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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, 2 February 2012, at 11:00 am
in the Conference Room 1 of the Legislative Council Complex**

Members present:

Hon Emily LAU Wai-hing, JP (Chairman)
Prof Hon Patrick LAU Sau-shing, SBS, JP (Deputy Chairman)
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon LEE Cheuk-yan
Hon Fred LI Wah-ming, SBS, JP
Dr Hon Margaret NG
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon CHAN Kam-lam, SBS, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, GBS, JP
Hon LEUNG Yiu-chung
Hon Miriam LAU Kin-ye, GBS, JP
Hon Andrew CHENG Kar-foo
Hon Timothy FOK Tsun-ting, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon LI Fung-ying, SBS, 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, SBS, JP
Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Dr Hon Joseph LEE Kok-long, SBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP

Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon KAM Nai-wai, MH
Hon Cyd HO Sau-lan
Hon Starry LEE Wai-king, JP
Dr Hon LAM Tai-fai, BBS, JP
Hon CHAN Hak-kan
Hon Paul CHAN Mo-po, MH, JP
Hon CHAN Kin-por, JP
Dr Hon Priscilla LEUNG Mei-fun, JP
Hon CHEUNG Kwok-che
Hon IP Wai-ming, MH
Hon IP Kwok-him, GBS, JP
Hon Mrs Regina IP LAU Suk-ye, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon Alan LEONG Kah-kit, SC
Hon Tanya CHAN
Hon Albert CHAN Wai-yip
Hon WONG Yuk-man

Members absent:

Hon Albert HO Chun-yan
Dr Hon David LI Kwok-po, GBM, GBS, JP
Dr Hon Philip WONG Yu-hong, GBS
Hon WONG Yung-kan, SBS, JP
Hon LAU Kong-wah, JP
Hon LAU Wong-fat, GBM, GBS, JP
Hon TAM Yiu-chung, GBS, JP
Hon CHEUNG Hok-ming, GBS, JP
Hon WONG Ting-kwong, BBS, JP
Dr Hon LEUNG Ka-lau
Hon WONG Sing-chi
Hon WONG Kwok-kin, BBS
Dr Hon PAN Pey-chyou
Dr Hon Samson TAM Wai-ho, JP
Hon LEUNG Kwok-hung

Public officers attending:

Mr John TSANG, GBM, JP	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)
Mrs Helen CHAN, JP	Government Economist
Ms Alice LAU, JP	Deputy Secretary for Financial Services and the Treasury (Treasury)1
Miss Cathy CHU, JP	Deputy Secretary for Financial Services and the Treasury (Treasury)2
Ms Doris HO, JP	Deputy Secretary for Financial Services and the Treasury (Treasury)3
Ms Shirley LAU, JP	Principal Assistant Secretary for Financial Services and the Treasury (Treasury) (H)
Ms Shirley KWAN	Principal Assistant Secretary for Financial Services and the Treasury (Treasury) (R)
Mr Arthur AU	Administrative Assistant to Financial Secretary
Mr Raymond SY	Administrative Assistant to Secretary for Financial Services and the Treasury
Ms Elsie YUEN	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)

Clerk in attendance:

Mrs Constance LI	Assistant Secretary General 1
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Staff in attendance:

Ms Anita SIT	Chief Council Secretary (1)5
Mr Daniel SIN	Senior Council Secretary (1)7
Mr Frankie WOO	Senior Legislative Assistant (1)3
Ms Christy YAU	Legislative Assistant (1)8

The Chairman welcomed Mr John TSANG, the Financial Secretary (FS), Professor K C CHAN, Secretary for Financial Services and the Treasury (SFST), and his colleagues to the meeting.

2. FS said that a series of measures were proposed in the 2012-13 Budget to counter the risk of economic slowdown by supporting enterprises to preserve employment, promote economic development and to protect people's livelihood. Apart from proposals to implement the initiatives as announced in the Policy Address of the Chief Executive (CE), the Budget also included other proposals such as increasing land supply and continued investment in education, medical services, social welfare, housing infrastructure and various livelihood policy areas.

