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**Notes of the meeting of the Finance Committee
for briefing members on the Estimates of Expenditure and budget proposals
on Thursday, 1 March 2007, 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
Hon CHAN Kam-lam, SBS, 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, SBS, S.B.St.J., JP
Hon LEE Cheuk-yan
Hon Fred LI Wah-ming, JP
Hon Margaret NG
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon CHAN Yuen-han, JP
Hon SIN Chung-kai, JP
Dr Hon Philip WONG Yu-hong, GBS
Hon WONG Yung-kan, JP
Hon Howard YOUNG, SBS, JP
Hon LAU Kong-wah, JP
Hon CHOY So-yuk, JP
Hon Andrew CHENG Kar-foo
Hon TAM Yiu-chung, GBS, JP
Hon Abraham SHEK Lai-him, 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
Hon Jeffrey LAM Kin-fung, SBS, JP

Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon LEUNG Kwok-hung
Dr Hon KWOK Ka-ki
Dr Hon Fernando CHEUNG Chiu-hung
Hon WONG Ting-kwong, BBS
Hon Ronny TONG Ka-wah, SC
Prof Hon Patrick LAU Sau-shing, SBS, JP
Hon Albert Jinghan CHENG
Hon TAM Heung-man

Members absent:

Hon Martin LEE Chu-ming, SC, JP
Dr Hon David LI Kwok-po, GBS, JP
Dr Hon LUI Ming-wah, SBS, JP
Hon Bernard CHAN, GBS, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
Hon LEUNG Yiu-chung
Hon Jasper TSANG Yok-sing, GBS, JP
Dr Hon YEUNG Sum
Hon LAU Chin-shek, JP
Hon LAU Wong-fat, GBM, GBS, JP
Hon Miriam LAU Kin-yee, GBS, JP
Hon Timothy FOK Tsun-ting, GBS, JP
Hon LI Fung-ying, BBS, JP
Hon Albert CHAN Wai-yip
Hon Frederick FUNG Kin-kee, SBS, JP
Hon LI Kwok-ying, MH, JP
Dr Hon Joseph LEE Kok-long, JP
Hon Daniel LAM Wai-keung, SBS, JP
Hon MA Lik, GBS, JP
Hon Alan LEONG Kah-kit, SC
Hon CHEUNG Hok-ming, SBS, JP
Hon CHIM Pui-chung
Hon KWONG Chi-kin

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 Amy 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)
Ms Vivian SUM	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 Alice CHEUNG	Senior Legislative Assistant (1)1
Mr Frankie WOO	Legislative Assistant (1)2

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The Chairman welcomed Mr Frederick MA Si-hang, Secretary for Financial Services and the Treasury (SFST), and his colleagues to the meeting. 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 Chairman indicated that a time limit of five minutes would be imposed for each member to ask a question and the Administration to respond to the question.

2. The Government Economist (GE) gave a power-point presentation on Hong Kong's economic performance in 2006-2007 and the economic forecast for 2007-2008 as set out in charts 1 to 18 of the information pamphlet tabled at the meeting, as attached in the Appendix. SFST then explained charts 19 to 33 which set out the 2006-2007 revised estimates, the tax concessions proposed, the investment income of the fiscal reserves, the revenue and expenditure profiles for 2007-2008, and the 2007 Medium Range Forecast. Referring to the under-spending in 2006-07, SFST highlighted that on Comprehensive Social Security Assistance (CSSA) alone, the under-spending was about \$1 billion, while the under-spending in education was in the region of \$3.4 billion. As regards investment income, this would be calculated on the basis of the average rate of return of the Exchange Fund's investment portfolio over the past years and the return for 2007 would be 7%.

