

**Replies to supplementary questions raised by Finance Committee Members in
examining the Estimates of Expenditure 2003-04**

**[Director of Bureau : Secretary for the Financial Services
and the Treasury]**

[Session No. : 1] [File name : S-FSTB(FS)-e.doc]

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Examination of Estimates of Expenditure 2003-04
**CONTROLLING OFFICER'S REPLY TO
INITIAL WRITTEN QUESTION**

Reply Serial No.

S-FSTB(FS)001

Question Serial No.

S001

Head: 148 – Government Secretariat : Subhead (No. & title): 700
Financial Services and the Treasury General other non-recurrent
Bureau (Financial Services Branch)

Programme: Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury
(Financial Services)

Director of Bureau: Secretary for Financial Services and the Treasury

Question :

In reply to a follow-up question in relation to Subhead 700 Item 022 "Hire of econometric modelling services to enable projections on government revenues and fiscal position" (Reply Serial No. FSTB(FS)011, Question Serial No. 0932), the Government Economist said that after projecting government revenues and fiscal position by the econometric model, inter-departmental discussions would be conducted to further assess the revenues and expenditure by taking, inter alia, psychological and political factors into account, with a view to making the most accurate projections. Would the Administration inform this Council of the following :

- (1) If there is a serious deviation in the projections, how will the Administration judge whether the deviation is due to errors in the econometric model or mistakes made by government officials in the assessment of psychological and political factors? Who should be responsible for the deviations in the projections?
- (2) In the 2003-04 Budget, it was projected on the basis of the econometric model that there would be a deflation of 0.14% in the following year. Have there been any inter-departmental discussions on this projection? If various psychological factors have not been taken into account in the assessment, what is the extent of the accuracy of this assessment?

Asked by: Hon. HO Sau-lan, Cyd

Reply:

- (1) After churning out the model-run results from the econometric model, we will go through a discussion process involving the relevant parties within Government. Factors to take on board include the known prevailing economic conditions, latest data which are not yet incorporated in the model run, and other relevant factors including psychological expectations, etc. That is our on-going practice, as it takes time for the econometric model to churn out the forecasts, and as the economic data and situation might have changed during the intervening period. Moreover, certain factors, particularly psychological expectations, are not readily quantifiable by statistics. This

process of appraisal and assessment in the task of economic forecasting is also commonly seen in other places.

That the forecasts turn out to be different from the subsequent actual outcome may not necessarily be due to flaws in the econometric model itself or in the appraisal process. It may also arise from changes in the economic environment after the appraisal process, which cannot be envisaged from the data available and judgement made at the time of forecasting. Indeed, prospecting into the future is inevitably subject to some degree of uncertainty. Examples of unforeseen significant events in the more recent period include the September 11th incident in the United States, and the outbreak of atypical pneumonia lately.

In view of this, any criticism that the forecasts are erroneous or inaccurate ought to take cognisance of the above-mentioned fact that uncertainty is always entailed in forecasting into the future. Our approach in rendering the economic forecasts is to canvass and analyse as much of the relevant data as possible, and then to go through a process of systematic computation and rational assessment to arrive at the result. Moreover, in the light of the evolving situation, there is a need to review and update the forecasts subsequently. Thus for instance, every quarter in parallel with the production of the quarterly economic report, we set out to review and update the economic forecasts for the current year, so as to incorporate the latest data outturn and to take account of the latest external and domestic economic situation. In addition, we conduct updating and enhancement on the econometric model every now and then, so as to strengthen the functional use of the model.

- (2) The negative impact of 0.14% as quoted in Paragraph 114 of the 2003-04 Budget Speech refers to the estimated dampening impact of the package of fiscal consolidation measures proposed in this Budget on the trend growth rate of real GDP over the coming five years. The dampening impact of this package of measures on the trend rate of change in overall prices over the coming five years is estimated at 0.21%.

As to the forecast of overall price movement for the current year, we forecast the GDP deflator to have an average decline of 2% this year. For 2003 to 2007, we forecast the trend rate of change in the GDP deflator at 0%. These forecasts, being part of our overall economic forecasts, are likewise rendered through the work processes as mentioned above.

