

立法會
Legislative Council

LC Paper No. FC135/07-08
(These notes have been seen
by the Administration)

Ref : CB1/F/1/2

**Notes of the meeting of the Finance Committee
for briefing members on the Estimates of Expenditure and budget proposals
on Thursday, 28 February 2008, at 10:35 am
in the Chamber of the Legislative Council Building**

Members present:

Hon TAM Yiu-chung, GBS, JP (Chairman)
Hon Emily LAU Wai-hing, JP (Deputy Chairman)
Hon James TIEN Pei-chun, GBS, JP
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
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, SBS, JP
Hon Bernard CHAN, GBS, JP
Hon CHAN Kam-lam, SBS, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, GBS, JP
Hon LEUNG Yiu-chung
Hon SIN Chung-kai, SBS, JP
Dr Hon Philip WONG Yu-hong, GBS
Hon WONG Yung-kan, SBS, JP
Hon Jasper TSANG Yok-sing, GBS, JP
Hon Howard YOUNG, SBS, JP
Hon LAU Chin-shek, JP
Hon LAU Kong-wah, JP
Hon CHOY So-yuk, JP
Hon Andrew CHENG Kar-foo
Hon Abraham SHEK Lai-him, SBS, JP
Hon LI Fung-ying, BBS, JP
Hon Tommy CHEUNG Yu-yan, SBS, JP
Hon Frederick FUNG Kin-kee, SBS, JP
Hon Audrey EU Yuet-mee, SC, JP
Hon Vincent FANG Kang, JP

Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Hon Alan LEONG Kah-kit, SC
Hon LEUNG Kwok-hung
Dr Hon KWOK Ka-ki
Dr Hon Fernando CHEUNG Chiu-hung
Hon CHEUNG Hok-ming, SBS, JP
Hon WONG Ting-kwong, BBS
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Prof Hon Patrick LAU Sau-shing, SBS, JP
Hon TAM Heung-man
Hon Mrs Anson CHAN, GBM, JP

Members absent:

Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon Martin LEE Chu-ming, SC, JP
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon Fred LI Wah-ming, JP
Dr Hon LUI Ming-wah, SBS, JP
Dr Hon YEUNG Sum, JP
Hon LAU Wong-fat, GBM, GBS, JP
Hon Miriam LAU Kin-yee, GBS, JP
Hon Timothy FOK Tsun-ting, GBS, JP
Hon Albert CHAN Wai-yip
Hon LI Kwok-ying, MH, JP
Dr Hon Joseph LEE Kok-long, JP
Hon Daniel LAM Wai-keung, SBS, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon Albert Jinghan CHENG, JP
Hon KWONG Chi-kin

Public officers attending:

Mr John TSANG	Financial Secretary
Professor K C CHAN, SBS, JP	Secretary for Financial Services and the Treasury
Mr Stanley YING, 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, JP	Principal Assistant Secretary for Financial Services and the Treasury (Treasury)

Mr Freely CHENG

Administrative Assistant to Financial Secretary

Ms Jessie WONG

Administrative Assistant to Secretary for Financial Services and the Treasury

Clerk in attendance:

Ms Pauline NG

Assistant Secretary General 1

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

Action

The Chairman welcomed Professor K C CHAN, Secretary for Financial Services and the Treasury (SFST), and his colleagues to the meeting. He also informed members that Mr John TSANG, 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 2007-2008 and the economic forecast for 2008-2009 as set out in charts 1 to 21 of the information pamphlet tabled at the meeting and attached in the Appendix. SFST then explained charts 22 to 40 which set out the 2007-2008 revised estimates, the major proposals contained in the 2008-09 Budget (to promote long-term development, to support disadvantaged groups, to leave wealth with the people and to provide for the future), the revenue and expenditure profiles for 2008-2009, and the 2008 Medium Range Forecast.

3. Mr Howard YOUNG noted that the Administration intended to increase the establishment of the civil service to implement the various proposals outlined in the Budget. Since some of the proposals, such as the exemption of duties on wine, beer and alcoholic beverages as well as the waiver of the Hotel Accommodation Tax, would reduce the workload of the civil service, he questioned the need for the increase in staff establishment. FS assured members that the Administration would endeavour to make effective use of manpower resources, and would not seek to increase the establishment unless justified. It was expected that there would be a 1% growth in the establishment of the civil service in the coming year to cater for enhanced services to the community.