Fiscal surplus

3. Mr SIN Chung-kai pointed out that the estimated public expenditure would be compressed from 17.4% of the Gross Domestic Product (GDP) in 2007-2008 to 16.3% in 2011-2012 while the fiscal reserves would rise from \$391.2 billion in 2007-2008 to \$584.4 billion in 2011-2012. The fiscal reserves would undoubtedly continue to grow as the Administration continued to under-spend. Resources should have been allocated to small-class teaching, welfare assistance, health care financing, etc. While resources were not available to implement these well deserving projects, departments/bureaux were able to revise their approved Estimates downwards because of under-spending. To allow the Finance Committee (FC) to understand why the departments/bureaux had sought more than they needed in the last Estimates, Mr SIN requested the Administration to compile a list setting out the under-spending situation of each department/bureau.

4. The Permanent Secretary for Financial Services and the Treasury (Treasury) (PSFST(T)) said that a breakdown by departments/bureaux on the actual expenditure for 2005-2006, approved estimate for 2006-2007, revised estimate for 2006-2007 and estimate for 2007-2008 had been provided in page 23 of Volume IA of the Estimates for the year ending 31 March 2008. The Chairman considered that the list of under-spending would be useful for the purpose of the Special Meetings of FC. She asked the Clerk to compile the list based on the information available in the Estimates.

5. Miss CHOY So-yuk congratulated FS for the delivery of a budget with a surplus for a second year. She however opined that apart from the payouts, more could have been done with the surplus, including improvements to the infrastructure developments in Hong Kong, preservation of heritage sites and buildings, greening, provision of green rooftops and protection of natural rivers etc. These projects would improve the image of Hong Kong as a whole and would be able to create employment opportunities. Consideration could also be given to buying the three cross-harbour tunnels which would relieve traffic congestion at some of these tunnels, hence improve the overall air quality of Hong Kong. Further relaxation of the permissible limit of absence from Hong Kong for Old Age Allowance (OAA) recipients should also be considered so that elderly who chose to retire and live in the Mainland were required to return to Hong Kong only for one day each year.

6. In reply, FS stressed that in drawing up the Budget, he had adhered to the principles of continuity and sustainability. Also, his four Budgets were all related and initiatives in them should be seen together. In considering how the surplus could be utilized to address the more imminent needs of different sectors, there was a need to strike a balance among the varying interests of the community. On preservation of heritage sites, FS said that the public consultation on the issue had just been completed and a policy had yet to be worked out. He took note of Ms CHOY's suggestion of further relaxing the permissible limit of absence from Hong Kong for OAA recipients.

7. Ms Audrey AU however considered that the huge surplus of \$55 billion for 2006-2007 was not anything which deserved congratulations. She considered that a budget ought to be accurate in the first place. In this connection, she enquired about the measures which would be taken to ensure a more accurate estimate in future. FS replied that Government income hinged on economic growth. The increase in income from salaries tax, profits tax, land premium, stamp duty and investment income as a result of rapid economic growth could not have been predicted. The efforts to reduce operating expenditure by \$13.3 billion from the original estimate had further increased the surplus.

8. Noting that \$20 billion out of the \$55 billion surplus had already earmarked for tax concessions and one-off measures, Mr WONG Kwok-hing enquired about further plans to spend the remaining surplus. He asked if the Administration would consider using the surplus to purchase the Western Harbour Crossing (WHC) and Route 3 as suggested by the Hong Kong Federation of Trade Unions (HKFTU). The proposal would not only resolve the traffic congestion problem but also reduce public transport burden of the general public. It could also facilitate even distribution of cross-harbour traffic among the three cross-harbour tunnels through adjustment of tolls. FS reiterated the need to ensure continuity and sustainability when drawing up Budget proposals. On HKFTU's suggestion, FS said that the proposal's impact on the distribution of cross-harbour traffic would need to be carefully assessed.

9. Ms Audrey EU said that Members of the Civic Party held the view that FS should make good use of the huge surplus for longer term investments to resolve problems in relation to disparity of wealth, ageing population, and heritage/culture preservation. As FS had stressed on the need for continuity and sustainability of the Budget, she enquired about the timeframe for the Government to take forward these longer term investments. FS said that the Administration attached great importance to these items, but pointed out that the ageing population issue could not be resolved as it was an issue associated with developed economies.

