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**Notes on the Briefing for Finance Committee Members
on Thursday, 17 March 2005, at 10:30 am
in the Chamber of the Legislative Council Building**

Members present:

Hon Emily LAU Wai-hing, JP, Chairman of the Finance Committee (Convenor)
Hon CHAN Kam-lam, JP, Deputy Chairman of the Finance Committee
Hon James TIEN Pei-chun, GBS, JP
Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP
Hon LEE Cheuk-yan
Hon Martin LEE Chu-ming, SC, JP
Hon Fred LI Wah-ming, JP
Hon Margaret NG
Hon Mrs Selina CHOW LIANG Shuk-yee, GBS, JP
Hon CHEUNG Man-kwong
Hon CHAN Yuen-han, JP
Hon Bernard CHAN, JP
Hon SIN Chung-kai, JP
Dr Hon Philip WONG Yu-hong, GBS
Hon Howard YOUNG, SBS, JP
Hon LAU Kong-wah, JP
Hon Miriam LAU Kin-yee, GBS, JP
Hon Andrew CHENG Kar-foo
Hon Timothy FOK Tsun-ting, GBS, JP
Hon Abraham SHEK Lai-him, JP
Hon LI Fung-ying, BBS, JP
Hon Tommy CHEUNG Yu-yan, JP
Hon Frederick FUNG Kin-kee, JP
Hon Audrey EU Yuet-mee, SC, JP
Hon Vincent FANG Kang, JP
Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Hon Jeffrey LAM Kin-fung, SBS, JP

Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon Alan LEONG Kah-kit, SC
Dr Hon KWOK Ka-ki
Dr Hon Fernando CHEUNG Chiu-hung
Hon TONG Ka-wah, SC
Hon Patrick LAU Sau-shing, SBS, JP
Hon Albert Jinghan CHENG
Hon KWONG Chi-kin
Hon TAM Heung-man

Public officers attending:

Mr Henry TANG Ying-yen, GBS, JP	Financial Secretary
Mr Frederick MA Si-hang, JP	Secretary for Financial Services and the Treasury
Mr Alan LAI Nin, GBS, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Mr KWOK Kwok-chuen, BBS, JP	Government Economist
Miss Elizabeth TSE, JP	Deputy Secretary for Financial Services and the Treasury (Treasury)
Ms Rhoda CHAN	Principal Assistant Secretary for Financial Services and the Treasury (Treasury)
Mr Alfred FOK	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)
Ms Shirley YUEN	Administrative Assistant to Financial Secretary
Mrs Avia LAI	Administrative Assistant to Secretary for Financial Services and the Treasury

Staff in attendance:

Ms Pauline NG	Assistant Secretary General 1
Miss Becky YU	Chief Council Secretary (1)1
Mrs Mary TANG	Senior Council Secretary (1)2
Ms Caris CHAN	Senior Legislative Assistant (1)1
Mr Frankie WOO	Legislative Assistant (1)2

Action

The Convenor welcomed Mr Frederick MA Si-hang, Secretary for Financial Services and the Treasury (SFST), and his colleagues to the briefing. She also informed members that Mr Henry TANG Ying-yen, Financial Secretary (FS), would arrive later. In order that each member could have an equal chance to raise questions, the Convenor ordered that a time limit of five minutes would be imposed on each member's question and the Administration's response to it.

2. The Government Economist (GE) gave a power-point presentation on Hong Kong's economic performance in 2004-05 and the economic forecast for 2005-06 as set out in charts 1 to 13 of the information booklet tabled at the meeting, which was now attached at the Appendix. SFST then explained charts 14 to 28 which set out the 2004-5 revised estimates, 2005 Medium Range Forecast, expenditure initiatives and revenue raising measures. FS joined the meeting at 11:30 am.

