

Parliament No:	10
Session No:	2
Volume No:	81
Sitting No:	4
Sitting Date:	2006-03-01

PARLIAMENTARY DEBATES

SINGAPORE

OFFICIAL REPORT

TENTH PARLIAMENT

PART III OF SECOND SESSION

VOLUME 81

Wednesday, 1st March, 2006

The House met at 12.00 noon

PRESENT:

Mr SPEAKER (Mr Abdullah Tarmugi (East Coast)).

Mr Ahmad Khalis Bin Abdul Ghani (Hong Kah).

Dr Ahmad Mohd Magad (Pasir Ris-Punggol).

Mr Ang Mong Seng (Hong Kah).

Dr Balaji Sadasivan (Ang Mo Kio), Senior Minister of State, Ministry of Information, Communications and the Arts and Ministry of Health.

Mr Alexander Chan Meng Wah (Nominated Member).

Mr Chan Soo Sen (Joo Chiat), Minister of State, Ministry of Education and Ministry of Trade and Industry.

Prof. Ivan Png Paak Liang (Nominated Member).

Mr R Ravindran (Marine Parade).

Mr Seng Han Thong (Ang Mo Kio).

Mr Sin Boon Ann (Tampines).

Dr Tan Boon Wan (Ang Mo Kio).

Dr Tan Cheng Bock (Ayer Rajah).

Mr Tan Soo Khoon (East Coast).

Dr Tan Sze Wee (Nominated Member).

Mr Teo Chee Hean (Pasir Ris-Punggol), Minister for Defence.

Dr Teo Ho Pin (Holland-Bukit Panjang).

Mr Tharman Shanmugaratnam (Jurong), Minister for Education.

Dr Tony Tan Keng Yam (Sembawang).

Dr Vivian Balakrishnan (Holland-Bukit Panjang), Minister for Community Development, Youth and Sports and Second Minister for Trade and Industry.

Dr Wang Kai Yuen (Bukit Timah).

Mr Wee Siew Kim (Ang Mo Kio).

Mr Wong Kan Seng (Bishan-Toa Payoh), Deputy Prime Minister, Minister for Home Affairs and Leader of the House.

Assoc. Prof. Dr Yaacob Ibrahim (Jalan Besar), Minister for the Environment and Water Resources and Minister-in-charge of Muslim Affairs.

Encik Yatiman Yusof (Tampines), Senior Parliamentary Secretary to the Minister for Information, Communications and the Arts.

Mr Yeo Cheow Tong (Hong Kah), Minister for Transport.

certainly give is that MHA officers will do their best. That is why I gave a comprehensive answer - to reassure Singaporeans that security is foremost in our minds. And even as we will ensure clearance efficiency - I think that is the point Mr Steve Chia and others have also brought up - nevertheless, with training, proper technology and upgrading of equipment, we will ensure that a proper balance is struck.

Mr Steve Chia Kiah Hong: Sir, a point of clarification. Did the Ministry report or complain to the Chinese and Philippine governments about these breaches in their system? Should we not report to them that something is wrong with their system?

Assoc. Prof. Ho Peng Kee: Sir, I think these breaches are known facts. This happens also with other countries. So, it is a matter of tightening up the system. In time, hopefully, with the biometric system, these breaches would be a thing of the past.

Column No : 474

NATIONAL UNIVERSITY OF SINGAPORE AND NANYANG TECHNOLOGICAL UNIVERSITY

(Approved tuition fee increases)

2. **Mr Steve Chia Kiah Hong** asked the Minister for Education (a) if he will provide a list of all approved tuition fee increases for the National University of Singapore and Nanyang Technological University since 1990; (b) how much have tuition fees gone up now, compared to the fees payable in 1990; and (c) whether the jump in the tuition fees payable since 1990 has been higher than the annual rate of inflation.

The Minister for Education (Mr Tharman Shanmugaratnam): Mr Speaker, Sir, undergraduate fees at NUS and NTU have been increased regularly since 1990. The exceptions, where fees were kept unchanged, were during two periods. These were the two periods that followed years in which the economy was going through a decline, namely, 1999-2000 and 2002-2004. With the exception of these two periods, we have had fee increases each year. I am circulating a table in response to Mr Steve Chia's request.

Undergraduate fees in the two universities increased by an average, if I take the

averages over that period of years, of 8% per year in the 1990s, and an average of slightly less than 2% per year since 2000, in other words, 2000-2006, including the forthcoming academic year. For the period as a whole, if one takes 1990 up to this forthcoming academic year of 2006, fees have increased by an average of 5% per year. This includes, as you can see from the table, a large increase of 45% in 1991. After 1991, fee increases have averaged 3% per year.

Mr Chia has asked how this compares with the rate of inflation. The most relevant benchmark of inflation or cost pressures for a university is wage inflation. This is because universities are essentially human enterprises, with 70% of their costs, at least, coming from manpower.

From 1990 to 2005, wages went up nationally by an average of 5% per year. As we know, wage increases for professionals are under greater pressure. They are increasing faster, not just in Singapore, but globally.

In short, fees have been increased regularly in our universities. These fee increases have allowed the universities to meet cost pressures while improving on the quality of education they provide. However, the fees at our universities remain competitively priced, compared to overseas universities of equivalent quality, such as in Australia, the United Kingdom and the United States.

The Government remains committed to substantially funding the costs of undergraduate education. The universities will continue to exercise prudence in their expenditures and keep costs in check. Together, the Government and the universities will work to ensure that university education remains affordable and that Singapore students who are admitted to our universities can enjoy a top-quality education.

Mr Steve Chia Kiah Hong: I thank the Minister for his reply. Looking at the figures, the average was 5% fee increase a year. That actually is a lot for the HDB heartlanders who are mostly earning below \$3,400 (60% earning below \$3,400). That is a lot of

money. Can the Minister comment whether this constant university fee increase is spiralling out of control, out of reach of our HDB heartlanders? Is this spiralling also due to the universities' heavy dependency on expatriates? Sixty percent of the teaching population are expatriates with their families. Is it because of that, that our costs are escalating out of control?

Mr Tharman Shanmugaratnam: First, let me say that tertiary fee increases all over the world exceed the rate of inflation as reflected in the consumer price inflation. Our fee increases in Singapore have, in fact, been modest, compared to comparable countries. Just to give you a feel, if you take year 2000 up to now, where we have increased by slightly less than 2%, in the United States, if you take public universities, and I am not even talking about private universities, the increase has been about 9.5% per year or cumulative increase of 57%, seven times the increase that we have seen in Singapore. In Australia, the increase has been about 4% per year, or cumulative increase of 24%, three times the increase we have seen in Singapore over that period. It is a global phenomenon.

Maybe to help Mr Steve Chia understand it, because I think his question is genuine and he may not understand the way in which universities function, they are fundamentally different from normal business enterprises. In a normal business enterprise you can have a wage increase for your workers but you try and offset it through some technological or productivity improvement - produce more output for the same input so that your price does not need to go up so much,

not as much as your wage increase. That is why, nationally, we find wage increases are always higher than CPI and price increases.

But in the universities, it is different, because we do not want to compensate for faculty wage increases by increasing the number of students per faculty. In fact, on the contrary, we want, over time, to reduce the number of students per faculty, so as to be able to improve quality. Universities are in the business of producing quality graduates. Students must leave the university better educated, better prepared for the workforce, high income profile over time and, hopefully, better citizens.

Universities have to compete for faculty. They have to pay market rates in order to deliver quality students. When they think of the facilities they want, they have to provide high quality facilities, so as to ensure that students benefit from access to the latest technology. They are not in lecture rooms that are overcrowded, so that they are able to spend quality time with lecturers and even with the assistants of lecturers. This is the way to go if we want to deliver an affordable but top-quality education to Singaporeans.

If we look at the models out there, there are basically two models. One is the European model. It is highly affordable - very heavily subsidised - but it is affordable low-quality education, overcrowded lecture rooms and a consistent brain drain year after year in the Sciences and Engineering, even in the Humanities, from Europe to the United States, and Britain benefiting to a minor extent from the brain drain from Europe.

That is not the system we want. Providing affordable low-quality education will be a disaster for Singapore and for our economic strategies. What we want to do is to provide an affordable top-quality education. It is also what the Americans, the British and the Australians are trying to do. But where we differ from them is that we have a substantially higher public subsidy for our universities. And that is why the Australian universities have increased fees by three times more than Singapore universities in the last six years. That is also why the American public universities have increased fees by seven times more than Singapore in the last six years, because we have retained a very high commitment of public funding for our universities. As we discussed it extensively in last year's COS debate, and as I mentioned very explicitly, over the medium term, we want to move towards the Government funding 75% of the total cost of undergraduate education. Currently, we are still funding a little more than 75%. We do not intend to move there immediately but we will move there gradually. But that is still substantially higher public funding than any comparable country that is seeking to provide an affordable top-quality education, not an affordable low-quality education.

I think it is also the most equitable system to address Mr Chia's concern. If we want to subsidise universities more, where do we get the money from? I do not think we want to raise taxes. So it means taking it from the polytechnics, ITEs and schools. I do not think that is right for two reasons. The main reason is that university graduates in Singapore, as is the case all over the world, will earn a premium over graduates from other institutions of education. That is well known. We all know that. It is obvious the starting salaries and expected life-time earnings are higher. So it is not equitable to subsidise them more and more, not just keep a high level of subsidy but increase their share of the educational subsidy. It is just inequitable.

Even at current levels of subsidy, we are subsidising university students substantially more than ITE students. So I think we have got to maintain a sense of perspective about this. First, how can we deliver top-quality education? I have explained that. We do not want the European model and we can do a better job than the Americans, the Australians and the British.

Second, what is equitable? I think what is equitable is that we put that extra dollar into our polytechnics, ITEs and schools where there is the Opportunity Fund or extra technology, improving the quality of our ITEs so that they can become centres of excellence in technical education, not increasing the share of subsidy going to our universities. So this is sensible from the point of view of human capital development, and it is also sensible from the point of view of being equitable.

Mr Speaker: One supplementary question, Prof. Ong.

Assoc. Prof. Ong Soh Khim (Nominated Member): Sir, I would like to raise a supplementary question and I have to first declare my interest. I am an academic at the National University of Singapore.

I agree with the Minister that the graduates earn a premium when they start to go out to work. The increase in the starting salary of a fresh graduate did not increase at an average

of 3% a year. I would like to ask the Ministry to consider increasing the gross income ceiling for applications for financial assistance scheme for the students, so that they can apply for a financial scheme to help them with their loans.

Mr Speaker: I must remind Members that we only have half-an-hour today for Questions.

Mr Tharman Shanmugaratnam: Indeed, Mr Speaker, Sir, **NUS**, NTU and SMU have revised their financial assistance schemes. They revised it in two ways. First, they have substantially jacked up the total amount of funding that will be available for financial assistance - more than 50% increase. Second, they have also revised their criteria so that more students can benefit. If I can simplify, I would say that a median student, who comes from a family that is around the 50th percentile of income, does not have to come out with any cash to get a university education in Singapore. Through a combination of a loan or bursary, the median student does not have to come out with any cash for the duration of his university education.

Mr Steve Chia Kiah Hong: Last supplementary question, Sir.

Mr Speaker: No, we only have half-an-hour today. Prof. Ong, your next Question, please.

Column No : 480

BANKRUPTCY CASES

3. **Assoc. Prof. Ong Soh Khim** asked the Deputy Prime Minister and Minister for Law since the year 2000 (a) what percentage of bankruptcy cases each year are in the age groups of 21-30, 31-40, and above 40; (b) what are the main causes of bankruptcy for the age groups of 31-40 and above 40; and (c) how many of the bankruptcy cases in these age groups have since been discharged.

The Senior Minister of State for Law (Assoc. Prof. Ho Peng Kee) (for the Deputy Prime Minister and Minister for Law): Sir, Prof. Ong asked for statistics from the year 2000. The Official Assignee captures statistics for age groups only from the year 2003.

