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By Email : fso@fso.gov.hk and By Hand

The Honourable John Tsang Chun-wah JP
Financial Secretary
Financial Secretary's Office
Government Secretariat
5/F Central government Offices, Main Wing
Lower Albert Road
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Dear Mr Tsang,

We are taking up your general invitation to the public to provide views to assist you in putting together your 2010/11 budget.

We would like to start first by defining our view of the role the Government should play in our society, as we believe any budget should be drawn up taking into account these parameters, as set out below:

Government's role should be to provide:

- **Framework** to define society's boundaries of behaviour and enable it to function: eg laws codes and practices and policies.
- **Institutions and infrastructure** to thrash out the framework: eg transport infrastructure, educational institutions, public health institutions, legal system, monetary system, police force, fire department, etc.
- **Enforcement** of laws to maintain the boundaries of social behaviour, eg public security, law and order, etc.

Also, given Hong Kong's particular situation:

- **Opportunity** for the disadvantaged.
- **Support** for those who cannot adequately support themselves: eg social security, retirement protection



With regard to our specific proposals for the 2010/11 budget, we have categorized them into three general topics; Land Supply and Usage; Fiscal/Accounting and Social and other Issues of Concern.

Land Supply and Usage

Given the recent indications of an improvement in the economy and a more active property market, which has the potential to escalate into a property asset bubble, we believe it is most timely to revisit the seminal issue of land supply and usage and propose the following actions:

- Increase the pace and regularity of the release of appropriate parcels of land for auction in order to slow down property price escalation
- Facilitate greater participation by small developers in land auctions through appropriate reforms of the system to inject greater competition among developers in order to reduce the monopolistic character of land development
- Set lease conditions so that land hoarding may be minimized, and development may be compatible to updated environmental and habitat considerations
- Consider further measure to improve the usage of vacant industrial premises
- Conduct a thorough study on land usage/distribution as it relates to public demand

Fiscal/Accounting

- Switch from cash accounting for the purposes of budgeting to accrual accounting for deriving the budget. For several years now the Government has been producing its income and expenditure accounts in both forms, although the publication of the accrual accounting figures follow around twelve months after the publication of the cash accounting figures. However in comparing the two sets of figures it is quite apparent that the accrual accounting figures provide the more appropriate and relevant picture of the SAR's economic position
- Close down the Hong Kong Mortgage Corporation as its function has been overtaken by events and is now anachronistic. Furthermore, the Corporation has ventured outside Hong Kong, into Shenzhen and Korea, which is a complete deviation from its original purpose and remit and a totally inappropriate activity for a Hong Kong taxpayer funded Corporation



- Eliminate the Capital Works Fund and transfer all its assets to the General Revenue Account and in future take in the proceeds from all land related income directly into the General Revenue account. This Fund was set up with the special purpose of sheltering revenue from land sources during the transition period from British rule to the return of Hong Kong to China as a precaution against the possible inappropriate use of these sources of revenue during this period. Now that Hong Kong is an SAR this requirement is obsolete. Having such large amounts of money hypothecated to infrastructure development provides a dangerous temptation to Government to embark on unnecessarily ambitious and unneeded projects. It also drains funds from our economy that could be more productively/beneficially used, such as providing further very necessary relief for the increasing poverty that is sadly escalating within our community.

Social and Other Issues of Concern

- While we welcome the developments regarding the Government's proposal to introduce a minimum wage, we believe the introduction of this should be speeded up as much as possible
 - We are disappointed to note that the introduction of competition legislation seems to have floundered and we request the Government to address this issue as one of major priority. We believe that an effective mechanism to deal with the many monopolies and cartels that pervade our economy would be most effective in delivering a regeneration of economic activity and the creation of much needed jobs.
 - Undertake a public consultation on the further privatisation of Government functions. We welcome the effort that the Government has made so far to put privatisation on the agenda and move forward with selected initiatives. However, the effort falls far short of an effective strategy.
- (a) Firstly, the privatisation initiatives so far adopted have not actually resulted in smaller government. The Government remains the largest shareholder in the privatised MTRC. The toll roads and tunnels remain in Government hands, albeit that their revenues have been sold in securitized form to private investors. And the monies raised through the floatation of the Link REIT have flowed back to the Housing Authority, presumably to be reinvested in more public housing.



- (b) We also have reservations about the supposed partnerships with the private sector that have featured in recent projects. These seem to involve the transfer of large tracts of land to developers in return for doubtful benefits to the public. The West Kowloon development is the latest unfortunate example of this kind. Such exercises should be suspended, and the notion of public-private partnership (PPP) properly developed and discussed in public, as we elaborate below.
- (c) Most importantly, the Government has not persuaded the community of the benefits of privatisation. International experience has shown that there can indeed be a wealth of benefits - not merely the raising of revenue for government but more importantly, the release of resources into the private sector where they can be more efficiently utilized. The transformation of Britain over the past 25 years is a case in point. However, overseas experience also shows that there are often losers in the privatisation process; proper arrangement has to be made for them. The privatisation of a monopoly intact, without effective supervision, can result in economic disbenefits. And some operations may be better retained within government, or the government retain the capacity to operate essential services. It is important to engage the community in thorough discussion of the government's privatisation plans.
- (d) We therefore urge the development and issuance of *a consultation paper on privatisation*, which should include an initial list of enterprises and operations to be privatised, and proper explanation of the policy of PPP if it is to be pursued. There also needs to be a proper legal foundation for the privatisation process, including an enabling law, and possibly amendments to existing ordinances. A thorough review of the legal aspects is needed.

We have not proposed any fiscal measure as we are sure you will be inundated with such requests, but rather we have preferred to dwell on policy issues as we believe satisfactorily addressing such issues would have a significant impact on the health of the Hong Kong economy.

We very much hope our comments will be of assistance to you as you deliberate on your 2010/11 budget proposals.

Yours sincerely,

Christopher Lewis
Secretary