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Finance Committee of the Legislative Council

Minutes of the 13th meeting
held at Conference Room 1 of the Legislative Council Complex
on Thursday, 23 February 2017, at 11:00 am

Members present:

Hon CHAN Kin-por, BBS, JP (Chairman)
Hon Michael TIEN Puk-sun, BBS, JP (Deputy Chairman)
Hon James TO Kun-sun
Hon LEUNG Yiu-chung
Hon Tommy CHEUNG Yu-yan, GBS, JP
Prof Hon Joseph LEE Kok-long, SBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP
Hon Paul TSE Wai-chun, JP
Hon Frankie YICK Chi-ming, JP
Hon YIU Si-wing, BBS
Hon MA Fung-kwok, SBS, JP
Hon Charles Peter MOK, JP
Hon CHAN Chi-chuen
Hon CHAN Han-pan, JP
Hon LEUNG Che-cheung, BBS, MH, JP
Hon Alice MAK Mei-kuen, BBS, JP
Dr Hon KWOK Ka-ki
Hon KWOK Wai-keung
Hon Christopher CHEUNG Wah-fung, SBS, JP
Dr Hon Fernando CHEUNG Chiu-hung
Dr Hon Helena WONG Pik-wan
Hon IP Kin-yuen
Dr Hon Elizabeth QUAT, JP
Dr Hon CHIANG Lai-wan, JP

Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon Alvin YEUNG
Hon CHU Hoi-dick
Hon Jimmy NG Wing-ka, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon HO Kai-ming
Hon LAM Cheuk-ting
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai
Hon SHIU Ka-chun
Hon Wilson OR Chong-shing, MH
Hon YUNG Hoi-yan
Dr Hon Pierre CHAN
Hon CHAN Chun-ying
Hon CHEUNG Kwok-kwan, JP
Hon HUI Chi-fung
Hon LUK Chung-hung
Hon LAU Kwok-fan, MH
Dr Hon CHENG Chung-tai
Hon KWONG Chun-yu
Hon Jeremy TAM Man-ho
Dr Hon YIU Chung-yim
Dr Hon LAU Siu-lai

Members absent:

Hon Abraham SHEK Lai-him, GBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon CHAN Hak-kan, BBS, JP
Hon WONG Kwok-kin, SBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon LEUNG Kwok-hung
Hon Claudia MO
Hon Steven HO Chun-yin, BBS
Hon WU Chi-wai, MH
Hon Kenneth LEUNG
Hon Dennis KWOK Wing-hang
Hon Martin LIAO Cheung-kong, SBS, JP
Hon POON Siu-ping, BBS, MH
Hon CHUNG Kwok-pan
Hon Andrew WAN Siu-kin
Hon Tanya CHAN
Hon Kenneth LAU Ip-keung, MH, JP
Hon Nathan LAW Kwun-chung

[According to the Judgment of the Court of First Instance of the High Court on 14 July 2017, LEUNG Kwok-hung, Nathan LAW Kwun-chung, YIU Chung-yim and LAU Siu-lai have been disqualified from assuming the office of a member of the Legislative Council, and have vacated the same since 12 October 2016, and are not entitled to act as a member of the Legislative Council.]

Public officers attending:

Mr Paul CHAN Mo-po, GBS, MH, JP	Financial Secretary
Professor K C CHAN, GBS, JP	Secretary for Financial Services and the Treasury
Ms Elizabeth TSE Man-yee, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Ms Carol YUEN, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) ¹
Mrs Helen CHAN, JP	Government Economist
Mr Andrew LAI, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) ²
Mr Raistlin LAU, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) ³
Mr Edmond CHU	Principal Assistant Secretary for Financial Services and the Treasury (Treasury) (H)
Mr Raymond WU	Administrative Assistant to the Financial Secretary
Mr Derek LAI	Administrative Assistant to the Secretary for Financial Services and the Treasury

Clerk in attendance:

Ms Anita SIT	Assistant Secretary General 1
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Staff in attendance:

Mr Derek LO	Chief Council Secretary (1) ⁵
Mr Frankie WOO	Senior Legislative Assistant (1) ³
Miss Yannes HO	Legislative Assistant (1) ⁶

**ITEM NO. 1— BRIEFING BY THE FINANCIAL SECRETARY
AND THE SECRETARY FOR FINANCIAL SERVICES AND THE
TREASURY ON THE 2017-2018 BUDGET**Opening remarks by the Financial Secretary

At the invitation of the Chairman, the Financial Secretary ("FS") briefed members on the 2017-2018 Budget. He said that the Budget would support the measures proposed by the Chief Executive in his Policy Address delivered in January to develop the economy and improve people's livelihood.