Question again proposed.

Dr Loo Choon Yong (Nominated Member): Mr Speaker, Sir, thank you for allowing me to participate in this debate.

I applaud the Prime Minister on his Budget Statement. Many people have told me that there is nothing substantial in this Budget. I suppose they are disappointed in that the PM did not announce further tax cuts nor did he abolish estate duty, to the disappointment of some living and some dead. But I see it differently. I see this Budget as further consolidating our economic restructuring. I am appreciative of the Progress Package. I believe this is necessary if we are to distinguish ourselves as a society and if we are to encourage young Singaporeans to grow deeper roots in our society.

I agree that globalisation will widen the income gap. And I fully support the Government's efforts to help those in the lower-income group, those unemployed and those less fortunate. I believe that this willingness to help the less able and less fortunate amongst us is, indeed, a hallmark of a great society. I note the concern of some colleagues in this House, that some people may take advantage of our kindness, our Progress Package, our Workfare Bonus, etc. I agree. There will always be some who will take advantage of others. However, I urge us to have that generosity of spirit, the magnanimity to see the relief that our assistance brings to those in need.

I have many personal experiences to tell me that many Singaporeans have actually such a strong sense of pride and self-esteem that they will decline assistance unless they are actually in quite poor shape. So, let us never become a nation that knows the price of everything but the value of nothing. I have always believed that it is more blessed to give than to receive. On 22nd August 2005, *Business Times* interviewed a Mr Tom Huzell, head of Ikea's retail operations in Singapore and Malaysia. He is a Swede and Ikea is an international home furnishing company founded in Sweden. When he was asked how the

Swedes could live with an average income tax of 40%, and higher earners pay about 50%, a VAT or GST of 25% with extra taxes on liquor and petrol, he replied that most Swedes found it very nice to live in Sweden. He went on to say that the quality of life was, indeed, very high and the Swedes were very egalitarian people. He shared that the high rates of tax meant that they had very little hierarchy and everybody was equal. Many Swedes I know share this sentiment, and they value their egalitarian way of life.

The Prime Minister has said that Singapore cannot follow the Nordic high-tax and high-spending model. He would like to pursue a low tax and tight expenditure model. I fully agree, and the low tax part gives me great personal relief. However, we should admire and emulate their egalitarian and communitarian attitude. I certainly hope that the low tax and tight expenditure policy, coupled with compassionate assistance to the less fortunate, will encourage more Singaporeans to pay their taxes cheerfully.

I also hope to see Progress packages continuing year after year and not only coincidentally just before the elections. This is because we will always have the poor with us. There will always be some Singaporeans who fall between the cracks - some dysfunctional families, some maladjusted individuals, some unfortunate sick. These packages could take different forms, targeted at different needs. Perhaps, instead of only giving Progress packages where there are higher budget surpluses, the PM may wish to make it his priority to set aside, say, \$1 billion every year for the Progress Package targeted at those Singaporeans. When there are surpluses, then even more can be done.

Some members of the public have some reservations about cash handouts. Most societies do it through free or highly subsidised welfare services of one kind or another. Sir, this old fashioned welfarism presupposes that the government is the most efficient producer of goods and services. That has been an article of faith of planned economies. And we now actually clearly see that after 50 years, the greater efficiency of the market economy shows that not to be the case. So I believe that cash bonuses will enable recipients to decide what goods and services they need to buy and from whom. Besides, the bonuses from the Progress packages are more targeted and, therefore, less open to

abuse and misuse. I am in support.

Sir, I am appreciative of the welfare assistance, the many job creation and workers' training programmes. I believe that helping the unemployed, finding him a job, is much better than giving him handouts. I am happy to note that last year, 110,800 new jobs were created and unemployment rate is a low 2.5%. These new jobs bring cheer to many families, enable many young stomachs to be filled. With more people in jobs and progressively better-paying ones, we will need less Workfare and assistance, and future Progress packages can be even more targeted and, therefore, more effective.

Sir, I am interested in the big question of how do we build a competitive, growing and yet sustainable economy. Having been in Parliament for one year, I have learned to be dermatologically more fortified. Even after 45 other colleagues have spoken before me, I still feel that I have to ask this question again this year. I applaud the Government's effort to invest in R&D to help us become a knowledge hub. The setting up of a R&D Trust Fund, the RIEC, the NRF are all good things. Spending 3% of our GDP on research and development by 2010 will bring us closer to the R&D's spending level in the Nordic countries. However, I hope that the RIEC and NRF will try their best to ensure that a progressively greater portion of these R&D expenditures are spent together with the private sector and in the private sector. This is because the Nordic countries actually spend 60% of all their R&D expenditures in the private sector. Ours is about 40% only.

I believe that because of this, there is better choice of research projects, earlier commercialisation of discoveries, and in all a better payback of their R&D investments. They build great knowledge industries as we all know. The private sector cannot afford and does not believe in the pure pursuit of knowledge. And with our increase but still relatively modest R&D expenditure, we really must try to get more bangs for our bucks. I therefore propose that RIEC and NRF, besides seeking to raise the R&D expenditures to 3% of our GDP by 2010, set as their goal to involve and partner the private sector, so that 60% of the R&D expenditure will be used and spent in the private sector.

Sir, besides increasing our spending on R&D and creating a safe and reliable environment for the protection of IPR, I believe there is yet another way to grow our knowledge-based economy. There is an observation that quite a lot of intellectual property is trapped in the public sector. This was noted in the deliberations of the ERC's Sub-committee on Services Industry in 2002 of which I was a member. It was noted that we have structural problems because the public sector is not mandated to grow their organisations via revenue from external sources. We are aware of the many advances and innovations made by our defence scientists in DSTA, system engineers in LTA, researchers in MOE, universities and hospitals. Some public agencies have acquired this IP in the course of their work when they tender for this and that project. Of course, there have been delightful stories of successful privatisation of PWD and SingTel. One recent story is that of former HDB's Architects and Town Planners Department, now reorganised as Surbana, designing a great motorcar showroom and racing track in Abu Dhabi. It would not have been possible or conceivable have they still been part of HDB.

I like to share with you that the Sub-committee recommended that we push on with corporatisation and privatisation of Government agencies; designate an agency to collate the inventory of such IP and sell or license them for commercialisation; incentivise research institutions and universities to consider licensing their IPs; and support technology and skills transfer from Government IP owners to Singapore-based companies as well as co-develop technology with them. I hope the Government will implement these recommendations so that Singapore-based companies can commercialise their IP and build profitable businesses with them. This proven IP should provide quicker returns than doing new projects. It will enable us to further broaden and deepen our capabilities, strengthen and grow our economy.

Sir, as we upgrade our manufacturing sector, I have been told that Singapore needs to have a total manufacturing eco-system environment. It appears that because of our costlier environment, manufacturers of small parts cannot survive in Singapore. Unlike China, Taiwan and Vietnam, we do not have these downstream and often low-tech, low-cost industries. I suppose they like to see the situation of a little town outside Shanghai - I

believe it is called Wenzhou - where most of the world's cigarette lighters and maybe cigars flame-throwers are made. Different brands, different styles, different qualities, different costs. And there are companies that supply millions of flint grinders. Some people make millions of these little gas fuel casings and gas nozzles, and many other parts that are needed to make cigarette lighters. I wonder what has happened to our efforts to promote Batam and Bintan industrial parks. I think Johor could make a good partner with cheaper land and labour. Together with them, we can perhaps provide this eco-system that manufacturers like to have. With the return towards stability in Indonesia and our improved relationships with them and Johor, it is perhaps time to revisit and reinvigorate this win-win strategy.

On the service industries, I agree that we cannot afford low cost as an attraction. But we can surely offer trust, quality and service. At this juncture, I would like to declare my interest as Chairman of Raffles Medical Group. In healthcare, we can offer patient safety, professional reliability, service consistency, cost predictability and institutional governance to foreign patients.

I am heartened to note that in 2005, we received, as a nation, 374,000 foreign patients who came here to seek treatment. At the growth rate of 20%, we will reach our target of 1 million patients by 2012. I am sure the public and private sectors will continue to move together to make Singapore the leading healthcare hub in the region.

Sir, despite my optimism, I still have a few concerns about Singapore being the logical and default service hub for the region. Others are trying to compete with us to do the same. My concerns are that some of the excellent and insightful recommendations of the ERC Sub-committee on service industries have yet to be implemented. With your indulgence, may I quote from the Report, paragraph 5,

"Nevertheless, in many services, the exportable component seldom exceeds the local demand. It is therefore natural for the regulator to put priority on regulation to address social, political concerns of the domestic demand ahead of industry development.

Powerful regulations often end up hindering the growth of the exportable component."

Paragraph 6:

"In some sectors, Government inevitably gets deeply involved in the services sector beyond being a mere regulator to become a dominant player. When it also tries to be a promoter of exportable component, it becomes largely ambivalent."

Sir, four recommendations were made. Recommendation No. 1: regulator cannot be the promoter. But the regulator must be sympathetic to the industry's development. Recommendation No. 2: regulator must not also be a player. In other words, Government should actively outsource such services to local enterprises wherever possible. Recommendation No. 3: promote regional and global demand. I am glad this has been done by agencies, like STB and EDB. Recommendation No. 4: stimulate sophisticated local demand. I believe some stimulation is done like placing out reserves for private fund management. I hope the Government will revisit these observations and recommendations and implement them across all service industries. I believe we can even exceed our targets, if we have the conviction to follow through these recommendations.

On land pricing, as property prices move upwards, we can all see that the Chief Valuer is not wasting any time. He is vigilant and has revised development charges upwards steeply. I expect he will have adequate justification. I certainly hope he will just be as quick to revise these charges downwards when the property market dips.

Sir, rising property prices make everyone feels good. Banks lend more money at better rates, non-performing loan (NPL) portfolio becomes smaller, professional services do well and the Government collects more stamp duties and fees. I like to remind us to be

careful about our land prices. We must never allow ourselves to be priced out of the market and become an uncompetitive economy. We must be prepared to make exceptions for industries and sectors which will bring greater economic benefits downstream to Singapore.

A high land price for such industry is equivalent to taking a one-time capital gain upfront. Alternatively, we can have a lower land price but take the economic benefits like jobs, reduce assistance pay-outs and more taxes over the next few years. One outstanding example is the land around Changi Airport. We all know that Changi Airport is the only international gateway into Singapore, unlike other countries that have many cities and airports. When airlines bypass us, many tourists, businessmen, investors, private banking clients, foreign patients would be lost to the Singapore economy. The Government has rightly said that the survival of Changi Airport is more important than the survival of SIA, our national carrier. That was the rationale for allowing and encouraging low-cost carriers into Singapore.

I would like to see Changi Airport land price zero-rated. I would like to see the key performance indicators of CAAS to be those of the number of flight arrivals and departures, number of passenger throughputs, number of cities and regions to which Changi Airport is connected. I would be less interested in how much money CAAS makes. Yes, we can keep that as a score, to measure the efficiency. Instead of collecting higher landing fees and charges, I would rather the Singapore economy benefits along the way as tourists, shoppers, private banking clients, businessmen, foreign patients, patronise our banks, hotels, retail outlets, restaurants and hospitals. This multiple effect not only makes financial sense but it is also more likely to create the kind of jobs our older and less educated Singaporeans will be able to have and do well in. Singapore still collects the fees but over a longer period and downstream, instead of at the top, upstream. I believe Dubai has taken this approach and their thriving busy airport has brought people from many lands to a once sleepy desert town, and Dubai Inc. has benefited. Their approach may be less rational and disciplined. But it has worked for them.

Sir, on growing human talent, I am appreciative of what has been done in recent years by MOE. I am also very glad to hear that 25% of each cohort will go to publicly funded universities. In my time, which was slightly less than 40 years ago, it was 10%-11% only. At this juncture, I would like to declare my interest as an SMU Trustee and RJC Board member. We all know that this has been a great factor in our society, spending more on education, creating more places for people, and this has helped us to have the kind of upward social mobility. And actually, many of us in this House have benefited from our own publicly funded university.

