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Panel on Financial Affairs

Meeting on 21 May 2012

Background brief on electricity charge subsidy

Purpose

This paper provides background information on the electricity charge subsidy proposed in the 2012-13 Budget, and summarizes the main concerns and views expressed by Members when similar measures were proposed by the Administration in the 2008-09 Budget and the 2011-12 Budget.

Background

2. To help ease the pressure of the economic downturn on Hong Kong, the Financial Secretary (FS) has proposed a number of one-off measures in the 2012-13 Budget. One of these measures is to grant each residential electricity account a subsidy of \$1,800, which will cost the Government about \$4.5 billion.

3. In the 2008-09 Budget, the Financial Secretary proposed to grant each residential electricity account a subsidy of \$1,800 to ease the pressure of inflation on households. The then proposal was to grant a subsidy of \$300 for six consecutive months to each residential electricity account. Any unused subsidy in a month would be carried forward for paying billed electricity charges under the same account within a three-year time limit to exhaust the subsidy. The Chief Executive subsequently announced on 16 July 2008 a further package of relief measures, and one of these measures was an additional electricity charge subsidy of \$1,800 per household. As such, a total of \$3,600 would be credited to each eligible resident electricity account by 12 consecutive months (i.e. a subsidy of \$300 in each month). The time limit for the eligible residential electricity accounts to exhaust the subsidy was extended to six years.

The two relevant funding proposals were approved by the Finance Committee on 23 May 2008 and 18 July 2008 respectively. Disbursement of the subsidy started from 1 September 2008.

4. In the 2011-12 Budget, FS again proposed to grant each residential electricity account a subsidy of \$1,800 to ease inflationary pressure on households. Under the proposal, each residential electricity account would be granted a subsidy of \$150 for 12 consecutive months. Any unused credit in a month would be carried forward to cover billed electricity charges under the same account until 31 August 2014 or the close of account, whichever was earlier. The relevant funding proposal was approved by the Finance Committee on 10 June 2011. Disbursement of the subsidy started from 1 July 2011.

Deliberations of the Panel and the Finance Committee

5. The major concerns and views expressed by Members during the discussions at the Panel on Financial Affairs¹ (the Panel) and the Finance Committee and the Administration's responses are summarized in the ensuing paragraphs.

Electricity charge subsidy proposed in the 2008-09 Budget

Households not eligible for the electricity charge subsidy

6. Some Members expressed concern that since only the registered users/holders of residential electricity accounts would be eligible for the proposed electricity charge subsidy, some households in particular needy families living in bedspace apartments and cubicles might not be able to benefit from the proposal. They suggested the Administration appeal to landlords to pass on the electricity charge subsidy to their tenants where the rent payable was inclusive of electricity charges.

7. The Administration advised that whether the landlord should pass on any amount of the subsidy to the tenant would depend on the terms of the tenancy agreement, and it would be inappropriate for the Government to intervene in contractual matters between landlords and tenants. The Administration also stressed that the proposed subsidy was part of the overall Government policy objective to leave wealth with the people and to benefit the majority of households.

¹ The Administration briefed the Panel on Financial Affairs on 5 May 2008 and 9 May 2011 on the electricity charge subsidy proposed in the 2008-09 Budget and the 2011-12 Budget respectively.

Environmental concerns

8. Some Members were concerned that the proposed electricity charge subsidy might encourage households to consume more electricity. There was a suggestion that the subsidy should be restricted to households with low electricity consumption.

9. The Administration explained that since the subsidy would be available for use over a period of three years² and any unused subsidy in a month could be carried forward for paying electricity charges under the same account till expiry of the three-year period or the close of the account, users would have sufficient time to fully utilize the subsidy and did not need to increase normal electricity consumption to exhaust the subsidy. The Administration also advised that prescribing an electricity consumption threshold as an eligibility criterion for the subsidy would be difficult and might involve high administration costs.

Disbursement of subsidy to the electricity companies

10. A Member expressed concern that the disbursement of subsidy to the two electricity companies might generate considerable income in the form of interest for them. The Administration explained that the subsidy would be disbursed to the two electricity companies having regard to the due dates of the electricity charges. For control purpose, the two electricity companies were required to provide relevant monthly reports to the Government.

Other concerns

11. According to the Administration, the electricity charge subsidy granted to a recipient of the Comprehensive Social Security Assistance (CSSA) would not lead to a reduction in the amount of CSSA payment to the recipient.

12. Regarding the arrangements for households that had changed their residence, the Administration advised that the subsidy was account-based and a household moving to another residential address would take up the account of the new residential address and be entitled to the credit for that account. The Administration also advised that as long as an eligible account existed on a credit date, regardless of whether it was currently an existing electricity account or a new account, it would be entitled to the subsidy at that credit date.

² A maximum use period of three years was applied to the \$1,800 electricity charge subsidy provided in the 2008-09 Budget. The maximum period was extended to six years under the subsequent proposal announced by the Chief Executive to grant a further \$1,800 electricity charge subsidy.

