

THE 2011-12 BUDGET

*Speech by the Financial Secretary, the Hon John C Tsang
moving the Second Reading of the Appropriation Bill 2011*

Wednesday, 23 February 2011

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Mr President,

I move that the Appropriation Bill 2011 be read a second time.

Introduction

2. This is my fourth Budget. In the past three years, we have been fighting back against the financial tsunami. We have striven to gain a foothold in the rapidly changing global economic landscape by dealing with the various problems triggered by the crisis on the one hand, and seizing new opportunities for development on the other. Today, our economy has fully recovered. The employment situation has shown continuous improvement, and our Gross Domestic Product (GDP) has exceeded the peak before the financial tsunami.

3. The lessons learned from this once-in-a-century financial tsunami help shed light on how to position ourselves and make better preparations for future challenges and opportunities. I will sum them up in four respects.

4. First, the shifting of global economic gravity from the West to the East has become more evident. During the financial tsunami, the sustained rapid economic growth of the Mainland brought in fresh opportunities, boosting our economic recovery. The accelerating trade and economic integration in the region also presents enormous opportunities for Hong Kong.

5. Second, adopting appropriate policies is vital to countering crises. Since 2008, we have introduced five rounds of fiscal stimulus measures, which are worth \$110 billion and equivalent to 6.6 per cent of our GDP. These measures have stabilised the employment market, boosted consumer confidence and fostered economic recovery. Our fiscal reserves have provided us with strong support for handling financial crises and created favourable conditions for economic development.

6. Third, perseverance and confidence are crucial to overcoming crises and solving problems. During the financial tsunami, the people of Hong Kong demonstrated flexibility and tenacity in the face of difficulties, turning crises into opportunities. Hong Kong is a people-oriented city. It was the interests of the people that we had in mind when we responded to the crises by implementing the strategy of “stabilising the financial system, supporting enterprises and preserving employment”. Our focus was on maintaining social and economic stability by supporting employment.

7. The role of the Government is, through various policies, to create a favourable environment to empower people to realise their potential and pursue their dreams and happiness. By developing the economy, we help people create wealth and enhance their competitiveness in the face of socio-economic changes. By developing education, people are given means for self-improvement and upward mobility. By introducing relief measures, people in need are helped to tide over immediate difficulties. Looking ahead, we will endeavour to create better economic conditions and open up more opportunities in society, thereby enabling everyone to share the fruits of economic growth.

8. Fourth, the market and the community should have a more varied relationship. Between the “big market” and the “small government”, we have a dynamic “big society”. We should make good use of our abundant social capital, encourage further cross-sector collaboration, and unite the efforts of our people to work for the common cause of Hong Kong’s social and economic development.

9. There are still many challenges ahead. The Government will make continuous efforts to promote the economic development of Hong Kong, build a cohesive community and improve people’s livelihood through proper allocation and effective management of public resources.

Economic Performance and Outlook

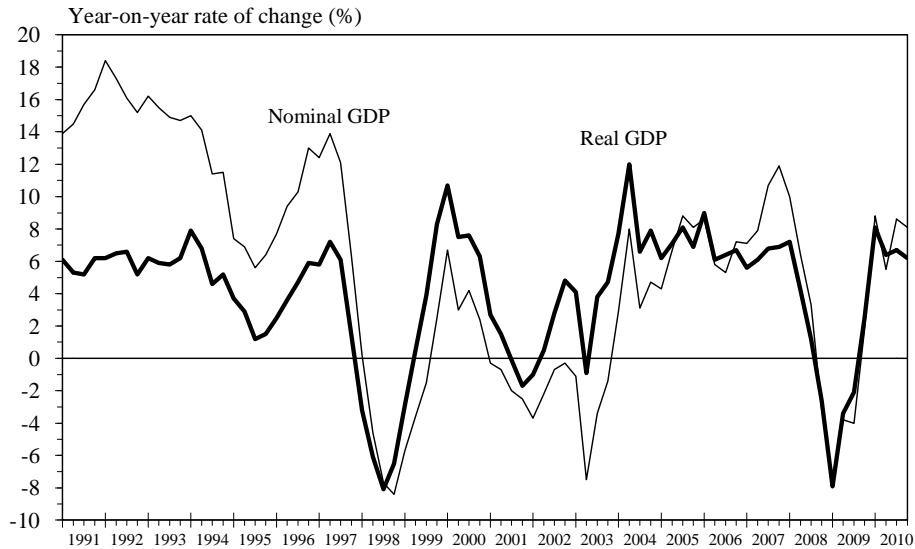
10. The expenditure and revenue proposals of government departments and related organisations are detailed in the Estimates. Today, I will elaborate on those measures and items about which the public are more concerned. First of all, I will give a brief account of our economic performance and outlook.

Economic Performance 2010

11. In the wake of the downturn in 2009, the economy in 2010 staged a full recovery at a faster pace than expected. Thanks to the strong growth in the Mainland and Asia, the economy has surpassed the pre-tsunami level. For 2010 as a whole, GDP grew by 6.8 per cent in real terms.

Chart 1

Gross Domestic Product

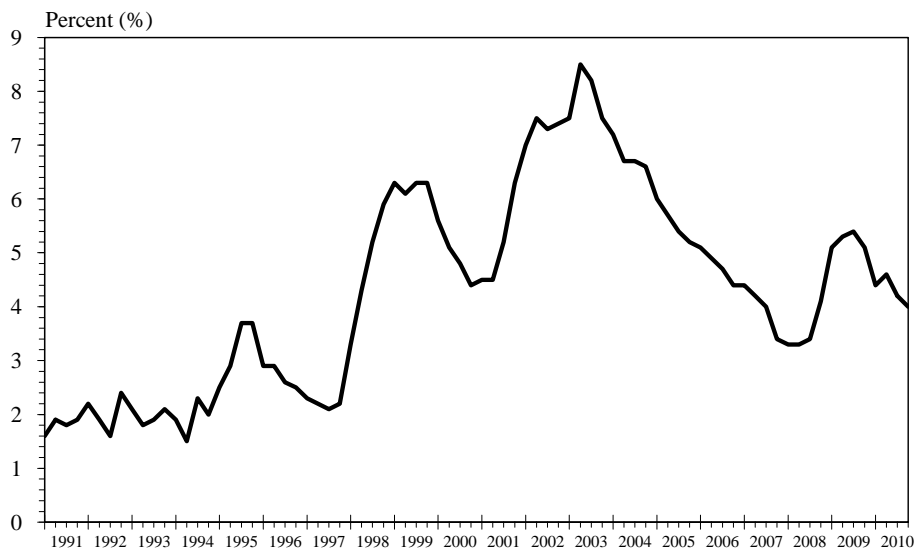


12. Underpinned by the reviving global trade flows, Hong Kong's exports of goods soared by 17.3 per cent in real terms for the year as a whole, quickly regaining the ground lost in the financial tsunami. As the employment market improved and income increased, private consumption expenditure registered a significant growth of 5.8 per cent in 2010. Benefiting from an upbeat business sentiment and the commencement of major infrastructure projects, the overall investment recorded a strong growth of 8.1 per cent last year.

13. With the upturn in the economy, the job market improved significantly in the past year. The improvement had also much to do with the great resilience and flexibility of our labour market, as well as the proven effectiveness of the Government's measures to counter the financial tsunami. The unemployment rate dropped from its peak in mid-2009 by 1.7 percentage points to 3.8 per cent recently. The improvement can be seen in most trades and across all skill levels, indicating that the grass roots have really benefited from the robust economic growth. Taking the full-time employees in the lowest tenth of income distribution as an example, their average monthly income in 2010 increased by five per cent over 2009. After adjustment for inflation, there was still an increase of about two per cent in real terms.

Chart 2

Unemployment Rate

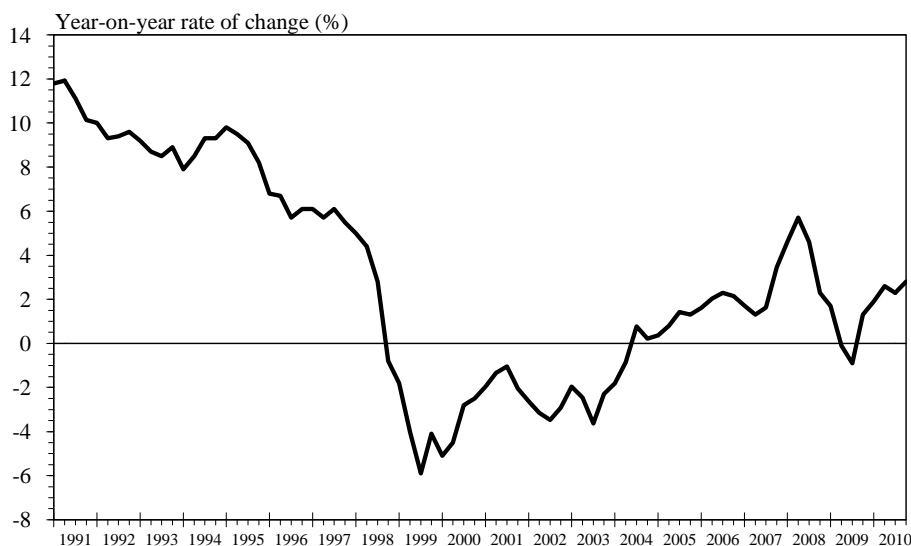


14. We expect the economy to see solid growth this year. As the unemployment rate has already fallen back to a relatively low level, there will be limited room for further significant decline. We also need to pay attention to the effect of the implementation of statutory minimum wage on the unemployment rate. The generally strong economic conditions should help us through this change.

15. Against a backdrop of a strong economic recovery, a soft US dollar and rising global food and commodity prices, inflationary pressure has gradually built up in Hong Kong this year. The average inflation rate for 2010 as measured by the Composite Consumer Price Index was 2.4 per cent. Netting out the effects of the Government's one-off relief measures, the underlying inflation rate was 1.7 per cent. Taking into account the rapid economic expansion of 6.8 per cent last year, inflation for the year was rather moderate. The significant improvement in productivity which continued throughout last year went some way towards alleviating the pressure of rising prices.

Chart 3

Composite Consumer Price Index



Economic Outlook 2011

16. The economy still faces a number of challenges in 2011. The second round of quantitative easing by the US has increased the risks of inflation and asset-price bubbles in Asia. The sovereign debt crisis has yet to be fully resolved in the Eurozone. In addition, the European and the US economies face uncertainties on the recovery path. Deleveraging and high unemployment are expected to linger on. All these will pose challenges for the global economy.

17. The relatively stronger growth sustained by the Mainland and Asian economies will continue to benefit Hong Kong. But the relatively fragile economic recovery of the US and Europe will make this year a testing time for the export performance of Asia and Hong Kong. I forecast GDP growth of four to five per cent for the year.

18. The risk of rising inflation is mounting in Asia. The soft US dollar and possible sustained increase in global food and commodity prices will put more inflationary pressure on Hong Kong. On top of these, the continued rise in the Mainland's food prices and local rentals are expected to have a more noticeable effect on our inflation this year. I forecast that the headline and underlying inflation rates for 2011 as a whole will average 4.5 per cent.

Challenges in the Coming Year

19. The challenges in the coming year arise mainly from the risk of asset-price bubbles and inflation. I will now analyse the issues and propose strategies to address them.

Risk of Asset-price Bubbles

20. I have been mindful of the risk of a property bubble. I have repeatedly reminded the public that an environment with abundant liquidity and ultra-low interest rates will not last forever. People should carefully assess the risks and their own financial position when making a home purchase decision. To ensure socio-economic stability by forestalling the risk of a property bubble, I introduced three rounds of measures in February, April and August last year to ensure the healthy and stable development of the property market. In October, the Chief Executive also announced a series of short, medium and long-term measures in his Policy Address. These measures have to a certain extent achieved the intended effects of increasing flat supply, enhancing transparency in the property market, and preventing excessive expansion in mortgage lending.

21. The US's second round of quantitative easing measures worth US\$600 billion announced in November last year has fuelled the already buoyant property market. The excessive fund flows have led to exuberant speculative activities, and short-term resale transactions have surged sharply. The exuberance has even spread from the luxury market to the mass market. To curb speculative activities, we have introduced a Special Stamp Duty on short-term resale of residential properties. The Hong Kong Monetary Authority (HKMA) has also further tightened the loan-to-value ratio for mortgages made by banks.

22. With the introduction of these measures, there was an immediate reduction of speculative activities. The number of residential property transactions in January plunged by 39 per cent over November to around 8 000 cases, of which short-term resale cases fell 34 per cent. In December, the number of new mortgage applications likewise fell sharply by 37 per cent over the previous month. Although the figures for January are not yet complete, a preliminary examination shows that flat prices were up by two to three per cent in January after falling 0.9 per cent in December. There are also signs of pick-up in the turnover of residential flats lately. The pick-up of late conceivably reflects the strength of the demand from genuine end users and long-term investors. Notwithstanding this, we will remain vigilant against the possible risk of a property bubble posed by excessive liquidity and exceptionally low interest rates. We are determined to maintain the stable and healthy development of the property market and will continue to monitor closely the market situation. I will not hesitate to take further actions to safeguard our socio-economic and financial stability when necessary.

Residential Flats

23. In the medium to long term, the most effective solution to the problems of the property market lies in the fundamental issue of ensuring steady and adequate land supply. Besides reviewing and releasing sites for housing development as soon as possible, the Steering Committee on Housing Land Supply that I chair has adopted a new mindset to explore in a forward-looking way options for identifying more land resources for future use.

Land Sale Arrangement

24. In my last Budget, I announced that, while maintaining the Application List system as the principal mechanism for the sale of government land, we would introduce a government-initiated land sale arrangement. This two-pronged land sale approach worked well over the past year to increase land supply.

25. In response to the market demand for residential sites, we will take more proactive measures this year, which include:

- (1) specifying in the Application List four residential sites for government-initiated sale by open auction or tender this year; and
- (2) putting up for sale by tender five residential sites in addition to those sites on the Application List, and restricting in the sale conditions their use for construction of about 3 000 small and medium-sized flats in total.

26. The total number of residential sites available for sale next year is 52, comprising 18 new sites and 34 sites rolled over from last year's Application List. This will altogether provide some 16 000 residential flats, an increase of more than 70 per cent over the 9 000 or so flats provided in 2010-11. The Secretary for Development will explain in detail later the land sale arrangement for next year.

27. Along with the above-station projects at Nam Cheong, Tsuen Wan, Tai Wai, Tin Shui Wai and Tseung Kwan O, the two redevelopment sites of the Urban Renewal Authority, and the annual average supply from lease modifications and private redevelopment projects for which lease modification is not required, it is estimated that housing land available in the coming year will provide a total of 30 000 to 40 000 private residential flats, far exceeding the target of an annual average of 20 000 flats. In response to my request, the West Rail Property Development Limited has redesigned six property developments above MTR stations along the West Rail in respect of which master layout plans and building plans have been approved. This will help increase the supply of small and medium-sized flats. The plans will also comply with guidelines on controlling "inflated buildings", which will take effect on 1 April.

Supply of Public Housing

28. Increasing the supply of land for private housing development will not affect the current supply of public housing. Relevant government departments will identify public rental housing (PRH) sites to maintain the average waiting time for general PRH applicants at around three years.

29. In the five-year period starting from 2010-11, the forecast production of new PRH flats is about 75 000 flats. The new PRH flat production forecast for 2011-12 and 2012-13 will be some 11 200 flats and 16 700 flats respectively, of which about 84 per cent will be built in urban areas.

My Home Purchase Plan

30. To relieve the pressure faced by the sandwich class in home purchase, the Government, in collaboration with the Hong Kong Housing Society (HKHS), will launch the My Home Purchase Plan for eligible applicants. The Government has already earmarked sites in Tsing Yi, Diamond Hill, Sha Tin, Tai Po, Tuen Mun and other areas for a total of some 5 000 flats to be built under the Plan. We expect to invite applications for the first project in Tsing Yi as early as next year, and plan to carry out the second project in Sha Tin. We will identify more suitable sites for the Plan.

Increasing Land Supply

31. To meet the demand for public and private housing sites, we will continue with our work on land use planning and urban design. We also need to explore new ways to increase the supply of land. Two possible ways are reclamation on an appropriate scale outside Victoria Harbour and rock cavern development. I will allocate about \$300 million to the Development Bureau to initiate public discussion about the feasibility of these new options by carrying out relevant studies and public engagement exercises in the next few years. We will consider a number of factors, including engineering feasibility, cost-effectiveness and public acceptability, before deciding how to put the ideas into action.

32. On reclamation, we will first review those locations outside Victoria Harbour which were previously considered for this purpose. At the same time, we will conduct a comprehensive site search to identify other suitable locations.

33. On enhancing the use of rock caverns, the Civil Engineering and Development Department will complete a study shortly. According to the study findings, the geology of Hong Kong is extremely suitable for developing rock caverns to provide usable underground space. We will consider formulating long-term strategic planning for reserving potential sites for cavern development. We will also explore the feasibility of relocating such government facilities as sewage treatment works and service reservoirs to rock caverns in order to release land for housing and other uses. Further planning and engineering studies will commence in due course.

Commercial Buildings

34. As for commercial buildings, the land available for sale next year includes sites that will provide a floor area of 600 000 square metres for commercial/business use. To enhance our competitiveness, we must maintain a steady and adequate supply of Grade A offices, and strive to develop new high-grade office clusters through land use planning, urban design, area improvement and the provision of better transport networks.

Increasing Office Supply

35. When the new Central Government Complex at Tamar comes into operation, the Main and East Wings of the Central Government Offices will be used by the Department of Justice and the West Wing will be demolished for redevelopment into Grade A offices. We will consider the views collected from the public consultation exercise, and announce the site's design, planning and particulars of sale later. We will continue the preparatory work to relocate departments in the three government office buildings at the Wan Chai waterfront as and when appropriate to free the land for developing more Grade A offices.

36. Transport infrastructure will facilitate office decentralisation. The South Island Line (East), which is scheduled for completion in 2015, will facilitate the redevelopment of industrial buildings in Wong Chuk Hang for office use. The development above the terminus of the Guangzhou-Shenzhen-Hong Kong Express Rail Link located in West Kowloon has been designated as quality office space. Taking advantage of the location of a station of the Shatin to Central Link at Kai Tak, we will develop Kai Tak into another premier office node. The Kai Tak Government Offices, expected to be completed in 2015, will speed up the development of commercial office space at this brand new node. The Kai Tak Development will create noticeable synergy with the office belt transformed from the former industrial areas in Kwun Tong and Kowloon Bay.

Revitalising Industrial Buildings

37. We have also made good progress in revitalising industrial buildings. As at the end of January 2011, the Lands Department approved 12 applications for wholesale conversion and 3 applications for redevelopment, while 22 applications were being processed. Most of the buildings approved for conversion or redevelopment are located in Kwun Tong and Kowloon Bay. Their revitalisation will provide additional office space to meet the needs of our economy. We will also put up two business sites in Kwun Tong and Kowloon Bay for sale this year to accelerate the commercial development of these two districts.

38. In support of the efforts to revitalise industrial buildings, we are considering purchasing an industrial building for conversion into an office building for the relocation of the New Territories West Region Office of the Water Supplies Department (WSD). Apart from injecting new impetus into an old industrial area, this will also allow for more cost-effective use of the original site of the WSD office in the central commercial area in Mong Kok. We plan to adopt green design and introduce environment-friendly and water conservation measures for the conversion works as far as possible. The experience gained will provide practical reference for incorporating green features in retrofitting buildings. This is also in line with the Government's policy in promoting green buildings.