I am glad that PM has given emphasis to investing in and developing our own people, whether talented or not, whether they are talent or no talent. Yes, we must grow our own timber for our own saplings will grow deeper roots in Singapore soil and hopefully withstand monsoons and typhoons. The PM quoted Peter Drucker and I agree that Singapore must actively attract talent from everywhere. America has been the beneficiary of successive tides of talent migration. We must do likewise.

Sir, unlike businesses that Drucker referred to, they can relocate their domicile. We are a nation and we certainly cannot relocate our domicile. As the late Mr Rajaratnam asked in the television clip I saw, "Where can 2.5 million Singaporeans go?" So I hope we will always reassure our own people that regardless of whether they are considered talent or not, we will invest in them and help them to realise their potential. I am glad we now have many routes to success and many paths to glory.

Sir, may I congratulate the PM on setting up the Opportunity Funds to provide more enrichment opportunities for needy students. This will certainly help these students to develop and compete better beyond subsidised school fees, and so on.

Finally, Sir, I agree with the PM that this Budget aims to build a vibrant economy where opportunities abound and an inclusive society where no one is left behind. I am

proud to be a Singaporean.

I support the motion, and I will pay my taxes cheerfully.

12.55 pm

Mdm Cynthia Phua (Aljunied): Mr Speaker, Sir, it is indeed very challenging to be the last speaker to respond to the Budget Statement. However, this time I did not cut my speech, although I have seriously considered doing it after two days of speeches.

Mr Speaker, Sir, thank you for allowing me to speak in this debate. Sir, the Budget 2006 financial package will certainly resonate well among the majority of heartlanders, especially the lower income and the elderly. At the core of this Budget is not just what the Government is giving out to the people. Rather, it is the principle behind the handout that is important. Just as it is easy to be distracted by the glitter in a diamond, the discerning buyer will look at it with the eye of a gemologist. She will examine the precious stone, not for its glitter, but its cut, grade, colour and clarity. I believe today Singaporeans are knowledgeable, mature and well-read to be able to appreciate that this is a Government that has the people close to its heart. It shows that the many feedback sessions, dialogue sessions and face-to-face engagement between the people and the Government at the constituencies and elsewhere did not fall on deaf ears. In difficult times, the people are called upon to tighten their belts. When there is a good harvest, the Government shares the harvest with the people. Our financial policy is effective because it is coherent, consistent and as predictable as it is possible, while maintaining scope for flexibility and the use of judgement as and when the situation requires.

Over the past few years, there has been a shift in the global economic landscape which saw the emergence of India and China among the leading economies in Asia. We have to adjust our economy to keep pace with the tectonic movement in the global economy. As

distance that we have gone in building up a prosperous and harmonious community and in making Singapore our best home.

Column No : 503

Column No : 503

TIME LIMIT FOR SPEECHES
(Suspension of Standing Orders)

With the consent of Mr Speaker and the general assent of Members present,
Question put and agreed to.

Resolved,

That the proceedings on the item under discussion be exempted from the provisions of Standing Order No. 48(8) in respect of the reply to be made by the Prime Minister and Minister for Finance. - [Mr Mah Bow Tan].

Column No : 503

Column No : 503

ANNUAL BUDGET STATEMENT

Debate resumed.

1.15 pm

The Prime Minister and Minister for Finance (Mr Lee Hsien Loong): Mr Speaker, Sir, I thank all the Members for their views and suggestions, especially all those who have spoken in support of the Budget. I have heard all of them, including Mdm Cynthia Phua, and we will take up their views and act on them wherever it makes sense to do so. The specific issues which they have raised will be dealt with by respective Ministers during the Committee of Supply. In this response, I will just focus on the broad thrusts of the Budget.

Let me start by addressing a question which many have asked - some rhetorically, others seriously. "Is this an Election Budget, given its generous package of incentives?"

I am glad that many Singaporeans and MPs are happy with this Budget. The provisions and measures, which we have taken, have received wide support. But this is not a Budget merely for the purpose of distributing hongbaos to get votes.

It is a Budget with its feet on the ground and with its eye on the future. It is the result of consulting broadly and taking views from many people. We have had many committees - the Low Wage Workers committee, RECORD; Mdm Halimah Yacob and other Members of Parliament have participated in many of these sessions and worked hard to come up with initiatives which will achieve our social objectives, address problems and stand us in good stead for the long term.

This is a Budget:

(a) to support our ongoing efforts to restructure the economy;

(b) to ensure that all Singaporeans can benefit from growth and can manage the impact of globalisation; and

(c) that will maintain fiscal prudence and long term sustainability.

These schemes and initiatives have to be sound and sustainable. To make promises and to give money away - that is easy. But, to improve lives, to give hope, to provide opportunities, to have schemes which will lead to the objectives which we have set out, and not to the opposite of what we intend, to be affordable over the long term - that is much more difficult. This Budget makes the right long-term commitments so that the Government wins not just the next election, but also the mandate to govern over

successive terms.

We are not issuing cheques thinking that maybe we will not be here after the elections. This is a Budget which we are taking responsibility for, because we have to answer for the outcomes.

Growing the economy

The Budget supports our efforts to restructure and upgrade the economy, and sustain economic growth over the long term.

The restructuring over the last few years has not been easy. It has been painful. In 1999 and 2000 before the recession, we had about 13,000 retrenchments a year; more or less steady. But over the past few years, the retrenchment numbers went up sharply to as high as 26,000 in one year - 2001. This is real pain because every person in these numbers is a worker with family, with responsibilities, with a future, with worries. The retrenchments are now back down to 10,000.

It has been a painful experience but we have become stronger. Overall, we have become much more competitive. We have to press on with our restructuring and not to fear change. If you look at our companies, you can see that. PSA, which restructured and retrenched 600 workers, is now competitive again; able to hold its own, not just against Tanjung Pelepas, but Dubai Port, and many other competitors in the world. SIA, working with unions, has made major changes to cut costs and to operate more flexibly.

But, we must never think that we have arrived. Mr Tan Soo Khoo made a very good speech yesterday pointing out that we live in a world where trade and political tensions still exist and will continue to simmer. He listed out the places where there is no level playing field. SIA - you want to open - there is obstruction. Each time you want to move, a new challenge comes up and we have to deal with it. That is the reality of the world. We accept it as it is. But, having come here and having strengthened ourselves, we have now to gird ourselves to tackle all those problems: to deal with a world which is changing at an ever increasing pace, to watch the trends, and to move quickly and decisively to respond to them.

The competition in the future is not just going to be about lower cost, but increasingly about higher value. I think we are well-placed for this competition. We have explained

this in many ways. We now have one fresh way to present this, that is to look at four core strengths, CORE -

(a) **Connected**. Plugged into the global market, moving around goods, people, and information; through our seaports, through our airports, telecommunications, and our FTAs.

(b) We are **Open**. Open to ideas, capital and talent. Open to enterprise. Set up as a knowledge hub and a land of opportunity.

(c) We are **Reliable**. We enjoy a great reputation for trust, quality and consistency, and generally a very high reputation in Asia and around the world.

(d) We are **Enterprising**. With a flexible mindset and the ability to anticipate, to learn, to adapt, and to move quickly.

So CORE competencies. We must build on these strengths to stay ahead of the competition and keep the economy growing,

(a) to differentiate ourselves as a trusted centre for quality and service;

(b) to invest more in innovation and R&D, and become a key node in the global network of people, ideas and businesses;

(c) to support entrepreneurship and enterprise; and

(d) to maintain a tax system that is best for business, and will enable us to grow.

Let me deal with these one by one.

Going the extra mile for service

First of all, setting ourselves apart from our competitors through good service. Service excellence is a critical competitive advantage and it is as much about attitudes as it is about skills. If you are sitting on a production line and you scowl at the computer chip, it will not scowl back at you and it will not run away from you nor tell its friends about you. But if you are a shop attendant, an airline attendant, a waitress in a restaurant

or a banker, and you scowl at your client or customer, you do not just do yourself harm, but also do the whole business and Singapore's reputation harm.

If we think about the IRs (Integrated Resorts), service quality is critical. One of the foreign bidders for the IR at Marina had HR executives who visited WDA (Workforce Development Agency) to find out what schemes we had to train workers and help them to find jobs. WDA asked the executives: "What can we do to help to prepare the workers, help to prepare Singaporeans to support the IR, to take up the jobs there?"

These HR executives replied that they will have in-house training to impart specific skills to the workers - how to turn the roulette wheel, how to dish out the cards, how to rake in the chips; these, they will train. There is no need for WDA to do that. But the most valuable training which the WDA can provide is to prepare Singaporean workers for service jobs in general - to know how to serve, to want to serve and to go the extra mile for good service.

This is not just about the IRs, it is about all our service industries: tourism, retail, food and beverage, finance, and healthcare. Service quality matters. Even in community centres (CCs), service quality matters - the PA (People's Association) staff running our CCs must provide five-star quality service. It is an outfit which is for the mass market, but the quality of service must be first class.

That is critical to Singapore's future, to our ability to earn a living in a competitive world, and it is a national challenge. That is why I got Minister Raymond Lim to spearhead the GEMS Movement, Go-the-Extra-Mile-for-Service.

GEMS has created a buzz. A lot of people have written to Mr Raymond Lim to ask to join the movement and we have involved many private sector executives, businessmen, and entrepreneurs in this effort. They have started initiatives, TV and publicity ads to promote great service, training programmes and leadership seminars. They have got service indicators to benchmark our service level with other countries, "Thank You" cards which customers are supposed to give to the service provider to show appreciation - to show that the good service has been noticed and has been recognised with appreciation.

I think we are beginning to see a difference. The employers are showing more commitment to service excellence. Metro has reported a doubling of compliments for the staff and a 20% reduction in complaints since it participated in the Customer Centric

Initiative. The senior counter manager for Estee Lauder at Metro, Ms Joanne Liu, was interviewed by CNA and she explained why. She said: "For example, when customers came back for goods exchange before, we were unwilling to do it. But now, we accept the changes and we do it on the spot willingly". It is a mindset change. The Government is fully behind this movement. We are allocating \$63 million to support this movement.

Fundamentally, what we are trying to do is to achieve a change in behaviour, in social norms, and make Singaporeans focus on courtesy and graciousness. We want to transform our society into one where people who serve do so willingly and with passion, and people who are served show respect and appreciation for those who serve them.

It is not going to happen overnight. It will take time. We have to start in the schools, practise in the community and transform the workplace. But we can do it. Over the years, we have changed many aspects of Singaporeans' behaviour - no spitting, no littering, no messing up public toilets, speak English more properly, (that, we are still trying), accept other races and religions, keep fit and so on. So, many efforts, but cumulatively they have made a difference. Singaporeans today - I do not say we are beautiful Singaporeans, but less ugly than we used to be. We must continue to make an effort to be less ugly, not just in Singapore, but when we go overseas. I think the changes with GEMS are within our reach, because deep within each one of us is a desire to be appreciated and to be respected. What we need to do is to develop the habit of putting ourselves in the other person's shoes and 'do unto others as we would like others to do unto us'.

Investing in R&D, becoming a knowledge hub

Second, investing in R&D and becoming a knowledge hub. This Budget underscores the Government's commitment to invest in R&D and to become a knowledge hub. We will inject \$5 billion into an R&D Trust Fund over the next five years.

R&D is about experimentation, taking risks, venturing into uncharted territories - some failures, others successes. It means that we must be ready to support good people, to support good projects, to be hard-headed about what we do with our money, where we spend it, and in assessing whether projects are getting somewhere or whether we are getting nowhere.

We have to be patient. We cannot expect results overnight. We have to spend some

time. So, I am heartened that MPs like Dr Teo Ho Pin, Dr Ong Chit Chung, and Dr Loo Choon Yong support this effort to secure our long term economic future and have offered many good suggestions which we will follow up on.

