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**Notes on the Briefing for Finance Committee Members
on Thursday, 23 February 2006, 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, SBS, JP, Deputy Chairman of the Finance Committee
Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP
Hon LEE Cheuk-yan
Hon Martin LEE Chu-ming, SC, JP
Dr Hon David LI Kwok-po, GBS, JP
Hon Fred LI Wah-ming, JP
Hon Margaret NG
Hon Mrs Selina CHOW LIANG Shuk-yee, GBS, JP
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon Bernard CHAN, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
Hon SIN Chung-kai, JP
Hon Jasper TSANG Yok-sing, GBS, JP
Hon Howard YOUNG, SBS, JP
Hon LAU Chin-shek, JP
Hon LAU Kong-wah, JP
Hon Miriam LAU Kin-yee, GBS, JP
Hon CHOY So-yuk, JP
Hon LI Fung-ying, BBS, JP
Hon Tommy CHEUNG Yu-yan, JP
Hon Audrey EU Yuet-mee, SC, JP
Hon Vincent FANG Kang, JP
Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Dr Hon Joseph LEE Kok-long
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon Alan LEONG Kah-kit, SC
Hon LEUNG Kwok-hung

Dr Hon KWOK Ka-ki
Dr Hon Fernando CHEUNG Chiu-hung
Hon Ronny TONG Ka-wah, SC
Hon Patrick LAU Sau-shing, SBS, JP
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)1
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)
Miss Shirley YUEN	Administrative Assistant to Financial Secretary
Mrs Avia LAI	Administrative Assistant to Secretary for Financial Services and the Treasury

Clerk in attendance:

Ms Pauline NG	Assistant Secretary General 1
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Staff in attendance:

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 the question.

2. The Government Economist (GE) gave a power-point presentation on Hong Kong's economic performance in 2005-06 and the economic forecast for 2006-07 as set out in charts 1 to 16 of the information pamphlet tabled at the meeting, which was now attached at the Appendix. SFST then explained charts 17 to 32 which set out the 2005-06 revised estimates, the measures to enhance economic competitiveness, the revenue and expenditure profile in 2006-07, and the 2006 Medium Range Forecast. FS joined the meeting at 11:45 am.

Fiscal health

3. Mr Ronny TONG enquired about the basis upon which the 2006 Medium Range Forecast (Chart 31) was arrived at. FS said that a 4% to 5% economic growth would be expected in 2007-08 and a 4% annual growth had been used in making the Medium Range Forecast from 2007-08 to 2010-11. Inflation had also been taken into account in making the forecast.

4. Mr Ronny TONG further enquired about the significant difference in the calculation of the operating surplus for 2005-06 between the Government (\$5.8 billion) and the private sector (\$10 billion). Mr SIN Chung-kai said that the Government was renowned to under-estimate the surplus. By way of illustration, when FS delivered the 2005-06 Budget speech, the estimated surplus for 2004-05 was \$12 billion. However, the surplus was revised upward to \$21.4 billion during the debate on 27 April 2005. He was therefore pretty sure that the operating surplus of \$5.8 billion for 2005-06 would be revised upward to over \$10 billion by the time debate on the Budget was carried out. Expressing similar views, Ms Audrey EU said that while the 2006-07 Budget was able to achieve fiscal balance, it had failed to manage public expectations. She recalled that a month before the Budget was announced, there were expectations that there would be a surplus of over \$10 billion. Besides, FS had indicated in an open forum that he hoped the general public's wishes would come true. However, it turned out that the surplus was not as high as expected, and that there was a lack of concessions in the Budget. Ms EU held the view that the Administration had not done well in managing public expectations.

5. In response, FS explained that as the private sector did not have sufficient information about Government's financial position, notably its income from land sales and investments, there would be miscalculation on the actual operating surplus. He also declined to respond to the speculation on budgetary surplus by the private sector.