3. FS estimated that government expenditure would increase by nearly 70% to more than \$390 billion in 2012-13 as compared with 2007-08, which was significantly greater than the nominal growth of Hong Kong's gross domestic product (GDP) of 21% over the same period. The total expenditure on education, health care and social welfare in 2012-13 would be close to \$190 billion; recurrent expenditure would be around \$150 billion, representing a year-on-year increase of about 8%, and an increase by one-third as compared with 2007-08. He anticipated that there would be a consolidated deficit of \$3.4 billion in the next financial year.

4. While the external environment was volatile, given Hong Kong's strong economic fundamentals, FS forecasted that GDP would grow by 1% to 3% in real terms in 2012. The average underlying inflation rate was expected to drop from 5.3% in 2011 to 4% in 2012. The headline inflation rate was estimated to be 3.5% after taking into account the effects of the one-off measures proposed in the Budget.

5. Secretary for Financial Services and the Treasury gave a powerpoint presentation on the 2012-13 Budget and briefed members on the following:

- (a) major themes of the 2012-2013 budget i.e. stabilizing the economy, safeguarding people's livelihood and investing in the future;
- (b) major expenditure items;
- (c) major revenue measures;
- (d) estimates of government revenue for 2012-13;

- (e) estimates of recurrent government expenditure on various policy area groups for 2012-13; and
- (f) Medium Range Forecast covering the five years from 2012-13 to 2016-17.

Helping the "N have-nots"

6. Mr LEE Wing-tat, Mrs Regina IP, Miss Tanya CHAN, Mr Alan LEONG, Mr Fred LI, and Mr Ronny TONG expressed concern that while the Budget had introduced measures to provide financial relief for the middle class, no measure was introduced in the Budget to help the "N have-nots".

7. On the Administration's earlier explanations of having difficulties in identifying the "N have-nots", Mr LEE Wing-tat said that the Administration could identify this group of disadvantaged population through various non-governmental organizations (NGOs) that were serving them, and to ascertain their needs so that pertinent relief measures could be introduced. Mrs Regina IP said that, through its programmes, the Community Care Fund (CCF) should have gathered some basic information about the "N have-nots". The Administration could simply tap into CCF's clientele base and provide necessary assistance to them. Mr Alan LEONG suggested that the Administration lay down criteria for determining who would qualify as an "N have-not". It would be up to the applicants to prove their eligibility to receive assistance from the Government.

8. Noting that FS had not proposed to implement the Scheme \$6,000 again in the 2012-13 Budget, Mr Fred LI said that the "N have-nots" would feel being left out from the Budget measures. He suggested that the Administration should examine carefully the needs of the "N have-nots" and introduce suitable services through the CCF to address the needs of the "N have-nots".

9. Mr LEE Cheuk-yan criticized that the Budget was inequitable and disappointing despite FS's claim that it was a well thought-out budget; the "N have-nots" remained to be ignored whereas those who were wealthy were continued to be given more benefits under the Budget. Mr LEE further criticized that the Budget lacked long-term commitment and investment in healthcare, education and welfare services. He asked if the Administration would increase recurrent expenditure by \$20 billion in these areas to help more people in poverty.

10. Mr CHEUNG Kwok-che said that it was important to address the needs of the "N have-nots" in the Budget. For a number of years, the Administration had not cared about this group of the community. He asked if the Administration would provide information about the size of this group and how much resources would be required to address their needs.

11. FS responded that the most practical way to support the grassroots population was to increase government recurrent expenditure for providing services. In fact, nearly 70% of the total government expenditure for the coming financial year would be recurrent expenditure. Of this, expenditure in education, health and social welfare accounted for almost 60%. Expenditure on capital works was sizable and was important to the public in the long term. One-off initiatives accounted for a very small portion of the Budget. As a whole, the Budget should be able to offer support to a wide cross-section of the community. The Administration was ready to consider incorporating initiatives implemented on a pilot basis under CCF into the Government's regular programmes, taking into consideration the views of the CCF Steering Committee. Corresponding resources would be allocated as appropriate. FS further said that the respective committees under CCF would formulate suitable projects to help those who were not being adequately covered under existing policies.