Inflation

39. This year, we will face a bigger inflation threat posed by rising pressures from both domestic and imported sources. The quantitative easing, while causing more hot money to flow into Asia, also raises inflation expectations, leading to a greater inflation risk in the region.

40. Hikes in food prices and housing rents are of particular relevance to consumer price inflation. Local food prices go up mainly because of similar rises in the international and Mainland markets. Rents of private housing rebounded since April 2009 and registered an accumulated increase of 36 per cent at the end of last year, surpassing the pre-tsunami peak by nearly five per cent. As the tenancies expire, the rental increase over the recent past will be reflected in the new tenancies, thereby pushing up consumer price inflation in the short run. The measures to stabilise the property market introduced last November have effectively curtailed speculative activities and should divert more flats back to the leasing market. This will help ease the pressure of rental rise, though the effects will take some time to come through.

Strategy for Fighting Inflation

41. Fighting inflation is our major task this year. As Hong Kong is an externally-oriented economy with a linked exchange rate system, we cannot use interest rate as a tool to contain inflation and are therefore relatively passive in this respect. In general, other economies in the region are also facing inflationary pressure, despite the different exchange rate systems they are using. In the short term, the Government will strive to ease the domestically generated price pressure by forestalling property market exuberance, preventing excessive credit growth and pursuing a prudent fiscal policy.

42. In the face of surging food prices, we will continue to diversify the sources of our food imports. This year, one of the key policy directions of the Mainland is to contain inflation and manage inflation expectations. Hong Kong will be able to fight inflation more effectively if the Mainland's inflation is brought under control.

43. In the medium to long term, we must keep enhancing our productivity to alleviate the inflationary pressure. In the next few years, the Government will continue to invest heavily in infrastructure, thus increasing the capacity and efficiency of our overall economy. These efforts will not only promote economic development and provide job opportunities, but also help reduce the risk of hyperinflation in the medium to long term.

44. Regarding macroeconomic management, we will adopt a counter-cyclical fiscal strategy to contain the growth of government expenditure. To maintain monetary stability, we will continue with macro-prudential regulation to strengthen credit risk management of the banking system. Now I will turn to our new programme to issue inflation-linked retail bonds.

iBond

45. To promote the development of the local bond market, we introduced the Government Bond Programme in 2009. The Programme comprises two parts, one on issuing bonds to institutional investors and the other to retail investors. As at end-December 2010, government bonds worth \$24 billion were issued under the Institutional Bond Issuance Programme. For retail bonds, the current low-interest rate environment has reduced the attractiveness of conventional fixed-rate bonds to retail investors. Inflation-linked retail bonds are a preferable option for initiating the retail bond issuance. I believe that this will help enhance retail investors' understanding of the bond market and increase their interest in bond investment.

46. The issuance of inflation-linked retail bonds, or “iBond”, will help reduce the impact of inflation on our people. A low-interest rate environment with an inflationary trend will inevitably erode the purchasing power of household savings. I will issue \$5 billion to \$10 billion worth of Hong Kong-dollar iBond under the Government Bond Programme. This will provide our citizens with another investment option for coping with inflation while promoting the development of the local retail bond market.

47. Our preliminary plan is to issue iBond with a maturity of three years to Hong Kong residents. Interest will be paid to bond holders once every six months at a rate linked to the inflation of the last half-year period. The HKMA is working out the implementation details and formulating the sales arrangements, with a view to launching the bonds in six months.

Relief Measures

48. Fully aware of the impact of inflation and rising prices on people’s livelihood, I propose a series of measures to help ease pressure on them. For one-off measures, I propose:

- (1) Granting each residential electricity account a subsidy of \$1,800. This will cost the Government about \$4.7 billion;
- (2) Waiving rates for 2011-12, subject to a ceiling of \$1,500 per quarter for each rateable property. It is estimated that about 82 per cent of properties will be subject to no rates in the year. This proposal will cost the Government approximately \$9.9 billion;

- (3) Paying two months' rent for public housing tenants. The Government will pay two months' base rent for tenants who are required to pay extra rent to the Hong Kong Housing Authority. For non-elderly tenants of the HKHS's Group B estates, the Government will pay two-thirds of their rent for two months. This measure will involve expenditure of approximately \$1.9 billion; and
- (4) Providing an extra allowance to Comprehensive Social Security Assistance (CSSA) recipients, equal to one month of the standard rate CSSA payments; and an extra allowance to Old Age Allowance and Disability Allowance recipients, equal to one month of the allowances. This proposal will involve an additional expenditure of about \$1.9 billion.

49. The above measures aim to alleviate the burden of electricity charges, rates and public housing rents on the public. As in the past, CSSA recipients who do not have to bear rates or public housing rents will not obtain any pecuniary advantage from the rates waiver and the government payment of public housing rents. They will, however, receive an extra allowance, along with other CSSA recipients, to ease the pressure of inflation.

50. In addition, the short-term food assistance services funded by the Government, which have achieved satisfactory results since implementation, provide immediate support to people in need. The operating organisations have the discretion to provide assistance beyond the specified period in exceptional circumstances. Given the stable utilisation of the services, the funding already allocated should be sufficient for financing the operation of the services until 2013. The Social Welfare Department (SWD) will closely monitor the demand for the services and the related arrangements. I have also reserved an additional \$100 million for the continuation of the services as and when needed.

51. In addition to the above one-off measures, to alleviate the burdens of people in supporting their parents and raising their children, I also propose:

- (1) Increasing the allowance for maintaining dependent parents/grandparents by 20 per cent. The allowance for maintaining a dependent parent/grandparent aged 60 or above will increase from the present \$30,000 to \$36,000. At the same time, the additional allowance for a taxpayer residing with his/her parent/grandparent will increase from \$30,000 to \$36,000. The allowance for maintaining a dependent parent/grandparent aged between 55 and 59 will increase from the current \$15,000 to \$18,000. The same increase applies to the additional allowance for taxpayers residing with these parents/grandparents. For taxpayers whose parents/grandparents are admitted to a residential care home, the deduction ceiling for elderly residential care expenses will be raised from the current \$60,000 to \$72,000. This measure will benefit about 510 000 taxpayers and cost the Government \$570 million a year; and
- (2) Raising both the child allowance and the additional one-off child allowance in the year of birth by 20 per cent from \$50,000 to \$60,000 for each child. I estimate that this measure will benefit about 300 000 taxpayers, costing the Government \$650 million a year.

52. The relief proposals include one-off measures as well as recurrent measures such as raising the tax allowances. I have placed much emphasis on helping our citizens in need to cope with inflationary pressure while avoiding any excessive stimulating effect on overall consumption. I understand that not all the measures will be of benefit to every member of the public as needs vary depending on individual circumstances. But I would like to point out that the government expenditure for 2011-12 is estimated at \$371.1 billion, an increase of 22 per cent over this year. Recurrent expenditure will reach \$242 billion, registering a year-on-year growth of about 8 per cent. Such allocations will be used to improve services and facilities of all kinds, benefiting a wide spectrum of the community.

Public Finances

Revised Estimates for 2010-11

53. When I prepared the 2010-11 Budget early last year, both the economic situation and the external environment were not completely stable. Based on a 2.7 per cent economic contraction for 2009 as a whole and the prevailing economic trends, I estimated a four to five per cent GDP growth for 2010. With the implementation of our stimulus measures, the economic recovery has become more entrenched. This, coupled with the better-than-expected rebound of the global economy, particularly that of the Mainland, has enabled Hong Kong to achieve a GDP growth of 6.8 per cent in 2010, which is higher than the original estimate.

54. Income levels rose in parallel, leading to an increase in the revenues from profits tax and salaries tax, for which the revised estimate reaches \$140.5 billion, higher than the original estimate by \$22.2 billion. The stock and the property markets were buoyant, bringing in much higher than expected revenues from stamp duty. The revised estimate for revenues from stamp duty reaches \$51 billion, \$21 billion higher than the original estimate.

55. In 2010-11, developers were active in triggering the sale of sites, bidding for land and applying for change of land use. The Government also put sites on the market in a bid to meet development needs. We estimate that the land revenue for the year will reach \$62 billion, \$27.9 billion higher than the original estimate.

56. Far higher-than-expected land revenue and revenue from stamp duties, together with increases in other tax revenue, have resulted in significantly higher total revenue compared to the original estimate for 2010-11. The revised estimates for operating revenue and capital revenue are \$301.5 billion and \$73.3 billion respectively. The revised estimate for total revenue is \$374.8 billion, \$82.8 billion higher than the original estimate. Government expenditure for 2010-11 is \$303.5 billion, \$13.7 billion less than the original estimate, with operating expenditure accounting for \$240.8 billion. For 2010-11, I forecast an operating surplus of \$60.7 billion and a capital financing surplus of \$10.6 billion. For the Consolidated Account, I forecast a surplus of \$71.3 billion, equivalent to 4.1 per cent of our GDP. By 31 March 2011, our fiscal reserves are expected to have increased to \$591.6 billion, equivalent to 23 months of government expenditure or 34 per cent of our GDP.

Fiscal Reserves

57. Our fiscal reserves, which comprise the balances of the General Revenue Account and eight other funds¹, serve various functions.

¹ The eight funds are the Capital Works Reserve Fund, Capital Investment Fund, Loan Fund, Land Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund and Lotteries Fund.

58. As our revenue is susceptible to fluctuations and the flexibility in expenditure is low, it is necessary for us to have a buffer to alleviate the impact economic cycles have on people's livelihood. Our fiscal reserves serve as such a buffer. Fiscal reserves are our provisions for rainy days. Apart from being used to meet daily operational requirements, fiscal reserves can also be drawn on in contingencies, allowing us to maintain our expenditure at a relatively steady level when government revenue is affected by economic downturns.

59. Fiscal reserves are also an important component of the Exchange Fund. The fiscal reserves placed with the Exchange Fund help reinforce public confidence in the Hong Kong dollar and our monetary stability. In 2010-11, the investment income of the fiscal reserves accounted for about one-tenth of government revenue. It is an important source of revenue for us.

60. Hong Kong adopts a cash-based accounting system with no provision for our liabilities, such as civil service pensions and government bonds issued in 2004. We rely on the fiscal reserves as a means of paying our liabilities and the expenditure on large-scale infrastructure projects already launched. Our ageing population will also place pressure on the expenditure on health care and social welfare. Making use of our fiscal reserves, we can build a solid financial foundation for our next generation.

61. Recently, the credit ratings of Hong Kong have been upgraded to the highest level. This will allow local companies to raise funds at relatively low interest rates. The relevant rating agencies indicated clearly that one of Hong Kong's strengths lies in its adequate fiscal reserves. Any drop in the fiscal reserves will put pressure on our ratings.

62. Maintaining adequate fiscal reserves does not mean that we are reluctant to increase expenditure. The revised estimate of government expenditure for 2010-11 reaches over \$300 billion, an increase of over 29 per cent compared with 2007-08. This increase is greater than the 8.2 per cent nominal GDP growth. I will make good use of our valuable fiscal reserves to respond positively to the aspirations of the community and lay a solid foundation for our economy to meet future challenges. I will now elaborate on the two issues of “developing the economy” and “caring for people’s livelihood”.

Developing the Economy

63. In order to sustain the economic development of Hong Kong, I am of the opinion that we should foster favourable external and internal environment. Externally, we will strengthen and further co-operation with neighbouring areas. The Government will improve the internal conditions by investing in infrastructure, optimising the business environment and enhancing the competitiveness of our industries. I will now briefly explain the work to be done in these areas.

Furthering Regional Co-operation

64. To capitalise on the “China advantage”, we must strengthen co-operation with the Mainland. At the national level, we strive to consolidate and elevate the functions and roles of Hong Kong in the development of our country by complementing the National 12th Five-Year Plan. At the regional level, we will strengthen co-operation with Guangdong Province, Macao, Taiwan and other regions in various respects to sharpen our competitive edge in the global market.

12th Five-Year Plan

65. To ensure that Hong Kong can continue to leverage its unique functions and advantages during the National 12th Five-Year Plan period, we will strive to further consolidate and enhance Hong Kong's status as an international financial centre and an international centre for trade and shipping. We will develop the six industries where Hong Kong enjoys clear advantages, deepen and enhance the implementation of CEPA, and further develop our service industries. We will work with Guangdong Province to seek recognition of the functions and roles of Hong Kong-Guangdong co-operation at the national planning level. We will also join hands with Shenzhen to develop Qianhai into a modern service industry innovation and co-operation exemplary zone, and capitalise on the opportunities presented by CEPA and such policies as early and pilot implementation, with a view to opening up development frontiers in Qianhai for the financial and professional service industries of Hong Kong.

Co-operation between Guangdong, Hong Kong and Macao

66. Last April, Hong Kong and Guangdong Province signed in Beijing the Framework Agreement on Hong Kong/Guangdong Co-operation, which provides a clear agenda for Hong Kong-Guangdong co-operation in various respects and sets out six long-term development positions. We will work closely with Guangdong Province in taking forward various policies and measures in the Framework Agreement, formulating the 2011 Work Plan, and implementing the initiatives therein.

67. Hong Kong, Guangdong and Macao have agreed to build a quality living area, strengthen planning co-ordination, and further improve the transport system between the Pearl River Delta region, Hong Kong and Macao. On the co-operation in building a quality living area, we will study how to improve environmental and ecological quality, promote low carbon development, improve energy supply structure and foster the development of a green transport system in the region. The Regional Co-operation Plan on Infrastructure Construction covers cross-boundary transport facilities, boundary control facilities, electricity supply, water supply, natural gas supply, cross-boundary high capacity information communication and technology infrastructure, etc.

Exchanges and Co-operation with Taiwan

68. On the development of Hong Kong-Taiwan relations, I led a delegation to Taiwan last August in my capacity as the Honorary Chairperson of the Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council. We met with representatives of the political, business and cultural sectors, and reached initial consensus with the Taiwan authorities on various priority areas for co-operation between both sides.

69. On the premise of promoting the economic development of Hong Kong and Taiwan to our mutual benefit, we are actively discussing with Taiwan about ways to promote financial regulatory co-operation, update air services arrangements and avoid double taxation on shipping income. We plan to set up a multi-functional office in Taipei and are now working with the Taiwanese side on the relevant details for early implementation of this proposal. Separately, the Hong Kong Tourism Board is now going through the relevant procedures for establishing its office in Taipei, which are expected to be completed shortly.

Investing in Infrastructure

70. In the beginning of its term, the Government initiated the strategy of promoting growth through infrastructural development. Our capital works expenditure rose substantially from \$20.5 billion in 2007-08 to the revised estimate of \$49.6 billion in 2010-11.

71. The estimated capital works expenditure for 2011-12 will reach a record high of over \$58 billion. The ten major infrastructure projects are being rolled out in phases as scheduled. Among them, the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Kai Tak Development Plan Stage 1 have commenced construction. The Shatin to Central Link project was gazetted in November 2010. We are pressing ahead with its planning, design and consultation, and construction is expected to start in 2012. The construction works of the South Island Line (East) are scheduled to commence in 2011.

72. Other major projects expected to start in 2011-12 include essential public infrastructure works for the Kwun Tong Line Extension; detailed design and ground investigation works for the Liantang/Heung Yuen Wai Boundary Control Point; the replacement and rehabilitation of water mains in various districts across the territory; sewerage improvement works in Central and East Kowloon and the rural areas of the New Territories; redevelopment of Yan Chai Hospital; and construction of district open space, sports centre and library in Area 74, Tseung Kwan O. With the ten major infrastructure projects and other projects entering their construction peaks, I estimate that the capital works expenditure for each of the next few years will exceed \$60 billion.

73. The employment situation in the construction industry has improved significantly, with the unemployment rate dropping successively from a tsunami peak of 12.8 per cent to 4.5 per cent. In my last Budget, I earmarked \$100 million to support the Construction Industry Council (CIC) to train more skilled staff and attract more people, especially young people, to join the construction industry. With the support of the industry, the CIC launched the Enhanced Construction Manpower Training Scheme. To boost enrolment, the Hong Kong Construction Association Limited announced last month that it would raise the monthly salary of trainees graduating from courses on selected trades to \$10,000 and further to \$15,000 after six months' employment. The Development Bureau, in collaboration with the CIC and the stakeholders of the construction industry, will reach out to young people through various measures, including establishing a designated website on the industry and setting up a construction industry resource centre.

Enhancing Business Environment

74. Hong Kong enjoys the advantages of open markets, free flows of information and capital, an independent judiciary, the rule of law, a low and simple tax regime, quality professional support services and advanced infrastructure. We are committed to maintaining our competitive edge through continuous investment in new infrastructure. We will also strive to create a more favourable business environment through improving working procedures and reducing compliance costs.

Headquarters Economy

75. The business environment of Hong Kong attracts enterprises from all around the world to set up regional headquarters and offices here, bringing in capital and creating abundant high-value-added job opportunities. They introduce new management culture, promote transfer of technology and enhance local creativity.

76. At present, more than 6 500 enterprises from overseas, the Mainland and Taiwan have established their presence in Hong Kong. Together, they employ some 350 000 people. We will step up promotion efforts and take the initiative in approaching overseas enterprises, particularly those in the industries where Hong Kong enjoys clear advantages, to encourage them to set up business here. We will also provide aftercare services and support to foreign companies already established in Hong Kong.

Support for Small and Medium Enterprises

77. Small and Medium Enterprises (SMEs) are an important pillar of our economy and employment market. In 2008, a credit crunch and market dislocation swept the world. To mitigate the impact of the financial tsunami on Hong Kong, the Government launched the \$100 billion Special Loan Guarantee Scheme in December 2008. The Scheme has helped more than 20 000 enterprises and indirectly preserved more than 340 000 jobs.

78. With improved financing for SMEs, the Special Loan Guarantee Scheme ceased to accept applications at the end of last year. In January, the Hong Kong Mortgage Corporation Limited (HKMC) launched a market-oriented SME Financing Guarantee Scheme to help SMEs obtain sustainable bank financing for their daily operations or acquisition of equipment. This Scheme will meet the financing needs of SMEs while helping banks manage their lending risks more effectively. As at end-January, 16 banks have already joined this Scheme.

79. The SME Loan Guarantee Scheme of the Trade and Industry Department (TID) has been well received by enterprises. With the introduction of enhancement measures under the Scheme in November 2008, SMEs now have greater flexibility in using the loan guarantees. As at end-January 2011, the TID approved loan guarantees of over \$15 billion, involving loans of around \$33 billion and benefiting over 12 000 SMEs. To demonstrate the Government's continued support for SMEs, I propose to increase the total guarantee commitment under the SME Loan Guarantee Scheme substantially from \$20 billion to \$30 billion.

Promoting Brands of Hong Kong

80. We should make good use of the opportunities brought by the Mainland's rapidly growing economy and help Hong Kong brands and products tap the vast Mainland market. Much has been done by relevant government departments and the Hong Kong Trade Development Council in recent years. The initiatives in place include staging large-scale branding conferences and seminars, holding exhibitions and trade fairs on Hong Kong brands in various Mainland provinces and municipalities, as well as organising delegations for business matching and promotion. We will continue to take forward such work and strengthen co-operation with the trade sector. For example, the SME Development Fund of the TID will focus on supporting projects related to brand development and the opening up of the Mainland market and other emerging markets this year.

