CITA to expedite the implementation of specific measures to arrest its operating deficits.

(Clement Cheung)
for Secretary for the Environment,
Transport and Works

**Historical Financial Performance of
the Construction Industry Training Authority from 2002 to 2004**

| | 2004 HK\$ | 2003 HK\$ | 2002 HK\$ |
|--------------------------------------|--------------------|--------------------|--------------------|
| <u>INCOME</u> | | | |
| Levy income | 226,544,438 | 249,971,348 | 264,230,477 |
| Investment and interest income | 5,647,955 | 8,192,082 | 9,103,962 |
| Course fee and related income | 35,691,540 | 56,738,065 | 64,450,548 |
| Trade testing income | 7,931,906 | 8,770,810 | 9,699,028 |
| Other income | 1,024,222 | 314,027 | 144,283 |
| | <u>276,840,061</u> | <u>323,986,332</u> | <u>347,628,298</u> |
| LESS | | | |
| <u>EXPENDITURE</u> | | | |
| Recurrent expenditure | | | |
| Allowance for bad and doubtful debts | 1,217,654 | 1,270,989 | 2,395,621 |
| Staff costs | 181,443,080 | 205,229,437 | 211,547,436 |
| Advertising and publicity expenses | 4,624,422 | 5,521,526 | 6,909,939 |
| General and administrative expenses | 10,503,554 | 12,831,627 | 12,922,101 |
| Workshop sundries | 12,577,644 | 15,990,957 | 18,087,099 |
| Repairs and maintenance expenses | 3,548,648 | 4,123,901 | 4,219,277 |
| Training expenses | 44,959,576 | 58,695,513 | 80,728,979 |
| | <u>258,874,578</u> | <u>303,663,950</u> | <u>336,810,452</u> |
| Capital expenditure | 5,458,705 | 4,825,286 | 5,819,884 |
| | <u>264,333,283</u> | <u>308,489,236</u> | <u>342,630,336</u> |
| SURPLUS FOR THE YEAR | <u>12,506,778</u> | <u>15,497,096</u> | <u>4,997,962</u> |
| ACCUMULATED RESERVES | 230,611,927 | 214,578,931 | 195,709,294 |

**Projected Financial Position of
the Construction Industry Training Authority from 2005 to 2010**

Scenario 1(A)

| Year | Value of construction works commenced (\$ billion) | Value of construction works subject to levy assessment (\$ billion) | Levy income (\$ million) | Operating Surplus / (Deficits) (\$ million) | Accumulated Reserves/ (Deficits) (\$ million) |
|------|---|--|-----------------------------|--|--|
| 2005 | 40 | 62 | 200 | (22) | 208 |
| 2006 | 40 | 48 | 172 | (45) | 163 |
| 2007 | 40 | 42 | 161 | (57) | 106 |
| 2008 | 40 | 40 | 158 | (57) | 49 |
| 2009 | 40 | 40 | 160 | (51) | (2) |
| 2010 | 40 | 40 | 160 | (45) | (47) |

- ♦ Based on an assumption that the value of construction works commencing each year will remain at \$40 billion and take into account savings derived from operating costs and natural wastage.

Scenario 1(B)

| Year | Value of construction works commenced (\$ billion) | Value of construction works subject to levy assessment (\$ billion) | Levy income (\$ million) | Operating Surplus / (Deficit) (\$ million) | Accumulated Reserves/ (Deficits) (\$ million) |
|------|---|--|-----------------------------|---|--|
| 2005 | 40 | 62 | 200 | (22) | 208 |
| 2006 | 45 | 49 | 173 | (44) | 164 |
| 2007 | 45 | 43 | 166 | (52) | 112 |
| 2008 | 45 | 43 | 171 | (44) | 68 |
| 2009 | 45 | 44 | 178 | (32) | 36 |
| 2010 | 45 | 45 | 180 | (23) | 13 |

- ♦ Based on an assumption that the value of construction works commencing each year will raise to \$45 billion and take into account savings derived from operating costs and natural wastage.

