

**Special Meetings of the Finance Committee
to Examine the Estimates of Expenditure 2011-12**

Public Finance

(11:30 am - 1:30 pm on 25 March 2011)

**Speaking Notes
of the Secretary for Financial Services and the Treasury**

Chairman and Members,

This session of the special meetings of the Finance Committee will examine the expenditure estimates of the Treasury Branch and related departments. The Treasury Branch has oversight of several programmes, which cover revenue and financial control, provision of central support services within the Government and maintenance of government properties. Before the question session begins, I would like to brief Members on some points.

Estimates by Policy Areas

2. The estimated total recurrent expenditure for the three programmes mentioned above for 2011-12 is \$6,347.88 million, with about \$3,200 million on revenue and financial control, around \$2,300 million on provision of central support services within the Government, and approximately \$800 million on maintenance of government properties. The estimated expenditure for these three programmes for 2011-12 is about \$650 million higher than the revised estimate for 2010-11.

Key Areas of Work in the Coming Year

3. As regards the key areas of work in the coming year, I would like to highlight specifically the following key areas of work:

- In 2011-12, we will continue our efforts to seek to conclude comprehensive agreements for avoidance of double taxation (CDTAs) with more trading or investment partners and economies with development potential, thereby enhancing Hong Kong's competitiveness as an international business and financial centre. In fact, we have made significant progress in this respect since the LegCo approved the Administration's proposed legislative amendments early last year to allow Hong Kong to adopt the standard of the Organisation for Economic Co-operation and Development on exchange of information for tax purposes. In the past year, we signed 14 new CDTAs.

- We will continue to take forward various projects on construction of government office buildings in the coming year. The invitation of tenders for the construction of the Kai Tak Government Offices is underway, and we plan to seek LegCo's approval of the project in the next legislative year. We will continue to reduce leased office space in private properties, and in prime locations in particular, and will sell or lease out surplus government properties. Moreover, we will assist departments in drawing up relocation programmes to vacate under-utilised sites with a view to optimising the use of land resources.
- Regarding the maintenance of government buildings and facilities, we will continue to step up and promote our preventive maintenance work. Since 2010, we have been conducting detailed condition surveys for all government buildings and facilities once every four years. We have completed the detailed structural surveys for buildings aged 50 years or above and carried out immediate emergency repairs for those buildings in need. The remaining repair works will be looked after in our daily maintenance routines. We will carry on with our work on preventive maintenance and proceed to conduct detailed structural surveys for buildings aged 30 years or above. In addition, we have earmarked \$100 million in the coming financial year to progressively upgrade the existing barrier-free access facilities in government premises.
- We will continue to align our procurement with the green policy of the Government, having regard to the need to ensure value-for-money, openness and fairness in the process. Subject to market supply and availability of resources, the Government Logistics Department will actively adopt the promulgated green specifications in its procurement activities. At present, there are altogether 22 electric vehicles in the government fleet and another 11 will be delivered in midyear. Subject to the availability of suitable models in the market and the operational needs of departments, we plan to give priority to the procurement of electric vehicles in the 2011-12 and 2012-13 financial years. We expect to have an intake of close to 200 electric vehicles of various types in these two years for the use of various government departments.

Adjustments to the 2011-12 Budget

4. On 2 March 2011, the Financial Secretary announced the following adjustments to the 2011-12 Budget:

- (a) to give a sum of \$6,000 to all Hong Kong Permanent Identity Card holders aged 18 or above, involving an expenditure of around \$37 billion;
- (b) to inject funds into the Community Care Fund to provide assistance to those who cannot benefit from the above measure but who face financial hardship, including new arrivals; and
- (c) to reduce salaries tax and tax under personal assessment for 2010-11 by 75%, subject to a ceiling of \$6,000. The proposed tax concession is expected to reduce government revenue by about \$5.3 billion.

In addition, the Financial Secretary has decided not to pursue the proposal to inject funds into Mandatory Provident Fund (MPF) accounts.

5. To meet the expenditure likely to be incurred by the above two expenditure proposals in 2011-12, we plan to move a Committee Stage Amendment to the Appropriation Bill 2011 to increase the provision under Head 106 Subhead 789 by \$7.1 billion to \$58.8 billion, after offsetting the \$24 billion earmarked for the proposed injection into MPF accounts.

6. Taking into account the above adjustments, total government revenue for 2011-12 is estimated to be \$369.7 billion, and total expenditure will be \$378.2 billion. The forecast surplus of \$3.9 billion in the Consolidated Account will become a deficit of \$8.5 billion.

