

立法會
Legislative Council

LC Paper No. CB(1)841/06-07
(These minutes have been seen
by the Administration)

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Panel on Financial Affairs

Minutes of meeting
held on Thursday, 14 December 2006 at 10:00 am
in the Chamber of the Legislative Council Building

- Members present** : Hon CHAN Kam-lam, SBS, JP (Chairman)
Hon Bernard CHAN, GBS, JP (Deputy Chairman)
Hon James TIEN Pei-chun, GBS, JP
Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Dr Hon David LI Kwok-po, GBS, JP
Hon James TO Kun-sun
Hon SIN Chung-kai, JP
Hon Emily LAU Wai-hing, JP
Hon Abraham SHEK Lai-him, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon WONG Ting-kwong, BBS
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon TAM Heung-man
- Members attending** : Hon CHAN Yuen-han, JP
Hon Alan LEONG Kah-kit, SC
Dr Hon Fernando CHEUNG Chiu-hung
- Member absent** : Hon Andrew LEUNG Kwan-yuen, SBS, JP

**Public officers
attending**

: Agenda Item IV

Mr Henry TANG, GBS, JP
Financial Secretary

Ms Vivian SUM
Administrative Assistant to Financial Secretary

Mrs Helen CHAN
Principal Economist (1)

Agenda Item V

Financial Services and the Treasury Bureau

Mr John HUNG Leung-bun
Acting Principal Assistant Secretary (Treasury) (E)

Government Logistics Department

Mr Tommy YUEN Man-chung
Deputy Director

Mr WONG Shun-sang
Controller (Procurement)

Mr Edwin LEUNG Chiu-ping
Controller (Land Transport)

Office of the Government Chief Information Officer

Ms Caroline FAN Mei-hing
Senior Systems Manager
(E-government Policy and Development)

Clerk in attendance : Miss Polly YEUNG
Chief Council Secretary (1)5

Staff in attendance : Ms Pauline NG
Assistant Secretary General 1

Ms Rosalind MA
Senior Council Secretary (1)8

Mr Justin TAM
Council Secretary (1)3

Ms Sharon CHAN
Legislative Assistant (1)8

Action

I. Confirmation of minutes of meeting

(LC Paper No. CB(1)459/06-07 — Minutes of meeting on 16 October 2006)

The minutes of the meeting held on 16 October 2006 were confirmed.

II. Information papers issued since the last meeting

(LC Paper No. CB(1)271/06-07 — Securities and Futures Commission Quarterly Report for July to September 2006)

LC Paper No. CB(1)438/06-07 — Legislative Council Brief on "Public Consultation on Tax Reform Interim Report")

2. Members noted that the above papers had been issued for the Panel's information.

III. Date of next meeting and items for discussion

(LC Paper No. CB(1)458/06-07(01) — List of outstanding items for discussion)

LC Paper No. CB(1)458/06-07(02) — List of follow-up actions

LC Paper No. CB(1)390/06-07(01) — Reply dated 24 November 2006 from the Hong Kong Association of Banks

LC Paper No. CB(1)381/06-07(01) — Administration's response dated 24 November 2006 to members' comments and suggestions on measures for provision of basic banking services to the public

- LC Paper No. CB(1)472/06-07(01) — List of issues/questions for the written response of Mr LEUNG Chin-man prepared by the Secretariat
- LC Paper No. CB(1)472/06-07(02) — Reply dated 7 December 2006 from the Secretary for Housing, Planning and Lands (English version only)
- LC Paper No. CB(1)472/06-07(03) — Reply dated 7 December 2006 from Mr LEUNG Chin-man)

Impact of banks' branch closure and fee-charging on the public

3. The Chairman recapped that as agreed at the last Panel meeting held on 6 November 2006, the Hong Kong Association of Banks (HKAB) had been invited to meet with the Panel for discussion of the captioned subject as soon as possible and preferably on 5 January 2007 as suggested by Ms Emily LAU. Referring to the reply dated 24 November 2006 from HKAB (LC Paper No. CB(1)390/06-07(01)), the Chairman said that instead of attending the meeting on 5 January 2007, HKAB had proposed to approach the Panel in January 2007 to firm up details of the meeting arrangement in the second quarter of 2007.

4. Ms Emily LAU opined that as the subject was a matter of public concern and was last discussed in July 2006, a meeting should be arranged as early as practicable to follow up the subject, preferably before the second quarter of 2007. Ms LAU was of the view that members and the public would like to know the progress, if any, of the recommendations of HKAB's Task Force. While not objecting to HKAB's proposal to meet with the Panel in the second quarter of 2007, Mr James TIEN opined that HKAB should be invited to meet with the Panel at the earliest practicable timing.

5. In this connection, Dr David LI informed members that HKAB had been working on various measures to improve access to basic banking services since the last meeting with the Panel in July 2006. Nevertheless, the industry would need more time to implement and review the effectiveness of the measures before reverting to the Panel.

