

ITEM FOR FINANCE COMMITTEE

HEAD 141 – GOVERNMENT SECRETARIAT :
LABOUR AND WELFARE BUREAU
Subhead 700 General non-recurrent
New Item “Injection into the Employees Retraining Board”

Members are invited to approve the creation of a non-recurrent commitment of \$15 billion for injection into the Employees Retraining Board.

PROBLEM

We need to make a funding injection into the Employees Retraining Board (ERB)¹ to enable it to continue providing market-driven and employment-oriented training and related services on a long-term basis.

PROPOSAL

2. The Secretary for Labour and Welfare proposes to inject a sum of \$15 billion into ERB primarily as seed money for generating investment income to finance the services and operation of ERB on a long-term basis.

JUSTIFICATION

Training and support services provided by ERB

3. ERB was established in 1992 to improve the employability of local workers aged 30 or above and with education attainment at Form 3 or below by providing market-driven and employment-oriented training services. In December 2007, ERB extended its scope of service targets to include those aged 15 or above with education attainment at sub-degree level or below. Since its establishment, a wide variety of training courses with around 1.9 million training places have been provided by ERB for over 810 000 local workers.

/4.

¹ The functions of ERB, as stipulated in section 4 of the Employees Retraining Ordinance (Cap. 423), and the current membership of ERB are set out in Enclosure 1.

4. Currently, there are over 110 training bodies of ERB, which are operating 410 training centres throughout the territory, providing over 870 courses straddling 28 industries. These courses include –

- Encl. 2
- (a) full-time placement-tied courses for persons who are unemployed or non-engaged. These courses are free-of-charge. Trainees attending courses with duration of seven days or more may apply for retraining allowance, as set out in Enclosure 2. Trainees are also provided with three to six months' placement follow-up services upon completion of courses;
 - (b) half-day or evening non-placement-tied courses which mainly cater for employees or people planning for a career change. These fee-charging part-time courses include Skills Upgrading Scheme Plus courses and generic skills training courses (i.e. workplace languages, business numeracy skills, IT applications, etc.). Trainees who have no or low income² may apply to waive the course fee in full or in part; and
 - (c) courses for special service targets including youths, new arrivals, ethnic minorities, persons with disabilities and persons recovered from work injuries, rehabilitated ex-drug abusers and ex-offenders. These courses are either placement-tied or non-placement-tied and course fee arrangements as set out in sub-paragraphs (a) and (b) above are also applicable. Apart from these dedicated courses, these special service targets can also enrol in other courses as provided by ERB if they fulfil the relevant entry requirements.

5. In developing the training courses, ERB consults the Industry Consultative Networks (ICNs) to ensure that the courses will meet the latest developments in different industries. ERB has set up ICNs for different industries to strengthen partnership and communication with employer associations, trade unions, professional bodies and practitioners. Apart from rendering advice on the development of courses, ICNs also help publicise and promote ERB courses to the respective industries.

6. ERB takes active steps to arrange its courses for accreditation with a view to gaining recognition under the Qualifications Framework (QF). At present, over 530 ERB courses (out of over 870 courses as referred to in paragraph 4 above) have been accredited by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications for recognition under QF.

/7.

² Trainees with monthly income of \$9,000 or below may apply for course fee waiver. For those with monthly income between \$9,001 and \$19,500, they may apply for paying only about 30% of the training cost.

7. To ensure the credibility and recognition of its courses, ERB conducts a wide range of quality assurance measures including on-site annual audits, surprise class inspections, surprise assessment inspections and class visits. In 2012-13, 765 surprise class inspections and 135 surprise assessment inspections were carried out on a random basis.

8. ERB closely monitors the outcome of training courses and evaluates their effectiveness with reference to a set of key performance indicators, including the capacity utilisation rate, attendance rate and placement rate. In 2012-13, the capacity utilisation rate, attendance rate and placement rate reached 90% (vis-à-vis a benchmark of 85%), 93% (vis-à-vis a benchmark of 80%) and 82% (vis-à-vis a benchmark of 70%) respectively. ERB also gauges the opinions of the trainees and their employers by commissioning research organisations to conduct independent opinion surveys on a regular basis. In 2012, over 80% of the employer respondents were satisfied with the overall performance of the trainees. The majority of them considered that the trainees were well-disciplined, possessed suitable job skills, and had good work attitude. On the other hand, over 80% of the trainee respondents considered that ERB training courses were beneficial to their job search. They found that ERB training courses had helped them build up an interest in continuous learning, boost their self-confidence, enhance their vocational and interpersonal skills, and improve their employment prospects.