Signature _____

Name in block letters _____ Tony Miller

Post Title _____ Permanent Secretary for Financial Services
and the Treasury (Financial Services)

Date _____ 28.3.2003

Examination of Estimates of Expenditure 2003-04
**CONTROLLING OFFICER'S REPLY TO
INITIAL WRITTEN QUESTION**

Reply Serial No.

S-FSTB(FS)002

Question Serial No.

S002

Head: 148 – Government Secretariat :
Financial Services and the Treasury
Bureau (Financial Services Branch),

Subhead (No. & title): 000
Operational expenses

Programme: Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury
(Financial Services)

Director of Bureau: Secretary for Financial Services and the Treasury

Question :

As regards the reply to the initial Question No. 0930 and the response made in the meeting about the provision of \$2.701 m for the operation of the Securities and Futures Appeals Tribunal (SFAT) in 2003-04 and the provision of \$3.623 m for the operation of the Securities and Futures Appeals Panel (SFAP) in 2002-03, please provide in detail a breakdown of the two provisions (including the recurrent and non-recurrent expenditures and establishment, etc). What was SFAP's actual operational expenses in 2002-03? Please also provide a detailed breakdown of the expenses.

Asked by: Hon. WU King-cheong, Henry

Reply:

The breakdown of the estimated provision for the operation of the Securities and Futures Appeals Tribunal (SFAT) for 2003-04 is as follows –

(i)	Lay member fee	\$810,000
(ii)	Verbatim reporter fee	\$702,000
(iii)	Ordinary witness fee	\$75,000
(iv)	Interpreter fee	\$225,000
(v)	Engaging a deputy judge (as Chairman of the SFAT)	\$889,000

The SFAT will share the secretariat support of a division of the Insider Dealing Tribunal.

The breakdown of the provision for the operation of the Securities and Futures Appeals Panel (SFAP), as well as SFAT, in 2002-03 is as follows –

(i)	Lay member fee	\$1,080,000
(ii)	Verbatim reporter fee	\$936,000
(iii)	Ordinary witness fee	\$75,000
(iv)	Interpreter fee	\$300,000
(V)	Engaging a deputy judge (as Chairman of the SFAT)	\$1,232,000

Having allowed time for enacting the necessary subsidiary legislation and for concerned parties, including both regulatees and regulators, to prepare for the new regime, the Legislature gave its support for commencing the Securities and Futures Ordinance on 1 April 2003. Hence there were no SFAT-related expenses in 2002-03. The revised 2002-03 estimate for the SFAP/SFAT was therefore reduced to \$0.765 million.

As of 25.3.2003, there was a total of 4 SFAP cases lodged within 2002-03. One of these has been heard; one has been withdrawn; and two cases are under preparation of hearing. The actual expenditure of SFAP in 2002-03 (as at 25.3.2003) is \$25,560, a breakdown of which is shown below –

(i)	Chairman's fee	\$7,000
(ii)	Member's fee	\$5,000
(iii)	Verbatim transcription fee	\$13,560

Signature _____

Name in block letters _____ Tony Miller

Post Title _____ Permanent Secretary for Financial Services
and the Treasury (Financial Services)

Date _____ 28.3.2003

Examination of Estimates of Expenditure 2003-04
**CONTROLLING OFFICER'S REPLY TO
INITIAL WRITTEN QUESTION**

Reply Serial No.

S-FSTB(FS)003

Question Serial No.

Oral

Head: 148 – Government Secretariat : Subhead (No. & title): 000
Financial Services and the Treasury Operational expenses
Bureau (Financial Services Branch)

Programme: Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury
(Financial Services)

Director of Bureau: Secretary for Financial Services and the Treasury

Question :

On the 9 cases mentioned in paragraph 2 of the reply FSTB(FS)009, the Administration will provide a breakdown on the expenditure in respect of :

- (a) the 3 cases which were completed by the Insider Dealing Tribunal (IDT) in 2002-03.
- (b) the other 3 cases which are still under hearing or appeal; and
- (c) the 3 cases which are being processed in the IDT pending commencement of hearing.

