

**Replies to supplementary questions raised by Finance Committee Members in
examining the Estimates of Expenditure 2006-07**

**Director of Bureau : Secretary for Financial Services and the Treasury
Session No. : 4**

Reply Serial No.	Question Serial No.	Name of Member	Head	Programme
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S-FSTB(Tsy)02	SV01	LAM Kin-fung, Jeffrey	147	
S-FSTB(Tsy)03	S06	SIN Chung-kai	147	(2) Revenue and Financial Control
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S-FSTB(Tsy)05	S15	TAM Heung-man	147	(2) Revenue and Financial Control
S-FSTB(Tsy)06	S91	KWOK Ka-ki	51	(1) Acquisition and Allocation
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**CONTROLLING OFFICER'S REPLY TO
SUPPLEMENTARY QUESTION**

S-FSTB(Tsy)01

Question Serial No.

S20

Head: 147 Government Secretariat: Financial Services and the Treasury Bureau
(The Treasury Branch) Subhead (No. & title):

Programme: (2) Revenue and Financial Control

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Treasury)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

The Permanent Secretary for Financial Services and the Treasury (Treasury) indicated at the meeting held on 13 March 2006 that the introduction of Goods and Services Tax (GST) was the only one proposal put forward to the Administration in 2002 by the Advisory Committee on New Broad-based Taxes (Committee) set up in 2000. Please advise:

- (a) Why did the Advisory Committee on New Broad-based Taxes put forward only one proposal? Did the consultation exercise conducted by the Advisory Committee focus on GST alone, excluding all other new taxes?
- (b) Since there was only one proposal and the Administration accepted it, would this decision lack the objectivity required?
- (c) The Bureau indicated that one of its major tasks in 2006-07 is to “identify further revenue options with a view to broadening the tax base and increasing revenue”. Why is that there has been no further study on broadening of tax base since the completion of the Report by the Advisory Committee until the Administration adopted the proposal to introduce a GST?
- (d) The Permanent Secretary indicated that KPMG Tax Limited was first appointed to conduct a consultancy study mainly on the “principles of and rationale” behind the GST in 2004-05. What are these “principles and rationale”?
- (e) Have risk assessments of the impact of implementation of GST on the Hong Kong economy and society been made in the first consultancy study undertaken by KPMG Tax Limited? If no, why not? If yes, can the findings of the assessments be made public?
- (f) The Permanent Secretary indicated that the study covers study on GST implemented in other jurisdictions. Please advise on the countries included in the study. What are the pros and cons of the tax concerned?
- (g) Please advise which companies participated in the same bid for GST consultancy services contract in 2004-05. What were the competitive bidding prices? Did the bid contract specify that the successful bidder would be granted relevant consultancy services related to the introduction of GST?

Asked by: Hon. FANG Kang, Vincent

Reply:

- (a) & (b) The Advisory Committee studied in detail a number of revenue options to broaden the tax base and recommended the GST as the best option, as it has the long-term capacity to broaden the tax base and is not incompatible with Hong Kong's external competitiveness.
- (c) Apart from considering the introduction of GST to broaden the tax base, the Government has all along been managing public finances prudently, keeping expenditure within the limits of revenue and striving to achieve a fiscal balance. Moreover, we keep the fiscal position under constant review and consider measures, including other tax measures, where necessary and as appropriate.
- (d) & (e) The consultancy conducted in 2004-05 mainly focuses on the various policy and administrative issues in relation to introducing a GST in Hong Kong. The aspects covered in the study include the proposed GST framework, the likely impact of GST on the economy as well as the relief and compensation measures that should be provided to the community. As the study is for internal reference, we do not intend to release it as such to the public. We will however issue a consultation document in the next few months which has drawn on the conclusions of the study.
- (f) The study has looked into the experience of other economies in introducing a GST. These economies, among others, include Australia, Canada, New Zealand and Singapore.
- (g) In addition to KPMG Tax Ltd, a number of accountancy firms bid in a competitive manner for the GST consultancy contract awarded in 2004-05. Regarding their bid prices, no disclosure can be made as the information was provided by the tenderers to the Government on a confidential basis. There is no provision in the consultancy contract which specifies that the successful bidder would be awarded a contract for further consultancy services related to GST implementation.

Signature _____

Name in block letters ALAN N LAI

Post Title Permanent Secretary for Financial
Services and the Treasury (Treasury)

Date 17 March 2006

**CONTROLLING OFFICER'S REPLY TO
SUPPLEMENTARY QUESTION**

S-FSTB(Tsy)02

Question Serial No.

SV01

Head: 147 Government Secretariat: Financial Services and the Treasury Bureau
(The Treasury Branch) Subhead (No. & title):

Programme:

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Treasury)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

On Hon Jeffrey LAM Kin-fung's concern about the estimated provision of \$7 million for 2006-07 for the appointment of financial consultants to carry out feasibility study of merger of MTR Corporation Limited and Kowloon-Canton Railway Corporation, the Administration is requested to provide the following information:

- (a) The scope and content of the proposed feasibility study; and
- (b) The scope and content of previous feasibility studies conducted on the proposed merger, and the expenses incurred.

Asked by: Hon. LAM Kin-fung, Jeffrey

Reply:

- (a) The financial consultants so engaged will continue to provide professional advice to the Government on the financial, legal and other relevant aspects in relation to the implementation of the proposed railway merger.
- (b) We have previously commissioned a consultancy in 2003 on the financial and market implications of a possible railway merger at a cost of \$1.6 million. The cumulative expenditure incurred for the on-going feasibility study mentioned in (a) above is estimated to be \$5.7 million up to end of 2005-06.