10. Miss TAM Heung-man questioned why the level of fiscal reserves should rise from 19 months of government expenditure in 2007-08 to 24 months in 2011-2012, which in her view went contrary to the guidelines set out by the International Monetary Fund (IMF). She was concerned that the Administration was moving its goal post on the maintenance of fiscal reserves. FS explained that the Budget already said that the IMF guidelines which made reference to fiscal reserves as a percentage of GDP was worth making reference to and that the Administration would take into account other factors, including public aspiration and members' views before coming to a decision on the level of fiscal reserves.

Revenue profile

11. Noting that the investment income for 2006-2007 had increased by \$11.3 billion to \$29.5 billion, Mr Ronny TONG enquired about the estimated investment income for 2007-2008 and whether this had been included in the revenue

profile for 2007-08. He also asked if the “Other Capital Revenue” of \$13.9 billion under the revenue profile for 2007-08 included income arising from the rail merger. FS responded that the estimated investment income for 2007-2008 would be \$26 billion. PSFST(T) said that the investment income formed part of the revenue from “Properties and Investment” and “Land Fund”. He added that the “Other Capital Revenue” did not include income arising from the rail merger which had yet to be materialized.

Tax

12. Miss TAM Heung-man said that the accounting profession was in support of the proposals to maintain the profits tax at the existing level and revert the marginal bands/rates for salaries tax to their 2002-2003 levels. To enhance Hong Kong’s competitiveness, the accounting profession supported the provision of tax incentives to encourage the setting up of regional headquarters in Hong Kong, as in the case of Singapore. Other incentives, such as double tax treaty and tax loss carry-back arrangements, should also be considered. As regards the one-off measures, including waiving part of salaries tax and rates as provided in the Budget, Miss TAM said that she was not opposed to these measures, but held the view that consideration should be given to using the surplus to take forward policies on health care financing, small-class teaching and environmental protection etc. More should be done to improve the air quality in Hong Kong as well since some business professionals had emigrated to other places because of the poor air quality in Hong Kong.

13. In response, SFST said that the Budget was prepared in the best interest of Hong Kong taking into account its needs, including the need to maintain competitiveness, protect the environment and finance the health care service. He also considered a direct comparison with other places not appropriate given that different countries adopted different tax systems. By way of illustration, goods and service tax was levied in Singapore but not in Hong Kong while Hong Kong was ahead of Singapore in exempting offshore funds from profits tax. The various measures adopted by the Administration, together with the backing from the Mainland, would enhance the competitiveness of Hong Kong as an international financial centre. FS added that Hong Kong’s competitiveness rested upon its ability to maintain a simple tax regime. To prevent the levy of double taxation, double taxation agreements had been signed with trading partners, such as the Mainland, Belgium and Thailand etc.

Improving the business environment

14. Mr Tommy CHEUNG thanked FS for the tax concessions provided in the Budget, particularly the reduction of duty on alcoholic beverages which would be welcome by the catering industry. He also agreed with FS on the need to remove barriers to improve the business environment. However, as a member of the Business Facilitation Advisory Committee, he was concerned that despite its efforts to streamline procedures in the regulation of trades, government departments, such as the

Lands Department, Fire Services Department and Buildings Department, were inflexible in extending the needed assistance to facilitate the trades in their licence applications. By way of illustration, applicants for liquor licences were required to provide annual accounts and tenancy agreements etc. for the Police to assess their eligibility. Nevertheless, some of these requirements might differ for different police districts. There was hence a need for FS and the Chief Secretary to ensure better coordination among government departments to streamline procedures in the regulation of trades. FS said that the respective departments were responsible to ensure compliance with the licence requirements under their purview before licences could be issued such that public safety etc. would not be in any way compromised as a result of streamlining of procedures. Notwithstanding, efforts would continue to be made to remove barriers as far as possible with a view to facilitating the trades and improving the business environment.

