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HKIoD's recommendations for Government Budget 2017-18

The Hong Kong Institute of Directors issued the following statement ahead of the Budget Speech scheduled to be delivered on 22 February 2017.

Much of the content of what we have recommended in recent years remains timely and appropriate. In this communication, we seek to highlight what we see as over-riding issues that deserve particular mention in the upcoming Budget Speech.

Rise to Challenges Still

The Policy Address delivered in January is indication of the Chief Executive's effort and determination to tackle the many difficult, long-standing problems facing Hong Kong. Challenges remain, nonetheless. Progress may have been made in many policy areas, but the results are not exemplary. As always, a government budget is not a bean-counting exercise; it is about allocating resources to suit policy lines. This Budget must necessarily rise to the challenges still.

"Where is the money?"

The Institute is with the Chief Executive, that economic strength will remain our best friend for new monies to tackle the many deep-seated livelihood issues. 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.

Spicing up the economy

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. Our neighbouring jurisdictions are all competing with Hong Kong for investments, and they offer tax incentives and concessions in many forms and shapes to do so. This has dulled so much the Hong Kong tax system's competitive edge. We should end the wait for a comprehensive review of tax regime, to make it more competitive, to reinstitute the notion of fairness, to better match business reality, to spur development, all to spice up the economy. There is a strong argument for and a practical need to have a high-level tax policy unit outside of the Inland Revenue Department to formulate tax policy that makes us better able to compete.

We appreciate that the Administration has introduced legislation to make it more attractive to corporations to pick Hong Kong as the location to operate their corporate treasury centres, or CTCs, to handle intra company group financing activities. To reinforce Hong Kong as the choice location of CTCs will translate into many benefits for the economy. It will attract experienced personnel from various professional services to Hong Kong. And since the setting up of CTCs in a particular place would often be accompanied by the setting up of regional (even global) headquarters in the same place, it could also draw and retain a strong pool of talents with responsibility to manage and direct company affairs. We again ask the Government to introduce "group loss relief" and other tax incentives and exemptions to support this development.

To make incentives and concessions most able to achieve their purpose, however, we would not want them to be so diluted and vitiated with unnecessary restrictions.

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, and a longer time window for them to pay taxes. A more streamlined tax administration (wider use of e-filing and online processes, for instance) could also result in faster processing and earlier certainty for taxpayers. The ability to carry losses back to more profitable years could also help more SMEs weather economic storms.

We ought to consider the case for a two-tier profits tax regime. That will benefit SMEs, some of them the would-be startups pursuing growth through innovation.

Loan guarantee schemes have been put in place. Some would-be participants lament that they don’t help (e.g., requirements too rigid) and may in fact be not affordable (e.g., interest rates too high). The Government may be offering SMEs better help by re-tuning those schemes or to offer alternatives.

If food trucks, why not food hawkers and Dai Pai Dong?
Some pilot food trucks have begun operation. The Institute is confident that those who have lived away from Hong Kong will not be unfamiliar with food trucks. But if we are to import from abroad, we can probably just give those food hawkers and Dai Pai Dong we long have some better opportunities to reinvent themselves and thrive. We believe locals and tourists alike would love to have more spice to add to their mundane shopping and culinary experiences at look-alike malls.

Let locals and tourists alike walk the walk
If the Policy Address has made walkability a priority, we don’t seem to have the pedestrian environment that will truly let people walk the walk. Some years back, a handsome HK$1.8 billion have been allocated to District Councils, HK$100 million each. If money of that quantum could be spent on contrived district landmarks, we could probably spend commensurate sums to do a few simpler things to improve walkability. Nicer more level pavements everywhere will surely do. Stylish street lights and fences that give the whole of Hong Kong some uniform distinct character should not hurt. And do keep the streets and back alleys clean and tidy.

