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HKIoD's Recommendations for Government Budget 2015-16

The Hong Kong Institute of Directors issued the following statement ahead of the Budget Speech scheduled to be delivered on 25 February 2015.

Mind the gap

The Policy Address delivered in January is a reflection of the steady progress this Administration has made in promoting economic development and improving people's livelihood. But there are gaps to fill if we are to be competitive again in the economy and to keep Hong Kong a City of Opportunity.

Between Policy Address and Budget Speech

We expect the Financial Secretary to deliver another Budget to closely match the Chief Executive's policy direction.

The time interval between the Policy Address and the Budget Speech, however, can be wider apart. Will the Financial Secretary recommend to the Chief Executive to move the Policy Address back to when it was, near the opening of the legislative year?

“Where is the money?”

Economic strength will remain our best friend for new monies to tackle the many deep-seated livelihood issues. But recent figures show the economy is growing at slower rate. Looking ahead, the macro-economic environment is not helping. Turmoil may be simmering in Europe. The US recovery is far from strong. Closer to home, Japan is sluggish. Phenomenal double-digit growth of the Mainland economy is now a thing of the past. Slow economic development will constrain our ability to pay for recurring expenditures and invest for the future.

To be prudent, we don't want to spend more than we can realistically take in. Prudence is good. But if the prudence is such that time and again, year after year, estimates would take swings to result in baffling amounts of surplus, people will start to wonder whether we have become unnecessarily stingy. The need for fiscal prudence must be put in the context of our need to invest in Hong Kong's future development.

Fiscal reserves in vast quantity are a gift to Hong Kong. They can be and should be better deployed, to generate earnings that support our social expenditure now and in future, to invest in infrastructure, and to be seed monies for our economic development.

Ill-effects from the prolonged street-blocking and social unrest

Some businesses must have been affected during the prolonged street-blocking and social unrest. Even then, larger chain operations might fare better than the small local stores, since the loss in one district may well have been offset by gains in others as customers and patronage shift. With the street clearance, we surely hope the local stores would see business returning to normal in not too long a time.

The harm to long-term competitiveness of the economy as a whole may ring deeper than short term disruptions suffered by any one particular business. If organisers decide to move

large-scale conventions elsewhere, if international brands decide to scale down their presence in the territory, those could be jobs and businesses forever lost.

We are aware of calls to allow businesses to delay upcoming tax payments to help them cope with the business disruptions. But if we are to really help smaller businesses cope with taxes over the long term, we ought to consider the case for a two-tier profits tax regime.

Catching up with the competition

Refresh our tax system to keep us competitive

Appropriate incentives and concessions have the effect of channeling investments into areas of the economy we want to develop. We should end the wait for a comprehensive review of tax regime that will make it more competitive and which will reinstitute the notion of fairness and refresh its compatibility with business reality.

Hong Kong as Super-connector

The Financial Secretary will want to explain to the public how this Government will create the most opportunities for Hong Kong as the Mainland government charts the 13th FYP. In this regard, the Budget can provide further incentives and support to help Hong Kong fulfill the role of Super-connector in developing the economy.

We continue to believe in the potential for Hong Kong to act as springboard for business coming into and going outside China. Hong Kong would also be an ideal place for setting up regional headquarters or holding companies of business enterprises. If Hong Kong can reinforce itself as the choice location of regional headquarters or holding companies, it will draw and retain a strong pool of talents with responsibility to manage and direct company affairs. It will also attract experienced personnel from various professional services to Hong Kong. We again ask the Government to introduce “group loss relief” and other tax incentives and exemptions to support this development.

The Chief Executive set his sight on high value-added maritime services and aircraft/aerospace financing business. We look forward to more details for a new maritime body that will have its charge in promoting the maritime servicing industry. We are aware that a special tax regime for aircraft leasing is now under study. It would seem appropriate for the regime to at least redress the unfairness brought on by certain tax depreciation denial under the current tax legislation.

Help SMEs with cash flow, help them cope with the cost of doing business

We can help small businesses cope with the cost of doing business. These could include profits tax concessions, additional deduction allowances on business costs that smaller businesses routinely and legitimately incur, longer time window for them to pay taxes, and simpler paperwork associated with tax returns. The ability to carry losses back to more profitable years could also help more SMEs weather economic storms.

The Dedicated Fund on Branding, Upgrading and Domestic Sales program can probably be augmented to offer a wider scope of assistance and to make for better eligibility. Likewise, the SME Export Marketing Fund program can be augmented to become a revolving fund of larger subsidy amounts.