9. On top of its training courses, ERB provides some value-added services. Since 2009, the Smart Living Scheme has been run by ERB as a one-stop referral platform for home, health and care services to increase employment opportunities for graduates of relevant courses. ERB also launched the Smart Baby Care Scheme in June 2013 to provide centralised referral services for post-natal care and infant and child care for graduates of relevant courses. Other than these referral services, ERB also set up three district-based Service Centres to provide a full range of training services and information on training courses available to local residents.

10. In the past three financial years (2010-11, 2011-12 and 2012-13), the average annual expenditure of ERB was about \$790 million. The number of training places utilised in these three financial years were about 111 000, 116 000 and 123 000 respectively. In the current (2013-14) financial year, ERB offers 130 000 training places. Resources have also been reserved to provide an additional 40 000 places to meet the contingency demand for training places if necessary. The breakdown of the planned training places in 2013-14 is at Enclosure 3.

Encl. 3

/Funding

Funding of ERB

11. The collection of the Employees Retraining Levy (Levy) was the major source of funding for ERB. According to section 14(3) of the Employees Retraining Ordinance (Cap. 423) enacted in 1992, the Chief Executive in Council (CE in C) may from time to time approve a scheme, known as a labour importation scheme. The Levy at \$400 per month, is imposed on employers of the approved labour importation schemes for funding the training programmes provided under ERB. The total sum payable by the employer is \$400 multiplied by the number of months specified in the relevant contract of employment between the employer and the imported employee. Apart from the Levy collection³, ERB also received different forms of government funding between 1992 and 2008⁴.

12. The Supplementary Labour Scheme (SLS) and the importation of foreign domestic helpers (FDHs) were approved as labour importation schemes under Cap. 423 in 1996 and 2003 respectively. Given the larger number of FDHs in Hong Kong, the amount of Levy collected from FDH employers was more significant than that from SLS employers. As part of a relief package with anti-inflationary initiatives, the Levy was suspended for a period of five years from 1 August 2008 to 31 July 2013 by virtue of the Employees Retraining Ordinance (Amendment of Schedule 3)(No. 2) Notice 2008. During the suspension period, ERB relied on the remainder of its Employees Retraining Fund (ERF) to sustain its services and operation.

13. To ease the financial burden on families employing FDHs, the Chief Executive announced in his 2013 Policy Address the abolition of the Levy imposed on FDH employers when the suspension of its collection expired on 31 July 2013. On 14 May 2013, the importation of FDHs was de-designated as a labour importation scheme under Cap. 423 by CE in C to give effect to the abolition, which is the subject of a Legislative Council (LegCo) brief issued by the Labour and Welfare Bureau (LWB) on 24 May 2013 (Enclosure 4). As to SLS, it remains an approved labour importation scheme. Employers seeking to import labour under SLS are subject to Levy payment from 1 August 2013. At the end of October 2013, there were 2 857 imported workers under SLS in Hong Kong. The annual Levy receipt collected from SLS employers is estimated to be around \$13.7 million, which is about 1.7% of ERB's annual expenditure of \$790 million as referred to in paragraph 10 above.

Encl. 4

/Proposed

³ Before the Levy was suspended, the Levy receipt was about \$1.18 billion in 2007-08, representing about 79% of total income for ERB in that financial year (excluding subvention provided as set out in footnote 4 below). The other income includes investment return and course fee etc.

⁴ When ERB was established in 1992, the Government injected a start-up capital of \$300 million into ERB. Several one-off grants were provided to ERB thereafter. From 2001-02 to 2007-08, the Government provided recurrent funding of around \$400 million a year to ERB.

Proposed injection into ERB

14. As at 31 October 2013, the balance of ERF was \$1.6 billion. It is estimated that this fund balance should be able to sustain the service of ERB until around the second quarter of 2015. To provide ERB with long-term funding support, the Financial Secretary (FS) proposed in the 2013-14 Budget an injection of \$15 billion as seed money into ERB. ERB is expected to finance its services and operation mainly with the investment income from this \$15 billion injection.

