

**Presentation by Secretary for the Treasury
at the Special Meeting of the Finance Committee
on Friday, 23 March 2001**

Mr Chairman,

Finance Bureau oversees two main policy areas - management of public finances and provision of some common services to users within the Government. Appearing with me to-day are the three Deputies Secretaries of Finance Bureau and the Controlling Officers of nine revenue and service departments under Finance Bureau's two policy areas. In the interest of time, I shall limit my introduction to a few points.

Enhanced Productivity Programme (EPP)

2. EPP is a public sector-wide effort. It aims to enhance the productivity of the public sector while maintaining the quality of services provided. All the savings achieved under EPP are re-deployed to fund new and improved services. In the coming fiscal year 2001-02, all the Controlling Officers in my policy areas, as well as Finance Bureau, will have achieved or over-achieved the target cumulative EPP productivity savings of 3% of their baseline operating expenditure.

Improve reporting of government accounts

3. Over the last year and a half, Finance Bureau and the Treasury have been examining how we can improve on Government's accounts. In our deliberation, we have consulted the accounting practitioners in Hong Kong and taken note of developments on the international front. We have now obtained the Financial Secretary's agreement to introduce accrual accounting starting from the government accounts for 2002-03, in addition to the existing cash-based accounts.

4. The cash-based accounts will continue to serve the purpose of demonstrating Government's compliance with budget appropriations and the stewardship of cash spending. The accrual-based accounts will give more comprehensive information about government assets and liabilities, such as fixed assets, investment in public corporations, and financial obligations under the civil service pension schemes.

5. A major benefit of accrual accounting is that the full cost of public services will be made available. This will help us improve our decision-making in resource allocation and assessment of the cost-effectiveness of government services. It will further increase public accountability of Controlling Officers in their delivery of public services and enable the public to better assess their performance.

6. In the months to come, we will consult interested parties including the accountancy profession, the academics and this Council's Panel on Financial Affairs

on the details of implementing accrual based accounting.

Basic Law 107

7. In his meeting with Members on 9 March, the Financial Secretary explained our interpretation of BL 107. He said the Article involves two disciplines: one is striving to achieve fiscal balance and avoiding deficits; the other is keeping the budget commensurate with the growth rate of our Gross Domestic Product. He also said that BL 107 does not require us to comply with these fiscal disciplines on a year-by-year basis. Compliance over a period of time is sufficient. He also explained that the period of time we have adopted is five years, namely the current fiscal year and the four years covered by the Medium Range Forecast.

8. Mr Chairman, my colleagues and I are pleased to answer Members' questions.