3. Referring to the medium range forecast, Mr LEE Cheuk-yan was concerned that the reduction in public spending over the next few years might compromise the quality of public service to be delivered and lead to social problems in the long run. It would also mean that the public would have to pay more for public services. The continued reduction in public spending to 16% of Gross Domestic Product (GDP) in five years' time despite the growth in GDP would contravene Article 107 of the Basic Law as the Budget was no longer commensurate with the growth in GDP. He therefore urged the Administration not to further reduce public expenditure.

4. FS replied that in drawing up the Budget, he was well aware of the need to follow the principle as set out in Article 107 of the Basic Law in keeping expenditure within the limits of revenues. As such, he had set three fiscal targets in last year's Budget, namely, keeping operating expenditure within \$200 billion by 2008-09; balancing both the operating account and the consolidated account by 2008-09; and keeping public expenditure at or below 20% of GDP by 2008-09. According to the latest forecast, all of the three targets might be achieved ahead of schedule. In particular, with the concerted efforts of the civil service, the operating expenditure for 2004-05 had been significantly reduced to \$201.2 billion.

5. Mr SIN Chung-kai noted that the Administration had a tendency to over-estimate the consolidated deficit. By way of illustration, the estimated consolidated deficit for 2003-04 in the 2004-05 Budget was \$49 billion but it turned out that the actual deficit for the year was \$40.1 billion. The original estimate of consolidated deficit (before taking into account the bond proceeds) of \$68.6 billion for 2004-05 was also subsequently adjusted downwards to \$13.4 billion. The deficit would be further reduced if the revenue from salaries and profits tax received in February and March 2005 were taken into account. In response, SFST stressed that making accurate budget estimates was not an easy task. While expenditure could be more easily assessed as they were stable, revenues were subject to a lot of variables which fluctuated with the change in economy, hence were difficult to forecast, resulting in deviations in budget estimates.

6. Referring to Chart 15, the Convenor requested the Administration to provide information on the investment income, particularly income from sources other than the Hong Kong Monetary Authority, such as the MTR Corporation, and the rationale for not including this kind of steady income in the presentation of the Budget.

Abolition of estate duty

7. Mr Andrew LEUNG said that the Budget was worth supporting because it did not try to win applause by increasing public spending. He also welcomed the Administration's efforts in improving the business environment by encouraging fair competition, fostering economic co-operation with the Mainland, assisting Hong Kong enterprises to access the Mainland market as well as enhancing the competitiveness of the financial, logistic and tourism industries. He then enquired about the benefits, in terms of employment opportunities and economic growth, which could be brought about by these efforts, in particular the proposed abolition of estate duty to promote asset management.

8. SFST said that at present, some of the people who had the means to invest were inclined to invest overseas in an attempt to avoid estate duty. The abolition of estate duty would encourage more people to hold assets in Hong Kong, which in turn would promote the development of asset management service in Hong Kong and more importantly enhance its position as an international financial centre. While the abolition was welcomed by the financial services industry, which contributed to about 13 % of GDP, it was difficult to quantify the economic benefits this would bring. Nonetheless, the increase in local investment would no doubt benefit Hong Kong in the long run.

9. Mr Albert CHENG supported the abolition of estate duty and commended FS for his vision. He held the view that estate duty was outdated and a hindrance to the development of Hong Kong as a major asset management centre in Asia. Mr Patrick LAU and Mr Frederick FUNG also indicated support for the abolition of estate duty. Mr CHAN Kam-lam said that Members of the Democratic Alliance for Betterment and Progress of Hong Kong were supportive of the abolition of estate duty as it would help attract the return of investment to Hong Kong and promote it as asset management centre.

10. Mr Ronny TONG noted that as incomes were unstable and there were no new tax initiatives to generate revenue, the Administration had to reduce the fiscal deficit by cutting public expenditure for various policy area groups, including education and social welfare. He therefore failed to understand the rationale for abolishing estate duty, which would have foregone a steady source of revenue amounting to about \$1.5 billion per year. Given that it was difficult to assess the economic benefit of the abolition since estate planning usually took a long time and immediate gains were not apparent, Mr TONG queried if it was prudent to abolish estate duty at the present stage when the economy had yet to recover. He also enquired if the sectors which had to face funding cuts as a result of reductions in revenues had been consulted on the proposed abolition of estate duty.

