

ITEM FOR FINANCE COMMITTEE

LOAN FUND

NEW HEAD “Construction Industry”

New Subhead “Start-up Loan to the Construction Workers Registration Authority”

Members are invited to approve the creation of –

- (a) a new Head “Construction Industry” under the Loan Fund; and
- (b) a new Subhead “Start-up Loan to the Construction Workers Registration Authority” under the new Head, with a commitment of \$23.4 million to provide funding for making a loan to the Construction Workers Registration Authority.

PROBLEM

The Construction Workers Registration Authority (CWRA) will be unable to meet the anticipated deficit in the initial years of its operation upon establishment.

THE PROPOSAL

2. We propose to create a new Head “Construction Industry” under the Loan Fund and, under the new Head, a new Subhead “Start-up Loan to the Construction Workers Registration Authority” with a commitment of \$23.4 million for making a loan to the CWRA to meet the deficit in its initial years of operation.

/JUSTIFICATION

JUSTIFICATION

Formation of the CWRA

3. With the enactment of the Construction Workers Registration Ordinance in June 2004, the CWRA, being a statutory authority, will be established in August/September 2004 for administering the Ordinance. In line with the principle that the CWRA should be financed by the construction industry and to alleviate the burden of construction workers in paying the registration/renewal fees, a levy of about 0.03% will be imposed on construction works to provide the major source of funding for the CWRA and the running costs of the registration system.

4. Based on previous experience in the imposition of levy on construction works under other ordinances, we estimate that the full-year effect of the levy income, about \$18 million per annum, will take about five years, i.e. by 2008-09, to build up. Taking into account projected revenue as well as operating expenditure, the CWRA will require a loan of \$23.4 million for meeting the deficit in its initial years of operation. An illustrative cash flow projection of the CWRA taking into account the granting of the proposed loan is at the Enclosure.

Encl.

5. The Administration, in conjunction with the CWRA, would closely monitor the financial situation of the latter and would review the levy and/or the registration fees in future years if it is found necessary to do so to ensure the financial viability of CWRA.

Proposed terms of the loan

6. It is proposed that the loan of \$23.4 million to the CWRA will be subject to the following terms –

(a) **Drawdown period**

the loan will be drawn down as and when necessary by 31 March 2007;

/(b)

(b) **Repayment terms**

the loan will be repaid by nine annual equal instalments (covering loan principal and interest calculated on an annuity basis) beginning on 1 April 2009. Interest accrued up to and including 31 March 2008 will be capitalized. The CWRA may repay the loan in whole or in part at any time ahead of the repayment schedule. In case the CWRA has serious unexpected cash flow problems in repaying the loan and need to amend the repayment schedule or extend the loan repayment period, CWRA must seek exceptional prior approval of the Financial Secretary; and

(c) **Interest rate**

interest will be charged against the loan from the date of drawdown at the Government's "no-gain-no-loss" interest rate^{Note}.

FINANCIAL IMPLICATIONS

7. The proposal to grant a start-up loan at Government's "no-gain-no-loss" interest rate would not give rise to additional financial implications for the Government.

CONSULTATION

8. We consulted the Legislative Council Panel on Planning, Lands and Works on the proposal in April 2004. Members of the Panel expressed no objection to the proposal.

BACKGROUND INFORMATION

9. In response to requests from the construction industry, the then Construction Advisory Board decided in July 1999 to set up a Working Group to study the proposal for implementing a construction workers registration system.

/10

^{Note} The "no-gain-no-loss" interest rate is currently set at 2.174% below the average best lending rate of the note-issuing banks.

10. In view of the envisaged benefits of a registration system including ensuring quality of construction works through skill certification of workers, making available more reliable manpower data to facilitate manpower planning and training and fostering a quality culture in the construction industry, the Administration endorsed the recommendations of the Working Group and decided to implement a mandatory registration system for construction workers by way of legislation.

11. The resumption of the Second and Third Readings of the Construction Workers Registration Bill is scheduled for the Legislative Council meeting on 30 June 2004.

Environment, Transport and Works Bureau
June 2004

**Construction Workers Registration Authority
Cashflow Projection for 2004/05 - 2017/18**

Enclosure to FCR(2004-05)24

	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue														
Levy	900	4,500	11,700	16,200	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000
Registration/Renewal Fees	4,170	4,170	4,170	4,170	4,170	4,170	4,170	4,170	4,170	4,170	4,170	4,170	4,170	4,170
	<u>5,070</u>	<u>8,670</u>	<u>15,870</u>	<u>20,370</u>	<u>22,170</u>	<u>22,170</u>	<u>22,170</u>	<u>22,170</u>	<u>22,170</u>	<u>22,170</u>	<u>22,170</u>	<u>22,170</u>	<u>22,170</u>	<u>22,170</u>
Expenditure														
Capital Expenditure of the Registrar	2,000	0	0	0	0	0	0	0	0	0	0	0	0	0
Recurrent expenditure of the Authority	5,750	5,750	5,750	5,750	5,750	5,750	5,750	5,750	5,750	5,750	5,750	5,750	5,750	5,750
Recurrent expenditure of the Registrar	8,750	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500
	<u>16,500</u>	<u>18,250</u>	<u>18,250</u>	<u>18,250</u>	<u>18,250</u>	<u>18,250</u>	<u>18,250</u>	<u>18,250</u>	<u>18,250</u>	<u>18,250</u>	<u>18,250</u>	<u>18,250</u>	<u>18,250</u>	<u>18,250</u>
Operating Cash Surplus/(Deficit)	-11,430	-9,580	-2,380	2,120	3,920	3,920	3,920	3,920	3,920	3,920	3,920	3,920	3,920	3,920
Government Loan	11,430	9,580	2,380											
Repayment of Government Loan and Interest						-3,884	-3,884	-3,884	-3,884	-3,884	-3,884	-3,884	-3,884	-3,884
Net Cash Flow	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,120</u>	<u>3,920</u>	<u>36</u>	<u>36</u>	<u>36</u>	<u>36</u>	<u>36</u>	<u>36</u>	<u>36</u>	<u>36</u>	<u>36</u>

Assumptions –

1. The levy income is based on a rate of 0.03% and an estimated annual gross value of construction works of 60 billion.
2. Assuming 150,000 workers will be registered, with 100,000 workers paying a registration fee of \$100 for 3 years and 50,000 workers paying a registration fee of \$50 for 3 years.
3. The increase in expenditure due to price change is to be offset by increase in revenue.
4. Assuming the Government's "no-gain-no-loss" interest rate to be at 5% p.a. throughout the projection period.