2. FS elaborated on three objectives in using public finance, as well as the future approach: first, developing the economy, promoting diversified development of industries, and providing more job opportunities; second, investing for the future so as to enhance competitiveness; and third, making good use of financial resources and allowing the public to share the fruits of economic advancement. FS said that, in developing the economy, the Administration would launch measures to consolidate the four pillar industries, and vigorously develop our advantageous and emerging industries in order to diversify economic development, with a view to enhancing competitiveness and opening up new markets. In addition, the Government would roll out a number of measures to support small and medium enterprises ("SMEs") and boost the tourism industry, so as to stabilize the economy and sustain the job market. Under the policy of investing for the future, the Administration would set up a committee on innovation and technology ("I&T") development and re-industrialization to coordinate Hong Kong's I&T development and re-industrialization. In the area of making good use of financial resources, the Administration would launch a number of one-off and recurrent tax and relief measures involving \$35 billion. The Government would also set aside \$61 billion from the surplus of this fiscal year, to strengthen elderly services and rehabilitation services for persons with disabilities, develop new or improve existing sports and recreation facilities, and support education for I&T development, as well as youth development. He pointed out in particular that the Budget for the coming year attached great importance to the provision of resources for those policies that aimed to care for the elderly, help the underprivileged and support youth development. He emphasized that, in the course of formulating fiscal measures, consideration had to be given to the nature and source of surplus, a balance between external and internal political and economic environments, and expectations of the community and needs of society, in addition to being financially sustainable.

3. FS advised that the Administration would set up a tax policy unit in the Financial Services and the Treasury Bureau to comprehensively examine Hong Kong's tax regime from a wider perspective, in order to improve its structure and, through various tax measures such as tax deductions for scientific research expenditure, to foster the development of the pillar industries, advantageous industries and emerging industries, so as to keep Hong Kong competitive.

4. FS said that he forecast a Gross Domestic Product ("GDP") growth of 2% to 3% in Hong Kong in the coming year, and an overall inflation rate of approximately 1.8%. The overall expenditure of the Government for 2017-2018 was estimated to be \$491.4 billion, the operating expenditure was estimated to be \$384.2 billion, and the recurrent expenditure, which accounted for over 90% of the operating expenditure, would reach \$371 billion. Education, social welfare and healthcare accounted for about 60% of the estimated recurrent expenditure, exceeding \$210 billion in total. In 2017-2018, a surplus of \$16.3 billion was forecast in the Consolidated Account. He forecast an annual surplus in the Operating Account for the coming five fiscal years but an annual deficit would surface in the Capital Account as from 2018-2019. There would be a small deficit in the Consolidated Account in 2020-2021 and 2021-2022. To sum up, the Government would be able to maintain a balanced fiscal position in the next five years. Fiscal reserves were estimated at \$942.9 billion by end-March 2022, equivalent to 18 months of government expenditure or representing 30% of GDP.

Briefing by the Secretary for Financial Services and the Treasury

5. The Secretary for Financial Services and the Treasury ("SFST") gave a presentation on the 2017-2018 Budget and briefed members on the following —

- (a) the major themes of the 2017-2018 Budget, including consolidating pillar industries, supporting the development of diversified and innovative industries, supporting SMEs, improving social environment and welfare, increasing human capital and land resources, and implementing relief measures;
- (b) various economic indicators in 2017-2018, including nominal and real GDP growth, and underlying Composite Consumer Price Index;

- (c) 2017-2018 estimates, including revenue and expenditure, consolidated surplus, and balance of fiscal reserves;
- (d) overview of the 2017-2018 government revenue and estimates of expenditure of policy area groups;
- (e) growth trend of nominal GDP and government expenditure since 2012-2013;
- (f) trend of the fiscal reserves; and
- (g) medium range forecast from 2017-2018 to 2021-2022.