Enhancing the Competitiveness of Our Pillar Industries

81. The four well-developed pillar industries, namely trading and logistics, financial services, business and professional services, and tourism, are the major driving forces of our economy. In 2009, they made a contribution of 56 per cent to our GDP and brought about a total value added of \$860 billion. The number of employees in these industries was over 1.65 million, representing 47 per cent of the whole labour force. I will now briefly describe the development of these four industries.

Trading and Logistics

82. Being the largest of all the pillar industries, trading and logistics accounted for 24.1 per cent of our GDP and employed nearly 790 000 people in 2009. With Asia becoming the engine powering the global economy after the financial tsunami and the Mainland accelerating economic growth and expanding domestic demand, new development frontiers have been opened for the trading and logistics industry. As I have mentioned before, we will further regional co-operation and seize business opportunities brought by CEPA. We also need to explore the emerging markets more actively to help minimise the impact of a weakening economy in Europe and the US on us. We have achieved some initial results over these years. Among the BRIC countries, India emerged as the fifth largest market for Hong Kong exports last year. The value of our exports to Russia and Brazil also sharply increased in the last five years. The exports to Russia have tripled, and those to Brazil have increased by two-thirds.

83. Further reinforcing Hong Kong's position as an international and regional transport hub is vital to our economic development. With the improvement in the external economic environment, the throughput of both sea and air cargoes registered significant growth last year. In 2010, the passenger volume and cargo tonnage of the Hong Kong International Airport reached an all-time high of over 50 million and 4 million respectively. We will continue to invest in transport infrastructure projects and optimise our highly efficient multimodal transport services, with a view to promoting the development of air, sea and land transport and logistics.

84. Hong Kong is a world-renowned maritime centre. We will reinforce the maritime service cluster, strengthen manpower training, continue promotion activities both locally and abroad, and foster the development of our maritime services in collaboration with the industry. Turning to the port, we have commissioned a preliminary feasibility study on the development of Container Terminal 10 at Southwest Tsing Yi and will assess the project's impact on the environment and on road and marine traffic. The study is expected to be completed by the end of this year.

85. On the development of cross-boundary land transport networks, the works for the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge have commenced. Upon their scheduled completion in 2015 and 2016 respectively, they will further consolidate Hong Kong's position as the main south gate of the Mainland's transport networks.

86. On air transport, the Airport Authority (AA) is implementing a midfield expansion project to increase the cargo handling capacity of the airport to six million tonnes a year. This is expected to cope with air traffic demand up to 2020. Upon the scheduled completion of the new air cargo terminal in early 2013, the cargo handling capacity of the airport will be substantially increased by 50 per cent.

87. In the long run, we must ensure that the Hong Kong International Airport can cope with air traffic growth. There is the need to study the feasibility of constructing a third runway. The AA will launch a public consultation on the findings of its Hong Kong International Airport Master Plan 2030 Study as soon as possible.

88. To further consolidate Hong Kong's position as a regional logistics hub and capitalise on our competitive edge in handling high-value goods and providing high value-added services, the Government is gradually making available long-term sites for the sector to develop a logistics cluster. The tender for a site in Tsing Yi was awarded last December. In parallel, we will continue to provide suitable sites for port backup uses to facilitate efficient port operations.

89. We will maintain close ties with the Mainland to facilitate cargo movement within the region. The Framework Agreement on Hong Kong/Guangdong Co-operation signed last year sets out clearly the direction for advancing co-operation between Hong Kong and Guangdong. This will help logistics industry to seize the opportunities brought about by the rapid growth in Mainland's external trade and domestic demand. This will further reinforce Hong Kong's leading position in the global supply chain and enhance our strengths in trade and logistics.

Financial Services

90. The financial services industry is an important sector in Hong Kong's economy. In 2009, financial services made a contribution of 15.2 per cent to our GDP and hired over 210 000 employees. The past two years have seen a remarkable development in this industry. On equity listing, Hong Kong remained first worldwide in 2010 in terms of the total amount of funds raised through initial public offerings. Enterprises from Russia and France came last year to list here for the first time. On asset management, Hong Kong's combined fund management business rebounded significantly to \$8,500 billion by the end of 2009, representing a year-on-year growth of about 45 per cent. Overseas financial institutions have focused on the investment opportunities in Asia. There is a growing number of international and Mainland investors choosing Hong Kong as a platform for their investment.

91. We have also achieved some breakthroughs in the development of Renminbi (RMB) business in Hong Kong. Prominent growth and progress have been seen in various areas, including cross-border trade settlement, deposits, bond issuance and the introduction of financial products. Following the revision of the Settlement Agreement on the Clearing of RMB Business in July 2010, the cross-border RMB trade settlement handled in Hong Kong reached RMB 370 billion last year. At the end of last year, total RMB deposits in Hong Kong exceeded RMB 300 billion, which has increased by four times when compared to some RMB 60 billion a year ago. The continued issue of RMB bonds and the progressive implementation of the Government Bond Programme help boost the development of the local bond market.

92. Hong Kong strives to enhance the competitiveness of its financial markets to develop itself into a global financial centre. Apart from optimising the local regulatory regime, we will foster the further development of offshore RMB business, consolidate our position as a platform to raise international capital and enhance the competitiveness of our asset management industry.

93. First of all, we will maintain close contact with relevant Mainland authorities as well as the financial regulators and market participants of both sides to further develop Hong Kong's RMB bond market. As at end-January, there were a total of 31 RMB bond issues with an issuance size of about RMB 74.4 billion. The range of issuers has expanded from Mainland financial institutions to multinational non-financial institutions. We will continue to encourage overseas enterprises to issue RMB bonds in Hong Kong, solicit more Mainland enterprises to issue bonds in Hong Kong and seek the expansion of channels for enterprises to invest in the Mainland the RMB capital raised in Hong Kong. Moreover, we will optimise the RMB clearing platform to attract more enterprises to use Hong Kong's RMB settlement services. Diversification of RMB financial products and services will help consolidate Hong Kong's status as an offshore RMB business centre.

94. Second, we will continue to improve our listing platform to attract more enterprises from different places to list in Hong Kong. On the back of our liquidity, attractive valuations and access to investors in Asia, Mainland and overseas enterprises are attracted to list here. The Stock Exchange of Hong Kong Limited (SEHK) issued new listing rules for mineral and exploration companies in June 2010 to attract more enterprises from regions rich in natural resources to list in the territory. While maintaining high standard of regulation, the SEHK will continue to streamline the listing process for overseas companies, shorten the timetable and lower costs. Last year, the SEHK accepted more jurisdictions, including Brazil and the Isle of Man, to facilitate companies incorporated there to apply to list in Hong Kong. The SEHK is studying ways to further facilitate secondary listing of overseas companies in Hong Kong, and accept companies incorporated in other jurisdictions, including India and South Africa, to apply to list here. We will continue to work with the SEHK to step up promotion to attract companies, especially those from emerging markets, to list in Hong Kong.

95. Third, on enhancing the competitiveness of our asset management industry, we will continue to seek to enter into agreements on the avoidance of double taxation with more trading and investment partners to foster the growth of asset management business. We will also continue to develop an Islamic financial platform in Hong Kong to diversify our financial markets. Stepping up promotion efforts will be high on our agenda in the coming year. The Government will continue to lead financial services delegations to stage roadshows in the Mainland and overseas markets with the aim of promoting Hong Kong's strengths as a global financial centre. We will also strengthen the role of Invest Hong Kong in promoting our financial industry.

Business and Professional Services

96. Hong Kong is a leading global business hub. Professional services are a high-value-added component of our service industries, and we have distinct advantages in such areas as legal, accountancy, construction and related engineering, and medical services. Business support and professional services made a contribution of 13.1 per cent to our GDP in 2009 and provided employment opportunities for nearly 460 000 people, representing over one-eighth of our total workforce. The value of our professional and other business services exported in 2010 reached \$69.6 billion, more than doubled that of 2000.

97. With the rapid modernisation of the Mainland economy, there is a growing demand for professional services in terms of both quality and quantity. Under the CEPA framework, the Government will make continuous efforts to assist our professional services to access the Mainland market. Such efforts include encouraging mutual recognition of professional qualifications and facilitating the Hong Kong professionals' practice and business start-ups in the Mainland. The Government will also maintain close contact with the Mainland and the industries to enhance the promotion and effective implementation of CEPA, with a view to assisting Hong Kong's professional services in expanding the scope for development.

Tourism

98. In 2009, the tourism industry accounted for 3.3 per cent of our GDP and provided employment opportunities for over 190 000 people. Following the improvement of the global economy and further extension of the coverage of the Individual Visit endorsement for Shenzhen residents, our tourism industry put up a robust performance in 2010. The number of visitors and their spending reached an all-time high. We received more than 36 million visitors during the year, a significant increase of 22 per cent over 2009. Total spending associated with inbound tourism reached some \$200 billion, an increase of 30.5 per cent over last year.

99. Over the past few years, we have been investing heavily in our tourism infrastructure. With its new attraction, "Aqua City", opening at the end of last month, Ocean Park's redevelopment is beginning to take shape. Hong Kong Disneyland's expansion project is making good progress and the first new themed area, "Toy Story Land", will be opened by the end of this year. The development of the new cruise terminal at Kai Tak is in full swing, and we will invite tenders from around the world for the contract of operating the terminal. The terminal building and the first berth are expected to start operation in mid-2013.

100. We will specify in the Application List two hotel sites for government-initiated sale by open auction or tender this year to foster hotel development. To increase the supply of different types of hotels, we will regularise the pilot measure of offering sites “restricted to hotel use” on the Application List. This arrangement will also be applicable to lease modification and land exchange applications from developers.

101. We will continue to allocate resources for the building of tourism hardware and software. For example, we will explore the potential and directions for further development of our theme parks. We will also consider giving incentives through the Mega Events Fund or in other forms for organisers to host major events with Hong Kong characteristics, enabling tourists to experience the vibrancy and hospitality of Hong Kong as Asia’s world city throughout the year.

Fostering Economic Diversification

102. To foster sustainable economic development in the long run, the Government is rolling out support measures for the six industries where we enjoy clear advantages. Despite our economic contraction in 2009 due to global recession, the six industries in the private sector contributed over \$120 billion value added to our economy, three per cent higher than that in 2008. The share of these six industries in GDP rose from 7.6 per cent in 2008 to 8.0 per cent in 2009. These six industries also employed over 390 000 people, representing an increase of 1.7 per cent over 2008.

103. Apart from developing the six industries, we are also committed to promoting wine trading and exploring opportunities in emerging markets to promote the diversification of our economy. Before I touch on these, I will give a brief account of the development of these six industries.

Medical Services

104. On medical services, we reserved four sites at Wong Chuk Hang, Tai Po, Tseung Kwan O and Lantau for private hospital development, and received 30 development proposals from local and overseas institutions. We are formulating the arrangements to dispose of the sites in phases starting from end-2011 or 2012.

105. To promote research and development in public health and medical services, the Food and Health Bureau plans to set up a “Health and Medical Research Fund”. The existing Health and Health Services Research Fund and Research Fund for the Control of Infectious Diseases will be subsumed under the new Fund. To this end, the Government will earmark \$1 billion for injection into the new Fund. Apart from continuing to fund projects within the original research ambit, the new Fund will also finance research projects and facilities in areas of advanced medical research where Hong Kong enjoys comparative advantages, such as paediatrics, neuroscience and clinical genetics. This will tie in with the plan for a Centre of Excellence in Paediatrics and development of other specialties in the future.

106. Hong Kong is well-placed to develop into an international clinical trial centre and a translational research centre. To advance the development of the pharmaceutical and biopharmaceutical industries, the Hospital Authority (HA) will set up Phase I clinical trial centres in Queen Mary and Prince of Wales Hospitals to conduct preliminary clinical trials for new drugs, with a capital cost of about \$42 million. The clinical trial centre in Prince of Wales Hospital is expected to come into operation first in 2011-12. We will also map out our way forward for different phases of clinical trials for drugs, and strengthen the organisation, management and planning for clinical trials to promote development in this area.

107. The above measures will help attract more relevant professionals to Hong Kong, lay the foundation of advanced medical research here and provide more training opportunities. A range of scientific research-related jobs, such as professional researchers, scientists, medical technology professionals and pharmacists, will also be created.

Education Services

108. To promote the internationalisation and diversification of our education services, we have allocated four greenfield sites for the building of international schools. We expect that some 5 000 places will be provided in the coming few years to admit children of those who come from abroad to work in Hong Kong and attract more quality non-local students to study here.

109. The number of self-financing degree-awarding tertiary institutions in Hong Kong has increased to four, providing a total of about 11 000 places. We awarded two sites at the end of last year for the development of self-financing degree programmes. We have also reserved a site at the former Queen Hill's Camp in the New Territories and invited expressions of interest from relevant organisations. I will consider increasing the commitment of the Start-up Loan Scheme to help institutions meet the costs of purpose-built accommodation when needed.

110. In his Policy Address, the Chief Executive proposed to establish a Self-financing Post-secondary Education Fund with a total commitment of \$2.5 billion for the development of self-financing post-secondary education. We plan to set up the Fund in the second half of this year.

Testing and Certification Services

111. The Government has accepted the three-year market-oriented development plan for the testing and certification industry submitted by the Hong Kong Council for Testing and Certification. The Council has selected four trades, namely Chinese medicine, food, construction materials and jewellery, for focused development of testing and certification services. Such services include authenticity testing of Chinese herbal medicine, food safety system certification, product certification of construction materials, and development of standard testing methods for two types of jade.

112. We will step up the promotion of our testing and certification services outside Hong Kong through participation in major trade fairs. With regard to access to the Mainland market, we have taken steps to implement Supplement VII to CEPA. Starting from this year, testing organisations in Hong Kong can for the first time undertake product testing for the China Compulsory Certification System on a pilot basis for four types of products processed in Hong Kong (i.e. toys, circuit installations, information technology equipment and lighting apparatus). This initiative will help create business opportunities for local laboratories, and facilitate access to the Mainland market for products processed in Hong Kong. We will assist the industry in implementing this pilot scheme.

Innovation and Technology

113. Innovation and technology give impetus to economic development and enhance our competitiveness. Regarding infrastructure, Science Park Phase 3 is due for completion in phases starting 2013. We are now conducting a comprehensive review of the Innovation and Technology Fund with a view to improving its assessment criteria and application procedures, thereby encouraging enterprises and R&D institutions to conduct more research activities with good commercial potential. We will also continue to review the work and role of R&D centres and promote collaboration among academia, R&D institutions, business community and the Government.

114. With the advent of the National 12th Five-Year Plan, we will strengthen our collaboration in scientific research with the Mainland and encourage the participation of more research personnel of Hong Kong in national science and technology programmes, complementing the development of our country. From April, we will provide an annual sum up to \$2 million to each of the 12 Partner State Key Laboratories in Hong Kong to support their operation and enhance their research capability.

115. To show the support and recognition we give to innovation and technology, I have agreed to take up the chairmanship of the Steering Committee on Innovation and Technology. The Committee will pull together the efforts of the industry, academia and research institutions to co-ordinate the formulation and implementation of innovation and technology policies. We hope this will generate greater synergy among various policies and programmes.

116. Hong Kong is a telecommunication hub in the region. In the past year, the Hong Kong Science and Technology Parks Corporation granted about eight hectares of land in the Tseung Kwan O Industrial Estate for the setting up of high-end data centres. In a knowledge-based economy, data centres constitute an essential part of the infrastructure. The Government is exploring appropriate measures to facilitate the development of more high-end data centres in Hong Kong.

Cultural and Creative Industries

117. The \$300 million CreateSmart Initiative has so far received over 110 applications for support to projects in the creative industries. Over 40 applications have been approved with a funding of more than \$70 million.

118. In 2011-12, Create Hong Kong will continue to help the industries tap into the Mainland market, support local creative talent in taking part in major overseas competitions and exhibitions, and co-operate with the film, design, digital entertainment and other sectors to organise promotion, exchange and business matching activities in the Mainland and overseas markets. In addition to subsidising international events like Entertainment Expo Hong Kong and Business of Design Week, we will support the music, television and digital entertainment industries in organising various kinds of large-scale regional events this year. Regarding new media, Create Hong Kong will provide funding for the establishment of a 3-D online platform to showcase local architectural works. It will also support the local comics sector in developing a smart-phone platform to facilitate electronic publishing and distribution of comic work.

119. We have selected the service operator for revitalising the site of the former Hollywood Road Police Married Quarters into a focal point for the development of local creative industries.

Environmental Industries

120. The environmental industries, while at an initial stage of development, are growing impressively. In 2009, the value added of the green industries rose by 12.4 per cent and the number of employees also increased by 3.6 per cent. We have been promoting the development of environmental industries and a green economy through multi-pronged policies and initiatives. They include enhancing building energy efficiency and promoting the use of energy-saving household appliances by legislation, setting up the Pilot Green Transport Fund, making more use of electric vehicles, and taking forward other measures such as expanding the list of products with green specifications for government procurement, piloting the use of new green materials in public works, encouraging scientific research on environmental protection and building environmental infrastructure.

121. We have been making good progress in promoting energy saving and improving energy efficiency. With the mandatory compliance of the Building Energy Codes, which will take effect shortly, it is estimated that 2.8 billion kWh of electricity will be saved for new buildings and carbon emissions will be reduced by about 1.9 million tonnes in the first ten years. The construction of the first district cooling system at the Kai Tak Development will commence this year. Upon its completion, we expect to save as much as 85 million kWh of electricity and reduce approximately 60 000 tonnes of carbon emissions each year. Participation of the environmental industries is essential to the implementation of these energy saving and emission reduction measures which will in turn create business opportunities for them.

122. On improving roadside air quality, the new Pilot Green Transport Fund, set up to encourage the transport sector to test out green and low-carbon transport modes and technology, will be open for application by end-March. We are also preparing for a number of trial schemes in collaboration with the franchised bus companies, including the trying out of hybrid buses on busy corridors and retrofitting of Euro II and III buses with catalytic reduction devices to meet the Euro IV emission standard. The above schemes, involving trials and retrofitting processes, will help promote a green economy.

123. Over the past two years, the Steering Committee on the Promotion of Electric Vehicles chaired by me has been actively promoting the use of electric vehicles through various policy initiatives and measures. Currently, there are about 100 electric vehicles on Hong Kong roads and over 260 charging stations across the territory for public use. A number of electric vehicle models have been rolled out on the market. Subject to the availability of suitable models on the market and the operational needs of bureaux and departments, we will give priority to electric vehicles when replacing government vehicles in the two financial years of 2011-12 and 2012-13. We expect to have an intake of close to 200 electric vehicles of various types in these two years. In addition, we plan to install more charging facilities for electric vehicles in government car parks, and will encourage the business and non-government sectors to join hands in expanding the charging network across the territory.

Wine Trading and Distribution

124. Since wine duty was exempted in February 2008, there has been sustained growth in wine imports and related businesses. The number of persons engaged in wine-related businesses increased by more than 5 000 in 2008 and 2009, bringing the total to 40 000. In 2010, the total value of wine imports exceeded \$6.9 billion, an increase of 73 per cent over 2009. According to the industry, Hong Kong surpassed New York to become the world's largest wine auction centre in 2010.

