

**Progress Report on
Motion on “Assisting the middle class”
Moved by Dr Hon Elizabeth QUAT
(Motion as amended by Hon SIN Chung-kai and
Hon Charles Peter MOK)
at the Legislative Council meeting of 23 January 2013**

At the Legislative Council Meeting held on 23 January 2013, the motion on “Assisting the middle class” moved by Dr Hon Elizabeth QUAT, amended by Hon SIN Chung-kai and Hon Charles Peter MOK was carried. The wording of the motion is at Annex. This report informs Members of the follow-up actions taken by the Administration in respect of the motion.

Items (1) (2) and (9) on Tax Matters

2. All along, Hong Kong practises a simple and low tax regime and strives to uphold the taxation principles of fairness and neutrality. For salaries tax, apart from adopting progressive tax rates which reflect the fairness principle of “capacity to pay”, we have also provided generous allowances. As a result, the average effective tax rate of all salaries tax payers is far below the standard rate of 15%.

3. Taking the year of assessment 2010/11 as an example, only about 40% of the working population need to pay salaries tax. Even before the implementation of the one-off tax reduction, the average effective tax rate for 85.3% of the salaries tax payers is below 5.3%, whereas the average effective tax rate for all salaries tax payers is only 8.1%. The tax burden in Hong Kong is very light when compared with other economies.

4. In fact, there is a blanket increase for all the allowances under salaries tax, including basic allowances for individuals, since the year of assessment 2012/13. To further alleviate people’s burden in raising their children, the 2013-14 Budget proposes to increase the basic and additional child allowances from \$63,000 to \$70,000 for each child with

effect from the year of assessment 2013/14. The proposal has now been put into practice following passage of the relevant legislative amendments by the Legislative Council on 26 June 2013.

5. We note that the middle class has suggested the Government to consider specific tax measures for various expenditure items, e.g. expenses on rent and children's education. However, it is impracticable for the Government to respond to each and every demand. After taking into account overall financial commitments and the fairness of resource allocation, the Government has adopted a simple and direct approach through one-off tax reduction and increase in tax allowance as a response to the various aspirations of the middle class.

(3) To abolish the levy on employers of foreign domestic helpers

6. As set out in his 2013 Policy Address, the Chief Executive notes that there are different views in the community on the Employees Retraining Levy imposed on employers of foreign domestic helpers ("FDH levy"). To ease the burden on families employing FDHs, he has decided to abolish the FDH levy when the suspension of its collection expires on 31 July 2013. To give effect to this decision, the Chief Executive in Council approved that the importation of FDHs be de-designated as a labour importation scheme under the Employees Retraining Ordinance at the meeting on 14 May 2013. This will reduce the levy receipts of the Government by about \$1.5 billion a year.

(4) Housing and Land

(i) Public housing supply

7. On the supply of public rental housing (PRH), the Hong Kong Housing Authority (HA) has advanced the completion of two PRH projects which involve 3 400 flats, from 2017/18 to 2016/17, thereby increasing the total new PRH from about 75 000 flats to about 79 000 flats in the five-year period starting from 2012/13. Beyond this, to address the increasing demand for PRH from the public, we have decided to increase the PRH production with a target of at least 100 000 units for the five years starting from 2018.

8. As regards the Home Ownership Scheme (HOS), the development of HOS is now a central element of the housing policy. The Government has set a planning target to provide about 17 000 new HOS flats over four years from 2016/17 onwards and an annual average of about 5 000 HOS flats afterwards. The HA has completed the preparatory work for the first batch of HOS projects, including the planning, design and consultations with district councils (DCs). We are rolling forward with construction works in mid-2013. The first batch of about 2 100 new HOS flats is anticipated for completion in 2016/17 and for presale in end next year.

9. The HA will further strengthen its efforts to ensure that there is effective coordination within the Government and will step up liaison with respective DCs and local communities to identify suitable sites for public housing development in different areas of the territory. We will optimize the development potential of sites by relaxing plot ratios and building height restrictions where appropriate without compromising the quality of our living environment. The HA will consider all suitable sites, regardless of their size, for public housing development and will develop public housing projects under the principles of optimal utilization of land resources to maintain the most cost-effective and sustainable development to meet the demand for public housing.

