

Chapter II : Revenue Collection and Financial Control

2.1 At the Chairman's invitation, the Secretary for the Treasury (S for Tsy), Miss Denise YUE, gave a presentation highlighting important issues under her policy areas in 2001-02 (Appendix V-1). The Chairman advised members that with the concurrence of the S for Tsy, any questions relating to the planning parameters of the Budget as provided in the Basic Law (BL) could be raised in this session.

Guiding principles in financial planning

2.2 Miss Emily LAU pointed out that despite the successive operating deficits in the Government account in the past few years, Hong Kong had accumulated huge fiscal reserves of over \$440 billion. Under such circumstances, there should be much room for the Government to earmark more public funds for new initiatives to improve the livelihood of the general public. Miss LAU enquired how far the drawing up of the Budget was constrained by the principles laid down in Article 107 of the BL which required the Government to keep its expenditure within the limits of revenue and to keep the budget commensurate with the growth rate of the Gross Domestic Product (GDP). Miss Margaret NG asked whether the government had any flexibility in the management of public finances, in particular the fiscal reserves, under the requirement of BL 107.

2.3 S for Tsy reiterated the explanation given by the Financial Secretary (FS) at the meeting on 9 March on BL 107, which involved two budgetary disciplines, namely striving to achieve fiscal balance and avoiding deficits, and keeping the budget commensurate with the growth rate of the GDP. FS also said that BL 107 did not require the Government to comply with the two fiscal disciplines on a year-by-year basis but allowed compliance over a period of time. The period of time the Government had adopted was five years, i.e. the current fiscal year and the four years covered by the Medium Range Forecast (MRF). S for Tsy added that it was the long established budgetary strategy of the government to achieve fiscal balance and to ensure that the growth of expenditure over time did not exceed the overall growth in the economy. These two cardinal principles had been reinforced following the introduction of the MRF planning in 1986-87 and were enshrined in BL 107.

2.4 On the management of the fiscal reserves, S for Tsy pointed out that in his 1998 Budget Speech, FS had referred to the three purposes of the reserves, namely to meet the operating, contingency and monetary requirements of public

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finance. Since then, the total of 12 months' government expenditure plus Hong Kong dollar money supply under the M1 definition, allowing a range of plus or minus 25 percent, had been adopted as the guideline for determining the appropriate level of fiscal reserves. A total of \$23 billion had been drawn from the reserves in 1998-99 to finance measures to relieve the hardships borne by the general public due to adverse economic conditions. Moreover, the investment return from the fiscal reserves placed with the Exchange Fund was treated as income for the Government to finance its various programmes. It was envisaged that without the estimated investment income of \$35 billion from the fiscal reserves in 2001-02, the estimated operating deficit for the Government would increase from \$16.6 billion to about \$50 billion. While the Government expected that the problem of operating deficits in Government finance would continue in the next few years, it remained uncertain whether the problem was cyclical or structural in nature. In this regard, the Task Force set up under the Finance Bureau (FB) would continue to examine this issue.

2.5 S for Tsy stressed that in order to uphold prudent fiscal principles in financial planning, the Government had to ensure that the growth in expenditure would not outpace the cumulative economic growth in the MRF and would leave the fiscal reserves at a level within the guidelines set out in the 1998 Budget. Moreover, it was important to adhere to the principle of maintaining a small government so as to leave room for the private sector to flourish. There was already concern about the increase in Government expenditure as a proportion of GDP in recent years which might be seen as a sign of over-expansion in the public sector.

2.6 Miss Emily LAU pointed out that there were divergent views on the appropriateness of the 1998 guidelines for the level of the fiscal reserves. She considered that it was high time for the Government to review these guidelines. Her views were shared by Mr SIN Chung-kai who said that a considerable number of reputable economists had commented that the guidelines were inappropriate.

2.7 S for Tsy responded that while she was not aware of any strong objection within the community to the said guidelines, the guidelines were subject to ongoing reviews. The Government would keep an open mind and welcome any views in this regard.

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2.8 Noting that it remained the policy of FB to invest in and to extend loans to projects under the Programme on Revenue and Financial Control in support of economic and social developments in Hong Kong, Mr NG Leung-sing enquired about possible projects to be considered in 2001-02. S for Tsy said that the Government would spend over \$20 billion for various capital works projects under the Capital Works Reserve Fund and would continue to invest in the Disney Theme Park project under the Capital Investment Fund in 2001-02. As regards new proposals under the Loan Fund, about \$2.3 billion had been earmarked in 2001-02 to cater for additional commitments. It was envisaged that a large proportion of the amount would be earmarked as loans to the Urban Renewal Authority for financing its establishment and initial operation. Details of the major investment projects and loans extended by the Government were provided in Volume II - Fund Accounts of the 2001-02 Draft Estimates.

Allowances for the civil service

2.9 Referring to the \$118 million earmarked for the various non-standard allowances under Head 188 Subhead 002 for 2000-01, Mr CHEUNG Man-kwong considered that the Government was over-generous in providing allowances to civil servants. As a number of the non-standard allowances, such as detective, laundry, air-conditioning, furniture and domestic appliance allowances, had become out-dated, he urged the Government to conduct a comprehensive review on the policy for providing non-standard allowances to civil servants.

