

ITEM FOR FINANCE COMMITTEE

**HEAD 142 – GOVERNMENT SECRETARIAT :
OFFICES OF THE CHIEF SECRETARY FOR
ADMINISTRATION AND FINANCIAL SECRETARY**

**Subhead 700 General non-recurrent
Item 803 Anti-epidemic Fund**

Members are invited to approve an increase in commitment by \$43 billion from \$195.9 billion to \$238.9 billion under Head 142 Government Secretariat: Offices of the Chief Secretary for Administration and Financial Secretary Subhead 700 General non-recurrent Item 803 for injection into the Anti-epidemic Fund to provide funding for the implementation of the 2022 Employment Support Scheme.

PROBLEM

The fifth wave of the coronavirus disease-2019 (COVID-19) epidemic since January 2022, particularly the various necessary border control and social distancing measures, have dealt a severe blow to a large number of businesses, inevitably leading to an increase in unemployment. Despite some sector-specific relief measures under the recent two rounds of the Anti-epidemic Fund (AEF), we need to provide further financial support to arrest the further deterioration of businesses and rising unemployment and help businesses to revive in tandem with the gradual relaxation of social distancing measures.

/PROPOSAL

PROPOSAL

2. We propose to inject \$43 billion into the AEF¹ to implement the 2022 Employment Support Scheme (ESS) providing time-limited wage subsidies to employers to retain their current employees or even employ more staff when the business revives as soon as the epidemic situation permits. Eligible employees aged 65 or above and self-employed persons (SEPs) will also be covered as in the 2020 ESS.

JUSTIFICATION

3. With the fifth wave of the COVID-19 epidemic devastating Hong Kong since January 2022, the number of confirmed cases had surged and peaked in early March with a daily total of 76 991 cases. To control the spread of the virus, the Government has to put in place the most stringent border control and social distancing measures adopted throughout the past two years of fighting COVID-19. Many business premises have been closed and the economy has been hard hit. With the daily infection counts gradually coming down, and to pave the way for bringing Hong Kong back to normalcy, the Chief Executive (CE) outlined on 21 March 2022 a three-stage roadmap for gradual relaxation of social distancing measures over a three-month period starting from 21 April 2022, assuming no surge in cases and the downward trend continues. As at 6 April 2022, the total number of cases recorded stood at 2 777.

4. Having considered the impact of this latest epidemic wave on the economy and requests from Members of the Legislative Council (LegCo) and relevant sectors, the CE considered it justified and necessary to roll out another round of ESS and announced on 18 March 2022 a preliminary framework of the 2022 ESS at a roughly estimated cost of \$31 billion taking account of the experience gained in the 2020 ESS. The 2022 ESS aims to adopt a more targeted approach by providing wage subsidies to sectors directly or indirectly affected by the fifth wave, particularly small-and-medium sized enterprises (SMEs). We have, for example, excluded businesses not affected by the fifth wave such as supermarket chain stores and large property management agents. We have also endeavoured to put in place a better design with additional safeguards to protect employees' interests. The CE made it clear that before the scheme was to be finalised for seeking funding approval from the Finance Committee (FC), there would be consultations with the stakeholders.

/Major

¹ In parallel, an increase in commitment of \$12 billion is being sought in the context of the Appropriation Bill 2022 to meet the funding requirements for constructing and fitting out isolation, treatment and other facilities.

Major Parameters

5. It is our objective that the 2022 ESS should complement the AEF 5.0 and 6.0 packages (totalling \$30.6 billion) introduced swiftly after the fifth wave set in, as well as the range of relief measures in the 2022-23 Budget including in particular the \$66.4 billion's worth of the Consumption Voucher Scheme, to stimulate consumption demand and inject impetus into the economy, thereby boosting employers' confidence in retaining their employees or hiring more when business returns. The aforementioned three programmes (i.e. AEF, Consumption Voucher Scheme and 2022 ESS) will work collectively to accelerate economic rebound once the fifth wave of the epidemic subsides.