15. If Members approve the proposed injection of \$15 billion, we will proceed to discuss with the Hong Kong Monetary Authority (HKMA) the investment arrangement for the injection, which will involve the placement of a substantial portion of ERF with HKMA. The placement will enable ERB to earn an investment return that is linked to the performance of the Exchange Fund. The objective is to agree on a prudent and appropriate investment arrangement which could provide sufficient liquidity to meet the cash flow requirements of ERB. For example, if \$15 billion is placed with HKMA and the rate of return is 5% per annum⁵, the funding available will be around \$750 million per year. The actual return rate will depend on the actual investment performance.

16. ERB will carefully monitor its financial condition to ensure that the investment return, Levy and other incomes together with the balance of ERF, will be sufficient to cover the cash flow requirements of ERB over the long-term period. Nevertheless, there may be years in which the investment income generated may not be able to fully meet the training needs. In such circumstances, and strictly as an interim arrangement, ERB may have to make use of part of the principal as appropriate to ensure a stable provision of training courses and services. In the long run, ERB should seek to optimise the use of the government injection and strive to operate on a financially sustainable basis with due regard to cost effectiveness.

Monitoring of the use of ERF

17. The Board of ERB (Board) consists of representatives of employers, employees, persons who are connected with vocational training and retraining or manpower planning as well as officers from the LWB and the Labour Department. The Finance and Administration Committee under the Board will continue to monitor the financial situation and report to the Board. The Internal Audit Section of ERB will continue to undertake internal audits under the auspices of the Audit Committee of ERB and evaluate the effectiveness of internal controls, procedures and guidelines of ERB on operational and financial matters.

/18.

⁵ For Members' reference, the investment return rates from 2011 to 2013 were 6.0%, 5.6% and 5.0% respectively.

18. Under section 9 of Cap. 423, ERB is required to seek the Government's approval for its estimates of income and expenditure together with its programme of activities in respect of the following financial year.

19. Under section 13 of Cap. 423, the ERB is required to submit its annual report, which includes its statements of accounts and the auditor's report on the accounts, to the Government and the Government will in turn cause the report to be tabled at LegCo.

20. Under section 12 of Cap. 423, the Director of Audit may carry out an examination as he thinks fit of the economy, efficiency and effectiveness of ERB's resources used in discharging its functions and exercising its powers.

FINANCIAL IMPLICATIONS

21. Subject to Members' approval, we will make a one-off injection of \$15 billion into ERB in 2013-14. Sufficient provision has been earmarked in the 2013-14 Estimates for the proposed injection.

PUBLIC CONSULTATION

22. We consulted the LegCo Panel on Manpower on 19 November 2013. Members were generally in support of the proposal.

BACKGROUND

23. To provide ERB with long-term support, FS proposed in the 2013-14 Budget to inject \$15 billion into ERB.

Employees Retraining Board

Functions

- (a) To hold the Employees Retraining Fund (the Fund) upon trust to administer the Fund in accordance with the objects of the Employees Retraining Ordinance;
- (b) to receive the levy imposed on employers and remitted by the Director of Immigration;
- (c) to consider the provision, administration and availability of retraining courses and supplementary retraining programmes intended or designed for the benefit of eligible employees in adjusting to changes in the employment market by acquiring new or enhanced vocational skills;
- (d) to identify particular occupations or classes of occupation that have high vacancy rates and in respect of which eligible employees may secure employment or re-employment by attending retraining courses or supplementary retraining programmes as trainees to acquire new or enhanced vocational skills;
- (e) to liaise with training bodies, other related organizations and Government departments with respect to the design, administration and availability of retraining courses and supplementary retraining programmes;
- (f) to determine the requirements to be satisfied by eligible employees for the purposes of applying to attend retraining courses or supplementary retraining programmes and receive retraining allowances, and the amount of retraining allowances to be paid to those eligible employees as trainees;
- (g) to pay retraining allowances to trainees;
- (h) to engage the services of training bodies for the purpose of providing or conducting retraining courses;
- (i) to defray the costs of the provision of retraining courses and supplementary retraining programmes;
- (j) to perform such other functions as are imposed on the Employees Retraining Board under the Employees Retraining Ordinance; and
- (k) to appoint, by notice in the Gazette, a training provider whose function is to provide training or retraining under a supplementary retraining programme.