6. Noting that the fiscal reserves were expected to rise from \$306.4 billion in 2006-07 to \$391.6 billion in 2010-11, Mr SIN Chung-kai was disappointed that the Government was not willing to share the wealth with the people in Hong Kong, particularly the grass roots and the middle class, which in his view might intensify the conflict between the Government and the general public. He enquired about the amount of fiscal reserves which the Government intended to attain before consideration could be given to sharing the wealth with the people.

7. FS explained that when delivering the 2004-05 Budget speech, he had indicated that a reasonable level of fiscal reserves would be about 12 months of operating expenditure. As the fiscal reserves for 2006-07 were estimated to be more than 12 months of operating expenditure, the Government had decided to share the wealth with the people by increasing the recurrent funding for underprivileged groups by about \$0.1 billion. \$2.7 billion worth of tax concessions would also be provided. These measures had reduced the operating surplus for 2006-07 from \$3.3 billion to \$0.6 billion. FS stressed that the Government had no intention to hold onto its fiscal reserves without spending. With the continued economic growth and the accumulation of surplus, consideration would be given to increasing welfare spending as well as introducing tax concessions in the coming years. Meanwhile, expenditure guidelines would be reviewed annually to ensure that public finances were managed prudently, and that expenditure was kept within revenue limits.

8. Mr Fernando CHEUNG noted from the Hong Kong Monetary Authority (HKMA)'s website that there was a reserve of US\$127.8 billion, equivalent to HK\$996.8 billion, in the Exchange Fund. This, together with the Reserve Fund of \$300 billion, would make up a total reserve of over \$1,000 billion. Given the huge amount of fiscal reserves, which was ranked highest in the world based on a per person basis, the Administration should make good use of the reserves to improve the livelihood of the people. He also enquired about the guiding principles on public spending. FS clarified that the \$300 billion worth of Reserve Fund was a part of the Exchange Fund, and that the accumulated surplus of over \$300 billion was being kept by HKMA and would not be used as long as a fiscal balance could be achieved.

Public expenditure

9. Mr LEE Wing-tat opined that the Government had often under-estimated its revenue and over-estimated its expenditure. In fact, while FS had pledged to ensure that the share of public expenditure would not exceed 20% of the Gross Domestic Product (GDP), according to the Estimates for 2006-07, the public expenditure was about 18.2% of GDP and was expected to reduce to 16.1% by 2010-2011. Members of the Democratic Party had been criticizing the Administration for suppressing public expenditure and clinging to its fiscal reserves equivalent to 16 months of government expenditure. He queried whether the reduction in operating expenditure for two consecutive years and maintaining the operating and consolidating surplus was meant to achieve a good international rating. He said that he had no appreciation for the Budget as the reduction in expenditure was against the aspirations of the community. Despite that Hong Kong had a higher per capita income than Macau, it had less public spending as compared to Macau. By way of illustration, students in Hong Kong were offered nine years of free education as against 11 years in Macau. Parents in Hong Kong had to pay exorbitant fees for pre-primary education and these were not subject to tax exemption. The same applied to tuition fees for sub-degrees. He held the view that the Government was trying to increase surplus through under-spending on many worthy causes, as evidenced by the reduction of public expenditure from the original estimate of \$268.5 billion to the revised estimate of \$250.2 billion for 2005-06, representing an under-spending of \$18.3 billion or 7%. He found such under-spending unacceptable given the present healthy state of economy.

10. FS did not agree with Mr LEE that the Administration was suppressing public spending. As the economic situation had just seen to have improved, the Administration would need to be cautious about its spending. It would increase operating expenditure moderately over the next few years having regard to the growth in projected surplus. SFST said that Hong Kong had been struggling to revive from the economic downturn over the past few years and the situation had just seen to have improved. It was not too long ago that Members had urged the Government to be prudent in public expenditure, but now they were requesting it to spend more. He stressed that the Government had to abide by the principle that public expenditure should only be incurred as and when necessary, and that joint efforts had been made to reduce public expenditure in the past.