Use of surplus

6. Ir Dr LO Wai-kwok praised the Budget, saying that it could balance the needs of various sides. Mr LEUNG Che-cheung said that the Democratic Alliance for the Betterment and Progress of Hong Kong welcomed the measures introduced in the Budget. Ir Dr LO, Mr LEUNG, Dr Helena WONG and Dr Fernando CHEUNG welcomed the allocation of \$30 billion from the surplus this year to strengthen elderly services and rehabilitation services for persons with disabilities. Dr KWOK Ka-ki expressed criticism, saying that compared with the huge amount of resources allocated by the Administration to carry out various controversial infrastructure projects, this amount was utterly inadequate, especially when the supply of services for residential care homes for the elderly was grossly insufficient. Ir Dr LO, Mr LEUNG, Dr WONG, Dr CHEUNG and Dr KWOK enquired about the Administration's concrete plans to use this provision. Dr CHEUNG said that as the services concerned straddled various professions such as welfare and healthcare, he suggested the setting up of an inter-bureau working group or platform to consider and formulate a plan for using the provision. Being concerned about the quality of residential care homes, Dr WONG saw limited efficacy of merely relying on the Administration's inspection and monitoring to improve their quality, and suggested that the Administration might consider cooperating with non-government organizations which might assist in implementing measures for improving the services of these residential care homes, and conducting monitoring work on a routine basis.

7. FS advised that the Elderly Commission would soon publish a report on the elderly policy, and, by that time, the Labour and Welfare Bureau would be responsible for following up on the recommendations in the report, implementing the policies concerned, and reporting to the Legislative Council ("LegCo") on the resources required to implement those policies. He said that members could then urge the policy bureaux concerned to make good use of the provision. There was currently no rigid rule governing the use of this provision, in order to allow room for the policy bureaux concerned to distribute the allocation flexibly.

8. Ir Dr LO Wai-kwok, Mr Charles Peter MOK and Dr Elizabeth QUAT welcomed the allocation of \$10 billion from the surplus this year to support I&T development in Hong Kong. They enquired about the Administration's plans for using this provision. Mr MOK suggested that part of this provision be spent on talent training for the I&T sector. He said that this Budget had no novelty in the areas of nurturing I&T talent, opening up new markets for the industry, and creating job opportunities; and that although the Administration allocated \$18 billion last year to launch various projects, their progress was rather slow. Mr MOK doubted whether the staff establishment of the Innovation and Technology Bureau ("ITB") was adequate to handle the work of taking forward the relevant policies. He also said that there were mismatches between current policies, including the relevant legislation, and the I&T policies intended to be launched by the Administration. He hoped that the Administration would straighten out these contradictions so as to allow the industry to have more room for development. Expressing support for the Administration's move to study the granting of tax deductions for scientific research expenditure, Ir Dr LO urged the Administration to complete the study and launch the measure as soon as possible.

9. FS responded that, for the time being, there was no rigid policy governing the use of the said provision, and therefore the provision could either be spent on the provision of hardware support for the industry or on software support such as nurturing talent for the industry. ITB would, at a later stage, report to LegCo on plans to implement various measures on I&T development as set out in the Policy Address and the Budget, and members were welcome to put forward their views on how to use the provision. He said that ITB, established at the end of 2015, received an injection of more than \$18 billion in 2016 from the Administration to carry out policies on enhancing our I&T ecosystem, providing funding support to the academia and the industry for research and development activities, and supporting start-ups. These policies had been implemented step by step. The tax policy unit soon to be established would expeditiously begin its study on tax deductions for scientific research expenditure.

Housing Supply

10. Ms Alice MAK noted that the Housing Reserve established by the Administration had already accumulated a pool of \$70 billion. She asked the Administration how it would use the reserve to tackle the problem of severe shortage of housing supply, and whether it would discuss with the Urban Renewal Authority ("URA") about the use of URA-owned disposed sites in the urban area for public housing construction. Noting that people waiting for public rental housing ("PRH") were forced to rent private accommodation, Dr KWOK Ka-ki and Mr SHIU Ka-fai asked whether the Administration would consider providing rent allowance to them so as to alleviate their financial burden. Ms Starry LEE asked the Administration, with sizable surplus this year, whether it would consider granting rent waivers to PRH tenants.

11. FS said that under the 10-year housing construction plan, the Administration would build 280 000 public housing units, among which PRH units would account for the majority. To build these public housing units, the Housing Authority ("HA") would need to use its own reserves, which would decline due to the aforesaid housing construction plan. By then the Administration would need to obtain approval from LegCo to transfer funds from the Housing Reserve to HA to facilitate the carrying out of the housing construction plan. He said that the challenge facing the 10-year housing construction plan was the tight supply of disposed sites, which involved the time-consuming steps of submitting rezoning applications and conducting technical studies and local consultations, leading to slow process. The Administration would continue to work hard to expedite the process.