10. The Hong Kong Housing Society (HKHS) also plays a role in increasing the supply of subsidised housing. The HKHS has launched its Greenview Villa project, which provides 988 subsidised housing units that will help meet the home ownership aspirations of low and middle-income households. In view of the favourable response to the Greenview Villa, the Government has set aside a site near Siu Lek Yuen in Sha Tin for the HKHS to develop a similar housing project, which is expected to provide around 700 small and medium sized flats. Another site in Sha Tau Kok will also be allocated to the HKHS for developing rental housing.

(ii) Private housing supply

11. In the past five years (April 2008 to March 2013), on average there were only 9 600 completed private residential units each year. According to our projection as at end March 2013, it is estimated that 67 000 units will be provided in the primary private residential property market in the next three to four years. These include 46 000 unsold

units under construction, 4 000 unsold units in completed projects, and 17 000 units to be constructed on disposed sites. That said, the actual supply of private housing units ultimately depends on the construction progress of private developers, as well as when the completed flats are put up for sale in the market.

12. Regarding private housing land supply, the Government will continue to announce in advance the quarterly land sale programme and list out the sites planned to be sold in the quarter, providing transparency and certainty for the market. The adjusted 2013-14 Land Sale Programme has a total of 49 residential sites, which are estimated to be capable of producing about 13,300 flats. The Government plans to initiate the sale of all the residential sites in the 2013-14 Land Sale Programme, subject to the outcome of the necessary planning procedures for relevant sites, to increase housing land supply to the greatest extent. In the past two years, through government land sale, railway property development projects, the Urban Renewal Authority's projects, development projects subject to lease modification/land exchange and private redevelopment projects not requiring lease modification/land exchange, it is estimated that the housing land supply from various sources is capable of providing about 36,000 private residential flats.

(iii) Land supply

13. As mentioned in the 2013 Policy Address, the Government will continue to adopt a multi-pronged approach to increase land supply in the short, medium and long term through optimal use of developed land and identification of new land for development, so as to meet the housing and other needs of Hong Kong people.

Increasing supply of housing land in the short to medium term

14. The ten initiatives put forward in the 2013 Policy Address will help increase the supply of housing land in the short to medium term. They include the conversion of 36 Government, Institution or Community and other Government sites, 13 devegetated, deserted or formed Green Belt sites, and 16 industrial sites to residential use; increasing the development density of residential sites as far as allowable in planning terms, and reviewing land administration procedures and processes related to land grant and premium assessment; taking forward the

planning for residential development at West Rail Kam Sheung Road Station and Pat Heung Maintenance Depot, and conducting a study on the adjoining areas; and actively considering making use of private developers' capacity to expedite the four development projects at the former Diamond Hill Squatter Areas (Tai Hom Village), former Cha Kwo Ling Kaolin Mine, former Lamma Quarry and Anderson Road Quarry, etc.

15. The objective of the ten initiatives is to increase and expedite land supply so as to enhance the supply of housing. Seven of them already will make available over 300 hectares of land for housing based on known developments if they are all implemented. We will continue to press ahead full steam on the said initiatives, with a view to identifying more suitable sites to increase the housing land supply in the short to medium term, thereby addressing the current tight supply-demand imbalance of housing.

Long-term land supply

16. Creating new land is an essential source of land supply in the long term. The Government is determined to develop new land extensively and build up a land reserve so that land can be used to meet future demand in a timely manner.

17. Therefore, the Government will expeditiously take forward a series of long-term land supply projects, which include the North East New Territories New Development Areas (NDAs), Hung Shui Kiu NDA, development of the New Territories North, review of deserted agricultural land in North District and Yuen Long, (including the Planning and Engineering Study for Housing Sites in Yuen Long South) development of Lantau Island (including the Tung Chung New Town Extension), reclamation on an appropriate scale outside Victoria Harbour, and rock cavern and underground space developments, etc. These long-term land supply projects will be our focus in meeting future population growth, providing land resources for economic development and improving people's living space and environment..