6. Since the CE's announcement on 18 March 2022, we have received overwhelming support from LegCo Members and different sectors but requests have been put forward for improving the design of the scheme. Having regard to these suggestions and with a view to enhancing support as much as possible, the CE has agreed to accede to most of the suggestions for improvements which are now reflected in the following major parameters for the 2022 ESS –

- (i) all employers who have been making Mandatory Provident Fund (MPF) contributions or have set up Occupational Retirement Schemes for their employees, except those on the Exclusion List, will be eligible for ESS. This Exclusion List, which essentially follows that adopted for the 2020 ESS, covers mainly the Government as well as public and subvented organisations²;
- (ii) wage subsidies will last for three months covering May to July 2022;
- (iii) there will be a two-tier subsidy rates - a flat rate of \$8,000 per month for each employee with monthly income of at least \$8,000; and a flat rate of \$4,000 per month for each employee with monthly income of at least \$3,000³ but less than \$8,000. In other words, the originally proposed salary cap of \$30,000 has been removed to include higher-paid employees in the scheme and part-timers who earn less than \$8,000 may also be eligible;
- (iv) to cater for business changes over the past two years, employers will be given the option of choosing either the 2020 ESS data as in the preliminary framework or the fourth quarter of 2021 (i.e. before the

/fifth

² Employers cannot apply for subsidies in respect of employees in government-funded organisations whose wages are fully funded by the Government, or dedicated employees engaged by government outsourced contractors/consultants to implement or deliver these contracts.

³ With reference to the 4-18 requirement that an employee should work for at least 18 hours per week, the average working weeks per month of 4.3 and the minimum wage of \$37.5 per hour, the "minimum usual wage" of a part-timer is proxied as \$2,902.5 (18 x 4.3 x 37.5), rounded up to \$3,000.

fifth wave hit at a time when business was generally good when Hong Kong had recorded no local infections for some time) for setting the employer-specific cap. This is a positive response to stakeholders' requests;

- (v) the number of headcounts eligible for wage subsidy (subsidised headcounts) will be determined by the employer-specific cap in (iv) above or a large-company cap of no more than **1 000** employees, whichever is the less. This means that employers with less than 1 000 employees will get subsidised headcounts up to their employer-specific cap, while large companies with 1 000 or more employees will have their subsidies capped at 1 000 employees;
- (vi) a Restricted List will be introduced for the 2022 ESS to limit the eligibility of sectors which are less affected by the fifth wave but we have improved its application to the extent that firms with core business belonging to sectors on the Restricted List may also benefit from the 2022 ESS but can only apply wage subsidy for a maximum of 100 employees, subject to the employer-specific cap in (iv) above. Allowing subsidy up to 100 employees has taken into account the heterogeneity of some business sectors on the Restricted List where there are both large companies and SMEs while still adhering to the objective of targeting the support more towards the SMEs;
- (vii) to achieve the objective of increasing employment when business returns, the 2022 ESS allows eligible employers to apply for different number of headcounts of subsidised employees in each subsidy month, as long as the number does not exceed the limit at (v) or (vi) above;
- (viii) employers will be required to employ no fewer employees than the committed number in (vii) above. There will be post-payment check to ensure compliance with committed headcounts and failure to deliver the committed headcounts will result in clawback of subsidies and financial penalty; and
- (ix) employers will be required to undertake, not just to maintain the number of employees on their payroll, but also to ensure that the salaries of the subsidised employees should not be less than \$4,000 or \$8,000 per month, as the case may be. This prevents re-distribution of subsidies by employers to unjustly benefit the senior management at the expense of the operational staff. To further prevent abuses by employers, we will proactively identify potential abusive cases with abnormal staff turnover and/or salary adjustments for in-depth investigation.

Encl. A summary of the Exclusion List and Restricted List as well as the resultant Eligibility List is at the Enclosure.

7. The 2022 ESS will cover employees aged 65 or above with an active MPF account as in either the 2020 ESS data or the pre-fifth wave data covering the fourth quarter of 2021, who will be subject to the same two-tier subsidy rates in paragraph 6(iii) above. The 2022 ESS will also cover SEPs who have an active MPF SEP account as at the fourth quarter of 2021. Eligible SEPs will be granted a one-off subsidy of \$8,000.