Prof. Ivan Png has cautioned against being overly driven by a target like raising national expenditure on R&D to 3% of the GDP, which he points out is an input target rather than an output target. His point is well-taken. I fully agree with him that what counts is output, not input, and we must get the appropriate performance measures, because how you measure influences what people will do. But, we do need inputs to get the desired outputs. If you look at countries like Sweden, Finland, US, Japan and Korea, they have shown that high levels of R&D investments are strongly correlated with the level of innovation there - in terms of the high-tech start-ups, new products and processes, patents and finally, dynamism and prosperity.

So we do need the money. We will not spend it blindly. We must make sure it is well spent. This means we must have robust processes to review and evaluate R&D proposals, using local and foreign experts to help us. We must focus on building up core R&D capabilities and talent, and not just on funding projects.

The National Research Foundation (NRF) and the Research, Innovation and Enterprise Council (RIEC), which I chair, have been formed to drive this overall effort. I am glad to tell Members that eminent academics and leading corporate figures have agreed to serve on the RIEC and on the Scientific Advisory Board of the NRF. These include Dr Susan Hockfield, who is President of MIT, Professor Clayton Christensen from the Harvard Business School, Dr Thomas Connelly, Chief Science and Technology Officer at Dupont, and Kenji Fujiyoshi, President of Mitsui Chemicals. They are experienced, very capable people. They know we are taking it seriously, and their participation shows that they have confidence in what we are doing. They will advise us on key areas of development and on how to assess and direct funding for R&D.

Prof. Low Seow Chay has recommended a higher private share in total R&D spending. I agree with him that greater private sector participation in R&D is our long-term goal. But to get there, the Government's approach is to use public sector investments to drive, and to seed, private sector investment. We will not just fund projects but we will also encourage collaboration between the wider research community, including the

research institutes, universities and the private sector. We are one small country. We cannot have factions and different warring territories in Singapore. We have to bring everybody together and make the most of a national effort.

Dr John Chen and Mr Ahmad Magad have suggested that funds should focus on supporting commercialisation of R&D. Indeed, economic payoff is the ultimate objective. By commercialising technologies and ideas developed in the universities, research institutes and firms, we will be able to achieve this.

But we have to be prepared to invest in the whole continuum of R&D in a balanced sort of way, from upstream research to commercial application. We used to focus just on the very downstream development part. If we want to make further progress, we have to move upstream. But we have to do it in a focused sort of way, in fields where we believe there is a reasonable chance of a good outcome over the medium term.

We used to focus on capability building in our first efforts in developing R&D. Now, we are moving into creating new knowledge and commercialising the applications. EDB is already getting companies to set up the R&D centres here, with A*STAR focusing on applied research. EDB and SPRING have a programme called SEEDS, Start-up Enterprise Development Scheme, which also helps to provide equity financing for creative individuals who want to commercialise their business models or products. So far, eleven of them have achieved the million dollar mark and six have won international awards for their products. So, not too bad.

We have plans to help existing SMEs develop and commercialise creative ideas too, through the Enterprise Technology Fund. The details of how we will help SMEs to participate will be in the Committee of Supply for MTI.

Prof. Low Seow Chay expressed concern that R&D could be dominated by foreigners and that Singaporeans will not benefit from it. I think we should look at it positively. We want to develop Singaporeans to go into R&D - to become researchers and scientists - but we must get as many foreigners as we can to come here, do good work here, and help us to get the activities moving - better for them to be working with us rather than against us elsewhere. Only by attracting the best talent, foreign or local, can the quality of our R&D be truly world-class. There is no centre in the world which only works with local talent and is world-class. You can go to the Whitehead Institute in MIT, you can go to Weizmann in Israel, you can go to Cambridge, Cavendish Labs - all the world-class

institutions gather talent from around the world. No single country, not even the US, not even China, has enough talent and scientists to say: "This is my own national effort - foreigners stay away."

The way to do it is to bring everybody in, the talent from wherever you can get them, to cross fertilise, spark off and germinate new ideas. At the same time, we will encourage locals to pursue a career in R&D - get bright people into R&D. We are always enhancing our programmes to grow our local scientists, but we need to find the talent with the potential and interests to do R&D. Not everybody can do it, not even every bright person can do it. You have to have the right mindset to focus, to understand the subject in detail, and to spend a large part of your life researching in-depth in something which may lead to nothing, but which you hope will lead to something big. There are only a finite number of such people in Singapore. So where we can find them, we will deploy them to R&D, remembering that you also need SAF officers, civil servants, MPs, businessmen, entrepreneurs and many other things.

Supporting entrepreneurship and enterprise

Third, this Budget builds on initiatives taken over the last several years to support entrepreneurship, enterprise and businesses. Of course, in every Budget Debate, there are speeches that not enough has been done for SMEs. But, as with every Budget Debate Round-up Speech, let me try to put this issue in perspective.

Help for SMEs

Dr Ong Seh Hong, Mr Lawrence Leow and Dr Wang Kai Yuen spoke about the lack of assistance for local enterprises and SMEs. We have to see this Budget not in isolation, but as one of a series. Supporting entrepreneurship and enterprise has always been a key pillar in our efforts to reinvent ourselves. In recent years, we have taken several major initiatives, many of which confer significant benefits to SMEs.

We have reduced taxes. We have introduced numerous tax measures that will help SMEs. Our tax burden is already low for start-ups and small companies. In fact, for the first three years, you do not pay tax at all. The tax system provides for cyclical swings in business and in earnings, because you have one year loss carry-back which I introduced last year. If you make a profit this year and next year you make a loss, you can actually go to IRAS and claim back some of the tax you paid the previous year and even out your

tax burden - in fact, lighten your tax burden.

We have also reduced our regulatory burden. There is an online business-licensing scheme to streamline licensing processes and cut business costs. This year, we are reducing record-keeping requirements for 17 statutes, which I believe has been welcomed by members, and which will be particularly helpful to small companies with not a lot of space, not a lot of staff, and not a lot of money.

We have also introduced many schemes to help local companies upgrade and expand overseas. In fact over the last five years, 9,000 SMEs have benefited from the Local Enterprises Technical Assistance Scheme, LETAS, to help them upgrade their capabilities, and 12,500 SMEs have obtained \$3 billion of Government-facilitated loans. \$3 billion - it is bigger than the Progress Package. It is quite a substantial amount. It has gone to a lot of SMEs.

There are many, many schemes - too many for me to list here. But I went to the EnterpriseOne Portal yesterday, and I looked at the web pages on Government schemes for SMEs. If you print them out, it will be 10 pages, over 60 schemes - from tax incentives to grants and non-financial assistance measures. We do not lack schemes. Members have the handout.

What we need to do is help the SMEs take full advantage of schemes already there, so that they can be guided through this forest of assistance in order to get what they need and what will make a difference for them.

But nevertheless, I invite the members to look at these 10 pages. Let me know if you have other ideas, or if you think these ideas can be simplified or improved. We will keep on improving our package and, if need be, add to these web pages, so long as it makes our assistance more effective and does not increase confusion.

But I know that SPRING feels a mission to help SMEs. This is not just a business, and those are not just clients. They feel that this is something which is worth doing, which they believe in, and that there is promise and hope - something worth promoting. They are going at it 'heart and soul' and the Government is behind them. We are happy to consider new ideas to help SMEs succeed.

Our philosophy is that if SMEs have good potential for growth and for success, we

should encourage and help them in all the ways which are possible. But if SMEs are non-viable, then we should not artificially prop them up because that will just extend their pain and misery. It would not do a real favour to their owners and to the employees.

Mr Inderjit Singh and Mr Chay Wai Chuen raised the question of incentives like the Global Trader Programme and the Warehouse Retail Scheme, which they felt were biased towards foreign companies and multi-nationals. This is not true. As a principle, our incentives are focused on promoting desired activities and influencing where companies decide to locate, be they Singaporean companies or foreign companies. The incentives are not biased or structured in terms of ownership.

In the case of the Global Trader Programme, it is aimed at making Singapore a global trading hub. It targets all companies that commit to conducting substantial offshore trading activities, and to carry out business activities which will result in spin offs to our local economy. It really does not matter whether these are local or foreign companies. As a matter of fact, there are some local traders which are enjoying this incentive, such as Petra Foods and Agritrade; maybe not as many as we would like, but it is open to them.

In the case of the Warehouse Retail Scheme, this is designed to encourage companies, whether local or foreign, to establish their regional activities in Singapore. The requirement for this scheme is that 60% of the gross floor area must remain industrial but the balance can be used for retail. But when it is designated for retail, the user is charged full retail rates, comparable to retail rates in the vicinity. It should not put retail businesses nearby at an unfair disadvantage or at risk from large firms which are enjoying concessionary rents. It will increase the supply of retail shop space - that is true - but that is supply and demand, and I think, overall, that is good for the customers.

Pro-enterprise Government

Mr Wee Siew Kim and Mr Zainul Abidin Rasheed have suggested that public agencies need to be more pro-enterprise. For example, they suggested that some small businesses should be allowed to operate at void decks.

We have relaxed rules for small businesses. We used to be very stringent and some of the regulations were overly restrictive. We review and update them on an ongoing basis. For example, we now allow small businesses like car cleaning and mobile ice cream kiosks in HDB car parks, provided they do not affect the parking needs of residents, they

do not create nuisance to the residents, or compromise the safety of car park users. We have also liberalised street hawking so vendors can sell food like ice cream, which does not perish so easily, in housing estates and car parks. Last year, we included newspapers and costume jewellery because, in the downturn, we felt this is one way people would be able to make a little bit of money for themselves and tide over their family.

But many of the conditions and rules are there for some reason, and we cannot remove rules which are necessary for public safety or for the living environment. HDB has drawn the line on using void decks for commercial activities. I think we have to be fair to the people who live upstairs, especially on the second floor, and we have to preserve the residential character of the housing blocks. I would be careful about having char kway teow or something like that; the more fragrant it is, the bigger the problem upstairs.

But it does not mean that rules will never be changed. The position is continually open and we will review our rules as business needs change, and as views evolve on what the public considers acceptable, in terms of level of safety, convenience and public order.

So, I encourage Members to keep on raising the subject and pushing the boundaries. With this dynamic tension, from what you think will be good and what we feel we can do, we will be able to become more pro-enterprise. I hope that in the process, Members will be able to understand what are the constraints and real problems.

Mr Inderjit Singh has asked us to be patient before asking about results from the entrepreneurship promotion efforts. I also ask that he and other Members be equally patient because it will take time for the pro-enterprise mindset to become entrenched. But, we have success stories and we have outcomes which we can be proud of. For example, there is a home-grown sheet metal fabricator and machining company called Eng Tic Lee Achieve, which acquired new capabilities and became the first company in Southeast Asia to manufacture pharmaceutical packaging machines in partnership with a leading German equipment manufacturer. Many others have also made their mark in the region in China, in India, and also now in new markets in the Middle East. As we continue with efforts to improve entrepreneurship, I am confident we will have many more success stories to celebrate.

GLCs

Still on local enterprises, Mr Inderjit Singh has asked about efforts by Temasek companies to become globalised Singapore enterprises, as recommended by the ERC. Our companies have expanded overseas over the years, but these are decisions which the companies have to make - with their boards and their managements. The Government cannot dictate the pace of expansion for individual companies. In fact, Inderjit also reminded us that we should not get involved in dictating things for these companies. In the long term, Temasek's aim is to reduce exposure in Singapore from half, which it presently is, to about one-third. The companies are moving. Sometimes, we give them an encouraging nudge.

The Minister Mentor (MM) once in a while gives a very encouraging nudge. Members will have read that he has been talking to SIA and its management and unions. Mr Inderjit Singh raised an eyebrow and suggested that we have failed to observe the ERC's recommendation to ensure that GLCs are commercially-run without interference by the Government. I think without interference does not mean without encouragement.