18. We would like to reiterate that the Government is committed to increasing land supply, and has been monitoring closely the utilisation of various types of land. For land with potential for development, the Government will, based on the blueprint for increasing land supply as mapped out in the 2013 Policy Address, review and assess its development feasibility under the established mechanism. When a plot

of land is ready for development, we will make appropriate arrangements, such as allocating it for public housing development, including it in the Land Sale Programme, or allocating it for other uses.

(5) Healthcare

19. It has all along been the Government's important priority to ensure that healthcare services in Hong Kong are safe and of good quality. The Government's recurrent expenditure on the area has also been increasing all along. The recurrent expenditure on medical and health services for 2013-14 reaches \$49 billion, an increase of \$2.7 billion over 2012-13. To further improve public healthcare services to address the increasing medical needs of our community arising from an ageing population, the Government's recurrent subvention for the Hospital Authority has increased from \$40.4 billion in 2012-13 by nearly 10% to \$44.4 billion in 2013-14.

20. We are currently formulating detailed proposals for the Health Protection Scheme (HPS). The HPS is meant to complement the public healthcare system by providing more choices and better protection to those, who may afford and are willing to use private healthcare services, especially the middle class. We have set up a Working Group and Consultative Group on the HPS under the Health and Medical Development Advisory Committee (HMDAC) to formulate concrete proposals for the HPS, including supervisory and institutional frameworks, key components of the HPS Standard Plan, rules and mechanism in support of the operation of the HPS as well as possible options for the provision of public subsidies or financial incentives to facilitate HPS implementation. We expect to tender detailed recommendations on the HPS by 2013.

(6) Public Transport

(i) Public Transport Policy

21. The Government's transport policy is to meet the needs of all Hong Kong people. The general public uses public transport services

while the middle-class people may sometimes commute by car. Therefore, the Government will rationalize public transport fares and improve road and railway traffic, so as to benefit the general public including the middle-class people.

(ii) Public Transport Fare

22. We appreciate the concerns that the community (including middle class) has on the fare levels of public transport. We will continue to process fare increase applications in accordance with the established mechanisms, with a view to catering for the affordability and acceptance of the public as far as possible. Besides, we will continue to encourage public transport operators to provide fare concessions where possible, such as by providing attractive interchange concessions to passengers as far as practicable in the course of pursuing bus route rationalisation and providing more interchange arrangements.

23. The Government and the MTR Corporation Limited (“MTRCL”) have completed the five-yearly review on the Fare Adjustment Mechanism (“FAM”) in April 2013. Under the new FAM, the calculation of the productivity factor value is subject to a new, objective and transparent methodology. A profit-sharing mechanism, an affordability cap, a service performance arrangement and new concessionary ticket schemes are also introduced with a view to benefitting passengers. The new arrangements address public concerns and the general public can share the fruits of success of the MTRCL.

(7) To formulate family-friendly policies, enact legislation on paid paternity leave for employees, and increase child care and elderly care services, so as to assist family carers;

(i) Family-friendly practices

24. The fundamental principle of the Government’s family policy is to recognise and promulgate that the family is the cornerstone of our society. The objective of our family policy is to enhance family harmony with a view to building a harmonious community and alleviating social problems. In order to achieve the objective of the family policy, the key policy measures adopted by the Government include –

- (i) establishing the Family Council in 2007 to provide a cross-sector and cross-bureau platform to study and address family-related problems with a view to providing high-level steer and advice, and fostering effective coordination and collaboration to maximize efforts and achieve synergy;
- (ii) with effect from 1 April 2013, the established approach of including family perspectives in the policy-making process implemented since 2009 has been further enhanced by introducing a mandatory assessment of family implications and impact on family for all policies. Relevant assessment is included in all policy submissions and Legislative Council briefs. Bureaux/departments are encouraged to consult the Family Council on new policies which carry family implications; and
- (iii) to implement the new initiatives and to strengthen its advisory role, the Family Council has been re-constituted with effect from 1 April this year, and Professor Daniel Shek Tan-lei has been appointed by the Chief Executive as the first non-official Chairman. At the Family Council meeting held on 7 March 2013, Members of the Council expressed unanimous support to the reconstitution.

25. The Government has all along been dedicated to encouraging employers to adopt employee-oriented good people management measures. Family-friendly employment practices (FFEP) has been one of the major measures being promoted.