6. Noting members' views, the Chairman directed the Clerk to invite HKAB to make necessary arrangements to meet with the Panel at the earliest possible date, preferably before or at the beginning of the second quarter of 2007. He also invited Dr David LI to convey members' view for an early meeting with HKAB.

(Post-meeting note: The Clerk had written to HKAB on 15 December 2006 pursuant to the Chairman's instruction in paragraph 6 above.)

Conflict of interest issue involved in and after the listing of The Link Real Estate Investment Trust

7. The Chairman drew members' attention to the reply dated 7 December 2006 from Mr LEUNG Chin-man, the former Permanent Secretary for Housing, Planning and Lands (Housing) in response to the Panel's invitation to attend the meeting on 5 January 2007 (LC Paper No. CB(1)472/06-07(03)). Mr LEUNG advised in his reply that he could not attend the Panel meeting on 5 January as he would be out of Hong Kong on that day but he had provided a written response to the list of questions on the subject. The Chairman invited members' views on whether and how the Panel should follow up the subject.

8. Mr James TO considered that Mr LEUNG's personal attendance at a meeting of the Panel would still be required in order to provide further clarification to members' questions and concerns. Referring to the Panel's schedule of regular monthly meetings, Mr TO suggested that the Panel should continue to invite Mr LEUNG to attend a meeting of the Panel on a date convenient to him. As there was no objection from members, the Chairman directed the Clerk to write to Mr LEUNG accordingly.

(Post-meeting note: The written invitation was sent to Mr LEUNG on 18 December 2006.)

Discussion items for the meeting in January 2007

9. Members agreed to discuss the item on "Review of the minimum and maximum relevant income levels for Mandatory Provident Fund contributions" proposed by the Administration at the next meeting scheduled for Friday, 5 January 2007 at 10:45 am.

10. Mr James TO drew members' attention to a key initiative under the Strategic Plan for 2007-2009 announced by the Hong Kong Exchanges and Clearing Limited (HKEx) which sought to open the equity listing regime to issuers from a broader range of overseas jurisdictions. Referring to a recent press report about the Memorandum of Understanding between HKEx and Kazakhstan regarding possible listing arrangements for Kazakhstan enterprises in Hong Kong, Mr TO expressed concern about the implications of the new arrangement on the existing listing regime and on the securities market of Hong Kong. He was particularly concerned about the criteria or considerations that HKEx would take into account in deciding whether to allow enterprises incorporated in a certain jurisdiction to list in Hong Kong; and whether the corporate governance requirements and regulatory standards of the home jurisdictions were also relevant factors for consideration. He therefore suggested the Panel to invite the Administration/HKEx to brief members on the proposed opening of the existing listing regime at the next regular meeting on 5 January 2007. Alternatively, if it was considered that it was impracticable to discuss the subject with the Panel on 5

January 2007, HKEx should provide the Panel with written information on the subject for discussion at a later date. Members agreed to Mr TO's suggestion. The Chairman asked the Clerk to liaise with the Administration/HKEx for the provision of written information and the meeting arrangements accordingly.

(Post-meeting note: The letter dated 15 December 2006 to the Administration and the Administration's reply dated 22 December 2006 were issued to members vide LC Paper No. CB(1)589/06-07 on 27 December 2006.)

IV. Briefing by the Financial Secretary on Hong Kong's latest overall economic situation

(LC Paper No. CB(1)349/06-07 — Third Quarter Economic Report 2006 and the press release

LC Paper No. CB(1)458/06-07(03) — Paper provided by the Administration

LC Paper No. CB(1)521/06-07(01) — Power-point presentation material provided by the Administration (Tabled at the meeting and soft copy issued to members on 15 December 2006))

Briefing by the Administration

11. At the invitation of the Chairman, the Principal Economist (1) (PE(1)) gave a power-point presentation on the latest developments in the Hong Kong economy, the updated economic forecasts by the Government for 2006 as a whole, and the economic outlook for 2007. The salient points highlighted in the presentation were as follows:

- (a) The Hong Kong economy gathered strong momentum again in the third quarter of 2006, with real Gross Domestic Product (GDP) expanding briskly by 6.8% over a year earlier. This signified the 12th consecutive quarters of above-trend growth. The current economic expansion had a distinct feature of a full-fledged upturn, marked by robust growth in external trade as well as strengthening domestic demand.
- (b) Domestic demand had been playing an increasingly important role in driving economic growth. Private consumption expenditure rose solidly further by 4.4% in real terms in the third quarter over a year earlier. Overall investment expenditure surged by 12.7% in real terms in the third quarter over a year earlier, the fastest since the fourth quarter of

2000. Meanwhile, overall building and construction activity remained slack, although private sector output seemed to have stabilized over the past two quarters.