11. In response, FS explained that in planning for the 2005-06 Budget, the Administration had consulted various sectors of the community with a view to achieving a right balance among their interests. Besides, there had not been

reductions in the welfare and education expenditure and in fact the spending in these two areas had been on the increase. As regards the abolition of estate duty, FS said that many rich people in Asia would wish to invest in economies which were stable and had a simple and low tax regime. The abolition would increase Hong Kong's attraction as an asset management centre and further enhance Hong Kong's position as an international financial centre. Furthermore, it would bring relief to proprietors of small and medium enterprises (SMEs), particularly those who had not set up trusts for their estates. This was because when a SME proprietor passed away, his asset might have to be frozen during the assessment period by the Inland Revenue Department, thereby causing cash flow problems to the continuation of the business. Some SMEs might also have difficulties in settling the estate duty. They might have to sell their mortgaged assets to raise cash which would not only affect their businesses but also undermine their credit line and financing arrangements. As a result, some SMEs had to be winded up.

12. Mr Ronny TONG held the view that the problem of frozen assets could be resolved through improved tax assessment/collection systems. Ms Audrey EU echoed that the problem could be dealt with administratively by freezing only part of the assets during the assessment period. Noting that over 70% of dutiable cases involved an estate value below \$20 million, Ms EU enquired about the difference in the amount of estate duty derived from estates worth more than \$20 million and those less than \$20 million. She was of the view that consideration could be given to abolishing estate duty for estates below a certain level rather than total abolition. In response, FS agreed to provide the requisite information for members' reference.

13. Mr Andrew CHENG was not convinced that there had not been reductions in the welfare and education expenditure. Judging from paragraph 38 of the estimates under Head 149 - Health Welfare and Food Bureau which stated that "the estimated level of activities for 2005-06 has not taken into account the potential impact of fee revision for certain public health care services", Mr CHENG held the view that it would appear that the Administration was planning to increase the charges for medical services offered by the Hospital Authority (HA) as a result of the significant reduction of funding for HA in 2005-06. He said that Members of the Democratic Party (DP) could not accept that the revenue foregone from the abolition of estate duty should be offset by the reduction in public expenditure and at the expense of the lower income group who had to put up with higher charges for medical services. FS said that DP Members should not relate livelihood issues with measures to promote asset management in Hong Kong. He added that despite the decreased provision, HA could manage to deliver reasonable services to the public and would make use of its reserves where necessary. As regards the operating account, FS said that the Government had all along been advocating the need to contain public expenditure. He was pleased to announce that, with the concerted efforts of bureaux and departments, the operating expenditure for 2004-05 had been reduced by \$2 billion as compared to 2003-04. This was the first time in over 50 years that the operating expenditure had been reduced.

14. Mr LEE Wing-tat said that the Administration had been consulting political parties and other institutions for years on salaries tax adjustments, including the shelving of the second phase of salaries tax adjustments. However, it took less than one year to decide on the abolition of the estate duty, which would only benefit those who had assets more than \$7.5 million. It appeared that the Government had placed the interest of the rich above the general public. FS explained that the abolition of estate duty was meant to relieve SMEs from the difficulties associated with the levy of estate duty upon the death of the proprietors. It would also attract more foreign and local investments and improve the economy of Hong Kong. The abolition of estate duty was one of the supporting measures to encourage the further development of Hong Kong's financial services industry. The exemption of offshore funds from profits tax would be another measure and the respective legislative amendments would be introduced into the Legislative Council shortly.

