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Legislative Council

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**Bills Committee on Construction Industry Levy
(Miscellaneous Amendments) Bill 2003**

Background Brief prepared by the Legislative Council Secretariat

**Construction Industry Levy
(Miscellaneous Amendments) Bill 2003**

Purpose

This paper gives a summary of issues and concerns raised by members on the Administration's proposals in the Construction Industry Levy (Miscellaneous Amendments) Bill 2003.

The Administration's proposals

2. At its meeting on 18 July 2002, the Panel on Manpower was consulted on the Administration's proposals to extend the existing construction industry levy to cover electrical and mechanical (E&M) works in the construction industry so that income so derived could be used to provide expanded training courses and trade tests for E&M workers.
3. Hitherto, the Construction Industry Training Authority (CITA), a statutory body established by the Industrial Training (Construction Industry) Ordinance (Cap. 317) ("ITCIO"), provides training courses for the construction industry through its training centres, assists in the placement of its trainees and assesses the standards of skills achieved by construction workers. CITA is financed by, inter alia, a levy on construction works as defined in section 2(2) and (3) of ITCIO where E&M works are excluded.
4. The Administration informed the Panel that its proposals sought to -
 - (a) enable CITA to use the additional levy collected from E&M works in the construction industry to expand the scope of E&M

training courses and to cover the costs of the corresponding trade tests;

- (b) amend the ITCIO so that levy would be imposed on the value of "construction contracts" rather than the value of "construction works";
- (c) empower CITA to engage outside bodies as training agents to organize and provide training and trade testing for the construction industry; and
- (d) amend the composition of CITA Board to include a representative from the E&M sector.

Issues and concerns raised by members

5. Members raised the following issues and concerns during the discussion on the Administration's proposals -

- (a) the criteria for determining the types of E&M training courses which would continue to be subsidized by the Government and the types of courses intended to be funded by the proposed additional levy;
- (b) E&M workers in the construction industry had to undergo different types of tests required by the Electricity Ordinance and the future Construction Workers Registration System (CWRS), and to pay the respective fees;
- (c) it was undesirable to impose the registration requirement of the future CWRS on E&M workers;
- (d) whether CITA would have adequate funds to organize the expanded E&M courses and trade tests, as the levy was estimated to take five years to take full effect; and whether the Administration would consider providing financial assistance in the circumstance;
- (e) the number of additional E&M training places to be provided, the number of workers to be trained under the expanded programmes and the amount of funding required to achieve the intended purpose;
- (f) how the annual levy collectible in respect of E&M works in the construction industry, which was estimated to be \$46 million

when the levy took full effect, would be spent;

- (g) whether the Administration would consider providing further subsidy for the provision of more specialized E&M training, instead of imposing an additional levy;
- (h) the proposal might create negative impact on the business environment and that the Real Estate Developers Association of Hong Kong had some reservations about the levy proposal because of the consequential increase in construction cost; and
- (i) whether the proportion of trade union representation on the CITA Board could be expanded so as to achieve a more balanced view.

Relevant paper

6. Members may wish to refer to the extract of minutes of the meeting of the Panel on Manpower on 18 July 2002 in the **Appendix** for details of the discussion.

Council Business Division 2
Legislative Council Secretariat
15 July 2003

**Extract from Minutes of meeting of
Panel on Manpower held on 18 July 2002**

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III. Extension of the construction industry levy to electrical and mechanical works

(LC Paper No. CB(2)2557/01-02(03))

4. Deputy Secretary for Education and Manpower (DSEM) briefed members on the proposal to extend the existing construction industry levy to cover electrical and mechanical (E&M) works in the construction industry as set out in the Administration's paper.

5. Ms LI Fung-ying noted that some generic and construction-related training courses and trade tests for E&M workers were currently provided by the Vocational Training Council (VTC) with the support of government subventions. Under the proposal, the Construction Industry Training Authority (CITA) would take overall responsibility for providing an expanded scope of E&M training and trade testing for the construction industry by using the additional levy collected. She asked whether this implied that the Administration would gradually stop providing subsidy for the E&M training courses and trade tests currently offered by VTC.