8. We estimate that the 2022 ESS will benefit around 160 000 employers, 1.6 million employees and 140 000 SEPs, which are significantly higher than those estimated when the preliminary framework was announced. Accordingly, the 2022 ESS requires a higher level of funding.

9. In finalising the 2022 ESS package with the above improvements, we have taken into account public views received since 18 March 2022. Those views focused on the salary cap, the employment of part-timers, the changing employment profile of some firms over the last two years, the salary levels of employees in certain sectors, the exclusion of certain sectors in the original exclusion list, etc.

Implementation

10. We will ensure that the application process is simple and user-friendly. For the majority of applicants, their eligibility for the wage subsidy and compliance with the relevant undertakings will be ascertained through the contribution records in their MPF accounts. Subject to FC's approval, we aim to invite applications in late April 2022 for a period of two weeks and disburse payments to the first batch of successful applicants in early May 2022 with a view to providing timely assistance to the eligible applicants. Implementation details of the 2022 ESS will be announced before application is invited.

FINANCIAL IMPLICATIONS

11. We estimate that the total amount of wage subsidies under the 2022 ESS will be \$38.56 billion. We propose to inject a total of \$43 billion into AEF to implement the 2022 ESS –

/Descriptions

Descriptions	Estimated Expenditure (\$ million)
Total amount of wage subsidies to be disbursed	38,560
10% contingency (to cater for administrative costs and any unforeseen needs within the approved remit of AEF in view of the volatility of the latest epidemic situation)	3,856
Total	42,416
Say	43,000

PUBLIC CONSULTATION

12. The CE conducted a Webinar on 25 March 2022 attended by over 100 representatives from various sectors to receive their feedback on the preliminary framework. Written submissions sent to the CE's Office have also been fully considered in finalising the 2022 ESS.

BACKGROUND

13. On 8 April 2020, CE announced the plan to roll out the second round of AEF measures including the 2020 ESS which aimed to provide time-limited financial support to employers to retain employees who may otherwise be made redundant. The 2020 ESS covered six months from June to November 2020. A total of \$91.5 billion was approved, with wage subsidies of \$90.6 billion granted to around 152 000 employers to pay wages for the period from June to November 2020, benefitting about 1.94 million employees. One-off subsidies of \$7,500 each were also granted to about 120 000 SEPs, involving a total of \$0.9 billion.

2022 Employment Support Scheme

Exclusion List (not eligible)	Restricted List (can apply subsidy for a maximum of 100 employees)	Eligibility List (can apply subsidy for a maximum of 1 000 employees)
<ol style="list-style-type: none"> 1. The Hong Kong Special Administrative Region Government, the Legislative Council and the Judiciary 2. Offices/organisations of the Central Authorities in Hong Kong 3. Offices of other governments and international organisations 4. Specified statutory bodies and corporations 5. Specified public organisations, government-owned companies or subvented organisations 6. Employees in government-funded organisations whose wages are fully funded by the Government 7. Dedicated employees engaged by government outsourced contractors including hotels used for isolation or quarantine purposes/consultants to implement or deliver these contracts 	<ol style="list-style-type: none"> 1. Supermarkets and convenience stores 2. Pharmacies and medicine companies 3. Business-to-consumer e-commerce platforms (including retail product, food and beverage takeaway, vehicle booking) 4. Property management, cleaning and security services 5. Insurance, banking, securities, Mandatory Provident Fund, asset management, custody and trust businesses 6. Local courier and delivery services 7. Public utility companies (including electricity companies, town gas companies, liquefied petroleum gas companies, oil companies, telecommunication services) 8. Theme parks 9. Private hospitals, medical group practices and medical laboratories 10. Principal contractors of construction industry (excluding repair, maintenance, addition and alteration (RMAA) works) 11. Property and real estate development businesses 12. Real estate agencies 13. Human resources outsourcing agencies 	<ol style="list-style-type: none"> 1. Premises which have been ordered to suspend operation 2. Catering premises whose operations have been restricted 3. Retail outlets not on the Restricted List 4. Import/export and wholesale trades 5. Professional and business services 6. Transport and logistics 7. Sub-contractors of construction industry and contractors of RMAA works 8. Non-subvented educational, social and personal services 9. Manufacturing 10. Others
