

立法會
Legislative Council

LC Paper No. CB(1) 1696/99-00
(These minutes have been seen
by the Administration)

Ref : CB1/PL/FA/1

Legislative Council
Panel on Financial Affairs

Minutes of Meeting held on
Thursday, 13 April 2000, at 4:30 pm
in the Chamber of the Legislative Council Building

Members present : Hon Ambrose LAU Hon-chuen, JP (Chairman)
Hon Eric LI Ka-cheung, JP (Deputy Chairman)
Hon James TIEN Pei-chun, JP
Hon LEE Cheuk-yan
Hon Martin LEE Chu-ming, SC, JP
Hon NG Leung-sing
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon HUI Cheung-ching
Hon SIN Chung-kai
Dr Hon Philip WONG Yu-hong
Hon Jasper TSANG Yok-sing, JP
Hon FUNG Chi-kin

Non-Panel Members attending : Hon LEE Wing-tat
Hon LEE Kai-ming, SBS, JP
Hon Fred LI Wah-ming
Hon CHAN Kwok-keung
Hon CHAN Yuen-han
Hon CHAN Kam-lam
Dr Hon LEONG Che-hung, JP

Members absent : Hon Albert HO Chun-yan
Dr Hon David LI Kwok-po, JP
Hon Ronald ARCULLI, JP
Hon Bernard CHAN
Hon Emily LAU Wai-hing, JP
Hon Timothy FOK Tsun-ting, SBS, JP

- Public officers attendance** : For Item IV
Miss Denise YUE
Secretary for the Treasury

Mr Allen Y F LEUNG
Principal Assistant Secretary for the Treasury

For Item V

Mrs Rebecca LAI
Deputy Secretary for Financial Services

Mr Bryan P K CHAN
Principal Assistant Secretary for Financial Services
- Attendance by invitation** : Securities and Futures Commission

Mrs Laura CHA
Deputy Chairman

Mr David SO
Financial Controller

Mr Albert LAM
Commission Secretary
- Clerk in attendance** : Ms LEUNG Siu-kum
Chief Assistant Secretary (1)4
- Staff in attendance** : Ms Connie SZETO
Senior Assistant Secretary (1)1
-

I Confirmation of minutes of previous meeting

The Chairman said that as the Administration had not returned its comments on the draft minutes of the meetings held on 14 February and 13 March 2000, no minutes could be confirmed at the meeting.

II Information papers issued since last meeting

(LC Paper Nos. CB(1) 1300/99-00, 1304/99-00 and 1353/99-00)

2. Members noted the above information papers issued since last meeting.

III Date of the next meeting and items for discussion

(LC Paper Nos. CB(1) 1357/99-00(01) and (02))

3. Members agreed to hold the next Panel meeting on 2 May 2000, at 10:45 am to discuss the following items -

- (a) Briefing on the Hong Kong Monetary Authority Annual Report 1999; and
- (b) Disposal of surplus quarters arising from the implementation of the Home Financing Scheme in University Grants Committee-funded institutions

IV Government fees and charges

(LC Paper Nos. CB(1) 1357/99-00(03) and 1399/99-00(01))

4. The Secretary for the Treasury (S for Tsy) briefed members on the Administration's information paper with a view to soliciting their comments on revision of Government fees and charges that did not directly affect people's livelihood or general business activities. The list of such fee items was in the Annex to the information paper. She stressed that the Government had not put forward concrete proposals on the rate of increase and the timeframe within which full-cost recovery should be achieved. She would like to have members' views on what they thought would be a reasonable level of fee revision.

5. On the rationale for revising fees and charges, S for Tsy said that it was the Government's well-established policy to apply the "User-Pays" and full cost recovery principles for setting the fees and charges for most Government services. The full implementation of these principles had been held in abeyance for more than two years because of the fee revision moratorium. With the steady recovery of the local economy, it was considered appropriate to lift the moratorium and start adjusting the level of various fees and charges to reduce the subsidy from taxpayers. Further deferment in fee revision would increase the amount of subsidy and undermine the adherence to the two important principles. In recognition of the current state of economic recovery and taking into account affordability and acceptability of the public, the Administration had taken cautious steps by proposing to first deal with those fees and charges that did not directly affect people's livelihood and general business activities.

