

2015-16 Budget

(1) The Themes

The overall theme of the Budget is to promote Hong Kong's economic development through :

- (a) promoting diversified development;
- (b) augmenting competitiveness of pillar industries;
- (c) overcoming limitations on development; and
- (d) maintaining healthy public finances.

(2) Overview

— Key Figures

	2014-15 Revised Estimate	2015-16 Estimate	Increase/ Decrease
	\$ billion	\$ billion	
Operating Expenditure	317.7	354.3	11.5%
- of which, recurrent expenditure	306.3	324.6	6%
Capital Expenditure	79.5	86.5	8.9%
- of which, capital works expenditure	67.5	70.0	3.7%
Total expenditure	397.2	440.8	11%
Total revenue	470.7	477.6	1.5%
Surplus before repayment of bonds and notes	73.5	36.8	-50%
Repayment of bonds and notes	9.7	-	Not applicable
Surplus after repayment of bonds and notes	63.8	36.8	-42.4%

- Nominal GDP growth in 2015 is estimated at 2.5% to 4.5%.
- The comparison of total government expenditure with nominal Gross Domestic Product (GDP) growth from 1997-98 and 2010-11 to 2015-16 is as follow :

	2015-16 versus	
	1997-98	2010-11
	%	%
Total government expenditure		
- cumulative growth	126.8%	46.3%
Nominal GDP		
- cumulative growth	69.3%	30.8%

- It is estimated that the 2015-16 Budget would have a stimulus effect of one percentage point on the growth of GDP.

(3) Recurrent Expenditure

- Recurrent government expenditure in 2015-16 is \$324.6 billion, higher than the 2014-15 revised estimate by \$18.3 billion, i.e. 6%. When compared with 1997-98 and 2010-11, the increases are :

	2015-16 versus	
	1997-98	2010-11
	%	%
Total recurrent government expenditure		
- cumulative growth	117.3%	45.4%

- The additional expenditure is to provide for various recurrent services, reflecting the Government's long term commitment.
- Education, Social Welfare and Health account for nearly 60% of recurrent government expenditure. The increase in recurrent expenditure for these three policy area groups is as follows :

	2013-14 Actual \$ billion	2014-15 Revised Estimate \$ billion	2015-16		
			Estimate \$ billion	versus 2014-15 %	versus 2010-11 %
Education	63.5	68.2	71.4	+4.7	+39.9
Social Welfare	51.6	54.5	59.7	+9.5	+59
Health	49.9	54.1	54.5	+0.8	+48.2
Total	165.0	176.8	185.6	+5	+48

— For details of the recurrent and other expenditure of the above three policy area groups, please see Appendices 1 to 3.

(4) Capital Works Expenditure

— It has all along been Government's commitment to invest in capital works projects, which will set the foundation for social and economic development, enhance our competitiveness, as well as improve the quality of life of people.

— By end March 2015, the estimated total outstanding commitment of the capital works reserve fund is \$306.7 billion, among which capital works projects will account for \$296.1 billion. In pressing ahead with our capital works programme, the Government will from time to time prioritise the projects under planning, and duly consider its impact on construction manpower and prices.

— The revised estimate for 2014-15 is \$67.5 billion, which is slightly lower than the estimated expenditure of \$70 billion for 2015-16. With many major projects at their construction peaks, the estimated annual capital works expenditure for the next few years will continue to stay at the level of over \$70 billion.

— The progress in the Finance Committee (FC) and the Public Works Subcommittee in considering capital works projects has been slow since early last year. As project spending in the initial years of construction is relatively small, the impact of the recent filibustering on capital works expenditure (CapWex) is not obvious in 2015-16. However, if the situation persists, there will be substantial reduction in CapWex after a few years, which will in turn slow down the long-term social and economic development and affect livelihood.

