Briefing for LegCo's Financial Affairs Panel on the Chief Executive's 2000 Policy Address 19 October 2000

Secretary for the Treasury's Speaking Note

Introduction

Finance Bureau's Policy Objective is prudent management of public finances. We aim to maintain sound and stable public finances and foster a fiscal environment conducive to continued economic growth and success.

- 2. In pursuing this Policy Objective, we need to ensure that the right balance is struck between meeting public demand for better government services on the one hand, and adhering to our principles of small government and low taxes on the other. To achieve this, we deliver achievements in six Key Results Areas. These, and the progress made so far, as well as the new commitments for the coming year are set out in our Policy Objective booklet which has been distributed to Members. Members may wish to note that of the 27 targets set in 1999, 12 of them have been met and 14 are progressing as scheduled. One on the Initial Public Offer of a minority shareholding to the MTRC was completed slightly behind schedule having regard to market conditions.
- 3. I now wish to talk briefly about three issues that Members and the public may be more concerned
 - (a) the overall position of Government's finances;
 - (b) government revenue; and
 - (c) the Enhanced Productivity Programme.

(a) Overall Position of Government Finances

- 4. As our economy started to recover, we recorded a surplus of \$10 billion for 1999-2000. This turnaround was due to revenue being \$27.9 billion higher than the original forecast and expenditure being \$18.6 billion less than anticipated. Our fiscal reserves stood at \$444.3 billion at 31 March 2000. Experience during the Asian financial crisis further prompted us the importance of a suitable level of fiscal reserves. The Financial Secretary explained in detail, in his 1998-99 Budget Speech, the use and level of fiscal reserves. In addition, we are very concerned about our operating deficits for the past two years. We will continue to monitor our finances closely.
- 5. I must however, stress that this does not mean that we will be spending less. As indicated by the Financial Secretary in his 2000 Budget Speech in March, we plan to increase government expenditure by 2.5% in real terms in 2001-02. This means additional recurrent spending of \$4.8 billion. This amount, together with the EPP savings of \$2 billion and redeployment of resources by the Bureau Secretaries, means that we have adequate resources for delivering all pledges on new or improved services made in the Chief Executive's 2000 Policy Address.
- 6. As regards the non-recurrent side, we will continue to invest heavily in our infrastructure. In the five year period from 2000-01 to 2004-05, we expect to spend, on average, about \$30 billion each year on capital works projects. We will continue with our committed investment projects and embark on new ones which are essential to enhance Hong Kong's competitiveness and sustain longer term growth. We expect to spend over \$62 billion in the next five years to 2004-05, under the Capital

Investment Fund and the Loan Fund, for railway projects, urban renewal, etc.

(b) Government Revenue

- 7. Following the announcement made by the Financial Secretary in the 2000-01 Budget, we have established a Task Force and an Advisory Committee. The former is now studying in detail whether the projected consecutive operating deficits until 2002-03 is a cyclical downturn or, more seriously, a structural problem. It will also conduct a series of detailed studies covering a wide range of revenue items. The latter is the Advisory Committee on New Broad-based Taxes, chaired by Mr Moses Cheng. The Committee is considering what new broad-based taxes would be suitable for introduction in Hong Kong. In assessing any new tax, the Committee will take into consideration its revenue productivity, sensitivity to economic cycles, cost effectiveness, compliance cost, implication on equity, competitiveness, etc.
- 8. The Advisory Committee hopes to tender a progress report to the Financial Secretary next month. I have proposed that a paper on the progress report be put to this Panel at the first opportunity after the submission of the report. I wish to stress that the Advisory Committee is committed to consulting the public, including this Council, before making its final recommendations to the Financial Secretary by the end of next year. I expect the consultation to begin in the first half of 2001.

- 9. I wish to say a few words here on Government fees and charges. We froze most Government fees and charges in February 1998 to ease the financial burden on the community at a time of economic recession. This was an exceptional relief measure which should only be taken at an exceptional time. We cannot suspend the fee revision indefinitely. Some of the livelihood-related fees, for example, water charges, have not been revised for more than five years. The longer we defer the revision, the greater the subsidy from the community will be. This is not fair to the general taxpayers and may raise the risks of general tax increases or introduction of new taxes.
- 10. We are committed to suspending fee revision until there are firm signs of positive economic growth. A host of recent economic indicators reveals that the Hong Kong economy is now back on track. The GDP has recorded a positive growth in five consecutive quarters since the second quarter of 1999 and is forecast to grow by 8.5% in 2000 as a whole. The labour market conditions also showed marked improvements in the first half of 2000 on the back of the strong economic recovery. We therefore consider it the right time to consult this Panel on our proposal on the revision of livelihood-related fees and charges. We plan to do this soon. As the majority of fee items will require legislative amendments before we can introduce the revised fees, we still need a few months' time, even after we have the consensus of Members on the revision, for the new fees to come into effect.

(c) Enhanced Productivity Programme

- 11. On EPP, I am glad to report that it is proceeding as scheduled. EPP is now a household name in the public sector. All Government bureaux and departments as well as the Government-subvented sector have responded positively to this challenge and have made significant progress.
- 12. Since the Chief Executive announced the formal launch of EPP in his 1998 Policy Address, bureaux, departments and subvented organisations have already delivered \$1.8 billion productivity gains. The whole amount was redeployed to fund new and better services to the community. For 2001-02, we are on target to deliver 2% savings, releasing some \$2 billion from the baseline expenditure as part of the resources for meeting earmarked growth and funding new initiatives. We are confident that the target of 5% cumulative savings by 2002-03 will be achieved.
- 13. We have undertaken from the outset to implement EPP in an open, transparent and accountable manner. Since March 1999, we have published each year an EPP Booklet as part of the budget publication to report on how we achieved the EPP savings and the measures put in place to safeguard the quality of services in 1999-2000 and 2000-01 respectively. We will publish the third Booklet in coming March to report on the implementation of EPP in 2001-02.
- 14. I wish to reiterate that EPP is part of the Government's long-term effort to improve the management and delivery of public services. It is not about expenditure cut. In fact, every dollar saved under EPP will be

ploughed back to improve existing services and provide more new services.

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