

## **MOF COMMITTEE OF SUPPLY DEBATE 2008**

### **COS Speech by Mrs Lim Hwee Hua, Minister of State for Finance and Transport**

#### **INTRODUCTION**

1. Mdm. Chairman, let me first thank Hon members for their comments and suggestions. The issues they have raised fall under five broad categories –

- Public sector performance and accountability
- GIC & Temasek;
- Statutory boards;
- Taxation; and
- Budgeting for national resilience.

#### **PUBLIC SECTOR PERFORMANCE AND ACCOUNTABILITY**

2. Madam, our public sector continues to be rated highly for efficiency and trust. We were recently ranked 2nd in the world for government effectiveness by World Bank (after Denmark) and our public sector expertise is highly sought-after by other countries. We have managed this while keeping our public sector small compared to other developed countries through various measures.

#### **Manpower Management Framework and Outsourcing**

3. Mr Inderjit Singh and Mdm Ho Geok Choo have asked whether one of our measures - the Manpower Management Framework or MMF - is cost-effective and whether the manpower

cuts are merely passed on to the statutory boards or to the private sector through outsourcing.

4. The MMF is imposed on a Ministry Group basis, i.e. Ministry-HQ, Departments and Statutory Boards. There is no headcount reduction at the public sector level if the staff were merely moved from the Ministry-HQ to its Statutory Board.

5. The public sector achieved a reduction of almost 4,000 officers or 5%, between the years FY2004 to FY2006. This excluded manpower cuts due to corporatisation. The reduction was achieved through firstly outsourcing of non-core functions only when market-testing indicated better value for money, and secondly from internal restructuring through job redesign and process streamlining. Outsourcing accounts for about a third of the 4,000 odd headcount reduction. There was also natural attrition from resignations and retirement.

6. Tenders and quotations are called for outsourcing projects. It is done in the usual open and transparent manner, with no advantage given at all to any company, and regardless of whether government is a shareholder. Mr Singh has asked if Government has tended to choose the cheapest tenderer in its outsourcing. Let me assure Mr Singh that the Government is mindful not to turn Best Sourcing into cheap sourcing. In fact, for the record, about a third of all government tenders last year were **not** awarded to the lowest bidders.

7. Since FY 2004, 70% of the non-core functions that were considered for Best-Sourcing have been outsourced, resulting in total contracts worth \$2.1 billion. The remaining 30% continued to be done in-house after market testing. The profile of officers affected by outsourcing varied. For example, in the outsourcing of car-park enforcement by URA, mostly junior level positions were affected. For the outsourcing of government chalet operations, those affected included Division 1 positions.

8. Madam, I would like to assure Mr Singh that productivity gains were achieved through outsourcing of non-strategic functions. For instance the outsourcing of carpark enforcement by URA and HDB has resulted in annual savings of about \$3.8 million, while ensuring the performance of the service provider remains satisfactory and desired outcomes are achieved.

9. Internal restructuring has also led to productivity gains. One such example is the setting up of Vital.org to provide shared services for 38 public sector agencies. This has resulted in manpower savings of 33 headcount or annual cost savings of \$1 million since FY2006.

10. The somewhat small reduction number belies the actual achievement. It does not take into account the increased workload and new functions that our agencies have been undertaking. For example, MFA has established new missions in regions such as the Middle East, while CAAS has added the Budget Terminal and T3 to their operations at Changi Airport.

11. But there is a limit to how much more we can pare down manpower in the Public Service. In view of the growing needs of the economy and the population as well as increasingly complex issues that the Service has to deal with, MOF has reviewed the MMF framework. Ministries and Statutory Boards will now be allowed to grow their manpower, but in line with the overall growth rate of the resident labour force.

### **Cost Increases for Elections Department, MEWR, and MOH**

12. The specific cost increases that Mr Singh has cited are due to the following reasons and should he require more details, he can file the necessary PQs :

13. As a matter of course, the Elections Department annually sets aside sufficient funds to hold a General Election as it is the Prime Minister's prerogative to call for one at any time. At the revised estimates stage last year, the Elections Department may have assessed that the likelihood of an election being called was low, and reduced its revised estimates accordingly.

14. The main increase in MEWR's projected cost was due to the ongoing demolition of 33 pumping stations and reinstatement of land occupied by these stations.

15. The increase in the Ministry of Health's bill for supplies and services is largely due to new initiatives to enhance healthcare manpower capabilities, hardware and software to improve clinical

outcomes, which are consistent with the objectives that the Minister of Health has just elaborated on earlier.