12. Mr CHEUNG Kwok-che said that the Welfare Committee of CCF had tried but was not able to obtain relevant information from the Housing Authority, such as the number of applicants who had remained on the waiting list of public housing (the Waiting List) for more than three years and their expenditure on rents, making it difficult for the Welfare Committee of CCF to devise suitable programmes to help the "N have-nots". FS agreed to refer Members' request to provide statistics related to the Waiting List to the Secretary for Transport and Housing (STH), and to ask STH to get prepared to answer members' questions at the relevant session of the special FC meetings.

13. Mr Frederick FUNG criticized that the tax-related measures in the Budget would only benefit those who were already wealthy, and suggested that the Administration should invite CCF to develop programmes to support to the "N have-nots", and then allocate resources for their implementation. Mr FUNG estimated that there should be less than 200 000 in this group and an allocation of around \$2 billion should suffice.

14. FS responded that the Administration would provide necessary financial provision if a policy had been established. As regards Mr FUNG's comments on tax measures, FS advised that Members should not consider

individual Budget measures in isolation, but should consider all proposals as a whole as they were designed to help various sectors of the community.

15. Mr James TO said that while the Administration attempted to help a large part of the community through the Budget, it missed out the "N have-nots" who numbered about 100 000 to 200 000. FS could win the community's applause if measures were introduced to address specifically the problems faced by the "N have-nots". The extra resources required would not be substantial. Mr TO was confident that the community would find it acceptable if such special measures were to be financed by scaling down some of the proposed relief measures in the Budget.

16. FS responded that CCF was designed to provide assistance to the needy who were not covered under the existing social welfare safety net. The CCF Steering Committee could determine appropriate programmes to meet the needs of the "N have-nots" people. Mr TO contended that it was not appropriate for the Administration to shift its responsibilities to CCF as the problems faced by the "N have-nots" was not just related to social welfare. The Budget should be self-contained and include suitable measures to address the needs of the "N have-nots" in the community.

17. The Chairman asked if FS would reconsider members' suggestions to revise the Budget, to help the "N have-nots" people in particular. FS reiterated that the Administration had thoroughly considered relevant suggestions in preparing the Budget, and the Budget was well received by the community at large. There was limited room for change.

Provision of rental subsidy

18. Mr LEE Wing-tat said that the Democratic Party (DP) and various other political parties had suggested that a two months' rental subsidy should be provided to eligible public housing applicants on the Waiting List. The subsidy could be disbursed through CCF. He urged FS to reconsider the proposal.

19. Miss Tanya CHAN said that the proposed rates waiver on rateable properties was not helpful to tenants of private housing, and tax deduction for private housing rental expenditure would be more practical for these tenants. She queried why the Administration did not accept the proposal. Ms Miriam LAU expressed a similar view and added that the Liberal Party had also recommended tax deduction for private housing rental expenditure.

20. Mr KAM Nai-wai said that as public housing tenants enjoyed subsidized accommodation and property owners were given tax deduction for home loan interest for an extended period under the Budget, it was only fair that similar assistance was provided to tenants of private housing. He asked under what circumstances FS would consider amending the Budget to incorporate the suggestions from many political parties to provide rental subsidy to public housing applicants on the Waiting List, or to provide tax deduction for private housing rental expenditure.

21. FS reiterated that the Administration had considered Members' suggestions carefully. The proposals in the 2012-13 Budget had been thoroughly considered and were well supported by the community. Hence there was little room for changes. Provision of rental subsidies to tenants of private housing involved a substantial policy change. Thorough discussions in the community were necessary before any such measure was to be introduced. Care must be taken to avoid distorting the rental market, lest lengthening the waiting time for public housing allocation. It was, however, up to the CCF Steering Committee to determine whether or not one-off allowances should be provided to help tenants of private housing. The Administration would be ready to consider suggestions for additional injection into CCF to facilitate implementation of initiatives proposed by CCF.

22. As regards tax deduction for rental expenditure, FS replied that during Budget consultation, many different tax-related proposals had been received. Most of the suggestions were short of benefiting a sufficiently wide cross-section of taxpayers, and the provision of tax deduction for rental expenditure had the demerits of complicating Hong Kong's existing simple tax system. The tax measures currently proposed in the Budget would benefit the majority of the taxpayers.

