

立法會
Legislative Council

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Panel on Financial Affairs

**Minutes of special meeting
held on Tuesday, 28 October 2003 at 2:30 pm
in the Chamber of the Legislative Council Building**

Members present : Hon Ambrose LAU Hon-chuen, GBS, JP (Chairman)
Hon Kenneth TING Woo-shou, JP
Hon James TIEN Pei-chun, GBS, JP
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Dr Hon David LI Kwok-po, GBS, JP
Hon James TO Kun-sun
Hon CHAN Kam-lam, JP
Hon SIN Chung-kai
Dr Hon Philip WONG Yu-hong, GBS
Hon Jasper TSANG Yok-sing, GBS, JP
Hon Emily LAU Wai-hing, JP

Non-Panel Members attending : Hon CHEUNG Man-kwong
Hon CHAN Kwok-keung, JP
Hon CHAN Yuen-han, JP
Hon LI Fung-ying, JP
Hon LAU Ping-cheung

Members absent : Hon Henry WU King-cheong, BBS, JP (Deputy Chairman)
Dr Hon David CHU Yu-lin, JP
Dr Hon Eric LI Ka-cheung, GBS, JP
Hon NG Leung-sing, JP
Hon Bernard CHAN, JP
Hon Abraham SHEK Lai-him, JP

Public officers attending : Mr Henry TANG, GBS, JP
Financial Secretary

Mr Frederick MA, JP
Secretary for Financial Services and the Treasury

Mr Alan LAI, JP
Permanent Secretary for Financial Services
and the Treasury (Treasury)

Clerk in attendance : Miss Salumi CHAN
Chief Assistant Secretary (1)5

Staff in attendance : Ms Pauline NG
Assistant Secretary General 1

Ms Rosalind MA
Senior Assistant Secretary (1)8

Ms May LEUNG
Legislative Assistant

I. Briefing by the Financial Secretary on Hong Kong's Economy and Management of Public Finances

(LC Paper No. CB(1)137/03-04(01) — A statement delivered by the Financial Secretary on Hong Kong's Economy and Management of Public Finances at the Council meeting on 22 October 2003)

Briefing by the Financial Secretary

At the Chairman's invitation, the Financial Secretary (FS) gave a power-point presentation on the budget principles, the medium range forecast (MRF) covering the period from 2003-04 to 2008-09, and the trends of government revenue and expenditure.

(Post-meeting note: The presentation material tabled at the meeting was issued to members vide LC Paper No. CB(1)198/03-04(01) on 29 October 2003.)

2. The main points presented by FS were summarized as follows:
- (a) The slowdown in economic activities caused by the outbreak of Severe Acute Respiratory Syndrome (SARS) earlier this year had made it unrealistic to stick to the original budget targets, including attaining a balanced Operating Account; restoring balance in the Consolidated Account; and reducing public expenditure to 20% of GDP or below, by 2006-07. FS had decided to adjust the timeline for achieving these budget targets by 2008-09.
 - (b) As Hong Kong's economic relations developed with the Mainland and other Asian economies, and with growing signs of renewed recovery in the global economy, the Administration forecast the trend growth rate of Gross Domestic Product (GDP) to be 3.5% for the medium term, i.e. half a percentage point higher than the forecast in March 2003.
 - (c) The Government was determined to reach a balanced Operating Account by 2008-09, i.e. to bring down its operating expenditure to \$200 billion and attain \$200 billion on the operating revenue side by the same year.
 - (d) The current forecast of outturn deficit for 2003-04 was \$78 billion, plus or minus \$5 billion, compared with the forecast deficit of \$68 billion made in the 2003 Budget.
 - (e) On public expenditure, in line with the principle of "big market, small government", the Government needed to keep public expenditure in the economy at an appropriate level and it remained committed to bringing public expenditure down to 20% of the GDP or below.
 - (f) The most important sources of revenue for 2003-04 were income tax on companies (i.e. profit tax) and income tax on individuals (i.e. salaries tax, personal assessment and property tax), which together had been estimated to contribute 39.8% of total government revenue.
 - (g) All major revenue-raising measures proposed in the 2003 Budget including adjustments to salaries tax, profits tax and property tax had been successfully implemented and secured nearly \$13 billion of the \$14 billion revenue-raising package. The only outstanding measure was the proposed Boundary Facilities Improvement Tax, which was estimated to bring in annual revenue of \$1 billion. While the Government still believed there was a valid principle behind this proposal, it had decided not to proceed further with it at the current juncture as the public was not yet ready to accept this tax.