12. FS advised that URA was an organization independent of the Government and its mission was not to build subsidized housing flats. He cited that there were diverse views in society regarding URA's move to sell the units of its De Novo project at subsidized housing prices, and even members of the URA Board had divergent views on URA developing projects to be sold at subsidized housing prices. As such, the Administration considered that Ms MAK's suggestion required further discussion and thorough consideration. The Administration did not intend to implement any policies that might further push up the prices of private residential properties. FS said that given that PRH tenants had been heavily subsidized by the Government in respect of housing expenses, the Administration considered it inappropriate to grant rental waivers for PRH tenants. Nevertheless, those PRH tenants who had financial difficulties might still apply for assistance through existing channels.

13. Dr Priscilla LEUNG pointed out that the Budget was silent in assisting the middle class to become first-time home buyers. She asked whether the Administration would implement afresh the home starter loan scheme or similar policies, for the purpose of helping those middle-class people who could not save enough money for the down payment to purchase properties. She requested the Administration to further extend the entitlement period for tax reduction for home loan interest, or to raise the ceiling of deduction, in order to alleviate the financial burden of the middle class.

14. FS advised that the prices of residential properties were still high at this stage, and the Administration reckoned that normalization of the interest rates in the United States would certainly exert downward pressure on property prices, albeit the difficulty in predicting the pace of normalization. If a policy to help people buy properties were to be rolled out, those buyers who could not have afforded to purchase properties without such a policy would be subjected to financial risks. As such, the Administration considered that it was not an opportune time to pursue Dr Priscilla LEUNG's suggestion, or other measures that might further push up property prices.

Tax measures

15. Mr LEUNG Che-cheung noted that the Administration planned to offer tax concession in order to attract aircraft leasing companies to develop their business in Hong Kong. He asked the Administration about the expected impact of the measure on the aviation industry in Hong Kong, and whether it would exert further pressure on the near-saturation carrying capacity of the Hong Kong International Airport if the aircraft leasing business extended its reach to Hong Kong.

16. Mr Frankie YICK expressed support for the Administration's proposed policy to offer tax concession to aircraft leasing companies. He considered that the Administration should also offer similar tax concession measures to maritime industry especially ship management companies and ship leasing companies, so as to develop Hong Kong into a maritime transport centre in the region.

17. FS said that, in terms of the pace of development of aircraft leasing market, Hong Kong lagged behind other regions. Attracting aircraft leasing companies to develop their business in Hong Kong could create job opportunities for both the financial and aviation industries, and the service concerned would not increase pressure on the service capacity and space of the Hong Kong International Airport. He also took note of Mr Frankie YICK's suggestion.

18. Ms Starry LEE welcomed the tax measures adjustment proposed by the Administration, and the establishment of the tax policy unit. Mr LEUNG Yiu-chung, Mr Michael TIEN and Mr SHIU Ka-fai expressed different views on the Administration's intention to examine the tax policy and the structure of the tax regime in Hong Kong. Mr LEUNG was of the opinion that the Administration should consider levying taxes such as progressive profits tax, so as to widen the tax base and narrow the gap between the rich and the poor. Mr TIEN concurred with the view that Hong Kong's tax revenue had always relied excessively on the key industries such as finance, real estate, logistics, and commerce, and it was an opportune time to examine and reform alongside economic transformation. However, Mr TIEN noted that different stakeholders in society had different opinions on various taxes, and he doubted whether reforming old taxes and introducing new taxes to widen the tax base would have a chance to succeed. Mr SHIU pointed out that, indirect taxes, such as sales tax, would have a considerable impact on both tourism and the public. He urged the Administration to be prudent when considering the implementation of such measures.

19. FS pointed out that Hong Kong's economy needed to be diversified and it has a narrow tax base, and the nature of its tax revenue was unitary. The tax policy unit would actively explore ways to boost our pillar industries, advantageous industries and emerging industries through tax measures, so as to maintain and enhance Hong Kong's competitiveness globally, and at the same time to widen the tax base and increase revenue. The Administration also noted the different concerns raised by different sectors of the community over the impact that would be brought by different taxes, and would hand over all these issues to the tax policy unit for follow-up.