Signature _____

Name in block letters ALAN N LAI

Post Title Permanent Secretary for Financial Services and the Treasury (Treasury)

Date 17 March 2006

**CONTROLLING OFFICER'S REPLY TO
SUPPLEMENTARY QUESTION**

S-FSTB(Tsy)06

Question Serial No.

S91

Head: 51 Government Property Agency

Subhead (No. & title): 000 Operational expenses

Programme: (1) Acquisition and Allocation

Controlling Officer: Government Property Administrator

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

Regarding the existing Government-owned offices provided to various Bureaux, please provide a detailed breakdown of the internal floor area of offices in private developments, the amount of management fees the Government paid for the above offices in 2005-06 and the estimated management fees for 2006-07.

Asked by: Hon. KWOK Ka-ki

Reply:

The internal floor areas, the management fees paid for in 2005-06 and the estimated management fees for 2006-07 in respect of Government-owned offices in private developments that are provided to policy bureaux are set out below :

Policy Bureau	Internal Floor Area (m²)	2005/06 Management Fees (\$)	2006/07 Management Fees (Estimated) (\$)
Commerce, Industry and Technology Bureau	3 800	963 400	982 700
Economic Development and Labour Bureau	558	162 300	165 500
Education and Manpower Bureau	13 448	3 409 400	3 477 600
Financial Services and the Treasury Bureau	340	129 400	132 000
Home Affairs Bureau	1 450	277 000	282 500

Signature

Name in block letters

Post Title

Date

Ms Maria SN KWAN

Government Property Administrator

20 March 2006

**CONTROLLING OFFICER'S REPLY TO
SUPPLEMENTARY QUESTION**

S-FSTB(Tsy)07

Question Serial No.

S07

Head: 59 - Government Logistics Department Subhead (No. & title):

Programme: (3) Land Transport

Controlling Officer: Director of Government Logistics

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

In connection with the Reply Serial No. FSTB(Tsy)053, please provide the following information:-

1. With reference to the similar information [FSTB(Tsy)057] provided by the Administration last year on the breakdown of vehicles to be procured, if these vehicles were to be purchased according to the estimated average prices for each type of vehicle to be purchased in 2006-07, the actual amount required would be over \$100M.

(A) Vehicle type	(B) No. of vehicles planned to be purchased in 2005-06	(C) The estimated average price for each type of vehicle this year	(D) The expenditure in 2005-06 calculated on the prices at column (C)
Motorcycle	213	\$49,515	\$10,546,695
Car	165	\$191,228	\$31,552,620
Van	160	\$181,597	\$29,055,520
Bus	56	\$460,870	\$25,808,720
Cross Country Vehicle	18	\$200,000	\$3,600,000
		Total	\$100,563,555

However, only \$90M was allocated by the Government for the purchase of these vehicles last year. The difference reaches 11.74%. Would the Government explain the difference?

2. What is the amount for purchasing six police vans?

Asked by: Hon. SIN Chung-kai

Reply:

1. We based our estimation for expenditure in 2006-07 on the latest available market information about the estimated costs of the vehicles involved. The estimated average cost for the vehicles to be procured in 2006-07 is not the same as that for vehicles purchased in 2005-06.
2. The cost for purchasing six police vans is \$ 2.3M.

Signature _____

Name in block letters _____ Tommy YUEN _____

Post Title _____ Director of Government Logistics (Ag.) _____

Date _____ 17 March 2006 _____

**CONTROLLING OFFICER'S REPLY TO
SUPPLEMENTARY QUESTION**

S-FSTB(Tsy)09

Question Serial No.

S09

Head: 188-Treasury Subhead (No. & title):

Programme: (1) Central Accounting, Collections and Payments

Controlling Officer: Director of Accounting Services

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

In respect of the payment of the necessary materials and services costs for various government departments,

1. what are the existing payment procedures?
2. will the Administration establish a central payment system or introduce an information technology application system/plan to process payments for various government departments electronically so as to reduce the administrative procedures involved and enhance productivity?

Asked by: Hon. SIN Chung Kai

Reply:

1. Upon receipt of an invoice from the supplier, the relevant section of the procuring bureau/department is responsible, first of all, for checking the details on the invoice against the goods supplied or service provided and, if necessary, seeking clarifications with the supplier. Once the invoice is found to be in order, it is certified and passed to the Accounts Office of the bureau/department for preparation of the payment voucher and for authorisation of payment through the on-line Web-enabled Payment of Creditors System. Payments are settled centrally by the Treasury either through autopay or by cheques. For payments by cheque, depending on the instruction of the bureau/department concerned, the cheques may be sent by mail to the supplier by the Treasury or they may be despatched to the bureau/department for onward delivery to the suppliers as appropriate.

2. The Web-enabled Payment of Creditors System presently in use is an on-line computer system which processes payments for bureaux/departments centrally. The Treasury regularly reviews the system and the relevant administrative procedures. The function of this system will be integrated into the new Government Financial Management Information System to be fully implemented in 2008. We will review the processes with the aim of bringing about efficiency improvements as far as practicable.

Signature _____

Name in block letters _____ Mrs Lucia LI _____

Post Title _____ Director of Accounting Services _____

Date _____ 17 March 2006 _____