- (h) On other funding sources, the Government required a broader, sizeable and steady income source to underpin its revenue and meet its expenditure requirements. A broad-based Goods and Services Tax (GST) was a reasonable and equitable way to smooth out bumps in revenue stream. However, the Government would not contemplate the introduction of a GST during deflationary environment. It would only be levied against the backdrop of a healthy and growing economy. The Government would strive to build a consensus with the community on how best to implement such a tax. In addition, issuance of bonds was considered a possible source of funding for capital projects that would bring long term economic benefits to Hong Kong.

3. In concluding his presentation, ES highlighted that his primary concern was to revitalize the economy and he would continue to manage public finances prudently. The Government would collectively do everything it could to promote sustained economic growth and to create jobs.

Discussion

Blueprint for the coming five years

4. Responding to Ms Emily LAU, ES pointed out that since taking up his job in August 2003, he had been holding informal discussions with various sectors of the community, including Legislative Council (LegCo) Members, professional and academic bodies. Before embarking on the formal consultations that would help him draft his first Budget, he considered it important to explain the principles that would guide his decision-making. He had, in his statement delivered at the Council meeting on 22 October 2003, set out the guiding principles, current economic situation, his philosophy in the management of public finances, and the blueprint for the fiscal position in the coming five years. Ms LAU enquired how the blueprint had been worked out and what views had been taken into consideration during the process. She considered the approach adopted by ES lacked transparency.

5. ES reiterated that he had informal discussions with various sectors of the community before formulating the framework set out in his statement. He considered it a reasonable framework for the blueprint. As far as he understood, the public response to the framework had been favourable in general. He added that the framework would be subject to further fine-tuning during the formal consultations on the 2004-05 Budget. ES pointed out that in the coming months, he would commence a round of formal consultations for the 2004-05 Budget and then work out concrete proposals. In this connection, he was prepared to listen to views from LegCo Members and all sectors of the community. As regards Ms LAU's suggestion of establishing a committee for devising measures to revive the economy, ES said that he had no plan to set up such a committee for the time being.

Reducing government operating expenditure

6. Mr Albert HO said that while Members of the Democratic Party supported the Administration's targets of attaining a balanced Operating Account and restoring balance in the Consolidated Account, they considered it more appropriate to set the timeline for achieving these targets in 2009-10, instead of 2008-09. In reducing government operating expenditure, Mr HO stressed the importance of public consultation and that the Administration should cater for the need of those at the grass-root level. He called upon the Administration to consult representatives of the grass-root level to ensure that reduction in government operating expenditure would not result in further reduction in the level of financial assistance or services provided to the needy.

7. FS recognized that the Government had the responsibility of taking care of the needy. In this connection, the Government had not set any upper limit for the expenditure on the Comprehensive Social Security Assistance scheme so as to ensure that all eligible applicants would be provided with financial assistance under the scheme. FS assured members that the Administration would gauge the views of various sectors of the community during the consultation for the 2004-05 Budget. He believed that LegCo served as an effective forum for consultation, as LegCo Members represented different sectors of the community, including those at the grass-root level.