Unprecedented approach in seeking Members' views on fee revision

6 Members noted that the Administration would suggest revision of the second batch of fees directly relating to people's livelihood before the end of the current financial year. Mr LEE Cheuk-yan queried the Administration's basis for determining Government fees which did or did not directly affect people's livelihood or general business activities. He pointed out that a number of fees listed in the Annex to the information paper were regarded by the Administration

Action

as having direct impact on the general public when the Panel was consulted on the fee revision in 1999.

7. In response, the S for Tsy explained that the Administration had proposed to stagger fees increase in four tranches over a 12-month period in 1999 before the proposal was shelved ultimately. The 1999 proposal, took into account three factors namely the revision of fees that had less impact on the general public, that had not been revised for a long time, and that were falling substantially behind full cost recovery were to be proceeded earlier. In the current proposed fee revision exercise, only one factor was considered namely revision of fees not directly related to people's livelihood. She added that the fees selected for revision and listed in the Annex to the information paper would only affect a very small number of people and some specialist businesses. There were no sound reasons for taxpayers to continue to subsidize the users of such services.

8. In view that sustained economic recovery was yet to be seen, Mr LEE Cheuk-yan requested the Administration to consider extending the moratorium on fees which directly affected people's livelihood in 2000-01.

9. S for Tsy explained that the Financial Secretary (FS) had announced in his Budget Speech in March that the Administration needed to re-visit the subject of fee revision and undertook to discuss with the Legislative Council (LegCo) on ways to proceed with the exercise with priority given to those fees with little impact on the people's livelihood. The Administration would consult LegCo on revision of livelihood-related fees towards the end of 2000.

10. On whether the Administration would consult Members on the rate of increase and implementation schedule for the second batch of fees, S for Tsy remarked that the new approach of seeking Members' views was adopted after taking into account LegCo Members' view expressed in last year's consultation that the Administration should keep an open mind in formulating proposals on fees increase. As the approach was the first attempt of the Administration, its effectiveness would be subject to review and it was therefore premature to decide at the present stage whether the approach would be used in fee revision exercises in the future.

11. Ms CHAN Yuen-han was disappointed that the Administration had not committed to using the same approach when revising livelihood-related fees. She commented that the Hong Kong Federation of Trade Union held different views from the Administration on the "User-Pays" principle. She further opined that LegCo should be consulted on the target cost recovery rates for various Government services alongside with the rates of fee increase.

12. In response, S for Tsy stressed that whilst the full cost recovery principle was applied on services listed in the Annex to the information paper, the Administration was mindful of the policy to subsidize basic services and had set much lower target cost recovery rates, such as 18% and 50% for tertiary education and water services respectively, and if necessary to achieve these targets by phased

Action

fee revision. On concern that Members might not be given opportunity to suggest rates of increase for the second batch of fees, S for Tsy assured Members that as about 70% of fee items were to be revised by way of subsidiary legislation, there would be opportunity for Members to discuss fee revisions proposals when concerned subsidiary legislation were submitted to LegCo.

13. On the revision of fees in the Annex to the information paper, Mr James TIEN suggested increasing fees for about 100 items with existing cost recovery rate below 50%. In order to avoid steep rises for achieving full-cost recovery in a short time, he suggested that the rate of increase should be less than 10% per year.

Cost for provision of Government services

14. Mr CHAN Kam-lam and Mr James TIEN questioned the cost structure for Government services. With a negative inflation rate and the downward trend of operating costs, they opined that the cost for providing Government services should be lowered and there should not be any pressure for fee increases. Mr CHAN was of the view that the Administration should consider reviewing its service costs before proposing any revision in fees.