20. Mr LAU Kwok-fan pointed out that the Allowance for Dependent Parent was not adjusted in the Budget this year. He considered that the Administration, in promoting the policy of aging at home, might consider increasing the Allowance for Dependent Parent for those who lived with their elderly parents, or even allowing several children to share this allowance. FS took note of Mr LAU's concern. He said that in preparing the Budget each year, the Administration would conduct a comprehensive review of the room for adjustment of various allowances; he pointed out that there had been upward adjustment in the Allowance for Dependent Parent in the past few years, whereas the allowances that were adjusted this year had remained unchanged for some time, and it was considered appropriate to increase such allowances. He pointed out that while the granting of the Allowance for Dependent Parent to more than one child would involve additional and complicated administrative procedures, the amount of tax involved would not be much different from the prevailing practice. In other words, it was not cost effective to pursue such a move.

Relief measures and welfare spending

21. Mr LEUNG Che-cheung, Mr LEUNG Yiu-chung, Dr Fernando CHEUNG, Mr SHIU Ka-chun, Mr KWONG Chun-yu and Ms Starry LEE considered that the Budget had failed to fully meet the economic needs of the disadvantaged groups. Mr CHAN Chi-chuen said that the Administration had abundant reserves, but it did not hand out cash benefits as it did in previous years, so that people from different strata could get economic relief. Mr LEUNG Che-cheung, Mr LEUNG Yiu-chung, Dr Elizabeth QUAT and Ms Starry LEE highlighted that the Budget this year did not propose any economic assistance measures that could benefit the "low-income households not living in public housing and not receiving Comprehensive Social Security Assistance" (commonly known as the "N have-nots"). Mr LEUNG Yiu-chung pointed out that the spending on relief measures this year had decreased by more than \$3 billion compared with the spending last year. Dr CHEUNG was dissatisfied with the tilting of the Budget towards the middle class while ignoring the underprivileged groups. He alleged that despite the fact that the Treasury had fiscal reserves of over \$900 billion, and the cumulative reserves even reached trillions of dollars, the Budget had not made an effort to improve the quality of life of the general public. Mr SHIU enquired about the prediction by the Administration on the size of poor population to be reduced by the relief measures as set out in the Budget. He expressed dissatisfaction at the Administration's unfulfilled promise to devote \$50 billion to implementing a universal retirement protection scheme.

22. Permanent Secretary for Financial Services and the Treasury (Treasury) explained that the Administration had used the amount of \$50 billion on several measures to improve the life of senior citizens, including improving the mechanism for distributing Old Age Living Allowance ("OALA"), broadening the target beneficiaries of the Health Care Voucher Scheme, etc.; and that all these were the Administration's recurrent funding projects, which were estimated to cost more than \$9 billion each year in the next decade.

23. FS responded that the expenditure spent by the current-term Government on social welfare had increased by 70%, and the Administration also provided an extra payment to recipients of social security payments, an amount equivalent to one month of their payments. He clarified that as the Administration would no longer waive business registration fee in the coming year, business operators would not be able to enjoy the benefits to which they were entitled last year, and the amount of money involved was close to \$3 billion. FS said that disparity between the rich and the poor was a long-standing problem, which would take time to solve. In preparing the Budget, the Administration needed to consider the needs of people from different strata, and at the same time to maintain a stable economy and job market, and to invest for the future. Regarding the statement made by Dr Fernando CHEUNG who cited information to say that the reserves held by the Treasury amounted to trillions of dollars, FS explained that the level of the Government's fiscal reserves stood at about \$900 billion at present. While there were approximately \$500 billion held by the Exchange Fund, this sum was intended to be used to defend the linked exchange rate regime and to stabilize the financial system.

24. Dr Helena WONG welcomed the Administration's measure to lower the age eligible for Health Care Vouchers to 65. She asked why the voucher value had not been increased to \$2,500. In addition, Dr WONG expressed dissatisfaction at the Administration's failure in providing comprehensive dental care services for the elderly and increasing its spending on baby care and child care services in the Budget. Dr Elizabeth QUAT expressed similar concerns, saying that albeit an ageing population, the Administration had not introduced any policy to support childbearing, including childbearing at an advanced age. She said that the Budget also lacked initiatives that aimed to strengthen the environmental protection policy. As Dr WONG and Dr QUAT had used up their speaking time, the Administration was unable to respond to their above views.

25. Mr SHIU Ka-fai agreed with the need for the Administration to step up discussion with stakeholders on how to progressively abolish the arrangement of offsetting of severance payments or long service payments with Mandatory Provident Fund ("MPF") contributions, as well as to implement a policy of offering a higher allowance to elderly persons. FS said that regarding the study on how to abolish the MPF offsetting mechanism, the Chief Secretary for Administration would fully consult all relevant stakeholders.