Infrastructure development

15. Mr WONG Kwok-hing expressed concern about the lack of forward planning in economic development and creation of employment. By way of illustration, the absence of a proper cruise terminal had forced the world's largest passenger liner, Queen Mary II, to berth at the Kwai Chung Cargo Terminal upon arrival at Hong Kong. This had demonstrated the lack of planning in the provision of tourist facilities. Mr WONG noted that despite the annual provision of \$29 billion for infrastructure development, this had not been used up in the past two years. The delay in infrastructure development was evidenced by the Lantau Development Plan which had taken a number of years for extensive feasibility studies only. As a result, the unemployment rate in the construction industry had remained high in spite of the recovery of the economy. He enquired about the measures to be put in place to expedite infrastructure projects.

16. Mr Abraham SHEK also expressed concern about under-spending on infrastructure development over the past years. As the unemployment rate of the construction industry had remained at over 10%, it was hoped that more infrastructure projects could be taken forward. He suggested that the unspent provision should be used on public private partnership projects to encourage partnership with the private sector to take forward infrastructure projects. Minor public projects should also be expedited with a view to promoting economic development and creating job opportunities.

17. PSFST(T) clarified that the amount spent on infrastructure development over the past few years had met with or exceeded the target of \$29 billion. For example, \$28.3 billion were spent in 2002-2003 while \$31.4 billion were spent in both 2003-2004 and 2004-2005 for a large number of projects. The amount spent on infrastructure development in 2005-2006 was \$26.5 billion which had slightly fallen short of the original estimate of \$27.6 billion whereas the latest estimated spending for 2006-2007 and 2007-2008 on infrastructure development would be \$22.1 billion and \$20.4 billion respectively. With the large number of infrastructure projects in the

pipeline, it was expected that the amount of spending on infrastructure development in 2009-10 and subsequent years could exceed \$30 billion each year. FS added that the target of \$29 billion on infrastructure projects was not met last year because a number of projects had fallen behind schedule. For example, the \$25 billion worth Central-Wan Chai Bypass and Wan Chai Development Phase II which was essential to mitigate the traffic congestion along the Central harbour front was stalled since preparatory work was still underway. The same applied to the Central Kowloon Route. While efforts would continue to be made to expedite the necessary infrastructure works, it would take time to implement large-scale projects, such as the Tamar Site project where a longer time was required for planning and approval.

18. Prof Patrick LAU said that he had recently visited some middle-east countries and witnessed the benefits which investment in improving the urban environment could bring in promoting economic development, creating employment opportunities and improving people's livelihood. He opined that, apart from providing concessions in the Budget, the Administration should consider investing more on infrastructure projects, particularly those for urban planning and development of Hong Kong with a view to improving the urban environment in the long run. He sought information on the measures which the Administration would make to improve the urban environment and to preserve the heritage sites as well as the provisions earmarked for infrastructure development. FS said that the Budget was prepared in accordance with prudent financial principles and with a view to promoting economic development, creating employment opportunities and improving the livelihood of the community. On improvement of urban environment, the Administration would be pleased to take forward town planning and heritage preservation projects if these were supported by the community. However, there was a need to balance the interest of different sectors of the community in resource allocation where more spending on welfare and health care services was anticipated. He also pointed out that a direct comparison with middle-east countries in respect of urban development was not appropriate given the space constraints in Hong Kong.

19. As developing infrastructure could promote economic development, increase employment opportunities and improve the living environment, Ir Dr Raymond HO said that there was a need for balanced development and conservation. He opined that consideration should be given to proceeding with infrastructure projects in relation to development of new towns in rural areas. Priority should be given to those projects which could stimulate local economy and improve people's livelihood, such as the Tuen Mun to Lantau highway project and the South Island Line. FS said that the Administration was committed to taking forward infrastructure projects to maintain Hong Kong's competitiveness. However, it should be appreciated that in recent years preparatory work for these projects, particularly public consultation, had taken a long time to complete.