Employees Retraining Board

Membership

	Name	Background
Chairman :	Mr William LEUNG Wing-cheung, BBS, JP	Banking and Financial Services
Vice-chairman :	Mr YU Pang-chun, SBS, JP	Wholesale and Retail
Members :	<u>Representatives of Employers</u>	
	Ms Winnie NG Wing-mui	Logistics
	Mr CHUNG Wai-ping, MH	Catering
	Dr Lawrance WONG Dun-king	Real Estate Agency
	Mr Jason WONG Chun-tat	Tourism
	<u>Representatives of Employees</u>	
	Mr PUN Tin-chi	Labour
	Ms NG Wai-yee, MH	Labour
	Mr Allen CHENG Siu-kai	Labour
	Ms LAM Suk-fun	Labour
	<u>Persons Connected with Vocational Training and Retraining or Manpower Planning</u>	
	Professor Danny WONG Shek-nam	Tertiary Education
	Dr Christine WONG Siu-ping	Tourism
	Mrs Mimi CUNNINGHAM	Community Service
	Executive Director of Vocational Training Council	Vocational Training
	<u>Public Officers</u>	
	Permanent Secretary for Labour and Welfare Commissioner for Labour	

Enclosure 2 to FCR (2013-14)45

**Retraining Allowances payable to the
Employees Retraining Board Course Participants**

The retraining allowance ranges from \$30 to \$153.8 per day as below –

Courses	Trainees	Retraining allowance per day
Youth Training Programme	All eligible trainees	\$30
Courses pitched at Qualifications Framework Level 1 or 2	All trainees aged 30 or above and with education attainment of F.3 or below	\$153.8
	Other eligible trainees	\$70
Other courses	All eligible trainees	\$70

Breakdown of Planned Training Places in 2013-14

Course type	Number of planned training places
Courses for the general public	123 350
• Placement-tied training courses	65 800
• Skills Upgrading Scheme Plus courses	30 550
• Generic skills training courses	27 000
Courses for special service targets*	6 650
Total	130 000

* The special service targets cover the youth, new arrivals, ethnic minorities, persons with disabilities and persons recovered from work injuries as well as rehabilitated ex-drug abusers and ex-offenders.

File Ref.: LWB(M)CR 1/3037/13

LEGISLATIVE COUNCIL BRIEF

DE-DESIGNATION OF THE IMPORTATION OF FOREIGN DOMESTIC HELPERS AS LABOUR IMPORTATION SCHEME UNDER THE EMPLOYEES RETRAINING ORDINANCE (CAP. 423)

INTRODUCTION

At the meeting of the Executive Council held on 14 May 2013, the Council ADVISED and the Chief Executive ORDERED that the importation of foreign domestic helpers (FDHs) be de-designated as a labour importation scheme by virtue of section 14(3) of the Employees Retraining Ordinance (Cap. 423) and section 40(2)(c) of the Interpretation and General Clauses Ordinance (Cap. 1). The de-designation gives effect to the abolition of the Employees Retraining Levy (Levy) imposed on employers of FDHs when the suspension of its collection expires on 31 July 2013, as announced by the Chief Executive in his Policy Address delivered in January 2013.

JUSTIFICATIONS

2. It has been an established policy in Hong Kong that where there is a demonstrated need for low-skilled workers which cannot be met by the local labour market, importation of such workers could be allowed. By virtue of section 14(3) of Cap. 423 enacted in 1992, the Chief Executive in Council (CE in C) may, from time to time, approve a scheme, known as a labour importation scheme. The idea behind any such scheme is, on one hand, to permit the importation of lower skilled workers when needed, and on the other, to train or retrain local workers who become vulnerable to shifts in the economic structure. Employers who are permitted to turn to lower skilled imported labour should contribute to the cost of training or retraining local employees. A Levy is imposed on the employers for funding the training and retraining programmes provided under the Employees Retraining Board (ERB). The Levy has been set by Schedule 3 to Cap. 423 at \$400 per month, and the total sum payable by the employer is \$400 multiplied by the number of months specified in the relevant contract of employment between the employer and the imported employee.