Loan guarantee schemes that have been put in place as temporary measures could well be made permanent. We note, however, that some would-be participants lament that they don't

help and may in fact add to the cost of doing business. The Government may be offering SMEs better help by retuning those schemes or to offer alternatives.

Spicing up the economy

The economy lacks some seasoning. To make us competitive once more and keep it that way, we must invest to spice up the economy and make it more diverse.

A more rounded financial centre

There are worrying signs that the financial sector is increasingly being drained of its ability and energy to innovate. Tighter and yet tighter regulatory and compliance requirements would seem to be a main reason for that. The emerging FinTech movement in Asia and around the globe, however, suggests that innovation and creativity can reshape old-fashioned banking and financial services delivery. Regulatory approach, in turn, will need to innovate to embrace the new.

As Hong Kong continues to develop the financial sector, the question is always whether consumers and investors are protected. But as consumers and investors become more educated and sophisticated, they can be more and more able to protect themselves if they have the right means to do so.

In the securities market context, one essential element will be the availability of corporate information in digestible form. A disclosure regime is only effective when it provides investors with the information they need to make informed investment and voting decisions, but does not overwhelm them with either extraneous information or with a form of presentation that obscures and detracts investors from what is material. The Government can do well to better understand changes to the investor demographics, and to consider what changes, if any, needs to be made to our disclosure regime to help investors (particularly retail investors) understand the investment decisions that they are making.

A gaping hole in disease control, an opportunity for high-skilled manufacturing

We see value in bringing back high-skilled manufacturing as part of a more diverse Creative Economy. The recent bout of flu vaccine shortage has been billed a gaping hole in public health and disease control. Some people have asked whether we can turn that into an opportunity by fashioning a capability to produce vaccines locally. We do not think it is a simple task and it will not come about overnight. There are obstacles to overcome. For certain, it will require a heavier investment in research and development.

Must invest in R&D

The Chief Executive offered to inject \$5 billion into the Innovation and Technology Fund, and will subsume the Research and Development Cash Rebate Scheme under it. This proposal deserves praise, but we believe there is room for more assistance to encourage R&D, for example, by expanding the Research and Development (R&D) Cash Rebate Scheme and by offering better tax incentives or deductions for R&D expenditure and for owning or licensing intangible property rights.

Daring them to start their own businesses

Starting and running a new business is not for everyone. For sure, encouraging the younger generation to start their own business is not going to be the panacea for all social issues facing us. But for those who dare, they deserve the help and support.

To help the would-be entrepreneurs start up a new venture, the Government can offer low (even free) interest start-up loan and rental assistance as incentives; and make available more collaborative work space, incubators and innovation accelerators to support startups. Better coordinated information and assistance from various government agencies and authorities, something closer to a “one-stop shop” experience, could help the inventor-entrepreneur overcome the hurdles when it comes to incorporating a company or to register for intellectual property protection.

The Chief Executive did announce the initiation of a \$300 million Youth Development Fund. The scope of this Fund will include subsidy in the form of matching funds for NGOs to assist young people in starting their own business. We are convinced that there are many capable persons, e.g., retired but still energetic business professionals, who would be ideal candidates to coach and guide those young people who set their mind on starting a new business. We often think of social enterprises offering services and products directly to customers in need. We can conceivably also have social enterprises providing advisory and consultancy services to would-be entrepreneurs. The Fund could perhaps be made available for the production of training and guidance materials.

Must invest in infrastructure

To regain competitiveness and to remain a City of Opportunity, Hong Kong will need to keep investing in first-class infrastructure.

We need the capacity to truly welcome a growing number of visitors. More so, we must attract the higher-spending travelers. If the Government has set its sight on the over-night vacationers or conference goers, then show us the way towards more hotel rooms, attractions and convention facilities. We wish for an early start of the new convention centre above the Exhibition Station of the Shatin to Central Link. We worry that, like in other infrastructure projects, the failure to start early would only result in higher costs and longer wait for economic benefits to come into play.

With many infrastructure projects now going on and others in the pipeline, the public will wonder if the Government can keep costs within budget, keep them on schedule yet not sacrifice quality.

We support a third runway at the airport. It would seem a reasonable choice for the financing scheme to comprise (in part) bond offerings, user fees and reinvestment of profits. Some people have asked a rational and important question: is it really going to bring that much benefit? A major source of that doubt stems from concerns over the fight for air space with at least one neighbouring airport. Data suggests that the two-runway system now in operation has not increased capacity to scale versus the time when only one runway was in service; constraint in air space being the major limiting factor. The public will need to be better convinced that a third runway comes with substantial improvement over the current two-runway system.