16. Efficiency and productivity alone is not enough. The public sector has to innovate and find creative and better ways to deliver quality service to its customers.

### **Innovation in the Public Sector**

17. Mr Singh has commented on the importance of R&D and innovation. Indeed, the Public Sector will be more active both in adopting innovation in providing better public service and helping to catalyse private sector innovation.

18. As mentioned in the Budget, a new Public Service Innovation Framework enhances previous efforts to bring about breakthrough public services. The emphasis would be on experimentation and innovation, with the recognition that many creative ideas can come from small and nimble companies, besides the large firms.

### **Role of Chief Innovation Officer**

19. Mr Singh has also commented on the ideal Chief Innovation Officer. The post of Chief Innovation Officer is currently being filled by senior officials within ministries who have ample policy experience, and who have a broad view of Government operations that transcend ministry or agency lines. Many are Deputy Secretaries. I believe they are well qualified and well placed to facilitate the development of more innovative public services.

Within the Public Service Innovation Framework, other stakeholders such as the industry development agencies, the Research Institutes and of course the private sector companies themselves will provide valuable perspectives on market trends and technology directions.

### **E-Services**

20. Next, Madam, on e-services. Putting public services online can provide greater convenience to our customers. Customers can transact with the Government 24/7 and on the go, without having to visit government counters in person.

21. According to the e-Government Customer Perception Survey, which was conducted last year, 9 out of 10 customers had transacted with the public sector electronically at least once. Of these, 93% were pleased enough with their experience to recommend others to transact with the public sector via electronic means.

22. As Mr Baey has pointed out, such e-services have recently gained the approval of the business community as well, with Singapore being regarded as the most business-friendly economy by the World Bank. Accenture has also rated Singapore very favourably in its 2007 e-Government ranking which focused on leadership in customer service.

23. Mr Baey Yam Keng has asked, however, if many elderly, disabled, poor and lowly educated Singaporeans would face

difficulty gaining access through traditional “off-line” channels. Let me assure Mr Baey that we are mindful that a small segment of the society may be less IT-savvy or not have Internet access, and we have therefore implemented several initiatives.

24. Firstly, 28 CitizenConnect Centres have been set up, conveniently located across the island, at community centres or clubs and government agencies such as CPF and IRAS. Trained officers are around to help. In 2007, more than 100,000 individuals have used such Centres. 80% of them have expressed confidence that they will use the Internet to transact with the public sector in the future.

25. Secondly, beginning November 2007, IDA will be investing some \$43 million in programmes to help the elderly, disabled, poor and less educated acquire IT literacy. Apart from basic computer and internet skills, they are also taught digital lifestyle skills, such as how to make video-calls over the Internet and how to access Wireless@SG. Needy families with school-going children are given help to acquire personal computers and broadband access for their children.

### **GIC & TEMASEK**

26. Madam, I will now move on to issues related to the financial stewardship of Government’s assets.

27. Mr Inderjit Singh and Ms Sylvia Lim have touched on whether the Government has sufficient oversight of GIC and

Temasek. Mr Singh has also asked whether the Government should set some broad guidelines which GIC and Temasek should abide by.

28. Madam, let me explain how the Government relates to GIC and Temasek. GIC and Temasek operate independently of each other and of the Government. Their mandates are to maximise the overall returns of their investments within their respective risk tolerance limits.

29. GIC's and Temasek's performance are assessed and monitored on the basis of the overall returns of their respective portfolios. Up to now, they have done creditably, with GIC averaging an annual return of 9.5% in US dollar terms over a period of 25 years to March 2006, and Temasek's Total Shareholder Return (by market cap) since 1974 has averaged over 18% annually in Singapore dollar terms. Both have achieved these good returns because they have professional management teams, drawn from all over the world, and without interference from the Government. They do their jobs with the single objective of maximising the long term returns on their portfolios, without any political agenda whatsoever.

30. That said, it does not mean that the Government has no responsibility to ensure that these institutions continue to be managed well. The Government ensures that both GIC and Temasek have competent Boards who oversee their performance and risk management frameworks. The Government regularly reviews reports from GIC and Temasek on their overall investment

performance, portfolio risk profile and risk management. This is the right balance when exercising oversight. The danger of any higher level of oversight is that the Government could end up micromanaging. It would give others the mistaken notion that the Government influences the individual investment decisions of GIC and Temasek, and will raise even more concerns.

31. I know Mr Singh, like many others, is understandably curious about the recent high profile investments made by the two agencies. He should be assured that these investments were made after thorough assessments of the market developments, risks and potential returns, including factoring in the opportunities and risks that they can afford to take in a down market. GIC and Temasek are long term players, out to seek long term returns.