MM's involvement has been chiefly in resolving the labour relations situation in SIA. It reflects his long association with the tripartite process and his standing as a trusted and well-intentioned neutral party by all the players. It is also driven by the Government's larger strategic interest to safeguard our status as an air hub and to help SIA restructure to face a new landscape while it is still doing well.

So MM's comments to SIA that it needs to consider trimming its businesses was not a directive. The specific restructuring and adjustment to deal with the future will have to be decided by SIA management and its board, based on what makes commercial sense. But sometimes it is helpful to paint a broader picture of the industry trends and state clearly where the Government sees a strategic national advantage - in this case, in being an air hub rather than keeping out competition in order to protect Singapore Airlines; so that managements and unions recognise that tough changes are necessary. As Mr Inderjit Singh pointed out, the comments may have preceded an upward tick in the SIA stock price. So maybe the market took it positively.

Maintaining a competitive tax environment

Finally, on maintaining a competitive tax environment, Prof. Ivan Png has suggested minimising tax incentives and moving towards a simple tax system with a low headline

tax rate.

This is an ideal which I sympathise with, but unfortunately, reality is not so simple. The basic problem is this. We want the best companies in the world to come and locate here - offer the best technology, best jobs, best markets - but these best companies are in demand everywhere. Other governments are courting them. Even the developed countries are courting them. America, Japan, Europe - they offer lucrative incentives to selectively anchor key businesses and investments. Sometimes, they give outright cash grants per job created - one hundred thousand or two hundred thousand Euros because every job created is one fewer job on the unemployment rolls.

So, if we want them to come here and we say you pay the same here as everybody else in Singapore - 20% corporate tax - we cannot get them. We are out of the running. They come to see us and they show us; they say this is best of breed. Best of breed - they 'shop' for the best incentives from different governments - investment allowances, tax holidays, grants, training assistance schemes and so on. Assemble one page 'best of breed' and they tell us: please match this and then we will think about whether to put you into the running.

And if we need them, we have to make an offer which they will consider, but one which leaves us above zero. Not ending with a net negative but above zero. If they come, we get the economic spin-offs.

On the other hand, if we say we give the same favourable tax rates, flat tax rate, to other companies that we give to the best, most desirable project which we want to anchor here, the Government will get very little revenue.

So we have to retain tax incentives to attract and retain strategic businesses and activities. At the same time, we have to ensure that our incentives are granted fairly and objectively - that the companies must meet our criteria and deliver specific net benefits to our economy.

Overall, our formula has served us well. Quite a low headline rate to support enterprise, plus targeted incentives, usually with clear sunset clauses, to promote strategic investments. But we try to keep our tax code clean - we do not encumber it with many special perks and loopholes as happens in other countries, because we would like to keep the playing field as level as possible, subject to this constraint - that there are companies,

which we need, whom we cannot charge the full rate.

Maintaining fiscal prudence

Even as this Budget invests in key areas of growth and shares the fruit we have reaped with Singaporeans, it maintains our core principles of fiscal prudence and sustainability over the long term.

Keeping Government lean and trim

As I said in the Budget Statement, our major taxes are at about the right levels. On the other hand, there will be new spending needs in healthcare, education, training and R&D which will put pressure on our finances.

So, we have to keep the Government lean and trim to manage these new spending priorities. Over the years, we have introduced various initiatives to help do this. To drive discipline, we have the Manpower Management Framework (MMF), the headcount freeze and other schemes. To get value for money, we have best sourcing, demand aggregation, the Centre for Shared Services and so on.

Dr Ong Seh Hong has raised concerns that cost-cutting efforts such as the Manpower Management Framework should not come at the cost of poorer service levels, or worse still, drive agencies to outsource services at an increased cost to the public.

We are mindful of these concerns. The MMF aims to achieve headcount reductions through productivity improvements, job redesign or by re-prioritising functions. Where there is additional manpower required, the framework is responsive to the circumstances of the Ministries. For example, for the Budget Terminal at Changi - it is a new service. We are providing additional manpower headcount. Or, because the IR is coming, MHA needs to set up a Casino Regulatory Authority of Singapore - we are studying how we can increase MHA's baseline in order to account for this new function so that there will be appropriate manpower recruited for this.

Best sourcing results in outsourcing only if the private sector can do the task more cost-effectively and, therefore, cannot be the cause of increased fees. Since we launched Best Sourcing in February 2003, we have market-tested 218 functions. We have outsourced 59% of them. The annual operational cost savings is S\$25 million or 25% of

in-house costs. Still quite small, but I think there is further potential. Outsourcing has resulted in direct savings for the public. For example, the Ministry of Finance itself has reduced the fees charged to suppliers for registering as Government suppliers by at least 10% as a result of outsourcing this service.

Mdm Halimah has raised concerns that MMF should not inhibit public sector agencies from employing older workers and she has warned that best sourcing should not simply become "cheap-sourcing", because private companies may cut back on staff welfare and benefits to win jobs.

The public sector's approach is that we employ the candidate who best fits the job requirements regardless of age, sex or race. But when we outsource, we outsource to reliable vendors - we should not assume that outsourcing achieves lower costs simply by having the vendors cut the workers' salaries. There will be, in some cases, specialised private sector providers which offer lower costs simply because the business which is best sourced to them is their primary business. So, they can achieve greater economies of scale and innovation. Also, I would say that we want to outsource to a reliable company, not one which submits a ridiculously low bid and then is unable to meet its obligations or pay its workers and then runs into trouble halfway, leaving the Government to pick up the pieces.

Mdm Halimah has suggested that the Government considers stipulating in outsourcing contracts that providers must comply with labour laws and pay the employees decent wages on time. I recognise this concern and there have been some cases which have run into problems. But, the solution lies in enforcing the labour laws. I do not think a contract obligation stipulated by the Government as the buyer of the contract will solve this problem, because really it is a legal obligation that the vendor pays its workers, pays the CPF, meets all the legal rules which he has to meet. Anybody who does business with the Government, or with anybody else, is expected to do that. If they do not, there will be penalties. From time to time, employees complained that they have not been given their pay. In such cases, if they have missed out on the rightful employment benefits, they should seek the union's advice or they should approach MOM for help.

Specifically on the change on headcount arising from the MMF, Mr Chay Wai Chuen has questioned the apparent increase in the public service headcount despite the MMF. May I clarify that the increase which he saw in manpower in the FY2006 Budget - 1.6% increase in the headcount - is actually an increase in the establishment posts and not the

actual headcount, because often the establishment posts are left unchanged for some time while agencies work out how to cope with fewer personnel by, for example, streamlining or modifying processes when they have natural attrition, resignations and retirements. On the other hand, when agencies undertake new functions, they introduce additional posts. So, overall headcount numbers have come down although the establishments have not yet.

Funding this Budget

Now, let me talk about one very important issue which MPs have raised, and that is, funding this budget. Several MPs, including Mr Yeo Guat Kwang, Mr Chew Heng Ching, have asked if this Budget's stance diverges from our principle of fiscal prudence and our longer-term sustainability. And Mr Ong Kian Min had asked if we should have been more tight-fisted and withheld some of the generous cash give-aways.

It is good that Members are looking beyond this Budget to these issues of long-term growth and fiscal sustainability. But let me assure Members that this Budget will not strain our long-term fiscal position.

First, the size of the Progress Package, \$2.6 billion, is not large compared to that of the New Singapore Shares which was \$2.5 billion and Economic Restructuring Shares which was \$2.7 billion. So it does not imply unprecedented generosity as mentioned by Dr Amy Khor. However, because we have become more targeted in our approach, older, lower-income households can expect to receive more this time and the impact on them will be more significant.

Second, our Progress Package is not a permanent programme. It is once-off. We are not promising this every year or every five years or every so many years. It is once-off, needed this time because we are restructuring, because the economy has turned good, and yet we know that there are some segments of the population needing help. So, a Progress Package is justified.

Also, our transfers to the Endowment Funds, which Prof. Ivan Png mentioned, are accounted for conservatively. Prof. Png suggested that the Overall Budget Position should be calculated based on actual expenditures rather than the total transfers to these funds. This is a plausible accounting treatment, but we have chosen a more conservative approach in line with our principle of fiscal prudence.

Going forward, our fiscal position is sustainable. In this term, it has been tighter than we expected and tighter than before. Several reasons - because there was a slow economy in 2002 and 2003 and we have had two major packages. First, we provided the ERS (to offset the GST increase) which was \$2.7 billion. Later on, we deferred part of the GST increase, staggering it, first 3% to 4%, then 4% to 5% - the deferral cost \$600 million-\$700 million. It is big money. And now, we are having this Progress Package.

Going forward, we are not likely to have the same combination of events. Nevertheless, the position will be fairly tight and we must continue to be vigilant and focused.

There seems to be some confusion about how we will fund the Special Transfers of \$3.59 billion for FY2006, judging from the media and analysts' reports on the Budget, and also from what has been said in this House.

As I stated in the Budget Statement, we have some funds which accrued to the current Government when it took office in 2001, as well as some capital receipts from our statutory boards during the term of this Government. We do not reflect these capital receipts in the overall budget position because despite what Mr Steve Chia said, they are irregular, lumpy and uncertain sources of funds. Over the last 10 years, these capital receipts have fluctuated between \$30 million at the lowest to a few billion dollars at the highest. If we had included them, it would have overstated the amount of regular revenue we have on a year-to-year basis with which to fund our regular expenditures. But these capital receipts remain available to the Government to spend within its term, without drawing on past reserves. Taking them together with the funds from the changeover of year 2001, we have enough to pay for the Special Transfers without drawing on past reserves.

Let me just go through some of the numbers.

We started off the current term in 2001 with \$2.51 billion of funds accruing to the incoming government. The amount was computed because it was a changeover year, and it was computed in accordance with the Apportionment Rules between the outgoing and the incoming government as laid out in the White Paper on the protection of reserves.

The Government also received \$2.45 billion over FY2002 till FY2005 in capital receipts from statutory boards which were returning capital in excess of their needs.

On the other hand, if you total up the budget surpluses and deficits between FY2002 and FY2006, including \$3.59 billion of Special Transfers in 2006, the net cumulative Overall Budget Deficit is \$4.23 billion.

So, just taking the \$2.51 billion that the current government got in FY2001 plus the \$2.45 billion in capital receipts from statutory boards - that adds up to \$4.96 billion - we can comfortably fund the \$4.23 billion net cumulative Overall Budget Deficit from FY2002 to FY2006.

So, we have enough funds with some left over. But let us not exaggerate. *Today* reported on 24th February that the Government is able to draw on capital receipts from statutory boards in the current term and such receipts raked in \$13.42 billion between the fiscal years 2002 and 2005. Mr Steve Chia yesterday further inflated this figure to \$19 billion.

Mr Steve Chia says that he is misled and that the people are misled by the Government. But actually it is Mr Steve Chia who is misleading all of us because these numbers are all incorrect. We do not have \$13.42 billion of capital receipts to draw on as reported by *Today*, let alone \$19 billion as claimed by Mr Steve Chia.

Let me explain. *Today's* main error is to treat capital receipts from the sale of Government land as money we can spend. These land sales add up to more \$10 billion, but they are locked up, as past reserves, and cannot be touched because this is not new money. It is not earned, it is not capital gains, it is just transformation of a piece of land into cash, transformation of one asset into the other. The land has been locked up, so the cash proceeds are also locked up. This was *Today's* mistake. Mr Steve Chia also made this mistake but I believe he must have made some other mistakes in order to reach such a huge number.

Fiscal sustainability

Mr Low Thia Khiang asked why it is okay for the Government to incur a deficit of \$2.9 billion and yet when the opposition suggests increasing expenditure on education and healthcare, we say it is fiscally irresponsible - which it is.