- (c) With an impressive total of some 311 000 additional jobs created since the trough in mid-2003, there was significant improvement in employment conditions in all segments of the labour market. As a result, the seasonally adjusted unemployment rate was down to a 64-month low of 4.5% in the three months ending October 2006. The number of long-term unemployed also fell markedly by 55% over the same period.
- (d) The improving trend of household income continued over the past few months. The number of households with monthly household income below \$4,000 (hereafter referred to as “low-income households”) came down by 5 100 or 3% to 187 100 in the third quarter of 2006 from a year earlier. While over 90% of the low-income households were economically inactive, the number of economically active low-income households (i.e. with at least one economically active household member) actually fell notably along with significant improvement in the employment situation for the lower-skilled workers.
- (e) The forecast GDP growth for 2006 as a whole was revised upward from 4-5% to 6.5%. Overall, the Hong Kong economy was likely to have another year of solid and balanced growth in 2007, although the growth pace might not be as fast as the exceptionally high levels achieved over the past three years. The Government would take into account all relevant factors when preparing the economic forecast for 2007, which would be announced along with the Budget Speech in February 2007. The prevailing forecast by private sector analysts were averaging at around 4.5%.

Discussion

Economic performance and development of Hong Kong

12. Noting the weakness the US dollar against the Euro in 2006 and market expectation that US dollar would remain weak in the coming two to three years, Mr James TIEN was concerned about the adverse impact of the weakening US dollar on the economic growth of Hong Kong under the Link Exchange Rate (LER) system.

13. In response, the Financial Secretary (FS) pointed out that under the LER system which had been operating effectively since its introduction in 1983, the Hong Kong dollar exchange rate would inevitably weaken along with the US dollar. The resultant increase in the price of imported goods and the inflationary pressure would have an impact on the livelihood of the general public. However, the trade sector

would benefit as Hong Kong's exports would also become more competitive. On the whole, the economic prospect of Hong Kong would very much hinge on the development of its major trading partners, namely the US and the Mainland.

14. Miss TAM Heung-man was of the view that to ensure sustainable economic growth for Hong Kong, the Administration should conduct a study to identify new growth engines in the long run, instead of relying on the four existing pillars of the economy, namely, financial services, tourism, trade and logistics. Miss TAM was also concerned about the inflationary pressure brought about by the recent appreciation of renminbi (RMB) and the impact on the purchasing power of population at the grassroot level. She enquired about the Administration's measures, if any, to minimize the adverse impact of inflation.

15. In reply, FS advised that as set out in his Budget Speeches in the past three years, the budgetary blueprints were underpinned by two intertwined principles, one of which was "Market Leads, Government Facilitates". The Government had devoted much effort in providing a business environment conducive to the development of various industries. Examples of facilitation measures included preferential access for Hong Kong businesses under the Mainland and Hong Kong Closer Economic Partnership Arrangement; promoting the development of asset management business through abolition of estate duty and the exemption of offshore funds from profits tax. As to the development of new growth engines, FS said that the Administration would examine from time to time appropriate measures to enhance the development of new industries in Hong Kong. FS appreciated Miss TAM's concern that population at the grassroot level would be more vulnerable to inflation resulting from the continued appreciation of RMB. He further advised that under the LER system, there were constraints on what the Administration could do to contain inflation. FS nevertheless pointed out that as a whole, the appreciation of RMB had been taking place only in a gradual and rather predictable manner. As such, the resultant inflationary pressure should not be a major concern at the present stage.

16. Referring to Chart 5 of the power-point presentation material showing a 8.9% growth in the total exports of goods in the third quarter of 2006, Mr WONG Ting-kwong commented that the growth in export of goods lagged far behind that in the South China region. Mr WONG pointed out that the manufacturing and logistics sectors in Hong Kong were facing challenges posed by the rapid growth and development in neighbouring Mainland cities and was concerned whether the economy of Hong Kong would be marginalized in the long run. In this connection, Mr WONG urged the Administration to formulate more forward-looking and strategic measures to meet the challenges of competition from Mainland cities and ensure a smooth and successful economic transformation for Hong Kong.

17. Noting the increasing share of transshipment in the export of goods from Hong Kong, the Chairman was also concerned that the economy of Hong Kong would be marginalized with the shifting of the production base to the Mainland. He shared

Miss TAM Heung-man's view about the need to develop new engines for the sustainable economic growth of Hong Kong in the long run. In this connection, the Chairman called on the Administration to consider the suggestion of the Democratic Alliance for the Betterment and Progress of Hong Kong to promote the development of high value-added industries, through providing incentives such as tax concessions.