Healthcare expenditure

26. Dr Pierre CHAN expressed concern over the huge demand for public healthcare services resulting from an aging population and from population growth, saying that the provision of recurrent funding with steady rate of increase was required to cope with that situation. He considered it inappropriate for the Administration to link the recurrent funding for public healthcare services to the performance of the overall economy and not to the population profile. Dr CHAN requested the Administration to allocate the expenditure on public healthcare services according to its population profile, and to set up a healthcare allocation fund to generate returns through constant investments, so as to ensure the steady provision of funds for the public healthcare system, and service capacity would then be free from impacts of economic fluctuations. Dr CHAN requested the Administration to provide data on the total expenditure and recurrent expenditure allocated respectively to medical and health services and the Hospital Authority in the past five to 10 years, as well as data on the level of reserves of the Hospital Authority.

27. Dr Pierre CHAN pointed out that under the Voluntary Health Insurance Scheme, the Minimum Requirements that aimed to attract the public to get insured, such as guaranteed acceptance, guaranteed renewal for life and a high risk pool, were not included, and a study on the provision of tax deduction had yet to be conducted. He doubted whether the Scheme still had merits. Dr CHAN asked whether the expenditure incurred under the Health Care Voucher Scheme was regarded as welfare or medical expenditures, as well as details of the financial arrangement for OALA beneficiaries to use the services of public hospitals and clinics free of charge.

28. FS advised that the expenditures incurred under the Health Care Voucher Scheme were regarded as welfare expenses under the Department of Health. He suggested that Dr Pierre CHAN might raise the aforesaid question in writing at a special meeting of the Finance Committee, so that he could give a response.

Education and human resources

29. Mr IP Kin-yuen expressed support for the Administration to increase the allocation for regular school repairs, and to retrofit "matchbox-style school premises", but he said that there were still many sub-standard school premises which required retrofitting, and the Administration should not turn a blind eye to such a situation. Mr IP enquired about the amount of funding set aside by the Administration for retrofitting "matchbox-style school premises". Mr IP considered that the dates for delivering the Policy Address and the Budget were very close, and the latter often failed to cover the views raised by members on the Policy Address.

30. FS concurred with the concerns raised by Mr IP Kin-yuen on sub-standard school premises. He said that the Administration had yet to set a budget for the policy of retrofitting "matchbox-style school premises", but it had a clear goal, and the departments concerned had to fully support the achievement of this goal in terms of financial resources and manpower. He said that as a result of the parallel public consultation processes for the Policy Address and the Budget, the latter had covered as much as possible the views expressed by members of the public during the consultation period. As the dates for delivering the two were close, the Budget might not have incorporated all the new points put forward by LegCo Members during the debate on the Policy Address.

31. Dr Elizabeth QUAT welcomed the setting aside of \$10 billion to support I&T development in Hong Kong. While advising that it was vital to begin nurturing scientific and technological talents from the early stage of schooling, Dr QUAT noted that the Budget had not set aside resources for the training of teachers engaging in I&T education. She said that practitioners engaging in information technology needed continuing education, and the relevant courses were expensive. She hoped that the Administration could offer financial support.

32. Noting that the Administration would deploy \$700 million for the Education Bureau to strengthen its efforts to promote vocational and professional education and training ("VPET"), and to facilitate the training and professional development of school principals and teachers, Mr LUK Chung-hung asked the Administration to elaborate, in more concrete terms, how it would implement these policies. Mr LUK considered that the post-secondary education in Hong Kong tended to emphasize qualification-awarding courses, and the Administration had not provided adequate support measures for vocational education or earn-and-learn training programmes so as to support the training of professional and technical personnel. He urged the Administration to listen to the views expressed by the academia and the labour sector when allocating funds from the sum of \$700 million to different education disciplines.

33. In response, FS said that the Administration would inject an additional \$1.5 billion into the Continuing Education Fund in the coming year, and raise the tax deduction ceiling for self-education expenses, in order to encourage working people to pursue continuing education.

34. Mr LUK Chung-hung expressed concern over VPET and enquired about the details of the relevant measures set out in the Budget. FS said that in the coming fiscal year the Administration would inject additional funding into the Multi-faceted Excellence Scholarship, to support local students who excelled in areas other than academic performance to pursue further studies. In addition, the Administration would also allocate more resources to support expansion of the International Youth Exchange Programme. The Education Bureau would submit concrete plans to LegCo on how to use the \$700 million to promote VPET and to support continuing education and professional development of educators.