The reason is that the Workers' Party proposes to spend regardless of whether we can afford it on a sustained basis. To quote the Workers' Party Manifesto, it talks about "an unconditional needs-based welfare safety net". In contrast, this Government lives within its means without neglecting its obligations to lower-income Singaporeans. Regular expenditures are funded by regular revenues and not irregular capital receipts. I had explained earlier that the Progress Package does not draw on past reserves and will not impose an ongoing fiscal burden on taxpayers.

Mr Steve Chia's speech yesterday shows vividly where the Opposition's approach will lead. He wants to raid the bank. He proposed cutting all sorts of taxes and fees; just declare that Christmas has arrived. Or as *Zaobao* says "*zuo chi shan kong*" (sit and eat until the mountain is empty); it is precisely this kind of free spending which the Constitution and the Elected President have been designed to prevent. The safeguard ensures that our past reserves are protected and politicians will not make free with them in order to win popularity.

But the Workers' Party advocates that we abolish the Elected Presidency and remove the Second Key. That is why I believe that the Opposition's approach and the Workers' Party's approach is fiscally irresponsible.

Mr Low Thia Khiang's memory also seems to have been selective. He claims we are not spending enough for Singaporeans who need help. But, he has forgotten. During downturns, we have provided assistance to Singaporeans who have difficulties coping. Mr Low said that after giving out the New Singapore Shares and holding elections in 2001, we pushed up the GST rate. Yes, we did. But what we also did, which he forgot to mention is that before we raised the GST, we provided \$2.7 billion worth of Economic Restructuring Shares to help Singaporeans cope. So the GST was completely buffered by the Economic Restructuring Shares, and the New Singapore Shares is a completely different package, a clean benefit which all Singaporeans enjoy. So to say that the New Singapore Shares resulted in the GST after the elections is as they say in Latin "*suppressio veri suggestio falsi*" (by suppressing the truth you suggest a falsehood).

Mr Low also said we have not done enough to help the poor on a consistent basis, and our help is only once in five years. Since 2001, this Government has spent about \$7.8 billion in total for a variety of assistance measures not counting this Progress Package. This includes the New Singapore Shares in 2001, the ERS from 2002 to 2004, the CPF

Top-Ups from 2004 to 2006, U-Save, Service and Conservancy Charges and Rental Rebates, and so on. A typical low-income household would have received more than \$11,000 in total from all these schemes. This, not counting the Progress Package.

Furthermore, Mr Low has had nothing to say about the substance of the Progress Package, unlike, for example, Mr Chiam See Tong, who has gone through and has pointed out some issues with implementation, particularly with the Workfare Bonus. Indeed, Mr Low had nothing to say about his alternative propositions as to how the Workers' Party proposes to take Singapore forward and to help low-income Singaporeans - nothing. It only shows that he is really not interested in whether Singaporeans are getting the help they need. He is only interested in scoring political points.

The underlying principle that must continue to guide this Government is fiscal prudence. Every term of the Government must live within its means and the Budget must be in overall balance over the economic cycle, and that is what guides this Government.

Moving forward together

Economic growth is a basic pre-condition to raise living standards across the board. But incomes will get stretched out as we restructure the economy and as globalisation hits us. Older workers and lower-income groups will face particular difficulties. So we have to augment our broad-based approach with more targeted help. Deliver the fruits of growth to every citizen, especially the older workers and lower-income groups who need the most help. Ensure that nobody is left behind and left out.

At the same time, we have to provide the help in a way that encourages recipients to make the effort to work, not to free-ride on state support, to target the areas where the needs are greatest, to involve the community and the grassroots network and leaders, and to maintain fiscal discipline and responsibility.

Workfare, not welfare

The key principle was set out by Ng Eng Hen's Committee on Low Wage Workers - Workfare, not welfare. Because, the best way to help people is to help them re-train and find work, so that they can take care of themselves and their families. This is something which many MPs have said in different ways over the last few days.

Long-term measures to help workers

Dr Amy Khor asked whether we can find sufficient jobs for all those willing and able to work. There are many jobs. Last year alone, we created 111,000 jobs. Job vacancies in the private sector, just in establishments with at least 25 employees, rose to a four-and-a-half year high of 20,000 in September 2005. But, many of the jobs created are at the higher end. Nearly half the job vacancies require at least an upper-secondary qualification, which is not surprising because this reflects our economic restructuring. So, while there are jobs available, the workers who are unemployed will need the skills and qualifications in order to take up these jobs. That is why we have many initiatives like the Workforce Skills Qualifications System to help them to do so. At the same time, NTUC is working with WDA to step up the Job Re-creation Programme and to re-create 10,000 jobs a year.

Dr John Chen and Mr Zainudin Nordin talked about the need for systematic and sustained measures and also asked whether we could make the Workfare Bonus permanent to help the lower-income and unemployed in the longer term. I agree that sustained measures are needed. Indeed, most of the key Workfare measures are permanent and address structural issues. We are providing more social support for low-income families so that parents can go out to work. We are expanding job opportunities through job redesign and equipping individuals with higher skills for better jobs. WDA is expecting to spend a lot of money - \$140 million per year over the next three years on training and re-creating jobs, and we are investing heavily in education. I agree completely with MPs - Dr Lily Neo, Mr Arthur Fong, Mr Ong Ah Heng, Ms Eunice Olsen - who said that it is important to concentrate on children of lower-income families so that they can, in turn, help to lift their families out of poverty. We have a comprehensive approach that includes early intervention, making sure that education is affordable to all, reducing school dropout rates and strengthening vocational training pathways. The Opportunity Funds support our commitment to help these children.

Financial support for workers

There are two key financial measures to encourage work. One is the additional CPF Housing Grant, and the other is the Workfare Bonus. The additional CPF Housing Grant is a permanent scheme, consistent with our policy of helping Singaporeans to be homeowners. It will help provide lower-income HDB first-timers with a significant sum for buyers to own their homes - a significant sum over and above the subsidy which all

HDB buyers already enjoy. \$20,000 is equivalent to 20% of the selling price of a three-room flat, and an even bigger proportion of the selling price of the two-room flats which HDB will be building. So, we have made one very big move on the additional CPF housing grant, which is permanent, and which is targeted at the lower-income groups.

The Workfare Bonus marks a significant step because it provides low-wage workers with a cash bonus. If you work, you get the cash bonus at the end of the year, twice - this year based on 2005 work, next year based on 2006 work. It is a once-off scheme because this is the first time we are doing it. Payments will be for two years. We should experiment and gain experience with the scheme first, before considering whether we need a more permanent work-based assistance scheme like this, and if so, what form it should take.

With once-off schemes, we can afford to make mistakes. But with a permanent scheme, mistakes will be much harder to reverse and we have to be mindful of unintended consequences. Will a scheme like this cause employers to push wages down permanently? Will it reduce the incentive to upgrade to a higher paying job? How do we deal with a problem, which Mr Chiam talked about, where somebody works hard, goes from \$1,200 to \$2,500 doing overtime and then, as a result, falls out of the net and does not qualify? To some extent, that is unavoidable but how steeply do you want the bonus to tail off with income so that for each extra dollar of work, it is still worth your while to go for that extra dollar? This is the sort of problem we have to watch out for and study. How complex will the Workfare scheme be to administer? How do we prevent people from over-claiming? Nobody over-declares when you pay income tax but when you claim negative income tax, over-declaration can be a significant problem.

But, however this Workfare idea evolves, we must never allow it to expand into a permanent needs-based welfare scheme that is not conditional on work. Because that is the way to financial ruin and worse still, as many MPs have pointed out - Dr Amy Khor, Dr Chong Weng Chiew, Dr Wang Kai Yuen and Dr Tan Boon Wan - it will breed a crutch mentality.

Alternative suggestions for helping vulnerable workers

Some have suggested a few other ways to help vulnerable workers. One is to have tax incentives for companies to hire older workers. It is possible but I am not in favour. I will

tell you why. A tax incentive is, in principle, no different from a Workfare Bonus which is paid directly to the workers, except for this - it goes through the company and the company has to make a profit before it can take advantage of the tax incentive. I would rather pay this directly to the worker. Also, if I make a tax incentive which extends to all older workers and not just the older lower-income workers, then there will be a lot of deadweight loss because I will be granting tax exemption on many people who really do not need the tax incentive. It is more straightforward to give a direct grant to workers, like through this bonus. In fact, that is how other countries which have earned income incentives do it - direct payments.

Mr Inderjit Singh suggested providing more retrenchment protection through increasing compulsory CPF savings or having a national unemployment insurance scheme. It is also one of the items in the Workers' Party manifesto. The same question applies to both - which is, who is to pay for this protection? Who is to pay for this unemployment insurance? If you raise employee contributions to CPF, then you reduce workers' take home pay. Are you prepared to do that?

If you raise employer contributions, then you are going to increase business costs and lower competitiveness. In fact, since the ERC recommendations, we have been working hard to adjust the CPF contribution rate to be at a sustainable level to lower cost and yet have enough for retirement requirements, for housing requirements, and for medical requirements. Quite a number of MPs, including Ms Penny Low and others, have pointed out that we must make sure that we have enough money for retirement. Every additional item you take out of the CPF means \$1 less from somewhere, from retirement needs or from housing needs. You might say: Decide the principle, then we can figure out how to do it later on. But I think we have to look at the practicality and the practicality is: who is to pay for this?

Also in Singapore, most workers already have some form of retrenchment protection. MOM did a survey two years ago in 2004 - 96% of private sector establishments with at least 25 employees paid retrenchment benefits to their local employees who had at least three years of service. So there is already some kind of unemployment protection which is in the retrenchment benefits scheme. If you are going to introduce a new layer of unemployment insurance, is it going to be on top of retrenchment benefits or in lieu of retrenchment benefits? I think you have to consider carefully because if it is in lieu of retrenchment benefits, you have to take away a well-established scheme which is more or less working. We can improve it but it is a scheme which has worked out and people have

accrued retrenchment benefit rights which are very important - as I am sure Mdm Halimah will confirm. If it is going to be on top of the present system, is it wise to have double provision for unemployment protection at additional cost and with additional negative side-effects?

What are these side-effects? *Straits Times* today had a timely article: "How the next welfare state must work?" It is an article from the Ifo Institute for Economic Research in Munich and it is by the Director, Prof. Hans-Werner Sinn, who is an eminent economist. The research institute is a well-respected European, German, think-tank. They produce *Ifo Business Surveys* which track how the European economy is going. Their article today says how the next welfare state must work and what is wrong with the present welfare state. I read from the article: "In Western Europe, the welfare state helps these people by paying replacement incomes in the form of social aid, unemployment benefits or early retirement benefits". Unemployment benefits - so it gives you replacement income. In other words, if the market does not provide you with a sufficient income from your labour, the state will provide an income without requiring you to work - which is what unemployment insurance is about. He goes on to say: "As humane as this policy is meant to be, it is largely responsible for the mass unemployment from which Europe suffers. The reason is simple - replacement incomes are wages for doing nothing."

Then he goes on to explain this is an old problem but it is worse now because of China and India, and now wages have to adjust. So, another way European companies have tried to fix this is with a legal minimum wage, to prevent wages from falling. He explains why a legal minimum wage is also not a sensible approach. He says Europe's welfare system based on replacement incomes and minimum wages will not survive globalisation. Because, if you go for minimum wages, you are actually pricing yourself out of the market. You are encouraging other people to come in to work - to take the work away. You will not survive globalisation and there is no way to turn back the tide of history.

So what does he propose? He proposes wage supplements, which means paying people to work - the way we are doing Workfare. He says even wage supplements is expensive, because you have to pay everybody - you have to pay all those who are working and not just those who are not working. But he thinks if you do the sums, it probably will be less expensive than going for unemployment benefits and minimum wages.

I think the most important thing is, whether we call it wage supplements or Workfare,

we are encouraging people to work, we are encouraging people to take care of themselves, and we are ensuring that they have a reasonable standard of living. At the same time, we let the market do its work so the economy can restructure, can grow, and in time they will upgrade, retrain and be able to do better for themselves.