125. To help the industry tap business opportunities arising from the growing demand for wine across Asia, especially in the Mainland, we signed Memoranda of Understanding on Co-operation last year with various countries and regions including the US, Portugal, Chile and the region of Burgundy in France. This has brought the number of similar agreements between us and wine-producing countries or regions to 12. We will continue to seek opportunities for co-operation with our trading partners, further capitalising on Hong Kong's experience and network in wine trading and distribution.

Emerging Markets

126. In view of the sustained development of emerging markets and their burgeoning economic and trade links with the Mainland, we have strengthened our investment promotion efforts in markets such as Southeast Asia, the Middle East, Russia, India and South America. We met local corporations and encouraged them to expand their business to Hong Kong. In addition, we organised a major business conference in New Delhi, India, with the Guangdong Provincial Government, to promote the advantages of doing business in Guangdong and Hong Kong. We will continue to enhance investment promotion efforts in major emerging markets, encouraging corporations to establish footholds in Hong Kong.

Caring for People's Livelihood

127. Our efforts in developing the economy are to improve people's livelihood. To that end, we have to make good use of our social capital. The most effective way of achieving this goal is to empower people from all walks of life to have greater self-reliance and capability, and help them improve their quality of life and seek self-enhancement, thus facilitating social mobility. This will in turn provide ample opportunities for people to strive for their own future and become the driving force behind economic development and social progress.

Nurturing Talents

Education

128. Education is the means of developing human capital and enhancing competitiveness in the long run. More importantly, it provides people with more opportunities for personal development, inspiring them to strive for excellence and continuous improvement. With aspirations and determination for advancement, everyone can fully develop his potential through learning and achieve self-reliance and success. Education is the policy area which has always taken up the largest share of recurrent government expenditure. In 2011-12, estimated expenditure on education will amount to more than \$54 billion, accounting for 22.5 per cent of recurrent government expenditure.

Support for Students from Low-income Families

129. I am particularly concerned about the educational needs of students from low-income families because education is an important ladder in helping them achieve self-reliance and independence. The existing student financial assistance schemes offer, in many ways, financial support to eligible pre-primary, primary, secondary and post-secondary students. The annual recurrent expenditure involved exceeds \$3.1 billion, benefiting as many as 360 000 students, or around 34 per cent of the total number of students. The Government will give needy students greater support to ensure that their studies will not be affected by lack of financial means.

130. I propose to relax the income ceiling for the full level of student financial assistance under the means test mechanism starting from the 2011-12 academic year. It is estimated that for the 2011-12 academic year, this measure will provide full assistance to about 75 000 additional students at all levels of study, comprising 64 000 pre-primary, primary and secondary students and 11 000 post-secondary students. The number of students receiving full assistance will increase from currently about 110 000 to approximately 190 000, representing 50 per cent of the total number of recipients. This proposal is expected to involve an additional recurrent expenditure of around \$300 million a year.

131. I propose to adjust the existing tiers of financial assistance for post-secondary students so that more students will be granted full assistance while those not on full assistance will also receive more. In the 2011-12 academic year, about 30 000 post-secondary students will be granted full assistance and approximately 22 000 will receive more assistance. This proposal is expected to involve an additional recurrent expenditure of about \$140 million a year.

132. I also propose to increase the grants for academic expenses for post-secondary students starting from the 2011-12 academic year. They will be given additional grants, subject to the outcome of their means test, for the acquisition, replacement or enhancement of necessary study aids, including computer and related equipment. Each post-secondary student receiving full assistance will be entitled to an additional grant of \$1,000 every year. This proposal will involve an additional recurrent expenditure of about \$48 million a year.

After-school Homework Guidance

133. I am aware that many parents of low-income families want their children to receive homework guidance after school. To that end, I have earmarked \$110 million to launch a three-year pilot programme in primary schools. The Education Bureau will collaborate with local tertiary institutions to encourage and enlist tertiary students, especially those full-time students interested in joining the teaching profession, to provide after-school homework guidance for students from low-income families and help them with their studies.

Award of Scholarships

134. We award scholarships to recognise the excellent performance of outstanding students and attract quality students to study in Hong Kong. The existing HKSAR Government Scholarship Fund awards scholarships to students taking publicly-funded degree programmes. The proposed Self-financing Post-secondary Education Fund will offer scholarships to those enrolled on self-financing post-secondary programmes. I propose to inject \$250 million into the HKSAR Government Scholarship Fund to extend the benefit to students of publicly-funded sub-degree programmes.

Mainland Experience Scheme for Post-secondary Students

135. I have always encouraged young people to see for themselves and learn more about our country's latest development. I propose to allocate \$100 million to launch a five-year pilot scheme to subsidise on a matching basis local tertiary students participating in short-term internship or learning programmes in the Mainland, including visits, exchanges or voluntary services. Participants will be able to learn about the prevailing social, economic and cultural landscapes of our country through these programmes. Each student may receive a subsidy of up to \$3,000. It is estimated that over 30 000 students will benefit from the Scheme.

Training and Retraining

136. Apart from furthering their studies, young people may pursue pre-employment training in various areas according to their abilities and aspirations. By so doing, they will prepare themselves for career development. For those who are already in employment, retraining facilitates their career advancement or change. To meet these different needs, the Vocational Training Council (VTC) and the Employees Retraining Board (ERB) provide courses to assist participants in acquiring vocational skills and recognised qualifications with a view to enhancing their employability and competitiveness.

137. The ERB will provide 130 000 training places in 2011-12. These places are targeted at non-engaged youths, middle-aged people who need to change jobs, ethnic minorities and new arrivals seeking employment in the local job market. The ERB has reserved resources for the provision of 30 000 additional places when necessary.

138. The VTC now offers 235 000 training places, providing people of different education levels with pre-employment and in-service vocational education and training programmes. These programmes include Higher Diploma courses, in-service short training programmes, training programmes for non-engaged youths and apprentice training. The VTC also implements a trade testing and certification system to help participants obtain recognised qualifications.

139. The Government will provide a recurrent subvention of about \$1.94 billion to the VTC in 2011-12 to meet the community's demand for vocational education and training programmes. These programmes also offer fresh graduates another good option, other than pursuing further studies and seeking jobs, for achieving self-reliance and self-enhancement.

Employment Support

140. To better serve job seekers' needs, along with the implementation of the statutory minimum wage, the Labour Department (LD) will strengthen employment services for young and middle-aged people and those with disabilities. At the end of last year, the LD launched a two-year Pilot Employment Navigator Programme, providing a total of 22 000 places, to help the unemployed secure employment. Participants will receive customised employment counselling services and will be granted a cash incentive if they subsequently secure and stay in a job. At the end of this year, the LD will set up a pioneer one-stop employment and training centre in Tin Shui Wai to provide integrated services of the LD, SWD and ERB, with a view to offering more targeted employment assistance.

Supporting the Disadvantaged

141. Recurrent expenditure on social welfare for 2011-12 is expected to reach \$42.2 billion, an increase of \$4.2 billion when compared with 2010-11. It is the policy area group which registers the greatest growth in expenditure, reflecting our commitment to supporting the disadvantaged.

New Arrivals and Ethnic Minorities

142. In 2011-12, the Home Affairs Department (HAD) will be given more resources and will set up a dedicated team to strengthen and integrate the support services for new arrivals and ethnic minorities. We will make good use of district networks and the services of district organisations and non-government organisations (NGOs) to better facilitate the integration of new arrivals and ethnic minorities into the community. We will introduce three major initiatives: launching district-based integration programmes; organising activities for prospective migrants from the Mainland to help them better understand the local environment before they come to live here; and introducing services to ethnic minorities and new arrivals by arranging for those with similar backgrounds and experiences to reach out to them, and to make referrals to government departments where necessary.

143. Since 2009, we have sponsored NGOs to run four centres to provide comprehensive support services to ethnic minorities, including counselling and referral service, interpretation service, training classes, after-school tutorial classes and various integration programmes. To date, over 50 000 participants have benefited from the services. The four centres now receive an annual sponsorship of over \$20 million.

Taking Care of the Elderly

144. To pursue the policy objective of “ageing in place”, the Government will continue to allocate resources to support elders to age at home. I propose to increase annual recurrent funding by \$76 million to provide about 1 700 additional places for community care services for elders, including 1 500 places for the Enhanced Home and Community Care Services and about 200 day care places for the elderly. I also propose to increase annual recurrent funding for the well-received pilot Integrated Discharge Support Programme for Elderly Patients by \$148 million to make it a regular service and extend its coverage from the current three districts to all districts. Under the Programme, one-stop support services will be provided for elderly people discharged from hospitals to help them make a quick recovery. Upon the full extension of the Programme, the number of elders benefited each year is expected to increase from the current 8 000 to around 33 000.

145. On residential care services, the Chief Executive has announced in his Policy Address that the Government will provide additional subsidised residential care places by building new residential care homes, making full use of the space of existing homes and offering more places under the Enhanced Bought Place Scheme. I propose an increase of \$130 million in the annual recurrent funding to provide about 1 300 additional subsidised residential care places, including nursing home places, care-and-attention places and places offering a continuum of care.

146. To enhance the service quality of residential care homes under the Enhanced Bought Place Scheme, I propose to increase annual recurrent funding by \$40 million to raise the purchase prices for EA1 places. The residential care homes concerned will be required to provide physiotherapy treatment and rehabilitation training for the elderly. This will also help enhance the quality of private residential care homes.

147. In addition, I propose to increase annual recurrent funding by \$45 million to raise the supplements for subsidised residential care homes so that they can take better care of demented or infirm elders. The coverage of the Dementia Supplements will also be extended to all subsidised day care centres for the provision of more targeted services to patients residing in the community.

Reverse Mortgage

148. The HKMC announced in December 2010 its plan to launch a reverse mortgage pilot scheme in which elderly people will be able to use their properties as collateral to borrow mortgage loans from banks and receive a certain amount of cash every month while continuing to live in their properties for the rest of their lives.

149. After the HKMC announced its plan, many people have expressed their support but also suggested ways to improve the plan. The HKMC has agreed to fine-tune the scheme. For example, borrowers will be allowed to draw in advance a certain amount of loans from banks in case of special needs to pay for medical expenses, building maintenance fees, etc. The amount of annuity payable to single borrowers will be raised while the fees for joining the scheme will be lowered or waived as far as possible. These changes are made to better meet the needs of the elderly, providing them with an alternative to improve their standard of living. Details of the scheme will be announced by the HKMC shortly.

Elderly Health Care Vouchers

150. The Government launched the three-year Elderly Health Care Voucher Pilot Scheme in January 2009. Under the Pilot Scheme, elderly citizens aged 70 or above are each offered health care vouchers of \$250 annually to subsidise their use of private primary health care services. Having completed the interim review of the Pilot Scheme, we propose to extend the Pilot Scheme for another three years, double the value of health care vouchers to \$500 per person per year, and strengthen the monitoring of voucher utilisation under the Pilot Scheme. I will allocate \$1 billion to implement this proposal. The Secretary for Food and Health will announce the review report and detailed proposal in due course.

Providing Support to Elders and Persons with Disabilities and in Ill-health

151. I propose to raise the standard rates for adult CSSA recipients under the age of 60 with disabilities and in ill-health to the same level as those for elderly CSSA recipients in similar health conditions. This will more effectively help the recipients concerned make ends meet. The proposal will involve an additional annual recurrent expenditure of \$328 million and is expected to benefit about 55 000 people.

152. The community living supplement is currently payable to severely disabled CSSA recipients. I propose to extend the supplement to cover recipients with disabilities at non-severe level, recipients in ill-health and elders. I also propose to increase the monthly supplement from the existing \$120 to \$250 to better support the recipients' stay in the community. This proposal will involve an additional annual recurrent expenditure of about \$590 million and is expected to benefit about 190 000 recipients.

153. It is the policy objective of the Government to provide the disabled with a barrier-free environment in order to help them live independently and integrate into the community. In 2011-12, relevant government departments will allocate more than \$120 million to upgrade the existing barrier-free access facilities in government premises. We aim to complete 3 300 improvement works projects within the current term of the Government. To take forward the design works and retrofitting of barrier-free access facilities at about 180 public footbridges and subways, we also plan to seek approval of this Council for over \$280 million this year. Our target is to complete the bulk of the works by 2016-17.

Mental Health Services

154. The Government will provide additional funding of over \$210 million to the HA in 2011-12 for strengthening support for people with mental illnesses.

155. First, the Case Management Programme targeted at patients with severe mental illness will be extended to five more districts, thereby increasing the number of beneficiaries from 5 000 in 2010-11 to 11 000 in 2011-12. Crisis intervention teams will be set up in all HA clusters to handle emergency referrals at the community level and follow up on high risk patients. It is expected that about 1 000 patients will benefit from this new measure each year. The Integrated Mental Health Programme will also be extended to cover all HA clusters to provide assessment and consultation services in the primary care setting for patients with common mental disorder. It is expected that the number of beneficiaries will increase to about 7 000 each year.

156. Furthermore, the Early Assessment and Detection of Young Persons with Psychosis Programme will be expanded to cover adults. It is expected to provide services to an additional 600 or so beneficiaries in 2011-12. The psychogeriatric outreach services will also be extended to cover about 80 additional residential care homes for the elderly in 2011-12. Regarding mental health services for children and adolescents, dedicated professional teams will be expanded to provide services for an additional 3 000 or so children with autism or hyperactivity disorder each year.

Medical and Health Services

Public Health Care Services

157. We have pledged to increase health expenditure to 17 per cent of recurrent government expenditure by 2012. We are working towards the target. In 2011-12, the estimated recurrent expenditure on health will be \$39.9 billion, which accounts for 16.5 per cent of recurrent government expenditure and represents an increase of more than \$3 billion over 2010-11.

158. Apart from the new mental health services I just mentioned, the HA will use the additional funding to strengthen a range of other services. Taking into consideration the latest scientific evidence and medical technology development, it will enhance the efficacy of treating nine diseases by incorporating more drugs into the Hospital Authority Drug Formulary. It is estimated that 52 000 patients will benefit from this initiative each year. The HA will also conduct comprehensive health risk assessments for patients with hypertension and diabetes, and over 167 000 patients are expected to benefit from this service by the end of March 2012. The HA will also, through the collaboration between multi-disciplinary teams, enhance palliative care for patients with terminal cancer and end stage organ failure. It is estimated that an additional 2 500 patients will benefit from this measure in 2011-12.

159. As for shortening the waiting time for specialist services, it is estimated that public hospitals will perform 3 000 additional cataract operations and another 3 000 patients will receive subsidy for cataract surgery in the private sector in 2011-12. The establishment of an additional specialist centre for joint replacement in 2011-12 will enable about 400 additional operations to be performed each year. The HA also plans to provide magnetic resonance imaging services to 3 400 additional patients and computerised tomography scanning services to 3 000 additional patients each year starting from 2011-12.

160. To enhance the regulation of pharmaceutical products, the Department of Health (DH) has taken measures to strengthen the experience requirements for Authorised Persons of pharmaceutical manufacturers. It also requires all local manufacturers to adopt the enhanced microbiological monitoring model, and has stepped up the inspection and monitoring of manufacturers and wholesalers. In 2011-12, the Government will allocate \$31 million additional funding to strengthen the regulation of drugs, including the establishment of a dedicated office on drugs in the DH. The provisions under the Chinese Medicine Ordinance on the mandatory registration of propriety Chinese medicines (pCm) have taken effect, and those relating to the label and package insert requirements will come into force at the end of this year. We will allocate an additional \$8.4 million for the formulation of Good Manufacturing Practice (i.e. GMP) and the introduction of pharmacovigilance to raise the production standard of local pCm manufacturers.

Tobacco Control

161. Studies by the World Health Organization have clearly shown that increasing tobacco duty is an effective means of tobacco control. For public health protection, I propose to increase the duty on cigarettes by \$0.5 per stick or 41.5 per cent. Duties on other tobacco products will also be increased by the same percentage. The above adjustments take immediate effect by way of a Public Revenue Protection Order gazetted today. The Customs and Excise Department will step up law enforcement to contain cigarette smuggling. We will also make greater effort to provide smoking cessation services.

Building the Community

Building Safety

162. Since the launch of the Operation Building Bright in 2009, we have provided financial assistance to the owners of over 1 900 old buildings. A large number of old buildings were repaired and nearly 16 000 employment opportunities created.

163. In the second round of Operation Building Bright, we received more than 500 applications involving over 800 buildings. I propose to further allocate \$1 billion for Operation Building Bright so that financial assistance will be made available to all eligible applicants. This proposal will mark a successful conclusion to this campaign. We forecast that the campaign will eventually provide financial assistance for the repair and maintenance of over 3 000 buildings aged 30 years or above and create more than 60 000 employment opportunities related to the construction industry.

Easing Traffic Congestion

164. Private cars account for over 60 per cent of the vehicle fleet in Hong Kong. The number of vehicles in Hong Kong has grown continuously over the years. The year-on-year increase of private cars in 2010 hit 5.4 per cent, a record high of more than a decade. The number of private cars first registered in 2010 surged to more than 41 000.

165. It is obvious that the continuous growth in the number of private cars has adversely affected the traffic conditions on our roads. Despite all the road improvement works to ease traffic congestion, average vehicle speeds on all strategic roads across the territory decreased by over five per cent in 2010. Allowing the situation to deteriorate would make our roads even more congested. We must take decisive measures to curb the growth of private cars.

166. I propose to increase the rate of each tax band for the First Registration Tax for private cars by about 15 per cent. Details of the adjustments are set out in the supplement to the printed version of this Speech. The First Registration Tax for other types of vehicles and the existing concession for electric vehicles and environment-friendly petrol private cars will remain unchanged. The above adjustments will be gazetted and take immediate effect today. The proposed measure is intended to relieve traffic congestion instead of raising tax revenue.

Heritage Conservation

167. We have been promoting the conservation of historic buildings through a diversified approach. An example is the Revitalising Historic Buildings through Partnership Scheme in which historic buildings are conserved with government funding and adapted for re-use by non-profit making organisations. This has brought renewed vigour and new attractions to the community. In the past few years, I have allocated a total sum of \$1.5 billion for the Scheme. So far, as many as ten conservation projects of historic buildings have been implemented under this model, and the total capital works commitment has exceeded \$1.2 billion. I propose to earmark an additional \$500 million to subsidise more revitalisation projects of this kind.

Art and Culture

168. Art and culture provides the basic nutrients for social development. To support the development of the West Kowloon Cultural District (WKCD), we have earmarked more than \$486 million for the five financial years from 2010-11 for art programme development, manpower training, art education and audience building.

169. We also injected \$1.5 billion into the arts portion of the Arts and Sport Development Fund (ASDF) last July with a view to promoting the long-term development of local art and culture with the investment return of the ASDF. A matching grant scheme will be launched to encourage private sector participation in providing a springboard for the development of promising local art groups. The scheme will also support more quality art and cultural projects, thereby creating the brand identity of Hong Kong culture. In 2011-12, we will allocate over \$2.8 billion for the development of art and cultural software.

170. The WKCD Authority (the Authority) will work with the art and cultural sector, educational institutes and community groups to present a host of art and cultural events to the community. The aim is to bring art to the public and enhance their appreciation of various art forms (including performing arts and visual culture) for audience building. The Authority will also plan and support capacity building programmes to nurture artists and art administrators with a view to strengthening our arts team.