Tourism

35. Mr Frankie YICK said that he was dissatisfied that while some practitioners in the transport sector, such as tour bus companies, cruise boat business, and taxi trade had felt the pinch of recession of tourism in recent years, but the Administration had never provided support for them, such as waiving their vehicle examination fees and licence fees. FS noted the above concerns and said that he would examine the needs raised by the sector in due course.

36. Mr LUK Chung-hung requested that a tourism fund be set up to launch tourism projects with local characteristics and green tourism products, in order to develop a diversified tourism industry. He was afraid that entrusting the aforesaid promotion activities to the Hong Kong Tourism Board for coordination would result in a lack of new ideas. Mr LUK asked the Administration, among the additional sum of \$243 million allocated for the provision of support for the tourism industry in the coming year, how much would be spent on promoting green tourism and tourism with local characteristics. He was concerned that compared with the sum of \$5.4 billion to be injected into the Hong Kong Disneyland Resort for expansion works, the expenditure set aside for promoting tourism with local characteristics and green tourism products was indeed insignificant.

37. FS said that the Administration cherished the suggestions made by the Hong Kong Federation of Trade Unions on how to promote local tourism industry, and resources would be allocated accordingly. The Administration would allocate additional funding in the coming year for promoting local tourism industry, and he could provide details of the provision to members after the meeting. He considered that as the Administration would endeavor to support the relevant policies each year in terms of the provision of resources, there was no need to set up such a fund.

Financial services

38. Mr Christopher CHEUNG expressed support for the initiative of the Administration and the Securities and Futures Commission ("SFC") to monitor listed companies. Mr CHEUNG expressed concerns over the situation whereby Hong Kong ranked first globally in terms of funds raised through initial public offerings, while the local stock market witnessed a deep plunge in terms of trading volumes. Mr CHEUNG said that some listed companies did not have good quality, citing as an example the recent case whereby a company listed on the Growth Enterprise Market was ordered to stop trading by SFC shortly after it had begun listing. He was concerned about whether SFC and the Hong Kong Exchanges and Clearing Limited ("HKEX") had adequate coordination. He was worried that the power that could be exercised by SFC over listed companies might hinder the development of our financial market. Mr CHEUNG asked whether the consultation on "proposed enhancements to The Stock Exchange of Hong Kong Limited's decision-making and governance structure for listing regulation", conducted by SFC and The Stock Exchange of Hong Kong Limited, could be completed by July this year.

39. SFST took note of Mr Christopher CHEUNG's concerns. He said that the Administration would endeavour to enhance the competitiveness of the listing platform, including increasing its trading volumes. In order to improve market quality, the Administration would vigorously support SFC's enforcement actions.

40. Ms Alice MAK welcomed the measure taken by the Administration to impose additional licensing conditions on money lender licences in accordance with the Money Lenders Ordinance (Cap. 163) for better protection of borrowers. Ms MAK said that although the issuance of money lender licences was subject to conditions that were more stringent than before, the industry and the public were still worried that these restrictions might not be able to eliminate the malpractices of financial intermediaries. She asked the Administration to review the Money Lenders Ordinance as early as possible.

Fiscal reserves and medium range forecast

41. Noting that the investment performance of Hong Kong's Exchange Fund was inferior to the performance of other countries which invested their fiscal reserves in their sovereign funds, Mr CHAN Chun-ying enquired about the ways to improve the performance of the Exchange Fund. Mr CHAN pointed out that \$4.8 billion of the consolidated surplus from the Operating and Capital reserves was transferred to the Future Fund last year, and the Future Fund was placed with the Exchange Fund, but the Administration had not clearly revealed to LegCo the operation of the relevant investment.

42. FS explained that one of the functions of the Exchange Fund was to stabilize our financial system, maintain the linked exchange rate, and protect Hong Kong's financial system from external attacks. As such, part of the reserves held by the Exchange Fund was assets with high liquidity which was readily convertible. The investment return of this portion was therefore very low. The rest was placed respectively with the Investment Portfolio and the Long-Term Growth Portfolio ("LTGP"). The investment made under LTGP was strategic investment, and the assets concerned had low liquidity but high return. Judged from its past performance, the investment made under LTGP had a higher return than those under other portfolios. The money in the Government's Future Fund would be transferred to LTGP step by step, in order to reap a higher return.