8. Referring to the statement delivered by FS at the Council meeting on 22 October 2003, Mr Albert HO noted that each Principal Official had recently received an "operating expenditure envelope" and that starting from 2004-05, the reduction in expenditure would build up to 11% over five years, by an average increment of less than 2.5 % each year. Mr HO was concerned that the proposed percentage reduction in expenditure would have significant implications on the services to be provided to the needy. In response, FS advised that in proposing the reductions, he had adopted a pragmatic and measured approach, balancing the requirements of different policy areas, and being sympathetic to the special needs and the human elements of different sectors. By the same token, Principal Officials had the full discretion to set spending priorities within their "operating expenditure envelope", and to conduct functional reviews across the programme areas under their responsibility.

9. Responding to Mr Albert HO's further enquiry, FS advised that he had discussed with each Principal Official before setting the proposed percentage reduction in expenditure for each Bureau. After the estimates of government expenditure were worked out, the Administration would seek LegCo's approval of the 2004-05 Budget by the introduction of the Appropriation Bill.

10. Mr CHEUNG Man-kwong expressed disappointment at the statement delivered by FS at the Council meeting on 22 October 2003. Referring to the

Administration's proposal of reducing the operating expenditure by an accumulative 11% over a five-year period from 2004-05 to 2008-09, Mr CHEUNG was gravely concerned about the adverse impact of such reduction on the education sector and the quality of education. He disagreed with what FS had mentioned in his statement that the cuts in expenditure were moderate, and considered the proposed extent of reduction even more drastic than that proposed by the former FS. Mr LEE Cheuk-yan shared Mr CHEUNG's view. He commented that while FS had extended the timeline for achieving the budget targets, the proposed extent of expenditure cuts was in fact radical.

11. In reply, FS pointed out that under the present stringent fiscal position, there was a general view that the Administration needed to control its operating expenditure and to manage public finances in a prudent manner so as to ensure the most effective use of the limited public resources. FS said that he fully appreciated the need for public funds in the sectors like education, security, health and welfare, and the importance of investing in educating the young generation. In this connection, FS pointed out that the reduction in expenditure were not uniform across all policy bureaux. He believed that Principal Officials would critically examine the expenditure for all programme areas under their responsibility. He was also prepared to further discuss with the Secretary for Education and Manpower on the actual percentage cut for the education sector.

12. Quoting the commitment of \$1 billion for implementing the "Campaign to re-launch Hong Kong's economy" (the Campaign) as an example, Mr LEE Cheuk-yan considered that the Administration had not ensured the effective use of the limited public resources. He did not consider it cost-effective to spend \$100 million on sponsoring the Hong Kong Harbour Fest (the Festival) and over \$8 million on fireworks under the Campaign. Ms Emily LAU also pointed out that according to the information provided by the Administration after the special Panel meeting on 11 October 2003, the Economic Relaunch Working Group (ERWG) had already approved 62 proposals with a total commitment of about \$680 million under the Campaign. She urged the Administration not to spend the remaining \$320 million.

13. In response, FS pointed out that the Campaign was implemented to relaunch Hong Kong's economy after the outbreak of SARS. The adverse situations in April and May 2003 called for immediate actions from the Administration. There was also general consensus in the community at that time for reviving the economy after the containment of SARS. On 30 May 2003, the Finance Committee (FC) approved the \$1 billion new commitment for implementing the Campaign. Over the past few months, there had been signs of recovery in the economy. ERWG had recently decided not to consider any further proposal under the Campaign which had not yet been put forward.

14. Mr LEE Cheuk-yan pointed out that in view of the urgent need to relaunch Hong Kong's economy after the containment of SARS, FC had approved the funding

for the Campaign in May 2003 despite the Administration had provided very limited information about the Campaign to Members. He regretted that the Administration had not monitored the use of the fund properly to ensure that public resources were used in a cost-effective manner. Mr LEE also urged the Administration to uphold the principle of fairness and consistency in the management of public finances and refrain from further cuts in the expenditure for education, health and welfare services. ES reiterated that the proposed expenditure cuts were moderate and would be introduced gradually over a period of five years. Moreover, the cuts would not be uniform across all policy bureaux. He assured members that the Administration would adhere to the principle of cost-effectiveness in managing public expenditure.

