

**Legislative Council Motion Debate
on “Coping with inflation” on 16 January 2008**

Progress report:

Item (a) The 2008-09 Budget proposed waiving the rates for the whole year of 2008-09, subject to a cap of \$5,000 per quarter for each rateable tenement.

Item (b) The Budget proposed that the Government pay one month's rent for the lower income families living in the rental units of the Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HS). The Government will discuss with the HA and the HS the implementation details.

Item (c) When considering fare adjustment applications from public transport operators, the Government will continue to consider and balance the relevant factors, including public acceptability and affordability and the changes in operating costs and returns with a view to making a balanced decision.

Item (d) & (i) The Government signed the new post-2008 Scheme of Control Agreements with each of the two power companies on 7 January 2008. Under the new Agreements, the permitted rate of return of the two power companies will be reduced from the existing 13.5%-15% down to 9.99%. Based on the 2006 Average Net Fixed Assets of the two power companies, the total reduction in electricity payments for residential and commercial customers can amount to \$5 billion annually. Customers of CLP Power and Hongkong Electric can start to enjoy basic tariff reduction from 1 October 2008 and 1 January 2009 respectively (i.e. the commencement date of the new Agreements).

Item (e) & (p) With regard to the policy on food, the Administration's main concern is to ensure food safety and stable supply. The livestock for consumption by the public mainly comes from the Mainland. To maintain a stable supply, the Food and Health Bureau (FHB) has all along maintained close liaison with the relevant government departments in the Mainland and the agents, and closely monitored the supply of livestock from the Mainland to Hong Kong. In July 2007, following a discussion between the FHB and the Ministry of Commerce of the People's Republic of China (MoC), the MoC

announced the opening of the market for importing live pigs from the Mainland with a view to broadening the source of importation of pigs and stabilizing the supply. Since the announcement in July 2007, two more agents have joined the market.

The FHB and the MoC have met again in mid-January 2008 to identify ways to improve the flow of market information and work out measures to secure a stable supply. The new measures include suitable arrangements to be made by the MoC to maintain a stable supply of pigs to Hong Kong to meet the needs of the general public. To enhance market transparency, the MoC would on a daily basis notify the Administration the quantity of live pigs to be supplied to Hong Kong the following day and we will then make this known to the public accordingly. This will enable the market players, including the buyers and retailers, to have a clear picture about the supply of live pigs, which in turn will help stabilise the wholesale price of live pigs. We also understand that the MoC has allowed 31 more enterprises to export live pigs to Hong Kong in end-January 2008. This makes it easier for the agents to source pigs from the Mainland.

As for other kinds of food, including vegetables and fruits, poultry eggs, live and frozen aquatic products, poultry and meat, they are imported both from the Mainland and other parts of the world.

As a highly open economy, Hong Kong adheres to the principle of free trade in food import as well. Foods from all over the world (including the Mainland), as long as they are fit for consumption, can be imported and distributed in Hong Kong according to market demand, thus promoting diversity in local food choices and prices to cater for customers with different spending power. We believe that market forces should help maintain the stable supply of various kinds of food effectively.

Item (f) The Government has been closely monitoring the movement of Social Security Assistance Index of Prices (SSAIP). The annual adjustment cycle of the Comprehensive Social Security Assistance (CSSA) standard payment rates takes into account the movement of the SSAIP for the past 12 months ending in October each year.

We cannot resume our previous practice of making adjustment to the CSSA standard payment rates on the basis of the forecast inflation. No matter how thorough and sophisticated the forecast is conducted, discrepancies between the forecast and the actual inflation are inevitable and hence will have significant impact on Government expenditure. For example, the additional Government expenditure incurred due to the cumulative over-provision of CSSA and Social Security Allowance (SSA) payment was \$8.3 billion for the six years from 1999-2000 to 2004-2005. Also, when there is any over-estimation of the SSAIP, the Government would need to adjust the payment downwards so as to offset the over-estimated increase. The recipients may find it difficult to adapt to the downward adjustment.

Item (g) & (l) The Budget proposed to provide one additional month of the standard rate of CSSA payments for CSSA recipients. Furthermore, we will also make an in-year adjustment of CSSA standard payment rates. These measures will help CSSA recipients to tide over the relatively high inflation period.

The CSSA standard payment rates are adjusted according to the movement of the SSAIP. We have increased the standard payment rates of CSSA by 2.8% on 1 February 2008 in accordance with the established mechanism to maintaining the purchasing power of the payment.

Item (h) & (r) The Government will also provide a one-off grant of \$3,000 to each OAA recipient to allow them to share the fruits of our economic growth. We will explore an option in respect of the OAA such that it can provide adequate assistance to the elderly in need, ensure the proper use of public money, and be sustainable and affordable for the community. Labour and Welfare Bureau will seek the views from various sectors of the community. It is hoped that a decision can be made by the end of this year.

Items (j), (m) & (n) In general, the Government's fees and charges policy is to apply the "user pays" principle to recover the full cost of services provided. It is an important financial discipline that the Government should observe. If the fees are recovering less than cost, the Government will have to use general taxpayers' money to subsidize the individual users of government services, which may not be fair to the general taxpayers. That said, in the setting or review of fees and charges, the Government will also take into consideration other policy objectives, public acceptability and affordability, and LegCo Members' views.