Profits tax

11. Miss TAM Heung-man commended FS for his efforts in preparing the Budget. Referring to the Administration's refusal to the requests from the commercial sector to introduce group loss relief and loss carry-back arrangements in profits tax assessment taking into account corporate losses, she noted the Administration's explanation that the suggested tax exemption, if implemented, would cost billions of dollars a year in lost tax. It could also be subject to abuse as a means to evade tax. Given that group loss relief and loss carry-back arrangements had been adopted by Singapore and a number of other countries, which had implemented anti-avoidance provisions to prevent tax evasion, she enquired if the Administration would re-consider the feasibility of the said tax exemption which would likely attract more overseas investors to set up businesses in Hong Kong and help strengthen its position as a financial hub. The problem of tax evasion could be resolved through the provision of anti-avoidance provisions as in the case of Singapore.

12. FS thanked Miss TAM Heung-man's appreciation for the Budget. He said that he did not object to group loss relief and loss carry-back arrangements in principle as these would attract overseas investments and improve flexibility in tax payments. However, the introduction of such tax exemption, coupled with anti-avoidance measures, would complicate the simple tax regime in Hong Kong, particularly at this stage when the Administration had just been able to restore fiscal balance with a small surplus of \$0.6 billion in the operating account of the 2006-07 Budget. Miss TAM said that she hoped the suggested tax exemption could be considered in the 2007-08 Budget and/or in future Budgets.

Goods and Services Tax (GST)

13. While agreeing that the introduction of GST would broaden the tax base in Hong Kong, Miss TAM Heung-man opined that there would be a lot of political pressure against GST and hence supported the need for public consultation. She then enquired if the Administration had other alternative measures in place to broaden the tax base in Hong Kong in the event that attempts to introduce GST had failed. FS said that the Administration would welcome all views on the introduction of GST and would consider all possible alternatives to broaden the tax base in Hong Kong.

14. Mr Vincent FANG noted that the levy of GST was necessitated by Hong Kong's narrow tax base and the instability of revenue. As such, there was also a need to broaden the economical structure, which at present was mainly hinged on property development. To facilitate members' understanding, he requested the Administration to make available the outcome of the study on GST funded by Government in 2004. He also enquired about the trades which would be consulted on GST and whether all sales transactions would be subject to GST.

15. FS said that the tax base in Hong Kong was indeed narrow given the fact that only 1.22 million out of the 3.43 million working population were required to pay salaries tax. If more working people were to be included as salaries taxpayers, there would be a need to reduce the basic allowances. In addition, income from land premiums and investment was volatile revenue and subject to fluctuations. Hence, there was a need for revenue items which were less sensitive to the ups and downs of economic cycles, such as GST, to offset the volatility of others. FS added that he aimed to, through the consultation exercise, work out the roadmap for GST while the decision of whether to implement it, and if so the details of implementation, including time-table, would have to be decided by the Government of the next term. In view of the controversial nature of GST, a long consultation period of about nine months would be allowed. Issues, including the impact of GST on the economy of Hong Kong, arrangements for tax reliefs and concessions, would be considered in the public consultation.

16. As it would take at least three years to implement GST, if approved, Mr Vincent FANG said that Hong Kong might be able to achieve an accumulated surplus of \$30 billion to \$50 billion by then which might render GST unnecessary and the public consultation futile. FS said that in addition to GST, the consultation would also contain proposals on tax reform.

Green tax

17. While commending FS for achieving the three fiscal targets three years ahead of schedule, Miss CHOY So-yuk held the view that FS's management of public finance was too conventional. She said that the Government had been relying solely on Closer Economic Partnership Arrangement (CEPA) and other business projects to create job opportunities in the past and losing sight of the emerging environmental industries, such as waste recycling, which would not only create job opportunities but also improve the environment. Mr Jeffrey LAM agreed that more should be done to promote economic development. He noted that while much had been said about the levying of environmental tax for waste tyres and plastic bags, the public had not been apprised on how the tax collected would be used to benefit the environment.