15. Mr James TIEN was concerned that given the timeline of achieving fiscal balance in 2008-09 and that the cuts in expenditure were not uniform across all policy bureaux, Principal Officials might defer cutting expenditure and leave the target for the next Government to achieve. In response, ES assured members that the cuts in expenditure would be built up to 11% gradually over five years, by an average increment of less than 2.5% each year, and would not be implemented abruptly in one go towards the end of the five-year period.

Raising revenue

16. Referring to the Government's target of raising \$21 billion in 2003-04 through selling or securitizing its assets, Mr CHAN Kam-lam was concerned whether the target could be reached within the next five months. To speed up the process, he suggested the Administration to consider selling or securitizing part of its assets to the Hong Kong Monetary Authority first. ES responded that the asset disposal work was in good progress and he did not anticipate any problem in meeting the target of raising \$21 billion in 2003-04. However, as the Government planned to sell or securitize a total of \$112 billion worth of assets in the next five years, ES said that he would consider Mr CHAN's suggestion when necessary.

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17. Noting that the Administration aimed to increase the level of operating revenue from \$155 billion in 2003-04 to \$200 billion in 2008-09, Mr LAU Ping-cheung sought information on the concrete plans for raising revenue. In response, ES advised that the concrete plans for achieving the budget targets set out in his statement would be worked out during the Budget consultation stage.

Accumulated growth in Gross Domestic Product (GDP)

18. Referring to the Administration's target of bringing public expenditure from 23% to 20% of GDP or below (Chart 8 of the presentation material), Mr SIN Chung-kai commented that if an annual 3.5% growth in GDP was recorded in the next few years as forecast in MRF (Chart 4 of the presentation material), the accumulated growth in GDP would bring public expenditure down to 20% of GDP or

below. In the circumstance, it seemed that there was no need for the Administration to implement any measures for achieving the target.

19. In reply, ES said that while the accumulated growth in GDP might help bring down the percentage of public expenditure in GDP, the Administration would remain prudent in the management of public finances and avoid deficits by keeping expenditure at an appropriate level. By controlling public expenditure as proposed, the growth in GDP in the coming years, which might bring about increase in revenue, could help increase the level of fiscal reserves. ES pointed out that the budget targets set out in his statement provided the framework for the Government to draw up its budget in the next few years, while at the same time, allowed flexibility for technical adjustments in response to market changes and public aspirations when the Administration prepared the annual estimates. He agreed with Mr SIN Chung-kai's observation that if the Administration managed to achieve a balanced Operating Account by 2008-09 by bringing down operating expenditure and raising operating revenue, there was no need to implement additional measures for achieving the target of bringing public expenditure to 20% of GDP or below.

Level of fiscal reserves

20. Mr James TIEN pointed out that Members of the Liberal Party were concerned that if the fiscal deficit problem remained unresolved, the fiscal reserves would be further drawn down in the coming years and be reduced to the level of around \$100 billion by 2008-09. Pointing out that the former FS had mentioned that the fiscal reserves should be maintained at a level that could cope with public expenditure for 12 months, i.e. at a level of about \$200 billion, Mr TIEN asked whether the level of \$100 billion that would likely be left in 2008-09 was considered acceptable and reasonable by FS. He was also concerned that as the timeline for achieving the budget targets was beyond the term of office of the current Government, the problem might be left to the next Government if there were delays in the implementation of measures to tackle the fiscal deficit problem.

21. ES said that he believed that it was reasonable and responsible for the current Government to leave a prudent level of fiscal reserves for the next Government. Over the coming few months, he would gauge the opinions of LegCo Members and other members of the community on what should be a reasonable level of fiscal reserves. If it was the general view that a higher level of fiscal reserves should be maintained, say, at the level of \$200 billion to cope with the expenditure for 12 months, measures to increase the reserve level, such as further measures to reduce public expenditure or raise revenue, might have to be considered. He added that in delivering his statement on 22 October, he intended to pass on three messages to the public. First, the Administration was cautiously optimistic about the economic outlook. Secondly, the Administration was determined to control public expenditure. Thirdly, the Administration was sincere in consulting the community to devising effective measures for tackling the fiscal deficit problem.