- Among the Ten Major Infrastructure Projects (TMIPs), seven projects with an approved estimates of some \$320 billion including the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the South Island Line (East), the Kai Tak Development, the Shatin to Central Link, the Tuen Mun–Chek Lap Kok Link, and West Kowloon Cultural District have commenced construction.

- Apart from the TMIPs, we also intend to implement the following projects –
 - (a) on **healthcare**, the planned funding proposals to be submitted to the FC in this legislative session include the expansion of the blood transfusion service headquarters, refurbishment of Hong Kong Buddhist Hospital and part of the works for expansion of United Christian Hospital. These projects will cost about \$3.2 billion. We will press ahead the development of the New Acute Hospital (Phase I) in Kai Tak Development. The pre-construction works for redevelopment of the Kwong Wah Hospital, Queen Mary Hospital and Kwai Chung Hospital are on-going. Together with the expansion of the United Christian Hospital, the construction cost of the four large-scale hospital redevelopment or expansion programmes would cost around \$40 billion.

 - (b) on **environmental protection**, we just obtained FC’s funding approval for the organic waste treatment facilities (Phase 1), development of the integrated waste management facilities (Phase 1) and the extension of three landfills (for West New Territories Landfill, the funding is for pre-construction works only), which will cost about \$30 billion. We will also seeking funding approval from the FC of about \$0.5 billion for the development of waste electrical and electronic equipment treatment and recycling facility;

 - (c) on **sports and recreation**, the planned funding proposals to be submitted to the FC in the current session include the construction of a sports centre in Sha Tin, a Government Complex in Tuen Mun and the East Kowloon Cultural Centre at a total cost of \$6 billion; and

 - (d) on **schools**, the planned funding proposals to be submitted to the FC the current session include the construction of three primary schools, four special schools, and an annex to a secondary school at a total cost of \$2.3 billion.

(5) Key Expenditure and Revenue proposals in the 2015-16 Budget

Proposal	Estimated Annual/Total Amount \$m	Beneficiaries
I. Policy Address initiatives		
<i>Recurrent</i>		
*1. Starting from the 2015/16 school year, progressively increase the ratio of graduate teacher posts in public sector primary schools from 50% to 65% by the 2017/18 school year	328	3 300 teachers in public sector primary schools
^2. Extend the Integrated Employment Assistance Programme for Self-reliance for two years	220	30 000 able-bodied CSSA recipients
^3. Support young people to participate in Mainland exchange and internship programmes	205	32 000 young people
*4. Provide subsidy for students to join at least one Mainland exchange programme each in the primary and secondary stages	38	Primary and secondary students
*5. Plan to increase the number of degree places for healthcare specialties in the next funding cycle for universities	145	General public
*6. Increase the subsidised places of extended hours service provided by child care centres and kindergarten-cum-child care centres	130	1 200 places in 2015-16 and progressively increased to 5 000

* Recurrent measures; amounts shown are the annual provisions.

^ Time-limited recurrent measures; amounts shown are the totals.

	Proposal	Estimated Annual/Total Amount \$m	Beneficiaries
*7.	Strengthen various support services for persons with disabilities and ex-mentally ill persons, including residential care services and community support services	160	5 600 service users
^8.	Provide additional funding for District Councils in promoting arts and cultural activities	104	Residents of 18 districts
*9.	Consider implementing the pilot scheme in all 18 districts to provide the District Management Committees with power to address certain management and environmental hygiene problems of some public areas	63	Residents of 18 districts
*10.	Increase the honorarium of District Council (DC) Members starting from the new term in January 2016, and provide each DC Member with a new provision of \$10,000 per term to cover expenses for duty visits ^{&}	23	458 DC Members of 2016-19 Term
11.	Others	56	
		<hr/> 1,472 <hr/>	

* Recurrent measures; amounts shown are the annual provisions.

^ Time-limited recurrent measures; amounts shown are the totals.

& The non-recurrent provision of \$5 million to cover DC Members' expenses for duty visits is included under "Others" of non-recurrent expenditure.