18. FS said that increasing investment in infrastructure would be the best way to create more job opportunities. It would also promote economic development, improve the living environment and enhance Hong Kong's competitiveness. There were a number of large infrastructure projects underway and it was hoped that the

works could start quickly. He nevertheless concurred with the need to protect the environment and to promote public awareness on environmental protection. The levy of green tax had been discussed for a long time and the Secretary for the Environment, Transport and Works would be introducing the Producer Eco-responsibility Bill into the Legislative Council later in the year to provide a legal framework for producer responsibility schemes (PRS).

19. Mr Jeffrey LAM hoped that when implementing PRS, the Government would make known to the public how it planned to use the green tax collected for environmental purposes. In addition to PRS, Miss CHOY So-yuk opined that consideration should be given to the levy of green tax on the use of non-environmentally friendly products, such as foam lunch boxes, and the disposal of computer hardware and used electrical appliances with a view to changing the attitude of the general public to adopt more environmentally friendly habits. Besides, the application of polluter-pays principle which had received general support could be a useful alternative to increase revenue, particularly in view of the controversy over the introduction of GST. She was disappointed that this was not taken into consideration by the Administration. Ms Audrey EU also noted with concern that there were no new initiatives apart from PRS. FS said that the Administration would consider investing income from environmental protection initiatives on projects/facilities which would help conserve the environment. However, the levy of green tax on the use of foam lunch boxes would have impact on the general population, in particular the working class.

20. Mr LEUNG Kwok-hung said that the Government could broaden its tax base through introduction of tax on emissions from power companies and other polluting industries. The increased revenue could then be used to take forward environmental projects to help improve the environment. Consideration should also be given to increasing tobacco duty and profits tax, the latter of which should be proportional to the profits earned. He added that the introduction of GST was not recommended in view of its impact on the community and the high administrative cost. With such a huge surplus, the Government should share its wealth with the people.

Tax concessions

21. Noting that there was allegation that FS had inclined to the middle class and neglected the underprivileged groups, Mrs Selina CHOW said that this was not true given that the 2006-07 Budget had offered few concessions to the middle class who were mostly taxpayers. She opined that a proper balance had to be struck to cater the needs of different classes. She further enquired if the Government was prepared to share wealth with the people by offering more tax concessions to the middle class, particularly when the operating surplus for 2006-07 was much higher than expected as a result of under-estimation of revenue on the part of the Government. FS said that the operating surplus was estimated in accordance with latest figures and assumptions. By way of illustration, the difference between the estimated and actual revenue in the 2004-05 Budget was only \$2 billion, representing not much under-estimation. In the

event that the actual operating surplus was much higher than expected, consideration would be given to providing more concessions in the 2007-08 Budget.

22. Mr LEE Wing-tat was skeptical that the proposed tax concession of extending the limit for the deduction for home loan interest by a further three years to a total of 10 years aimed at boosting the sales of properties.

Infrastructure development

23. As reduction in public expenditure might have impact on the delivery of infrastructure projects, Mr CHAN Kam-lam enquired about the measures which would be taken to ensure that the infrastructure projects could proceed as planned. SFST said that while on average an annual provision of \$29 billion had been earmarked for capital works projects, there could be some deviations due to progress of works. For instance, the spending on capital works in 2005-06 was about \$26.7 billion which had fallen short of the annual provision. The Government would endeavour to adhere to the timetable for delivery of infrastructure projects, such as the Tamar site project, but the necessary approval had to be sought to implement these projects. He undertook that the necessary expenditure would be spent on infrastructure projects as this would not only increase Hong Kong's competitiveness but also create more job opportunities.