4. Dr Fernando CHEUNG remarked that the Budget had provided more benefits to the business enterprises and the high income earners, such as lowering of profits and salaries tax, than for the low income families, the underprivileged, the elderly and the handicapped. Besides, the payouts to the poor were only one-off while those for the rich were for a longer term. As such arrangements might further widen the disparity between the rich and the poor, he enquired whether the Administration had assessed the impacts of these measures, particularly on the Gini Coefficient. FS said that in working out the package of Budget proposals, he had endeavoured to strike a balance to meet the needs of all classes in the community. He pointed out that the concessions in profits tax were subject to a ceiling of \$25,000 and would unlikely have impact on the Gini Coefficient, which reflected the disparity in income distribution. The payouts to needy families were meant to provide them with some financial relief. Given the fiscal surplus, Miss CHAN Yuen-han held the view that there should be more commitments on the part of the Government in assisting the needy families and the unemployed. Dr CHEUNG added that more assistance should be provided to the working poor who had been striving hard to meet their ends.

Admin

5. Ms LI Fung-ying noted from chart 15 that the employment conditions of lower-skilled workers had improved markedly. She enquired whether the wages and earnings of the low-skilled workers had also been correspondingly increased. GE said that available information had indicated that the wages and earnings of the low-skilled workers were on the rise. He agreed to provide more information on the wages and earnings of the working class for members' reference.

6. Mr WONG Yung-kan was concerned that no assistance was granted to local fishermen whose trade was seriously affected by the snow storms in the Mainland earlier in the year. FS said that he understood that the Agriculture, Fisheries and Conservation Department had been providing appropriate assistance to local fishermen.

Revenue

Tax

7. While acknowledging that the Budget was well received by the public, Dr KWOK Ka-ki was concerned about the narrow tax base and the unstable sources of revenue. Expressing similar views, Miss TAM Heung-man questioned the rationale for waiving the Hotel Accommodation Tax and the duties on wine, beer and all other alcoholic beverages, and increasing tax allowances. In her view, these would further narrow the tax base and run contrary to the Administration's policy intent to broaden the tax base. She also pointed out that the measures to reduce tax as proposed in the Budget had provided the wealthy middle class and the high-paid employees with more benefits than the average and low income families.

8. In reply, SFST assured members that the Administration would continue its efforts to broaden tax base. However, the proposals to waive certain taxes, such as the alcoholic duties and Hotel Accommodation Tax, were aimed at stimulating growth in the wine and hotel industries respectively, thereby creating more job opportunities and benefiting the public as a whole. As regards the tax rebates under personal assessments and salaries tax, these were meant to repay all tax payers for their endurance during the economic downturn in 2002-2003 when they had to pay more tax. FS added that upon implementation of the tax reduction proposals, all the major allowances and tax rates would have reverted to their 2002-2003 levels. It was also expected that 97 000 employees would be exempted from salaries tax by increasing the personal allowances. The proposed measures would leave wealth with the people.

9. Miss CHOY So-yuk remarked that tax concessions should be provided to encourage investments in environmental industries. FS welcomed Miss CHOY's proposal and suggested that details of the proposal could be forwarded to the Environment Bureau for consideration.

10. Mr Ronny TONG opined that the Government had been under-estimating its fiscal surplus over the past years, and it might be necessary to review the mechanism for assessment of revenue. FS explained that the discrepancy was mainly attributed to fluctuations in the revenue actually received. As regards the increase in income in 2007-2008, it was mainly due to the higher than expected revenue from stamp duties and land sales. Such income was expected to be much less in 2008-2009 with a decrease in turnover of stock trading.

Exemption of duties on wine, beer and alcoholic beverages

11. On behalf of Members belonging to the Liberal Party, Mr Tommy CHEUNG thanked FS for taking on board their views in preparing the Budget. He said that the restaurant and catering industries in which he represented were particularly thankful for the exemption of duties on wine, beer and alcoholic beverages. However, consideration should be further given to reducing the duty on spirits, as the current 100% duty on spirits had been undermining the competitiveness of liquor trading in Hong Kong. He remarked that more should be done by exempting tax on home loan interest, providing loans to first time home owners, improving public health care services, providing debentures for private kindergartens and increasing Old Age Allowance (OAA). FS thanked LP Members for their support. He said that the exemption of duties on wine, beer and alcoholic beverages was meant to promote the development of trading, storage and distribution of table wine. It would also help increase employment opportunities within the restaurant and catering industries. The request for reduction of duty on spirits would be given due consideration in future having regard to other policy objectives. As for LP Members' other requests, FS said that the Administration would be adopting a balanced approach taking into account the needs of the community.