With effect from the school year 2008/09, the Government will provide 12-year free education. The Government has also agreed to waive the fees and charges for sports and recreational facilities for the 3 months from 1 July 2008 to 30 September 2008. We consider that an across-the-board freeze or waiver of Government fees and charges is not appropriate.

Item (k) The Government agrees that the current traffic distribution among the three road harbour crossings is uneven, and there is room for improvement. We have always attached importance to resolving this problem. We are keeping an open-mind and will study all possible options in earnest. We consider that no matter which option is to be adopted, it must be able to bring about overall benefit to the public, be fair to taxpayers and help to achieve reasonable distribution of traffic.

In the meantime, we need to consider whether the road network connecting the three crossings have sufficient capacity to absorb the increased traffic flow arising from a reduction of tunnel toll. This is because insufficient capacity of these connecting roads would undermine the objective of rationalisation of cross-harbour traffic flow by adjustment of tunnel tolls. In this connection, accelerating the construction of planned connecting roads, in particular the Central-Wanchai Bypass, is an important element in improving the distribution of traffic amongst the three crossings.

We are continuing our discussions with the franchisee of Route 3 on the option of extension of franchise in exchange for toll reduction, as well as the idea of a three-year toll reduction scheme on a trial basis, to rationalize the use of Route 3. Both the Government and the franchisee will adopt an open attitude in the discussions.

We will continue to urge the relevant Build-Operate-Transfer tunnel franchisees to take into account public acceptability and affordability in devising their tolling strategies.

Considering that there has been rising public concern about the upward trend in the cost of living, including transportation cost, and that the community has increasingly called for the Administration to help contain the increase of those fees and charges, particularly those within its control, we have recently taken the initiative to replace the originally proposed differential toll regime of \$12 for the Tsing Sha Control Area with a flat toll regime of \$8.

Item (o) The current concessionary duty rate for Euro V diesel is already at a very low level of only \$0.56 per litre, less than 6% of the retail price. For the duty on unleaded petrol, as private cars are not livelihood necessities, we do not see an urgent need to adjust the duty rate.

Item (q) The current approach to provide financial assistance to the elderly in Hong Kong consists of three pillars, namely, the CSSA Scheme and Old Age Allowance, the Mandatory Provident Fund Scheme, and voluntary private savings. The Government has also built up a vast safety net, providing special care and heavily subsidised services to the elderly in medical and housing policies. The elderly also enjoy various transport concessions.

The Government is now studying the sustainability of Hong Kong's three pillars of retirement protection. The Government will consider the findings of the study and other important factors such as preserving the traditional family values, maintaining the overall economic competitiveness, continuing a simple tax system, ensuring the sustainable development of the current social security system before deciding on the future course of action.

Item (s) In view of the growing community concern about the pilot Transport Support Scheme, the Administration has advanced and completed the review of the Scheme in February 2008.

As announced by the Financial Secretary in his speech to move the second reading of the Appropriation Bill 2008, the Administration after review of the Scheme considers that its objective should remain unchanged. However, the eligibility criteria of applicants and the subsidy period can be suitably relaxed. The ceiling for monthly income should be raised from \$5,600 to \$6,500, while the subsidy period should be extended from six months to 12 months. Having regard to the large area covered by these four districts, we will also allow eligible people working and living in the same district to apply for the allowance.

We must emphasise that the objective of the Scheme is to provide a time-limited allowance as an incentive for people in districts further afield to seek jobs across districts. It is not a long-term measure to subsidise the transport costs of the low-income group with public money.

Item (t) The Budget proposed to provide an additional monthly supplement of \$200 to Disability Allowance recipients aged between 12 and 64, and CSSA recipients in the same age group with 100% disability, with a view to further encouraging persons with disabilities to participate in activities away from home. The proposal will benefit 96,000 persons with disabilities. The Government has reported details of the proposal to the “Subcommittee to Study the Transport Needs and Provision of Concessionary Public Transport Fares for Persons with Disabilities” on 11 March 2008.

The Government is committed to creating a barrier-free physical environment in respect of access and transport for persons with disabilities. We have set out the obligatory requirements of the access and facilities of buildings under the Buildings Ordinance. The “Design Manual: Barrier Free Access” stipulates the obligatory and recommended design requirements for the facilities. In light of the changing social needs, the latest review was completed in 2007. We plan to submit a proposal on legislative amendment to the Building (Planning) Regulations to the Legislative Council within the current LegCo session.

To implement “Transport for All” policy, all newly built public transport interchanges and bus termini have been equipped with dropped kerbs. New facilities aside, the Government is committed to enhancing the existing traffic and road facilities. Over the years, the public transport operators have been allocating considerable resources in the provision of suitable facilities for persons with disabilities, such as barrier-free access and low-floor public buses. To facilitate persons with disabilities in using public transport services, the Government will continue to cooperate with the public transport operators for upgrading their facilities.

Item (u) The Government has all along been encouraging public transport operators, including MTRCL, to provide fare concessions to passengers taking into account their own operating conditions. Government also reflects passengers’ requests for provision of fare concessions to the Corporation. However, whether to provide fare concessions are commercial decisions of the Corporation.

Financial Secretary’s Office
March 2008