24. Mr CHAN Kam-lam remarked that many projects should have been proceeded had the Government been more decisive in the first place. It should aim at cutting red tape and streamlining procedures in order that infrastructure projects could proceed as otherwise projects, such as the Cruise Terminal and the decking of the Kai Tak Nullah, would be delayed for an indefinite period of time. As regards the Tamar site project, he said that proposal of the Democratic Alliance for Betterment and Progress of Hong Kong to re-provision Government headquarters to the South East Kowloon Development was worthy of consideration. SFST said that consensus had to be reached before some major infrastructure projects would proceed. He hoped that there would be more cooperation in the implementation of infrastructure projects in future.

Financial services

25. While appreciating the Administration's achievement in removing Budget deficit, Mr LAU Kong-wah opined that it should not focus on achieving fiscal balance, but should be more forward planning taking into account latest economic developments. He noted that the introduction of GST was the only longer-term initiative in this year's Budget, which in his view was not able to resolve the more imminent problems, such as increased competition and unemployment. He asked if the Administration had any initiatives to resolve these problems, and if so why such initiatives were not included in the Budget. FS said that he had attached great importance to the economic development of Hong Kong. He said that the financial services industry was a key pillar of Hong Kong's economy and the main area of

development. Hong Kong's competitive edge in financial services had complemented the Mainland's economic development and financial reform, providing a win-win situation for both. Expanding Renminbi (RMB) business was one of Hong Kong's major development objectives and to achieve this, there was a need to synchronize in tandem with the pace of financial reform in the Mainland. Hong Kong also needed to strengthen its competitive edge by opening more markets and enhancing its financial and logistics development. The implementation of CEPA, Qualified Domestic Institutional Investor, and the expansion of RMB were steps in this direction.

Developing logistics

26. Ms Miriam LAU said that despite Government's effort in developing logistics, Hong Kong had lost its position as the busiest container centre to Singapore last year. This was mainly attributed to the promotional efforts and competitive pricing which the logistics trade in Singapore had made over the recent years. She was therefore disappointed at the apparent lack of provision in the 2006-07 Budget to promote the logistics and shipping industries, particularly when \$5 million had been allocated to each industry last year. She asked if the needed provisions for training and cost reduction for the logistics industry were included in the operating expenditure envelope for the Economic Development and Labour Bureau. Since FS was also the Chairman of the Logistics Steering Committee, Ms LAU sought elucidation on his plans for the future development of the logistics industry, in particular the Logistics Centre, the progress of which seemed to have halted since 2001. Given the imminent commissioning of the Hwa Nam Logistics Centre in Shenzhen to provide value-added services, Hong Kong would need to improve itself in order retain its competitive edge.

27. FS advised that the provision of \$5 million each to the logistics and shipping industries in last year's Budget had not been used up. In this connection, more would be done to promote the development of these industries. Promotional efforts on logistics development had been made by the Trade Development Council in association with the industries. The Economics and Trade Offices in the Mainland were also stepping up publicity in different cities in the Mainland. As regard training, the Administration would welcome ideas from the industries on the courses to be offered to facilitate development. A study on the difference in logistics costs between Hong Kong and the Mainland was underway and it would provide useful information on issues such as cost reduction. Meanwhile, electronic customs clearance was expected to be introduced soon.

Assistance to small and medium enterprises (SMEs)

28. Mr Andrew LEUNG commended FS for his efforts in preparing the 2006-07 Budget in accordance with prudent financial principles, which had achieved a fiscal balance and the target of reducing public expenditure to below 20%. He however noted with concern that the 2006-07 Budget lacked initiatives to improve the economy

of Hong Kong. It also provided no assistance to the struggling SMEs in the development of innovative industries, including recycling industries. FS said that the Government attached great importance to the development of SMEs which comprised 98% of trades and businesses in Hong Kong. SMEs were subject to challenges from major consortiums and a study on fair competition of SMEs would be included in the forthcoming review of the competition policy. Meanwhile, there were ongoing plans to facilitate the development of SMEs and these had had the support of the trades. As regard the development of innovative industries, FS said that this would cover a wide spectrum, such as industrial design, culture and performing arts etc, and would best be discussed when the relevant policy was worked out.

