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**Notes of the briefing by the Secretary for the Treasury
on the Draft Estimates 2001-02
on Friday, 2 March 2001, at 10:45 am
in Chamber of the Legislative Council Building**

Members present:

Dr Hon Philip WONG Yu-hong, Chairman of the Finance Committee (Convenor)
Hon NG Leung-sing, Deputy Chairman of the Finance Committee
Hon Kenneth TING Woo-shou, JP
Hon David CHU Yu-lin
Hon Cyd HO Sau-lan
Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, JP
Hon LEE Cheuk-yan
Hon Martin LEE Chu-ming, SC, JP
Hon Eric LI Ka-cheung, JP
Hon Fred LI Wah-ming, JP
Dr Hon LUI Ming-wah, JP
Hon Margaret NG
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon HUI Cheung-ching
Hon CHAN Yuen-han
Hon Bernard CHAN
Hon CHAN Kam-lam
Hon SIN Chung-kai
Hon Andrew WONG Wang-fat, JP
Hon WONG Yung-kan
Hon Howard YOUNG, JP
Hon YEUNG Yiu-chung
Hon LAU Chin-shek, JP
Hon LAU Kong-wah
Hon Mrs Miriam LAU Kin-yee, JP
Hon Emily LAU Wai-hing, JP

Hon Andrew CHENG Kar-foo
Hon Timothy FOK Tsun-ting, SBS, JP
Hon LAW Chi-kwong, JP
Dr Hon TANG Siu-tong, JP
Hon Henry WU King-cheong, BBS
Hon Tommy CHEUNG Yu-yan, JP
Hon Michael MAK Kwok-fung
Hon LEUNG Fu-wah, MH, JP
Dr Hon LO Wing-lok
Hon WONG Sing-chi
Hon Frederick FUNG Kin-kee
Hon IP Kwok-him, JP
Hon Audrey EU Yuet-mee, SC, JP

Attendance by invitation:

Miss Denise YUE, JP	Secretary for the Treasury
Mr Stanley YING, JP	Deputy Secretary for the Treasury
Mr K T LI	Principal Assistant Secretary for the Treasury

Staff in attendance:

Ms Pauline NG	Assistant Secretary General 1
Miss Becky YU	Chief Assistant Secretary (1)1
Ms Erin TSANG	Senior Assistant Secretary (1)3

The Convenor welcomed the Secretary for the Treasury (S for Tsy) to the meeting to brief Members on the 2001-02 Draft Estimates of Expenditure (the draft Estimates). He stated that the purpose of the meeting was for members to seek clarification on the draft Estimates.

2. S for Tsy advised that apart from the printed copies, the Administration had prepared a CD-ROM on the draft Estimates for members' easy reference. The draft Estimates had also been uploaded onto the website of the Finance Bureau. S for Tsy then gave a powerpoint presentation, highlighting the major aspects of the draft Estimates (The charts and tables referred to in the presentation were tabled before Members). She added that individual Controlling Officers would brief Members on their respective programmes at the special meetings of the Finance Committee to be held between 20 and 23 March 2001.

Cumulative Growth in Gross Domestic Product and Government expenditure

3. Mr LEE Cheuk-yan and Mr SIN Chung-kai criticized the Government for exercising unnecessary restraints in capping the growth of Government expenditure. They recalled that members were told last year that the cumulative growth in Gross Domestic Product (GDP) would not be able to catch up with the cumulative Government expenditure until 2002-03. As a result, Government expenditure had to be kept at a very low level for the purpose of striving for a balanced budget and keeping Government expenditure growth within the growth rate of GDP. However, Chart 4 of the briefing notes revealed that the cumulative growth in GDP in 2000-01 had in fact not only caught up with but surpassed that in Government expenditure in the same year. They questioned the accuracy of the basis upon which the projection was arrived at and the resultant effect on the draft Estimates. Mr LEE expressed disappointment at the slight increase in public expenditure having regard to the robust economy and the substantial fiscal reserves of over \$400 billion. He urged that the Administration should increase Government expenditure in 2001-02 so that the public could benefit from the economic recovery.

4. In reply, S for Tsy stressed that the 2000-01 estimates had been prepared based on forecast figures on GDP growth in 1999 and 2000. On the basis of Government Economist's forecast of growth at 2.9% in 1999 and 5% in 2000, the Financial Secretary (FS) had announced in his 2000-01 Budget Speech that future growth in Government expenditure should be contained at 2.5% per annum in real terms. In preparing the draft Estimates this year, the Administration had already taken into account the strong economic recovery and a 3.1% and over 10% forecast growth in GDP in 1999 and 2000 respectively in projecting the trend in Chart 4.