Between housing and Land supply

The housing situation will remain a priority. We do not doubt this Administration’s determination to work at increasing the supply of housing units. With the completion of more units, we can indeed re-establish a flight of steps for younger persons and families to improve on their housing condition and quality of living in realistically reachable climbs.

Among the Chief Executive's proposals is the idea to make some Public Renting Housing (PRH) flats available for sale to Green Form applicants. We have reservations, wondering whether it will make it even less likely to meet the 3-year waiting time for those seriously in need for public rental housing to satisfy basic housing needs.

A more fundamental policy position to defend is, public rental housing and subsidised housing should remain true to their original purpose and not rendered investment commodities of another sort.

And we reiterate another concern, that in meeting the acute housing demand now, we do not forget the other long-term goal of increasing the living area per person. Perhaps we can add a bit of creativity in the floor plan design of the new housing units, such that when the pressure on housing lessens, the units can be suitably re-modelled to become larger units.

We believe the prospect of averting the supply-demand imbalance in housing supply sooner in time still hinges on the ability to search for suitable land for housing development. The frantic search for housing sites cannot be at the expense of land needs for education, healthcare, recreation and other public amenities. We will also need sites for industry and commerce. The Government will need to demonstrate its ability to overcome obstacles in making land available and to reconcile land needs.

From workforce to economic development

Patch the shortfall in workforce

Acute shortage in some sectors is constraining our economic growth. We support further enhancements to the Supplementary Labour Scheme that will help us alleviate the shortage but not be detrimental to local workers.

Tweaking immigration policy to attract talent from abroad

We support the Chief Executive's initiatives to attract more talents, including second generation Hong Kong people, from abroad.

Nurturing our own talent over the longer term

Our schools should be churning out graduates who can make up the workforce for current needs as well as future development. On one hand, we must make our economy more diverse, such that a job in finance is not the only right choice. But then, our schools must make our graduates able to seize opportunities in a more diverse economy.

Our school curriculum will need to foster the ability to work across knowledge domains. Students will have to have a collaborative mindset, develop the ability to write codes for digital devices and acquire a sensibility to art, design and culture, all from the time they are in school. In parallel, we need to enhance teacher's quality and ability to enable students to have a fruitful learning experience in collaborating and co-creating solutions to problems.

A recent report has it that Finland is moving to drop cursive writing as part of teaching in school, and will rather teach typewriting instead. Finland boasts a remarkable track record in the ability to innovate, but we still think it is going too far and not wise to drop "hand-writing" in our schools. But for sure, we will need our graduates to have the ability to communicate (whether in English or punti, whether writing or oral).

And while we need international schools for the children of talents we attract from abroad, we will never have enough if local kids are flocking to international schools to soak up the new seats. The Government will have to have some firm plans to make local schools as good an option as international schools.

Must invest in education

Hong Kong ought to invest in education. Make 15-year free education happen. The issue has been under study in a Committee. This Budget Speech can, however, offer some fiscal commitments, so the money is ready when the Committee comes up with the details.

Keep growing the number of subsidised seats in universities. Lower the bar for students to apply for financial assistance to go to universities. And for those who are already at work, make bigger allowance for them to pursue continuing education.

Much improvement required to keep it a pleasant place to live

City scape and community spirit

A handsome \$1.8 billion have been allocated to District Councils, \$100 million each, to spend in their districts. If we could afford that quantum of money on contrived district landmarks, we could probably spend commensurate amounts of money to do a few things to better our city life and improve our cityscape. We can have nicer more level pavements that won't trip people over or sprain their ankles. We can have ramps for wheelchairs at every street corner. We can surely have nicer stylish street name signage, street lights and fences that give the whole of Hong Kong some uniform, distinct character.

With many old districts undergoing redevelopment, neighbourhood shops disappear, in come chain stores. Many are feeling that our street economy is fading away. The street economy is a cityscape to be cherished. The possibility of living on the town along street fronts darterd with shops of all kinds is a character of living in Hong Kong and a source of the Hong Kong community spirit. As we build new housing and as we redevelop old districts, we have to keep that cityscape and community spirit. Can we put in more thoughts to fashion alternative market clusters for displaced businesses to continue their business?

Of cars and congestion

Too many cars may be the culprit of poor roadside air quality, and it will surely count as a cause for road congestion. We can support an increase in vehicle registration fees as means to check the rise in the number of passenger vehicles on the road. We are aware that a recent report by the Transportation Advisory Committee offered a number of suggestions to control car growth. Among the suggestions offered is a recommendation that HKIoD has advocated for a number of years: introduce road pricing in congested zones.

Public transport

The Government will need to restore confidence among commuters in the service reliability of the rail network. For public transportation on wheels, the drivers will need to be able to not just move the vehicle, move it along safely, but also to keep passengers comfortable even in bad traffic.