18. In response, FS pointed out that for a developed economy like Hong Kong with a huge export base, the growth rates achieved in the last few quarters were already very impressive, although the rates were not as high as those of some rapidly developing cities in the Mainland. He further said that the manufacturing industry of Hong Kong had actually benefited from integration with the South China region as over 50 000 Hong Kong business enterprises had set up their production plants in the Mainland where the costs of production were considerably lower than those in Hong Kong. FS advised that the economic development strategy of Hong Kong should focus on industries with high value-added and innovative contents in the goods and services produced. The Government had therefore sought to strengthen the development in sectors where Hong Kong had an edge over other Mainland cities and would be able to contribute to the economic development of China, such as financial services. In this regard, FS said that to ensure long-term fiscal sustainability and to maintain Hong Kong's competitiveness, the Government launched the consultation exercise on broadening the tax base in July 2006. Unfortunately, the community did not support the reform proposal put forward by the Government. Mr WONG Ting-kwong said that as he understood, the community at large was against the implementation of a Goods and Services Tax (GST) but not consideration of other proposals to broaden the tax base.

19. Notwithstanding the strong GDP growth in 2004 to 2006, Mr Jeffrey LAM pointed out that small and medium enterprises (SMEs) might not benefit from the growth due to their rising operating costs (in terms of the costs of labour, rental and raw materials in the wake of the appreciation of RMB). Referring to the forecast of a slower growth pace in 2007, Mr LAM was concerned that the operating environment for SMEs would further worsen, thereby jeopardizing their viability and the job security of their employees. He sought FS's view on the prospect of the business environment for SMEs in the coming year.

20. In reply, FS pointed out that the GDP growth in recent years were exceptionally high and well above the trend growth of 4%, i.e. 8.6%, 7.3% and a forecast of 6.5% for 2004, 2005 and 2006 as a whole respectively. Some moderation in the GDP growth back to a pace more in line with the trend growth would be more sustainable for a developed economy like Hong Kong, otherwise there would be more inflationary pressure. FS said that the Government would prepare the economic forecast for 2007 in a prudent manner, having regard to the various external factors which might have an impact on Hong Kong as a small and open economy. Responding to Mr Jeffrey LAM's further concern about facilitation measures for SMEs, FS pointed out that the Government would provide the necessary support

measures to business enterprises in a fair manner regardless of their scale of operation, but would certainly give due regard to the difficulties specific to SMEs.

21. Referring to Diagram 3.3 and Table 11 of the Third Quarter Economic Report 2006, Ms Emily LAU expressed concern about the relatively low growth in visitors from long-haul markets such as Europe and US as compared to the growth in visitors from the Mainland. Ms LAU was of the view that apart from attracting Mainland visitors, the Administration should not overlook the importance of promotional initiatives in other long-haul markets. In response, FS pointed out that as indicated in Table 11, the number of inbound visitors from Europe and US had actually been on the rise over the past few years, although the rates were slower than the growth of Mainland visitors. He highlighted that there were in fact across-the-board increases in the number of visitors from all major sources since 2004. He assured members that the Administration would continue its work in promoting Hong Kong to visitors from different markets. The Chairman observed that the Hong Kong Tourism Board had in fact allocated more resources in promoting Hong Kong in other overseas markets than in the Mainland market. He added that according to certain surveys, the average spending of visitors from the Mainland was comparable and in some cases even exceeded that of visitors from other long-haul markets.

The employment market

22. Referring to the figures in Tables 19 and 20 of the Third Quarter Economic Report 2006, Miss CHAN Yuen-han observed that despite strong economic growth in the past three years, average labour earnings and wage levels had dropped when compared with those in 2001. Miss CHAN was concerned that as low-skilled workers had limited bargaining power in the labour market, it was unlikely that their wages would rise even during an economic upturn. In this connection, she urged the Administration to actively consider the introduction of a statutory minimum wage and standard working hours for the low-skilled workforce. Miss TAM Heung-man also expressed concern about the income of lower-skilled workers as the unemployment rate of these workers at 5.1% in the third quarter of 2006 was higher than the 4.5% overall unemployment rate, reflecting the greater difficulties faced by lower-skilled workers in the employment market.

23. FS explained that generally speaking, the effect of economic growth on labour wage was not immediately discernible until the emergence of the chain effect of increased job opportunities competing for a limited pool of labour. Noting that the issue of a statutory minimum wage and standard working hours had been discussed in detail at other forums and a package of measures to promote wage protection were in progress, FS stressed that the Government had all along been mindful of the challenges faced by lower-skilled workers in Hong Kong's transformation into a knowledge-based economy.

24. Referring to Chart 12 of the power-point presentation material showing full-fledged improvements in the labour market in the third quarter of 2006, Mr James TIEN said that in the view of Members of the Liberal Party (LP), at times of favourable economic climate, the demand for labour might exceed its supply and the bargaining power of workers would increase, thus enabling them to bargain for higher wages. As such, LP Members considered that wage protection could be more effectively achieved through market forces along with improvements in employment instead of through the introduction of a statutory minimum wage. In this connection, Mr TIEN sought information on whether the improvement in labour market in the past few quarters had resulted in an increase in wages.

