

“Fairness, Forward-looking, Development”

Research Report on “Better Use of Fiscal Surplus”

The Professional Commons

January 2008

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I. Background

Budget Surplus

1. In line with the upward economic trend in recent years, the Government of Hong Kong Special Administrative Region (hereafter the Government) has recorded a tremendous fiscal surplus. In the fiscal years 2004-05 and 2005-06, the Government recorded a total consolidated surplus of HK\$35.3 billion.¹ In the fiscal year of 2006-2007, the Government recorded an astonishing fiscal surplus of HK\$124.9 billion, the figure being calculated on the more accurate “accrual basis”.² The trend of fiscal surplus is likely to continue in this fiscal year, as the Hong Kong Taxation Society and the accountancy firm PriceWaterhouseCoopers, for example, have anticipated that this year’s budget surplus will exceed HK\$100 billion, much higher than surplus of HK\$25.4 billion projected by the Government.³

Feedback to Last Year’s Concessionary Measures

2. In the 2007-08 Budget, a number of measures were put forward by the Financial Secretary to “return wealth to the people”, including:
 - Suspending the collection of rates for a total of two quarters;
 - Waiving 50 per cent of salaries tax and tax under personal assessment;
 - Widening of the band width of the salaries tax and reducing the two highest marginal tax rates;

¹ The “Total Government Revenue and Expenditure and Summary of Financial Position,” tables in the Hong Kong Yearbook 2005 and 2006, <http://www.yearbook.gov.hk/2005/en/app_06_06.htm>, <http://www.yearbook.gov.hk/2006/en/app_06_06.htm>.

² See “Accrual-based Consolidated Government Accounts for 2006-07, Press Release of the HKSAR Government, 27 December 2007, <<http://www.info.gov.hk/gia/general/200712/27/P200712270163.htm>>.

³ Consolidated Summary of Estimates, The 2007-08 Budget, <http://www.budget.gov.hk/2007/eng/pdf/consum_p_e.pdf>, p.3; 《稅務學會倡 50 億交通津貼》, (“The Hong Kong Taxation Society calls for a HK\$5 billion Transport Subsidy”), *Sing Tao Daily*, 6 January 2008, p. 6; 《羅兵咸料政府本年度盈餘逾千億》, RTHK Chinese News Channel, 17 January 2008, please refer to <<http://www.rthk.org.hk/rthk/news/expressnews/news.htm?expressnews&20080117&55&461746>>.

- Providing an extra month of social security allowance—both the Comprehensive Social Security Allowance (hereafter CSSA), and the Social Security Allowances (the Old Age Allowance and the Disability Allowance).⁴
3. However, these concessionary measures were badly received by the community. The Government was criticized as having failed to address the needs of the majority and the concessions to the underprivileged were far from enough to improve their livelihood. For instance, those who did not own a property, or those who constitute the “working poor” (i.e. those earning a salary lower than the taxation net, and those who fall into the lower tax bands and could not benefit from the concessions) were unable to reap the benefits of the concessions on the rates and salaries tax.

II. Assumptions of the 2008/2009 Budget

4. It is expected that Financial Secretary John Tsang will include the committed HK\$5 billion measures as announced in the 2007 Policy Address – the standard rate of salaries tax will be reduced to 15% in the fiscal year of 2008-09, and the reduction of profits tax to 16.5%, in the coming budget. Such a move appears to be very restrictive, and will benefit business owners (due to the reduction of profits tax), and there were only 35,000 people who had to pay standard tax rate in the 2006-07 fiscal year).⁵
5. The Financial Secretary recently stated that the Government would prefer to provide “one-off” concessionary measures in a bid to “return wealth to the people”.⁶ It is anticipated that the Government will repeat last year’s one-off measures, such as the waiving of rates, the widening of tax band width and the waiving of a percentage of salaries tax. If the prospective concessionary measures mentioned are going to take place, only property owners and high income earners would benefit the most, and once again, it will fail to address the needs of tenants, low income earners, the “underprivileged” and the “working poor”. Moreover, the Government will again lose an opportunity to use its large

⁴ “The 2007/08 Budget,” please see <<http://www.budget.gov.hk/2007/chi/budget25.htm>>.

⁵ 《繳利得稅最高達 20.7 億》, (“Maximum HK\$2.07 billion in profit tax”), *Hong Kong Commercial Daily*, 8 May 2007, p. A1.

⁶ 《政府屬意盈餘用於一次性措施》 (“Government intends a one-off concessionary measures on distributing budget surplus”), *Hong Kong Economic Journal*, 8 January 2008, p. 7.

fiscal surplus for the achievement of certain high level policy objectives, such as the improvement of the quality of life.

III. Five Principles

6. The Professional Commons takes the view that the Government should use its fiscal surplus to address the long-term issues, and to genuinely “return wealth to the people”. Accordingly, we have drafted this proposal, which include measures to serve the two purposes mentioned above. The recommendations in the proposal follows the five basic principles mentioned below:
- “Forward-looking”: The concessionary proposals should address the long-term development problems of Hong Kong;
 - “Fairness”: The concessions should be of benefit to everyone as much as possible, and should target the most needy;
 - “Efficiency”: Minimum structural change will be required and the administrative costs should be kept as low as possible, by making use of the existing means of assessment, mechanism and information;
 - “Minimum Effect on Inflation”: The concessionary measures should bring in the least additional consumption, it should be made as inflation neutral as possible;
 - “Flexible to Fiscal Management”: The concessionary proposals should maintain flexibility for the Government in its fiscal management.