A more rounded financial centre
The One Belt One Road Initiative places Hong Kong in prime spot to be the Super-connector. In this connection, the Institute wishes for better role and opportunities for the financial services sector. The Chief Executive has decided to ask the Trade Development Council to collaborate with the Financial Services Development Council and the industry to promote the Hong Kong financial services sector capabilities overseas. And within this year, Hong Kong is likely to complete all the necessary procedures to officially join the Asian Infrastructure Investment Bank. We wish for more overseas businesses and projects to tap the Hong Kong capital market.

Corporate governance can mean a difference to the cost of raising capital. When promoting the capabilities of the Hong Kong financial services sector, the requirements and expectations on the capital seeker’s corporate governance practices can well be a matter for discussion. The Chief Executive mentioned that, in support of the One Belt One Road Initiative, Hong Kong can provide training programmes, in rail operation and in aviation for instance, to countries along the Belt and Road. The Institutes thinks financial regulations and corporate governance can be made among the subject matter for training.

Let market forces thrive
To maintain Hong Kong's role as a major international financial centre, Hong Kong must keep up with other major financial markets at efforts to improve banking and financial regulations. The mode and extent of regulation, however, should showcase the characteristics and function of the market. Instead of focusing energy and thought to tinker with regulatory structure, more could possibly be gained if the regulatory regime is such that market participants, including the retail investors, can have better ability and means to fend for themselves in the process of making investment decisions among diverse offerings.

The Government can do well to help the investor population better understand what are, and what could be on offer. 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, could be made to our disclosure regime to help investors (particularly retail investors) understand the investment decisions that they are making, so that the can make the right choices according to their appetite from among more offerings that could become available.

Growth through innovation
Must invest in R&D
R&D spending as part of GDP remains low, and there is room – and need – for further incentives to encourage R&D. We should also want to see further measures to encourage local universities to not just stop with achievements upstream, but to redouble the efforts downstream to turn more research into products that have larger societal impact.

Must invest in corporate governance
In sports, a young talent can become a rising star with systemic training and development. Even an already good player can become legendary with the right coaching. Likewise, an already daring entrepreneur can become a well-seasoned business master with the right help. The Government can perhaps direct resources and funding to entrepreneurship coaching. Grants could be given to Universities and/or business associations to develop training materials. Business match-making can help entrepreneurs find business partners with complementary strengths in marketing, design, production, distribution and sales. Success stories can be advertised in sharing sessions and workshops, to breed more success. The entrepreneurial, running-a-business aspect of corporate governance training is just as if not more important than the compliance aspect.

Innovation through cross-fertilisation
By connecting things or concepts that are seemingly unrelated, creative design could emerge. By bouncing and rearranging ideas old and new, or from one culture to another, innovative products could result. We ask the Government to explore and experiment further opportunities for industry segments to spark innovation through cross-fertilisation.

As our neighbouring economies are undergoing design-led transformations, we in Hong Kong must be more able to have a mindset for strategic use of design, to exploit technological advances, to be innovative. Businesses can of course leverage design and innovation to a competitive edge, but the innovation imperative extends beyond the commercial realm.

Still not quite a Smart City
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, whether in banking or in healthcare. The Financial Secretary can make that happen by extending the concept of Social Innovation and Entrepreneurship Development Fund to have a scope beyond fighting poverty.

Of legal tender and cashless society
For any merchant to decline large notes and small coins as payment, they should be made willing to accept, without restrictions or surcharge on the customer, at least one non-cash payment option. This could help Hong Kong catch up in the race to become a cashless society and FinTech hub.

Large notes may be denied because merchants (and quite probably their front-line employees) are otherwise stuck with the loss if they are counterfeits. Hong Kong money is known to have different notes for even the same denomination; and for one denomination there may be different series from the same issuing bank floating in the market. This may be a collector's dream and a Hong Kong feature to keep, but one can also ask whether that adds confusion. At the least, new notes to be issued may have to be smarter still to beat the fakes.