Electricity charge subsidy proposed in the 2011-12 Budget

13. Some Members expressed concern that the electricity subsidy scheme implemented in 2008 might have encouraged higher electricity consumption, and suggested that only those households which had consumed less electricity compared to a previous billing period or those households whose electricity consumption was below a certain threshold should be eligible for the subsidy. On the other hand, a Member opined that the increase in overall electricity consumption was attributable to a number of factors, and it would not be feasible to draw conclusions as to whether the higher electricity consumption was a result of the provision of the electricity charges subsidy and/or other factors. The Member disagreed to the proposal of linking the electricity charges subsidy, which was essentially a relief measure, to electricity consumption as such an arrangement would only complicate the subsidy scheme and add to its administrative costs.

14. The Administration responded that the purpose of the proposed electricity charges subsidy was to ease the pressure of inflation on households. It would not be feasible to link the proposed subsidy to electricity consumption because electricity consumption varied with a host of factors, many of which were unrelated to whether a household was environmentally conscious. Overall electricity consumption³ had continued to increase since 2003. No conclusion could be drawn as to what factors or how different factors might have contributed to the increase.

Discussions at Council meetings

15. At the Council meeting on 12 November 2008, Hon WONG Kwok-kin raised an oral question regarding the electricity charges subsidy for those residents in the Lower Ngau Tau Kok Estate who had to move homes due to the

³ The Administration provided the following information in the funding proposal to the Finance Committee-

Based on the total domestic electricity consumption published in the Hong Kong Monthly Digest of Statistics and the number of domestic accounts at year end, the average consumption per account since 2003 are as follows:

	Total consumption (GWh)	Number of domestic accounts at year end (million)	Average consumption per account (kWh)
2003	9 500	2.28	4 200
2004	9 500	2.31	4 100
2005	9 900	2.36	4 220
2006	9 800	2.39	4 120
2007	10 100	2.41	4 200
2008	10 300	2.44	4 220
2009	10 800	2.47	4 380
2010	10 900	2.50	4 380

redevelopment of the estate. Members requested the Government to devise measures to enable the residents concerned to enjoy the unused portion of the credited subsidy in the electricity accounts before removal, and to make the same arrangement for all other households moving home within the period during which the subsidy on electricity charges could be used.

16. The Secretary for Financial Services and the Treasury (SFST) replied that when devising the electricity charges subsidy scheme, the Administration already recognized that some payers of electricity charges might not be able to fully utilize the subsidy for various reasons. Noting that redevelopment of public rental housing estates and the related rehousing normally involved only the Housing Authority as a single landlord and its tenants, SFST undertook to discuss with the Transport and Housing Bureau and the electricity companies to explore whether there were feasible arrangements to deal with any unused subsidies for electricity charges accumulated by the tenants concerned, and whether such arrangements could be applied to other Housing Authority tenants who had to be relocated on the redevelopment or demolition of public rental housing estates.

17. At the Council meeting on 5 January 2011, Members passed a motion moved by Hon WONG Sing-chi urging the Government to take measures for ameliorating inflation and alleviating people's livelihood pressure. One of the proposed measures in the motion was "to provide a subsidy of \$3,600 to each of the 2.5 million or so residential electricity accounts in Hong Kong; and in order to encourage the public to reduce electricity consumption, to provide a subsidy of \$1,200 to members of the public whose electricity consumption in any half-year period is 5% or more less than that for the same period of the preceding year".

18. At the Council meeting on 2 November 2011, Members passed a motion moved by Hon LAU Kong-wah urging the Government to put forward effective measures in the 2012-13 Budget to alleviate the financial burden of middle-class people. One of the proposed measures in the motion was "providing each residential electricity account with an electricity charge subsidy of \$3,600".

Latest development

19. The Administration will consult the Panel on the proposal in the 2012-13 Budget on electricity charge subsidy at the Panel meeting on 21 May 2012.

Relevant papers

20. The relevant papers are available at the following links:

Meeting of the Financial Affairs Panel on 5 May 2008	Administration's paper Minutes (paragraphs 43-59)
Meeting of the Finance Committee on 23 May 2008	Administration's paper Minutes (paragraphs 34-44)
Meeting of the Legislative Council on 16 July 2008	Hansard
Meeting of the Finance Committee on 18 July 2008	Administration's paper Minutes (paragraph 15)
Meeting of the Legislative Council on 12 November 2008	Hansard (page 54-62)
Motion on "Urging the Government to take measures for ameliorating inflation and alleviating people's livelihood pressure"	Wording of the motion passed Progress Report
Meeting of the Financial Affairs Panel on 9 May 2011	Administration's paper Minutes (paragraphs 31-34) Administration's follow-up letter
Meeting of the Finance Committee on 10 June 2011	Administration's paper
Motion on "Alleviating the financial burden of middle-class people"	Wording of the motion passed Progress Report