IV. Four Proposals

7. The Professional Commons recommends that, for providing more targeted concessionary measures to the needy, and to provide solutions for the long-term issues in Hong Kong, the Government should allocate a total of HK\$49.2 billion in the Budget to provide the following measures:
- “Special relief for the needy”;
 - “Public Transport Subsidy”;
 - A “Citizen’s Account” for the facilitation of the personal needs;
 - A “Climate Challenge Fund”.

Proposal One: Special Relief for the “Needy”

Inflation

8. There is a growing inflationary pressure in the local economy. The robust economy has resulted in the exacerbation of inflation in recent years, in addition to the effects brought about by substantial inflation in the Mainland, and the ever increasing prices of petroleum and fuel in the global market. The Composite Consumer Price Index of Hong Kong rose substantially from 2% in January 2007 to 3.8% in December 2007.⁷ It is forecasted by the Asia Pacific Economic Cooperation Research Centre of the University of Hong Kong that the inflation rate for 2008 will be as high as 4%.⁸ The sharp rise in inflation has already caused a severe economic burden on the poor.

Details of the Proposal

9. In view of the high budgetary surplus and upward trend of inflation, we suggest the provision of an immediate “special relief” of HK\$5,000 to two groups of “disadvantaged” in society. Those who are eligible for the relief include:
- Social Security Recipients: CSSA, Disability Allowance, and Old Age Allowance recipients;
 - The “Battlers”: Those who are earning below HK\$8,000 in their main form of employment. We have coined the term “battlers” to refer those who have worked hard to fight for a basic living, and contributed to society as a whole. We believe these people should also receive some form of community support. We have taken into account the income threshold of the “Student Travel Subsidy Scheme” to determine the eligibility for “battlers”.⁹ Under the Student Travel Subsidy Scheme, an adult earning a maximum of HK\$8,856 could pass the income test and is qualified for half payment of the subsidy. Hence, it would be appropriate to fix HK\$7,999 as the highest income level for the special relief.

The HK\$5,000 of special relief is higher than the one extra month of CSSA and

⁷ Census and Statistics Department., The Government of the HKSAR (hereafter the C & SD, HKSARG), “Consumer prices for December 2007,”
<<http://www.info.gov.hk/gia/general/200801/22/P200801220149.htm>>.

⁸ 《港大：今年通脹料 4%》，(University of Hong Kong: Inflation Anticipated at 4%), *Wen Wei Po*, 4 January 2008, p. B1.

⁹ According to our calculations from the formula of the calculation of the Student Travel Subsidy Scheme, a three-member household would be eligible for half subsidies when their level of income ranged between HK\$6,333 and HK\$17,172.. For the formula of calculation of the Student Travel Subsidy, see <<http://www.sfaa.gov.hk/eng/schemes/ftsc.htm#1>>.

other public assistance given in the last fiscal year. Moreover, the beneficiaries will also be extended to those earning below HK\$8,000.

10. The distribution of the “special relief” will be as follows:
 - The recipients of the various social security schemes would immediately receive the payment through their social security accounts under the Social Welfare Department;
 - For the “battlers” with Mandatory Provident Fund (hereafter the MPF) accounts, the Mandatory Provident Fund Authority (hereafter the MPFA) should notify them of respective arrangements;
 - The Government should put in place a mechanism for other qualified “battlers” (including those without an MPF account and matching the income requirement to apply for the “special relief”).
11. According to the statistics of the Social Welfare Department, there were 902,322 persons receiving different kinds of social security payments in Hong Kong in November 2007.¹⁰ Should the “special relief” be provided to them all, it would amount to HK\$4.5 billion. (For the means of calculation of the recipients in this category, see Annex I).
12. According to the statistics of the Census and Statistics Department, there were 1,180,618 persons in Hong Kong with a monthly income of less than HK\$8,000 from main employment in 2006. Should we provide these “battlers” with HK\$5,000 worth of special relief, this would amount to HK\$5.9 billion for the Government.¹¹

Proposal Two: The “Transport Subsidy Scheme”

13. We propose that the Government should provide direct subsidies to the public when taking public transport. The justifications are as follows:

Heavy Burden – The Costs of Public Transport

14. Most Hong Kong citizens have to face high transport costs relative to their

¹⁰ The figure is underestimated as there is no published figure related to CSSA recipients aged between 60 and 64.