15. While agreeing that the abolition of estate duty would promote asset management in Hong Kong, Mr Albert HO failed to see the urgency for the abolition, particularly when the problem of frozen assets upon the death of SME proprietors could be resolved through improved tax assessment/collection systems. He added that estate duty, which only applied to those who were financially better-off, had provided a steady source of revenue. To make up for the shortfall in revenue after the abolition of estate duty, consideration should be given to introducing a new tax whereby an additional levy would be imposed on taxpayers whose taxable income or profit exceeded a certain level. In this way, those who were better-off would pay more tax. FS said that the abolition of estate duty had been under consideration by the Administration for many years. The abolition would benefit the economic development of Hong Kong as a whole. He added that the Administration would only consider providing tax concessions within its affordability, and that the provision of tax concessions should not have impact on its plans to reduce budget deficit. As such, the Administration had no intention to introduce new taxes to make up the shortfall in revenue as a result of tax concessions. He nevertheless noted that it had been DP Members' stance that a tier system should be applied to taxpayers whose taxable income or profit exceeded a certain level. However, this should be discussed in the context of tax review at a separate forum rather than abolition of estate duty.

Other taxes

16. Miss TAM Heung-man said that the 2005-06 Budget was a prudent one and she welcomed the abolition of estate duty. Given that revenue had not been steady over the years, she enquired if the Administration would consider introducing measures to broaden the tax base, particularly if it was eventually decided that the goods and service tax (GST) would not be introduced. In reply, SFST agreed that there was a need to broaden the tax base since salaries tax and profits tax, which comprised 50% of the recurrent revenues, were paid by a small group of taxpayers. In fact, out of the 3.3 million employed, only 1.2 million were paying salaries tax. Given the volatility of the revenue generated from land premium, the Administration

had, for the past years, been looking into the possibility of introducing GST as this would not only broaden the tax base but also provide a steady source of income. Following the study on GST to be conducted in the latter part of the year, the Administration would be consulting the public on the subject. It would also make reference to overseas practice. If the introduction of GST did not have the support of the public or could not be implemented for whatever reasons, alternative measures to broaden the tax base would be considered.

17. Despite the revival of the economy and the reduction in deficit, Mr CHAN Kam-lam said that the middle class was disappointed that their request for shelving the second phase of salaries tax increase was not acceded to. He asked if the Administration would seriously reconsider the issue. FS said that he was aware that taxpayers would likely be disappointed that the Budget had not provided for shelving of the second phase of salaries tax increase. He explained that while the economy had started to recover, the Administration was mindful of the uncertainties in the global economy, which would be affected by various factors, such as the value of US dollar and the price of petroleum. In view of the volatile situation, there was a need to adhere to prudent financial principles and hence it was decided that salaries tax increase should not be shelved. Besides, as taxpayers had already paid their taxes for this year, the shelving of tax increase could not bring immediate relief as this could only be reflected in the tax payment for the next year.

18. Mr Tommy CHEUNG said that the Administration had failed to take into account the interests of the food and catering industry, which had experienced much operational difficulty despite the economic growth. The situation would be further aggravated after the introduction of the proposed smoking ban and central slaughtering of livestock. To the industry's disappointment, the 2005-06 Budget had failed to reduce alcoholic tax. It was pointed out that the high alcohol tax coupled with the smoking ban would pose a negative image on Hong Kong and would deter tourists from visiting Hong Kong. Mr CHEUNG regretted that the industry had not been provided with the assistance it deserved. By way of illustration, the proposed improvement measures to streamline licensing procedures, which were currently being reviewed by the Subgroup on Business Facilitation under the Economic and Employment Council, were only applicable to retail sectors, supermarkets and convenient shops but not restaurants. Mr Albert CHENG also said that FS should consider reducing the alcohol tax.

19. On the proposed increase of child allowance, Mr Fred LI enquired if this was meant to encourage families to have more children. FS said that the provision of child allowance would unlikely be the main consideration when a family decided whether it should have more children. Education and future development of children would be of a higher priority in making such a decision.

20. While welcoming the introduction of new allowances for taxpayers taking care of dependent parents or grandparents aged between 55 and 59, Mr WONG Kwok-hing asked if the age requirement for old age allowance, presently

set at 65 or above, could likewise be reduced to 60 or above. He also enquired if the period of permissible limit of absence from Hong Kong under the old age allowance scheme could be further extended from 240 days to 365 days. SFST agreed to relay Mr WONG's views to the Secretary for Health, Welfare and Food for consideration.