There will need to be further efforts to reorganise bus routes, and that effort may well result in better services and coverage for more people if there is better integration with mini-bus operations and perhaps fresh opportunities for the historic tramways to breed a new life in new development districts.

We are all used to the idea of ferries crossing the harbour or going to and from outlying islands. Can we be brave enough to try out an east-west shuttle to help alleviate road traffic along Island North? With food markets near the piers, commuters can possibly manage to get food and get home with a bit more leisure and better control of their time.

We believe strategic placement of transfer points, a better transfer fare mechanism and the wider adoption of monthly and weekly travel pass across different public transport service platforms will be an integral part of a larger public transport solution.

We can understand that our public transport operators need to have some extra revenue to keep fare from rising too high. Video screens were introduced to blast infomercials at a time when iPods were just about to appear, but today most passengers would have a smart phone and data connection if they want to have real-time entertainment aboard of their choosing (and to be enjoyed with personal earphones, please!). Can we now return some quietness to the carriage cars? Shades were built at many transit stops to give waiting passengers some shelter from the sun and rain. In come huge poster panels straddling over several column posts to the point of obstructing pedestrian traffic. Can we now devise some better more creative way for operators to get extra revenue?

Garbage ... what to do with our garbage?

We are aware that the Government will introduce legislative proposals this year to implement the Producer Responsibility Scheme on Waste Electrical and Electronic Equipment. We are aware that the Government is reviewing the charge level for construction waste disposal, and review findings are expected this year. There is progress, but we are still a long way to go to truly have integrated waste management.

For glass recycling, it is an irony that some years back we removed import duty to spur a wine industry, but did not get on with a functional glass recycling industry to cope with the many more empty bottles. We ask the Financial Secretary to accelerate progress towards sensible and responsible disposal of glass beverage bottles.

For plastic bags, the 50 cents levy will extend to all points of retail sales this April. We appreciate the effect of the levy on changing people's usage habit on plastic shopping bags. We note, however, the levies collected will come to be retained by sellers. It is important that consumers as much as possible bring their own bags. But it is equally important for those who do pay the 50 cents to get in return reasonably sturdy ones suitable for multi-use.

Hong Kong seems to be a place that generates an excessive volume of discarded home appliances or furnishings, many of which still very usable. We believe one reason is many new flats are sold with furnishing, but the buyers do not necessarily want them. Is there a possibility for buyers to specify options they want or not want with the flats they are to purchase without diminishing too much the architectural style or theme of the larger estate? For the other home furnishings that may be discarded, those could be good materials for some recycling, even up-cycling. Operators, however, will need affordable space to gather and sort out the materials and also as workshop to fabricate new items out of the materials. We appreciate the idea of a Recycling Fund but the public will want details of it that will give the recycling industry a real shot in the arm.

Between life and death

An ageing population will demand more health services and the Government must prepare for it. The projected need for more hospital beds over time needs to be met. Hospitals specialising in Chinese medicine deserve their place in their own right. Geriatric hospitals combining Chinese and Western medicine will be welcome alternatives for many of our ageing population.

We recommend the Government to enhance services at outpatient clinics to reduce queuing time.

We are aware that the Private Columbaria Bill is now in the Legislative Council. The final passage of the legislation should make for more proper regulation of private columbaria. We are also aware that the Government is seeking to provide up to 400,000 niches in 4 public sites, but seen that number would not be enough to meet ever growing demand for columbaria. We believe the Government would agree with us, that “it is not too much to ask for a burial place.”

Still not quite a Smart City

We are aware of the plan to take Kowloon East as pilot for a “Smart City”. We firmly support the initiative, and wish for it to become a showcase for future developments.

Hong Kong is still some distance away from being a real smart, intelligent city that incorporates wider use of design in the delivery of public service. It is perhaps the case that design realises its true value when put into addressing societal challenges and instigating positive changes. Businesses, social enterprises and public agencies can all tap the power of better and smarter design in finding new ways to deliver services that enhance user (citizenry) experience. Will the Financial Secretary extend the concept of Social Innovation and Entrepreneurship Development Fund to have a scope beyond fighting poverty?

It's been difficult to make ends meet

Fight poverty

We recognise the effort put in by this Administration in fighting poverty. We are aware the Low-income Working Family Allowance is now funded. We ask if the roll-out can happen sooner than the projected second quarter of 2016. We appreciate the role of the Community Care Fund in “plugging gaps”, exploring various assistance programmes that might show merit in being eventually incorporated into the Government’s regular assistance programme.