Proposal to Give a Sum of \$6,000 to Eligible Citizens

7. For the Treasury Branch under the Financial Services and the Treasury Bureau, one of the tasks in 2011-12 is to implement the proposal to give all eligible citizens a sum of \$6,000. Many Members raised questions about this proposal when considering the estimates of expenditure for 2011-12. We have consolidated the key points of our replies and set them out in the **Annex** for Members' reference.

8. Chairman, my colleagues and I will be happy to answer any questions that Members may wish to raise. Thank you.

Proposal to Give a Sum of \$6,000 to Eligible Citizens

On 2 March 2011, the Financial Secretary announced a number of adjustments to the 2011-12 Budget. One of the proposals is to give each Hong Kong Permanent Identity Card holder aged 18 or above a sum of \$6,000. This proposal leaves wealth with the people and also responds to public demands.

2. According to Article 24 of the Basic Law and Hong Kong legislation, residents of HKSAR shall include permanent residents and non-permanent residents. It is estimated that there are about 6.1 million and 1.1 million people aged 18 or above who are holders of permanent identity cards and non-permanent identity cards respectively. Holders of non-permanent identity cards comprise different groups of people, such as new arrivals, imported labour, foreign domestic helpers and others who come to Hong Kong for work or study, etc. Extending the proposal to non-permanent residents may not fit in with the objective to leave wealth with the people. Under Hong Kong law, a person attains full age on attaining the age of 18 years. Therefore, we propose that only Hong Kong Permanent Identity Card holders aged 18 or above would be given a sum of \$6,000. This is in line with the aim of leaving wealth with the people, and is a reasonable arrangement.

3. We are now working out the implementation details of this proposal. Since other places (such as Macao and Singapore) have implemented similar measures, it is only natural that people will make comparison. We would like to highlight a few considerations. First, the legal requirements for the protection of personal data privacy may vary from place to place. In Hong Kong, we consider the proper handling of personal data one of the key consideration in the implementation of the proposal. Secondly, the Financial Secretary's proposal is not a so-called "cash handout". Those who apply and are eligible may, having regard to their own wish, withdraw the sum upfront or choose to defer withdrawal in order to accumulate "savings bonus". Therefore, we must provide ways for eligible persons to exercise their choice. Those who do not want to receive the \$6,000 may also choose not to register for receiving the payment.

4. We need to establish a platform which can facilitate people's registration for and collection of the payment without compromising the protection of privacy. We are now discussing with banks to see if we can make use of the existing banking

network in building that platform. We have adopted this approach because banks already have the infrastructure, systems and experience required for handling customers' personal data and providing deposit and withdrawal services. In addition, there are about 1 200 bank branches in Hong Kong and many eligible persons already have bank accounts. Making use of the banking network to process registration and handle payment should be convenient for members of the public.

5. Our preliminary view is that some staggering arrangements should be made when implementing the proposal. This is to avoid bunching of over six million registrations within a short period of time, which will cause inconvenience to the public and may overload the system. In doing so, we must be careful in striking the right balance. If we spread out the registration and payment over a longer period of time, the process may become smoother. However, some may consider it unfair if they have to wait longer before their cases will be handled .

6. As mentioned above, one of the features of the proposal is that if people choose to keep the \$6,000 as "savings" and defer withdrawal for a certain period of time, they will receive "bonus". This arrangement will provide the public with an extra option. It may also help stagger registrations.

7. As regards the implementation timetable, we will finalise the details of the proposal as soon as possible and submit it to the relevant Legislative Council Panel for discussion in accordance with the established procedures. We will then seek funding approval from the Finance Committee. Once funding approval is given, we will immediately take forward the specific arrangements and announce the details so that registration will start as soon as possible. Since we are still at the planning stage, the timetable for inviting registration and making payment has yet to be confirmed.

8. The total estimated expenditure for this proposal and the exact requirements in 2011-12 are not known at this stage. With a sum of \$6,000 each for some 6.1 million eligible persons, and allowing a margin for expenditure on savings bonus and administrative cost, our rough estimate is that the proposal will cost about \$37 billion. Assuming 80% of the total expenditure will be required in 2011-12, \$29.6 billion will be earmarked under Head 106 Subhead 789. As in the case of other measures which require the approval of the Finance Committee, we will seek funding approval from the Committee in accordance with the established mechanism as soon as we have finalised the implementation details. We will also set out in the relevant paper the best estimates of the total expenditure for this proposal and the amount required in

2011-12. Subject to the approval of the Finance Committee, we will create a new item under Head 147 Subhead 700 for which the Permanent Secretary for Financial Services and the Treasury (Treasury) will be the Controlling Officer. The expenditure estimate for this item in 2011-12 will be deducted from Head 106 Subhead 789.

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