32. Madam, Mr Singh's advice on diversifying their investments would no doubt resonate with GIC and Temasek. GIC already manages a diversified portfolio, across a wide range of asset classes in markets worldwide, including publicly listed equities, fixed income instruments, commodities, real estate, private equity, and across different industries, different geographies. Temasek, too, has a substantially diversified portfolio. The recent high profile investments by GIC and Temasek do not signal any shift in their investment strategies. As they have stated, they made these investments because the current financial situation in US and Europe offers unique and unprecedented opportunities for long term investors. As long term investors, they are able to take calculated risks in the short to medium term.

33. Mr Singh suggested that the Government have some level of coordination between the investments by GIC and Temasek so as to limit risks for Singapore as a whole. The Government does not coordinate GIC's and Temasek's investments, but does look at the risks in totality to ensure that firstly they are within the Government's overall risk thresholds, and that secondly GIC and Temasek are likely to be able to provide Government with good long term returns on their overall portfolios. Madam, it is absolutely critical that GIC and Temasek remain strictly independent of each other in their strategies and execution, and that Government does not get involved in managing their investments.

34. The role of the Government in the investment process is clear. It is to ensure that the right structures, processes, systems and controls are in place to fulfil our objectives. We set our expectations and constraints for the investment agencies, but these agencies make their own independent commercial and operational decisions. Both GIC and Temasek are well regarded in global markets as savvy and reputable long-term investors; and their track records stand as testimony.

35. Both Mr Singh and Ms Sylvia Lim have suggested that our investment agencies work towards more transparency and accountability. We already have a clear accountability framework in place – and one which has worked well thus far. The Government – as shareholder, in Temasek's case and as fund owner, in GIC's case – holds the respective Boards of Directors accountable for delivering good overall financial returns. In turn, the Boards oversee the respective management teams, which are

responsible for each company's investment and operational decisions.

36. There are also Constitutional safeguards for the protection of reserves, under which GIC and Temasek are additionally accountable to the Elected President. The Elected President serves as a check, independent of the Government. The Elected President is empowered under the Constitution to obtain information to enable him to monitor these reserves, and he must concur with the appointment or reappointment of any person to the Boards of GIC and Temasek.

37. Madam, Mr Singh has asked how we are tackling the Sovereign Wealth Funds (or SWFs) debate, which has gained significance recently. We would like to assure him that we are not passive observers in the debate.

38. GIC's and Temasek's long standing reputation and good track records that I have referred to earlier, have given the markets, as well as recipient countries, assurance of their commercial orientation. However, MOF, as well as the two agencies, are actively engaged in dialogues with the investment-recipient countries, including the US, which is where the SWF debate is most prominent. The major recipient countries have had a high degree of respect for both GIC and Temasek, and an understanding of the commercial orientation. There is also a consensus to date amongst the major countries on the importance of an open investment environment, that does not discriminate against SWFs as compared to the other players.

39. Singapore is also viewed by many as being in a good position to advance the development of voluntary best practices for the SWFs. This would ease international concerns about their operations. We are supportive of the IMF's effort to develop a set of voluntary guidelines, and are open to sharing our views at the appropriate platforms. In fact, last year, we participated in the SWF Outreach Dinner with the G7 Finance Ministers, as well as an IMF Roundtable of Sovereign Asset and Reserve Managers.

40. As regards the Edwin Truman scoreboard that Ms Sylvia Lim referred to, that is actually works in progress and in fact Mr Edwin Truman has been seeking our inputs. it is a useful process. MOF is currently still in touch with the US authorities, as they regard us highly and would want us to be intimately involved in setting the guidelines. We would disclose what is in Singapore's interest and what is necessary to assure the markets.

41. On the specific issue of transparency and public disclosure, I agree with Mr Singh's comments that these must be practical and serve a purpose. In particular, these should be aimed at ensuring that GIC and Temasek continue to be commercially-oriented, be professional investors; and be credibly perceived as such. At the same time, the type of disclosures should not compromise the competitiveness of our investment agencies, relative to other global market players.

42. Temasek has published an annual Temasek Review since 2004, which gives an overview of their investment strategy and

governance framework, along with the Group's activities and performance. Temasek has also obtained Triple-A credit ratings by Standard & Poor's and Moody's, and has issued a global bond. GIC already discloses information on its website relating to its investment process, long-term performance, strategies of the various investment groups and investment highlights. The Ministry of Finance is in discussions with GIC on a public document that would further clarify the processes, governance and purposes for its investments.

