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LEGISLATIVE COUNCIL BRIEF

Relaxation of the Employees Retraining Scheme

INTRODUCTION

At the meeting of the Executive Council on 23 October 2007, the Council ADVISED and the Chief Executive ORDERED that -

- (a) the Employees Retraining Board (ERB) should be allowed to start to draw down the Employees Retraining Levy (levy) collected from employers of foreign domestic helpers (FDHs) to support its operation and services with effect from 1 December 2007 (see paragraphs 2 – 5 below); and
- (b) the eligibility criteria of the Employees Retraining Scheme (ERS) should be relaxed with effect from 1 December 2007 to cover young people aged 15 – 29 and people with education level at sub-degree or below (see paragraphs 9 – 13 below).

JUSTIFICATIONS

Need for drawing down the levy

2. In April 2003, five FDHs lodged an application for judicial review (JR) against the imposition of the levy on employers of FDHs (at \$400 per month for each FDH employed) under the Employees Retraining Ordinance, Cap. 423 (ERO) and the reduction of the minimum allowable wage (MAW) for FDHs by \$400 from \$3,670 to \$3,270. In view of the JR, the ERB was advised to withhold use of the levy collected since October 2003.

3. The Court of First Instance (CFI) dismissed the application for JR in January 2005. In July 2006, the Court of Appeal upheld the decision of the CFI. The appellants indicated that they would appeal to the Court of Final Appeal (CFA). Some of them applied for legal aid, but their application was rejected by the Director of Legal Aid in late September 2006. The appellants had not applied for leave to appeal to the CFA by the end of October 2006 which was the deadline for seeking leave.

4. The levy collected (which goes to the Employees Retraining

Fund (ERF)) and the interest earned have accumulated to over \$3.6 billion by end-August 2007. Given the sum of money involved, there is a general public expectation that the ERB should make good use of the levy in a timely manner to enhance the quality and content of its training and retraining courses for the unemployed and local workers.

5. Having regard to the above considerations, it is proposed that the ERB be allowed to start to draw down the levy as soon as possible to support enhanced and expanded training and retraining services for local workers and the unemployed.

Demands for enhanced and expanded training and retraining services

6. While Hong Kong's economic situation has improved notably in recent years, we still face problems of economic restructuring and manpower mismatch. With the availability of the levy income, an opportunity arises for us to expand and strengthen the training and retraining services provided by the ERB to meet market demands and benefit more people, in particular those who are younger and with an educational attainment above the junior secondary level, to enable them to maintain their employability in a knowledge-based economy.

7. At present, training places under the ERS are mainly offered to the unemployed and displaced workers who are aged 30 or above and have no more than junior secondary education. The current coverage of the ERS does not cater for the training needs of those who are under 30 or who possess an educational level above junior secondary education, but who nevertheless are unemployed or wish to upgrade their skills to keep up with the changes in the labour market. Between May and July 2007, the number of unemployed persons was 157 900 and, of these, only 53 300 (34%) were eligible for the ERS under the current eligibility criteria. In other words, some 104 700 persons or 66% of all unemployed were not covered by the ERS because of the current age and educational attainment limits.

8. From a wider perspective, Hong Kong's total labour force (excluding FDHs) stood at 3 424 400 between May and July 2007. Of these, only some 947 400 (28%) were aged 30 and above with junior secondary education and below. Owing to the structural changes of the Hong Kong economy, there are in fact many who do not meet the existing eligibility criteria of the ERS but nonetheless need training or retraining services in order to increase their employability.

Proposed relaxation of eligibility criteria

9. Having regard to the current structure of our labour force and the prevailing unemployment as well as manpower situation, we propose that the eligibility criteria of the ERS should be relaxed to cover **young people aged between 15 and 29 and people with education level at sub-degree or below.**

10. The unemployment rate among young people is relatively high as compared with that of the labour force in general. Between May and July 2007, the unemployment rate of the age cohort of 15 - 29 with education level at sub-degree and below was 9.0%, as compared with 4.6%¹ of the total labour force (including all employed and unemployed persons, but excluding FDHs).