Sports Development

171. The Government has always attached great importance to sports development. We have taken an active role in promoting “sport for all”, developing elite sports and positioning Hong Kong as a leading location for international sports events. The redevelopment of the Hong Kong Sports Institute (the Institute) at a cost of about \$1.8 billion is proceeding according to schedule. To tie in with the upgrading of its facilities, I propose to set up a \$7 billion “Elite Athletes Development Fund”. The investment return of the Fund will replace the current mode of providing subvention to the Institute. This will help make the Institute a world-class training centre, provide more comprehensive support to elite athletes, and strengthen our efforts to identify and train young athletes with potential.

172. Last July, we also injected \$1.5 billion into the sports portion of the ASDF. Its investment return is used to support various sports, in particular team sports, and to organise more community sports programmes to promote greater public participation in sport. We will continue to build new district-based recreational and sports facilities and improve existing ones in the light of district demand. We will also press ahead with the planning of the multi-purpose stadium complex at Kai Tak.

Social Enterprises

173. Since the launch of the Enhancing Self-Reliance Through District Partnership Programme in 2006, the HAD has approved a total of about \$110 million to subsidise the establishment of over 100 social enterprises. We have earmarked \$150 million to keep rolling out the Programme over the next five years. The maximum funding period is extended from two years to three years, and the eligibility requirements are relaxed on a pilot basis to cover non-profit making organisations which are not exempt from tax under the Inland Revenue Ordinance. We will allocate additional resources to introduce an award scheme in an effort to foster a social enterprise spirit and nurture talent in this field.

Preparing for the Future

Microfinance

174. Some people at grass-roots level may wish to start their own businesses or take self-enhancement training. However, they may not have sufficient financial resources to do so. What they need is not a large sum, but their loan applications may be rejected by banks or finance companies because they cannot provide collaterals or do not have a stable income, or they may have to bear a high interest rate on the loan. This may frustrate their plans to start their own businesses or deprive them of self-improvement opportunities.

175. Some financial institutions abroad have introduced various loan schemes to help these people. Besides offering loans that are relatively affordable, these institutions also provide services such as mentorship to assist people in starting their own businesses, enhancing their skills and boosting their self-confidence. Successful examples abroad, such as MicroBank of Spain, have one feature in common, which is that loans are granted only after careful assessment of the borrower's willingness and ability to repay, thereby preventing these loans from being used or regarded as a kind of welfare benefit. Appropriate guidance will also be given to applicants on starting up businesses. The ultimate objective is to operate the loan schemes on a self-financing and sustainable basis.

176. I have asked the HKMC to study the feasibility of establishing a sustainable "Microfinance" scheme in Hong Kong and the demand for such facilities. The HKMC will invite bankers and voluntary agencies to form a study group, consult stakeholders and organisations concerned, and submit recommendations to me within six months.

Injection into Mandatory Provident Fund Accounts

177. The Mandatory Provident Fund (MPF) System and other occupational retirement schemes have been functioning well to assist our working population to save up for better retirement protection. We hope to increase the retirement savings of scheme members. In this connection, I propose to make a one-off injection of \$6,000 into the MPF accounts of all MPF scheme members and members of occupational retirement schemes covered by the Employment Ordinance of Hong Kong as of 23 February 2011. To assist more citizens in preparing for retirement, no salary ceiling will be imposed for the injection proposal. The proposal will not increase inflationary pressure and is drawn up in the light of our fiscal position.

178. I have earmarked \$24 billion for this measure. The Financial Services and the Treasury Bureau will announce the details in due course, and the Mandatory Provident Fund Authority will assist in implementing the injection. I expect that the injection of funds into the MPF accounts will start in 2011-12.

Estimates for 2011-12

179. I now give a brief account of the estimates for 2011-12.

180. Operating expenditure for 2011-12 is estimated to be \$298 billion, including recurrent expenditure of more than \$242 billion. Of the recurrent expenditure, 56.4 per cent will be used in the three policy area groups of education, health and social welfare. Recurrent expenditure for 2011-12 will increase by nearly eight per cent when compared with 2010-11. This reflects that the Government is always committed to caring for people's livelihood. Taking into account the provision for meeting service growth, and the measures proposed in the Policy Address and in this Budget, operating expenditure for 2011-12 will be higher than that for 2010-2011 by 24 per cent.

181. I forecast that capital expenditure will amount to \$73.1 billion, including \$58.3 billion on capital works. Total government expenditure is estimated to reach \$371.1 billion, an increase of \$67.6 billion over 2010-11. Public expenditure will be equivalent to 21 per cent of our GDP. The estimated government expenditure for 2011-12 is \$136.3 billion, or 58 per cent, higher than 2007-08. The increase is also greater than the 15.8 per cent nominal GDP growth over the same period.

182. I estimate that total government revenue for 2011-12 will be \$375 billion. Taking all these into account, I forecast a surplus of \$3.6 billion in the Operating Account and a surplus of \$300 million in the Capital Account. This will result in a surplus of \$3.9 billion in the Consolidated Account, equivalent to 0.2 per cent of our GDP. Fiscal reserves are estimated at \$595.5 billion by end-March 2012, representing about 32 per cent of our GDP and equivalent to 19 months of government expenditure.

Medium Range Forecast

183. For the medium term, I project that the annual average growth rate will be four per cent in real terms for the period 2012-15, while the underlying inflation rate will average 3.5 per cent. I forecast an annual surplus in the Operating Account for the period between 2012-13 and 2015-16. With a number of major infrastructure projects entering their construction peaks, a deficit will arise in the Capital Account, but a surplus is expected in the Consolidated Account. Fiscal reserves are estimated at approximately \$697.7 billion by end-March 2016, representing about 30 per cent of our GDP and equivalent to 20 months of government expenditure. This figure has not deducted the \$50 billion I previously pledged to allocate for the implementation of health care reform.

Concluding Remarks

184. Mr President, the socio-economic situation facing us is so distinctive that it has little resemblance to what we have seen before. The new economic landscape has provided welcome opportunities for many sectors and people in Hong Kong. However, the unusual external environment has given rise to inflationary pressure and increased the risk of asset-price bubbles, adding to the burden on our citizens. In such exceptional circumstances, it is only natural that some people feel worried about the increasingly heavy burden they have to bear or the difficulty in clinching a place in the new economic contest. They may even be anxious about their development prospects for the future.

185. In view of this year's socio-economic conditions, I propose in this Budget to increase our spending on areas related to people's livelihood, such as education, health and social welfare. We also seek to alleviate the inflationary pressure felt by our people, reduce the risk of asset-price bubbles, and use public resources to invest in the future.

186. People come first in all our policies. No matter how our economy fares, we cherish each and every member of our community. We always remind ourselves that the social and economic problems facing us are not just figures on paper, but the livelihood and well-being of every single citizen and family. I believe that it is in Hong Kong's best interests to give our people opportunities to fully actualise their potential and pursue their own value and happiness.

187. As a poet wrote, “A great city is that which has the greatest men or women”. The achievements of Hong Kong’s free and robust economy stand for all to see. But remarkable economic performance alone does not make a city great. It is of equal importance that our society remains open and diversified, and that we solve our problems together through rational discussions. With fairness and care, we can create a vibrant socio-economic environment in which everyone can realise their potential.

188. In my last Budget, I pointed out that we should make good use of the “big society” which exists somewhere between the “big market” and the “small government”. We should join hands to tackle our problems by utilising our abundant social capital. On the premise that Hong Kong people are always striving to excel while feeling concern for others, we provide the necessary platform for co-operation for the big society, involving the community, business and Government, to work together for social and economic development.

189. Education is a prerequisite for developing social capital. I propose to devote more resources to the development of talent and increase of knowledge, making learning an essential component of our lives. In the area of social development, investment in education is the key to enhancing our overall competitiveness. For personal development, education is an important step in the course of empowerment. I believe that the education a person receives has a profound effect on his future. Knowledge is power. With knowledge, we are masters of our own fate.

190. We have always considered it appropriate to empower the community, and this underpins my Budgets. I encourage everyone to pursue their own happiness. To this end, I propose initiatives that encourage young people to strive for self-reliance, support disadvantaged groups to integrate into the community, and seek to help people realise their dreams of starting up business. At the same time, I will allocate resources and take forward various projects to help community organisations pool their efforts for social development and innovation.

191. At the economic level, we foster the innovative and enterprising spirits that Hong Kong has always been proud of. I take heart from experience like that of the 40 square feet make-up counter in a shopping arcade in Causeway Bay that has grown into a cosmetics retail group with over a hundred shops in Asia, or the small restaurant in Central that has expanded into a catering enterprise operating more than 600 outlets around the world. The key to the success of Hong Kong enterprises, as evident in their prosperous growth despite various crises, is the persistence and determination of our people doing their best. I believe that the support from the Government will help foster an enterprising spirit among our people and eventually nurture more and more new generations of entrepreneurs for Hong Kong.

192. A society which empowers its people will also be a responsible one. A government is obliged to create a favourable environment, safeguard equal opportunities and maintain fair competition. It is obliged to deal with socio-economic fluctuations or market failure with appropriate policies. The community has the responsibility to boost the positive momentum in its members so that they will be able to rise to challenges with tenacity. Enterprises have the responsibility to demonstrate higher moral standards and act to show their care for the community apart from making profits.

193. The post-tsunami period still abounds with challenges. The impacts of a changing global economic landscape, the pressure of an ageing population, and the social tension arising from the poverty problem are urgently calling for a broader consensus and greater willingness in our society to confront these issues together. With our diligence and perseverance, desire for excellence, caring and accommodating attitude, we shall overcome the many difficulties coming our way. That Hong Kong has emerged from the financial tsunami more vibrant and caring than ever speaks for itself. I believe Hong Kong will rise to challenges ahead with greater vigour. The spirit of Hong Kong will continue to shine through.

THE 2011-12 BUDGET

Speech by the Financial Secretary, the Hon John C Tsang
moving the Second Reading of the Appropriation Bill 2011

Supplement and Appendices

Wednesday, 23 February 2011

SUPPLEMENT

Please visit our web-site at www.budget.gov.hk/2011/eng/speech.html for all documents, appendices and statistics relating to the 2011–12 Budget. The Chinese version can be found at www.budget.gov.hk/2011/chi/speech.html.

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EFFECT OF THE GENERAL REVALUATION OF RATES ON MAIN PROPERTY CLASSES

<i>Property Type</i>	<i>2011-12</i>		
	<i>Average Increase in Rateable Value⁽⁶⁾</i>	<i>New Average Rates Payable⁽⁷⁾</i>	<i>Increase⁽⁸⁾</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	+15	322	+42
Medium Domestic Premises ⁽¹⁾ (Private)	+14	785	+96
Large Domestic Premises ⁽¹⁾ (Private)	+13	1,996	+237
Public Domestic Premises ⁽²⁾	+11	169	+17
All Domestic Premises⁽³⁾	+14	343	+41
Shops and Commercial Premises	+5	2,184	+110
Offices	+7	2,458	+152
Industrial Premises ⁽⁴⁾	+7	833	+57
All Non-domestic Premises⁽⁵⁾	+5	2,112	+103
All Properties	+9	576	+49

(1) Domestic units are classified by relation to saleable areas, as follows –

Small domestic	up to 69.9m ²	(up to 752 sq. ft.)
Medium domestic	70m ² to 99.9m ²	(753 sq. ft. - 1 075 sq. ft.)
Large domestic	100m ² and over	(1 076 sq. ft. and above)

(2) Including Housing Authority and Housing Society rental units.

(3) Including car parking spaces.

(4) Including factories and storage premises.

(5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools and car parking spaces.

(6) The rateable values for 2011-12 reflect changes in open market rental values between 1 October 2009 and 1 October 2010.

(7) The effect of the proposed rates concession in 2011-12 has not been taken into account.

(8) The effect of rates concession in 2010-11 has not been taken into account.

EFFECT OF THE GENERAL REVALUATION OF GOVERNMENT RENT ON MAIN PROPERTY CLASSES

<i>Property Type</i>	<i>2011-12</i>		
	<i>Average Increase in Rateable Value⁽⁶⁾</i>	<i>New Average Rent Payable</i>	<i>Increase</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises ⁽¹⁾ (Private)	+15	182	+24
Medium Domestic Premises ⁽¹⁾ (Private)	+14	442	+54
Large Domestic Premises ⁽¹⁾ (Private)	+13	965	+108
Public Domestic Premises ⁽²⁾	+11	100	+10
All Domestic Premises⁽³⁾	+14	180	+22
Shops and Commercial Premises	+7	1,222	+75
Offices	+4	2,633	+107
Industrial Premises ⁽⁴⁾	+7	498	+34
All Non-domestic Premises⁽⁵⁾	+6	1,182	+64
All Properties	+10	287	+26

(1) Domestic units are classified by relation to saleable areas, as follows –

Small domestic	up to 69.9m ²	(up to 752 sq. ft.)
Medium domestic	70m ² to 99.9m ²	(753 sq. ft. - 1 075 sq. ft.)
Large domestic	100m ² and over	(1 076 sq. ft. and above)

(2) Including Housing Authority and Housing Society rental units.

(3) Including car parking spaces.

(4) Including factories and storage premises.

(5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools and car parking spaces.

(6) The rateable values for 2011-12 reflect changes in open market rental values between 1 October 2009 and 1 October 2010.

SALARIES TAX

Changes to Allowances and Deductions

	<i>Present</i> (\$)	<i>Proposed</i> (\$)	<i>Increase</i> (\$) (%)	
Personal Allowances:				
Basic	108,000	108,000	—	—
Married	216,000	216,000	—	—
Single Parent	108,000	108,000	—	—
Other Allowances:				
Child:				
1st to 9th child				
Year of birth	100,000	120,000	20,000	20
Other years	50,000	60,000	10,000	20
Dependent Parent/Grandparent:				
Aged 60 or above				
Basic	30,000	36,000	6,000	20
Additional allowance (for a dependant living with the taxpayer)	30,000	36,000	6,000	20
Aged 55 to 59				
Basic	15,000	18,000	3,000	20
Additional allowance (for a dependant living with the taxpayer)	15,000	18,000	3,000	20
Dependent Brother/Sister	30,000	30,000	—	—
Disabled Dependant	60,000	60,000	—	—
Deduction Ceiling:				
Self-Education Expenses	60,000	60,000	—	—
Home Loan Interest	100,000	100,000	—	—
Approved Charitable Donations	35% of income	35% of income	—	—
Elderly Residential Care Expenses	60,000	72,000	12,000	20
Contributions to Recognised Retirement Schemes	12,000	12,000	—	—

DUTY RATE OF TOBACCO

	<i>Present</i> (\$ per 1 000 sticks)	<i>Proposed</i> (\$ per 1 000 sticks)
Cigarettes	1,206	1,706
	<i>(\$ per Kg)</i>	<i>(\$ per Kg)</i>
Cigars	1,553	2,197
Chinese prepared tobacco	296	419
All other manufactured tobacco except tobacco intended for the manufacture of cigarettes	1,461	2,067

FIRST REGISTRATION TAX ON PRIVATE CARS

<i>Tax Bands</i>	<i>Present tax rates</i>	<i>Proposed tax rates</i>
(a) On the first \$150,000 of taxable value	35%	40%
(b) On the next \$150,000	65%	75%
(c) On the next \$200,000	85%	100%
(d) On the remainder (i.e. on taxable value over \$500,000)	100%	115%

ECONOMIC PERFORMANCE IN 2010

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2010:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	5.8
Government consumption expenditure	2.7
Gross domestic fixed capital formation	8.1
<i>of which:</i>	
Building and construction	6.7
Machinery, equipment and computer software	6.3
Total exports of goods	17.3
Imports of goods	18.1
Exports of services	15.0
Imports of services	10.9
Gross Domestic Product (GDP)	6.8
<i>Per capita GDP, in real terms</i>	5.8
<i>Per capita GDP at current market prices</i>	HK\$247,300 (US\$31,800)
(b) Rates of change in:	
Composite Consumer Price Index	2.4
GDP Deflator	0.9
Government Consumption Expenditure Deflator	0.2
(c) Growth rate of nominal GDP	7.8

2. Annual growth rates in real terms of re-exports and domestic exports based on external trade quantum index numbers:

	<i>Re-exports</i> (%)	<i>Domestic exports</i> (%)
2008	4	-22
2009	-11	-35
2010	18	16
<i>Share in the value of total exports of goods in 2010</i>	98	2

3. Annual growth rates in real terms of retained imports by type:

	<i>Retained imports</i>					
	<i>Total</i> (%)	<i>Consumer goods</i> (%)	<i>Foodstuffs</i> (%)	<i>Capital goods</i> (%)	<i>Raw materials and semi-manufactures</i> (%)	<i>Fuels</i> (%)
2008	-1	12	13	7	-30	-4
2009	-4	-9	7	-4	-10	23
2010	20	22	12	16	31	14

4. Annual growth rates in real terms of retained imports of capital goods by type:

	<i>Retained imports of capital goods</i>				
	<i>Total</i> (%)	<i>Office equipment</i> (%)	<i>Industrial machinery</i> (%)	<i>Construction machinery</i> (%)	<i>Telecommunications equipment</i> (%)
2008	7	0	6	57	14
2009	-4	-9	-31	63	5
2010	16	-6	12	18	27

5. Annual growth rates in real terms of exports of services by type:

Exports of services

	<i>Total</i>	<i>Trade-related</i>	<i>Transportation</i>	<i>Travel</i>	<i>Finance, insurance, business and other services</i>
	(%)	(%)	(%)	(%)	(%)
2008	5	4	3	6	8
2009	0	-5	-2	8	5
2010	15	14	9	29	13

6. Hong Kong's visible and invisible trade balance in 2010 reckoned on GDP basis ^(Note 1):

	(HK\$ billion)
Total exports of goods	3,061.3
Imports of goods	3,395.1
<i>Visible trade balance</i>	-333.8
Exports of services	835.0
Imports of services	396.6
<i>Invisible trade balance</i>	438.4
<i>Combined visible and invisible trade balance</i>	104.6

Note 1 Preliminary figures.

7. Annual averages of the unemployment and underemployment rates and growth in labour force and total employment:

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2008	3.6	1.9	0.5	1.0
2009	5.4	2.3	0.8	-1.1
2010	4.3	2.0	0.0	1.1

8. Annual rates of change in the Consumer Price Indices:

	<i>Composite CPI</i>		<i>CPI(A)</i>	<i>CPI(B)</i>	<i>CPI(C)</i>
	<i>Headline (%)</i>	<i>Underlying (%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
2008	4.3	5.6	3.6	4.6	4.7
2009	0.5	1.0	0.4	0.5	0.6
2010	2.4	1.7	2.7	2.4	2.1

ECONOMIC PROSPECTS FOR 2011

Forecast rates of change in the Gross Domestic Product and prices in 2011:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	4 to 5
<i>Nominal GDP</i>	6.5 to 7.5
<i>Per capita GDP, in real terms</i>	3.2 to 4.2
<i>Per capita GDP at current market prices</i>	HK\$261,300-263,800 (US\$33,500-33,800)
Composite Consumer Price Index	
<i>Headline Composite Consumer Price Index</i>	4.5
<i>Underlying Composite Consumer Price Index</i>	4.5
GDP Deflator	2.5

APPENDICES

APPENDICES

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Note: Expenditure figures for 2010-11 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2011-12 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

2010–11 TO 2015–16

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SECTION I FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

1 A wide range of assumptions on the factors affecting Government's revenue and expenditure are used to derive the Medium Range Forecast (MRF). Some assumptions are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activities (the detailed assumptions).