The Progress Package

Targeted approach

Now, let me talk about the Progress Package. When there are budget surpluses, we have periodically shared the fruits of growth with Singaporeans and that is what the Progress Package does. But there is a key difference. With the Progress Package, we are taking a more targeted approach. There is more for the older workers and for the lower-income group most affected by economic restructuring. More for the elderly most worried about medical and retirement needs.

Some MPs like Ms Irene Ng, Prof. Ivan Png and Dr Ong Seh Hong have suggested we could have taken a more broad-based approach and provided more to the 'asset-rich, cash-poor' group, younger lower-wage workers in their 30s, housewives and so on. I recognise that these are all groups which have some claim. The Progress Package recognises the contributions of all Singaporeans. Every adult Singaporean will receive at least \$200 of Growth Dividends and many Singaporeans will receive more. But, we have to set priorities to make the most of the package and to send a clear message on what our focus is. This Progress Package is weighted towards poorer Singaporeans and lower-income workers. For the Workfare Bonus, we have focused on the older lower-wage workers because they are more vulnerable in terms of employment, security of jobs, and their income. Our aim is to make sure that nobody is left behind when we restructure and upgrade the economy. I think the message has got through. The *New Paper* reported one housewife, Madam Kwan Yoke Kuan, who said that looking after the older lower-income group is more important. This, I think, sums up the sentiment of many Singaporeans. Over the past week, I have received many emails too from people who agree with the Budget's focus of targeting help for those who are lower-income and most in need.

I should also like to urge Members to look at this package not by itself but in the context of the many other things which the Government has done and the many other packages which we have introduced over the years. As I explained just now, we've spent more than \$10 billion, including this Progress Package, since 2001 on various assistance

measures. It is not possible to be absolutely fair to every group every time. I cannot do that unless I know in detail everybody's life, how the household is structured, what your finances are, and what your background circumstances are. But, we try to be roughly fair, and over time, with the range of packages, taking all our policies together, I think generally we have been fair to all.

Implementation of Progress Package - fair and simple

Now let me deal with some of the queries on the details of the Progress Package. First, do not be anxious about the need to sign up. Most Singaporeans only have to be patient and wait for the letters to come. The letters will tell you exactly how much you will be getting, then just sign up from 1st April if you want to receive it on 1st May. But even if you are a little bit late, we will keep the window open until the end of the year. Let us know whether you want us to credit your bank account or you want the cheque in the mail. There is no need to put in \$50 in your CPF account this time, but in future we will think about it.

Only those who meet the age, income and housing criteria for the Workfare Bonus but do not have CPF contributions and have not received a tax return, they are the ones who should fill in a Workfare Bonus scheme income declaration form by 1st April. It is a serious declaration. It is an IRAS form. There are serious consequences if it is not properly filled. Please declare honestly what you have earned and we will work on that basis.

I also welcome Mr Chew Heng Ching's and Mdm Ho Geok Choo's suggestions that better-off Singaporeans may want to donate their Progress Package to others because they may not need the money. They can do so. We have arranged for this. When they sign up online, they can donate to a list of available charities.

So, the first thing is - do not worry, the administration is simple. Second, the conditions are simple and fair. Mr Ang Mong Seng, Dr Teo Ho Pin, Dr Warren Lee and some members of the public have asked why we have not used property ownership instead of place of residence for the Growth Dividends and CPF top ups, because you could be living in your parents' or relatives' home. I agree that the proxy of the residential address is not quite perfect, but generally speaking, those people living in higher-value homes will have more resources to call on even if they do not own the place they live in.

Scholarships

Prof. Ivan Png Paak Liang (Nominated Member): Sir, once upon a time, the Government faced a shortage of talent. The civil service paid poorly, and white officers were leaving for their home countries. The Singapore Armed Forces had to start almost from scratch. However, today, the situation is vastly different. The civil service and SAF offer exciting careers, pay market salaries, and attract plenty of talent.

Yet, the Government and statutory boards continue to grab young people at the age of 18. Today, the Ministry of Education announced GCE 'A' level results. Every year, about this time, the *Straits Times* makes thousands of dollars from its scholarship supplement.

Our talent pool, however, is quite fixed. So, the scholarship competition is just a zero-sum arms race. Sir, it is time for a performance review of the scholarship system. Scholarship selection is based on interviews and examination results at age 18. However, using such information to predict a person's future aptitude and interest four to 10 years later is almost like speculation. I know this from personal experience.

For instance, what proportion of Administrative Officers reach the Superscale Grade at the end of their bond? What proportion of SAF officers reach the rank of Colonel at the end of their bond? And likewise for Police officers. I am not saying that the "failures" were not talented. It is simply a matter of poor fit - they might have been better suited for another career.

Who loses from the scholarship scheme? First, the person himself/herself? Young people are attracted to scholarships. Indeed, I have heard that in certain junior colleges, it is shameful not to win an overseas scholarship. Yet, eight, even four years later, will they

fit the organisation that they are bonded to?

Second, and ironically, another loser is the scholarship-granting organisation. One loss is the money spent on university tuition and allowances. A bigger loss is in the morale and contribution of "non-scholars". As I have said, the Government does attract talented people without scholarships.

However, Sir, there is at least a perception that the career opportunities of "non-scholars" are limited. Indeed, I have even heard that they are called "farmers". This is very disheartening to me.

The third loser from the scholarship is our Singapore universities. We have world-class institutions here. So, why do Government and agencies discriminate between "overseas" and "local" scholarships? Indeed, in a recent report from the Ministry of Trade and Industry on A*STAR, it also mentioned overseas and local scholarships. Sir, there should be only one class of scholarships. Give the student a fixed sum of money and let him/her choose how to spend it. That would be true empowerment.

Sir, there was a time for Government scholarships. Let us agree that that time has passed. Forty-one years after independence, our country has matured. Our Government has also matured. It is time to compete for talent on a level playing field.

The Chairman: Dr Tan Tze Wee is not here. Mdm Halimah Yacob.

Older Workers

certain categories to be considered as spent. And the reason behind this was to give offenders a second chance to find jobs. But that amendment only works depending on the question that the employer asks. If the employer asks, "Do you have a record?" Then the person can say, "No", because it is spent. But if the employer asks, "Have you ever been convicted of an offence?" Then the person has to say, "Yes". And the purpose behind that amendment is then lost.

I would like to ask whether the Government, as a major employer, is considering amending its forms. Its employment application forms, as I currently understand, actually ask the second question, which is "Have you ever been convicted of an offence?" I wish to know whether the Government, having amended the Act, will, as a major employer, also walk the talk and amend its forms to give such offenders a second chance.

The Minister for Defence (Mr Teo Chee Hean): Sir, first, let me thank Members of the House for their interest in issues related to the public service.

The challenges facing the public service are in line with those facing Singapore. The issues confronting us today are more complex and multi-faceted. Some can strike us with immediate and potentially devastating effect, such as a pandemic flu or a terrorist attack. Others are of a longer term but critical nature which will shape our society, country and region for decades to come - education, entrepreneurship, ageing population, healthcare, falling birth rate and new regional dynamics.

Our citizens are better educated, more globally connected and expect a higher level of service. They also expect more avenues for expression and participation. The public service has to be responsive to these developments. It must adapt and innovate in order to create the right conditions for peace and prosperity, and help seize opportunities for Singapore.

Today, the public sector consists of 15 Ministries and 66 statutory boards. These agencies, for reasons of accountability, have clear lines of responsibility. However, many issues do cut across agency lines. To be effective, the public service has to think and to act as one. There must be greater inter-agency coordination, not just in policy formulation but also in implementation of policies. This is why the public service is paying much attention now to working on what we call a whole of Government approach.

Various mechanisms have been put in place to tackle cross-agency issues. Where inter-agency problems are due to differences in fundamental policy orientation, there is a need to review the policies themselves and decide on potential policy trade offs, if necessary. To achieve this, we have set up inter-Ministry committees and project teams to carry out reviews. Examples of such high-level panels are the National Population Committee, the Ministerial Committee on Low Wage Workers and the Committee on Ageing Issues - the last two having recently released their recommendations. Much dialogue and collaboration between agencies happen with these committees which draw on public, private and people sector expertise.

We have also created new platforms to sensitise senior public officials to national imperatives and to build a common understanding of the challenges and issues facing Singapore. Managers are also put through milestone courses in the Civil Service College to attune them to cross-agency issues and national considerations so as to increase their capacity to think beyond their departmental work.

Besides addressing issues at the policy level, the public service has also set up similar mechanisms at the operational and implementation level to bring public officers together to resolve operational and service-related issues. One such mechanism, as Mr Wee has pointed out, is the Zero-In-Process, which he has requested for an update.

The Zero-In-Process Panel (ZIP Panel) was started in 2000. It is a mechanism in the

public service to identify and resolve issues faced by members of the public that cut across public agency boundaries. Issues are typically identified through feedback from members of the public. All issues surfaced are addressed. Where appropriate, they will be channelled to the ZIP Panel, which is chaired by the Permanent Secretary of the Prime Minister's Office. If the issue is complex, the ZIP Panel may even commission study teams to look into the issue and make recommendations for its consideration.

Since 2000, the ZIP Panel has identified more than 110 cases for action, with 22 inter-agency teams formed to tackle how the more complex cases can be resolved. For example, the ZIP Panel implemented the no-wrong-door policy in 2004. This policy requires all public officers to put a member of the public in touch with the right agency for help. This has enabled citizens and businesses to get in touch with the right agencies more quickly, instead of being given a run-around.

As another example, organisers had to apply for many licences needed to hold community events, concerts, sporting events or exhibitions. As a result of one such specific case that was brought to the ZIP Panel's attention in 2005, a project team was convened to look into the matter. The project team helped to identify the typical licences and permits needed to hold events and made these available to the one-stop on-line business licensing service. This can be done now on this on-line service.

Apart from the Zero-In-Process, there are other mechanisms to resolve inter-agency issues. The Pro-Enterprise Panel has so far reviewed close to 1,500 suggestions, some of which also involved more than one public agency. Besides responding to public feedback, the public service proactively re-engineers processes to deliver integrated e-services. The on-line business licensing service is a prime example of how more than 30 Government agencies have worked together

to provide an integrated one-stop solution in the area of application, update, renewal and termination of business licences. As a result of process re-engineering, the time taken, for example, to incorporate a new company has been cut from five days to 15 minutes. Since

the launch of the on-line business licensing service two years ago in 2004, more than 28,000 businesses have benefited from it. The public service strives to function as many agencies, one Government. Notwithstanding the achievement, there will always be cases where we can do better. Citizens and businesses who face problems with inter-agency coordination can surface this for attention at the PS21 website.

3.15 pm

Sir, to have a first-class public service, it is crucial for the public sector to attract a fair share of Singapore's most able people. Government scholarships are important as they are key source of talent to build capable public sector leadership. I would like to assure Prof. Ivan Png that the public sector is careful not to take in more scholars than we need. For the past few years, the total number of Public Service Commission and statutory board scholarships awarded had been kept relatively constant, at an annual average of about 300. For the year 2005, 249 scholarships, 93 in the civil service and 156 from the statutory boards were awarded. This is not a large number, considering that the public service, the Armed Forces and the Home Team have many challenging and demanding jobs that require very good people. It is also not a large number compared to the approximately 12,000 students a year graduating with 'A' level, or approximately 2,800 a year with three 'A' grades or more at their 'A' levels. If there were not sufficient people of high ability in the public service, we would not be able to have the quality and integrity that has become the hallmark of the Singapore Public Service which is recognised, not just in Singapore, but internationally, and we would not have the quality of a public service that the people of Singapore expect.

Students have a choice of whether to apply for a Government scholarship. If they do, they should be aware of the obligations and be ready to commit themselves to a public service career. For those who are not sure if they are suited to a public service career, they can pursue their university education on their own first and then decide on a career after graduation. And the public sector welcomes these individuals to join us if they wish to do so later on.