2.10 S for Tsy explained that there were two main categories of allowances for civil servants. Allowances such as detective and laundry allowances were directly related to the duties performed by a civil servant. The other category of allowances, which included air-conditioning, overseas education, furniture and domestic appliance allowances, was part of the fringe benefits for eligible civil servants. The FB and the Civil Service Bureau, in consultation with the Standing Commission on Civil Service Salaries and Conditions of Service and the Standing Committee on Disciplined Services Salaries and Conditions of Service, conducted regular reviews on the allowances to ensure their appropriateness and reasonableness. As a result of these reviews, certain allowances such as overseas education and ICAC post allowances were no longer available to new recruits. Reviews of this nature were ongoing and recommendations to abolish or change the allowances would be put to the Finance Committee for approval. On the request of Mr CHEUNG Man-kwong, S for

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Tsy undertook to provide for members' reference a complete list of allowances granted to civil servants with a breakdown on the number of staff receiving the allowances, the level of expenditure involved, and the Government's view on the continued need for such allowances.

Review on taxation

2.11 Noting that the Advisory Committee on New Broad-based Taxes had commissioned studies on new taxes suitable for Hong Kong, and that the International Monetary Fund (IMF) had been invited to study the technical aspects of introducing a goods and services tax in Hong Kong in 2000-01, Mr LEE Cheuk-yan asked whether this could be taken to imply that the Advisory Committee had already decided to introduce such a tax in Hong Kong.

2.12 S for Tsy said that in order to examine whether new broad-based taxes should be introduced in Hong Kong, it would be necessary for the Advisory Committee to conduct studies on the implementation details and to assess the possible impact of new taxes on the public and the business sector. She stressed that the Advisory Committee had not yet submitted its recommendations to the Government. The study conducted by the IMF only focused on the technical aspects of implementing a goods and services tax in Hong Kong in the event that the need to introduce such a tax had been established. The study was completed and the report had been submitted to the Government. S for Tsy undertook to consider whether the report could be released for reference of the Panel on Financial Affairs.

Procurement of environmental-friendly vehicles for the government fleet

2.13 Mr IP Kwok-him noticed that the Government still maintained a large fleet of pre-Euro I vehicles. In response to his query on the replacement of existing old model diesel-driven vehicles in the government fleet, the Government Land Transport Administrator (GLTA) said that 164 new diesel vehicles meeting the more environmentally stringent Euro III standard would be procured in 2001 to replace the pre-Euro I vehicles. A total of 82 pre-Euro I vehicles were replaced in 2000 and another 323 vehicles would be replaced in early 2002.

2.14 On the role of the Government in improving air quality through the adoption of new technology to control the emission standard of the government fleet, GLTA said that the Agency had been monitoring closely international

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developments in fuel and engine technology. It had also maintained close contact with local suppliers about the availability of environmental-friendly vehicles and equipment for introduction to the government fleet where appropriate. For instance, the Agency would consider fitting all Euro I and Euro II vehicles under its management with diesel oxidation catalysts or passive particulate traps in 2001-02. Currently, there were a total of 238 Euro I and 796 Euro II vehicles in the government fleet. Some of these were directly funded and managed by individual departments.

Government supplies services

2.15 Noting that the Government Supplies Department (GSD) had been assisting government departments in buying and selling recyclable and reusable products, Mr Tsang Yok-shing asked whether GSD had any plan to promote the use of waste products among these departments in order to save cost and to protect the environment.

2.16 The Director of Government Supplies (DGS) said that the GSD would assist government departments to find new user departments for their surplus supplies items. As a recycling industry was present in Hong Kong to provide various recycling services, the GSD would promote the use of waste products by assisting departments in arranging contracts with the companies concerned, such as waste paper recycling companies, for procurement or sale of these products.

2.17 As the Furniture Workshop in the GSD would be closed down in 2001-02 under the Enhanced Productivity Programme, Mr CHAN Kwok-keung asked whether any arrangement had been made for the surplus staff involved. DGS said that 12 of the 18 established posts in the Workshop were deleted in 2000-01 and the remaining six posts would be deleted in 2001-02. Most of the staff concerned were covered under the Voluntary Retirement Scheme of the civil service. Some of these staff had retired and the rest would be re-deployed within the civil service.

Provision for Subhead 251 Additional Commitments under Head 106 Miscellaneous Services

2.18 Mr SIN Chung-kai pointed out the lack of transparency of the specific purposes for which funds were reserved under Subhead 251 Additional

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Commitments. The provision under this Subhead was usually quite large but no details were ever given on how the provision would be used. S for Tsy said that the purpose of the subhead, which came under Miscellaneous Services, was self-explanatory. This provision was set aside to meet recurrent expenditure exceeding the current provision under other heads and subheads of the 2001-02 Draft Estimates. This would include additional expenditure arising from the possible annual pay adjustment for the civil servants.