22. Mr James TIEN appreciated FS's effort in consulting the community before finalizing the measures for tackling the fiscal deficit problem. He was however concerned that the three messages mentioned above might not have been conveyed in full to the public, in particular the Credit Rating Agencies (CRAs), as FS had wished to. On the contrary, the fact that the level of fiscal reserves would continue to be drawn down might affect the rating by CRAs and might have adverse impact on the stability of the Hong Kong dollar.

Facilitating economic development and enhancing employment opportunities

23. Referring to the Closer Economic Partnership Arrangement (CEPA) with the Mainland, Mr Kenneth TING enquired whether the Administration would introduce any measures for attracting manufacturers to invest in Hong Kong so as to facilitate local economic development. As research cost contributed a significant part of operational cost, Mr TING suggested that tax concessions be provided to encourage manufacturers to undertake research and development in Hong Kong.

24. In response, FS pointed out that it had been the Government's on-going task to improve the local business environment to attract investment. CEPA was a good example of how the Government had facilitated the market and its development. Moreover, the Government had introduced the Import and Export (Facilitation) Bill 2003 into LegCo to facilitate the import and export of cargoes by removing or relaxing the existing licensing requirements. As regards cost reduction, FS pointed out that product development cost (including fees payable for the development of product designs) could be included in the calculation of the "value-added content" of the product in seeking zero tariff under CEPA. FS also assured members that the Administration would endeavour to boost economic development through closer cooperation with the Mainland. In this connection, the recent agreement between Hong Kong and Shanghai to strengthen cooperation in eight areas was another step forward achieved with the full support of the Central Government.

25. Whilst FS had stated in his presentation that the Government would collectively do everything it could to promote sustained economic growth and to create jobs, Miss CHAN Yuen-han was disappointed that FS had not proposed any concrete measures for enhancing employment opportunities. She opined that the Administration should put forward proposals to strengthen the competitiveness of Hong Kong and to attract overseas investments so as to provide more employment opportunities. In this connection, Miss CHAN supported Mr Kenneth TING's suggestion that tax concessions be provided to encourage investment in Hong Kong. She also urged FS to make good use of the opportunity provided by CEPA for the sustained economic development of Hong Kong in the long run.

26. Ms LI Fung-ying also expressed disappointment that no concrete measures had been put forward by FS for enhancing employment opportunities in the long run. She

asked whether the Administration had set any target for reducing the unemployment rate and whether it would implement any measures to achieve the target.

27. In response, ES pointed out that the economy of Hong Kong was market driven with majority of the employment opportunities offered by private enterprises. The role of the Government was to facilitate, but not to lead, the development of the market. Nevertheless, during the critical period when the Hong Kong economy was hard-hit by the outbreak of SARS, the Government had implemented measures, such as creating temporary jobs, to ease the problem of unemployment in the short term. With signs of economic upturn in the recent months, the unemployment rate had been reduced to 8.3% from the peak level of 8.7%. ES said that while the Government had not set a target for improving the employment rate, it strove to facilitate market development and the sustainable growth in employment opportunities.

28. Mr LAU Ping-cheung supported that the Government should assume the role of a market facilitator. He however expressed concern about the high unemployment rate of over 20% in the construction industry, which was much higher than the average rate of 8.3% across all industries. He also enquired about the number of new jobs to be created under the capital works projects funded by the provision for an annual public expenditure of around \$29 billion.

29. Referring to Chart 10 of the presentation material, ES explained that during the past few years, the average actual capital works expenditure was around \$27 billion per year. As the provision for the next few years would be comparable to that for the past years and not substantially higher, it was expected that the number of jobs provided by Government projects would remain rather stable in the coming years. He informed members that with the resumption of the Application List System from January 2004, it was expected that construction projects carried out by private developers might be on the increase, hence providing sustainable growth in employment for the construction industry.