26. The Employment Ordinance provides the foundation for a family-friendly working environment, including the provision of various kinds of leaves, such as rest days, statutory holidays, annual leave, maternity leave and employment protection for pregnant employees. These help employees balance their work and family responsibilities.

27. Making the workplace family-friendly is a shared responsibility of the entire society. Employers may adopt different types of FFEP to serve the best interests of their organisations and employees by taking into account their size, resources and culture.

28. The Labour Department (LD) has been acting as a facilitator in encouraging employers to adopt FFEP through its promotional efforts. Apart from the network of its Human Resources Managers Clubs formed in various trades and industries as well as the industry-based tripartite committees, LD also disseminates the message and information on the relevant measures to employers, employees and the general public through a wide range of publicity channels.

29. We also notice that more and more employers have recognised the importance of FFEP. For example, the Family Council introduced the “Family-Friendly Employers Award Scheme” (the Award Scheme) in 2011 and more than 1 000 companies were awarded. Riding on the success of the debut launch of the Award Scheme, the Family Council will organise the Award Scheme for the second time in September 2013. In addition to the private corporations already included in the last round, the scope will be expanded to cover non-business sectors including non-governmental organisations and social enterprises. With regard to the “Caring Company Scheme” organised by the Hong Kong Council of Social Service, some 1 200 awardees have been adopting family-friendly measures in 2007-08. In 2011-12, the number of companies providing employees with paid leave above the requirements of the Employment Ordinance and subsidising supporting services for staff and their family members reached 2 181 and 1 908 respectively. These show that the importance of FFEP has been given increasing recognition by organisations.

(ii) Paid paternity leave

30. The Labour Advisory Board supported legislating for three days’ paternity leave for male employees with pay at four-fifths of the employee’s average daily wages. At the meeting of the Panel on Manpower of the Legislative Council (LegCo) held on 25 January 2013, the Labour and Welfare Bureau (LWB) took note of Members’ views on the proposed arrangements of statutory paternity leave. While Members have different views on the details of the proposal, they supported legislating for paternity leave.

31. Having regard to Members’ views, LWB and LD are drawing up the details of the proposed statutory paternity leave for legislative purpose.

Our target is to introduce a bill into LegCo in the 2013-14 legislative session with a view to completing the legislative work as soon as possible.

32. The aforesaid legislative initiative fully realizes the pledge of introducing paternity leave for fathers in the election manifesto of the Chief Executive.

(iii) Child Care Services

33. To support parents who are unable to take care of their children temporarily because of work or other reasons, the Social Welfare Department (SWD) has all along been providing subvention to non-governmental organisations (NGOs) to run a variety of child care services to children of different ages, which include independent Child Care Centre service, Kindergarten-cum-Child Care Centre service, Occasional Child Care Services, Extended Hour Services, Mutual Help Child Care Centre and After School Child Care service. Moreover, since October 2011, SWD has launched the Neighbourhood Support Child Care Project through NGOs to children on a territory-wide basis in order to enhance the flexibility and accessibility of the services. The Project provides home-based child care service and centre-based care group service to children aged under six.

34. Currently, there are still quotas available for various child care services in general. Operating hours of relevant services cover morning, afternoon and evening on weekdays, weekends and holidays, with residential services provided under special circumstances. We will continue to monitor the operation of various services and the demands in the community.

(iv) Respite Service for Elders

35. There are two kinds of 'Respite Service for Elders', namely temporary day care service and short-term residential service for the elderly. The service aims at providing support to carers, relieving their stress, and allowing them to take a short break when need be, thereby

encouraging and assisting elderly people to age in the community as long as possible.

36. Day Respite Service for Elders is being provided by 65 subvented day care centres/units for the elderly across the territory. The SWD has designated 118 day respite places in these centres/units. Individual day care centres/units can also make use of any casual vacancy to provide respite service. SWD will continue to designate day respite places in the newly established subvented centres/units.

37. Regarding residential respite service, apart from the 11 designated residential respite places provided by subvented residential care homes for the elderly (RCHEs), casual vacancies of the subsidised places of subvented nursing homes, subvented RCHEs, contract RCHEs and private homes participating in the Enhanced Bought Place Scheme have been utilised to provide residential respite service.