General Economic Assumptions

Real Gross Domestic Product (real GDP)

2 GDP is forecast to increase by between 4% to 5% in real terms in 2011. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2012 to 2015, the trend growth rate of the economy in real terms is assumed to be 4% per annum.

Price change

3 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 2.5% in 2011. For the four-year period 2012 to 2015, the GDP deflator is assumed to increase at a trend rate of 2% per annum.

4 The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 4.5% in 2011. Eliminating the effects of various relief and stimulus measures introduced since the 2008-09 Budget, the underlying CCPI is forecast to increase by 4.5% in 2011. For the ensuing period 2012 to 2015, the trend rate of increase for the underlying CCPI is assumed to be 3.5% per annum.

Nominal Gross Domestic Product (nominal GDP)

5 Given the assumptions on the rates of change in the real GDP and the GDP deflator, the GDP in nominal terms is forecast to increase by between 6.5% to 7.5% in 2011, and the trend growth rate in nominal terms for the period 2012 to 2015 is assumed to be 6% per annum.

Detailed Assumptions

6 The MRF incorporates a wide range of detailed assumptions on expenditure and revenue patterns over the forecast period, taking the following, amongst other factors, into account –

- estimated cash flow of capital projects,
- forecast completion dates of these capital projects and their related recurrent consequences in terms of staffing and running costs,
- estimated cash flow arising from new commitments and policy initiatives,
- the expected pattern of demand for individual services,
- the trend in yield from individual revenue sources, and
- new initiatives in the 2011-12 Budget.

Budgetary Criteria

7 There are a number of criteria against which the results of forecasts are tested for overall acceptability in terms of budgetary policy.

8 The following covers the more important budgetary criteria –

Budget surplus/deficit

The Government aims to achieve balance in the consolidated and operating accounts. The Government needs, over time, to achieve an operating surplus to partially finance capital expenditure.

Expenditure policy

The general principle is that, over time, expenditure growth should not exceed the growth of the economy. The Government aims to keep public expenditure at or below 20% of GDP. Capital expenditure, by its nature, will fluctuate from year to year.

Revenue policy

Account is taken of the need to maintain, over time, the real yield from revenue.

Fiscal reserves

The Government aims to maintain adequate reserves in the long run.

SECTION II THE MRF FOR 2010–11 TO 2015–16

9 The current MRF (*Note a*) is summarised in the following table which indicates the forecast financial position of the Government –

Table 1

(\$ million)	2010–11 Revised Estimate	2011–12 Estimate	2012–13 Forecast	2013–14 Forecast	2014–15 Forecast	2015–16 Forecast
Operating Account						
Operating revenue (<i>Note b</i>)	301,442	301,630	335,335	348,180	359,021	395,259
Less: Operating expenditure (<i>Note c</i>)	240,751	298,000	270,500	285,400	301,100	317,700
Operating surplus	60,691	3,630	64,835	62,780	57,921	77,559
Capital Account						
Capital revenue (<i>Note d</i>)	73,319	73,386	52,692	50,799	52,252	56,372
Less: Capital expenditure (<i>Note e</i>)	62,739	73,116	89,109	91,044	91,434	91,660
Capital surplus/(deficit)	10,580	270	(36,417)	(40,245)	(39,182)	(35,288)
Consolidated Account						
Government revenue	374,761	375,016	388,027	398,979	411,273	451,631
Less: Government expenditure	303,490	371,116	359,609	376,444	392,534	409,360
Consolidated surplus before repayment of bonds and notes	71,271	3,900	28,418	22,535	18,739	42,271
Less: Repayment of bonds and notes (<i>Note f</i>)	-	-	-	-	9,750	-
Consolidated surplus after repayment of bonds and notes	71,271	3,900	28,418	22,535	8,989	42,271
Fiscal reserves at 31 March (<i>Note g</i>)						
In terms of number of months of government expenditure	23	19	21	21	20	20
In terms of percentage of GDP	33.8%	31.8%	31.5%	30.8%	29.4%	29.5%

Notes –

(a) *Accounting policies*

- (i) The MRF is prepared on a cash basis and reflects forecast receipts and payments, whether or not they relate to operating or capital transactions.
- (ii) The MRF includes the General Revenue Account and eight Funds (Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund). It does not include the Bond Fund which is managed separately and the balance of which does not form part of the fiscal reserves.

(b) *Operating revenue*

- (i) The operating revenue has taken into account the revenue measures proposed in the 2011-12 Budget, and is made up of –

(\$ million)	2010-11 Revised Estimate	2011-12 Estimate	2012-13 Forecast	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast
Operating revenue before investment income	272,542	271,132	301,561	316,384	334,120	353,221
Investment income	28,900	30,498	33,774	31,796	24,901	42,038
Total	<u>301,442</u>	<u>301,630</u>	<u>335,335</u>	<u>348,180</u>	<u>359,021</u>	<u>395,259</u>

- (ii) Investment income under the Operating Account includes investment income of the General Revenue Account which is credited to revenue head Properties and Investments, and investment income of the Land Fund. The rate of investment return for 2011 is 6% and for 2012 to 2015 is assumed to be in the range of 4% to 6.6% a year.

(c) *Operating expenditure*

This represents expenditure charged to the Operating Account of the General Revenue Account. The levels of operating expenditure in 2011-12 to 2015-16 represent the expenditure guideline for these years.

(d) *Capital revenue*

- (i) The breakdown of capital revenue is –

(\$ million)	2010-11 Revised Estimate	2011-12 Estimate	2012-13 Forecast	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast
General Revenue Account	1,594	1,515	2,723	592	604	599
Capital Investment Fund	1,251	1,188	1,262	1,144	1,009	1,020
Capital Works Reserve Fund	62,038	62,247	40,021	42,433	44,992	47,704
Disaster Relief Fund	1	-	-	-	-	-
Innovation and Technology Fund	37	8	-	-	-	-
Loan Fund	2,146	2,211	2,391	2,527	2,661	2,760
Lotteries Fund	1,067	1,098	1,135	1,174	1,214	1,255
Capital revenue before asset sales and investment income	<u>68,134</u>	<u>68,267</u>	<u>47,532</u>	<u>47,870</u>	<u>50,480</u>	<u>53,338</u>
Asset sales	154	158	145	141	137	133
Investment income	5,031	4,961	5,015	2,788	1,635	2,901
Total	<u>73,319</u>	<u>73,386</u>	<u>52,692</u>	<u>50,799</u>	<u>52,252</u>	<u>56,372</u>

- (ii) Land premium included under the Capital Works Reserve Fund for 2011-12 is assumed to stay at the same level as that for 2010-11. For 2012-13 onwards, it is assumed to be 2% of GDP.
- (iii) Investment income under the Capital Account includes investment income of the Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund.

(e) *Capital expenditure*

The breakdown of capital expenditure is –

(\$ million)	2010–11 Revised Estimate	2011–12 Estimate	2012–13 Forecast	2013–14 Forecast	2014–15 Forecast	2015–16 Forecast
General Revenue Account	3,114	3,809	3,970	3,970	3,970	3,970
Capital Investment Fund	1,475	670	371	1,482	262	268
Capital Works Reserve Fund	53,651	63,878	78,818	79,706	82,497	82,614
Disaster Relief Fund	342	-	-	-	-	-
Innovation and Technology Fund	816	864	910	960	974	1,007
Loan Fund	2,314	2,813	3,787	3,777	2,912	2,968
Lotteries Fund	1,027	1,082	1,253	1,149	819	833
Total	62,739	73,116	89,109	91,044	91,434	91,660

(f) *Repayment of bonds and notes*

Repayment of bonds and notes is only in respect of the global bond issue in 2004. Outstanding principal as at 31 March 2016 is estimated at \$1,500 million.

(g) *Fiscal reserves*

The amount is before deducting the \$50 billion pledged for supporting healthcare reform.

SECTION III RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/PUBLIC EXPENDITURE AND GDP IN THE MRF

10 For monitoring purposes, expenditure of the Trading Funds and the Housing Authority (collectively referred to as “other public bodies”) is added to government expenditure in order to compare public expenditure with GDP.

Government Expenditure and Public Expenditure in the Context of the Economy

Table 2

(\$ million)	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16
	Revised Estimate	Estimate	Forecast	Forecast	Forecast	Forecast
Operating expenditure	240,751	298,000	270,500	285,400	301,100	317,700
Capital expenditure	62,739	73,116	89,109	91,044	91,434	91,660
Government expenditure	303,490	371,116	359,609	376,444	392,534	409,360
Other public bodies expenditure	20,268	22,193	22,764	23,644	24,623	25,666
Public expenditure (Note a)	323,758	393,309	382,373	400,088	417,157	435,026
Gross Domestic Product (calendar year)	1,748,090	1,870,500	1,982,700	2,101,600	2,227,700	2,361,400
Nominal growth in GDP (Note b)	7.8%	7.0%	6.0%	6.0%	6.0%	6.0%
Growth in government expenditure (Note c)	5.0%	22.3%	-3.1%	4.7%	4.3%	4.3%
Growth in public expenditure (Note c)	5.4%	21.5%	-2.8%	4.6%	4.3%	4.3%
Public expenditure in terms of percentage of GDP	18.5%	21.0%	19.3%	19.0%	18.7%	18.4%

Notes –

- (a) Public expenditure comprises government expenditure, expenditure by the Trading Funds and expenditure by the Housing Authority. It does not include expenditure by those organisations, including statutory organisations, in which the Government has only an equity position, such as the Airport Authority and the MTR Corporation Limited.
- (b) For 2011-12, the nominal GDP growth of 7% represents the mid-point of the range forecast of 6.5% to 7.5% for the calendar year 2011.
- (c) The growth rates refer to year-on-year change. For example, the rates for 2010–11 refer to the change between revised estimate for 2010–11 and actual expenditure in 2009–10. The rates for 2011–12 refer to the change between the 2011–12 estimate and the 2010–11 revised estimate, and so forth.

11 Table 3 shows the relationship amongst the sum to be appropriated in the 2011-12 Budget, government expenditure and public expenditure.

**Relationship between Government Expenditure
and Public Expenditure in 2011–12**

Table 3

(\$ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	242,144	242,144	-	242,144	242,144
Non-recurrent	55,856	55,856	-	55,856	55,856
Capital					
Plant, equipment and works	2,079	-	2,079	2,079	2,079
Subventions	1,730	-	1,730	1,730	1,730
	301,809	298,000	3,809	301,809	301,809
Transfer to Funds	25,000	-	-	-	-
Capital Investment Fund	-	-	670	670	670
Capital Works Reserve Fund	-	-	63,878	63,878	63,878
Innovation and Technology Fund	-	-	864	864	864
Loan Fund	-	-	2,813	2,813	2,813
Lotteries Fund	-	-	1,082	1,082	1,082
Trading Funds	-	-	-	-	4,609
Housing Authority	-	-	-	-	17,584
	326,809	298,000	73,116	371,116	393,309
Revenue					
General Revenue Account					
Taxation		242,008	50	242,058	
Other revenue		48,407	1,465	49,872	
Land Fund		290,415	1,515	291,930	
		11,215	-	11,215	
		301,630	1,515	303,145	
Capital Investment Fund		-	1,297	1,297	
Capital Works Reserve Fund		-	64,936	64,936	
Civil Service Pension Reserve Fund		-	1,380	1,380	
Disaster Relief Fund		-	3	3	
Innovation and Technology Fund		-	185	185	
Loan Fund		-	2,468	2,468	
Lotteries Fund		-	1,602	1,602	
		301,630	73,386	375,016	
Surplus		3,630	270	3,900	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

12 The Government's contingent liabilities as at 31 March 2010, and estimates of these should they remain unsettled as at 31 March 2011 or 31 March 2012, are provided below as supplementary information to the MRF –

(\$ million)	2010	At 31 March 2011	2012
Guarantees provided under the Special Loan Guarantee Scheme	46,606	73,575	71,374
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	21,483	23,745	26,010
Guarantees provided under loan guarantee schemes for small and medium enterprises	4,935	6,335	9,588
Possible capital subscriptions to the Asian Development Bank	2,114	6,605	6,605
Guarantees provided under a commercial loan of the Ocean Park Corporation	1,388	1,388	1,388
Litigation	364	392	419
Guarantees provided under the Film Guarantee Fund	-	-	3
Total	<u>76,890</u>	<u>112,040</u>	<u>115,387</u>

13 In addition to the bonds and notes issued in 2004, the repayment of which has been included in the MRF, the Government's major unfunded liabilities as at 31 March 2010 were as follows –

(\$ million)	
Present value of public officers pension obligations	469,640
Untaken leave (<i>Note</i>)	21,713

Note –

The estimate for 'untaken leave' gives an indication of the overall value of leave earned but not yet taken by serving public officers.

APPENDIX B

ANALYSIS OF EXPENDITURE AND REVENUE

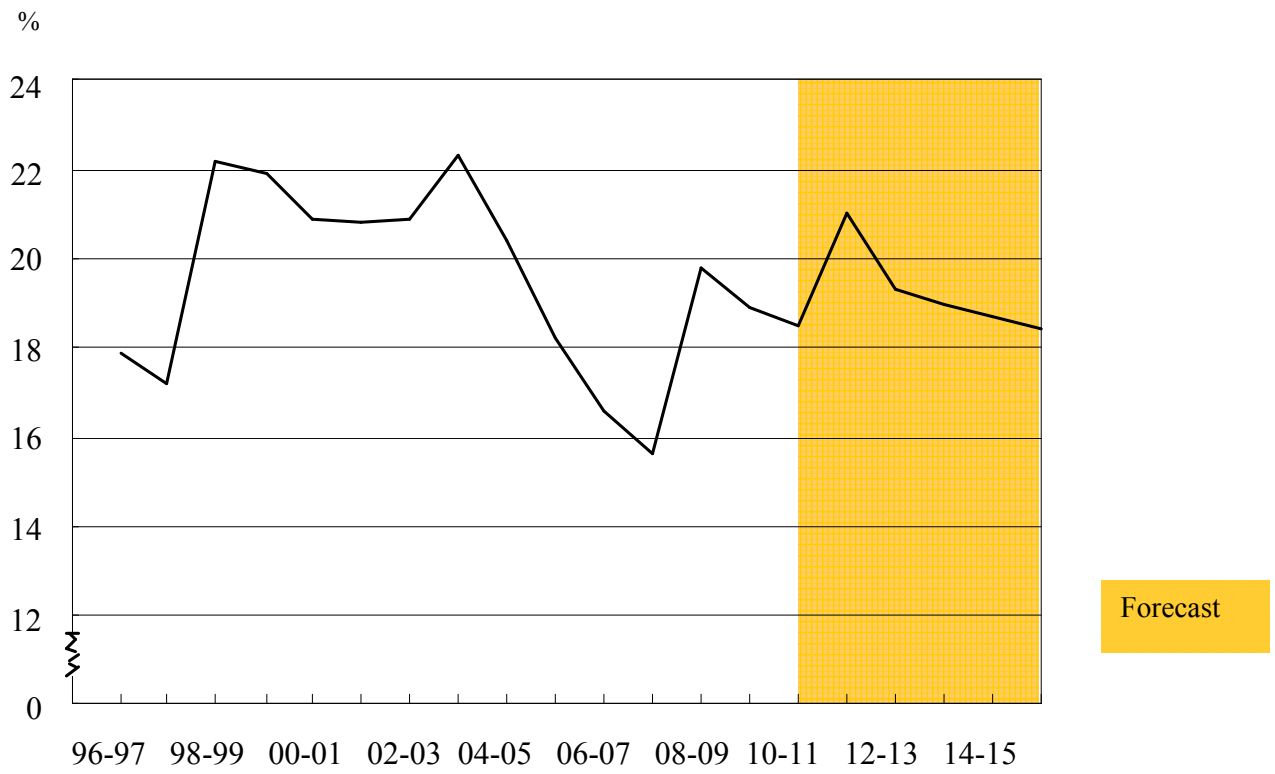
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SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

Relationship between Government Expenditure, Public Expenditure and GDP

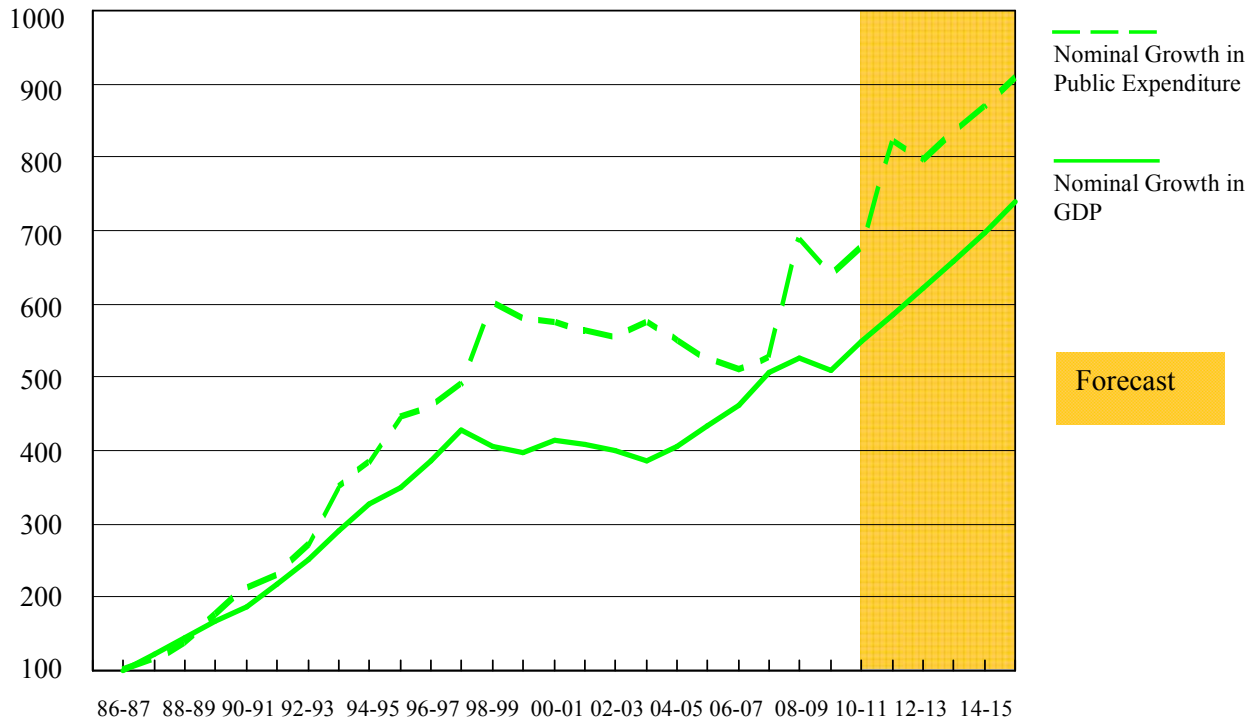
	2011–12 Estimate \$m
General Revenue Account	
Operating	298,000
Capital	3,809
	<hr/> 301,809
Capital Investment Fund	670
Capital Works Reserve Fund	63,878
Innovation and Technology Fund	864
Loan Fund	2,813
Lotteries Fund	1,082
	<hr/> 371,116
Government Expenditure	371,116
Trading Funds	4,609
Housing Authority	17,584
	<hr/> 393,309
Public Expenditure	393,309
	<hr/>
GDP	1,870,500
Public Expenditure in terms of percentage of GDP	21.0%