	Proposal	Estimated Annual/Total Amount \$m	Beneficiaries
	<i>Non-recurrent</i>		
12.	Earmark \$50 billion for improving retirement protection for the elderly in need	50,000	Elderly citizens in need
13.	Inject \$5 billion into the Innovation and Technology Fund	5,000	Innovation and technology sector
14.	Establish a Sustainable Agricultural Development Fund	500	4 400 farmers and workers engaged in the agricultural sector
15.	Establish an independent Insurance Authority	500	General public
16.	Set up a \$300 million Youth Development Fund	300	Young people
17.	Inject \$200 million additional funding into the Film Development Fund	200	Film industry
18.	Launch a pilot scheme to provide funding and support for local primary and secondary schools to facilitate professional interflow among sister schools between Hong Kong and the Mainland	200	School managers, teachers and students of 600 public sector and Direct Subsidy Scheme schools
19.	Increase \$200 million additional funding to continue the short-term food assistance service	200	Low income group

	Proposal	Estimated Annual/Total Amount \$m	Beneficiaries
20.	Extend the Cleaner Production Partnership Programme	150	Hong Kong-owned factories in Guangdong and Hong Kong
21.	Provide \$100 million to the Construction Industry Council to embark on training of semi-skilled workers up to skilled workers level	100	Construction industry
22.	Maintain support for the Hong Kong Design Centre	80	Creative industry, in particular the design sector
23.	Others	41	
		<hr/> 57,271 <hr/>	
	Total funding provision for Policy Address initiatives	58,743 <hr/>	

	Proposal	Estimated Annual/Total Amount \$m	Beneficiaries
II. Budget Proposals			
A. Targeted support measures to sectors affect by the occupy movement and rebuilding confidence			
24.	Waive travel agent licence fees for six months	6	1 800 travel agents
25.	Waive hotel and guesthouse licence fees for six months	5	2 000 hotels and guesthouses
26.	Waive fees for restaurant licences, restricted food permits and hawker licences for six months	57	26 000 restaurants and operators
27.	Waive vehicle examination fees upon licence renewal (only for once within a year) for taxis, light buses, franchised and non-franchised buses, goods vehicles, trailers and special purpose vehicles	112	Transport sector
^28.	Provide funding to Hong Kong Tourism Board to step up promotion activities	80	Tourism and related sectors
^29.	Provide funding to Information Services Department to enhance local and overseas publicity about Hong Kong	26	Local and international community
		<hr/> 286 <hr/>	

^ Time-limited recurrent measures; amounts shown are the totals.

Proposal	Estimated Annual/Total Amount \$m	Beneficiaries
B. Support for small and medium enterprises		
30. Further extend the application period of the special concessionary measures under the SME Financing Guarantee Scheme up to 29 February 2016	-	SMEs in Hong Kong
31. Inject \$1.5 billion additional funding into the SME Export Marketing and Development Funds	1,500	SMEs in Hong Kong
32. Increase the maximum amount of funding support for each project from \$2 million to \$5 million under the SME Development Fund	-	SMEs in Hong Kong
33. Expand the scope of the SME Export Marketing Fund	-	SMEs in Hong Kong
	1,500	

	Proposal	Estimated Annual/Total Amount \$m	Beneficiaries
C. Relief measures			
34.	Reduce 2014-15 salaries tax and tax under personal assessment by 75% subject to a ceiling of \$20,000	15,830	1.82 million taxpayers
35.	Reduce 2014-15 profits tax by 75% subject to a ceiling of \$20,000	1,870	130 000 taxpayers
36.	Waive rates for the first two quarters in 2015-16 subject to a ceiling of \$2,500 per quarter for each rateable property ^(Note 1)	7,740	3.15 million properties liable to rates
37.	Provide two extra months of standard rate Comprehensive Social Security Assistance (CSSA) payment, Old Age Allowance (OAA), Old Age Living Allowance (OALA) and Disability Allowance (DA)	5,500	1.2 million CSSA, OAA, OALA and DA recipients
38.	Pay one month's rent for public housing tenants <u>except</u> for tenants paying additional rent to the Housing Authority and non-elderly tenants of the Hong Kong Housing Society Group B estates ^(Note 1)	1,100	750 000 public rental housing tenants
*39.	Increase child allowances (basic and additional one-off for new born child in the year of birth) from \$70,000 to \$100,000	1,990	367 000 taxpayers
		34,030	

