

Chapter II : Revenue Collection and Financial Control

2.1 At the Chairman's invitation, the Secretary for the Treasury (S for Tsy), Miss Denise YUE, gave a presentation highlighting important issues under her policy programme areas in 2000-01 (Appendix V-1).

Government land transport services

2.2 Miss Emily LAU noted that while there would be a reduction in the number of vehicles to be procured in 2000-01, there was no corresponding reduction in terms of staff salaries and capital cost for the procurement of vehicles. In response, the Government Land Transport Administrator (GLTA) explained that the reduction in the number of vehicles was the result of the introduction of an improved model, as recommended by the Director of Audit, for identifying vehicles due for replacement by reference to their economic life. GLTA confirmed that the higher per unit cost for vehicles was not due to the purchase of more expensive saloon cars, the grading of which was stringently controlled in accordance with establishment criteria. The procurement of government vehicles was conducted through a system of open tenders and the price paid was subject to the prevailing market situation and exchange rate movements. S for Tsy supplemented that about 70% of government vehicles were imported from Japan. The appreciation of the Japanese currency (the Yen) in recent years had, to a certain extent, led to an increased expenditure in the procurement of replacement vehicles. She also provided the exchange rate movements of the Yen and Hong Kong dollar in recent years for members' reference -

<u>Reference period</u>	<u>Exchange rate</u>
April 1998	100 Yen = HK\$5.68
April 1999	100 Yen = HK\$6.54
March 2000	100 Yen = HK\$7.42

2.3 On possible savings in staff cost, GLTA advised that the provision for 2000-01 represented a 4.3% saving, the bulk of which was the result of continuing reviews on vehicle maintenance frequency and life cycles, and a reduced demand for transport services from other departments due to their own Enhanced Productivity Programme (EPP) initiatives. As regards reduction of staff, GLTA confirmed that the pool fleet size had been reduced from 186 in April 1999 to 153 in March 2000, and would be further reduced to 138 by March 2001, thus enabling a consequential deletion of 21 driver posts. The surplus posts would be

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deleted by natural wastage or through redeployment of existing drivers to other departments. In this respect, members noticed that despite the reduction of vehicles, the daily utilization rate of pool vehicles would only be targeted at 84%. GLTA explained that since the Agency provided back-up transport services to other departments, it was necessary to maintain a reserve for ad hoc demands. However, it remained the Agency's target to maximize the utilization of all resources.

2.4 As to whether consideration would be given to contracting out the transport consultancy service, GLTA advised that this was an in-house service provided by the GLT Agency which covered matters such as maintaining the transport management information system to provide a database and management controls for the entire government vehicle fleet, transport reviews focusing on departmental transport operations, and arrangement for procurement of government vehicles. As these specialized services were not readily available in the private sector, it would not be appropriate to contract out the consultancy service.

Government supplies services

2.5 On the reasons for the significant increase in the actual value of government orders from \$5,024 million in 1998 to \$6,794 million in 1999 vis a vis a decrease in the number of contracts handled, the Director of Government Supplies explained that the increase in the value of orders was mainly due to the re-provisioning of the helicopter fleet of the Government Flying Services and an increased demand for information technology equipment and services. He added that the relevant expenditure as reflected in the value of government orders would depend on the demand from departments and the nature of goods/services to be procured, rather than on the number of contracts handled.

Administration of Government properties

2.6 Members noted that despite the reduction in headcount, there was a 6% increase in the expenditure on light and power in Government joint-user office buildings. The Government Property Administrator explained that there was no direct relationship between the number of headcount and the level of power consumption as the latter would largely be based on the floor area served and the

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plant and equipment used. While reduction in headcount would lead to a lower requirement in working area, it had no effect on common areas and facilities which occupied over half of the current total office space. Moreover, the wide use of computer facilities also required higher power consumption. Nevertheless, the Administration would continue to implement energy saving measures. The target was to achieve a saving of \$3 million in 2000.

Government printing services

2.7 Members noted that the lead time for outsourcing government printing services ranged from a few days to ten weeks, and enquired about the criteria for according priority to requests. The Government Printer (GP) explained that outsourcing of general printing services was sometimes required due to in-house capacity constraints and technical considerations. However, for time-sensitive and content-sensitive printing, such as the production of identity cards, public examination papers, etc, the jobs were undertaken by the Printing Department (PD). Longer lead time would be needed for complicated orders which required the preparation of tender specifications, invitation for quotations and tender evaluation. GP added that \$200 million of the approved provision in 1999-2000 was spent on in-house printing services while only some \$20 million was used on outsourcing services.

2.8 As to the utilization of in-house production capacity, GP explained that the drop in utilization rate from 92% in 1998 to 87% in 1999 was due to the implementation of the new inter-departmental charging system under which individual departments were to be responsible for their own expenses for printing services. The new system had led to a decrease in demand for government printing services and resulted in a lower utilization rate on the production capacity of PD. However, GP pointed out that as the demand for printing services would likely increase in 2000-01 due to the forthcoming Legislative Council (LegCo) Elections and the Population Census, the utilization rate was expected to rise to 97% in 2000-01. He also informed members that PD currently had an establishment of about 400 staff. In this connection, S for Tsy stressed that it was necessary for PD to maintain sufficient manpower for meeting urgent and sensitive printing jobs such as the Budget publications, where the Department was usually given only 36 to 48 hours' turn-around time to complete the orders.

