

Motion Debate on “Enhancing the Efficacy of the Management of Public Finances”

Progress Report

At the Legislative Council meeting on 10 January 2007, the motion on “enhancing the efficacy of the management of public finances” moved by Hon TAM Heung-man as amended by Hon Jeffrey LAM Kin-fung was carried. The motion reads as follows:

“That, as the HKSAR Government’s fiscal surplus for this year is anticipated to substantially exceed its expected target, this Council urges that the Government, when drawing up the 2007-2008 Budget, apart from continuing to uphold the principle of fiscal prudence whereby expenditure and savings are effected as necessary, striving to cut expenditure and improve efficiency as well as enhancing the efficacy of the management of public finances, should also explicitly stipulate the appropriate level of fiscal reserves, improve the investment return rate of the Exchange Fund and explore how the fiscal surplus in 2006-2007 can be properly returned to the people through various feasible measures, including reducing the tax rates, particularly to relieve the difficulties encountered by the middle class, striving to improve the business environment, enhancing the competitiveness of enterprises and strengthening support for small and medium enterprises.”

2. This note informs Members of the follow-up actions taken by the Administration in respect of the motion.

3. The Financial Secretary presented the 2007-08 Budget to the Legislative Council on 28 February 2007. In the speech moving that the Appropriation Bill 2007 be read a second time, he made it clear that the Government has all along been maintaining strict fiscal discipline. He emphasised that the Government has been following the principles of prudent management of public finances, keeping expenditure within revenue limits and ensuring the efficient use, where needed, of resources to provide public services to the community. “Revitalising the economy, promoting employment and improving people’s livelihood” were the guiding principles adopted by the Financial Secretary in formulating the Budget. He also hoped to leave wealth with the community where affordable.

4. In response to comments made by Members and the community, the Financial Secretary has proposed the following tax relief measures in the 2007-08 Budget:

- reverting the marginal bands and marginal rates for salaries tax to their 2002-03 levels. In other words, the band width will be increased from \$30,000 to \$35,000, and the two highest marginal tax rates will be reduced from 13 per cent and 19 per cent to 12 per cent and 17 per cent respectively;
- increasing the child allowance from \$40,000 to \$50,000 for each child, and introducing an additional one-off child allowance of \$50,000 for each child in the year of birth;
- increasing the maximum amount of deduction for self-education expenses from \$40,000 to \$60,000;
- reducing the rate of stamp duty on transactions of properties with a value between \$1 million and \$2 million from 0.75 per cent to a fixed amount of \$100; and
- reducing the duty rate on beer and other types of liquor containing not more than 30 per cent of alcohol from the current 40 per cent to 20 per cent, and that on wine from the current 80 per cent to 40 per cent.

5. The Financial Secretary has also proposed the following one-off measures:

- waiving 50 per cent of salaries tax and tax under personal assessment assessed for 2006-07, subject to a ceiling of \$15,000;
- waiving rates for the first two quarters of 2007-08, subject to a ceiling of \$5,000 per quarter for each rateable tenement; and
- providing one additional month of standard rate Comprehensive Social Security Assistance (CSSA) payments for CSSA recipients and one additional month of allowance for Social Security Allowance recipients in 2007-08.

6. In the 2007-08 Budget, the Financial Secretary has put forward a number of measures to improve the business environment and enhance the competitiveness of enterprises. Main points include the following:

- promoting further development of the financial services industry, thus enabling Hong Kong to contribute more to raising the efficiency of financial intermediation in the Mainland and facilitating reform of the Mainland’s financial system. Measures include exploring ways to broaden the source of enterprises coming to list in Hong Kong; exploring further ways to develop the derivatives markets, including financial and commodity futures trading; continuing to improve the regulatory framework; and exploring ways to enhance investor protection and education;
- on the trade and logistics front, the Government will construct an electronic advance cargo information system and implement the On-Board Trucker Information System on a trial basis, and assist logistics practitioners to master job-related information and automation technologies. The Government will also earmark about \$3.1 billion to replace the air traffic control system and build a new headquarters for the Civil Aviation Department;
- to further promote the work of removing barriers, the Government has introduced the “Be the Smart Regulator” programme, which includes setting up Business Liaison Groups for more business sectors, developing more comprehensive performance pledges and guides to licence applications, and promoting the wider use of electronic services;
- continuing to promote fair competition so as to improve the business environment. The Competition Policy Review Committee has recommended that a cross-sectoral competition law be introduced. The Government has recently completed consultations on the subject, and is now considering the views received;

- promoting environmental protection. Measures include budgeting \$3.2 billion to provide an incentive for replacement of old diesel commercial vehicles with new models, lowering the first registration tax for environment-friendly vehicles, and putting forward specific proposals on the charging scheme for plastic shopping bags;
- pooling talent. Measures include continuing to invest heavily in education; attracting more students from outside Hong Kong to study and, upon graduation, stay here to work; and continuing to attract talent from around the world to pursue careers here through various talent admission schemes; and
- promoting applied technology and creative industries. Measures include relaxing the restrictions of the Small Entrepreneur Research Assistance Programme and the University-Industry Collaboration Programme so as to provide further impetus to the development of applied scientific research, earmarking \$210 million over the next two years to provide WiFi networks in government venues for free use by citizens, and earmarking \$300 million to establish a new fund to assist the development of the film industry.

7. During the motion debate, some Members recommended that the Government should enhance the investment return of the Exchange Fund and to set an appropriate level in maintaining the fiscal reserves. In this regard, the Financial Secretary has announced in the 2007-08 Budget a revised income-sharing arrangement between the fiscal reserves and the Exchange Fund with a view to increasing the Government's investment income and enhancing its stability. Effective from 1 April, the return on the fiscal reserves will be calculated on the basis of the average rate of return of the Exchange Fund's investment portfolio over the past six years. Under the new arrangement, the rate of return on the fiscal reserves for 2007 will be 7 per cent. A guarantee of a minimum return will also be included so as to ensure that the annual investment return in any year will not be lower than the average yield of three-year Exchange Fund Notes for the previous year.

8. The Government considers that the fiscal reserves should be maintained at an appropriate level to cope with fiscal pressure arising from economic downturns, unforeseen events or structural changes in the community, and assist the Exchange Fund in maintaining the stability of Hong Kong's monetary and financial systems. The Government does not consider that the reserves need to keep expanding, but rather they should be maintained at an appropriate level with a view to providing adequate resources to meet our needs. Since our fiscal reserves are of crucial importance in maintaining Hong Kong's healthy public finance system, the Government will listen to more views from the community in this regard before coming to a decision. The Financial Secretary has also pointed out that the International Monetary Fund's suggestions can be used as a frame of reference.

9. In preparing the annual budget, the Government will continue to widely consult various sectors of the community, and will adhere to the principle of maintaining the health of public finances in developing the budget proposals.

Financial Services and the Treasury Bureau

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