



HKIoD's Response to the 2018-19 Government Budget

Note: The response first appeared in Chinese on 28 February 2018.

Devoting resources, Meeting expectations

The Hong Kong Institute of Directors made the following statement in response to the 2018-19 Government Budget.

* * *

(28 February 2018, Hong Kong) – In the view of HKIoD, the Budget delivered today devotes resources and invests for the future, seeking to raise Hong Kong's capacity to compete and to address livelihood issues. There may not be too many new tricks or bright spots, but on the whole meets expectations.

Public Finance: Objectives and Approach

In his Budget Speech the Financial Secretary set forth three main objectives: to foster a diversified economy; to invest for the future; and to build a caring society by sharing the fruits of success. The Budget will not go down the path of simply handing money out to everyone. We concur, but how best to hand back the wealth to the people in the face of massive fiscal surpluses and how best to create and afford resources to meet spending demands over time will remain key.

The Institute believes economic growth remains our best friend when it comes to finding new monies to tackle livelihood issues. With sustained economic growth, all walks of life are that much more able to share in the prosperity.

To foster a diversified economy

The Budget announced today includes extensive measures to support traditional industries. Among those are measures intending for a better bond market, which could amount to a breakthrough. The Budget presented today also sends reinforcements to resources already allocated in past budgets for innovation and technology development. We support the move.

As for measures to support SMEs, the Institute is pleased to see another year of profits tax reduction (75% limit raised to \$30,000). There are proposals to inject funds to the Dedicated Fund on Branding, Upgrading and Domestic Sales and to the SME Export Marketing and Development Funds, with further proposals to extend the geographical scope of the former to include ASEAN countries and to relax the funding ceiling and conditions of the latter. There are also proposals to extend the application period for the "special concessionary measures" under the SME Financing Guarantee Scheme to 28 February 2019 and to provide additional funding to the HKTDC. Such measures should go some distance to help SMEs cope with cash flow and the cost of doing business, and to make them better able to grasp opportunities in ASEAN countries or those arising from the Belt & Road and the Greater Bay Area initiatives.

The Financial Secretary made a proposal to set up a \$1 billion Construction Innovation and Technology Fund to foster the development and application of new technology in the construction industry and to enable students and practitioners of related fields to acquire training. We believe this measure can result in an organic linkup between innovations and a traditional industry, putting new technology into effective play in livelihood matters. At the same time, the wider deployment of new technology may have the effect in making the construction industry more attractive to young entrants, relieving the pressure to bring in workers in large numbers.

Housing and land supply

The Financial Secretary admitted that the lack of land brings adverse effects on people's livelihood and developmental progress.

The Institute believes 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. All the while, the need for land resources for industrial and commercial development cannot be ignored. There has been some progress in finding sites, but the results are hardly exemplary. The promise of a 3-year waiting time for those seriously in need for public rental housing to satisfy basic housing needs have become more remote. The public will surely keep an eye on whether there will indeed come better progress in land supply.

To meet healthcare needs

The Budget announced today made a commitment to increase the recurring provision for the Hospital Authority on three-year cycles with reference to population growth and demographic changes. The purpose is to enable the HA to achieve better resource planning. In addition, the Financial Secretary has invited the HA to have an early start of the second 10-year hospital development plan. The second 10-year plan will cover the redevelopment of Princess Margaret Hospital and Tuen Mun Hospital on the same sites, the construction of a new hospital at King's Park (the existing Queen Elizabeth Hospital site) and the expansion of North Lantau Hospital. Such is expected to provide an additional 3000 to 4000 hospital beds and to add facilities and capacity for consultation appointments.

We share the view that the Government should need to accelerate resource allocation to meet the rising healthcare needs stemming from various causes, not least the ageing population. But the public will have keen interest in knowing that the new money is put to enhance capacity and service quality and not gobbled up in one or another administrative segment.

The Financial Secretary made a proposal to set up a \$500 million fund to promote the development of Chinese medicine. We commend the initiative.

Relief Measures

This Budget carries improved relief measures, e.g., salaries tax reduction (75%; ceiling raised to \$30,000 ceiling), waiving rates (4 quarters; ceiling raised to \$2,500 per quarter). Adjustments to the marginal bands for salaries tax, raising the child allowances, raising the dependent parent/grandparent allowance, etc. should also give more help to a good number of families.

There will be an extra allowance to social security recipients, equal to two months of the standard rate Comprehensive Social Security Assistance (CSSA) payments, Old Age Allowance, OALA or Disability Allowance. Similar arrangements will apply to the Low-income Working Family Allowance and Work Incentive Transport Subsidy. As with sweeteners in the past, relief measures in this Budget may not have offered much to those in the lower echelon of society, particularly those with "no-nothings" (aka the N-have nots). The Financial Secretary has made an open invitation to the CCF to consider providing short-term relief for these households. Our hope is for the relevant departments to fashion on their own or through social services groups suitable relief measures for the needy.

Long-term development driven by manpower

Hong Kong's long-term development is to be driven by talents.

The Budget makes further allocations to the education sector. To provide a one-off grant of \$2000 to each student in need to support learning should be of some help to students from lower income families. To allocate an additional \$200 million in the hope of cultivating a reading habit may not be an eye-catching initiative, but such would still count as a good measure if it can indeed rid Hong Kong's bad reputation as

a “cultural desert”.

The Budget has some measures to push further the incentives to seek continuing education. For instance, the Continuing Education Fund will have its subsidy ceiling raised from \$10000 to \$20000 per applicant, the age limit raised to 70, the restrictions on validity period and number of claims relaxed, and the coverage expanded to include all courses in the Qualifications Register. We are in support of these measures.

HKIoD believes lifelong training for directors in corporate governance knowledge and skills is an important yet often neglected segment when it comes to nurturing talents for the economic development of Hong Kong.

The Financial Secretary has asked the Hong Kong Monetary Authority to make plans to set up an academy of finance in collaboration with the Financial Services Development Council, the financial sector, tertiary institutions, professional training bodies and regulators for promoting cross-sector expertise sharing and collaboration in applied research. The purpose is to upgrade and enrich our pool of financial talent. We agree with the approach. Hong Kong financial talent must necessarily include the capability in corporate governance. Financial institutions providing financing as well as business enterprises wanting credit will all prosper from good corporate governance.

But corporate governance is not just for big banks and big corporates. 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.

Company directors are ultimately responsible for corporate governance. Better quality company directors should mean better corporate governance. HKIoD believes that company directors should have a firm measure of competence to perform when they first assume their posts. Over time, they should strive to remain up-to-date with best corporate governance practices. 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.

The Institute prays 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.

- END -

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. Website: <http://www.hkiod.com>.

Media Enquiries:

Ms Odessa So

(Tel: 2889 4988; Email: odessa.so@hkiod.com; Fax: 2889 9982)