23. Mr WONG Kwok-hing said that he was glad that FS had accepted the proposal of the Federation of Trade Unions in providing tax allowances for employees. He was however disappointed with the absence of long-term commitment to supply more public housing units to shorten the waiting time to two years and the Administration's refusal to provide tax deduction for private housing rental expenditure. As such, the Budget could do little to narrow the wealth gap in the community.

24. FS responded that the Administration planned to provide 75 000 public housing units in the coming five years, so as to maintain the average waiting time at three years or less. He reiterated that any proposal to provide tax deduction for private housing rental expenditure or rental subsidies to

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tenants of private housing involved a significant change in policy and should first be thoroughly debated in the community.

25. Dr Margaret NG contended that the proposal to provide a rental subsidy for eligible public housing applicants living in private properties and remained on the Waiting List for more than three years should not involve a change in policy. She explained that such a subsidy was a means to meet the Administration's pledge of providing subsidized housing to eligible public housing applicants within three years of submitting applications. She asked the Administration to provide information on the number of applicants having been on the Waiting List for more than three years, and the amount of public funds required to provide a rental subsidy for these applicants.

26. FS responded that he had no information off-hand about the number of public housing applicants who had been on the Waiting List for more than three years. He added that the proposal was not merely a matter of resource allocation. He would defer to STH to discuss the proposal and related issues with Members at the relevant session of the special FC meetings.

27. Mr Frederick FUNG said that the Hong Kong Association for Democracy and People's Livelihood had made a similar proposal in the 1990s. The Housing Authority had accepted the proposal partially and given a rental subsidy to elderly applicants who had been on the Waiting List for more than three years. As there was already a precedent to provide a rental subsidy to public housing applicants and the subsidy could be provided on a one-off or short-term basis, there was no need to await a new policy to provide a rental subsidy to eligible public housing applicants.

28. Mr LEUNG Yiu-chung said that the Budget should serve a wider purpose than wealth redistribution and stimulating the economy; it should provide relief to the grassroots population. He criticized that the Administration did not care about the "N have-nots". He argued that FS's claim that financial provision would only be provided on initiatives after a relevant policy had been established was contrary to the introduction of the Scheme \$6,000 last year, for which no policy had existed. Mr LEUNG also disagreed with FS that the provision of a rental subsidy or tax deduction for rental expenditure would involve policy issues. He said that FS was only putting up excuses to disguise its unwillingness to care for the "N have-nots" in the community.

29. Mrs Sophie LEUNG commented that the Administration must carefully assess the implications of providing housing subsidies to tenants of private housing, as such measure might end up subsidizing property owners

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with public funds. The Administration should instead review the overall demand and supply of public housing to meet the needs of the community. FS agreed that the Administration should assess the implications of any policy carefully in consultation with stakeholders concerned.

Tax measures

30. Mr IP Kwok-him said that FS had responded positively to many of the recommendations from the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB). He asked whether the tax allowance for maintaining dependent parents and the child allowance could be further increased.

31. FS responded that the tax allowance for maintaining dependent parents/grandparents as well as the child allowance and the additional one-off child allowance in the year of birth were raised by 20% in the 2011-12 Budget. Although the proposed increase in the allowances in this year's Budget was more moderate, the cumulated adjustments in these two Budgets were already quite substantial.

32. Ms Miriam LAU queried the Administration on the reasons for proposing to reduce salaries tax and tax under personal assessment for 2011-12 by 75%, but not widening the tax band from \$40,000 to \$45,000 and reducing the marginal tax rate by 1%. FS responded that the current tax reduction proposal would benefit the majority of taxpayers without a permanent change to the tax base. Permanent Secretary for Financial Services and the Treasury (Treasury)(PS(Tsy)) supplemented that during the consultations many proposals had been received and it was not possible to adopt them all. The current tax proposals had been chosen because they would benefit the majority of taxpayers, provide relief to the middle class, and had only transitional impact on the tax base. If at the same time tax bands were widened and tax rates reduced, loss in tax revenue would be much greater and there could be structural impact on the tax base.