21. Ms Audrey EU supported that more should be spent on education, and that consideration should be given to providing tax concessions for education such that those who continued their education after work could benefit from the concessions. FS said that the Administration was committed to spending on education as this was very important to the younger generation, particularly under the current stage of economic restructuring. Therefore, funding for education had not been reduced despite there were funding cuts in other sectors, let alone the fact that there had been a steady decline in student population.

22. Given that the Inland Revenue Ordinance (Cap.112) had remained largely unchanged over the past 30 years, Miss TAM Heung-man said that the tax and accountancy professionals considered it high time for a revamp of the Ordinance to keep up with the changed circumstances. SFST stressed that Hong Kong would continue to maintain its low and simple tax regime, and that changes would be made to the Ordinance as and when appropriate. He cautioned that a major revamp of the tax system in Hong Kong might have adverse impact on the business environment.

Promoting employment

23. Referring to charts 5 and 8, Mr LAU Kong-wah noted that when the unemployment rate was high, the residential property prices/rentals were low. He asked if there was any correlation between the two indices. GE said that as both employment rate and residential property prices/rentals were affected by the economic situation, they did have some correlation but no direct causal relationship. Mr LAU noted with concern that the less educated and the low-income group did not seem to have benefited from the recent economic recovery. He enquired about the Administration's views on the future employment situation since no forecast had been made on the employment rate in the coming years. GE agreed that recovery of business was more apparent in the retail sector, particularly in places frequented by tourists, but local spending had not been seen to have increased. This showed that the economy had yet to fully recover. As regards employment rate, GE said that there were difficulties in making forecast on employment as this involved people who were employed and people who were seeking employment. While the former could be assessed using modeling studies, the latter could not be correctly estimated as there were different reasons for not being able to secure employment. If the economy continued to improve, the unemployment rate would decrease.

24. Ms LI Fung-ying recalled that the Administration had maintained that the unemployment problem could be resolved through measures to promote economic development. Given that the unemployment rate remained high despite the

significant economic growth last year, she questioned if the Administration had done enough to resolve the problem. She further enquired about the measures which the Administration would adopt to deal with the issue of unemployment. Miss CHAN Yuen-han echoed that more should be done to reduce the unemployment rate which stood at 6.4%. She held the view that efforts should be made to promote environmental industries as well as development of cultural and creative industries.

25. FS said that when the economy was at its peak in 1997, the unemployment rate was 2.2% and the number of persons employed was 3.16 million. The latest employment statistics for February 2005 showed that the number of persons employed was 3.34 million, which was on the rise despite the economic changes over the years. This showed that the growth of labour force was faster than that of job opportunities. To this end, the Administration had been adopting a pragmatic and proactive approach in preparing its budget with an aim to promote stability in Hong Kong through encouraging economic development, which would in turn create more job opportunities. Through the investment of \$500 million to implement various measures in developing tourism, it was expected that the number of visitor arrivals would be increased from 21 million to 27 million by the end of 2006. Apart from bringing in additional economic benefits, the development of tourism would also provide a large number of job opportunities in the tourism-related industries, such as hotels, transport and catering, for low-skilled workers. By way of illustration, the Individual Visit Scheme had generated about 16 500 jobs. It was expected more jobs would be created after the opening of the tourism infrastructure projects like the Disney Project, the Tung Chung Cable Car Project and the wetland parks. The additional funding for development of SMEs and logistics was also meant to create job opportunities. The Government would be spending \$880 million in extending 11 600 temporary jobs and more employment opportunities would be made available with the increase in economic activities. Meanwhile, the Economic and Employment Council, which was tasked with the responsibility of promoting employment through economic development, would continue its effort to promote employment. GE added that while it was difficult to assess how employment could be improved by the Administration's initiatives to strengthen the economy, a study on the Closer Economic Partnership Arrangement (CEPA) revealed that over 28 000 new jobs were created in the first two years of implementing CEPA. Mr LEE Cheuk-yan remarked that the rise in employment population was attributed to the fact that more people had to join the workforce in order to meet their needs.