5. In response to Mr SIN's comment that there should be room for upward adjustment of Government expenditure to provide more social facilities and services for the general public, S for Tsy clarified that in drawing up the budget, the Administration had to follow the principles set out in Article 107 of the Basic Law (BL) of keeping expenditure within the limits of revenues in drawing up the budget, striving to achieve a fiscal balance and keeping the budget commensurate with the growth rate of GDP over a period of time.

6. Mr Eric LI remarked that the limit of 2.5% was set to take account of the GDP growth at that time. In view of the remarkable GDP growth over the past few months, Mr LI asked if the Administration would consider adjusting the Medium Range Forecast (MRF) to make room for further increase in Government expenditure in 2001-02. Mr Andrew WONG also pointed out that the growth trend of Government expenditure would have been different if a different year other than 1986-87 was selected as the basis for comparison. S for Tsy explained that as MRF had started in 1986-87, the Administration had all along taken that year as the basis for comparison. She added that as her briefing primarily focused on expenditure, other issues such as economic growth trend would be addressed by FS when he delivered the Budget Speech on 7 March 2001.

7. Since the cut in Government expenditure as a result of inaccurate projection of GDP growth in last year's Estimates had deprived the general public of the opportunity to benefit from the economic recovery, Mr CHEUNG Man-kwong opined that the Administration should increase Government expenditure in 2001-02 which was the correct way to keep expenditure within the limits of revenues. Mr SIN Chung-kai echoed that it might not be beneficial to the economy as a whole if the Administration continued to restrain the growth in Government expenditure in 2002-03.

8. S for Tsy reiterated the need for the Administration to observe the budgetary principles laid down in Article 107 of BL. The budgeted deficit of over \$6 billion and the high level of Government expenditure in 2000-01 had called for a more cautious approach to be adopted in preparing the draft Estimates in order to strive to achieve a fiscal balance. Details of the budget would be announced by FS on 7 March 2001. Mr LEE Cheuk-yan however remarked that the Administration had been over conscious about the provisions in BL while insensate to the need of the general public.

9. Miss Margaret NG sought elaboration on how the Administration construed the legal imperatives on budgeting under BL. S for Tsy explained that while BL Article 107 did not expressly state the duration within which the budget should be kept commensurate with the growth rate of GDP, the Administration had used the 5-year time frame of the Medium Range Forecast. S for Tsy emphasized the need to uphold the principle of keeping expenditure within the limits of revenues as growth in GDP did not necessarily mean a corresponding growth in Government revenue. By way of illustration, the forecast GDP growth of over 10% in 2000 would not bring about the same rate of increase in Government revenue.

10. While acknowledging the need to uphold the principle of keeping expenditure within the limits of revenues, Mr Albert HO opined that the Administration should also take into account the substantial fiscal reserves, which were in fact surplus revenues accumulated from previous financial years, in projecting Government expenditure. Mr CHEUNG Man-kwong also queried whether the fiscal reserves should be vested under the Treasury as the reserves were people's money. In reply, S for Tsy stressed that the purpose of the fiscal reserves was to meet Government's operating needs, absorb any fiscal deficits during the downswing of an economic cycle, or meet contingencies such as any major regional or world events with serious adverse financial implications on our economy. An example was that to tide Hong Kong over the Asian financial crisis, in the 1998-99 fiscal year, fiscal reserves had been used to absorb the deficit of over \$23 billion.

11. Mr Fred LI queried why the Administration had also adopted the principle of keeping expenditure within limits of revenues if it had been the Administration's practice to keep the growth of Government expenditure commensurate with that of GDP. Ms Emily LAU also did not agree that the Administration should use the provisions under BL as an excuse to restrain the growth in Government expenditure.

She cautioned that this might lead to resentment from the community. S for Tsy reiterated the budgetary principles stipulated in BL: striving to achieve a fiscal balance and avoiding deficits; and keeping the budget commensurate with the growth rate of GDP.

12. Mr LI asked if the effect of inflation had been included in working out the growth in Government expenditure. S for Tsy confirmed that the Administration had included a 1% inflation rate for Government expenditure. She however emphasized that such an inflation rate was different from that for consumer prices since Government expenditure basically covered personal emoluments, expenditure for capital projects and other expenses such as operating costs and rentals whereas the expenditure components of the consumer prices were much wider.

Growth in recurrent public expenditure in major areas

13. While acknowledging that the growth in recurrent Government expenditure of \$16.4 billion in 2001-02 would represent an increase of 7.9% over the revised estimate for 2000-01, Mr LAU Chin-shek noted that the increase would be narrowed down to about 3% when compared with the original estimate for 2000-01. He enquired about the rationale behind such a change. S for Tsy advised that recurrent Government expenditure in the revised estimate was lower than that in the original estimate due to a number of factors: lower procurement cost of government services due to deflation last year, lower demand for Comprehensive Social Security Allowance (CSSA) and better-than-expected performance of Controlling Officers in implementing the Enhanced Productivity Programme (EPP).

