

LC Paper No. CB(1)61/99-00  
(These minutes have been  
seen by the Administration)

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**Legislative Council  
Panel on Financial Affairs**

**Minutes of special meeting held on  
Tuesday, 7 September 1999 at 10:45 am  
in the Chamber of the Legislative Council Building**

**Members present** : Hon Ambrose LAU Hon-chuen, JP (Chairman)  
Hon James TIEN Pei-chun, JP  
Hon David CHU Yu-lin  
Hon Cyd HO Sau-lan  
Hon Martin LEE Chu-ming, SC, JP  
Hon NG Leung-sing  
Hon Ronald ARCULLI, JP  
Hon James TO Kun-sun  
Hon CHEUNG Man-kwong  
Hon HUI Cheung-ching  
Hon Bernard CHAN  
Hon SIN Chung-kai  
Dr Hon Philip WONG Yu-hong  
Hon Jasper TSANG Yok-sing, JP  
Hon FUNG Chi-kin

**Members attending** : Hon LEE Cheuk-yan  
Hon LEE Kai-ming, SBS, JP  
Prof Hon NG Ching-fai  
Hon CHAN Yuen-han  
Hon CHAN Kam-lam

**Members absent** : Hon Eric LI Ka-cheung, JP (Deputy Chairman)  
Hon Kenneth TING Woo-shou, JP  
Hon Albert HO Chun-yan  
Dr Hon David LI Kwok-po, JP  
Hon Margaret NG  
Hon Ambrose CHEUNG Wing-sum, JP

Hon Timothy FOK Tsun-ting, SBS, JP

- Public officers Attending** : Mrs Carrie LAM  
Acting Secretary for the Treasury
- Ms Esther LEUNG  
Principal Assistant Secretary for the Treasury  
(Revenue)
- Clerk in attendance** : Ms Estella CHAN  
Chief Assistant Secretary (1)4
- Staff in attendance** : Mr Daniel HUI  
Senior Assistant Secretary (1)5
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**I Confirmation of minutes and matters arising**

(LC Paper No. CB(1)1844/98-99 - Minutes of meeting held on 13 April 1999)

The minutes of the meeting held on 13 April 1999 were confirmed.

**II Information papers issued since last meeting**

(LC Paper No. CB(1)1812/98-99 - Publication from the Stock Exchange of Hong Kong

The Law Reform Commission of Hong Kong - Report on the Winding-up Provisions of the Companies Ordinance

Hong Kong Monetary Authority - Quarterly Bulletin (August 1999))

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

### III The method and schedule of consultation on the 2000-2001 Budget

(LC Paper No. CB(1)1851/98-99(01) - information paper provided by the Administration)

3. At the Chairman's invitation, the Secretary for the Treasury (Acting) (S for Tsy (Atg)) briefed members on the consultation arrangements for the 2000-01 Budget and highlighted the following points :

- (a) The Administration would continue to adopt a serious and sincere approach in consulting Members of the Legislative Council (LegCo) on the 2000-01 Budget.
- (b) In response to Members' comments on previous consultations, relevant briefing materials were made available in advance of the Financial Secretary (FS)'s meetings with Members, enabling Members to consult their constituents before the meetings.
- (c) Following the principle of maintaining fiscal balance in the medium term, the Government would need to maintain a certain degree of restraint over the growth in expenditure in the coming few years in order to redress the imbalance between the growth in government expenditure and the contraction in the economy over the past two years. As such, the interaction between expenditure and revenue proposals had become more relevant and it would not be inappropriate to seek Members' views on expenditure and revenue in one go.

4. S for Tsy (Atg) went on to advise that while the medium term trend growth rate of the economy was forecast at 3.5%, the 2000-01 Budget was being planned on the basis of a 3% expenditure growth. Based on previous experience, the majority of the 3% growth in expenditure would inevitably be committed to meet earmarked growth which included growth in payments of pensions for retired civil servants and payments of the Comprehensive Social Security Assistance (CSSA) Scheme. As there would be very limited funds available for allocation to new activities, the normal internal Resources Allocation Exercise (RAE) process for recurrent expenditure in 2000-01 had been dispensed with this year. The question of the Administration taking major expenditure decision on new initiatives without consulting Members therefore did not arise although the consultation meetings with Members were scheduled for October this year, which was later than the first round of consultations of previous years.

