

**Extract from Minutes of Financial Affairs Meeting
of the Legislative Council held on 7 March 2001**

**Minutes of Meeting held on
Wednesday, 7 March 2001 at 10:00 pm
in the Chamber of the Legislative Council Building**

- Members present** : Hon Ambrose LAU Hon-chuen, JP (Chairman)
Hon Henry WU King-cheong, BBS (Deputy Chairman)
Hon James TIEN Pei-chun, JP
Hon Eric LI Ka-cheung, JP
Dr Hon David LI Kwok-po, JP
Hon NG Leung-sing
Hon Bernard CHAN
Hon CHAN Kam-lam
Hon SIN Chung-kai
Hon Jasper TSANG Yok-sing, JP
- Non-Panel Members attending** : Hon CHAN Kwok-keung
Hon CHAN Yuen-han
Hon LI Fung-ying, JP
Hon LEUNG Fu-wah, MH, JP
- Members absent** : Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Hon James TO Kun-sun
Dr Hon Philip WONG Yu-hong
Hon Emily LAU Wai-hing, JP

**Public officers
attending**

: For Item IV

Mr M M GLASS
Deputy Secretary for the Treasury

Mr Allen LEUNG
Principal Assistant Secretary for the Treasury

For Item V

Miss K C AU
Deputy Secretary for Financial Services (1)

Ms Salina YAN
Principal Assistant Secretary for Financial Services
(Securities)

For Item VI

Mr Esmond LEE
Principal Assistant Secretary for Financial Services
(Companies)

Mr G W E JONES
Registrar of Companies

For Item VII

Miss Maureen TO
Principal Assistant Secretary for Financial Services
(Retirement Schemes and Insurance)

**Attendance by
invitation**

: For Item V

Securities and Futures Commission

Mr Andrew SHENG
Chairman

Mr David SO
Financial Controller

For Item VI

Mr John BUSH
Secretary, Standing Committee on Company Law Reform

Mr Charles GRIEVE
Director of Accounting Policy, Securities and Futures
Commission

For Item VII

Mandatory Provident Fund Schemes Authority

Mr Raymond TAM
Executive Director (Services Supervision)

Ms Gabriella YEE
Senior Manager (Services Supervision)

Clerk in attendance : Mrs Florence LAM
Chief Assistant Secretary (1)4

Staff in attendance : Ms Connie SZETO
Senior Assistant Secretary (1)1

For Items VI and VII

Mr KAU Kin-wah
Assistant Legal Adviser 6

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IV Government fees and charges

(LC Paper No. CB(1) 700/00-01(01))

6. The Deputy Secretary for the Treasury (DS/Tsy) briefed members on the Administration's information paper which explained the rationale for the "user pays" principle in relation to government fees and charges, the factors included in the computation of costs for government services governed by the principle, and the relevant guidelines for bureaux and departments in this respect. Members noted that

the Government also adopted a global costing method to calculate the costs for services provided by some departments involving a large number of fees items. Examples of a cost computation statement for a specific licence fee and of the global costing method were provided in Annexes A and B of the paper respectively.

7. While members generally supported the adoption of the "user pays" principle, some of them expressed concern about the methodology in computing the costs.

Computation of costs

8. Some members questioned the inclusion of indirect costs, such as electricity charges and rental, in the computation of costs. They asked for additional information on the nature and method of calculation for each cost element listed in Annexes A and B of the information paper.

9. In response, DS/Tsy explained that it was necessary to take into account all direct and indirect costs attributable to the provision of a service in order to compute the full costs for providing the service. Direct costs comprised mainly material and staff costs. Indirect costs, such as electricity charges and rental, were those not fully attributable to the provision of a service but could be apportioned on a reasonable basis. For those costs which did not involve cash flow expenditure on the part of the Government, for instance accommodation cost for a service provided in government-owned premises, a "notional" cost estimated on the basis of market rental was included in the cost calculation to reflect the opportunity cost incurred by the Government. The Principal Assistant Secretary for the Treasury (PAS/Tsy) supplemented that information on the notional accommodation costs for all government-owned premises was provided in the Costing Manual issued by the Treasury to help departments conduct their costing exercises. The information was updated regularly to reflect changes in market rentals. Upon members' request, he undertook to provide further information on Annexes A and B of the paper and a copy of the Costing Manual for members' reference after the meeting.

(Post meeting note: The information was circulated to members vide LegCo Paper No. CB(1)931/00-01 dated 29 March 2001.)

10. As regards the reasons for some departments to charge different fees for similar services, DS/Tsy explained that the cost factors to be included for services of a similar nature might vary, for example, some photocopying services provided by some departments involved higher cost as they included searching and vetting of the information requested. PAS/Tsy added that for simple self-service photocopying service, the charge per copy usually ranged from \$1 to \$1.5.

11. Noting that the estimated demand for a service was one of the elements taken into account in the costing exercise, Mr TSANG Yok-sing expressed concern that any underestimation of the caseload could result in higher unit cost and hence could increase the fee for a service.

12. DS/Tsy advised that since bureaux and departments had to devote time and resources to undertake detailed costing computations, detailed costing exercises for services were only conducted once every four years. The adjustment in fees and charges for services during the intervening years was index-linked to the annual Government Consumption Expenditure Deflator. Unlike departments operating under Trading Fund principles which were expected to balance their revenues with expenditures on a year-on-year basis, the expenditures of other vote-funded departments were not directly related to the revenues they generated from fees and charges for services. A shortfall in the revenue of a department in a particular year would not affect its level of expenditure for the year. On the other hand, if results of a full costing exercise revealed that the cost for a service had been reduced, say as a result of an increase in the caseload, the Government would consider reducing the fees for the service in order to realize the benefit of the costing exercise. DS/Tsy assured members that the estimation of the caseload was made with reasonable assumptions and with reference to the best information available to the departments. It had to be justified in the light of past patterns, current and projected economic situations. He further stressed that the detailed cost calculation would be presented for consideration of the relevant Panel and the Subcommittee of the Legislative Council (LegCo) in connection with specific proposals for fees increase.

Containing costs in the provision of Government services

13. Members considered that the Government should endeavour to contain costs, in particular staff cost which accounted for over 80% of the total costs involved in providing Government services, so as to reduce the pressure for increasing fees and charges.

14. Responding to the enquiry about cost-saving measures undertaken by the Government, DS/Tsy stressed that the Government was committed to improving its productivity and efficiency with a view to reducing costs. Implementation of the Enhanced Productivity Programme, the Civil Service Reforms, and other cost-saving measures in the past two years had resulted in significant savings. The benefits had been reflected in the modest revision in the level of fees and charges. The Voluntary Retirement Scheme and the general recruitment freeze for the civil service in the last two years had contained the size of the civil service. Investment in office automation and computerization had also increased productivity and reduced staff cost.

15. DS/Tsy said that Bureau Secretaries and Department Heads were controlling officers under the Public Finance Ordinance (Cap. 2). They were responsible for accounting for revenues and expenditures under their control and for improving efficiency and controlling costs. In addition, all departments were subject to the scrutiny of the Director of Audit who could conduct inquiries into their accounts and make reports on them.

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