Forecast of public revenue

33. Mr Albert CHAN criticized FS for repeatedly under-estimating public revenue in preparing his annual Budgets. The under-estimation accumulated to more than \$500 billion over the past five years; the error in a single year had been as much as 39% of the expenditure of the relevant financial year. As public revenue was under-estimated, the Administration had not committed enough resources to public services that the Government could

otherwise afford. As a result, the grassroots population was further deprived of needed improvement to social support. On the other hand, the wealthy sectors continued to benefit from tax and rates concessions. The Budgets therefore reflected the Administration's preference towards the wealthy sectors over the "N have-nots". He said that a recent public poll had shown that 60% of Hong Kong people did not find the 2012-13 Budget acceptable. In anticipation that the Administration again under-estimated public revenue this year, and as the Government had substantial fiscal reserves, he asked if the Administration would consider revising the Budget to give \$8,000 cash handouts to the "N have-nots".

34. Mrs Regina IP expressed concern that the repeated failures of the Administration in making accurate forecast of public revenue reflected the inadequacy of knowledge and expertise of the Government's economic analysts, which had affected the quality and accuracy of medium range forecasts that were crucial for the Administration's long-term financial and policy planning. Mrs IP said that given the substantial fiscal reserves, the Administration should consider setting up an investment fund rather than entrusting the management of the reserves to the Hong Kong Monetary Authority. With a separate fund, the Administration could diversify investment strategically.

35. Mr Fred LI criticized that the Administration's erroneous revenue forecasts had hampered long-term fiscal planning. The practice of giving away budget surplus by way of one-off handouts was unhealthy, and would only raise public expectation for provision of similar handouts each year.

36. FS reiterated that the Budget had been well thought-out. He disagreed that the Administration was incompetent in making financial forecasts. He pointed out that accurate assessment of public revenue was not easy given the volatile external environment. Some measures, such as the modified land sale programme, were announced after the 2011-12 Budget was finalized, and their impacts on government revenue were not assessed during the Budget preparation process. As regards the suggestion of cash handouts to the "N have-nots", FS said that the circumstances leading to the Scheme \$6,000 in 2011 was rather extraordinary and the measure could not be regarded as a precedent.

37. Mr Paul CHAN commented that the deviations of the actual revenue amounts from the revenue estimations had been quite large. Putting aside the revenue from land sales, the total forecast of income from salaries tax over the past five years amounted to \$174.6 billion, as compared with the actual total of \$214.0 billion, representing a difference of \$39.4 billion or 22.6% deviation. The average difference was \$7.9 billion each year. As regards profits tax, the

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total revenue forecasted was \$407.2 billion over the same period as compared with the actual amount of \$483.4 billion, representing a difference of \$76.2 billion or 18.7% deviation. The average difference was \$15.2 billion each year. Mr CHAN queried about the reasons for the significant deviations, as individual taxpayers and companies had to file tax returns before the middle of a year; the Administration should have sufficient time and accurate information about the revenue from these categories due within the financial year. He asked what measures the Administration would introduce to improve the revenue forecast.

38. FS advised that given that Hong Kong was an externally-oriented economy, fluctuation in the economy was beyond the Administration's control and would cause wide variation on government revenue. For 2011-12, the Administration originally estimated that the revenue from profits tax and salaries tax would be around \$140 billion but the revised estimate was about \$170 billion. The original estimate was similar to the revenue amount in the preceding financial year. The Administration had considered different approaches to improve the accuracy of fiscal forecasts but it was difficult to predict the revenue from profits and salaries taxes as these revenue sources were volatile and were influenced by many uncertain external factors.

Injection into the Samaritan Fund

39. Mr CHEUNG Man-kwong was glad to note the Administration's initiative to inject \$10 billion into the Samaritan Fund, which was similar to DP's earlier proposal to set up a \$10 billion medication subsidy fund to help both the grassroots and the middle class to meet the escalating cost of medicine, especially those self-financed drugs for treating chronic illnesses. He asked about the details of the proposed enhancements to the Fund.