Asked by: Hon. WU King-cheong, Henry

Reply:

A breakdown of the actual expenditure in respect of the 9 cases is as follows –

Item	Actual expenditure from commencement of proceedings to end March 2002	Actual expenditure in 2002-03 (as at <u>25.3.2003</u>)
(a) 3 cases which were completed in 2002-03		
Case A	\$2.604 million	\$0.051 million
Case B	\$0.076 million	nil
Case C	nil	\$2.341 million
(b) 3 cases under inquiry or appeal		
Case D	\$0.022 million	\$2.936 million
Case E	\$2.953 million	\$0.381 million
Case F	\$0.480 million	\$0.615 million
(c) 3 cases pending commencement of inquiry	nil	nil

Signature _____

Name in block letters _____

Tony Miller

Post Title _____

Permanent Secretary for Financial Services
and the Treasury (Financial Services)

Date _____

28.3.2003

Examination of Estimates of Expenditure 2003-04
**CONTROLLING OFFICER'S REPLY TO
INITIAL WRITTEN QUESTION**

Reply Serial No.

S-FSTB(FS)004

Question Serial No.

S015

Head: 148 – Government Secretariat : Subhead (No. & title): 000
Financial Services and the Treasury Operational expenses
Bureau (Financial Services Branch)

Programme: Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury
(Financial Services)

Director of Bureau: Secretary for Financial Services and the Treasury

Question :

1. Please explain how the “salaries” under Subhead 000 are calculated. What salary is used for posts which are vacant or filled by acting appointment for administrative convenience?
2. Please explain why there was a drastic increase in “Allowances” in the Financial Services Branch in 2002-03 while no such increase was recorded in Head 147 for the Treasury Branch (when one of the Permanent Secretaries is in acting capacity). Please provide a breakdown of the “Allowances” incurred in 2002-03 and estimated for 2003-04.

Asked by: Hon. LAU Wai-hing, Emily

Reply:

1. The provision for “Salaries” under Subhead 000 Operational expenses is calculated by adding up the estimated provisions required for each of the posts within the establishment of the financial year. For vacant posts, we followed the service-wide practice by using the starting pay point of the posts for recruitment ranks and mid-point salary for other ranks. For posts filled by acting appointment, the figures reflecting the actual salaries of the incumbents were used.
2. The increase in “Allowances” under Subhead 000 Operational expenses in 2002-03 is mainly due to the need to earmark provision for payment of acting allowances for officers acting at higher ranks. There are two types of acting appointments, namely, acting appointments to test an officer’s suitability for substantive promotion and acting appointments for an officer to undertake temporarily the duties of another post. The former type of acting appointments accounts for about 80% of the estimated expenditure on acting allowance for 2003-04. When a bureau/department is deployed with more officers who incur payment of acting allowances, there would be a corresponding reduction in the expenditure under “Salaries”.

A breakdown of the Allowances incurred in 2002-03 and estimated for 2003-04 is provided below –

	2002-03 Revised estimate (\$'000)	2003-04 Draft estimate (\$'000)
Acting allowance	3,213	3,346
Overtime allowance	201	173
Total:	3,414	3,519

Signature _____

Name in block letters _____ Tony Miller

Post Title _____ Permanent Secretary for Financial Services
and the Treasury (Financial Services)

Date _____ 28.3.2003

Examination of Estimates of Expenditure 2003-04
**CONTROLLING OFFICER'S REPLY TO
INITIAL WRITTEN QUESTION**

Reply Serial No.

S-FSTB(FS)005

Question Serial No.

Oral

Head: 148 – Government Secretariat : Subhead (No. & title):
Financial Services and the Treasury
Bureau (Financial Services Branch)

Programme: Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury
(Financial Services)

Director of Bureau: Secretary for Financial Services and the Treasury

Question :

The Secretary for Financial Services and the Treasury undertook to relay to the Financial Secretary the request of Hon SIN Chung-kai that improvements should be made to increase the transparency of the Hong Kong Monetary Authority (HKMA) in its estimates of expenditure so that the Legislative Council could play a role in overseeing the expenditure of HKMA.

Asked by: Hon. SIN Chung-kai

Reply:

In response to Members' concern that improvements should be made to increase the transparency of the Hong Kong Monetary Authority (HKMA) in its estimate of expenditure so that the Legislative Council could play a role in overseeing its expenditure, the Secretary for Financial Services and the Treasury relayed this request to the Financial Secretary on 25 March 2003.

Signature _____

Name in block letters _____

Tony Miller

Post Title _____

Permanent Secretary for Financial Services
and the Treasury (Financial Services)

Date _____

28.3.2003