Labour

29. Referring to chart 13 which showed that as compared to 1995, there were fewer workers earning \$5,000 to \$8,999 and more workers earning \$15,000 or more in 2005 (representing an increase of about 12%), Ms LI Fung-ying queried how the figures were obtained, which in her view did not reflect the true picture. She was concerned that the public might have been misled by these figures. GE said that the figures referred to were representative of the working population in Hong Kong as these were based on a survey conducted by the Census and Statistics Department. The figures in the chart referred to the income of full-time employees that accounted for about 80% to 90% of all workers and excluded part-time workers. GE also said that in response to the Chairman's earlier request, a separate analysis was being conducted on households with income less than \$4,000 per month. Ms LI was not convinced of GE's response and requested the Administration to provide the bases upon which the statistics were arrived at. The Administration undertook to provide the requisite information before the Budget debate.

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Education

30. Mr CHEUNG Man-kwong said that the education sector was dissatisfied that education expenditure in the Estimates for 2006-07 had been reduced by \$2.1 billion, including \$1.2 billion in recurrent expenditure which was said to have been used in the setting up of education funds, as compared to last year. He also noted from the Estimates that \$3 billion unspent education funding would be returned to the Treasury in 2005-06. Coupled with the \$7.1 billion from the previous two years, \$10.1 billion had already been returned to the Treasury. This had reflected that the expenditure on education had indeed been reduced. He held the view that the unspent funds could have been used to implement small class teaching and/or recruit more teaching staff to relieve teachers' workload. He opined that the return of unspent funds to the Treasury and the reduction in recurrent expenditure represented a departure from the Chief Executive (CE)'s undertaking made in his 2005 Policy Address that funding for education would not be reduced. His views were shared by Ms Audrey EU.

31. SFST said that the Government had attached great importance to education. He explained that there was no net reduction in education expenditure since part of the recurrent expenditure had been deployed to fund non-recurrent initiatives, such as transfer to education funds. As regards the concern about under-spending in the education portfolio, SFST explained that Directors of Bureaux were given flexibility to determine how resources should be deployed within their annual operating expenditure envelopes. However, the expenditure would have to be justified and spent as and when necessary. It was also not necessary that all the funding should be used up. However, if extra funding was required for certain education projects during the year, the Education and Manpower Bureau (EMB) would be given the necessary funding if justified.

32. Given the many new initiatives to be implemented as a result of the education reform, Mr CHEUNG Man-kwong held the view that additional recurrent expenditure was required for EMB. He was disappointed that instead of giving more resources to EMB, part of its recurrent expenditure had been transferred for the establishment of education funds. FS said that the Government was committed to investing in education and the provision for the education portfolio would not be lower than last year. SEM had the autonomy over the allocation of funding within his envelope, and he decided to transfer part of the recurrent expenditure to take forward some of the reform proposals. EMB had adequately explained to the Finance Committee when funding was sought for these proposals.

33. Noting that the middle class would expect improvements in education and the environment, Ms Audrey EU expressed disappointment that not much had been done to meet the aspirations of the middle class. FS said some concessions on salaries tax were included in the 2006-07 Budget following the restoration of a fiscal balance. He reiterated that the Government was committed to investing in education and the relevant funding would not be lower than that of last year.

Helping the underprivileged groups

34. Mr WONG Kwok-hing said that Members of the Hong Kong Federation of Trade Unions were disappointed at the 2006-07 Budget which lacked measures to relieve poverty and to improve the employment situation. He enquired about the measures which the Administration would take to resolve problems of poverty and unemployment. He also queried why the Government could not be more generous to the public. In reply, FS emphasized the need to achieve fiscal balance. Given the requests for increased public spending, there was a need to identify more revenue to meet such an increase. A fiscal balance would not be possible if the Government was to increase spending on the one hand and not able to generate income on the other. More efforts would be required to resolve problems of unemployment and poverty in the longer term.