Public Expenditure in terms of Percentage of GDP



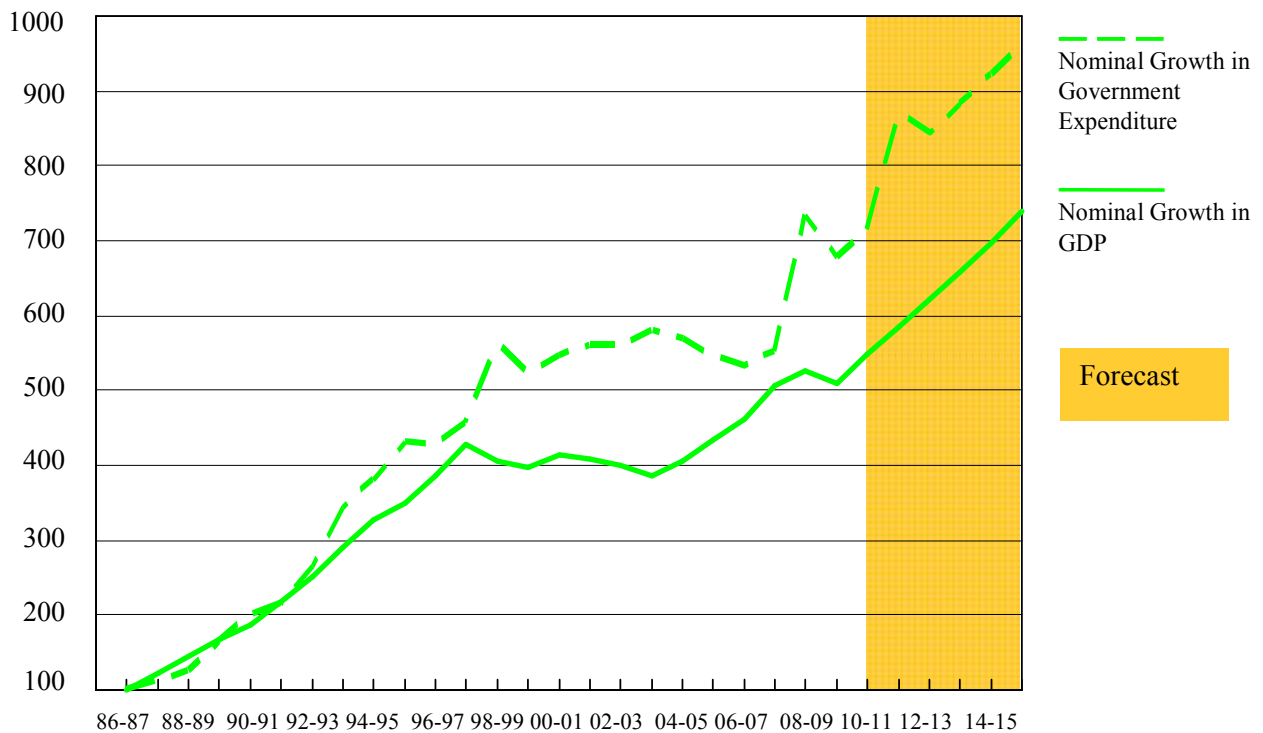
Comparison of Cumulative Growth in Public Expenditure with Cumulative Growth in GDP since the Introduction of Medium Range Forecast

Index (86-87 = 100)



Comparison of Cumulative Growth in Government Expenditure with Cumulative Growth in GDP since the Introduction of Medium Range Forecast

Index (86-87 = 100)



SECTION II ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Recurrent Public Expenditure : Year-on-Year Change

	2009–10 Actual \$m	2010–11 Revised Estimate \$m	2011–12 Estimate \$m	Increase/Decrease over 2010–11 Revised Estimate	
				in Nominal Terms %	in Real Terms %
Education	50,831	51,432	54,473	5.9	5.2
Social Welfare (Note)	39,405	37,923	42,170	11.2	8.9
Health	35,333	36,732	39,904	8.6	8.0
Security	26,869	27,507	28,433	3.4	2.9
Infrastructure	15,153	15,430	16,094	4.3	2.3
Economic	11,208	11,437	12,493	9.2	7.1
Housing	9,429	10,215	10,936	7.1	3.0
Environment and Food	9,718	9,603	10,498	9.3	7.8
Community and External Affairs	7,852	8,088	8,457	4.6	3.1
Support	28,438	30,069	33,841	12.5	10.9
	<u>234,236</u>	<u>238,436</u>	<u>257,299</u>	7.9	6.5

Note –

To give a better picture of the long term trend of recurrent expenditure on social welfare, one-off additional payments to recipients under Comprehensive Social Security Assistance and Social Security Allowance Schemes have been provided for under non-recurrent expenditure since 2010-11.

SECTION II ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

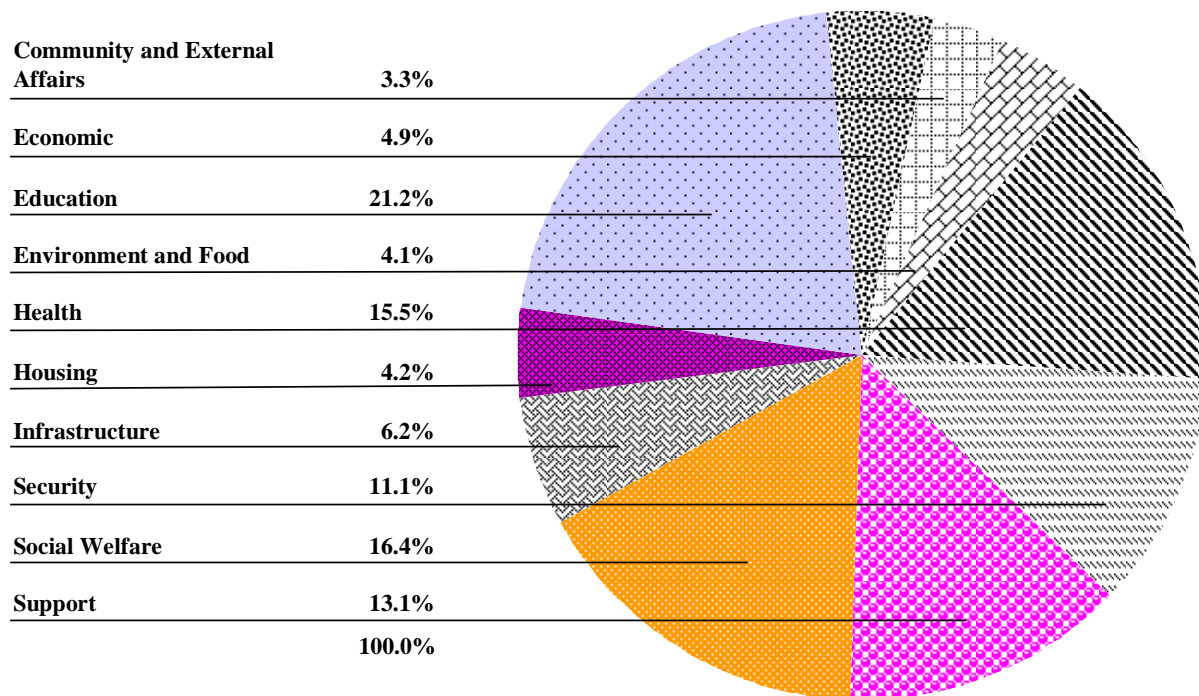
Recurrent Government Expenditure : Year-on-Year Change

	2009–10 Actual \$m	2010–11 Revised Estimate \$m	2011–12 Estimate \$m	Increase/Decrease over 2010–11 Revised Estimate	
				in Nominal Terms %	in Real Terms %
Education	50,831	51,432	54,473	5.9	5.2
Social Welfare (Note)	39,405	37,923	42,170	11.2	8.9
Health	35,333	36,732	39,904	8.6	8.0
Security	26,869	27,507	28,433	3.4	2.9
Infrastructure	14,969	15,238	15,876	4.2	2.3
Economic	7,574	7,552	8,279	9.6	8.5
Housing	191	199	213	7.0	6.8
Environment and Food	9,718	9,603	10,498	9.3	7.8
Community and External Affairs	7,852	8,088	8,457	4.6	3.1
Support	28,438	30,069	33,841	12.5	10.9
	<u>221,180</u>	<u>224,343</u>	<u>242,144</u>	7.9	6.7

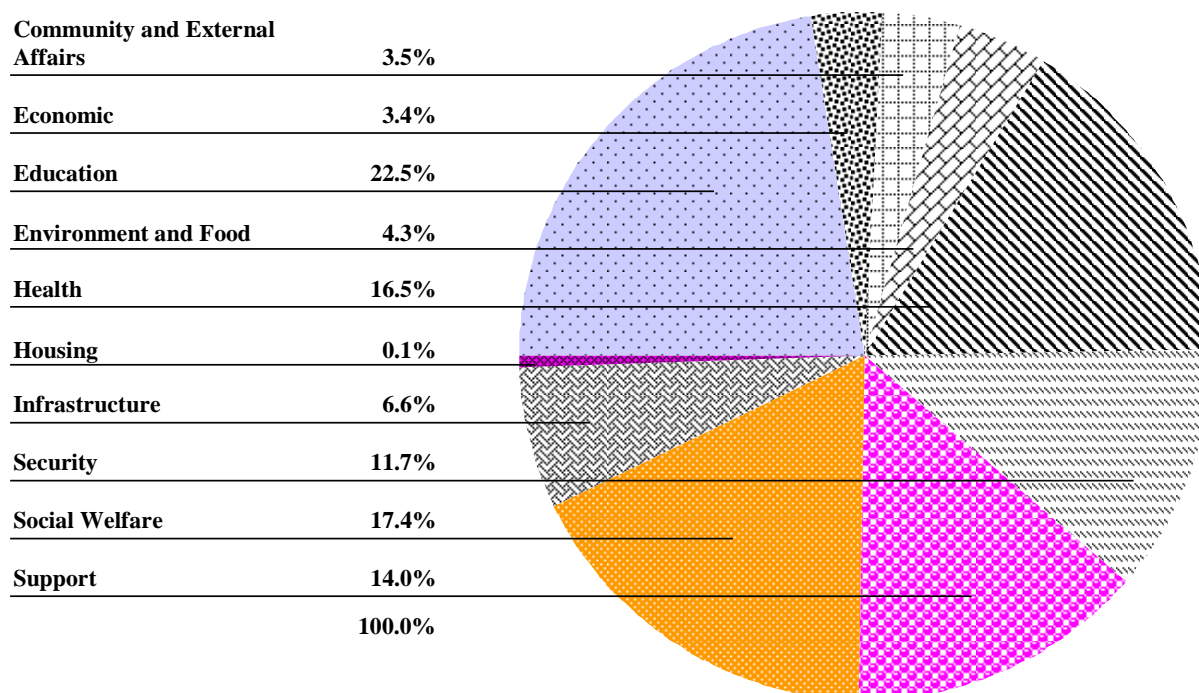
Note –

To give a better picture of the long term trend of recurrent expenditure on social welfare, one-off additional payments to recipients under Comprehensive Social Security Assistance and Social Security Allowance Schemes have been provided for under non-recurrent expenditure since 2010-11.

**Percentage Share of Expenditure by Policy Area Group
 Recurrent Public Expenditure : 2011-12 Estimate**



**Percentage Share of Expenditure by Policy Area Group
 Recurrent Government Expenditure : 2011-12 Estimate**



SECTION III ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

Total Public Expenditure : Year-on-Year Change

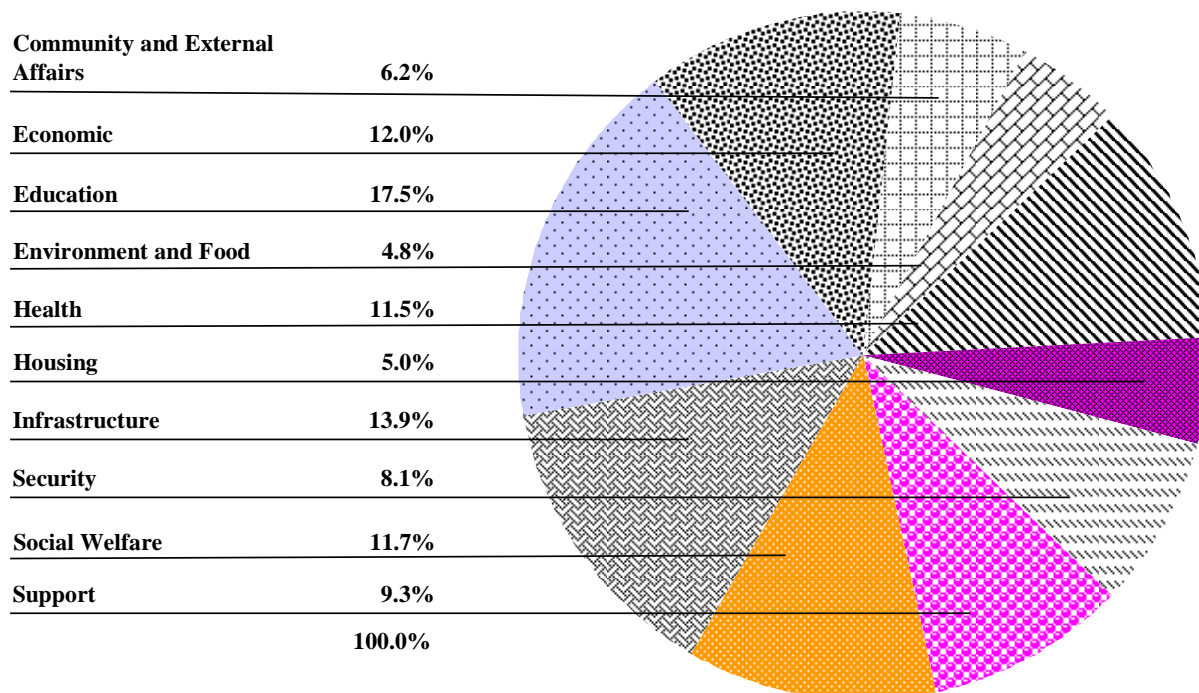
	2009–10 Actual \$m	2010–11 Revised Estimate \$m	2011–12 Estimate \$m	Increase/Decrease over 2010–11 Revised Estimate	
				in Nominal Terms %	in Real Terms %
Education	58,240	61,824	68,667	11.1	9.9
Social Welfare	40,418	40,926	45,979	12.3	10.1
Health	38,387	39,855	45,152	13.3	12.3
Security	29,843	32,740	31,919	-2.5	-3.3
Infrastructure	47,302	48,251	54,550	13.1	8.8
Economic	18,465	17,949	47,174	162.8	160.1
Housing	16,258	18,073	19,736	9.2	5.1
Environment and Food	13,700	15,274	18,808	23.1	19.9
Community and External Affairs	14,092	15,231	24,677	62.0	60.0
Support	30,487	33,635	36,647	9.0	7.1
	<u>307,192</u>	<u>323,758</u>	<u>393,309</u>	21.5	19.3

SECTION III ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

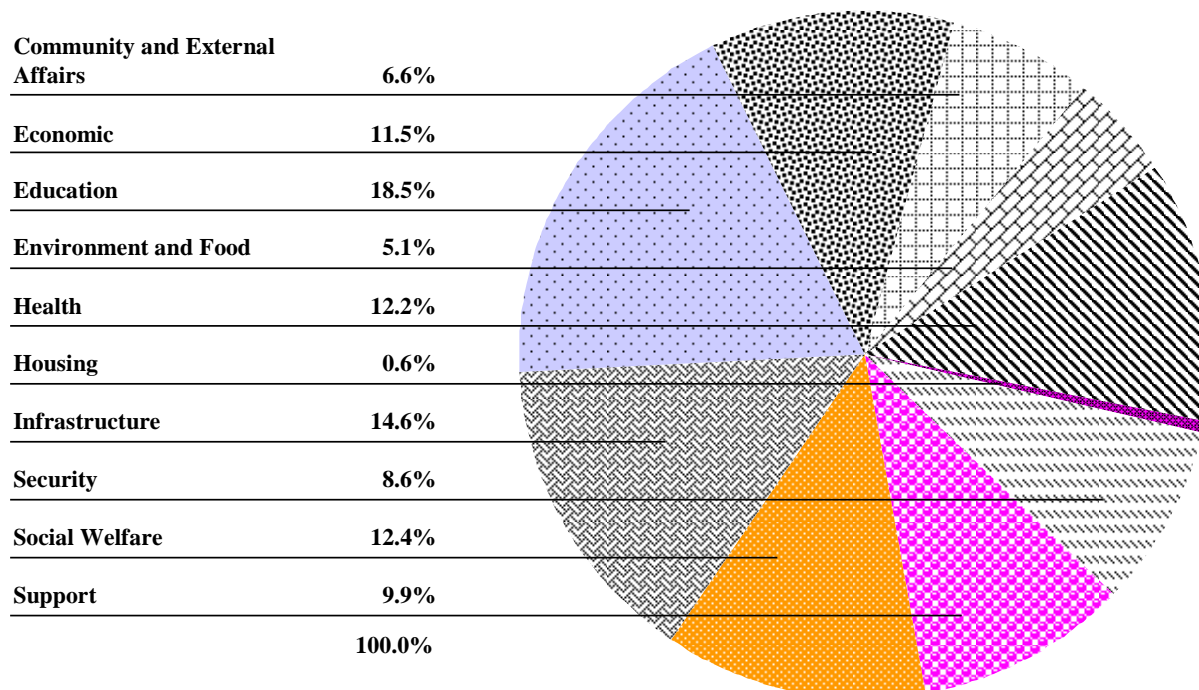
Total Government Expenditure : Year-on-Year Change

	2009–10 Actual \$m	2010–11 Revised Estimate \$m	2011–12 Estimate \$m	Increase/Decrease over 2010–11 Revised Estimate	
				in Nominal Terms %	in Real Terms %
Education	58,240	61,824	68,667	11.1	9.9
Social Welfare	40,418	40,926	45,979	12.3	10.1
Health	38,387	39,855	45,152	13.3	12.3
Security	29,843	32,740	31,919	-2.5	-3.3
Infrastructure	47,097	47,993	54,314	13.2	9.0
Economic	14,768	13,996	42,801	205.8	203.5
Housing	1,993	2,016	2,152	6.7	6.7
Environment and Food	13,700	15,274	18,808	23.1	19.9
Community and External Affairs	14,092	15,231	24,677	62.0	60.0
Support	30,487	33,635	36,647	9.0	7.1
	<u>289,025</u>	<u>303,490</u>	<u>371,116</u>	22.3	20.3

**Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2011-12 Estimate**



**Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2011-12 Estimate**



SECTION IV MAJOR CAPITAL PROJECTS ESTIMATED TO BEGIN IN 2011–12

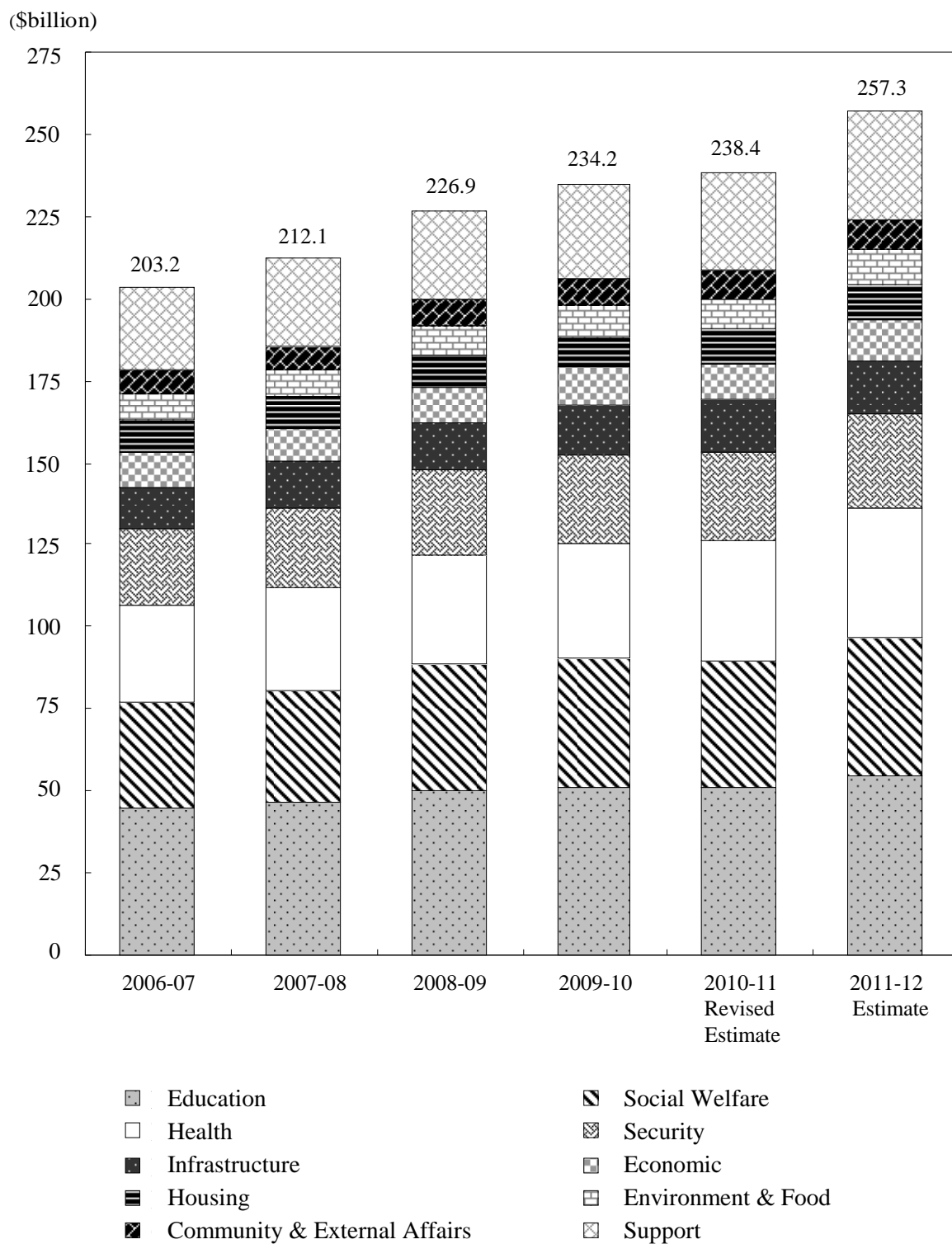
Major capital projects estimated to begin in 2011–12 include –

	Project Estimates \$ million
Infrastructure	56,184
— Drainage improvement at Northern New Territories—construction of a box culvert underneath Castle Peak Road at San Tin	
— Dredging, management and capping of contaminated sediment disposal facility to the south of The Brothers	
— Feasibility study for the remaining development in Tung Chung	
— Formation, roads and drains in Area 54, Tuen Mun—phase 2 stage 1 works	
— Happy Valley underground stormwater storage scheme	
— Hong Kong–Zhuhai–Macao Bridge—Hong Kong Boundary Crossing Facilities—reclamation and superstructures	
— Hong Kong–Zhuhai–Macao Bridge—Hong Kong Link Road	
— Improvement and extension of Kam Pok Road	
— Kai Tak development—Kai Tak approach channel and Kwun Tong typhoon shelter improvement works (Phase 1)	
— Kai Tak development—stage 2 infrastructure at north apron area of Kai Tak Airport	
— Kwun Tong Line Extension—essential public infrastructure works	
— Liantang/Heung Yuen Wai Boundary Control Point and associated works—detailed design and ground investigation	
— Liantang/Heung Yuen Wai Boundary Control Point and associated works—reprovisioning of border road and associated security facilities	
— Reconstruction and rehabilitation of Kai Tak Nullah from Po Kong Village Road to Tung Kwong Road	
— Review studies on Hung Shui Kiu new development area—consultants' fees and site investigation	
— Shatin to Central Link—construction of non-railway works—advance works	
— Shatin to Central Link—construction of railway works—advance works	
— Shatin to Central Link—construction of railway works—protection works—remaining works	
— South Island Line (East)—essential public infrastructure works	
— Tuen Mun–Chek Lap Kok Link—detailed design, site investigations and advance works	
— Water supply to housing development at Anderson Road	
— Water supply to Pak Shek Kok reclamation area, Tai Po—stage 2	
Community and External Affairs	1,409
— Cycle tracks and associated facilities along seafront at Town Centre South, Tseung Kwan O	
— District open space, sports centre and library in Area 74, Tseung Kwan O	
— Joint-user complex in Area 44, Fanling	
— Relocation and expansion of Hong Kong Maritime Museum	
— Tuen Mun River beautification—Tin Hau Temple Plaza	
Environment and Food	1,340
— Lam Tsuen Valley sewerage, stage 1	
— North District sewerage, stage 2 part 2A—Pak Hok Lam trunk sewer and Sha Tau Kok village sewerage	
— Retrofitting of noise barriers on Tai Po Tai Wo Road, phase 1	
— Sewerage in Ping Kong and Fu Tei Pai	
— Trunk sewerage at Lau Fau Shan	
— Tuen Mun sewerage, stage 1—village sewerage in Tsing Chuen Wai and Tuen Tsz Wai	
— Upgrading of Central and East Kowloon sewerage, phase 2	

	Project Estimates \$ million
Economic	671
— Aberdeen tourism project	
— Fitting-out works for Government facilities at new air cargo terminal	
— Lei Yue Mun waterfront enhancement	
Security	485
— Construction of fire station-cum-ambulance facility at Cheung Yip Street, Kowloon Bay	
— Construction of a secondary boundary fence and new sections of primary boundary fence and boundary patrol road—phase 2	
Education	184
— Alteration and conversion to St. Paul's Co-educational College at MacDonnell Road, Central	

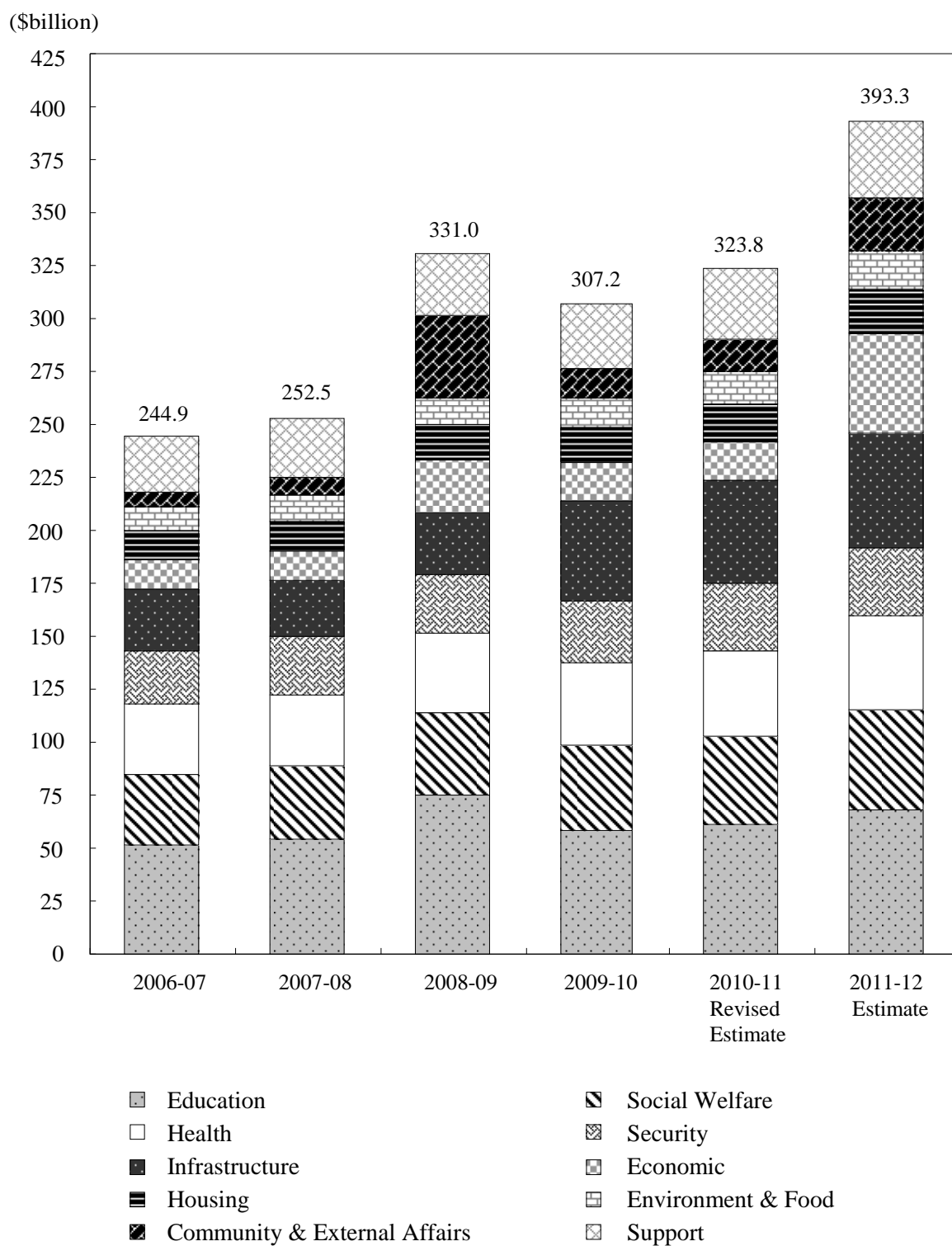
SECTION V TRENDS IN PUBLIC EXPENDITURE : 2006-07 TO 2011-12

Recurrent Public Expenditure by Policy Area Group 2006-07 to 2011-12



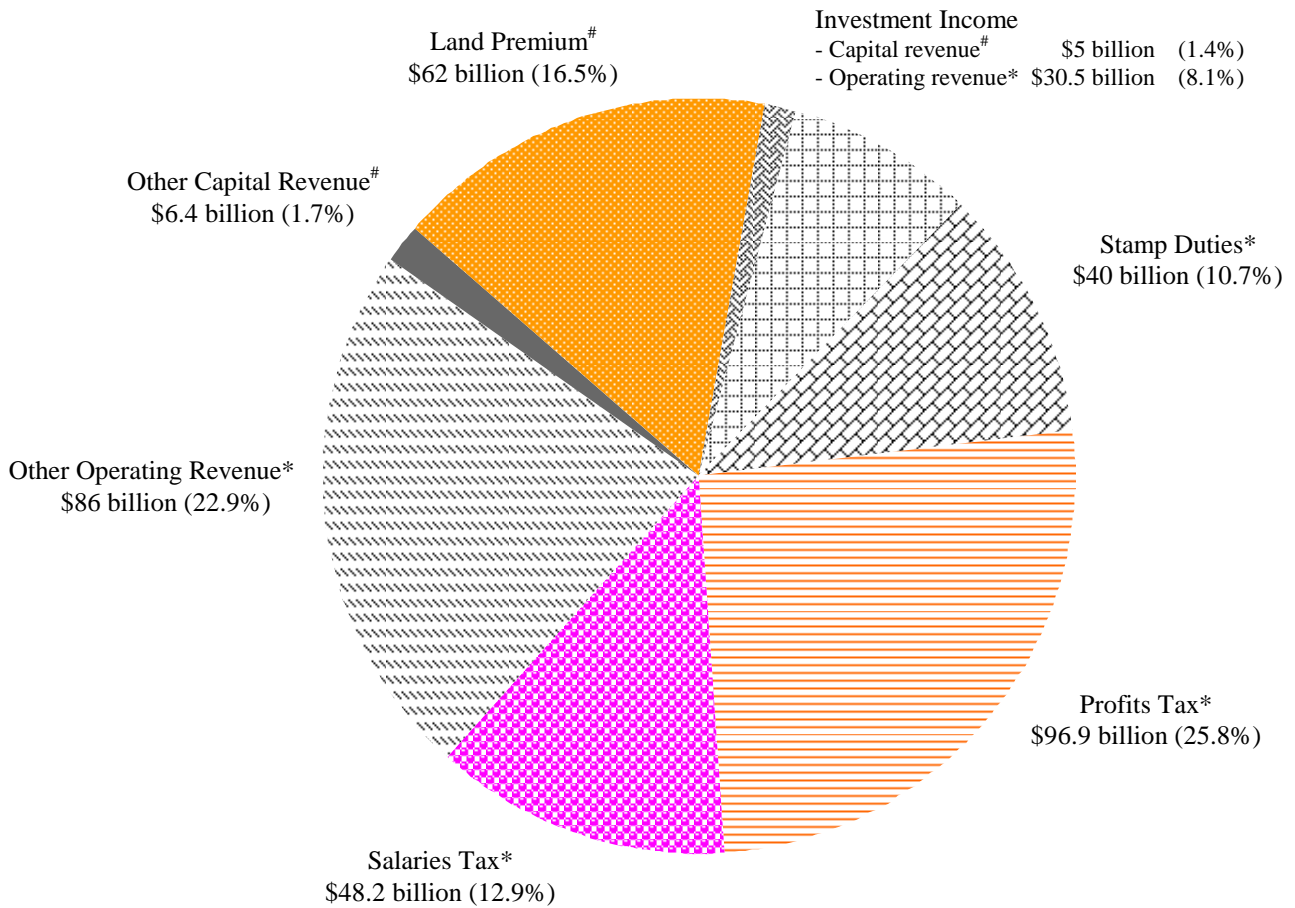
SECTION V TRENDS IN PUBLIC EXPENDITURE : 2006-07 TO 2011-12

Total Public Expenditure by Policy Area Group 2006-07 to 2011-12



SECTION VI ANALYSIS OF GOVERNMENT REVENUE

2011-12 Estimate (\$375 billion)



* Operating Revenue \$301.6 billion (80.4%)

Capital Revenue \$73.4 billion (19.6%)

SECTION VII CLASSIFICATION OF EXPENDITURE BY POLICY AREA GROUP

Policy Area Group		Policy Area (Note)
Community and External Affairs	19	District and Community Relations
	18	Recreation, Culture, Amenities and Entertainment Licensing
Economic	3	Air and Sea Communications and Logistics Development
	6	Commerce and Industry
	8	Employment and Labour
	1	Financial Services
	17	Information Technology and Broadcasting
	34	Manpower Development
	4	Posts, Competition Policy and Consumer Protection
	7	Public Safety
	5	Travel and Tourism
Education	16	Education
Environment and Food	2	Agriculture, Fisheries and Food Safety
	32	Environmental Hygiene
	23	Environmental Protection, Conservation, Power and Sustainable Development
Health	15	Health
Housing	31	Housing
Infrastructure	22	Buildings, Lands, Planning, Heritage Conservation, Greening and Landscape
	21	Land and Waterborne Transport
	24	Water Supply, Drainage and Slope Safety
Security	12	Administration of Justice
	13	Anti-corruption
	10	Immigration Control
	9	Internal Security
	11	Legal Administration
	20	Legal Aid
Social Welfare	14	Social Welfare
	33	Women's Interests
Support	26	Central Management of the Civil Service
	30	Complaints Against Maladministration
	28	Constitutional and Mainland Affairs
	27	Intra-Governmental Services
	25	Revenue Collection and Financial Control
	29	Support for Members of the Legislative Council

Note: Details of individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2011–12 Estimates. The index further provides details, by head of expenditure, of individual programmes which contribute to a policy area.

APPENDIX C

GLOSSARY OF TERMS

GLOSSARY OF TERMS

Note: Terms shown in *bold italic* are defined elsewhere in the glossary.

Capital expenditure. This comprises all expenditure charged to the Capital Account of the General Revenue Account, Capital Investment Fund, Capital Works Reserve Fund (including interest on government bonds and notes but excluding repayment of the bonds and notes), Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund. Major items are highlighted below –

General Revenue Account

equipment, works and capital subventions of a minor nature

Capital Investment Fund

advances and equity investments

Capital Works Reserve Fund

acquisition of land
 capital subventions
 computerisation
 interest and other expenses on government bonds and notes issued in 2004
 major systems and equipment
 Public Works Programme expenditure

Disaster Relief Fund

relief to disasters that occur outside Hong Kong

Innovation and Technology Fund

projects promoting innovation and technology upgrading in manufacturing and service industries

Loan Fund

loans made under various development schemes supported by the Government
 loans to schools, teachers, students, and housing loans to civil servants, etc.

Lotteries Fund

grants, loans and advances for social welfare services

Capital surplus/deficit. The difference between *capital revenue* and *capital expenditure*.

Capital revenue. This comprises certain revenue items in the General Revenue Account and all receipts credited to seven Funds, as highlighted below –

General Revenue Account

disposal proceeds of government quarters and other assets
 estate duty
 loan repayments received
 recovery from Housing Authority

Capital Investment Fund

dividends from investments
 interest on loans
 investment income
 loan repayments received
 proceeds from sale of investments

Capital Works Reserve Fund

investment income
land premium
recovery from MTR Corporation Limited

Civil Service Pension Reserve Fund

investment income

Disaster Relief Fund

investment income

Innovation and Technology Fund

investment income
loan repayments received
proceeds from sale of investments

Loan Fund

interest on loans
investment income
loan repayments received
proceeds from sale of loans

Lotteries Fund

auctions of vehicle registration numbers
investment income
loan repayments received
share of proceeds from the Mark Six Lottery

Consolidated surplus/deficit before repayment of bonds and notes. The difference between *government revenue* and *government expenditure*.

Fiscal reserves. The accumulated balances of the General Revenue Account, Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund.

Government expenditure. The aggregate of *operating expenditure* and *capital expenditure*. Unlike *public expenditure*, it excludes expenditure by the Trading Funds and the Housing Authority.

Government revenue. The aggregate of *operating revenue* and *capital revenue*.

Operating expenditure. All expenditure charged to the Operating Account of the General Revenue Account.

Operating revenue. This comprises all revenue credited to the General Revenue Account (except those items which are treated as *capital revenue*) and the Land Fund, as highlighted below –

General Revenue Account

duties
fines, forfeitures and penalties
investment income
rents and rates
royalties and concessions
taxes
utilities, fees and charges

Land Fund

investment income

Operating surplus/deficit. The difference between *operating revenue* and *operating expenditure*.

Public expenditure. *Government expenditure* plus expenditure (operating and capital) by the Trading Funds and the Housing Authority.

Transfer to Funds. Transfers between the General Revenue Account and the eight Funds (Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund) are not counted as government revenue and expenditure as these are merely internal transfers within Government's accounts.