15. S for Tsy explained that there were fundamental differences between Government and the private sector in calculating service costs. She advised that while the Consumer Price Index (CPI) was usually taken as the cost indicator in the private sector, the Administration conducted reviews on costs of all its services every four years and used the movement of Government Consumption Expenditure Deflator (GCED) as the reference to determine the annual rate of fee revision. S for Tsy provided the following statistics on CPI and GCED since 1997 for Members' reference :

<u>Year</u>	<u>CPI</u>	<u>GCED</u>
1997	5.8%	6.4%
1998	2.8%	2.9%
1999	-4%	-0.5%
2000 (estimate)	-1%	0.5%
Total over the period	3.6%	9.3%

16. S for Tsy remarked that increase in GCED in recent years was mainly the result of increase in recurrent expenditure of which about 60%-70% was attributed to civil servant salaries, allowances, etc. Despite the pay freeze in 1999, over half of the serving civil servants were still entitled to annual increments. She stressed that the Administration was firmly committed to improving the efficiency in provision of Government services and containing costs in order to alleviate the pressure for fee increases. Apart from pushing ahead with the Enhanced Productivity Programme and other efficiency improvement measures, FS had directed all bureaux and departments to review whether it was still necessary to

Action

provide the services covered by the various fees and charges. Where appropriate, non-essential services and unnecessary regulatory measures should be dispensed with so that the associated fees or charges could be abolished. In this respect, she advised that the Television and Entertainment Licensing Authority (TELA) had recommended removing the licensing requirement on public dance halls in a review completed in 1998-99. The TELA had drawn up the necessary legislative proposal to implement the recommendation for introduction into LegCo as soon as possible.

17. Mr LEE Wing-tat supported the Administration's initiative to review the cost for providing Government services. He remarked that in order to improve the cost-effectiveness of services, consideration should be given to contract-out non-essential services, such as the sale of Government publications. Moreover, licensing procedures involving a number of departments should be streamlined to reduce cost. In this connection, Mr LEE expressed concern that the review of licensing procedures for food premises which was commenced in January 1999 was still outstanding. He requested the Administration to provide information on the progress of the review.

(Post-meeting note: The progress of the review would be discussed by the Subcommittee on matters relating to environmental hygiene.)

18. The S for Tsy noted Members' concern about the costs for providing various Government services and undertook to provide the details when submitting concrete fee revision proposals for consideration by relevant Panels and LegCo.

FB

Recommendation on individual fee items

19. Members noted that the existing annual licence fee for massage establishment (item 1.1 in the Annex to the information paper) was \$6,410 which recovered about 27% of the total cost for providing the service. The annual fee would need to be increased to \$23,740 if full cost recovery was to be achieved. Referring to the written submission from the Blind Masseurs and Masseuses Trade Union tabled at the meeting, Mr CHEUNG Man-kwong pointed out that the proposed increase in licence fee would have serious impact on this small group of about 100 blind people and could as a result force them out of business. As these massage establishments were of small size each consisting of only a few massage beds, Mr CHEUNG urged the Administration to consider exploring the feasibility of charging licence fee on the basis of area of a massage establishment or the number of massage beds in an establishment.

20. In response, S for Tsy said that the Administration recognized the financial hardship to be faced by small businesses in fee revision and undertook to follow up Mr CHEUNG's suggestion with the Secretary for Security and the Commissioner of Police (C of P) in reviewing the fee structure for providing licensing service for massage establishments. In this connection, S for Tsy also informed Members that C of P had completed a review on the licensing procedures

Action

for massage establishment in early 2000. Recommendations of the review included streamlining the procedures by reducing the number of departments involved in the process and reviewing the current fee-charging system for the service.

21. Ms CHAN Yuen-han opined that in order to assist development of new industries, such as environmental protection industry, the Administration should consider freezing fees relating to obtaining licences for discharge of sewage from premises (items 5.6 and 5.7) and importation/exportation of waste (item 5.11). S for Tsy explained that these were licensing fees with validity over a year. The Administration did not envisage any serious impact on business arising from an increase of these fees.

FB

22. On whether the proposed increase in en-route navigation charges (item 15.1) would affect the competitiveness of Hong Kong as an important international aviation centre, S for Tsy said that the fee was insignificant compared with other costs of the aviation industry and would not undermine the policy to further develop Hong Kong into an international and regional aviation centre. As regards the fees charged by other areas in the region, S for Tsy undertook to ask the Economic Services Bureau to provide the relevant information for Members' reference.