40. FS advised that the proposed \$10 billion injection into the Samaritan Fund would enable a greater variety of drugs and medical items to be included in the Drug Formulary. He referred members to paragraph 55 of the Budget Speech for an example of how a household that was not currently eligible for subsidy under the Fund would benefit by the proposed Budget measure. PS(Tsy) said that under the Fund's established mechanism, an applicant's assets were taken into consideration in the determination of their contribution ratio for drug expenses, in step of 2.5% for each tier. The plan was to exempt certain amount of an applicant's assets in the means test, and to widen each tier from 2.5% to 5%.

41. Mr IP Kwok-him noted that the \$10 billion injection into the Samaritan Fund was meant to support its operation in the next 10 years or so. Given the high cost of self-financed drugs and medical items, he asked if

additional injection would be considered if the funding was exhausted within the ten-year period. FS advised that on the average, the Samaritan Fund spent about \$200 million each year. Even if the scope of the Drug Formulary was expanded, the proposed injection would be sufficient to cover its operation for the next 10 years. The Administration would, however, be willing to consider further injection if necessary.

Supporting small and medium enterprises

42. Mr Andrew LEUNG commended that the Small and Medium Enterprise (SME) Financing Guarantee Scheme had been effective in helping many SMEs in times of economic downturn. Given FS's warning of possible economic downturn in 2012, he enquired how the Administration would support SMEs and preserve employment if the sovereign debt crisis hit Hong Kong.

43. FS advised that while the economy registered a growth of 7.6% in the first quarter of 2011, the growth dropped to, respectively, 5.3%, 4.3% and 3% in the second, third and fourth quarters. Hong Kong might even experience a negative growth in the first quarter of 2012. He did not yet see a clear way out of the sovereign debt crisis in the Euro Zone, the impact of which on the world economy and the Asian region could be severe. Hong Kong was an externally-oriented economy and the total value of external trade was four times its GDP. Any decrease in demand from the Euro Zone countries would gravely affect Hong Kong's economic prospect. The Budget, which included measures to stimulate the economy by 1.5 percentage points in 2012, was designed to prepare Hong Kong to brace for the worst possible outcome. Depending on the economic situation in the middle of the year, further stimulation measures might be introduced.

44. Mr Tommy CHEUNG commended the Administration for having responded to the needs of SMEs and the middle-class in the Budget as have been suggested by the Liberal Party for many years. He expressed concern about the difficulties faced by small wet market stall operators. He asked if the Administration would waive the licence fees or rents of wet markets managed by the Food and Environmental Hygiene Department. Mr CHEUNG further pointed out that the retail and catering sectors were facing escalating rentals. He asked if the Administration would increase the supply of commercial land to provide more shop space.

45. FS advised that the Administration would be ready to discuss with the relevant sectors to identify possible relief measures. As regards supply of business sites, the Budget had outlined the Administration's strategy in

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maintaining a stable and sufficient supply of business sites, which would include land to cater for the needs of the retail and catering sectors.

46. While supporting the Administration's initiative to strengthen vocational training in the catering industry, Mr Tommy CHEUNG expressed concern that the International Cuisine College would not admit students until 2014/15, so it would take some five or six years before the first cohort of qualified personnel could be available to meet the manpower demand of the sector. Meanwhile, the retail and catering sectors were facing acute labour shortage and high labour costs. He urged the Administration to introduce measures to help the sectors.

47. FS advised that the Administration had discussed with the retail and catering sectors, and had suggested that they could develop similar manpower training and development strategies, drawing reference from those of the construction industry. If the sectors could come up with specific manpower training and development proposals, the Administration would consider providing appropriate financial support.

Preserving employment

48. Mr IP Wai-ming criticized that the Budget was weak in preserving employment, as the Administration had not implemented new initiatives to create more varieties of jobs through promoting new industries. Mr IP asked if the Administration had any plans to prevent job losses in the event of a downturn in the economy.