¹¹ C & SD, HKSARG, “Hong Kong 2006 Population By-census - Thematic Report : Household Income Distribution in Hong Kong,” (Hong Kong: C & SD, June 2007), p. 18.

income levels. Several academic studies indicate that passengers had to make “inter-modal trips” in public transport, and subsequently a separate fare payment for the changing of each mode of transport, resulting in high transport fares.¹² An academic research conducted in 2004 suggests that the employed population of Hong Kong need to pay about 8% of their monthly income to cover transport costs to and from work and that those who take the Mass Transit Railway (MTR) have to pay between 9 and 11% of their monthly income for their rides. The travel expenses for lower-income households living in urban areas and in the new towns constitute about 12% and 16% of their income respectively.¹³

15. Transport cost constitutes the third largest item in household expenditure, after food and housing.¹⁴ The Government has been providing a certain degree of subsidies to alleviate the burden of housing. In a bid to ensure the stability of food price, the Government attaches great importance in ensuring a stable food supply. With regard to public transport, the Government only provided travel subsidy for students in low-income families. It is highly likely that the costs in transport would have imposed an additional burden due to the fare hikes in recent months.

Anticipation of Fare Increases in Public Transport in 2008 and the Failure of the “Fare Adjustment Mechanism”

16. Since late 2007, almost all major public transport operators have applied for fare increases (see Annex II). These applications of fare adjustments will no doubt lead to a significant increase in the transport component in the Consumer Price Index for the year of 2008. The fare hikes also signified the failure of the Government’s scrutiny of fares under the “Fare Adjustment Mechanism”, which were introduced by the Government in late 2005.

Deterioration in Quality of Life

17. The abovementioned academic studies also suggest that the poor are often the

¹² See Joseph C.Y. Lau and Catherine C. H. Chiu, “Accessibility of Workers in a Compact City: The Case of Hong Kong,” *Habitat International*, Vol. 28, No. 2 (2004), p. 93.

¹³ See Ibid, p. 94.

¹⁴ See Census and Statistics Department, “2004/05 Household Expenditure Survey and the Rebasing of the Consumer Price Indices,” June 2006, p. 100, <http://www.statistics.gov.hk/publication/stat_report/consumer_price/B10600042005XXXXB0400.pdf>.

most affected group, as they might take a less direct means of transportation, or even confine themselves to walking, as a means to save costs. Their productivity would be undermined indirectly.¹⁵ In sum, these kinds of transportation modes might also adversely affect the quality of life, for instance:

- Giving up the chance to take residence in new towns with a better environment, and choose to stay in urban areas of poorer environment and quality of living;¹⁶
- Accepting a lower salary in exchange for working in a nearby neighbourhood;
- Socially disconnected due to the reluctance to make public transport trips for non-work purposes;
- Short of time for family and social life.

Minimal Relief from Present Concessionary Measures

18. The current concession schemes provided by different transport operators (for example, the “ride 8 get one” and the “ride 10 get one” schemes previously run by the MTR and KCR, the “bus interchange concession scheme” provided by bus operators), were unable to relieve the burden of transport costs, due to their restrictive terms and conditions, excluding the majority of the passengers from the scheme due to its limited coverage.

Details of the Proposal

19. The Professional Commons proposes the provision of an one-off “across-the-board” rebate scheme, that is, the Government should provide a 30% fare rebate per trip for all public transport passengers (except for cross-boundary trips) during the whole 2008-2009 fiscal year.
20. All passengers using public transport will receive automatic rebates through their Octopus Cards under the “across-the-board” scheme. This involves the least amount of administrative costs, and is extremely comprehensive, as 95% of the population aged between 16 and 65 has an Octopus Card, and all major public

¹⁵ See Joseph C.Y. Lau, “Accessibility and the coping behaviour of the Non-employed People in Hong Kong,” *Habitat International*, Vol. 30, No. 4 (2006), p. 1030.

¹⁶ See Joseph C.Y. Lau and Catherine C. H. Chiu, “Accessibility of Workers in a Compact City: The Case of Hong Kong,” *Habitat International*, Vol. 28, No. 2 (2004), p. 95.

transportation modes accept the Octopus Card.¹⁷

21. It is estimated that this provision of transport subsidy would amount to HK\$6.2 billion. (See Appendix III concerning the means of the calculation of the Transport Subsidy). The amount of rebate will be greater for passengers who travel for long distances, and those who need to make multiple trips or use multi-transport modes.

Proposal Three: “Citizen’s Account”

The Ageing of the Population and the Issue of Retirement Protection

22. From a long term perspective, Hong Kong will encounter an increasingly ageing population. The median age of Hong Kong rose from 26.3 in 1981 to 39.6 in 2006, and is expected to reach the age of 46.1 by 2031.¹⁸ In 2006, 12.6% of the population of Hong Kong was aged 65 or above, but by 2033, the estimated figure will be up to a quarter (25.6%).¹⁹ Despite the fact that there will be a significant increase in the dependency ratio, the actual number of people who have a genuine need to be taken care of by the younger generation is not necessarily as many as is reflected in the dependency ratio. This is due to fact that many have had certain kinds of retirement protection. Nonetheless, a greater participation rate on retirement protection schemes will help reduce the pressure of the ageing population in the long term.²⁰
23. Despite the Mandatory Provident Fund Scheme having been in place for some time, there are a number of loopholes in relation to retirement protection of the elderly in Hong Kong, including:
 - As many as 2 million of the adult population of Hong Kong not being covered by any form of retirement protection or pension scheme (See Annex IV);

¹⁷ See <<http://www.octopuscards.com/corporate/why/statistics/en/index.jsp>>.