23. Responding to Members' views that fees for applying HKSAR passport (item 20) and those related to the registration of healthcare professionals (item 7) were directly related to the general livelihood and should be excluded from the present exercise, S for Tsy stressed that the proposed list had been drawn up after careful consideration. In respect of fees for applying HKSAR passports, the Administration was of the view that the travelling document was not a necessity and hence applicants should be responsible for the full cost incurred in the provision of the service. As regards registration and examination fees for healthcare professionals, S for Tsy advised that similar services for other professionals were provided by their respective professional associations without any subsidy from taxpayers. The Administration saw no reason to subsidize these services for the healthcare professionals. She added that it was necessary in the long run to review the existing registration system for healthcare professionals with a view to promoting a self-regulation system similar with other professions.

24. In respect of the proposed increase in fees relating to identity card (item 21), S for Tsy clarified that the Administration only proposed to increase fees for replacement of lost, defaced or damaged identity cards. Fees for new issue of identity cards had not been included in the review.

25. Dr LEONG Che-hung opined that as the proposed list of fee items for revision covered a wide range of services of concern to various LegCo Panels, he suggested relevant Panels be consulted on the paper so that the Administration would take into account their views when drawing up concrete fee proposals. Mr LEE Cheuk-yan concurred that the list of fees in the Annex to the information paper should be categorized according to the purview of respective bureaux to

Action

facilitate consultation with relevant Panels. Mr James TIEN, however, opined that the Financial Affairs Panel was the more appropriate forum for discussion of the subject of fee revision. The Chairman advised that in anticipation of grave concern on the subject, all other LegCo Members had been invited to attend the meeting for discussion on this item. Since it would be a matter for respective Panels to decide whether there should be consultation on the subject at Panel level, it would be more appropriate that Dr LEONG's suggestion to be discussed at the next House Committee meeting.

(Post-meeting note: The list of fee items proposed for revision, categorized by bureaux, was circulated to Members vide LC Paper No. CB(1) 1466/99-00. As regards consultation on fee revision at Panel level, S for Tsy has requested bureaux to consult the relevant Panels on those fee items under their purview as soon as possible.)

V Securities and Futures Commission Budget 2000-01
(LC Paper Nos. CB(1) 1357/99-00(04) and (05))

26. At the Chairman's invitation, Mrs Laura CHA, the Deputy Chairman, Securities and Futures Commission (SFC) presented the main features of SFC budget for the financial year 2000-01 as contained in its information paper circulated to Members before the meeting. Members noted that SFC's estimated revenue and operating expenditure for 2000-01 were \$433 million and \$452 million respectively. Coupled with an estimated depreciation of \$22.5 million, a deficit of \$41 million would be expected.

27. Members noted that the Administration had tabled an information note on SFC budget. The Deputy Secretary for Financial Services (DS/FS) advised that SFC submitted its budget to the Administration in December 1999 which was revised on 30 March 2000 to incorporate the latest adjustment of its estimated levy income on securities transactions in the light of the changes in market activities in the first quarter of 2000 and the proposed change in the split of the levy income between SFC and the Stock Exchange of Hong Kong (SEHK) following the realignment of the regulatory function between the two organizations upon the completion of the merger of the exchanges and their associated clearing houses. The Administration noted SFC's efforts to reduce expenditure as far as possible without deteriorating its services quality and regulatory functions. It was the eighth consecutive year that SFC did not request for Government funding for its operation. Notwithstanding the \$41 million deficit in the estimate, the Administration considered that SFC's financial position remained at a prudential level.

28. In view of the downward trend in salaries for majority of the workforce including the professionals, Mr Eric LI queried the large increase of 21% in personnel expenses over the latest estimates for 1999-2000. Mrs CHA explained that the increase in staff costs was mainly due to a shift towards a higher ratio of professional staff to general staff, as well as SFC's plan to gradually increase its

manpower size by 42 staff mainly to cater for the regulation of exchanges participants taken over from the two exchanges after the merger reform. Mrs CHA stressed that the budget had not provided for annual salary adjustment and it was for the third consecutive year that SFC had imposed a pay freeze on the basic salary for its staff notwithstanding that individual staff might be rewarded with variable pay commensurate with their performance. On remuneration for new staff, Mrs CHA responded that SFC had difficulties in recruitment for some posts due to competition from the private sector, despite making reference to prevailing market conditions in drawing up remuneration packages prudently.