49. Ms LI Fung-ying commented that there might not be an absolute correlation between preserving employment and supporting SMEs. Vocational training programmes and employee retraining schemes were unlikely to be effective in helping workers to secure jobs when even graduates were facing difficulties in seeking employment. She asked what indicators the Administration would use to assess the conditions of the employment market, and what specific measures the Administration would adopt, and what resources it would provide in times of economic downturn and rising unemployment. She also enquired about the specific measures the Administration would adopt to help employees who had lost their jobs but were not yet eligible for Comprehensive Social Security Assistance (CSSA).

50. FS said that the Administration was concerned that unemployment might rise again as the external environment began to deteriorate. From the economic crisis in 2008, the Administration had learnt that employment could be effectively preserved by supporting SMEs, as they employed about 50% of

Hong Kong's employees. Between 2008 and the present, unemployment had fallen to 3.3%, which meant that a hundred thousand jobs had been saved and full employment was attained. FS said that there was no single factor to determine the employment situation, but he remained the position that supporting SMEs would be effective in stabilizing the employment market. The proposed Budget measures should at least slow down the rate at which unemployment might rise in the event of economic downturn.

51. Ms LI Fung-ying suggested that the Administration should require SMEs not to lay off employees or cut salaries if these companies were to receive any assistance from public funds. FS advised that private companies should have the flexibility to cope with the changing business environment. It was not appropriate to impose stringent restrictions on recipients of business support measures.

52. Ms Cyd HO said that employees were most concerned about mass redundancy in times of economic downturn. She was concerned that the Europe sovereign debt crisis might result in considerable job loss in Hong Kong. The Administration proposed to support SMEs to preserve employment, but the effects of measures such as waiving the business registration fees or reducing a maximum of \$12,000 profits tax, etc., were hardly sufficient to keep companies afloat when business was poor. The largest proportion of a company's expenses was rent, but the levels of rent remained robust during recessions. Ms HO suggested that the Administration should implement unemployment protection measures, increase public housing supply, and institute unemployment loans or insurance.

53. FS reiterated that the Administration's strategy was to maintain the dynamics of the economy and support SMEs as they employed about half of the workforce in Hong Kong. Providing support to SMEs would help stabilize the employment market in times of economic downturn.

Transport subsidies

54. As regards the provision of transport subsidy to encourage employment, Mr IP Wai-ming criticized the Administration for refusing to adopt a dual-track approach and the application procedures were cumbersome. As a result, the number of applications was fewer than expected. He asked if the Administration would relax the eligibility criteria and adopt the dual-track approach so as to benefit more workers. Mr Ronny TONG expressed a similar view.

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55. Mr WONG Kwok-hing said that at the latest Legislative Council Question and Answer Session, CE undertook to follow up a recommendation from Dr PAN Pey-chyou to offer fare concessions to the elderly and persons with disabilities (PwDs) to travel on trams. He queried why the recommendation was not reflected in the Budget. Mr WONG said that there were about 35 000 passenger trips using trams each day, or 12 770 000 trips each year, by elderly and disabled passengers. As concessionary fare of \$1 per trip was being offered to elderly tram passengers, the Administration would only incur about \$12 million to extend the public transport fare concessions to trams. He asked if the Administration would follow up on this matter.

56. FS said that he would defer the queries to the Secretary for Labour and Welfare, who would brief Members on the latest development of the Work Incentive Transport Subsidy Scheme at the next meeting of the Panel on Welfare Services.

Measures relating to "doubly non-permanent resident pregnant women"

57. Ms Audrey EU said that during the latest Legislative Council Question and Answer session, CE outlined four strategies to tackle the problem of the increasing number of Mainland pregnant women "gate-crashing" into Hong Kong. Three of the four strategies would require additional manpower and resources for implementation. Ms EU asked if the Administration would make available adequate provisions to relieve the workload of frontline Immigration Department (ImmD) staff in identifying pregnant visitors from the Mainland. She also queried if the Administration planned to deploy extra manpower to crack down on illegal hostels used for the reception of Mainland pregnant women.

