Press release

LCQ4: Public finance management

Wednesday, March 30, 2011

Following is a question by the Hon James To and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (March 30):

Question:

The Government has indicated that it needs to plan the annual public expenditure based on the principle of prudent financial management. In the 2011-12 Budget, the Government proposed to spend $24 billion for making a one-off injection of $6,000 into each Mandatory Provident Fund Scheme account, but a week later, it has instead proposed using $37 billion for disbursing HK$6,000 each to all Hong Kong permanent identity card holders aged 18 or above, incurring an additional expenditure of $13 billion. Furthermore, the new Work Incentive Transport Subsidy (WITS) Scheme announced by the authorities in December last year will incur an estimated expenditure of $4,805 million for a period of three years, but some people who used to benefit under the former scheme will no longer be eligible to apply for subsidy under the new scheme as more stringent eligibility criteria have been introduced. In this connection, will the Government inform this Council:

(a) of the Government's existing financial management philosophy, and whether it has given up the principle of prudent financial management;

(b) why no eligibility criteria such as employment situation, household income and means test are stipulated in the aforesaid proposal of cash disbursement while stringent requirements including minimum working hours, household income and asset ceilings are specified in WITS Scheme; whether it has assessed if that situation shows that there are contradictions in the Government's financial management policy; if it has assessed, of the outcome; and

(c) as it has been reported that the Government's proposal to disburse cash only to permanent residents is unfair to new arrivals who have not yet resided in Hong Kong for seven years and has aroused strong dissatisfaction among the public, whether the Government has evaluated the impact of the proposal on people from various sectors and the community before putting it forward?

Reply:

President,

As always, the Government manages public finances in accordance with the principle of prudent financial management, which is in line with the stipulation in Article 107 of the Basic Law that the Hong Kong Special Administrative Region (HKSAR) shall follow the principle of keeping the expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product. Certain criteria stated in the appendices of the Budget also reflect the above principle. This principle of prudent financial management is put into practice having regard to the policy objectives of individual financial proposals and relevant considerations.

The measures raised in the question have their own specific policy objectives and backgrounds, and should not be compared directly. The Work Incentive Transport Subsidy (WITS) Scheme aims at reducing the burden of travelling expenses borne by the working poor and encouraging them to stay in employment. Since the Scheme is a recurrent measure, we must consider whether it is sustainable, and ensure the allocation of limited public resources to those genuinely in need. This factor is reflected in the eligibility criteria for the Scheme.

The injection of funds into Mandatory Provident Fund (MPF) accounts proposed in the Budget and the proposal of disbursing $6,000 each to all eligible citizens announced later are entirely different from the WITS Scheme in terms of policy objectives, concepts and backgrounds.

Given the far-more-than-expected revenue for 2010-11, the estimated sound position of our finance over the medium term and healthy levels of our fiscal reserves, we consider that it is unnecessary to transfer all the unexpected revenues to reserves. As such, apart from measures to alleviate the inflationary pressure felt by our people, which include waiving rates, granting electricity charge subsidy and increasing allocation for food assistance service, we propose in the Budget to invest in the future, through initiatives such as setting up a $7 billion Elite Athletes Development Fund, establishing a $2.5 billion Self-financing Post-secondary Education Fund and making an injection into MPF accounts.

The MPF Scheme is currently one of the three pillars of retirement protection in Hong Kong. Under the framework of the Mandatory Provident Fund Schemes Ordinance, members of the public are required to make contributions to prepare for retirement life. It is proper for the Government, when financial conditions allow, to allocate public funds to assist the public in making a better preparation for their retirement. In so doing, such a retirement protection scheme can be enhanced. This is also an investment for the future of the community as a whole.

During the Budget consultation period, some people suggested that the Government should leave wealth with the people in the light of its current fiscal position. In drawing up the Budget, we increase the recurrent expenditure on such areas as education, welfare and health to improve people's livelihood. In addition, we propose to inject funds into MPF accounts to assist more citizens in preparing for retirement through an existing mechanism. This also serves the purpose of leaving wealth with the people. Given the above considerations, the injection proposal does not come with any means test requirement.

In terms of concepts and backgrounds, the proposed disbursement of $6,000 each to all Hong Kong permanent identity card holders aged 18 or above is much the same as the proposed injection into MPF accounts. Both are intended for leaving wealth with the people. What makes the difference is that the sum of $6,000 is to be given to people for disposal at their own will, rather than for use as reserves for future. Having regard to their own will, people may withdraw the sum upfront or choose to defer withdrawal to accumulate "savings bonus". We respond to the public's views after the announcement of the Budget by replacing the proposed injection into MPF accounts with this proposal. This adjustment retains the original intention of leaving wealth with the public. It is just an alternative proposed in response to public needs.

Despite consensus in the community that we should leave wealth with the people and help the disadvantaged, views are diverse as to how public resources should be allocated in practice. There are objections even against one-off measures such as providing an extra allowance to Comprehensive Social Security Assistance, Old Age Allowance and Disability Allowance recipients or paying rent for public housing tenants. It is indeed difficult to achieve absolute consensus in such a diversified society as Hong Kong.

Likewise, citizens take different views on our proposal to give a sum of $6,000 each to all Hong Kong permanent identity card holders aged 18 or above. Many of them welcome this proposal, but some reckon that it should be extended to certain groups of non-permanent residents or other age groups. We are aware that some of the views directed against new arrivals are both unfair and unwarranted.

According to Article 24 of the Basic Law and Hong Kong legislation, residents of HKSAR shall include permanent residents and non-permanent residents. It is estimated that there are about 6.1 million and 1.1 million people aged 18 or above who are holders of permanent identity cards and non-permanent identity cards respectively. Holders of non-permanent identity cards comprise different groups of people, such as new arrivals, imported labour, foreign domestic helpers and others who come to Hong Kong for work or study, etc. Extending the proposal to non-permanent residents may not fit in with the objective to leave wealth with the people. Under Hong Kong law, a person attains full age on attaining the age of 18 years. Therefore, we propose that only Hong Kong permanent identity card holders aged 18 or above would be given a sum of $6,000. This is in line with the aim of leaving wealth with the people, and is a reasonable arrangement.

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