(v) Carer Training and Support

38. The Administration provides support services to carers of the elderly through the 159 District Elderly Community Centres and Neighbourhood Elderly Centres, 85 Home Care Service teams and 64 Day Care Centres/Units throughout the territory. Support services include the provision of information, training and counseling, assistance in forming carers' mutual-assistance groups, establishment of resource centres, demonstration and loan of rehabilitation equipment, etc.

39. In addition, the Administration launched the "District-based Scheme on Carer Training" (the Scheme) in 2007 and 119 elderly centres have joined in the Scheme. A one-off seed money of \$50,000 was allocated to each of the participating elderly centres to partner with community organisations in their respective districts for organising carer training programmes. As of December 2012, over 10 000 carers have been trained and 68 centres were still using the seed money to conduct programmes and activities related to carer training as well as provision of carer services aiming at alleviating the carers' stress. In the long run, the centres can run the Scheme on a self-financing basis by utilising

resources available in the community, such as volunteers, recruitment of the graduated trainees, donation etc.

(8) To immediately implement 15-year free education covering kindergartens, primary schools and secondary schools

40. The Education Bureau (EDB) set up the Committee on Free Kindergarten Education (the Committee) in April 2013 to examine the various issues relating to the provision of free kindergarten education and make practicable recommendations on how to implement free kindergarten education. The Committee has held three meetings since its establishment. Five Sub-committees have also been formed under the Committee to study and analyze in detail issues in specific areas and report their findings to the Committee.

41. With approval from the Finance Committee of Legislative Council, the EDB will provide kindergartens under the Pre-primary Education Voucher Scheme with an additional one-off grant in the 2013/14 school year to further enhance learning and teaching of these kindergartens.

(10) To increase university places to provide middle-class students with more opportunities for further studies

42. To provide our young people with quality and diversified study pathways with multiple entry and exit points, we adopt a two-pronged strategy of promoting the parallel development of the publicly-funded and self-financing education sector.

43. We have been making great effort to support the development of the self-financing post-secondary sector through a basket of support measures in the form of land grant, interest-free start-up loans, student finances and research funding. We expect that in two years, over one-third of the relevant age cohort will have the opportunity to pursue degree-level education. Taking sub-degree places into account, nearly 70% of young people will have access to post-secondary education.

(11) To review the cap on the amount of reimbursable course fees and the number of reimbursement claims under the Continuing Education Fund ('CEF'), and the criteria for approving reimbursable courses under CEF

44. The Continuing Education Fund (CEF) was established in 2002 and each applicant may apply for the reimbursement of course fees up to a ceiling of \$10,000. At present, the course fees of the majority of CEF registered courses are at \$10,000 or below. The subsidy is sufficient for covering the course fees for the majority of the courses. Eligible learners with financial needs may consider applying for loans under the Non-means-tested Loan Scheme administered by the Student Financial Assistance Agency.

45. When CEF was established, the Government required an eligible CEF applicant to complete his/her course(s) and submit a maximum of two claims within two years from the date his/her account is opened. The account will be closed once the validity period has expired or the two submission of claim has been made. If there were any remaining funds in the accounts, the funds concerned would be released for use by other applicants who wish to pursue continuing learning. Following a review of the operation of CEF in 2007, in the view to enabling effective utilisation of the CEF and facilitating the learners, the Government has relaxed the validity period from two years to four years from the date the accounts were opened; and the maximum number of claims was also been increased from two to four times.

(12) To perfect the Non-means Tested Loan Scheme, including commencing the computation of loan interests after borrowers' graduation and lowering the loan interests

46. In order to alleviate the repayment burden of student loan borrowers, the Government has completed a review of the interest rate and repayment period of student loan schemes in 2012. On non-means-tested loans, we have reduced the Risk Adjusted Factor from 1.5% to zero, to be reviewed in 3 years after implementation, and the interest rate of loans from 3.174% to 1.395%. In addition, the standard

repayment period has been extended from 10 to 15 years. Based on a loan borrower who borrows \$100,000 to complete a 4-year post-secondary course as an example, the monthly repayment amount will be reduced from \$1,040 to \$650, nearly a 40% reduction. These measures benefit about 148 000 loan borrowers.