43. Ms Starry LEE enquired about the level of fiscal reserves that would be deemed appropriate by FS. She was of the opinion that setting a standard level of fiscal reserves would be helpful in preparing the Estimates of Expenditure in the future.

44. In response, FS said that Hong Kong was a small externally-oriented economy, and its monetary policy was operated on the basis of the linked exchange rate, an adequate level of fiscal reserves was therefore important in stabilizing Hong Kong dollars and the economy. He cited the medium range forecast and pointed out that fiscal reserves were estimated at an amount equivalent to 23 months of government expenditure by the end of 2017-2018, and at an amount equivalent to 18 months of government expenditure by the end of 2021-2022. FS drew members' attention to the period from 1997 to 2003 when Hong Kong was plagued by the Financial Crisis, I&T bubble burst and SARS, a fiscal deficit was recorded for five years, and fiscal reserves plummeted from an amount equivalent to 28 months of government expenditure to an amount equivalent to 13 months of government expenditure, so the change could be described as very rapid. In the light of this, FS considered that the Administration must exercise extreme caution in controlling the level of fiscal reserves, and ensure that commitments to spending initiatives must be sustainable.

45. FS advised that it would not be easy to set a standard level of fiscal reserves. He cited Singapore as an example, saying that the Singaporean Government placed its reserves, equivalent to HK\$470 billion, with the Monetary Authority of Singapore. However, there was also news that it had placed another sum of reserves, amounting to as much as US\$100 billion, with GIC Private Limited (i.e. the former Government of Singapore Investment Corporation Private Limited), which was a company directly under the Singaporean Government and was tasked with management of the fund. In addition, the Singaporean Government also made a wide range of investments through the government-controlled Temasek to strive for profits.

46. Noting that according to the Administration's forecast, from 2018-2019 onwards, the operating surplus would record a positive figure while the capital surplus would be in the red, Dr YIU Chung-yim sought the reasons for the situation. Dr YIU said that Moody's Investors Service forecast a GDP growth of less than 2% for Hong Kong, which was lower than the 2-3% as forecast by the Administration. Dr YIU asked the Administration whether it had made a worst-scenario forecast for the economy in the next five years, and demanded relevant data from the Administration.

47. FS said that as a number of major infrastructure projects and housing construction projects would be rolled out in Hong Kong in the coming years, a deficit would surface in the Capital Account as a result of huge expenditures. The previous forecast made by the Administration for a particular year generally conformed to the actual growth rate of that year. Government Economist added that Hong Kong's economy was in the doldrums early last year, and the economic growth in the first quarter was only about 1%, but then the economic environment gradually improved, and by the fourth quarter the pace of economic growth had accelerated to 3.1%, resulting in an overall annual growth of about 1.9% for the past year, and conforming to the growth of 1-2% as forecast by the Administration in last year's Budget. She said that as global economic performance had shown persistent improvements since this year, the Administration expected that the outlook for our economic performance in the current year was better than that in the previous year, if there was no major external shock in Hong Kong.

Contingent and major unfunded liabilities

48. Mr CHAN Chun-ying noted that last year the Administration allocated more than \$30 billion for contingent and unfunded liabilities under the SME Financing Guarantee Scheme. Mr CHAN considered that under the SME Financing Guarantee Scheme, participating SMEs had low default rate. He asked why the Administration needed to make such a huge guarantee arrangement and why it did not spend the commitments on other areas guaranteed by the Government.

49. FS explained that in implementing the SME Financing Guarantee Scheme, the Administration acted as the guarantor who might be required to bear the liabilities arising therefrom, and was therefore responsible for disclosing information on contingent liabilities. He confirmed that these contingent and unfunded liabilities would not limit the use of the reserves.

Other views

50. At 12:03 pm, Dr CHENG Chung-tai expressed views on the expenditures allocated by the Administration to the Hong Kong Police Force and other Disciplined Services, and asked whether there were redundant staff members in the Hong Kong Police Force. Dr Elizabeth QUAT considered that the remarks made by Dr CHENG were inappropriate, and requested the Chairman to ask Dr CHENG to withdraw his remarks. Considering that Dr CHENG's question had nothing to do with the Budget or the fiscal principles of the Administration, FS called on members to refrain from stirring up emotion among members of the public against the Police Force.

51. At 12:51 pm, the Chairman declared that the meeting be extended for 15 minutes.

52. The meeting ended at 1:12 pm.

Legislative Council Secretariat

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