35. Mr WONG Kwok-hing sought clarification on the allegation that FS was forced to be a miser in preparing the 2006-07 Budget to allow greater financial flexibility for the incumbent CE to pave way for re-election next year. FS said that he acted according to prudent financial principles in preparing the Budget, and that there was no political consideration. He added that CE had no involvement during the whole budgetary process.

36. Mr LEE Cheuk-yan said that the lack of concessions in the Budget was at variance with FS's role as the Chairman of the Commission on Poverty (CoP). He recalled that at the last meeting of CoP, FS had acknowledged that over one million people in Hong Kong were living below the poverty line. Of these, 50% belonged to the low-income group whose living standard was even lower than recipients of the Comprehensive Social Security Allowance. He was disappointed that no concessions had been provided in the Budget for the needy, except for the short-term travel support to residents of Tin Shui Wai, Tung Chung and North District who were financially needy and had completed full-time courses with the Employees Retraining Board. On the other hand, the Budget had provided \$1.5 billion worth of concessions to the middle class. He criticized FS for clinging to the surplus regardless of the needs of the underprivileged. FS said that a number of measures had been put in place to help the underprivileged groups. In the 2006-07 Budget, \$36 billion had been set aside for welfare spending, which was almost equivalent to the revenue from salaries tax.

37. Mr Fernando CHEUNG said that the underprivileged groups were left to suffer while FS continued to cling to the fiscal reserves. By way of illustration, there were 5 000 handicapped people, 1 100 handicapped children and 35 400 elderlies awaiting relevant supporting services. FS said that the Government was able to achieve its fiscal targets three years ahead of schedule through concerted efforts of the civil service and the community. Given the healthy state of public finance, the Administration had decided to increase its welfare spending and about \$36 billion had been set aside for the purpose.

38. Mr Ronny TONG noted that the increase in recurrent funding by about \$100 million could only provide improved services to underprivileged groups. Given the high administrative cost incurred for the provision of such services, he opined that it might be more cost-effective and beneficial to the underprivileged groups, such as the elderly, the handicapped and the needy children, if the money were given to them direct. FS said that the \$100 million funding would be used to strengthen convalescent and continuing rehabilitation day services for discharged disabled and psychiatric patients, enhance services for the disabled living in residential rehabilitation service centres, enhance family support and home care services, and to improve the pilot Comprehensive Child Development Service. The need for improved services was identified in consultation with the welfare sector. Direct payment would not be beneficial to the underprivileged groups, such as the elderly as they might not be able to take care of themselves and would rely on the provision of home care services.

Protecting the environment

39. Mr Jeffrey LAM indicated that Members of the Liberal Party (LP) supported the promotion of hybrid vehicles which were more environmentally friendly. However, the Government would need to wait until more hybrid vehicle models were available before consideration could be given to introducing measures to promote their use. Given the better emission performance of hybrid vehicles, he opined that the Government should consider providing incentives to encourage the switch as a start. FS said that before encouraging the use of hybrid vehicles, the Government had to be satisfied with their environmental performance. As such, it had purchased a few hybrid vehicles and conducted testing on their emission performance. A report on their environmental performance would be made available soon. Based on the outcome of the report, the Government would decide on whether measures should be introduced to promote the use of hybrid vehicles by the public.

40. Given that hybrid vehicles were commonly used in overseas countries, Mrs Selina CHOW was not convinced of the reluctance of the Government in promoting the use of hybrid vehicles merely on grounds of limited availability. She failed to see why efforts had been made to promote the use of electric vehicles, which were also of limited availability, through exemption of first registration tax but the same was not applicable to hybrid vehicles. She said that LP Members would be willing to assist in the promotion of hybrid vehicles as these were more environmentally friendly.

41. The briefing ended at 1:10 pm.

Legislative Council Secretariat

27 June 2006