* Recurrent measures; amounts shown are the annual provisions.

Note 1 CSSA recipients who do not have to bear rates or public housing rent will not obtain any pecuniary advantage from the rates waiver and the government payment of public housing rent.

Proposal	Estimated Annual/Total Amount \$m	Beneficiaries
D. Other budget measures^(Note 2)		
<i>Diversified development</i>		
40. Promote Hong Kong fashion designers and brands	500	Fashion industry
41. Inject \$400 million additional funding into CreateSmart Initiative	400	Creative industry
42. Launch Art Development Matching Grants Pilot Scheme	300	Eligible local art organisations
43. Extend the Enhancing Self-Reliance Through District Partnership Programme	150	100 new social enterprises
<i>Augmenting competitiveness</i>		
[^] 44. Offer Intellectual Property (IP) consultation, manpower training and other services to SMEs	23	IP trade sector and SMEs
45. Pursue the possibility of joining the Asian Infrastructure Investment Bank (AIIB)	-	Financial services sector and enterprises providing infrastructure-related services
46. Launch iBond issue of up to \$10 billion	-	
<i>Overcoming limitations</i>		
47. Pilot schemes to enhance talent training for the insurance and asset and wealth management services	100	Prospective and existing practitioners in the financial services sector

[^] Time-limited recurrent measures; amounts shown are the totals.

Note 2 If the initiatives have been announced in the Policy Address, they are included under (5)(I) above.

	Proposal	Estimated Annual/Total Amount \$m	Beneficiaries
^48.	Increase Government internship places to 3 000	21	Youth
<i>Sustainable development</i>			
49.	Extend to end March 2018 the 50% concession on port facilities and light dues for Ocean Going Vessels that switch to low sulphur content diesel	240	Ocean Going Vessels that switch to low sulphur content diesel
		1,734	
Total funding provision for Budget Proposals		37,550	
Grand Total		96,293	

^ Time-limited recurrent measures; amounts shown are the totals.

(6) Medium Range Forecast

(\$ billion)	2015-16	2016-17	2017-18	2018-19	2019-20
Operating Surplus	38.3	46.4	36.2	55.8	79.7
Capital (Deficit)	(1.5)	(29.3)	(32.5)	(33.8)	(28.5)
Consolidated surplus after repayment of bonds and notes	36.8	17.1	3.7	22.0	49.7[#]
Fiscal reserves	856.3	873.4	877.1	899.1	948.8
- In terms of no. of months of government expenditure	23	22	21	20	22
- In terms of % of GDP	36.8%	35.8%	34.2%	33.4%	33.6%

[#] After repayment of bonds and notes of \$1.5 billion in 2019-20.

— A number of assumptions have been adopted in the Medium Range Forecast, for example :

- In the four-year period 2016 to 2019, the trend growth rate of the economy in real terms is 3.5% per annum, and the GDP deflator will increase at a trend rate of 1.5% per annum.
- Income from land premium for 2016-17 and onwards is 2.7% of GDP.
- Cash flow requirement of capital projects and operating expenditure after completion of the projects has been included.
- The provisions for 2015-16 and 2018-19 include \$10 billion and \$20 billion respectively for supporting healthcare reform.
- A total of \$50 billion has been earmarked for better retirement protection for the elderly in need, with \$25 billion provided in each of 2016-17 and 2017-18.