11. In developing new courses for young people, the ERB will carefully examine and take into account other existing government-funded educational or training courses to build synergy and avoid duplication. The main purpose of organising courses under the ERS for young people is to provide an alternative skill-based training opportunity with a view to enhancing their employability.

12. According to the manpower projections completed by the Government in mid-2003², there would be surpluses of 133 500 and 98 000 in the supply of workers at the “junior secondary level and below” and “senior secondary level” respectively by 2007. In other words, workers with lower educational attainment are expected to face increasing employment difficulties with the continued shrinkage of demand. Feedback from employers in a survey³ also shows that employees’ performance at associate professional level (normally with educational attainment at sub-degree or below) is less satisfactory in general than that of professionals (normally with educational attainment at degree level or above). Workers with sub-degree or below seem less

¹ The unemployment rate (excluding FDHs) has not been adjusted to seasonal variations. The seasonally adjusted unemployment rate of the total labour force for the same period (including FDHs) was 4.1%.

² While we do not have the full and exact information required to evaluate the accuracy of the manpower projection exercise, preliminary checking with up-to-date figures shows that the exercise was able to identify the broad manpower trends in the previous years. The Government is currently conducting a new round of manpower projection exercise and the findings are expected to be available in the first half of 2008.

³ Report on 2002 Establishment Survey on Manpower Training and Job Skills Requirements

adaptable to job requirements which have become increasingly more demanding in a knowledge-based economy. There is also a strong demand for training and retraining services among new arrivals from the Mainland with education level at sub-degree or below in order to enter the local job market.

13. Given the training needs of people at sub-degree level or below as set out in paragraph 12 above, it is proposed to lift the educational attainment limit for the ERS from the current junior education level to sub-degree level.

Proposed implementation timetable

14. Taking into account the time required for consultation with the ERB and its training bodies and the necessary preparatory work, we envisage the proposed relaxation of the eligibility criteria of the ERS to be implemented with effect from **1 December 2007**. While applications for existing courses under the ERS will be accepted starting from December 2007, the first batch of new and dedicated courses for the expanded groups are expected to be developed and launched in the second quarter of 2008. Subject to discussion with the relevant stakeholders, consideration may be given to training people to become rehabilitation assistants, health workers, tour guides, insurance agents, merchandisers, physical trainers, IT assistants, accounting assistants, beauticians, amusement park assistants, pet shop assistants and real estate salespersons, among others. The ERB would also play a useful and important role in manpower training for social enterprises.

15. To tie in with the proposed relaxation, the ERB will increase the number of training courses and training places, as well as strengthen the training content and step up measures to assure course quality. Our preliminary estimate is that the training places to be provided by the ERB will be increased by 50% from 100 000 to 150 000 per annum in 2008-09 and then doubled to 200 000 per annum in 2009-10.

Strategic review of the ERB

16. The proposed relaxation marks one of the first steps to expand and enhance the training and retraining services of the ERB. The ERB is currently undertaking a strategic review on its future role and responsibilities. More concrete plans on how the ERB will expand the scope and enhance the quality of its training and retraining services, including the optimum use of the Employees Retraining Levy, will be examined and drawn up under the strategic review.

17. In the light of the proposed relaxation of the eligibility criteria mentioned in paragraphs 9 – 13 above and the outcome of the review, the ERB is expected to take on new strategic role and responsibilities and offer more comprehensive training and retraining for the unemployed and local workers so as to enhance their employability and competitiveness. The ERB will also develop a rebranding strategy and promote a new image to enhance public awareness of its expanded role and services.

IMPLICATIONS OF THE PROPOSAL

18. The proposal has financial, economic, productivity and sustainability implications as set out at **Annex**.

19. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. It has no civil service or environmental implications.

PUBLIC CONSULTATION

20. The proposal has been formulated taking into account the views and suggestions made by different sectors of the community, including employees, training providers, labour unions, etc. to expand the current scope of the training and retraining services under the ERS to benefit more people.