14. Mr Howard YOUNG enquired if the increase of \$2.7 billion (or 9.3% in real terms) in recurrent expenditure for social welfare in 2001-02 included the spending on CSSA. S for Tsy confirmed that the expenditure included funds earmarked for social security payments, including CSSA, and for provision of new and improved services to meet the needs of the community.

15. Mr WONG Sing-chi however pointed out that the increase in recurrent expenditure on social welfare could merely catch up with the growth in population. He held the view that with the likely increase in revenue and surplus in the current and coming financial years, additional funding should be earmarked for providing more and better social services. S for Tsy clarified that there would not be any surplus in 2000-01 as FS had already projected a deficit of \$6.2 billion last year. Besides, the cumulative growth in recurrent expenditure for social welfare over the period from 1996 to 2001 was 61% in real terms which far exceeded the growth of population in the same period.

16. Despite the rising public expectation on improvement to the deteriorated environment, Ms Emily LAU expressed disappointment at the small increase of Government expenditure in the policy area of environment. S for Tsy said that the bulk of recurrent Government expenditure in the policy area of environment only reflected expenditure incurred by the Environmental Protection Department and the Agriculture, Fisheries and Conservation Department. In addition, the Administration had invested heavily on capital projects relating to the environment. By way of illustration, more than \$2 billion would be earmarked under the Capital Works Reserve Fund for drainage improvement projects in 2001-02. Substantial non-recurrent resources would also be allocated for the erection of noise barriers.

17. Mr Andrew CHENG noted with concern that apart from a reduction of \$13.96 billion in the forecast capital expenditure of Housing Authority (HA) in 2001-02, recurrent expenditure in housing also received the least increase among all policy areas. He queried how the Administration could meet the housing need of the public with the limited resources. S for Tsy advised that she was not in a position to comment on the expenditure of HA since it was an autonomous and self-financing body. She however noted that the decrease in capital expenditure of HA might be due to the stabilization of flat production which had reached its peak in 2000-01. Mr CHENG was advised to follow up the issue at the forthcoming special meetings of the Finance Committee.

Enhanced Productivity Programme

18. Mr Andrew WONG asked if the savings set out in Chart 13 of the briefing notes were cumulative savings since the introduction of EPP in 1999-00. S for Tsy clarified that the savings referred to were not cumulative but specific to the individual year. It was expected that a total of over \$5 billion would be saved upon the completion of EPP in 2002-03.

19. While appreciating the commitment of Controlling Officers in identifying savings under EPP, Mr LAU Kong-wah cautioned that possible wastage of resources arising from mal-administration of government departments, as in the case of the huge compensation to be borne by the Government in relation to the construction of the two bridges, might offset the savings from EPP. He considered that effective measures should be put in place to prevent such wastage. In response, S for Tsy affirmed that the responsibility of Controlling Officers was to ensure that no public money would be wasted and that the quality of service delivered would be maintained. Besides, the Director of Audit conducted value-for-money audits twice a year. The audit reports would be submitted for consideration by the Public Accounts Committee which would not hesitate to reprove any departments for mal-administration. The Administration would follow up any constructive comments put forward by the Public Accounts Committee for further improvement.

20. Mr LAU also expressed concern about the slow progress of the Planning Department (PlanD) in achieving the goal of EPP. S for Tsy advised that while PlanD could only achieve a cumulative EPP savings of 2% by 2001-02, the Director of Planning had pledged to deliver the cumulative EPP savings target of 5% by 2002-03 as scheduled.

Pensions under the Voluntary Retirement Scheme (VRS)

21. Noting that an additional \$5 billion would be set aside for payment of pensions under VRS in 2001-02, Mr CHAN Kam-lam asked whether similar pension provisions would be required for the subsequent years. S for Tsy responded that since the majority of civil servants who had opted for VRS would retire in 2001-02, a surge in pension provisions was expected in 2001-02 to be followed by a moderate increase in 2002-03. It was anticipated that the pension provisions would return to a stable level after 2002-03.

Way forward

22. Owing to time constraints, the Convenor remarked that he would liaise with the Administration to identify another appropriate forum for discussion on the interpretation of Article 107 of BL. (Post-meeting note : the issue was discussed at the Special Finance Committee meeting at 23 March 2001) He also reminded members that the special meetings of the Finance Committee to examine the draft Estimates would be held between 20 and 23 March 2001, and that they should forward their written questions on the draft Estimates to the Clerk before 10 March 2001.

23. There being no other business, the meeting ended at 11:50 am.

Legislative Council Secretariat

14 May 2001