香港董事學會
The Hong Kong Institute of Directors
FOUNDED 1997

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HKIoD's Statement
ahead of
the Financial Secretary's Budget Speech
scheduled to be delivered on 26 February 2025

The state of the economy is not strong. Budget deficits will linger on. Public discourse in recent months has been about controlling public expenditure and seeking new sources of revenue. The Financial Secretary will not be short of recommendations and suggestions as he put together the next Budget. In this statement ahead of the Budget Speech, we share our thoughts on a few broad themes.

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Control spending

Government efficiency

The Financial Secretary has sought to reduce recurrent expenditure by 1% in recent budget years. We see further room for this effort to achieve more savings, through a more aggressive reduction target of 3%, even up to 5%. A hiring freeze for civil service ranks should be implemented. Holding off any salary hikes should be right at this juncture. Consolidation and re-organisation can help achieve savings. Salary cuts for the civil service as well as for public officials will draw a debate, but it can go some further distance to show the will of the Government and its leadership to live through the hard times with the people.

Prioritise public works

Hong Kong needs to strategically invest in infrastructure for a better ability to generate economic growth. Fiscal constraints may not allow us to take on multiple fronts at the same time. Some projects should take priority over others. Better cost control will be needed, given the instances of spectacular cost over-runs.

Judicious debt financing

We support judicious bond issuance to fund projects that are key to foster economic growth. The Northern Metropolis development is of a higher priority now, and it warrants judicious debt financing to keep pace. We continue to believe our debt ratio is at a level we can still afford, and we believe there will be prudence and discipline to not borrow for recurrent expenditures. A recent round of retail infrastructure bond issuance did not hit the target offering size. The reasons behind such occurrence will need to be addressed and overcome.

Money spent where?

The handling of non-refoulement claims and the humanitarian assistance given to claimants has over the years cost us significant sums of public money. If it has not yet, it can evolve into a fiscal sinkhole draining precious resources.

Livelihood matters

Help people make ends meet

Despite the fiscal restraint, the next Budget should spend to help people make ends meet. The middle class can be helped with tax reduction and upward adjustments to personal tax allowances. To alleviate the rising cost of living, tax allowance for mortgage interests and rent payments can improve. To further promote childbearing, additional, progressive child allowance can be introduced.

To help control public healthcare expenditure, incentives to encourage people to opt for private healthcare services can be had, through tax deduction for private hospital charges and a wider range of health insurance schemes beyond VHIS.

The elderly settling across the border for retirement is often a cheaper option, but they need access to healthcare. Extend the application of healthcare vouchers to more localities across the border. Improve access to ambulance service in case there is the need to return to Hong Kong hospitals for care.

Those with No-nothings (N 無人士) do not tend to benefit from the relief measures around tax reductions and deductions, but they often need the most help.

Fare concession for senior citizens

It should be right for Hong Kong to keep a generous fare concession for senior citizens. Because of the ageing population and the amount of money it will cost going forward, we should need to make some adjustments. If a cap on trips is to be imposed such should not be too strict or too limiting. Elder persons do not always just make one round trip a day, and the travel pattern can vary from day to day, week to week. Capping it on a monthly basis (240 times a month, we heard) would seem reasonable. Turning the $2 token fare into a substantial discount (up to 80% off for fares above $10, we heard) would also seem reasonable. There could still be other ways to cut down the government payout yet keep a $2 token fare. We can consider a sliding scale, based on age from 60 years on, from just below half fare (which most transport operators already offer) towards the eventual $2 token fare. That token $2 fare could be reserved for the very senior citizens. As people now tend to live longer and many may retire later in life, consider upping the threshold for the lowest token fare above the current 65. Under the sliding scale, those 65 or above will still enjoy a substantial discount off full fares of the day.

Implement sectional fares more generally

Another concern for the fare concession scheme is for some elder passengers will get on a bus on a long route with higher fare, but get off very soon, so to incur larger subsidy amounts the Government has to pay out. It should be reasonable to charge more for a longer ride, even on concession fare schemes. Yet, to enable an elder person, or for that matter any passenger, to get from point A to point B faster and with alternatives is good utility for public transportation. A solution is to have riders tap on and tap off to implement sectional fares more generally. It could even help bus operators better rationalise their routes, to have fewer buses on busy roads without hurting service levels too much. All passengers can benefit.