25. In reply, PE(1) said that there were indeed improvements in the employment conditions in all segments of the labour market, as reflected in the increase in job vacancies and reduction in unemployment rate. Labour wages were holding steady, while some mild increases in labour earnings were seen at present.

26. The Chairman opined that the Administration should accord priority to improving employment so as to build a harmonious society. Towards this end, the Chairman said that consideration might be given to allocating resources in the 2007-08 Budget to implement measures which could help improve the employment opportunities of lower-skilled workers. As the number of hotel rooms in Hong Kong fell short of the demand of some 27 million visitors per year, the Chairman suggested that the Government should devise measures to encourage and facilitate the business sector to invest in building new hotels. This could in turn create jobs in the service industry which lower-skilled workers were capable of taking up.

27. In this connection, FS confirmed that job creation was one of the factors taken into consideration by the Government in its policy formulation. He agreed that the tourism industry could provide job opportunities for lower-skilled workers and referred to a number of initiatives which had been completed or were in the pipeline, including the Hong Kong Disneyland, Ngong Ping 360 and the Redevelopment Plans for the Ocean Park etc.. As to the building of new hotels, FS informed members that several sites had already been earmarked in the Southern District for hotel purposes.

28. Ms Emily LAU called on the Administration to adopt a fundamental approach in tackling the problem of structural unemployment (under which there was a mismatch between jobs available and the skills and qualifications of workers in the market). This should be done by greater public investment in university and pre-primary education to provide an educated workforce needed by Hong Kong, at the same time putting in place a proper retirement protection scheme for the elderly.

29. In response, FS agreed that to ensure sustainable growth for Hong Kong, continued investment in areas like education would be crucial for providing the talents needed to meet the demands for high-value added activities in a knowledge-based economy. Responding to Ms Emily LAU's concern about increasing the percentage

of matriculated students who could pursue university education, FS pointed out that if the existing target of 18% was to be increased, the question of additional resources and their sources must be properly addressed. The problem currently faced by the Government was the lack of a stable source of revenue in the long run, rendering it difficult to make financial commitments and forward planning to increase the allocation of resources in certain important policy areas. FS added that it was against this background that the Government had put forward its tax reform proposal for public consultation earlier on.

30. Pointing out that the accumulated surplus of the Exchange Fund (EF) together with the balance of the fiscal reserves amounted to about \$800 billion, Ms Emily LAU doubted whether there was a real problem of unstable revenue restraining the Government's ability to invest in important policy areas in the long run. In this regard, FS responded that the subject on the use of the accumulated surplus of EF would be discussed at the upcoming motion debate at the Council meeting on 20 December 2006.

31. Mr SIN Chung-kai noted that during the past few years, considerable resources had been allocated for retraining programmes to improve the employability of lower-skilled workers. He referred to the comments of some academics that as some people, for various reasons, were unable to re-enter the employment market, it might be more cost-effective in terms of public resources to provide them with basic assistance than to retrain them for employment. He asked whether the Administration had conducted any study on this aspect.

32. In response, FS advised that in the management of public finance, one of the key principles followed by the Government was to put public resources to the best use for sustaining economic development while at the same time providing a safety net to ensure that the needy could lead a living with their basic needs being met. In the face of the challenges of the structural transformation of the economy, the Administration had adhered to the principle of facilitating social mobility through employment and a series of measures on education, training and retraining. He pointed out that the training and retraining programmes were designed with built-in mechanisms to prevent abuse. FS assured members that the Administration would examine from time to time the effectiveness of various measures to ensure the proper use of public resources. Reviews by some non-governmental organizations had shown that the training and retraining programmes had proved to be effective in facilitating the employment of trainees

Unemployment problem in the construction sector

33. Noting that the unemployment rate of the construction sector remained higher than the overall rate, Mr Abraham SHEK pointed out that the real unemployment situation was more acute taking into account the number of construction workers who had sought employment outside Hong Kong, such as in Macao. Mr SHEK opined that

the Administration should implement more proactive measures to facilitate the implementation of private sector building projects so as to create more employment opportunities. In this connection, Mr SHEK said that the slow progress of some private building projects had resulted from the time required for processing land transactions by the Lands Department (LD), in particular the negotiations on premiums for lease modifications. Mr SHEK suggested the Administration to consider setting up an independent appeal panel for private developers to lodge appeals on the payment of premiums for land transactions.