¹⁸ C & SD, HKSARG, “Demographic Trends of Hong Kong 1981-2006,” and “Population Projections of Hong Kong 2007-2036,” (Hong Kong: Census and Statistics Department, December 2007), page 4 and 34;

<http://www.statistics.gov.hk/publication/stat_report/population/B1120017022007XXXXB0500.pdf>;

<http://www.statistics.gov.hk/publication/stat_report/population/B1220001022007XXXXB0300.pdf>.

¹⁹ Ibid.

²⁰ It is anticipated that the dependency ratio for the elderly per 1000 adult population of Hong Kong will surge to 428 by 2033, 150% more than that of 164 in 2005. See “Invitation and Policy Response Document on Population Policy”, the Council on Sustainable Development, p.47, <<http://www.susdev.org.hk/archive/en/pdf/IRdocument.pdf>>.

- For those who are covered by a retirement scheme, some of those would not have enough savings in their MPF accounts to cover their basic needs for their retirement. Those earning HK\$5,000 per month or under are not required to make monthly contribution themselves, while the contribution of their employers will amount to a maximum of HK\$250 only;
- As many as 4% of the employed population in Hong Kong who should be included in the MPF Scheme in accordance with the “Mandatory Provident Fund Ordinance” have not participated in any retirement protection schemes yet.²¹

Personal Development Needs

24. An individual would face tremendous challenges along with the rapid changes in the society, but the assistance which could be provided by a family is diminishing. Personal development needs varied along with the different stages in life of an individual, and meeting these needs would require a substantial amount of financial resources. Should the opportunities for personal development be undermined, not only would it affect the fortunes of an individual, but also a tremendous loss for society in general. The Central Provident Fund in Singapore has provided three separate accounts which allow account holder to allocate the amount for designated purposes. In fact, the citizens themselves are the ones with the know-how to utilize the resources in the most rational sense; they certainly are able to utilize their financial resources in the way most suited for themselves.
25. The Professional Commons believes that in view of a significant amount of budgetary surplus, it would be a good opportunity for the Government to make use of it to deal with fundamental issues which would affect the long-term development of Hong Kong.

Details of the Proposal

26. Hence, we propose that the Government should set up a personal account for every adult citizen of Hong Kong, entitled ‘Citizen’s Account’, which could serve a dual purpose of personal development, as well as serving the needs for

²¹ For the details concerning the Central Provident Fund Scheme in Singapore, See <http://www.mpfa.org.hk/english/abt_mpfs/abt_mpfs_bgd/abt_mpfs_bgd.html>.

retirement. The objectives of the account are as follows:

- To facilitate a comprehensive and innovative way to “return wealth to the people”;
- To raise the public awareness for the preparation of their future;
- To put an infrastructure framework in place in a bid to facilitate saving for deposit, so as to realize their aspirations;
- To encourage the public to make voluntary contributions for their retirement protection.

27. The key components of the Account are as follows:

- The Government should make a “seed payment” of HK\$4,000 to the “Citizen’s Account” of every member of the adult population in Hong Kong, that is, those who hold Hong Kong Permanent Resident Identity Cards;
- There are two components in the Account, serving two different purposes: “Personal Development Purposes” and “Retirement Purposes”, each constitutes HK\$2,000;
- The “Personal Development Purpose”: MPF account holders could withdraw the money through the MPFA immediately to serve personal needs, the MPFA shall be responsible to distribute the amount concerned, while those without MPF Account could apply through the Government;
- As for the arrangements for the “Retirement Purposes”: The MPFA will contact the existing MPF account holders to seek their instructions on whether they should:
 - Deposit the amount concerned into their existing MPF Account as voluntary contributions; or
 - Request the MPFA to transfer the amount concerned to the Hong Kong Monetary Authority for their investments and management;
- For those who do not have an MPF Account, their entitlement in the “Citizen’s Account” shall be pooled together for investments and managed under the Hong Kong Monetary Authority, until the account holder transfer their money to set up their own MPF Account, or the money will be available for withdrawal once the account holders reach 65;
- Old Age CSSA and Old Age Allowance recipients will be allowed to withdraw the whole HK\$4,000 in the Account immediately;
- The Government shall also send notification concerning the balance to the account holders on a regular basis.

28. The purposes serving “Citizen’s Account” could be diversified, in respect of which there is much room for discussion. As the Government will only contribute to these Citizen’s Account occasionally, it would take a long period of time before the deposit could be a meaningful amount. Hence, it will be important to have a thorough discussion across the community with regard to the financial sources as well as the purposes of the account.