### **GLCs and TLCs**

43. Madam, now let me move on to Ms Lee Bee Wah's cut. Ms Lee Bee Wah has asked whether GLCs that provide basic services relating to food, transport, water and power supply should look beyond surplus achievement and shareholders' interest to social obligations.

44. First, let me clarify that Government-linked companies are not in any way "quasi-government". They are totally independent of the Government, which maintains strict arms-length relations with them for sound corporate governance reasons.

45. All companies, regardless of ownership, must operate on an economically viable and sustainable basis. In this regard, companies which have the Government or Temasek as their shareholder have to operate on commercial principles and are no different from private sector companies in terms of focusing on the financial bottom-line. This is critical for their long term survival as

they do not enjoy any advantages from the Government and are subjected to the same regulations and competitive market forces as any other company.

46. Madam, it would be wrong for the Government to impose any social obligations on the management strategy or operations of any company regardless of ownership. It also places unfair obligations on the companies' Boards of Directors, who have the fiduciary duty to act in the companies' interest, and not in the interests of some other groups. It could in addition distort market pricing and affect competition in the marketplace.

47. The way to keep prices of essentials affordable is not for Government to place social obligations on companies, but to promote a competitive market, or where there is market failure, to put in place a transparent regulatory framework. For Singaporeans who need help, the Government will provide targeted assistance so that they can have access to essential goods and services. For example, the Government has given out U-Save rebates instead of requesting Singapore Power to lower its prices.

48. That said, many companies do discharge their social responsibility voluntarily. For example, in 2007, the transport operators contributed public transport vouchers to help the lower-income households cope with the fare increase. Likewise, NTUC has also given out \$1 million worth of food vouchers to low-income families. It is encouraging to see such voluntary practices of Corporate Social Responsibility amongst our local companies.

## **STATUTORY BOARDS**

49. Madam, now let me move on to Mr Low's cut on the statutory boards. Mr Low Thia Khiang has asked for the reasons for change in disclosure requirements of Statutory Boards and the comments by auditors on the People's Association's accounts.

50. Before November 2007, MOF, through AGD, issued finance circulars to prescribe the accounting standards for statutory boards. The key guiding framework used has been the Singapore Financial Reporting Standards or SFRS. However, as the SFRS' are designed primarily for profit-making entities in the private sector, the relevance and appropriateness of each SFRS to statutory boards has to be examined first before they are adopted.

51. In November 2007, this House passed the Accounting Standards Bill and the Act came into effect, empowering the Accountant-General to prescribe accounting standards for statutory boards. A committee of independent members, with representatives from the Auditor-General's Office, the statutory boards, the academic community and the public accounting firms, has also been formed to advise the Accountant-General. New SFRS and amendments to the standards will continue to be examined for their relevance and appropriateness to the statutory boards. As such, there has been no change in the substance of preparation and presentation of accounts by statutory boards. Neither has there been any move to change the disclosure requirements of statutory boards.

52. Our arrangements are similar to the UK where the Treasury prescribes the standards for public sector entities.

**PA's Non-Consolidation of GROs (FRS 27)**

53. As regards to PA's non-consolidation of GROs' accounts, the auditor, PricewaterhouseCoopers, has qualified the financial statements of People's Association (PA) on the basis that the accounts of the grassroots organisations (GROs) were not consolidated.

54. PA's view is that the accounts of grassroots organisations should not be consolidated for the following reasons :

- Firstly, the funds in these accounts belong to the GROs.
- Secondly, the Government grants and cost of staff support are already accounted for in the PA's financial statements.
- Thirdly, the GROs are operationally self-funding through revenues from activities, courses and donations.
- Fourthly, the GROs decide on how their money should be spent for the benefit of the residents.
- And finally, proper procurement procedures, financial control and good corporate governance practices apply to the GROs.

55. Nonetheless, the Accountant-General's Department and Ministry of Finance are discussing this issue with PA.

## **Exemption from related party disclosures (FRS24)**

56. I would like to clarify that the adverse opinion pertains only to the FRS27 and not to the FRS24, which is the general exemption granted to all statutory boards on account of the onerous work that would otherwise be involved in the disclosure of related party transactions. This is because related party transactions are much more onerous for SBs, compared to private sector entities, due to the wide range of Government related entities.

57. I should also add that other countries have similarly found a need to depart from FRS 24. For example, Australia fully exempts its not-for-profit public entities from such disclosures as well.