26. While welcoming the retention of 11 600 temporary jobs in the public sector, Mr WONG Kwok-hing noted that some temporary workers had been employed in the same posts for six years or more, which indeed reflected the on-going need for these posts. In this connection, he considered it necessary for the Administration to introduce an objective criterion for converting temporary posts into permanent ones based on operational needs to replace the annual review. Mr KWONG Chi-kin also expressed concern that under the operating expenditure envelope system, bureaux/departments would tend to reduce their expenditure through staff retrenchment. As a result, permanent staff were being replaced by temporary staff.

In response, SFST emphasized the need for the Administration to control public spending and temporary jobs could only be retained as and when necessary. Conversion of temporary posts to permanent ones would only be considered upon recommendation by the relevant departments. Nevertheless, he agreed to relay the member's views to the relevant departments/bureaux.

27. Mr Abraham SHEK said that the construction industry had not benefited from the economic recovery and the unemployment rate for construction workers continued to remain as high as 15%. To this end, improvements should be made to the Application List to include land of smaller scale to enable application by small developers. This would help increase job opportunities in the construction and building industry. FS said that the Administration was well aware of the concerns about high unemployment rate in the construction industry. Arrangements had already been made for the provision of smaller plots of land for sale under the Application List. In addition, \$830 million had been earmarked for the improvement of the safety and external appearance of old buildings as well as the removal of over 180 000 unauthorized structures. This would certainly provide a considerable number of job opportunities for the construction industry. Although the number of construction projects had decreased as compared to 1997 when the economy was at its peak, the employment situation for construction workers was expected to improve with the revival of the property market.

Helping the poor

28. Mr Fernando CHEUNG said that as FS and Chairman of the Commission on Poverty, FS had a dual role to play in combating poverty on the one hand and avoiding over-spending on the other. The decisions to abolish estate duty and to allocate additional funding for development of tourism and SMEs were for the benefit of the better-off. However, expenditure for the education, welfare and housing sectors had been reduced under the constraints of the operating expenditure envelope. As a result, there was pressure to increase charges for education and medical care services. He then enquired about the measures which would be adopted under the Budget to combat poverty and bring financial relief to low-income families. FS said that the 2005-06 Budget was prepared with reference to the Chief Executive's Policy Address 2005 and had provided for measures to combat poverty. These included, among others, measures to reduce inter-generational poverty through assistance to the younger generation, relaxation of the eligibility criteria for the Portable Comprehensive Social Security Assistance (CSSA) Scheme and extension of the permitted period of absence from Hong Kong under the Social Security Allowance (SSA) Scheme. The Commission on Poverty had held its first meeting and had met with some of the low-income families in Tin Shui Wai. It was confident that, with the cooperation of the warm and caring community of Hong Kong, it could be able to serve its intended purpose of combating poverty. He added that public expenditure for the under-privileged had all along been on the increase. By way of illustration, the total recurrent government expenditure had increased by 56% in the past 10 years, but the welfare spending (excluding CSSA/SSA payments) had increased by 148%.

In fact, the actual expenditure for welfare in 2004-05 was \$33 billion which would further increase to \$34 billion in 2005-06.

29. Mr Albert CHENG said that this year's budget was very much similar to that of last year, except that the huge fiscal deficit had largely been reduced. However, the welfare sector had little to gain from the economic recovery as the present budget had failed to take into account the plight of the underprivileged. He opined that FS, as Chairman of the Commission on Poverty, should consider spending more on welfare now when there was a surplus. FS replied that the spending on the welfare sector had been the highest among all other sectors.