Beneficiaries and Amount Benefited

29. There are approximately 5.6 million residents aged 18 or above in Hong Kong in 2006.²² The promulgation of the “Citizen’s Account” together with an injection of HK\$4,000 to each Account would require approximately HK\$22.6 billion from the Government.
30. Capital injection for the “special relief for the disadvantaged” and the ‘Citizen’s Account’ will amount to HK\$33 billion. According to the tabulations of the figures in consumption spending in the “2004/05 Household Expenditure Survey” of the Census and Statistics Department, the annual total consumer spending of all households in Hong Kong for the whole year amounted to HK\$510 billion.²³ After the deduction of the amount allocated for retirement purposes, HK\$27.9 billion are allocated for the purposes of “returning wealth to the people” in our recommendations (including HK\$6.2 billion of transport subsidies, HK\$11.3 billion of “Personal Development Account” and HK\$10.4 billion of “special subsidy for the disadvantaged”), this constituted, however, merely 5.5% of the total household expenses for all the households in Hong Kong (See Annex V for the details on the calculation of the amount which could be allocated to different groups of people). In view of the increasing inflation in Hong Kong, which stood at 3.8% in December 2007, together with the

²² The figure was compiled from the figure as provided in the “2006 Population By-Census”, see Census and Statistics Department, “Hong Kong 2006 Population By-census - Main Tables,” p. 8, <http://www.statistics.gov.hk/publication/stat_report/population/B11200512006XXXXB0400.pdf>.

²³ The average monthly expenditure for each household in 2004/05 is HK\$18,884, should we multiply that figure by the number of households in November 2007 (2,242,700), the total amount of spending of all Hong Kong households annually is approximately HK\$500 billion. Please refer to the “2004/05 Household Expenditure Survey and the Rebasing of the Consumer Price Indices,” (Hong Kong: C & SD, June 2006), <http://www.statistics.gov.hk/publication/stat_report/consumer_price/B10600042005XXXXB0400.pdf>, and <http://www.censtatd.gov.hk/hong_kong_statistics/statistical_tables/index_tc.jsp?charsetID=2&subjectID=1&tableID=005>.

anticipation from the academic institutions that the inflation rate for 2008 could go up to 4%. Our recommended amount of “returning wealth to the people” would probably bring in merely about 1% of increase in household expenditure. Hence our recommendations would not bring about an upward pressure on inflation.

Long-term Planning of the “Citizen’s Account”

31. Having embedded a “Citizen’s Account” as an infrastructure plan for individual adult citizens to save for their personal development, as well as retirement needs, we propose that the Government should continue to inject part of the surplus to the Account when the fiscal surplus exceeds a minimum threshold level. For instance, after earmarking the first HK\$10 billion of surplus for the prevailing specific needs of any given time, 40% of the remaining fiscal surplus should be automatically allocated to the “Citizen’s Account”.
32. It would be at the Government’s discretion to determine whether any allocation from fiscal surplus to the “Citizen’s Account” should be provided to:
 - All adult populations, or
 - Distribution of a fixed rate of money according to age, with prioritization according to seniority.
33. By committing a prescribed amount of fiscal surplus for long-term purposes, the Government would be relieved from the anticipation by the general public to provide excessive one-off measures for the purposes of “returning wealth to the people”. Comparatively speaking, the Government will have greater legitimacy to have a free hand in allocating the remaining portion of the surplus.

Proposal Four: Climate Challenge Fund

Background

Global Concern on Climate Change

34. The issue of climate change, particularly global warming, has become a major concern of governments worldwide. The United Nations Conference on Climate Change held in Bali in December 2007, which was attended by governmental as

well as non-governmental representatives from over 190 countries, demonstrated the need for all countries to come up with responsible climate change strategies as a matter of top priority.

Hong Kong's Air Pollution Problem

35. Hong Kong's air quality has been deteriorating in recent years. In the fourth quarter of 2007, the "Air Pollution Index" (API) from the Environment Protection Department rated high 72% of the time in General Stations, while the Roadside Stations have recorded an API rated high 85% of the time.²⁴ Visibility below 8 km at the Hong Kong Observatory Headquarters has risen by 5.8% per decade between 1986 and 2004.²⁵ The average annual temperature recorded by the Hong Kong Observatory has recorded an increase of 0.34 degrees between 1989 and 2007.²⁶ Recent figures show that the level of three kinds of pollutants (carbon dioxide, respirable particles and carbon sulphide) have rebounded since 2004. In 2006, the level of the three pollutants was back to the high levels in 2002.

Membership of Hong Kong in the "C40 Group"

36. In November 2007, the HKSAR Government signed up as a member of the "Large Cities Climate Concern Group" (i.e. the "C40 Group"), a consortium of governments of major cities worldwide aimed at the coordination of member cities' efforts in tackling global climate change. A number of major cities in the world, such as London, New York City and Tokyo, have already formulated long-term and comprehensive plans for the tackling of global climate change. The HKSAR Government should catch up and formulate policies to tackle the challenge arising from climate change through the formulation of a "low carbon" development strategy.

Details of the Proposals

"Climate Challenge Fund"

37. The Professional Commons proposes the creation of a "Climate Challenge Fund"

²⁴ See <http://www.epd-asg.gov.hk/english/apisum/apisum_detail.php?year=2007&month=q4>.

²⁵ See <<http://www.weather.gov.hk/publica/reprint/r626.pdf>>.

²⁶ See <http://www.hko.gov.hk/climate_change/climate_change_hk_e.htm#urbanization>.