47. Loan borrowers of non-means-tested loans may apply for deferment of loan repayment due to financial difficulties, serious illness or full-time continuing studies. The approval rate is over 80%. If approved, their standard repayment period can be extended by a maximum of 2 years. In other words, the longest loan repayment period can be up to 17 years. Interest will not be accrued during the 2-year extended repayment period.

48. The above measures will significantly reduce the loan repayment burden of students, and provide appropriate assistance for needy students.

49. Non-means-tested loan schemes target those who are unwilling to go through the means-test or are unable to pass the means-test. The schemes operate on the no-gain-no-loss principle. After the implementation of the above improvement measures, the prevailing interest rate is only 1.395%. Waiving the interest charges during the study period means that the schemes may need to be subsidised by taxpayers and is against the no-gain-no-loss principle. This proposal may also encourage unnecessary borrowing. Those without genuine financial hardship and who may not have considered borrowing may be encouraged to do so. This will unnecessarily increase their repayment burden in the future.

(13) Training for Small and Medium Enterprises

50. Although the Small and Medium Enterprises (SME) Training Fund ceased accepting new applications from July 2005, the Government has been providing support to employees and employers to take up training courses through various measures such as the Continuing Education Fund. Furthermore, the SME Development Fund of the Trade and Industry Department supports non-profit-making organisations to carry out projects which can enhance the competitiveness of SMEs in

general or SMEs in specific sectors, including training courses provided for SMEs. This will in turn benefit middle-class people in employment.

Commerce and Economic Development Bureau

Education Bureau

Financial Services and the Treasury Bureau

Food and Health Bureau

Home Affairs Bureau

Labour and Welfare Bureau

Transport and Housing Bureau

July 2013

(Translation)

**Motion on
“Assisting the middle class”
Moved by Dr Hon Elizabeth QUAT
at the Council meeting of 23 January 2013**

Motion as amended by Hon SIN Chung-kai and Hon Charles Peter MOK

That, as the middle-class people in Hong Kong have all along ‘paid large amounts of tax but enjoyed few welfare benefits’, which, coupled with rampant inflation, persistently high property prices and uncertain economic prospects in recent years, results in their facing heavy pressure in their career and livelihood, this Council urges the Government to put forward proactive measures focusing on areas such as taxation, housing, healthcare, transport, family-friendliness, education and further studies, as well as personal career development, so that public policies can better cater for the interests and aspirations of the middle-class people; the relevant measures should include:

- (1) to increase the Child Allowance from the existing \$63,000 per child to \$100,000, and raise the basic allowance under Salaries Tax and Personal Assessment;
- (2) to introduce ‘tax deduction for residential rentals’ for a duration of 15 years of assessment, subject to a deduction ceiling of \$100,000 per year;
- (3) to abolish the levy on employers of foreign domestic helpers;
- (4) to provide adequate supply of land and increase the subsidized housing production, so as to maintain the annual supply of public and private residential housing at no less than 50 000 units;
- (5) having regard to the burden arising from population ageing and medical inflation, to allocate additional resources to improve public healthcare services, and provide tax concessions to people taking out medical insurance, so as to alleviate middle-class people’s burden of healthcare expenses;
- (6) to introduce daily, weekly and monthly tickets applicable to all MTR rail lines;

- (7) to formulate family-friendly policies, enact legislation on paid paternity leave for employees, and increase child care and elderly care services, so as to assist family carers;
- (8) to immediately implement 15-year free education covering kindergartens, primary schools and secondary schools; and
- (9) to offer \$40,000 'tax deduction for children's tertiary education' to the parents of students enrolled in local and non-local full-time post-secondary programmes;
- (10) to increase university places to provide middle-class students with more opportunities for further studies;
- (11) to review the cap on the amount of reimbursable course fees and the number of reimbursement claims under the Continuing Education Fund ('CEF'), and the criteria for approving reimbursable courses under CEF;
- (12) to perfect the Non-means Tested Loan Scheme, including commencing the computation of loan interests after borrowers' graduation and lowering the loan interests; and
- (13) to inject capital to re-activate the Small and Medium Enterprises Training Fund, so as to enable more middle-class people in employment to have training opportunities.