21. This proposal has featured in the Chief Executive's 2007 Policy Address announced on 10 October 2007.

PUBLICITY

22. A press release will be issued. A spokesman will be available to handle enquiries.

BACKGROUND

23. The ERB is a statutory body established in 1992 under the ERO. It is responsible for providing retraining courses and related placement services under the ERS for the purpose of helping local employees adjust to changes in the employment market arising from Hong Kong's economic restructuring by acquiring new or enhanced vocational skills. Following a review of the ERS, the Executive Council decided in June 1997 that, amongst other things, the ERS should

primarily focus on retraining the unemployed aged 30 or above and possessing no more than lower secondary education. Access to the ERS has been restricted to the above target group since then.

24. At present, the ERB offers about 100 000 training places per annum through a network of over 50 training bodies. As at end-August 2007, the ERB has provided over one million training places. Approximately 60% of these training places are full-time, placement-tied programmes which are offered free-of-charge. These courses are offered to unemployed persons, some of whom receive a retraining allowance (of about \$150 per day) while attending the courses. The benchmark placement rate for placement-tied courses is 70% and the average placement rate in 2006-07 is close to 85%. Other training places are part-time places which teach basic, generic skills such as information technology, English and Putonghua. They are open to both unemployed and employed persons. The courses are free of charge for the unemployed or those with low income, while employed persons are charged a fee amounting to only 20% of the cost of the training place.

25. The ERB attaches much importance to quality assurance. On the premise that retraining courses must be responsive to market needs and up-to-standard, the ERB adopts a performance-based allocation system in allocating funding to its training bodies. Their performance is measured in terms of the quality and delivery of service which is monitored by vigorous management audits, surprise inspections and independent surveys, and by key performance indicators such as placement rates of retrainees. The ERB has also been developing standardised skills assessments to ensure that the learning objectives of its courses are met and that graduates have attained acceptable skill standards. The ERB will strengthen the existing quality assurance mechanism in the context of the strategic review to ensure the recognition of all its courses under the Qualifications Framework, so that retrainees can acquire credible qualifications for employment and articulation for skills upgrading/further learning.

ENQUIRY

26. Any enquiries on this brief should be addressed to Ms Karyn Chan, Principal Assistant Secretary for Labour and Welfare (Manpower), at 3540 7208.

Labour and Welfare Bureau

24 October 2007

Implications of the Proposal

Financial Implications

The proposed relaxation of eligibility criteria will substantially expand the potential clientele of the Employees Retraining Board (ERB) who are unemployed from the existing 53 300 to 138 700. Accordingly, the ERB plans to increase its training places from the existing 100 000 to 150 000 in 2008-09 and further to 200 000 in 2009-10. Of these, 60% are required to cater for the unemployed and the rest for in-service workers who want to upgrade themselves to avoid displacement from the labour market. The additional resources required for delivering the additional extra training places will be met in full by the levy. Hence, the proposed relaxation will not carry financial implications for the Government.

Economic and Productivity Implications

2. Hong Kong is moving towards a knowledge-based economy. The proposal would help to ensure that more unemployed persons and local workers who currently do not have access to the Employees Retraining Scheme would be provided with much-needed training and retraining opportunities. This would better equip them to adapt to the ongoing economic restructuring and enhance their employability. The proposal would therefore generate productivity gain for the economy at large.

Sustainability Implications

3. In line with the sustainability principle of enabling individuals to contribute to and fulfill their potential by providing universal access to adequate and appropriate education opportunities and social infrastructure, the proposal should enable more people to acquire knowledge and skills through training and retraining, thereby enhancing the quality and competitiveness of our workforce in the long run. The proposal is also in line with one of the recommendations made by the Council for Sustainable Development in its Report on the Public Engagement Process on Population Policy in June 2007, which is “to enhance current retraining programmes for our workforce and expand the target groups of these programmes with respect to age and educational attainment”.