(hereafter the CCF). The fund will be used to finance and develop both local-based and cross-boundary initiatives for both “low carbon” and “energy efficient” strategies. The Government should earmark HK\$8 billion in the 2008/09 fiscal year for the setting up of the Fund. The measures in the Fund include:

- A HK\$500 million “Low-Carbon Professional Aid Scheme”;
- A HK\$500 million “Green Homes Subsidy Scheme”;
- A HK\$2 billion “Green Community Subsidy Scheme”; and
- A HK\$5 billion “Pearl River Delta Climate Change Response Fund”.

Local Measures

“Low-Carbon Professional Aid Scheme”

38. The Government should allocate HK\$500 million from the CCF for the establishment of a “Low-Carbon Professional Aid Scheme” in a bid to facilitate the adoption of a low carbon living mode at household and community level. Under the scheme, individual household, residential groups and District Councils will be eligible to apply for funding for the procurement of professional services in the following areas:

- energy audit for households units and residential blocks to assess the performance in energy efficiency;
- project design for energy efficiency upgrades for residential blocks, project management and professional assistance in project procurement, bidding and execution;
- consultancy services in relation to town planning, urban design, and related advisory services for the development of sustainable communities, so as to avoid adverse consequences such as “wall effect” and “canyon effect”.

39. Under the scheme the Government shall subsidize 70% of the professional costs with the remaining 30% to be borne by the residents or residents’ organizations. This shall help encourage better value for money in the delivery of services. In order to implement the Scheme effectively, one-stop “Professional Aid Centres” should be established by using the current nine “Property Management Advisory Centres” of the Hong Kong Housing Society. In addition to providing basic advisory services, the primary function of the Centres is to provide a referral

service for the public and maintain a comprehensive register of qualified professionals (such as engineers, planners, architects and surveyors).

“Green Homes Subsidy Scheme”

40. In order to raise energy efficiency, the households should be encouraged to use appliances or household design that would lead to higher energy efficiency. The replacement of incandescent light bulbs by energy saving lamps can be encouraged by the banning of the import of incandescent lamps through legislative means. As a compensatory measure, it is proposed that the Government should provide a subsidy of HK\$100 per adult, the sum of which could be deposited through the Citizen’s Account. The total sum required for this subsidy is estimated to be around HK\$500 million. Based upon the data provided by the Environment Bureau, the replacement of all incandescent light bulbs would reduce the electricity consumption by 900 million units, which is equivalent to a total saving of HK\$900 million in electricity bills by all Hong Kong households.²⁷ Another estimation by Greenpeace showed that the replacement of all incandescent light bulbs could result in a reduction of 4.8 billion tones of carbon dioxide emissions and a saving of HK\$600 million in electricity bills.²⁸ It is worth noting that, the Tokyo Municipal Government has also decided to ban all incandescent light bulbs as a part of its climate change response strategy.²⁹
41. In order to encourage domestic households to raise energy efficiency in their homes, the general public could conduct energy audits, and formulate relevant design for the improvement of energy efficiency, through the employment of the professional services provided by the Low-Carbon Professional Aid Scheme. The costs for the improvement works, together with the replacement of associated equipment, shall however be borne by the households concerned.

²⁷ According to the Environment Bureau, the net yearly import of incandescent lamps in 2006 was about 34.5 million units, which was equivalent to around 16 million installations. Assuming that 50% of them are replaced by Compact Fluorescent lamps, there will be an estimated annual saving of about 450 GWh, which is equivalent to about 1% of the total electricity consumption in Hong Kong. Please see <<http://www.info.gov.hk/gia/general/200711/14/P200711140112.htm>>

²⁸ Please refer to <<http://www.greenpeace.org/china/en/press/release/greenpeace-urges-legal-phase-o>>

²⁹ In the “Tokyo Climate Change Strategy: A Basic Policy for the 10 Year Project for a Carbon Minus Tokyo” policy document published by the Tokyo Metropolitan Government in February 2007, it called for the government to replace the current “incandescent bulbs” with “energy saving bulbs.” <<http://www2.kankyo.metro.tokyo.jp/kouhou/env/english/pdf/TOKYO%20Climate%20Change%20Strategy%202007.6.1.pdf>>

“Green Community Subsidy Scheme”

42. For the promotion of energy saving in residential buildings, it is proposed that the Government should allocate HK\$2 billion from the CCF to subsidize private owners in residential buildings for energy efficiency upgrade in line with the need for low carbon development. A grant of HK\$1,500 per household may be provided for such upgrade. For those households currently qualified under the “Building Maintenance Subsidy Scheme” of the Hong Kong Housing Society, this additional subsidy may be provided on top of the current subsidy of HK\$3,000 provided under the Scheme by the Housing Society. The energy efficiency upgrade for public housing should be provided by the Hong Kong Housing Authority and the Hong Kong Housing Society, and should not be included in this Scheme.
43. To qualify for the application of the “Green Community Subsidy Scheme”, the Incorporated Owners could obtain professional services for energy audit and project design for qualified improvement works from the “Low-Carbon Professional Aid Scheme”.
44. According to the documents submitted by the Environment Bureau to the Legislative Council, if all new buildings were required to follow the “Building (Energy Efficiency) Regulation”, it will result in energy savings of 2.8 billion KWh in the first decade, which would be equivalent to a saving of HK\$2.8 billion of electricity fares. This will also lead to a reduction in carbon dioxide emission of 1.96 million tones.³⁰ It is evident that the proposed Scheme will result not only in higher energy efficiency in line with low-carbon living, it will also be financially beneficial to all stakeholders concerned.
45. Due to the effect of global warming, and the “heat island effect” inflicted by the high development density in Hong Kong’s urban areas, it is imperative that appropriate strategies be adopted as soon as possible in urban planning and design in order to reduce harmful “wall effect” and “canyon effect” due to the dominance of tall buildings, and to improve the environment through increased air ventilation. This will help alleviate the impact of global warming as well as improve air quality. When a neighbourhood is affected by large-scale urban