Admin

34. FS responded that the Administration was aware of the concern of private developers on the processing of land transactions and payment of premiums. He nevertheless pointed out that as the government revenue so collected was public money, it was incumbent upon the Administration to ensure the payment of the necessary premium by the private developers concerned. Mr SHEK's proposal to set up an independent appeal panel could be relayed to the Secretary for Housing, Planning and Lands (SHPL) for consideration. Regarding the \$29 billion earmarked each year for public works projects and the need to expedite their implementation, FS advised that while the Government was committed to taking forward public works projects in an expeditious manner, the statutory requirements and procedures applicable to public works projects must be followed and this would inevitably take time, the duration of which were sometimes subject to factors outside the control of the Government.

Problem of poverty

35. Dr Fernando CHEUNG noted that following the recent strong economic growth in Hong Kong, there was a modest decline in the number of low-income households in the third quarter of 2006 from a year earlier. Nevertheless, Dr CHEUNG noted an upsurge in the number of low-income households over the past 10 years which, according to the Administration, was mainly attributable to an upsurge in the number of retired elderly households and a contraction in the average household size. Pointing out that the problem of a rapidly ageing population would become more acute in the coming decades, Dr CHEUNG urged the Administration to formulate concrete measures such as a compulsory retirement protection scheme to tackle the problem of poverty faced by retired elderly households.

36. FS assured members that the Government was keenly aware of the impact of a rapidly ageing population on society and related problems such as an upsurge in the number of retired elderly households and a shrinkage of the labour force. The Government attached great importance to providing a safety net for the needy. The existing social security schemes and various support measures provided aimed to provide assistance to those in need and to facilitate self-reliance through employment in the long-run. The Commission on Poverty (CoP) was tasked to recommend measures to address the problem of poverty. PE(1) supplemented that the increase in the number of one-person households (majority of which being elderly households as

well) was also a major factor attributing to the upsurge in the number of low-income households over the past 10 years.

37. Referring to the share of domestic households by monthly household income in Table 1 of the Annex to the paper provided by the Administration, Dr Fernando CHEUNG expressed concern that over 20% of the households had a monthly income less than \$8,000. He considered that there was a wide wealth gap in Hong Kong and urged the Administration to consider making use of the abundant fiscal reserves to provide assistance to low-income households with a view to reducing such a wealth gap. Ms Emily LAU and Mr Albert Ho both expressed concern about a widening wealth gap in Hong Kong which was not conducive to building a harmonious society.

38. In response, PE(1) advised that an analysis of monthly household income by breaking down all households into 10 income groups indicated that the increase in household income of the bottom three income decile groups was comparable to the average increase in the economy over the last three years. PE(1) also referred members to Table 1 of the Annex to the paper provided by the Administration for relevant information on the percentage of households in eight income groups and observed that widening income disparity was not uncommon in other overseas economies during the transition to a knowledge-based economy.

39. Recapping the objection of Members of the Democratic Party to the Government's proposed introduction of a GST, Mr Albert HO pointed out that instead of introducing a regressive tax, the Government should explore measures to reduce the wealth gap, such as redistribution of income through introducing progressive rates for salaries tax and profits tax and increasing public expenditure. Mr HO was of the view that while the Government's target was to maintain public expenditure below 20% of GDP, there was room for some increase as the existing expenditure level was below 17% of GDP.

40. In response, FS highlighted that progressive rates for salaries tax and profits tax would only increase the tax contribution by the same group of taxpayers but would not broaden the tax base. He recapped that the Administration had set out in the consultation document a package of compensation and offsetting measures to ensure that the livelihood of low-income households would not be affected by GST upon its implementation.

41. Mr Ronny TONG referred to a complaint which involved a group of tenants affected by redevelopment of old districts in the urban area. According to Mr TONG, the complainants had been required by their landlord to move out of their flats. They however lacked the means to rent other private residential premises and could not afford to go through the time-consuming procedures for application of public housing. In this connection, Mr TONG considered that the statistics on economic growth and household income could not conceal the hardship actually faced by some low-income households. Mr TONG enquired whether the Government had any concrete

measures to meet the housing needs of those people who could not afford to cope with the increasing rent in the private property market.

42. In response, FS reiterated that the Government attached great importance to providing assistance to the needy in the community while at the same time ensuring the prudent management of public finances. He advised that Mr TONG's concern had to be considered in the context of the Government's overall housing policy under SHPL's purview. Regarding Mr Ronny TONG's further concern about concrete measures in the 2007-08 Budget to assist the needy, FS advised that CoP was examining feasible support measures and announcement on the measures would be made when appropriate.