30. Mr Frederick FUNG enquired about the provisions earmarked for the Head Start Programme for Child Development, which was meant to provide needy parents with health and education activities and counseling services on a district basis. FS said that the Administration had earmarked \$320 million for strengthening elderly services, \$170 million for rehabilitation services, and \$200 million for the provision of hostels for the elderly and additional allowance for the disabled as well as measures to reduce inter-generational poverty. Detailed information would be provided for members' reference after the meeting. Miss CHAN Yuen-han added that more efforts should be made to help the poor by promoting self reliance.

Infrastructure development

31. Mr Patrick LAU was disappointed that despite the huge revenue gains from land premiums, there was only limited provision for infrastructural development and environmental improvement projects. He quoted that of the 169 ex-Municipal Council projects, only some 50 were completed. He pointed out that the delivery of infrastructural projects would not only improve the environment, but also create more job opportunities for the construction industry. Expressing similar concern, Ir Dr Raymond HO said that the construction industry was disappointed that the provision for infrastructure had been reduced from \$30 billion in 2004-05 to \$25.8 billion in 2005-06. FS acknowledged the need to provide world class infrastructure in Hong Kong and hence an annual provision of about \$29 billion had been earmarked for infrastructure development in the next five years. At members' request, the Administration undertook to provide a progress report on the delivery of outstanding ex-Municipal Council projects and a year-on-year comparison of the resources spent on capital works projects over the past few years.

Housing

32. Mr Frederick FUNG noted with concern that the significant reduction in the provision for housing would inevitably affect the supply of public housing flats. He questioned whether the decreased provision had taken into account the housing needs of low-income families. In reply, FS affirmed that the Government was committed to its pledge in meeting the housing needs of the public.

Promoting fair competition

33. While welcoming the appointment of an independent committee by the Competition Policy Advisory Group (the Group) to review the existing competition policy and the Group's composition, terms of reference and operations, Mr Fred LI questioned the independence and the comprehensiveness of the review given that the Administration did not favour the introduction of a competition law and was only prepared to deal with competition issues on a case-by-case basis. To ensure total independence, the committee should be appointed by the Chief Executive and separated from the Group. FS said that it was appropriate for the Group to appoint an independent committee to review the existing competition policy so long as the committee was fair and trust worthy in conducting the review.

Environmental improvement

34. Ms Audrey EU supported the early implementation of environmental improvement measures, including levies on waste tyres and plastic bags. In reply, FS acknowledged that a lot could be done in improving the environment which in itself was a very important investment. The levies on waste tyres and plastic bags would be ploughed back to the investments on environmental protection. While the polluter-pays principle was easier said than done, he hoped that the community would recognize the benefits which could be brought about by environmental protection measures. There was hence a need to promote public awareness and community responsibility in respect of environmental protection.

Health care

35. Despite the increased demand for medical services, Dr KWOK Ka-ki noted with concern the significant reduction in remuneration for medical staff and the rising operating deficit of HA. He considered it necessary that more funding should be provided to maintain the standard of health care services provided by HA, taking into account the population growth. The Enhanced Productivity Programme which had significantly downsized the establishment of HA should be shelved as this had affected its operation. Measures to reduce reliance on public health care services should be worked out without having to await the outcome of the health care financing plan, which might take years to complete. Given the need to control public spending, FS said that every department had to be mindful of their spending and HA was no exception. The total provision for HA for 2005-06 was \$27 billion, representing a reduction of \$0.7 billion as compared to last year. It was believed that with the funding provision, HA should be able to maintain its service level on a par with international standards. The Administration was considering tax deduction for contributions to private medical insurance schemes in examining options for financing and sustaining public health care services. As regards the health care financing plan, it was expected to be available for public consultation soon.

36. The Convenor thanked FS and his colleagues for attending the meeting. She reminded members that the special meetings of FC to examine the Estimates for Expenditure 2005-06 would be held from 11 to 14 April 2005, and that the deadline for submitting questions on the Estimates was midnight of 23 March 2005.

37. The briefing ended at 1:10 pm.

Legislative Council Secretariat

25 July 2005