5. Some members expressed concern that the new consultation arrangement did not allow room for taking on views and suggestions, particularly those regarding new expenditure initiatives. While questioning the purpose of Members' meetings with FS scheduled for October 1999 as any proposals from Members would likely be rejected on the basis of lack of new money, Mr LEE

Cheuk-yan also sought clarification on whether the 3% growth in expenditure represented nominal growth or real growth. S for Tsy (Atg) confirmed that price adjustments aside, there would be an increase of 3% on the budgeted expenditure of \$180 billion in 1999-2000, representing an additional amount of \$5.4 billion for 2000-01. She went on to explain that price adjustments in the Government sector did not necessarily follow general price indices. For example, two major areas of spending, namely civil service salaries and social security payments were frozen in 1999-2000. As regards spending capability on new initiatives, she suggested that if new areas of savings could be identified, the saved amount could be used to finance new activities. Moreover, under the Enhanced Productivity Programme (EPP) formally launched in the 1998 Policy Address, bureaux, departments and agencies were required to achieve 5% savings of their operating expenditure by 2002-03. Based on the latest data available, they would be able to deliver 1% saving in 2000-01, amounting to \$1.0 billion which could also be used to finance new initiatives. On whether there would be any growth in recurrent expenditure for Government Departments for undertaking new services, she re-iterated that the 3% expenditure growth would only be sufficient to cover earmarked growth commitments and Government Departments, except those with growth allowed for as committed, would undergo zero growth or even a 1% contraction in expenditure under the EPP in 2000-01.

6. As to whether the 3% planned expenditure growth for 2000-01 could be opened for consultation, S for Tsy (Atg) re-iterated that as laid down in Article 107 of the Basic Law, the Government was required to follow the principle of keeping expenditure within the limit of revenues in drawing up its budget, strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product. She stressed that while the 3% growth in expenditure was the upper limit for the 2000-01 Budget, the Administration would still listen to Members' views on various facets to the Budget.

7. Mr SIN Chung-kai opined that although the Administration had dispensed with its internal RAE for 2000-01, it should still consult Members in drawing up the expenditure items in the Budget. Pointing out that the consultation meetings with FS this year would be held after the Chief Executive's Policy Address, he expressed concern that Government's various policy initiatives to be announced in the Policy Address would have taken up all the spending capabilities on new activities in the 2000-01 Budget leaving no room for Members' proposals. He also enquired whether this year's consultation arrangement would create a precedent for future consultations with Members on the Budget. S for Tsy (Atg) responded that as there would be very limited new resources to finance new initiatives in the 2000-01 Budget, the Government considered it more appropriate to consult Members on the revenue and expenditure of the Budget in one go. She said that she realized that a more consolidated approach to consulting LegCo on the Budget had in fact been proposed by members of the Democratic Party in its recent submission. She emphasized that the Policy Address would not pre-

empt Members' new initiatives to be proposed during meetings with FS and the consultation arrangements for this year would not create a precedent for future years. The Administration would continue to improve the consultation arrangement taking into account Members' comments.

8. Mr CHEUNG Man-kwong expressed concern about recent reports on Government's plan to slow down infrastructure development, and questioned the usefulness of the meetings with FS if the Administration already maintained the stance that expenditure growth would be capped at 3%. He also enquired whether the 2000-01 Budget would be a deficit budget and if so, the estimated level of the deficit. Given the substantial fiscal reserves of \$458 billion as at 1 April 1998, he opined that the Government could afford a deficit of \$100 billion which could be used to improve employment and increase the pace of economic recovery. In response, S for Tsy (Atg) advised that while growth of recurrent expenditure was capped at 3%, the year-on-year growth of capital works expenditure in 2000-01 was expected to exceed 3% in view of the number of currently existing Category A projects. The growth in expenditure on capital works was justified because such projects would span over a single year and conform with medium term planning. The development of projects on the basic infrastructure would be conducive to Hong Kong's long-term development and economic recovery. However, in the light of overall budgetary constraints the Administration would conduct more critically the usual review of all existing projects yet to be upgraded to Category A in order to make room for newly identified projects with greater urgency and higher priority. As regards the budget deficit, she advised that the 1998-99 and 1999-2000 budgets were deficit budgets and as indicated in the Medium Range Forecast, the 2000-01 Budget would also have a deficit of \$5.6 billion. She added that the projected reduction in fiscal deficit in 2000-01 was partly attributable to the capital surplus to be achieved through successful privatisation of a substantial minority shareholding of the Mass Transit Railway Corporation. She said that the Government was willing to consider Members' views on the appropriate level of fiscal deficit for 2000-01 but cautioned that overseas investors' confidence in the economy might be affected if the Government was unable to return to a balanced budget in the medium term.