6. DSEM said that as E&M services had grown in importance in the construction industry in recent years, the skills required for these services had become more complex and specialised. In view of this, the Hong Kong Electrical and Mechanical Contractors' Association (HKEMCA) recommended that the spectrum and capacity of E&M training courses as well as the categories and capacity of E&M trade tests be expanded to facilitate the provision of more well-trained workers for the construction industry. It had also recommended that a levy be imposed on E&M works in the construction industry to meet the cost of the expanded training courses and trade tests.

7. DSEM further pointed out that the proposed additional levy on E&M works in the construction industry would only be used to provide E&M training specific to the construction industry. The Government would continue to provide subsidy for VTC to organise generic E&M training courses to meet the needs of other industries. Therefore, the introduction of the proposed additional levy should not be taken to mean that the Government would cease to subsidise VTC in respect of E&M training in future.

8. Ms LI Fung-ying asked about the criteria for determining the types of E&M training courses which would continue to be subsidised by the Government and the types of courses intended to be funded by the proposed additional levy.

9. Hon Secretary, Hong Kong Electrical and Mechanical Contractors' Association (HS/HKEMCA) explained that the E&M training courses currently run by VTC were general in nature. The E&M skills taught in these courses were widely applicable in various industries, such as shipbuilding, manufacturing and public utilities, etc. The construction industry was only one of the various industries which applied E&M skills. Given that the skills required for E&M works in the construction industry were of a specialised nature, the proposed additional levy would only be used to provide E&M training courses specific to the construction industry. Hence, there would still be a need for VTC to provide generic E&M training courses to meet the needs of other industries.

10. Ms LI Fung-ying pointed out that the proposed Construction Workers Registration System (CWRS) required all construction workers to pass the relevant trade tests in order to become registered workers in the construction industry. E&M workers engaging in the construction industry would also be subject to this requirement, despite the fact that they were already subject to the registration requirements under the Electricity Ordinance. Upon the implementation of CWRS, E&M workers in the construction industry might need to undergo different types of tests required under the two registration systems and to pay the respective fees. She considered it undesirable to compulsorily apply the registration requirements under CWRS to E&M workers in the construction industry having regard to the likely impacts on them.

11. Executive Director, Construction Industry Training Authority (ED/CITA) said that apart from E&M workers, many other categories of skilled workers in the construction industry, such as crane operators, were also subject to similar registration requirements under existing legislation. A committee formed to carry out preparatory work for CWRS led by the former Works Bureau (now known as the Environment, Transport and Works Bureau) had already carefully considered the issue of double registration, but had yet to finalise the arrangements in this regard. However, the committee was generally of the view that workers who were already subject to registration requirements under existing legislation would not be required to have their skills re-assessed under CWRS. They might only be required to pay a nominal fee to register their recognised skills level under CWRS.

12. Noting that it would take five years for the proposed levy to take full effect, Mr Ambrose LAU asked whether the proposed expansion of E&M training courses and trade tests were intended to commence after the levy

took full effect. If this was not the case, he asked whether the Administration would consider providing financial assistance in the event that CITA lacked sufficient funds to organise the expanded courses and tests in the interim.

13. DSEM said that in order to facilitate the implementation of CWRS, the proposed expansion of E&M training courses and trade tests would have to commence shortly after the enactment of the amendment bill, which was planned to be introduced to the Council in the first half of the 2002-03 legislative session. He further said that there might be a possibility that CITA would be unable to fully implement the expansion programmes in the initial period owing to financial constraints. Under the circumstances, CITA might consider seeking a loan from the Government to achieve its goals under the proposal before the levy took full effect.

14. Mr Kenneth TING enquired about the number of additional E&M training places to be provided, the number of workers to be trained under the expanded programmes and the amount of funding required to achieve the intended purpose.

15. DSEM said that the annual levy income in respect of E&M works in the construction industry was estimated to amount to \$46 million when the levy took full effect. The levy income derived from E&M works would be used by CITA to provide expanded E&M training courses and trade tests for the construction industry. A Working Party, which comprised representatives of HKEMCA, VTC and CITA, was now considering the proposed expansion programmes for E&M training and trade testing for the construction industry. The number of additional training places to be provided and the number of workers to be trained would be decided by the Working Party.