## **TAXATION**

58. Madam, let me now move on quickly to the issues relating to our tax regime.

### **Not-Ordinarily-Resident Scheme**

59. Mr Singh has asked if the Not-Ordinarily-Resident or NOR scheme results in unequal tax treatment between Singaporeans and expatriates, and asked if we can accord time apportionment to the Singapore-sourced income of Singaporean employees, based on their time spent outside Singapore.

60. Madam, it is important to note that the NOR Scheme is not intended to give a protracted tax concession to individuals who

newly base themselves in Singapore over those who are permanently resident here, especially our own citizens, for equity reasons. The tax benefit expires after 5 years as the aim is to encourage individuals to settle down thereafter. We do not intend to do away with this 5-year limit.

### **Property Tax**

61. Mr Singh has also asked the Government to consider giving concessionary property tax rate for owner-occupied commercial and industrial properties.

62. Madam, the same tax rate of 10% of the Annual Value (AV) is applied to all properties, irrespective of whether the property is owner-occupied or rented out. We only make the exception for owner-occupied residential properties, where a concessionary tax rate of 4% is granted as part of Government's policy to encourage home ownership.

63. For commercial and industrial properties, it is a business decision whether a business chooses to buy or rent a property. There is no policy reason to favour one over the other. Giving a concessionary tax rate for owner-occupied commercial or industrial properties will only distort business decisions, and unwittingly put SMEs at a disadvantage, since they are less likely to buy their own properties.

### **Taxation of foreign-sourced income of companies**

64. Mr Singh also suggested equalizing rules on foreign-sourced income for individuals and companies. Most countries in the world continue to tax worldwide income of corporations. This includes countries like Ireland, the Netherlands and Switzerland.

65. In Singapore, locally-sourced income and only foreign-sourced income remitted from abroad are subject to tax. For foreign-sourced income remitted, active income, which includes branch profits, service income and dividends, are exempted if they are earned in countries where the headline tax rate is at least 15% so as to encourage our companies to venture and operate abroad. However, foreign-sourced income, like interest income, is generally passive and therefore not exempted. If we were to do so, this will entail significant revenue loss.

66. However, to make our regime more friendly to the repatriation of foreign-sourced income, the recent Budget 2008 extends unilateral tax credit to all income, including interest income earned in non-treaty countries. So, companies will not be doubly taxed when they remit such income, regardless of whether the income is earned in treaty or non-treaty countries.

### **Personal Income Tax Reliefs**

67. Mr Singh has also asked if we could review our tax brackets or raise the amount of personal income tax reliefs as a permanent fix for our middle income groups who face rising costs of living.

68. Madam, our personal income system is already very progressive. About two thirds of our resident labour force do not pay taxes due to our \$20,000 income exemption threshold and various reliefs and rebates. Increasing the exemption limits or tax reliefs will only erode our already narrow tax base further, and work against our efforts to keep our personal income taxes low. I should also add that our reliefs are not meant to offset expenditure and hence, are not pegged to inflation. Rather, they are given in support of our social policies, for example, parents and child relief. Increasing reliefs or adjusting the tax brackets will tend to benefit the higher-income group, as the lower and middle income groups already pay little or no taxes.

### **Broader definition of R&D for incentives**

69. Let me clarify that our R&D definition for income tax purposes is consistent with that used in countries such as Ireland and the UK. This would cover both downstream and upstream R&D, and is applicable to both companies in the manufacturing and services sector.

70. We recognize the need for simplicity in implementing the R&D incentives and we will be working with IRAS to issue guidelines to clarify the operation of the R&D incentives.

### **BUDGETING FOR NATIONAL RESILIENCE**

71. Finally on Ms Penny Low's cut, Ms Penny Low has rightly pointed out that real resilience must come from within our people.

72. Madam, the Government has always adopted a “Many Helping Hands” approach with *self help* and *mutual help* as central philosophies. The community, Voluntary Welfare Organisations (VWOs), grassroots organisations and self-help groups play a very important role in this approach, reaching out to the needy to help them achieve self-reliance, while building up a strong community spirit.

73. The Government supports these efforts in many ways. Just to clarify, today, charities are already exempted from income tax, and property tax for premises used exclusively for charitable purposes. Donors to IPCs can also claim a double tax deduction for their donations. We have restricted this to IPCs, so that we can target the tax concession at organisations where the benefits would accrue to the Singapore community as a whole, as opposed to those with sectional or commercial interest.

74. Apart from the favourable tax treatment, there are other measures which I believe MCYS would be addressing in greater detail in their COS, following the recommendations of the Social Enterprise committee.

75. Just to summarise, the Government has provided substantial support towards the people sector organisations and will continue to work closely with them.