HKIoD agrees that public resources should be used in appropriate circumstances to help the disadvantaged. In doing so, we must rely less on handing out welfare but more on giving people the ability and means to construct their future. We are behind the broad policy direction of self-reliance through employment. Strong showing in economic development will only create more opportunities for more people to improve their livelihood and exit the trap of inter-generational poverty.

Middle class relief

The middle income earners contribute much fiscal revenue, but they are also squeezed by ever higher living costs. HKIoD members will support an increase in personal income tax deduction allowances, both as to quantum and to type, to help middle class families make their ends meet. We must also consider appropriate widening of the tax bands in salaries tax assessment, to relieve the tax burden on the middle class.

Between the elders and the young

Surrogate for youth policy outcome

An often cited reason for wide support among the younger generation of the street-blocking and social unrest is their propensity to seek outlets to vent their frustrations. The way Hong Kong is at the moment, the young generation easily find themselves being squeezed in the middle of many livelihood issues facing Hong Kong. The Government will be swayed into coming up with some kind of youth policy. The younger generation deserves help where due, but in our mind, the bulk of thoughts and energy should be put to effectuate structural growth and development that will arrest the loss and further loss of Hong Kong's ability to perform and compete in the long run. The best surrogate to arrive at any good youth policy outcome is an effective economic development strategy. A more diversified economy will create more opportunities for them to construct their future.

Got enough to retire?

The growing contingent of our elder population will deserve an elder policy no less than the younger generation for a youth policy.

We are for the principle of aging at home. If we were to effectuate the avowed policy of aging at home, we need far more resources allocated and much more resolute support to service providers to cut the waiting time for home care services. We are aware of the Government's inclination to rely on shared responsibility among individuals, families and the community to provide the elderly with more options. We are aware of funds already being earmarked for a home care voucher scheme, and we expect the Financial Secretary to improve on the community care voucher pilot scheme.

We are aware of a sum of \$50 billion being earmarked for the protection of needy elderly citizens. The nature of a formal retirement protection scheme, however, must be considered in light of fiscal realities, given that the projected demographic changes alone can well result in structural deficits in the Government budget. We are aware that the Government will only begin formal consultation in the latter half of this year, but the wait is for the consultation to proceed on the basis of more up to date demographic and labour data to be released mid-year.

We do not doubt the Administration's commitment to push forward the matter to arrive at a community consensus. Whether the final option to be adopted would be a "demo grant" or need-based payments, we believe we must all work together to find the money by putting ourselves back on course for real growth, development and prosperity.

Better quality directors for better corporate governance

Company directors are ultimately responsible for corporate governance. Better quality company directors should mean better corporate governance.

Following a consultation exercise conducted by the Stock Exchange, listed company directors will have heightened responsibilities in risk management and internal control. Heightened demand and expectation on board risk oversight will inevitably mean greater demand in time and effort from listed company directors, especially the NEDs and INEDs. It is essential that we find individuals who have the skills, knowledge and qualities to meet corporate governance demands of today to fill NED and INED positions, not just to make up the numbers. Prospective directors should have conscientiously equipped themselves to become

NEDs/INEDs, but they must also be adequately remunerated for their skills and their time and effort.

Corporate governance is not just for big corporations. The passage and implementation of the New Companies Ordinance will require all company directors to be aware of the rising expectation on how they perform their duties. Owners of SMEs and those who are thinking about starting a business should also pay attention. There have been plenty of cases where SMEs still find it difficult to take full advantage of loan schemes of one kind or another. One common impediment is that many SMEs could not demonstrate proper internal control and are ill-prepared to submit sound loan proposals. A better corporate governance scorecard will make it more likely for a business to obtain credit and financing.

Similarly, directors/governors of social enterprises, charitable organisations and statutory bodies should also be ready and prepared to discharge their duties when they start out and to keep up-to-date with best governance practices over time.

We pray for the Government to draw up measures to help directors of business companies or governors of organisations of various kinds, whether those who now are and those who aspire to be, to obtain quality training so as to raise the level of their corporate governance practices.

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About The Hong Kong Institute of Directors

The Hong Kong Institute of Directors is Hong Kong's premier body representing directors to foster the long-term success of companies through advocacy and standards-setting in corporate governance and professional development for directors. A non-profit-distributing organisation with membership consisting of directors from listed and non-listed companies, HKIoD is committed to providing directors with educational programmes and information service and establishing an influential voice in representing directors. With international perspectives and a multi-cultural environment, HKIoD conducts business in biliteracy and trilingualism.

To view other statements by HKIoD on Policy Address and on Government Budget, please follow this link: <http://www.hkiod.com/position.html>.