Small coins are not good money for merchants when they have to first sweat the labour and then possibly pay a cost to have them put into their bank accounts. The HKMA now runs a Coin Cart, but that does not seem to change too many merchants' heart into accepting coins. Non-cash payment options may be a way out, but for merchants to go down that path there will still be some costs to pay. This may be an area where assistance and incentives, even one-off, are worth their while.

Housing and land supply
The Institute has no doubt in this Administration's determination to work at increasing the supply of housing units. The Institute believes that, 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. But we reiterate our 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. At the least, we need smarter floor plans with better actual usable space so smaller units can still make for a good habitat.

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. There has been some progress in landing more housing 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 Chief Executive thinks we should incorporate more land areas with high ecological value into country parks, and at the same time consider carving out land area on the periphery of country parks with relatively low ecological and public enjoyment value for purposes "other than real estate development", such as public housing and non-profit elderly homes. The idea deserves a good debate. Public housing and elderly homes are each in demand. But we think that, even for sites at the fringe of country parks, the public will not want to see unsightly highrises or bland concrete blocks that "kill the scenery". This may well be overcome by genuinely beautiful and creative architecture. As for elderly homes, even though the objective is not for accretive value, there could still be hagglings over who should get the right to operate the facilities at good sites and who cannot. The Policy Address may have taken the view that land use for public housing and not-for-profit elderly homes is not "real estate development", but it is a use of land resources for man-made development nonetheless. The Financial Secretary may have some further explanations to do.

Making ends meet

Fight poverty

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 high living costs amidst an uncertain macro economy. 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 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

The Government has been pushed and 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.

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

Got enough to retire?

The pay as you go, universal pension approach has run into difficulties in plenty countries that have tried it, and we doubt the wisdom to dive into the pond now. On the other hand, we can see the rationale for paying a nominal amount universally to all elderly across the board, somewhat similar to the current Old Age Allowance, as a show of respect. However, retirement protection meant for supporting a living should probably only go to those with real need but not the means.

The Chief Executive rejects a one-size fits all approach to retirement protection and should rather reinforce the current multi-pillar retirement protection system. We concur. When assessing options for retirement protection, we need to consider schemes that enable workers of today to have less need to rely on the safety net when they age. This should require an overall assessment of the purpose and effectiveness of the Mandatory Provident Fund and the social security schemes now in operation.

Long-term development driven by manpower
Better means to construct their future
Hong Kong's long-term development is to be driven by talents. Our schools should be churning out graduates who can make up the workforce for current needs as well as future development. Access to formal education or vocational training, and wider more generous support for continuing education, will only help workers of all ages acquire better knowledge and skills to fill the jobs in demand now and develop careers with rewards and respect over time.

Better quality directors for better corporate governance
HKIoD believes life-long 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 for Hong Kong.

Company directors are ultimately responsible for corporate governance. Better quality company directors should mean better corporate governance. As part of the HKSAR 20th anniversary celebration, there will be held in March a Corporate Governance Roundtable. HKIoD is a proud supporting organization for the event. Through the event, the Government wants to promote and enhance good governance. The Financial Secretary can further that purpose by highlighting the importance of initial and continuing training of corporate directors to better help them fulfill their duties.

HKIoD recently announced the results of the 2016 Corporate Governance Score-card, the fifth survey of its kind commissioned by the Institute. While the sample companies have improved considerably on longer standing areas of assessment, they may have not made much headway when it comes to newer assessment criteria stemming from the heightened expectations and requirements of the more recent 2015 OECD Principles of Corporate Governance. (For more information, follow this link: http://www.hkiod.com/scorecard.html)

Indeed, striving for good corporate governance is not a static endeavor but a constantly evolving dynamic process. It is that much more important for company directors to pay attention to and equip themselves to master new developments in board and corporate governance practices.

Corporate governance is not just for profit-seeking companies. Social enterprises, charitable organisations and statutory bodies should also find it to be good investment to help their directors/governors get ready and be prepared to discharge their duties with good training.

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.