Prof. Png also asked how many of the scholars achieved Superscale grade or Colonel grade at the end of their bond. The bond today is six years and it will be quite an achievement if they do achieve Colonel grade or Superscale grade at the end of just six years of service. But many of them do stay on longer in their career, do achieve these grades and reach the highest ranks in the Armed Forces and civil service. That is precisely why we have taken them in. If we did not have such able people joining the civil service, committing and dedicating themselves to the profession, we would not have a constant flow of people, the refresh of people that is required in the service to have at the end of a 15-, 20-, 25-year career - people who can rise to the top and lead these very important organisations.

Government scholars are sent to both local and overseas universities. The PSC awards the prestigious Local-Overseas Merit Scholarships which are on par with Overseas Merit Scholarships for an undergraduate education in Singapore with the opportunity to do a masters programme overseas. PSC also sends scholars to top overseas universities in countries like the US, UK, PRC, France, Germany and Japan. Experiencing what the best foreign universities can offer and being exposed to diverse perspectives is good for the public service. We do not want a public service which has been brought up only within Singapore. I think that would not be very good for us.

To keep overseas scholars rooted to Singapore, the PSC brings them back after two years of study to attend a mid-course programme and to undergo a six to eight-week attachment in a public service agency. PSC scholars studying overseas can also choose to do their masters locally. Overall, the scholarship schemes have worked well. A vast majority of scholars adapt well to their working environment and live up to the high expectations demanded of them. Those who leave the public sector after working for some years generally still contribute to Singapore in one way or another at large.

On Prof. Png's concern about morale in the service, I assure him that scholars are not

automatically placed on a career fast track. I wish all of them could become enormous successes because we have great hopes for them when they join us. But we do assess them on their performance and potential rigorously when they are in the service compared to all other officers in the service and only if they do well, do they progress. They must prove their worth and demonstrate aptitude and ability before they are promoted. The public service values and rewards talent, whether they be scholars or non-scholars. And it certainly would be our loss to neglect talented non-scholars in the service.

Sir, let me now move on to an issue of national concern which Mdm Halimah Yacob has touched on - the employability and employment of older workers. Mr Yeo Guat Kwang and Mr Loh Meng See touched on this yesterday as well. Mdm Halimah has focused on those who are aged 62 and above. I should say that the public sector looks at older workers, not just focusing on this age group, which has specific issues regarding them. But we also look at older workers in general, and we look at workers who are above 40 years of age and see how we can make them more welcome in the public service as well.

The public sector does welcome older workers who have the skills, experience and passion. The public sector has a diverse workforce, comprising both younger and older workers with different strengths and talent to build an effective and efficient service. Recruitment is based on merit. The public sector employs a candidate who best fits the job requirements regardless of age, gender or race. Currently, about 39% of public officers are above 40 years old and 17% are above 50 years old. On average, about 15% of the new hires each year are older workers above the age of 40. Between 2002 and 2004, the public sector has recruited more than 2,800 such older workers.

Public sector agencies are free to employ retired officers if these officers wish to continue working and where the agencies have a need for their expertise. Over the past few years, more than 800 officers have been re-employed. This number does not include retirees who are employed on casual terms or on short term, ad hoc projects. The re-employed officers are in a diverse range of jobs, for example, retired teachers are re-

Prof. Ivan Png Paak Liang: Sir, responding to the hon. Minister's explanation on scholarships, let me say that I am not saying that we should not send scholars overseas. Rather, I was advocating one scholarship. There should not be a local scholarship or overseas scholarship. If we are going to offer scholarships, let us offer one scholarship, ie, same terms to everybody, a certain lump-sum of money, let them decide how to spend it. From the Government's point of view, same expenditure and no discrimination between local and foreign universities.

Secondly, will be the Minister please confirm that the usage of this ---

The Chairman: It is a pretty long clarification, Prof. Png. Can you make it short, please?

Prof. Ivan Png Paak Liang: Yes, Sir.

Secondly, would the Minister please clarify this term "farmers" is not used to distinguish people from scholars?

The Chairman: Do you want to reply to that, Mr Teo?

Mr Teo Chee Hean: Mr Chairman, Sir, we fund people who go on scholarships according to how much it costs for them to study. So if we give the same amount of money to a person who goes overseas to study as a person who goes to a university in Singapore to study and we try to balance out the two, we will probably be over-funding one of them quite a lot and under-funding the other quite considerably. The one who is studying in Singapore could stay with his mother and father and not incur an enormous amount of cost, whereas the one who goes away, say, to France, Japan, Germany or the United States for several years will, I think, be seriously out of pocket, if we give them the same amount of money. I should say also that we have to respect the choices that these young people make. The world is their oyster. If we were to limit their choices by limiting the amount that we give them, I think we will be doing ourselves a disservice as well and doing the public service a disservice.

The second question the hon. Member asked was whether or not the term "farmers" has been used. Sir, I think Prof. Png has come to this term very late. For as long as I have been in the SAF, we have been talking about such terms and we have dealt with that and gone past that for many, many years already. So Prof. Png has made this discovery a little bit late.

Mr Steve Chia Kiah Hong: Sir, the Deputy Prime Minister has not answered my question. Are we going to see more than the nine days for campaigning?

Mr Wong Kan Seng: Sir, the law specifies a minimum of nine days and we will get nine days. I do not see a need for change because, even with five years, if you have not done enough campaigning, then nine days is nothing.

The Chairman: Mr Wee, are you withdrawing your amendment?

Mr Wee Siew Kim: Yes, on behalf of the Members who have raised cuts, I thank the Deputy Prime Minister and the Minister for their replies. I beg leave to withdraw the amendment.

Amendment, by leave, withdrawn.

The sum of \$163,875,010 for Head U ordered to stand part of the Main Estimates.

The sum of \$62,180,700 for Head U ordered to stand part of the Development Estimates.

Column No : 569

Head M - Ministry of Finance

Progress Package initiative: \$1.43 billion for distribution of Growth Dividends to all adult citizens; \$500 million for top-up to the CPF Special or Retirement and Medisave Accounts of older Singaporeans; \$400 million for distribution to older, lower-income workers under the Workfare Bonus Scheme; \$200 million for distribution to National Servicemen to mark the 40th Anniversary of National Service; \$60 million for utilities rebates to HDB households under the Utilities-Save Scheme; and \$50 million for setting up Opportunity Funds to provide education and enrichment opportunities for students from lower-income families.

Another \$500 million is to be transferred to the R&D Trust Fund to be administered by the National Research Foundation. The balance of \$400 million is for the Community Care Endowment Fund, ElderCare Endowment Fund, Medical Endowment Fund and LifeLong Learning Endowment Fund. Each fund will receive a transfer of \$100 million.

That the total sum to be allocated to Head Z of the Estimates be increased by \$3,540,000,000.

That the increased sum of \$6,587,994,000 for Head Z ordered to stand part of the Main Estimates.

Column No : 615

Head C - Auditor-General's Office

Value for Money Audit

Prof. Ivan Png Paak Liang: Sir, I beg to move,

That the total sum to be allocated for Head C of the Estimates be reduced by \$100.

Mr Chairman, by the Constitution, the Auditor-General's duties are to audit and report on the accounts of the Government. His scope of work is very limited. In his Report for financial year 2004/05, the Auditor-General noted various irregularities, such as the mistaken Giro deduction of \$3,020 by the Ministry of Home Affairs, and the \$437 jackpot over-payment by the Paya Lebar Airbase Officers' Mess.

Such items are very trivial. We should focus the Auditor-General on big ticket items. Let us learn from other jurisdictions, such as Australia, Hong Kong, New Zealand and the UK. For instance, the duties of the Auditor-General of Australia are to report on the performance and financial management of the government. Two recent reports focus on the effectiveness of the government in, one, administering quarantine and, two, the Australian Armed Forces' upgrade of its M113 armoured personnel carriers.

Mr Chairman, I have another example - the UK National Audit Office's report on, I quote, "The economy, efficiency and effectiveness of the government". Presently, the officers are preparing a report on the lessons from the merger of five existing regulatory bodies into off-com. The UK National Audit Office hopes to identify good practices to guide future mergers of government agencies.

By contrast, our Auditor-General catches a few thousand dollars worth of late payments and some missing invoices. This misses the wood for the trees. The really big ticket items on which we should focus are questions of how to ensure value for money in Government expenditure, questions like how much the market value of an HDB block increases for every \$1 million spent on upgrading and utilisation of Government buildings.

Mr Chairman, we note here in Parliament that we have an auditorium. Across the street, in the Supreme Court, they have an auditorium. Around the block, at the Treasury building, there is another auditorium. There are a lot of auditoriums all within a 100-metres of each other. Other big ticket items like what is value add of the billions we have spent on economic incentives to multi-national and domestic companies?

Sir, let us focus the Auditor-General on the big ticket items, issues of value for money. Let us focus on dollars and not cents.

Mrs Lim Hwee Hua: Sir, let me first thank the Member for his comments and suggestions. I wish to inform him and the House that audits are only a part of the Government's overall efforts to achieve value for money in public spending.

As I mentioned in my speech earlier on this afternoon under Head M, the Government's philosophy is to exercise prudence in spending and to deliver more for the dollar as a standing demand on all Government agencies. While some other jurisdictions, as those cited by the Member, may choose to focus on what we call *ex-post* audits to check excesses and inefficiencies, in Singapore, we aim to achieve value for money proactively at various levels as a matter of habit. Let me just elaborate.

Firstly, at the agency level, there is management oversight on spending that is guided by Government-wide principles of effective budgeting, awareness of value in public spending and efficiency in operations. The PS21 (Public Service in the 21st Century) movement drives the whole public sector to productivity, quality service and organisational excellence. The block budget system which sets caps on Ministries'

spending as a percentage of GDP, the Economy Drive initiative which requires Ministries to strive for cost savings, and market testing and best-sourcing of non-core functions are all important ways by which the Government seeks to enhance efficiency and reduce costs in the public sector.

Secondly, all Ministries today have internal audit functions. In addition, the Accountant-General's Department assists the Ministry of Finance (MOF) in looking out for issues relating to efficiency in operations and excesses in spending. As an example of tightening up on spending, the Ministry of Finance introduced in 2003 the requirement for statutory boards to refer all projects above \$50 million to MOF for clearance, whereas previously statutory boards were free to proceed on their own if they did not need grants from the Government.

Centrally, MOF has also initiated and will continue to initiate a consolidation and standardisation of processes for economies of scale. Let me just quote three examples. The first is the shared services centre for the conduct of HR and finance services. The second is the standard operating environment for a common platform for info-comm technology across all the Ministries. And, thirdly, it is the aggregation of demand for common goods and services which different Ministries might need to procure. So far, the net savings have been encouraging.

Finally, there is of course the external audit function performed by the Auditor-General.

The Auditor-General's audits encompass the review of key systems and controls. In the course of such reviews, the value-for-money issues present themselves. They would be pursued and reported. The Auditor-General's past reports have included many value-for-money issues such as the cost of car park maintenance, the cost of vacant flats for rental, utilisation of vacant Government properties, the high cost of contract variations for private estates upgrading, and so on.

5.15 pm

While the audits by the AGO encompass both process and outcome, the Audit Report itself tends to focus only on the outcomes to demonstrate the effect of some of the control weaknesses. Control weaknesses and recommendations are then reported to Ministries after each audit project and brought before the Public Accounts Committee of this House by the Auditor-General.

The Chairman: Prof. Png, can you withdraw your amendment?

Prof. Ivan Png Paak Liang: Sir, I beg leave to withdraw the amendment.

Amendment, by, leave, withdrawn.

The sum of \$12,771,780 for Head C ordered to stand part of the Main Estimates.

The sum of \$265,200 for Head C ordered to stand part of the Development Estimates.

Column No : 619

Head R - Ministry of Law

The Chairman: Head R - Ministry of Law. Ms Rajah.

Legal Aid