³⁰ Please refer to the paper of the Legislative Council from the Environment Bureau on 28 January 2008, http://www.epd.gov.hk/epd/english/news_events/legco/files/EAPanel_20080128_eng.pdf.

renewal projects or development projects, affected resident groups or the relevant District Councils may seek professional help from the “Low-Carbon Professional Aid Scheme” to formulate planning and design proposals in conformity with the principles of sustainable development.

Cross-boundary Measures

“Pearl River Delta Climate Challenge Fund”

46. The Government should establish a “Pearl River Delta Challenge Fund” (hereafter the “PRDCCF”), specifically tailored for the Pearl River Delta, through the allocation of HK\$5 billion from the “Climate Challenge Fund”. Being a developed economy (equivalent to “Annex I Countries” under the Kyoto Protocol), Hong Kong is in a position to shoulder more responsibility for the PRD region in accordance with the internationally recognized “Common But Differentiated Responsibility” principle. There are estimates that the increase in seawater level over the next few decades may result in over 30 million eco-refugees in the Pearl River Delta area. Hong Kong cannot afford to turn a blind eye on these issues.
47. The PRDCCF may be used to support two types of measures under climate change: a mitigation strategy and adaptation strategy. The aim of mitigation measures is to reduce greenhouse gas emissions. The Fund may focus primarily on projects which comply with voluntary carbon credit standards but are outside the scope of Clean Development Mechanism under the Kyoto Protocol. These may include small-scale renewable energy projects, afforestation and distributed energy efficiency projects. Costs for project preparation, feasibility studies, project design and project management for qualified projects may be supported by project grants in full. Soft loans may be provided by the Fund for project execution. An inter-governmental institution between Hong Kong and Guangdong governments may be established for project screening.
48. Despite the international efforts for greenhouse gas emission reduction, the trend of global warming, prior to reaching an uncertain peak, will continue over a long period of time with adverse consequences. Hence it is prudent to adopt an adaptation strategy and take up cost-effective measures to avert potentially much higher social and economic cost of inaction. The PRDCCF may provide

subsidies for conducting research and investigation to identify high-risk areas and facilities, for example, due to rise in water level, reduction in overall precipitation rate, increased frequency in extreme weather events, deterioration in biodiversity and increased rate of occurrence of tropical diseases). The Fund may also be used for project design of adaptation measures that are considered to be most cost-effective and with the most pressing need. Specifically, the research agendas that may be supported by the Fund may include:

- Infrastructure strengthening (e.g. strengthening of coastal defences, upgrade of transport infrastructure and power distribution facilities);
- Resource conservation (e.g. conservation of water resources including recycling and re-use, habitat protection to maintain biodiversity);
- Urban and rural planning (e.g. emergency response measures for low-lying areas prone to flooding; reduction of population density in high-risk areas, improvement of air ventilation and environmental quality in urban areas);
- Public healthcare system (e.g. upgrade of preventive measures and alert systems for identified diseases).

January 2008

Annex I

Number of Social Security Recipients Eligible for the HK\$5,000 “Special Relief” (November 2007)

Based on the November 2007 figures from the Social Welfare Department, the number of persons eligible for the HK\$5,000 “special relief” is as follows:

499,183	(Total CSSA Recipients)
- 187,393	(Old Age CSSA Recipients)
+469,732	(Adding Old Age Allowance recipients)
<u>+120,800</u>	(Adding Disability Allowance recipients)
=902,322	(Number of Social Security Recipients Eligible for the HK\$5,000 “Special Relief”)

(Source: http://www.swd.gov.hk/en/index/site_pubsvc/page_socsecu/sub_statistics/).

Annex II

Applications of Fare Increase By Public Transport-Related Operations

Public Transport Operators	Rate of Upward fare Adjustment	Earliest date of Announcement of the Results
Western Cross Harbour Tunnel	Between 10% and 12.5%	Early January 2008
Four Minibus Line Running in the Western Cross Harbour Tunnel	Between 5.5% and 9%	Early January 2008
Star Ferry	23% in two routes	January 2008
Urban and New Territories Taxi	HK\$1 increase in the starting meter	February 2008
Kowloon Bus	9% (on average)	End of March 2008
New World First Bus/City Bus	5.8% (on average)	June 2008
71 Franchise Minibus Routes	N/A	Depends on the decisions of the Transport Department

Sources: 《海陸交通勁加價推高通脹》, "Significant Upward Adjustment of Fares in Sea, Air and Land Public Transport, Pushing Inflation Further," *Ming Pao*, 31 December 2007, p. A10; 《西隧4小巴線提前加價 最高1成》, *Hong Kong Economic Times*, p. A26; 《西隧削優惠加價逾一成 短期內公布私家車新收費 45 元》 (Reduction of Concessions in the Western Cross Harbour Tunnel Raising Fares by 10% New Charge of HK\$45 for Private Vehicles in the Short Run), *Ming Pao*, 4 January 2008, p. A3.