Interest on student loans

12. Mr Albert HO was concerned about the high interest rates for non-mortgaged student loans, which was about 1.5% higher than the market rate. He considered it necessary for the Administration to reduce the interest rate as students had difficulty in repaying the loan, particularly those who had just entered the job market and were receiving very low salaries. Besides, the bad loans only represented less than 1% of the total number of student loans. His views were shared by Mr LEE Wing-tat and Mr James TO. While agreeing that the Administration would review the interest rates for student loans, SFST said that the risk factors had to be considered in the provision of non-mortgaged loans.

13. Mr SIN Chung-kai noted that most of the students pursuing self-financing sub-degree programmes had to pay tuition fees ranging from \$30,000 to \$50,000 per year. Other than means tested student grants, most of the students did not receive any subsidy from the Government, and had to rely on non-mortgage student loans with the current interest rate of 5.13%, which was 2% higher than commercial mortgage loans. As students would have much difficulty in repaying their debt after graduation, he urged the Administration to consider waiving the interest for such loans. More assistance should also be given to sub-degree students. FS agreed to look into members' suggestion of reducing the interest rates for student loans. He however pointed out that the assistance for sub-degree students would remain a policy decision of the Secretary for Education.

Expenditure

Health care services

14. Ms Emily LAU expressed disappointment that the Budget did not offer much in meeting the demand for health care services despite the substantial fiscal surplus. For example, the value of the health care vouchers for the elderly had not been increased as repeatedly requested by members. Nor were there any measures to reduce the waiting time for public health care services. Dr KWOK Ka-ki echoed that more resources should be provided to improve the health care services. SFST said that the Administration shared the concern about the need to improve public health care services. To meet the increasing demand for public health care services, the Administration proposed to increase the share of the cost of public health care services from the present 15% of government recurrent expenditure to 17%. Further consultation would be held on the options for health care financing.

15. Mr Ronny TONG welcomed the Government's pledge to set aside \$50 billion from the fiscal reserves to assist in the implementation of health care reform. Though the health care financing plan had yet to be materialized, he opined that the \$50 billion should be drawn down and set aside with a view to generating interests for future use. More details about the options for health care reform should be provided

Action

for public reference. FS said that \$50 billion would only be drawn from the fiscal reserves upon implementation of the health care reform. The Secretary for Food and Health would publish a consultation document on health care financing for public consultation shortly.

16. While commending the Budget which had responded to the needs of the community, Mr Alan LEONG pointed out that there was still much room for further improvement. For example, more funding should be earmarked for the provision of the much needed specialist services in the Kowloon East Hospital Cluster, and the expedition of the reconstruction of the United Christian Hospital.

Education

17. Ms LI Fung-ying was concerned that there was no corresponding increase in the percentage of subsidized university places following the provision of free senior secondary education from the 2008-2009 school year. She also expressed concern that there was no subsidy for students pursuing sub-degree programmes. SFST said that the Government was committed to increasing investments in tertiary education. However, there were policy considerations other than cost implications in the provision of additional subsidized university places.

18. Mr CHEUNG Man-kwong said that he noted that by 2033, the younger generation would have to take care of 2.17 million aged people in Hong Kong. An ageing population would be an internal challenge for Hong Kong as this would reduce its productivity. To this end, the Administration had emphasized the need to attract talented people from the Mainland and overseas to give fresh impetus to the economy and improve population structure. Given that the number of university places in Hong Kong had remained unchanged at 14 500 since 1989, and that the Government had been relaxing the entry requirements under the Quality Migrant Admission Scheme to allow university graduates with limited working experience to come to Hong Kong, Mr CHEUNG was concerned that local students would be placed in an disadvantaged position. He considered that with the current fiscal surplus, more university places should be provided for local students so that they could be more competitive in the job market. This would also increase the chances of sub-degree holders to receive university education. FS took note of these concerns, which would be looked into carefully by the Secretary for Education. He added that while there was a need to attract more talented people to Hong Kong, their qualifications and work experiences would be taken into account in determining their eligibility under the Quality Migrant Admission Scheme.