V. Proposal to replace the existing procurement computer system of the Government Logistics Department

(LC Paper No. CB(1)458/06-07(04) — Paper provided by the Administration)

Briefing by the Administration

43. At the invitation of the Chairman, the Acting Principal Assistant Secretary (Treasury) (E) (Atg PAS(T)(E)) gave a brief account of the proposal to replace the existing procurement computer system of the Government Logistics Department (GLD):

- (a) The Procurement Management System Upgrade (PMSU) was used in GLD mainly for procurement administration and contract management of major purchase of goods required by the Government. The PMSU would reach the end of its serviceable life in 2009-10. Moreover, there would be no support services provided by the hardware manufacturer and software developer upon the expiry of the current ten-year maintenance agreement in 2009-10. The software developer had also ceased providing enhancements to the software packages. It was therefore necessary to develop a new system with enhanced functionalities to overcome the maintenance problem of the existing PMSU and to provide better on-line procurement services to the system users.
- (b) In addition to performing the full range of functions of the existing PMSU, the proposed replacement system would also be equipped with new functions to enhance data sharing and user-friendliness. It would allow GLD to introduce new/enhanced services to users and suppliers such as Term Contract Depository, e-Ordering, improved workflow

process, online functions for suppliers and interface with other government systems.

- (c) With the introduction of new/enhanced services, GLD would be able to expand the user population from the existing 1 400 to 3 000. The replacement system would also enable faster data retrieval and compilation of management information to facilitate management decision-making and strategic planning. In addition, the replacement system would bring about better monitoring and control, more streamlined and paperless workflow and better scalability and extendibility.
- (d) It was estimated that the replacement system would result in annual savings of \$5 816 000 from 2010-11 onward, comprising a realizable savings of \$3,229,000 per annum on the recurrent system maintenance costs of the existing PMSU and its web-interface, communication network rental fees, as well as data security protection recurrent costs. The savings would be ploughed back to cover part of the recurrent costs of the replacement system.
- (e) Implementation of the replacement system would require an estimated total non-recurrent expenditure of \$37,210,000 over a period of three years from 2007-08 to 2009-10. The estimated recurrent expenditure for supporting the replacement system was \$5,006,000 per annum as from 2010-11.

Discussion

Serviceable lifespan and capacity

44. Noting that the existing procurement management system of GLD was approaching the end of its serviceable life after 11 years of operation, Mr SIN Chung-kai enquired about the expected lifespan of the replacement system. In response, Atg PAS(T)(E) advised that the serviceable life for the replacement system was about ten years and the contractor would provide a ten-year maintenance agreement for the new system.

45. While indicating support for the proposal to replace the existing procurement management system, Ir Dr Raymond HO was concerned about the timeframe for the replacement system to be upgraded and the cost implications. In this regard, the Deputy Director of GLD (DD of GLD) pointed out that after launching the replacement system, GLD would review its operation annually to see whether the system could cope with the prevailing demands. For instance, if the number of users exceeded the capacity of the replacement system, GLD would work with the supplier to upgrade the capacity of the system as appropriate.

46. Mr SIN Chung-kai noted from paragraph 11(a) of the Administration's paper (LC Paper CB(1)458/06-07(04)) that the replacement system would enable GLD to expand the user population from the existing 1 400 users to 3 000 users. In this connection, he enquired about the basis on which the figure had been calculated. The Controller (Land Transport) of GLD (C(LT) of GLD) responded that the figure had been worked out in consultation with bureaux and departments (B/Ds) which had been using the existing PMSU. He further remarked that the replacement system should be able to cope with the demands of B/Ds as users in the sub-units of B/Ds responsible for handling procurement-related activities would also be covered. Besides, flexibility would be built into the system to cope with future change in demand. Notwithstanding the Administration's explanation, Ms Emily LAU stressed the need for the replacement system to allow sufficient capacity to cope with future demands of B/Ds.

47. Noting that the existing PMSU could only be used by 1 400 users, Ir Dr Raymond HO enquired about the performance or expansion capacity of the existing system. In this regard, C(LT) of GLD pointed out that due to the limitation of the hardware and the licence scheme of the related software, it would not be cost-effective to increase the number of concurrent users of the existing system. This also limited the expansion of user accounts to enhance the system accessibility by B/Ds. However, under the replacement system the capacity of concurrent users could be increased by more than 100% from 120 to 250. In addition, having regard to the need of users to access the database to go over the procurement contracts from time to time, the replacement system was designed to enable faster retrieval of contract information.

48. On whether GLD had consulted the users of the existing procurement management system before proposing the replacement system, DD of GLD responded that GLD had conducted a feasibility study on the implementation of the replacement system. During the study, GLD had coordinated with the contractor to consult the users on how the replacement system could enhance the operation and efficiency of the procurement process.