3. The importation of FDHs was approved in 2003 by the then CE in C as a labour importation scheme under Cap. 423. However, the collection of the Levy was suspended for a period of five years with effect from 1 August 2008 by virtue of the Employees Retraining Ordinance (Amendment of Schedule 3)(No. 2) Notice 2008. This originated from a relief package with anti-inflationary initiatives which included, among others, a temporary suspension of the Levy to relieve the financial burden of the middle class. The five-year suspension is due to expire on 31 July 2013.

4. To ease the financial burden on families employing FDHs, the Chief Executive announced in his 2013 Policy Address the abolition of the Levy imposed on FDH employers when the suspension of its collection expired on 31 July 2013. To give effect to the abolition of the Levy on FDH employers, CE in C, at the meeting of the Executive Council held on 14 May 2013, de-designated the importation of FDHs as a labour importation scheme under section 14(3) of Cap. 423 and section 40(2)(c) of Cap. 1. The de-designation was an administrative act.

5. The Levy receipts from labour importation schemes have been the major financial source of ERB. It is noted that the Levy income has mainly come from FDH employers (as there are currently about 310 000 FDHs in Hong Kong). As at January 2013, the balance of the Employees Retraining Fund was \$2.19 billion and should be able to sustain the current level of service of ERB until end-2015. To provide ERB with long-term support, the Financial Secretary proposed in the 2013-14 Budget to inject \$15 billion into ERB as seed money. The annual expenditure of the ERB is about \$790 million a year. The ERB is expected to sustain its current level of service and operation by generating investment income from the seed money. While it is expected that the investment income may in general be able to fully cover the cash flow requirements of ERB on an ongoing basis, there may be years in which the investment income generated may not be able to fully meet the training needs. In such a scenario, we may make use of part of the principal as appropriate to ensure a stable provision of training courses and services. We will explore the injection arrangements, future investment and management of the fund as well as monitoring mechanism with ERB and relevant parties including the Hong Kong Monetary Authority. Funding approval will be sought from the Finance Committee of the Legislative Council in due course.

IMPLICATIONS

6. The abolition of the Levy on FDH employers has financial, economic and family implications as set out at **Annex A**. The abolition will not result in staff savings for the Immigration Department on top of those realised upon the suspension of the Levy in 2008 under the current procedures.

7. The abolition of the Levy on FDH employers is in conformity with the Basic Law, including the provisions concerning human rights. It has no environmental, productivity or sustainability implications. It will not affect the current binding effect of Cap. 423.

PUBLICITY AND PUBLIC CONSULTATION

8. No public consultation is required as the abolition of the Levy on FDH employers was already announced by the Chief Executive in his Policy Address delivered in January 2013.

9. The de-designation will not affect the resumption of the Levy on employers under the Supplementary Labour Scheme (which was approved as a labour importation scheme in 1996 by the then CE in C) on 1 August 2013. A press release will be issued before the resumption of collection of the Levy on the employers under the Supplementary Labour Scheme.

ENQUIRIES

10. Enquiries on the brief should be made to Ms Lydia Lam, Principal Assistant Secretary for Labour and Welfare (Manpower), at telephone number 2810 3290.

Labour and Welfare Bureau
May 2013

Implications of the Abolition of the Levy on FDH Employers

Financial Implications

Following the abolition of the Levy on FDH employers, the Levy receipt is estimated to be reduced by about \$1.53 billion a year. The annual Levy receipt collected from employers under SLS is estimated to be around \$11.6 million. To provide ERB with long-term support, the Financial Secretary has proposed to inject \$15 billion into ERB for ERB to sustain its current level of service and operation by generating investment income from the seed money. Sufficient provision has been earmarked in the 2013-14 Estimates.

Economic Implications

2. The abolition of the Levy on FDH employers will help reduce the financial burden on households with FDHs, in particular when more households with relatively low income tend to hire FDHs to take care of their elderly family members amid an ageing society. Given that the collection of Levy has already been suspended for about five years, the impact of its abolition on the overall economy would be minimal.

Family Implications

3. The abolition of the Levy on FDH employers will alleviate the financial burden of families in employing FDH, especially for the lower-income ones or those with elderly and child care needs. From this perspective, the abolition of the Levy on FDH employers will indirectly help encourage elders to age at home and home-based babysitting.

List of Abbreviations

CE in C	-	Chief Executive in Council
ERB	-	Employees Retraining Board
FDH	-	Foreign Domestic Helper
Levy	-	Employees Retraining Levy