Raise revenue

There are calls to raise user fees for government services along the affordable users pay principle. We can see room for upward adjustments, but to raise user fees for government services now can add to the burden of citizens and businesses at a difficult time. Prices are already on the rise for many goods and services, including public transport and utilities.

We are aware of calls to turn trunk routes and tunnels into toll roads. In this vein, the Government may also want to reopen the topic of road pricing for congested zones.

We also see room for higher fines and penalties that are to right behaviours. From traffic violations to irregular building works, people can avoid those fines and penalties if they conform. Unauthorised building works have been a long-standing problem. A heightened scale of fines and penalties does go along with stronger enforcement efforts. Lenient concessions could still be offered if the offenders can show timely real progress in redressing the situation.

Narrow tax base, face the issue head on
Though this may not be the right time to introduce new forms of taxes, it is high time we face the issue of our narrow tax base and look into options.

Rationalise existing resources, streamline existing processes
Legislators have asked the Government to review the many funds that have been set up and earmarked for one policy purpose or another over the years. We tend to agree that, if those funds have served their policy purposes, or if the perceived needs have subsided or can be addressed with other policy measures, the earmarked funds can be reallocated for more general budget purposes. The effect can be as good as having new revenue.

Economic development, sharpen the competitive edge
As we commented before the Policy Address in October 2024, the economy needs a quick fix to steady the ship, yet it needs more so a deeper transformation for long-term competitiveness. The dichotomy should require the right combination of tax and non-tax measures to foster the development of economic sectors that will make us competitive. With the implementation of GloBE rules, a simple and "low" tax regime is no longer sufficient.

Removing regulatory red tape can also help people start a new business or expand existing ones.

For the digital economy and e-commerce, we now have an innate inequality in that non-residential digital service providers performing services in Hong Kong can gain revenue but are not subject to tax here. Local resident providers are disadvantaged at least to that extent. To impose some tax on non-resident digital service providers would seem right. To entice them to set up shop in Hong Kong through a concessionary tax regime could also be offered.

Mega events, not meagre events
We should sustain efforts at bringing in visitors. We want mega events, not meagre events, and we should have some metrics or indicators to rate and measure the success of those events.

The right mega events can serve another useful purpose, that of showcasing Hong Kong as part of China but different from China. Twenty years ago Hong Kong was the host of the WTO Ministerial Conference MC6. Another event of that stature can reaffirm Hong Kong's ability to participate in the affairs of international organisations on its own, showcasing the Two Systems aspects of Hong Kong's special status.

Language proficiency is an important part for the super-connector role
Observers have noted a significant decline in English proficiency. Hong Kong ranks below Asian countries like Singapore and Malaysia. Hong Kongers are by and large native Chinese, yet we could just be too complacent with our Chinese language abilities. We believe the super-connector function cannot be served well without language proficiency. English and Chinese, certainly. If we are to increase business and trade with other countries and regions, proficiency

in other languages will also come into need. Language education starts in the school system for the young age, so resources should be directed there. Working adults will find reasons or need to learn a new language or to hone better skills. Further learning should be incentivised.

Corporate governance

Board Readiness Training for First-time Directors Before Appointment and Continuing Training to Keep Up

HKIoD welcomes the Exchange's latest change to mandate training for first-time listed company directors and to require all directors to have continuing training. The Institute is now offering Diploma level credential to help First-time Directors meet the Exchange requirements. The Institute has also been offering training programmes for sitting directors to up their game, and for aspiring directors to learn about governance.

For those who do not have directorship training nor experience whatsoever, undergoing training on effective directorship and corporate governance is prudent. First-time directorship training should be a prerequisite prior to the director coming on board, however. The Exchange should go further. The Exchange should strive to encourage individuals to have become ready for a board seat prior to appointment, rather than to start acquainting themselves with the demands of directorship post-appointment. We believe all company directors, when they first assume their posts, should have a firm grounding of the skills, knowledge and qualities required to meet the corporate governance demands of today.

Majority INED for listed companies?

We are glad that the notion of having majority independent non-executive directors (INEDs) on listed company boards is now getting more traction. We have said it before, as early as 2011, that to have majority INED will better enable independent directors to collectively play their roles. With INEDs comprising the majority, their active involvement in board matters becomes more necessary and their time commitment to do so better valued.

With potentially more INED seats to be filled, there is more the reason to have more people become board ready. To promote better board practices and corporate governance is one good economic policy. To encourage and enable more people to be better at company directorship is one good talent policy.

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