E-Procurement conducted by the Government

49. Ms Emily LAU recalled that at a recent meeting of the Panel on Information Technology and Broadcasting, the Administration had proposed to implement a pilot e-Procurement programme in three government departments. Given that small and medium sized enterprises (SMEs) might be less ready in adopting IT and e-business practices due to the lack of resources and expertise, she enquired whether GLD would work with Commerce, Industry and Technology Bureau (CITB) to render assistance to SMEs so that they could also make use of the e-procurement systems to expand their business opportunities with the Government. In response, DD of GLD advised that notwithstanding the introduction of e-procurement by the Government, suppliers could still choose to bid for government tenders through the conventional mode of

submitting tendering documents. The e-procurement system only served to provide a more convenient option for SMEs to do business with the Government. Under the replacement system, suppliers would be able to submit on-line applications for enlistment. Once enlisted, the suppliers would be updated on the conduct of tendering exercises by electronic means. In addition, with the new function of e-Ordering, users in B/Ds could generate and issue purchase orders electronically via email or e-fax to suppliers. While noting from the Administration that SMEs which had not adopted e-commerce would not be excluded from bidding for government tenders, Ms Emily LAU commented that the Administration should make SMEs aware that they could continue to bid for government tenders through the conventional mode of submitting tendering documents, and if necessary, CITB should provide assistance to them in their migration to e-commerce.

50. As the replacement system would only be used by B/Ds within the Government, Ms Emily LAU asked whether the Administration had considered the feasibility of extending the system to cover the procurement activities of public bodies or certain non-governmental organization. In this connection, DD of GLD advised that the Administration had no plan to do so having regard to the fact that individual public bodies had their own procurement policies as decided by their respective board of directors and it might not be feasible to include them in the system administered by the Government.

51. Mr SIN Chung-kai enquired about the relationship, if any, between the proposal to replace the existing procurement management system of GLD and the pilot e-Procurement programme. In response, DD of GLD advised that the former system was mainly for procurement administration of major purchases of goods required by the Government with a contract value above \$1.3 million. The latter system was for purchases of low-value goods and non-construction services by individual B/Ds with a contract value not exceeding \$1.3 million. Given the difference in contract values, the two systems were subject to different procurement procedures.

52. Ms Emily LAU advised that to achieve better coordination and cost-effectiveness, consideration should be given to facilitating the sharing of the supplier lists of the two systems. In this regard, DD of GLD advised that the supplier lists would be shared between the two systems to facilitate users to access the supplier information from the database. In addition, the replacement system would facilitate interface with the pilot programme for B/Ds to consider whether to place a purchase order on items from GLD's bulk contracts. DD of GLD pointed out that under the current procurement procedures, for purchases of low-value goods and services, individual B/Ds would approach a number of suppliers for quotations in accordance with the relevant regulations. However, by making procurement information more readily available under the replacement system, individual B/Ds would be able to check whether the item to be purchased had in fact been included in GLD's bulk

contracts and if so, B/Ds would be able to purchase it at a lower price through aggregated buying coordinated by GLD.

Savings achieved by the replacement system

53. Mr SIN Chung-kai was concerned about the saving in manpower, if any, under the replacement system. In response, C(LT) of GLD advised that after the implementation of the replacement system, notional savings in staff cost of GLD and B/Ds would be achieved through increased operational efficiency. The manpower capacity which could be freed up from the automated process would help to deliver more value-added activities such as strategic sourcing and monitoring. However, since the system users included those in GLD and 70 B/Ds and there were staff in different grades and ranks dealing with procurement-related activities, the replacement system would not result in any immediate deletion of posts.

54. Ms Emily LAU echoed Mr SIN's concern. She was of the view that with improved operational efficiency, there should be saving in manpower under the replacement system. In this connection, the Administration should seek to trim operating expenditure and delete the posts which were no longer required. On the realizable savings of the existing system, DD of GLD clarified that the savings would be ploughed back to cover part of the recurrent costs for maintenance of the replacement system. Regarding the saving in manpower, DD of GLD pointed out that the replacement system would serve to assist staff in carrying out the procurement process more efficiently, thereby achieving some saving in terms of the number of man hours required for the process. However, it was not envisaged for the time being that the replacement system would result in deletion of posts.

55. Referring to paragraph 11(d) of the Administration's paper that the replacement system would enable GLD to achieve a more streamlined and paperless workflow, Ms Emily LAU enquired about the estimated quantity of paper to be saved. In response, C(LT) of GLD said that by transmitting documents in the electronic format, the use of paper could be reduced. However, given that the quantity of paper to be saved would depend largely on the procurement activities and practices of B/Ds, it was not feasible to make an assessment before the full operation of the replacement system. DD of GLD supplemented that some indication might be drawn from the fact that B/Ds issued about 10 000 purchases orders per year under the existing procurement system.

56. To address members' concerns, the Chairman suggested that the Administration should assess the savings, both tangible and intangible, achieved by the implementation of the replacement system in due course and where appropriate, provide relevant information to members.

Summing up

57. In conclusion, The Chairman said that the Panel was supportive of the funding proposal. Members noted that the Administration planned to submit the proposal to the Finance Committee for consideration on 12 January 2007.

VI. Any other business

58. There being no other business, the meeting ended at 12:25 pm.

Council Business Division 1
Legislative Council Secretariat
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