29. In reply to Mr SIN Chung-kai's enquiry about recruitment of staff for intermediaries supervision function arising from the merger reform, Mrs CHA advised that SFC and the two exchanges conducted a review of the current regulatory regime governing the securities and futures market in mid 1999. It was noted that whilst 51 and 20 staff of SEHK and the Hong Kong Futures Exchange were respectively responsible for intermediaries supervision function, SFC considered that a total of 42 staff would be sufficient to cope with the increased regulatory responsibilities. So far, less than 20 staff had been recruited mainly to perform such supervision function. The rest of the posts would be filled in 2000-01 by open recruitment.

30. On whether SFC budget had earmarked provision for the implementation of the Securities and Futures Bill (the Bill), Mrs CHA advised that six special advisers had been appointed on contract basis since 1999 partly for undertaking preparatory work relating to the Bill. At present, SFC did not envisage substantial financial implications arising from the passage of the Bill. Moreover, since the Bill was planned for enactment by April 2001, provision for its implementation would be included in the budget for 2001-02 if necessary.

31. Mr Eric LI pointed out that the transfer of regulatory function of exchange participants from the exchanges to SFC after the merger reform would increase the operating cost of SFC. He questioned the resulting benefits available to the market and the investing public in this regard.

32. In response, DS/FS explained that the current rate of levy on securities transaction was 0.011% and was shared between SFC and SEHK in the ratio of 4:7. As a result of the transfer of the regulatory function, 0.001% out of the SEHK's share of the transaction levy would be transferred to SFC to meet the increase in its operating costs while offsetting the savings in SEHK. Separately, at present 0.001% out of SEHK's share of the levy income was diverted to the Development Reserve to support development of SEHK's infrastructure. Given the commercial nature of the new exchange which wholly owned SEHK, it was considered no longer appropriate to fund its Development Reserve through a statutory levy. Therefore, it was proposed that 0.001% out of SEHK's share should be removed. The two proposals would reduce the transaction levy from the current rate of 0.011% to 0.01% and re-allocate the levy income between SFC and SEHK from the existing ratio of 4:7 to 5:5. As a result, the investing public would directly benefit from reduction in transaction levy. Mrs CHA supplemented that the

Action

transfer of regulatory function would enhance the efficiency and effectiveness of the regulatory regime and would therefore reduce SFC operating costs in the long run.

33. As regards fees and charges to be imposed on the Hong Kong Exchanges and Clearing Limited, Mrs CHA advised that as the company was now a commercial organization, consideration had been given to introducing some new fees for performing some of the functions for the company. However, it would be premature to indicate what types of fees at this stage.

34. On the existing fees and charges, Mrs CHA said that it was preliminarily assessed that an average increase of about 53% of the current fee level would be needed if the functions performed were to be brought to the full cost recovery level as they had not been adjusted since 1993-94. Following the Administration's general policy to gradually adjust public fees and charges, SFC had planned to review its fees and charges later in 2000 with a view to proposing adjustments in line with the prevailing economic conditions. DS/FS supplemented that the Administration was committed to improving the regulatory regime for the financial market with a view, inter alia, to minimizing costs for the regulators and regulatees, whether in form of cost of compliance or in fees and charges. The aim was enshrined in many of the Administration's legislative and reform proposals, such as the Securities and Futures Bill.

35. The Chairman referred to Mr FUNG Chi-kin's written questions passed to him earlier and requested the Administration to provide written replies accordingly for members' reference after the meeting.

FSB/
SFC

(Post-meeting note: The Administration's reply was circulated to Members vide LC Paper No. CB(1) 1449/99-00.)

VI Any other business

36. There being no other business, the meeting ended at 6:50 pm.