Infrastructural development

19. Mr WONG Kwok-hing noted with concern that despite the economic recovery, the unemployment rate of the construction industry remained high. He questioned whether the Administration was prepared to adhere to its earlier commitment of spending \$29 billion per year on public works. FS said that the spending on public

works would be increased from \$20.5 billion in 2007-2008 to \$21.8 billion in 2008-2009. Public works spending would be significantly increased in the next couple of years after the commencement of a number of major rail and development public works contracts. The unemployment rate of construction industry was expected to decrease with increased spending on public works.

20. Mr CHAN Kam-lam expressed appreciation for the well-acclaimed Budget. He said that Members belonging to the Democratic Alliance for Betterment and Progress of Hong Kong had all along considered it unnecessary for all government office buildings to be located in central business districts from the perspectives of economic development and use of scarce land resources. He was pleased to note that the Administration would embark on a study on the relocation of the three government office buildings at the Wanchai waterfront, as this could free some precious land in the central business districts for the development of Grade A offices. FS agreed that the proposed relocation might provide more sites for development in the central business districts and would give fresh impetus to new districts such as Kai Tak Development Area and Tseung Kwan O, thereby increasing employment opportunities there. However, it was worth noting that some government services would need to be retained in the central business districts for the convenience of the community.

Transport Support Scheme

21. While welcoming the relaxation of the eligibility criteria for the Pilot Transport Support Scheme, Ms LI Fung-ying remained unconvinced that the Scheme should be confined to low-income families living and working in Tuen Mun, Yuen Long, North District and outlying islands, and could not be extended to cover all other districts as well. Miss CHAN Yuen-han and Mr LEUNG Yiu-chung shared similar views. Mr LEUNG also pointed out that the unemployment rate was high in areas such as Sham Shui Po and Kwai Tsing, and he supported extending the Scheme to cover these districts. SFST said that based on a review of the Pilot Transport Support Scheme, the Administration had decided that the eligibility of applicants could be suitably relaxed. Further relaxation of the Scheme to cover all districts would have to be subject to a further review by the Labour and Welfare Bureau, taking into account the effectiveness of the Scheme.

22. Mr LEUNG Yiu-chung opined that the provision of only \$200 worth of additional transport supplement to Disability Allowance (DA) recipients and Comprehensive Social Security Assistance (CSSA) recipients with 100% disability was far from enough to encourage disabled people to participate in activities away from home. He held the view that both DA and the transport supplement would need to be further reviewed.

Old Age Allowance

23. Mr LEE Cheuk-yan expressed concern that the payouts under the Budget lacked foresight and long-term commitments, and were primarily intended to benefit

business enterprises. For example, the decision against a rise in OAA was made on account of the increased financial burden in the long run, and the Pilot Transport Support Scheme would only be valid for a period of three years, subject to further review. Given the fiscal surplus, he held the view that the Government should make longer term commitments for the aged and the under-privileged, and earmark more resources for public health care services. FS said that the Government adopted a pragmatic approach in dealing with social issues. Consensus had to be reached on any longer term commitment on public finances to avoid hefty increases in tax in future. The Labour and Welfare Bureau would conduct in-depth studies on how to improve the OAA Scheme, and seek views from various sectors of the community. Meanwhile, each OAA recipient would be provided with a one-off grant of \$3,000 to enable them to share the fruits of economic growth.

24. Mr Ronny TONG however pointed out that there was a consensus among different political parties on the need to increase OAA, and yet the Administration had decided not to increase OAA on the ground that it would pose a considerable financial burden in the long run, based on its estimate up to 2033. He held the view that OAA should be reviewed from time to time, and more realistic estimates over a period of say 10 years should be used instead. Mr LEUNG Yiu-chung echoed that the Administration was trying to exaggerate the situation by making reference to estimates in 2033. He urged the Administration to take practical measures to address members' concern on the need for retirement protection for the general public. Miss CHAN Yuen-han agreed that retirement protection measures should be worked out for the benefit of the aged. FS said that the question of how to better utilize the available resources to provide more financial support to needy elderly would be considered in the context of the review to be conducted.

25. Mr WONG Kwok-hing enquired whether sufficient fund was available if the review supported an increase in OAA. FS said that the review of OAA Scheme would be conducted shortly and it was hoped that a decision could be made by the end of the year. Sufficient resources would be made available as necessary.