16. HS/HKEMCA supplemented that the number of E&M workers engaged in the construction industry amounted to some 50 000. These workers were in need of different levels of E&M training. He pointed out that the estimated annual levy income of \$46 million was not sufficient to meet the training needs of all E&M workers in the construction industry. However, he believed that CITA would endeavour to achieve most effective use of the resources available to provide training to meet the needs of the construction industry.

17. In reply to Mr Kenneth TING's enquiry on how the annual levy income of \$46 million would be spent, ED/CITA said that it would mainly be used to provide trade tests and training relevant to the trade tests during the initial period after the implementation of CWRS. After most of the construction workers had become registered workers, the focus would be put on providing E&M training to upgrade the skills of workers.

18. As some industries had moved to the Mainland, Mr Kenneth TING questioned whether the resources earmarked for the provision of training for these industries could be re-allocated for E&M training for the construction industry. He said that by so doing, it might not be necessary to impose the proposed additional levy.

19. DSEM replied that resources previously earmarked for such courses would be used to provide training needed by other industries.

20. HS/HKEMCA supplemented that being a member of the Electrical and Mechanical Services Training Board of VTC, he had participated in devising VTC's training programmes. He pointed out that VTC had always been responsive to the market and would only provide courses needed by local industries.

21. Mr Tommy CHEUNG asked whether the Administration would consider providing further subsidy for the provision of more specialised E&M training needed by the construction industry, instead of imposing an additional levy.

22. DSEM pointed out that the principle of using the levy imposed on construction works to finance training programmes for workers of the industry had been adopted since the establishment of CITA in 1975 and the enactment of the Industrial Training (Construction Industry) Ordinance (the Ordinance). The relevant parties had been consulted and the support of the construction industry had been received before such arrangement was put in place. He added that when the Ordinance was first drafted in 1975, consideration was given to including E&M works within its scope. However, such works were subsequently excluded from the scope of the Ordinance in the light of the objection raised by the E&M industry.

23. Mr Tommy CHEUNG noted that the Real Estate Developers Association of Hong Kong had some reservations over the proposed extension of construction industry levy to cover E&M works because of the consequential increase in construction cost. He expressed concern that the proposal might create negative impact on the business environment. Mr Kenneth TING shared Mr CHEUNG's concern. He asked whether there had been adequate consultation on the proposal.

24. DSEM responded that major stakeholders in the construction industry had been consulted on the proposal. Although the Real Estate Developers Association of Hong Kong had expressed reservations over the proposal, it was welcomed by all other major stakeholders in the construction industry.

25. Mr Tommy CHEUNG enquired about the representation of HKEMCA in the E&M industry. HS/HKEMCA said that HKEMCA was a member of the Hong Kong Federation of Electrical and Mechanical Contractors (the

Federation) and was representing the Federation to deal with issues relating to the proposal of extending the construction industry levy to cover E&M works in the construction industry. The Federation was formed by six major trade associations in the E&M industry, which had a total of approximately 800 members. It basically covered all active E&M contractors in Hong Kong. Based on a rough estimate, the turnover of these contractors accounted for 90% of the overall market turnover. He added that the Federation was supportive of the proposal after wide consultation with its member associations.

26. Miss CHAN Yuen-han said that she did not understand why certain skills training needed by the construction industry, such as interior decoration, was not provided by CITA whereas E&M training, which had already been provided by VTC, was proposed to be included in CITA's training programmes.

27. ED/CITA said that the skills required for interior decoration works, such as painting and woodwork, were similar to the general skills of workers on construction sites. In fact, the training courses currently provided by CITA already covered all types of skills required in the construction industry. As for some training which was unable to be provided owing to certain constraints, such as tunnel excavation skills, CITA would provide subsidy to contractors in the industry to provide on-the-job training for workers in need.

28. Given that there was only one representative from trade unions among the 13 members of CITA, Ms LI Fung-ying asked whether the proportion of trade union representation could be expanded with a view to achieving a more balanced view.

29. Principal Assistant Secretary for Education and Manpower said that the proposed composition of CITA had been endorsed by the Provisional Construction Industry Co-ordination Board after thorough deliberations. The unanimous view was that for administrative smoothness, it was appropriate to have only one trade union representative in the CITA Board.

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