20. In view of the under-spending on infrastructure development, Mr SIN Chung-kai opined that consideration should be given to providing residential care homes for the elderly in more rural areas, such as Yuen Long, Kam Tin, Tuen

Mun and Tung Chung, where the operating costs were much lower than those provided in hospitals. This would not only address the shortage of residential care homes, reduce the waiting times for residential care places, but also create employment opportunities for the construction and health care sectors. Those who lived in the neighbourhood could also benefit from the increased job opportunities. FS acknowledged that with the aging population, the demand for subsidized residential care places for the elderly would increase. To this end, an additional \$16 million had been earmarked for the provision of more subsidized residential care places in new purpose-built residential care homes for the elderly. The Commission on Poverty and Elderly Commission would continue to explore ways to meet the challenge effectively. He would be pleased to exchange views with Mr SIN on his proposal.

Welfare services

21. Mr SIN Chung-kai held the view that the working poor, i.e. those who were not required to pay salaries tax but were not eligible for CSSA, had been missed out in the tax and CSSA payouts under the 2007-2008 Budget. He suggested that a one-off payment of between \$1,000 and \$2,000 should be made to these low income earners. SFST explained that a number of tax concessions and one-off measures had been included in the Budget. The provision of one additional month of standard payments to CSSA recipients and Social Security Assistance recipients had taken into consideration the needs of different sectors of the community. Besides, it would be difficult to identify the low income earners.

22. While commending FS for the Budget which had provided concessions for both the middle-class and CSSA recipients, Mr LEE Wing-tat shared the view that the Budget had failed to cater for the 730 000 working poor (or 420 000 low-income households) who had been identified by the Commission on Poverty. Apart from the concessions on rates and transport, these low-income households were not entitled to tax concessions nor additional CSSA payments as they were not required to pay tax and not eligible for CSSA. It was ironic that they could not benefit from any one-off grants under the Budget which the rest of the community would enjoy just because they were being self-reliant. He opined that these low-income households should be equitably provided with one-off payment not less than what was provided to CSSA recipients. He also agreed with Mr SIN Chung-kai that there were ways to access to these low-income earners who had filed tax returns but were not required to pay tax.

23. FS acknowledged that some people, such as retirees, might not be able to enjoy the concessions provided under the Budget. On members' suggestion of providing one-off payment of between \$1,000 to \$2,000 to those low-income earners who had filed tax returns but were not required to pay tax, FS said that it was unlikely that there would be too many of these low-income earners because few employers would file tax returns for their employees whose salaries were below the basic allowance. Besides, the proposed one-off payment would not be fair to those low-income earners who had to pay tax.

24. Mr Albert HO however pointed out that those who had to pay tax would at least earn \$10,000 per month. They were much better off than those who were not required to pay tax because they only earned an average of \$5,000 to \$6,000 per month which was below the basic allowance. These people usually had to work very long hours but were not eligible for CSSA or other welfare payments. He agreed with other members that more assistance should be provided to the working poor who should not be left out from the concessions provided under the Budget. He urged FS to re-consider the proposed one-off payment to the working poor to show the community's appreciation for their self-reliance. FS said that in an affluent society, the Government had the responsibility to help the poor and to provide assistance to the needy. The Commission on Poverty was mindful of the need to assist the working poor and had held in-depth discussions on ways to prevent or alleviate poverty. While agreeing that the working poor should be respected and commended for their self-reliance, FS stressed that CSSA recipients were also able to contribute to the society. With appropriate assistance, they could move from welfare to self-reliance.