58. FS responded that respective Bureaux and departments were currently mapping out implementation details of the four strategies as outlined by CE. Resources would be provided as appropriate. Principal Assistant Secretary for Financial Services and the Treasury (Treasury)(H) added that in 2012-13, \$19 million would be provided to create 109 posts in ImmD for handling increase in passenger and vehicle throughput at boundary control points, coping with workload arising from one-way permit scheme, enhancing enforcement actions against bogus marriage and illegal employment. PS(Tsy) supplemented that in analyzing the resources to be devoted to a task, one should not just look at new resources, Bureaux/Departments were expected to, and did, redeploy existing resources to new tasks. In accordance with the FC's established procedure, details about such redeployed and new resources could be discussed at the relevant session of the special FC meetings.

Support for the elderly

59. Mr IP Kwok-him welcomed the Budget initiative to allocate \$900 million under the Lotteries Fund to improve the physical setting and facilities of as many as 250 district elderly community centres, neighbourhood elderly centres and social centres for the elderly across the territory. He asked what measures the Administration would introduce to reduce the waiting time of elderly people for allocation of a place in these centres. FS advised that 4000 more elderly centre places had been provided over the past years and the recurrent expenditure had been increased from \$3.3 billion to \$5 billion. The Administration would continue to seek improvement in this service area.

60. Referring to paragraph 57 of the Budget speech, Ms Cyd HO commented that the Chinese rendition of the term "dementia" should be "失智症" rather than "癡呆症". She criticized FS for using the derogatory term when many non-governmental organizations had long adopted the more neutral description. FS responded that he had consulted experts who advised him that there was not yet a consensus on the standard Chinese rendition on "dementia" among the medical profession.

61. Mrs Sophie LEUNG expressed support for the proposed measures to increase support on elderly centres. However, she cautioned that the levels of fees charged by private elderly centres under the brought place scheme were often linked to CSSA rates. Any reduction in CSSA rates would arouse strong reaction from the operators. Mrs LEUNG said that the Administration should offer incentives, such as matching grants, to encourage private elderly centre operators to improve services.

Health services

62. Mr CHAN Kin-po commented that the \$50 billion fund earmarked from the fiscal reserves to support the Health Protection Scheme (HPS) would worth only about \$35 billion in present value when it was to be implemented in 2015. As the Administration was committed to promoting health in the community, he asked what arrangement the Administration would put in place to ensure that sufficient resources were available to support HPS. FS advised that the \$50 billion allocation would provide incentives for promoting HPS, and implementation details were being worked out. This amount was indicative only and would be adjusted in accordance with the actual needs.

Action

63. Mr Ronny TONG expressed concern about the shortage of healthcare professionals, and enquired about the Administration's plan to increase the manpower supply. Deputy Secretary for Financial Services and the Treasury (Treasury)¹ said that provisions were available in the present Budget for the Hospital Authority to recruit registered nurses. The number of medical student places would also be increased by 100 to 420 for the 2012/13 to 2014/15 triennium. Corresponding increase in the number of nurse and specialist training places would be provided.

Heritage conservation

64. Miss Tanya CHAN queried why the Budget had not incorporated the proposal of setting up a fund for heritage conservation, to which the Secretary for Development had indicated support recently. FS responded that the relevant Bureau could seek necessary funding in accordance with the existing mechanism to implement initiatives that had been given policy support.

Issuance of iBonds

65. Mr CHAN Kin-po said that the market response to the first launch of iBond turned out to be more favourable than expected. The subscription rate for the second launch of iBond was therefore expected to be high. Mr CHAN asked if the Administration would increase the volume of iBond to be issued, and how the Administration planned to allocate the iBond if it was over-subscribed. FS advised that the iBond was mainly designed to promote the sustainable development of the retail bond market in Hong Kong, and it was an additional advantage that it provided investors with another option for coping with inflation. However, as the interest rates in the market continued to stay at low levels, the attractiveness of conventional fixed-rate retail bonds to investors had been limited. The issuance of iBond was a special measure having regard to the market situation. It was not a regular programme of the Government, and there was no plan to increase the volume of iBond in the second launch.

66. The Chairman advised that Members would have one week to submit written questions on the estimates of expenditure and that special meetings of the Finance Committee would be convened from 5 to 9 March 2012 to examine the estimates of expenditure.

67. The meeting was adjourned at 1:14 pm.

Legislative Council Secretariat

14 June 2012