Scenario 2(A)

| Year | Value of construction works commenced (\$ billion) | Value of construction works subject to levy assessment (\$ billion) | Levy income (\$ million) | Operating Surplus / (Deficit) (\$ million) | Accumulated Reserves (\$ million) |
|------|---|--|-----------------------------|---|--------------------------------------|
| 2005 | 40 | 62 | 200 | (34) – (41) | 196 – 189 |
| 2006 | 40 | 48 | 172 | (25) | 171 – 164 |
| 2007 | 40 | 42 | 161 | (34) | 137 – 130 |
| 2008 | 40 | 40 | 158 | (33) | 104 – 97 |
| 2009 | 40 | 40 | 160 | (26) | 78 – 71 |
| 2010 | 40 | 40 | 160 | (19) | 59 – 52 |

- ♦ Based on Scenario 1(A), allow for downsizing of CITA by 15% through non-renewal of contract for 30 employees and an exit scheme introduced for eligible staff.

Scenario 2(B)

| Year | Value of construction works commenced (\$ billion) | Value of construction works subject to levy assessment (\$ billion) | Levy income (\$ million) | Operating Surplus / (Deficit) (\$ million) | Accumulated Reserves (\$ million) |
|------|---|--|-----------------------------|---|--------------------------------------|
| 2005 | 40 | 62 | 200 | (34) – (41) | 196 – 189 |
| 2006 | 45 | 49 | 173 | (25) | 171 – 164 |
| 2007 | 45 | 43 | 166 | (29) | 142 – 135 |
| 2008 | 45 | 43 | 171 | (20) | 122 – 115 |
| 2009 | 45 | 44 | 178 | (8) | 114 – 107 |
| 2010 | 45 | 45 | 180 | 2 | 116 – 109 |

- ♦ Based on Scenario 1(B), allow for downsizing of CITA by 15% through non-renewal of contract for 30 employees and an exit scheme introduced for eligible staff.

Scenario 3(A)

| Year | Value of construction works commenced (\$ billion) | Value of construction works subject to levy assessment (\$ billion) | Levy income (\$ million) | Operating Surplus / (Deficit) (\$ million) | Accumulated Reserves (\$ million) |
|------|---|--|-----------------------------|---|--------------------------------------|
| 2005 | 40 | 62 | 200 | (57) – (80) | 173 – 150 |
| 2006 | 40 | 48 | 172 | 3 | 176 – 153 |
| 2007 | 40 | 42 | 161 | (8) | 168 – 145 |
| 2008 | 40 | 40 | 158 | (7) | 161 – 138 |
| 2009 | 40 | 40 | 160 | (1) | 160 – 137 |
| 2010 | 40 | 40 | 160 | 5 | 165 – 142 |

- ♦ Based on Scenario 2(A), allow for downsizing of CITA by 30% through an exit scheme introduced for eligible staff.

Scenario 3(B)

| Year | Value of construction works commenced (\$ billion) | Value of construction works subject to levy assessment (\$ billion) | Levy income (\$ million) | Operating Surplus / (Deficit) (\$ million) | Accumulated Reserves (\$ million) |
|------|---|--|-----------------------------|---|--------------------------------------|
| 2005 | 40 | 62 | 200 | (57) – (80) | 173 – 150 |
| 2006 | 45 | 49 | 173 | 4 | 177 – 154 |
| 2007 | 45 | 43 | 166 | (3) | 174 – 151 |
| 2008 | 45 | 43 | 171 | 6 | 180 – 157 |
| 2009 | 45 | 44 | 178 | 18 | 198 – 175 |
| 2010 | 45 | 45 | 180 | 26 | 224 – 201 |

- ♦ Based on Scenario 2(B), allow for downsizing of CITA by 30% through an exit scheme introduced for eligible staff.