25. Miss CHAN Yuen-han said that she could not agree with FS that concessions should be offered to those who had paid tax but were not applicable to those who were not required to pay tax. She pointed out that despite having worked hard and for long hours, the low-income earners were not able to earn enough to be eligible to pay tax. It was not fair that those who had no property, were not required to pay tax and were not eligible for CSSA should be missed out from the concessions provided under the Budget. There was a need for the Government to work out more long-term measures to resolve the problem of structural unemployment and to narrow down the disparity of wealth. Efforts should also be made to assist upward mobility of the working poor through promoting employment. FS said that the tax regime was a common tool to narrow down the disparity of wealth between the rich and the poor. Notwithstanding, the Government had put in considerable resources in welfare over the past years and would be spending over \$30 billion on the provision of welfare services in the coming year. In fact, welfare services had been allocated with the highest provisions in the past 10 years.

26. Mr LEE Cheuk-yan noted that the number of people who were earning less than \$9,000 per month had remained unchanged over the past 10 years. Despite that their living standard had not improved over the years, they had been left out in the 2007-2008 Budget. He was also concerned that the concessions provided in the Budget were only short-term one-off measures. Given that the current public expenditure had lagged behind the annual economic growth of 6.8% by about 2% to 3%, the Administration should make more long-term investments on education, health care and welfare services in order to return the wealth to the people rather than clinging onto its reserves. He supported that more measures, such as transport concessions in addition to the one-year pilot Transport Support Scheme to be implemented in the middle of this year, should be introduced to assist the working poor and the unemployed to work and seek jobs across districts respectively.

27. FS said that over 50% of government expenditure was spent on education, health care and welfare services in the past. In fact, the growth in expenditure on welfare services was the highest among all other services over the past 10 years. This had demonstrated the Government's commitment to caring for the underprivileged.

28. Mr CHAN Kam-lam congratulated FS for a most successful Budget despite some criticism that it was not able to take into account the needs of all walks of life. To further improve the Budget, consideration should be given to relaxing the permissible limit of absence from Hong Kong for recipients of OAA and further reducing the duty on alcoholic beverages with a view to promoting the development of Hong Kong as the region's wine exhibition, trading and logistics centre. More transport concessions should also be provided to the elderly and people with disabilities to meet their transport needs. Noting from Chart 15 that about 1.6% of the working population was earning less than \$4,000 per month, he was of the view that more should be done for the low-income families. He would suggest that more job opportunities, such as those in relation to housing management and maintenance, cleansing and domestic duties, etc., should be created for low-skilled workers to alleviate their hardship. FS said that the Government had been providing assistance to the working poor through spending on social welfare, medical services and education. In addition, about \$900 million had been allocated within the 2007-2008 Budget to implement a series of measures to help the disadvantaged, including those that promote employment, support the development of social enterprises, strengthen families, nurture children and take care of the elderly. Members should note that the Government had made continued efforts in looking after the needy and the Budget measures were in addition to what had already been in place. He would welcome members' suggestions on ways to alleviate hardship of the underprivileged, including the creation of job opportunities for low-skilled workers. Meanwhile, efforts would be taken to enhance the protection of low-skilled workers through the Wage Protection Movement which would be reviewed by the end of 2007.

Health care services

29. Dr KWOK Ka-ki said that despite the many giveaways, the Budget failed to provide the necessary assistance to the needy and the underprivileged. He pointed out that the additional provision of about \$600 million for health care services would only be able to cater for the increase in demand for medical services as a result of population growth. Many problems, such as severe shortage of medical staff, extended working hours of medical doctors, and drugs beyond the affordability of many cancer and psychiatric patients, had yet to be resolved. With the consolidated surplus of over \$55 billion, the Administration should consider providing one-off measures to assist patients who were in need of proper medical care. Instead of awaiting the outcome on health care financing which might take years to implement, immediate measures should be taken to assist the needy patients and the aged. These included additional provision to reduce the long waiting time for residential care homes for the elderly. FS said that the Government had attached great importance to

health care and it took pride of the very high standards of public health care services in Hong Kong despite that public expenditure only comprised about 17% of GDP. Apart from the additional provision of \$300 million for health care services in 2006-07, more resources would be earmarked to enhance the health care services in the next two years. He said that the Secretary for Health, Welfare and Food would consult the public on the health care reform and financing this year, which would include a proposal on the provision of tax deduction for premiums paid to private medical insurance schemes.