26. Miss CHOY So-yuk supported an increase in OAA for the elderly who were not eligible for CSSA but were in need of financial assistance. She also requested that the absence rule should be further relaxed such that elderly needed not stay in Hong Kong for at least 120 days in order to be eligible for OAA. Mr LEUNG Kwok-hung opined that OAA should be increased to \$1,000. FS said that members' views would be relayed to the Secretary for Labour and Welfare in preparing for the review of OAA.

Retirement protection

27. Mr WONG Kwok-hing said that Members belonging to the Hong Kong Federation of Trade Unions were pleased to note that most of their suggestions had been included in the Budget. He was particularly impressed by the proposed one-off injection of \$6,000 into the Mandatory Provident Fund (MPF) accounts of employees

Action

and self-employed persons who earned not more than \$10,000 a month. He enquired about the mechanism for distribution of the one-off injection, and whether this could be made a standing practice when the fiscal surplus reached a certain level in a financial year. This would allow for the sharing of wealth with the people. His views were shared by Miss CHAN Yuen-han. Given the changes in the economy, FS said that it would not be practical to set a level of fiscal surplus above which one-off injection would be made to MPF accounts of low income earners. Nevertheless, the Administration would endeavour to share wealth with the people.

One-month free rental

28. Referring to the proposal that the Government would pay one month's rent for lower income families living in the rental units of the Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HS), Mr CHAN Kam-lam noted with concern that such arrangement was not applicable to HA tenants who were required to pay extra rent or tenants of HS Group B estates. He said that HA tenants who were required to pay extra rent referred to those whose income had exceeded twice the income ceiling of eligible public rental housing families. They were in fact not much more "well-off" than the other public rental housing tenants, but they could not benefit from the one-month free rental. He suggested that these "well-off" tenants should also be eligible for the free rental. His views were shared by Mr James TO. Miss CHOY So-yuk also questioned why the free rental did not apply to tenants of HS Group B estates whose income was subject to a means test. Mr LEUNG Yiu-chung was not convinced that the Budget should benefit the rich through tax reductions while discriminating against the "well off" public housing tenants. FS said that the proposed one-month free rental was meant to ease the financial burden of needy families, and that a line had to be drawn on the eligibility for such payment. After careful consideration, it had been decided that the one-month free rental would not be applied to HA tenants who were required to pay extra rent or tenants of HS Group B estates.

29. Mr LEE Wing-tat noted that according to a recent survey conducted by the Society for Community Organization, the rentals for bedspace units and cubicles had increased significantly. For example, the rent for a 60-square feet unit had increased to about \$3,300 per month, which might have been attributable to the relaxation of rent control a few years ago. The low income families who were awaiting public rental housing would have to pay a sizeable portion of their income on rentals, resulting in reduced spending on other household items. With rising living costs, the low income families had been facing much difficulty in meeting their ends. FS agreed to discuss with relevant Bureaux the problem associated with the relaxation of rent control faced by occupiers of bedspace units and cubicles. A more concise rental survey taking into account the size of the bedspace units/cubicles would be conducted.

Electricity charge subsidy

30. While acknowledging that the Budget payouts were meant to provide financial assistance to the needy, Ms Audrey EU said that she could not understand why the electricity charge subsidy of \$1,800 should apply to all electricity accounts holders, irrespective of their affordability. The provision of the subsidy across the board was not only contrary to prudent financial principles, but also in conflict with the environmental policy of energy conservation. Consideration could be given to providing the subsidy for certain categories of electricity account holders whose electricity charges were below a certain level. She also asked how the subsidy would be distributed to tenants who were paying their electricity charges through landlords' electricity accounts. Mr James TO echoed that those who did not have their own accounts, for example tenants of bedspace units and cubicles, would not be able to benefit from the subsidy. He opined that more thoughts should be given to how to enable these tenants to benefit from the electricity charge subsidy.

31. In reply, FS said that the electricity charge subsidy was meant to subsidize the low income households. At present, about 20% of households paid an average of \$150 to \$300 a month for electricity charges, and the subsidy would be enough to pay their electricity bills for about six months. While the implementation details had yet to be worked out with the two electricity companies, the initial thinking was that the Government would be injecting the subsidy into the electricity bill accounts of eligible registered households in phases, and the subsidy could be carried over if not fully utilized. As such, the subsidy would not encourage over-consumption of electricity. He cautioned that more administrative costs would be incurred if the subsidy was to be confined to certain categories of electricity accounts.

32. The meeting ended at 12:55 pm.

Legislative Council Secretariat
24 September 2008