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2.9 On the suggestion to promote the application of electronic communication technology for the dissemination of government information, GP confirmed that PD had adopted greater use of electronic forms for various government publications. Current plans included uploading the bilingual versions of the Main Gazette and the Legal Supplements No. 1, 2, 3 and 5 onto the Government homepages on the Internet before June 2000 and uploading Legal Supplements No. 4 and 6 by the end of 2000.

Revenue collection

2.10 On the investigation and field audits for tax compliance, Mr LEE Kai-ming commented that while the estimated provision for 2000-01 would increase by 2.8%, not much improvement was noticed in the overall work targets. He thus questioned the progress of the Inland Revenue Department in implementing EPP. The Commissioner of Inland Revenue (C of IR) clarified that the increase in provision was mainly due to salary increments for existing staff. The amount of tax recovered and penalties imposed on tax evasion cases in 1999-2000 had dropped amidst the economic downturn. Regarding the progress on EPP, C of IR advised that the Department was committed to achieving the 1% saving in 2000-01 and referred to the merging of the Field Audit Group with the Investigation Unit to form the Field Audit and Investigation Unit which would result in the deletion of three posts.

2.11 As to whether provision had been earmarked for undertaking reforms to facilitate the collection of taxes with the growing prevalence of e-commerce, C of IR advised that an internal working group was set up in 1999 to study the matter. The tax return form for 2000-01 had also been revised to require business establishments to furnish information on their business activities and transactions done through the Internet. She remarked that for the time being, no drastic impact of e-commerce had been observed on the existing tax regulatory regime.

Technical Services Agreement

2.12 Members noted that the Cable and Wireless HKT (C&W HKT) was still the sole provider for technical services to Government departments pursuant to its Technical Services Agreement with the Government and enquired whether

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the Administration had plans to engage other contractors. S for Tsy advised that the existing Technical Services Agreement entered into with C&W HKT would only expire in 2006. Taking into account the Director of Audit's value for money study and the recommendations of the Public Account Committee in 1999, the Management Services Agency had reviewed the current requirements and cost-effectiveness for the services. The review confirmed that the majority of the services should continue to be provided by C&W HKT in accordance with the existing Agreement. The Administration was in the course of negotiating with C&W HKT on the possibility of engaging other contractors to provide the remaining services. S for Tsy reiterated that the Government fully recognized the importance of enhancing competition in the provision of technical services to bring about improvement in quality and greater cost-effectiveness.

Reviews of public finances

2.13 Mr CHEUNG Man-kwong queried the appropriateness of the Government's two-pronged approach in undertaking the review on taxation. In his view, the subject matters to be reviewed by the proposed Task Force to be headed by S for Tsy and the Independent Committee comprising independent members were inter-related; the two bodies should therefore be combined. In response, S for Tsy explained that the main task of the Task Force was to continue to monitor the correlation between recurrent income and economic growth and to critically examine whether Hong Kong was facing a structural fiscal problem or just a short-term cyclical phenomenon. The Task Force would therefore be formed by deploying the internal resources and expertise available in the Finance Bureau (FB) and its departments. On the other hand, the Independent Committee, which would comprise tax experts, professionals and academics, would look specifically into the suitability of introducing new types of broad-based taxes and their practical implications. S for Tsy further remarked that if studies by the Task Force revealed that Hong Kong was not experiencing a structural fiscal problem, the pressure and urgency to introduce new taxes would be considerably reduced. In this connection, she stressed that the Government was committed to maintaining its simple and predictable tax regime and low tax policy in line with Article 108 of the Basic Law. She assured members that both the Task Force and the Independent Committee would consult widely when undertaking their studies. The views of LegCo Members and experts in the fields would be carefully considered before the recommendations were finalized.

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Government fees and charges

2.14 Mr Howard YOUNG pointed out that it might be useful for the Government to undertake a fundamental review of the existing fees charging system for Government services to see if fees items requiring high administrative cost should be abolished. In response, S for Tsy advised that the Business Services Promotion Unit under the Financial Secretary's Office had taken forward measures to eliminate over-regulation of the business sector and reduce the cost of compliance. Over the past two years, some departments, such as the Marine Department and Trade Department, had succeeded in removing unnecessary control measures to provide better services for the business community. She assured members that the Government would continue to review various regulatory regimes to identify areas for possible deregulation. In upholding the principles of "the user pays" and full-cost recovery, the Government was also committed to ensuring that fees and charges for services imposed were strictly necessary and would not become a burden for the general public.

Enhanced Productivity Programme

2.15 The Chairman opined that to improve productivity and to avoid duplication of services, the Government should consider the feasibility of pooling the provision of various support services currently administered by departments under FB so as to achieve greater economies of scale. In reply, S for Tsy pointed out that each service department under FB had its unique functions and responsibilities. So far, no duplication of services had been observed which justified the conduct of a fundamental review with a view to changing the current institutional arrangements.

2.16 In this connection, S for Tsy informed members that FB had once explored the feasibility of merging the vehicle engineering division of the Electrical and Mechanical Services Department with GLTA with a view to increasing efficiency in the provision of government transport services as recommended in a previous value for money study. However, the proposal was not welcomed by the two departments and the Secretary for Works also expressed reservation on whether the proposal would enhance efficiency in the provision of transport services. Nonetheless, S for Tsy noted the Chairman's view for consideration.