Income disparity

30. Noting that the summary results of the 2006 Population By-Census released by the Census and Statistics Department (C&SD) had not included the Gini Coefficient (GC), a statistical indicator commonly used for measuring the degree of income disparity, Ms Audrey EU questioned the rationale for not releasing GC in line with past practice. There was skepticism that GC was deliberately omitted from the 2006 Population By-Census in view of its rising trend which might jeopardize the incumbent Chief Executive to seek re-election. She also noted that the Administration had previously indicated that GC might not be able to truly reflect the income disparity situation in Hong Kong. If so, whether there were more reliable statistical indicators. GE explained that given that changes in GC had attracted much public attention and that these changes might not be understood in the proper context by the general public, C&SD had announced the percentage distribution of household income rather than GC in its 2006 Population By-Census, and C&SD would do a more comprehensive analysis on GC for release to the public in mid-2007.

31. Ms Audrey EU pointed out that based on the information provided by the Administration, academics had assessed that GC for Hong Kong had increased from 0.52 to 0.56, reflecting a much wider disparity of wealth. She was concerned that the Administration had resorted to use other indicators rather than GC with a view presenting a more favourable situation. GE explained that GC was worked out having regard to the changes and distribution in household incomes which were affected by many factors, including changes in family structure such as the rise in the number of elderly living alone. Hence, there was a need to properly interpret the changes in GC. As different computation methodologies would result in different values of GC even if the same set of data were used, GE could not comment on the numbers calculated by the academics. However, C&SD would be pleased to share its findings in detail with researchers and academics who were interested in the subject when the detailed report on GC was released in mid-2007.

32. Referring to Chart 15, the Chairman opined that instead of showing salary ranges of full-time workers, the Administration should provide income levels of households to better reflect the disparity of income. GE said that the purpose of Chart 15 was to analyze the growth in economy and its effect on employment income. Hence, the salary range of the working population was used. In response to the Chairman's query on why the information on the number of low-income

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households was not provided, GE said that such information had been provided to members on a regular basis, and that the outcome on the analysis on household income distribution based on the summary results of the 2006 Population By-Census conducted by C&SD would be made available to the public in mid-2007. He added that while the number of households earning less than \$4,000 per month had been on the rise, it was worth to note that about 65% of such households were elderly families whose members had retired. FS added that Chart 15 was meant to compare the income range of the working population rather than the number of low-income households as the latter could not reflect the employment situation. To facilitate the examination of the Budget by members, the Chairman requested the Administration to provide a chart showing the number of households with the income ranges as set out in Chart 15. The Administration should also provide its analysis on the extent of disparity of income in Hong Kong.

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33. While thanking FS for the payouts under the Budget which would benefit many people, including members who were able to receive at least \$10,000 worth of tax concessions, Mr Fernando CHEUNG pointed out that these people were not those who were most in need of assistance. The grass roots had a hard time striving to make their ends meet during the deflation and economic downturn over the past eight years. The disparity of wealth between the rich and poor was on the rise as indicated by GC. With the anticipated huge surplus over the next five years, measures should be taken to assist the underprivileged and the needy, resolve problems associated with the ageing population and alleviate the income disparity situation. FS reiterated that GC was not the sole indicator on income disparity and GE had previously prepared a paper on the subject which was made available to the media. He stressed that the Government was committed to assisting the underprivileged and the aged and would continue to do so. As regards measures to resolve income disparity, he said that the maintenance of the standard rate for salaries tax at the existing levels would ensure that those who earned more would continue to pay more tax.

34. The meeting ended at 1:05 pm.