Development of the border area

30. Mr CHAN Kam-lam commended the Administration for reaching agreement with the Shanghai authorities to strengthen cooperation for bolstering trade links between Shanghai and Hong Kong. In this connection, he asked whether the Administration had any plans to further strengthen the economic cooperation between Hong Kong and the Pearl River Delta (PRD) region, in particular Shenzhen. Mr CHAN suggested the Government to explore actively the feasibility of developing the land adjacent to the course of the Shenzhen river and opening up the border closed area to facilitate the development of Hong Kong, in particular the North New Territories.

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31. ES explained that the Administration was working closely with the Mainland authorities to explore means for strengthening the cooperation with cities in PRD. Recognizing that the one-sq-km site adjacent to the course of the Shenzhen river was a precious piece of flat land, the Administration was exploring actively the feasibility of turning the site into a trade or industrial zone to facilitate trade and business between Hong Kong and Shenzhen, and to create employment opportunities. Given the proximity of the site to the Shenzhen city centre, its development would be considered in consultation with the Shenzhen authorities. As regards the development of the border closed area, ES undertook to discuss the issue with the Secretary for Housing, Planning and Lands.

Meeting arrangements for the discussion on the Hong Kong Harbour Fest

32. The Chairman informed the Panel that some members had suggested that a special meeting be held to follow up the discussion at the special meeting of 11 October 2003, particularly about the arrangements for the Festival. While some members considered that the special meeting should be held as soon as possible, some considered that it should be held after the Festival ended on 9 November. In this connection, the Clerk liaised with FS's office on fixing a date for the special meeting.

33. Ms Emily LAU opined that in view of the wide public concern about the cost-effectiveness and financial arrangements about the Festival, there was an urgent need for the Panel to meet and follow up with the Administration on the related issues. ES responded that he was pleased to discuss the issues with the Panel but the date of the special meeting had yet to be confirmed because he would be out of town for two business trips in November. ES said that while the audited accounts of the Festival would be available at a later stage, he would, together with the Director-General of Investment Promotion and representatives of the American Chamber of Commerce in Hong Kong (AmCham), brief the Panel on the process of organizing the Festival as early as practicable.

34. Mr LEE Cheuk-yan considered that the Administration should first brief the Panel on the process of organizing the Festival, including the written agreement signed between the Government and AmCham, and then on the finalized accounts at a later stage. Mr James TIEN considered it more appropriate for the Panel to discuss the relevant issues after the Festival ended on 9 November and the accounts finalized though not yet audited. Mr SIN Chung-kai held similar views. Whilst appreciating that it would take time for the accounts to be audited, he opined that the Administration should brief the Panel on the up-to-date budget for the Festival in mid-November.

35. ES proposed and members agreed that two special meetings be arranged for FS, the relevant officers and representatives of AmCham to brief the Panel on the arrangements for the Festival. The first special meeting, to be held as soon as

possible, would be focused on the information provided by the Administration to the Panel after the special meeting on 11 October in relation to the Festival, the preparatory arrangements, ticketing arrangements, financial arrangements and the up-to-date budget for the Festival. The second special meeting would be held after the accounts of the Festival had been audited. FS undertook to propose meeting dates for the purpose.

36. Referring to the written agreement signed on 10 October 2003 between the Government and AmCham, Mr James TO requested the Administration to provide as soon as possible the legally binding memoranda of understanding (MoUs) between the Government and AmCham on 31 July, 29 August and 3 October 2003, as well as any other written agreements between the Government and AmCham, and between AmCham and the Red Canvas Limited (referred to in the written agreement as the special purpose vehicle “SPV”). FS agreed to provide the relevant information.

(Post-meeting note: As proposed by FS and with the concurrence of the Chairman, the first special meeting to discuss the issues relating to the Festival was held on Saturday, 15 November 2003 at 10:00 am. The relevant MoUs provided by the Administration were circulated to members vide LC Paper No. CB(1)224/03-04(01) on 31 October 2003.)

II. Any other business

37. There being no other business, the meeting ended at 4:35 pm.