9. Mr CHAN Kam-lam considered the consultation arrangements for the 2000-01 Budget reasonable giving due regard to the prevailing economic circumstances and the economic prospects. While expressing support for a small deficit of about \$5.6 billion for the 2000-01 Budget, he opined that prior knowledge of the Administration's budgetary strategy would facilitate members' consideration of the Budget. In response, S for Tsy (Atg) drew members' attention to paragraph 45 of the briefing paper in the package previously provided to Members, i.e. "to redress the balance between the growth in expenditure and GDP and to restore fiscal health through achieving productivity savings, controlling expenditure growth and achieving modest growth in revenue in selected areas", which spelt out the budgetary strategy for 2000-01.

10. Ms CHAN Yuen-han said that while she supported the objective of EPP, she was concerned that in order to achieve the required savings, Government Departments would be forced to resort to reduction of head counts. In response, S for Tsy (Atg) advised that currently the vacancy rate in the Civil Service was about 1.2% and even with the record low turnover during the economic recession, there was still a turnover rate of 2% last year in the Civil Service, compared with an average annual turnover rate of 5-6%. With the natural turnover rates, there should not be any difficulty in absorbing the 1% savings from EPP, even with the assumption that they were all savings from reduction of manpower resources. The Finance Bureau (FB) would be equally concerned if Government Departments had implemented the EPP solely by means of reduction in head counts. Hence, the Bureau would shortly remind Departments/Bureaux that reduction in head counts under the EPP should only be implemented by means of natural wastage. Moreover, FB was devising a human resources redeployment strategy amongst Government Departments in order to enhance co-ordination on staff re-deployment. She added, however, that for Departments which were undergoing major re-organization such as the Housing Department which was considering a privatisation exercise, laying-off of civil servants would be inevitable.

11. Mr James TIEN Pei-chun asked whether the 3% to 4% anticipated growth in spending would be sufficient to meet past pledges of service improvements and expansions which were targets set during the economic boom times. S for Tsy (Atg) said that with the 3% growth in expenditure plus the 1% savings from EPP, the Administration was confident that performance pledges made in the past could be met. Of particular concern would be the provisions required for payment of CSSA which had seen double-digit growth for a number of years. In 1999-00, the budgeted expenditure for CSSA was \$15 billion, out of the total Government budget of \$180 billion. Data available in the second quarter of 1999 showed that the growth rate in CSSA payments had slowed down but the growth was still substantial. It was estimated that about one third of the growth in expenditure in the 2000-01 Budget would be used to cover the growth in payments of CSSA. With the Active Employment Assistance Programme and improvements in the employment situation, any savings made under CSSA would be released for provision of other services.

#### **IV Any other business**

##### Provisional tax

12. In response to Ms Cyd HO and Mr LEE Cheuk-yan's enquiries about the review of the policy on provisional tax, S for Tsy (Atg) took the opportunity to clarify the Administration's stance against rumours of an imminent policy change in this respect. She said that whilst the Administration would always consider any suggestions put forward regarding the provisional tax system, there were also many other factors that needed to be considered. Firstly, Hong Kong's tax system did not comprise any element of tax pre-payment as the provisional tax payable was only a provisional assessment of tax payable based on the tax payer's income of the previous year. Secondly, the current arrangement that a tax payer was required to pay 75% of the total tax due for the current year in January to March in the following year, and 25% in April to June in the following year was already to the advantage of tax payers and compared favourably with the Pay-As-You-Earn (PAYE) systems of other countries. Most importantly, she pointed out that the impact of deferment of payment of the 1999-00 provisional tax would be substantial as it would lead to a reduction in revenue of \$44 billion, representing 60% to 70% of the total tax income. This would inflate the fiscal deficit for 1999-00 from \$36 billion to \$80 billion and impact seriously on financial planning.

13. As members had no further questions, the Chairman declared the meeting closed. The meeting ended at 11:45 am.

Legislative Council Secretariat

7 October 1999