Annex III

Means to Calculate the Amount in Transport Subsidies

1) Average Monthly Household Expenditure on Public Transport (October 2004 and September 2005) for expenditure group quartile

	Quarterly Expenditure Group (Household)				
Public Transport modes	The Lowest 25%	The Second 25%	The Third 25%	The Highest 25%	Overall
Bus	205	350	451	401	351
Trams	2	3	3	5	3
Public Light Bus	54	107	122	141	106
MTR	91	183	235	291	200
Train	48	76	103	89	79
Light Rail	16	21	14	10	15
Ferry	5	10	11	29	55
Total	421	750	939	966	769

(Source: C & SD, HKSARG, “2004/05 Household Expenditure Survey and the Rebasing of the Consumer Price Indices”, (Hong Kong: C & SD, HKSARG), p. 100)

2) The amount of transport subsidy should 25% of Transport Rebates for all the households in each of the income quartile provided (in HK\$):

	Quarterly Expenditure Group				Over all
	The Lowest 25%	The Second 25%	The Third 25%	The Highest 25%	
Transport Expenses for each household in 2004/2005	421	750	939	966	769
Transport Expenses for each household in Nov 2007#	425	758	949	976	777
30% of Transport Rebates for each household in Nov 2007	128	227	284	293	233
30% of Transport Rebates for all the households for a year (in Million HK\$)	858	1530	1915	1970	6273

(#: Transport expense of individual household is adjusted in accordance to the Index on Transport for the Composite Consumer Price Index, i.e. 100.4 in 2005 and 101.3 in December 2007.) (Source: C & SD, HKSARG, *Hong Kong Monthly Digest of Statistics November 2007*, p. 175; C & SD, HKSARG, “Consumer prices for December 2007,” <<http://www.info.gov.hk/gia/general/200801/22/P200801220149.htm>>).

Note: The total number of household units (between September and November 2007): 2,242,700.

(Source:

http://www.censtatd.gov.hk/hong_kong_statistics/statistical_tables/index_tc.jsp?chars etID=2&subjectID=1&tableID=005))

**Estimated number of adult population not covered by
any form of retirement protection (2006)**

6,857,100	(The total population of Hong Kong)
- 1,207,315	(The total population under 18)
<u>- 3,636,500</u>	(The population of the labour force)*
=2,013,285	(The estimated number of adult population who are not covered by any form of retirement protection)#

* In accordance to the MPF Ordinance, excluding those which are exempted from enrolling in an MPF Scheme, the working population should participate in the MPF Scheme, or some form of retirement protection.

The figure includes retired civil servants receiving pension, former participants of statutory retirement schemes, for subsidized schools etc.)

The main groups who are exempted or not included in the MPF Scheme (due to their economic inactive status) would be:

- Residents over the age of 65 (including the Senior Citizens recipients of the Comprehensive Social Security Assistance Scheme and Old Age Allowance recipients);
- Homemakers;
- Local domestic helpers;
- Self-employed hawkers;
- Comprehensive Social Security Assistance recipients;
- Those which are working in a family run business without a salary.

(Source: Census and Statistics Department, “Hong Kong 2006 Population By-census - Main Tables,” p. 8,

<http://www.statistics.gov.hk/publication/stat_report/population/B11200512006XXX XB0400.pdf>; table on “Labour Force, Unemployment, underemployment statistics at the Census and Statistics Department website, <
http://www.censtatd.gov.hk/hong_kong_statistics/statistical_tables/index.jsp?charsetI D=1&subjectID=2&tableID=006>.

Annex V**Distribution of the Payments in the “Citizen’s Account” and “Special Relief”**

	“Citizen’s Account”		“Special Relief”	Total
	”Personal Development Purposes”	“Retirement Purposes”		
Adult Population (besides the disadvantaged and the elderly)	HK\$2,000 (immediate)	HK\$2,000		HK\$4,000
The Elderly (Aged 65 or above) that were neither CSSA recipients nor Old Age Allowance recipients	HK\$4,000 (immediate)	--	--	HK\$4,000
“The Disadvantaged”				
The Elderly; (Aged 60 or above); Old Age CSSA recipients and (Aged 65 or above) Old Age Allowance recipients	HK\$ 4,000 (immediate)	--	HK\$5,000 (immediate)	HK\$9,000
Other CSSA Recipients (Non Elderly)	HK\$2,000 (immediate)	HK\$2,000	HK\$5,000 (immediate)	HK\$9,000
Disability Allowance Recipients	HK\$2,000 (immediate)	HK\$2,000	HK\$5,000 (immediate)	HK\$9,000
The “Battlers”	HK\$2,000 (immediate)	HK\$2,000	HK\$5,000 (immediate)	HK\$9,000