Appendices – Major Policy Area Group Expenditure

1. Education
2. Social Welfare
3. Health

Education

- Estimated total expenditure on education amounts to \$79.3 billion in 2015-16, which is \$5.2 billion, or 7% higher than the 2014-15 revised estimate.
- Estimated recurrent expenditure on education is \$71.4 billion in 2015-16 (3.1% in terms of Gross Domestic Product), taking up 22% of government recurrent expenditure and representing a 4.7% increase over the 2014-15 revised estimate.
- Major new and additional resource provisions are mainly to implement the following services:

Recurrent expenditure initiatives (involving additional expenditure)

- About \$876 million of subventions for University Grants Committee (UGC)-funded institutions, including provisions for the progressive increase in senior year undergraduate places, so that 5 000 meritorious sub-degree graduates will be able to articulate to subsidised degree programmes each year by the 2018/19 academic year;
- About \$662 million of subventions for aided primary schools to meet the requirements due to increase in student population, continued implementation of small class teaching and progressive increase in the ratio of graduate teacher posts in public sector primary schools from the current 50% to 65% in the 2017/18 school year;
- About \$518 million for the continued implementation of the Pre-primary Education Voucher Scheme in the 2015/16 school year, including raising the rate of voucher subsidy on a one-off basis by \$2,500 to \$22,510; and
- About \$312 million for the Working Family and Student Financial Assistance Agency (the former Student Financial Assistance Agency) to provide appropriate financial assistance to eligible students.

Non-recurrent and capital expenditure initiatives

- Injection of \$1 billion into the Qualifications Framework Fund to provide support for the sustainable development of the Qualifications Framework;
- \$105 million for launching the Fourth Strategy on Information Technology in Education, including the phased provision of wireless network services and other supporting facilities for all public sector schools; and
- \$200 million for implementing the Pilot programme on promoting Hong Kong-mainland sister school exchanges.

Social Welfare

- Estimated total expenditure on social welfare amounts to \$67.7 billion in 2015-16, which is \$9.4 billion or 16% higher than the 2014-15 revised estimate.
- Estimated recurrent expenditure on social welfare in 2015-16 is \$59.7 billion (2.6% in terms of Gross Domestic Product), or 18.4% of the total recurrent government expenditure. It represents a 9.5% increase over the 2014-15 revised estimate. The expenditure mainly includes about \$40 billion for the Comprehensive Social Security Assistance (CSSA) Scheme and the Social Security Allowance (SSA) Scheme; and that for child care services, rehabilitation services, elderly services, and family services.
- Major new and additional resource provisions are as follows:

Recurrent expenditure initiatives (involving additional full-year expenditure)

- Over \$134 million for enhancing child care services, including:
 - Over \$130 million for providing
 - (i) in phases 5 000 additional places of Extended Hours Service (EHS) at aided child care centres and kindergarten-cum-child care centres in districts with high demand from 2015-16, depending on the need, so that more pre-primary children in need (aged below six) can continue to receive extended hours of service in the same service units being attended by them, with a view to alleviating the pressure on their working parents¹; and
 - (ii) resources for centres and units providing for EHS and Occasional Child Care Service to enhance supervisory and administrative support; and
 - About \$1.4 million for providing 100 additional aided long full-day child care places for children aged below three in 2017-18.

The above measures will benefit users of 3 600 places of various child care services.

¹ 1 200 additional places will first be provided in 2015-16.

- \$160 million for improving and enhancing various types of rehabilitation services to support children with special needs, persons with disabilities and families and carers of ex-mentally ill persons, including:
 - Around \$144 million to increase over 1 200 additional places for various residential care services and day training and vocational rehabilitation services for persons with disabilities (including children with special needs), and resources to hostels for moderately mentally handicapped persons and long stay care homes to reinforce the care and support for ageing service users;
 - About \$13 million to increase the manpower of Integrated Community Centres for Mental Wellness to provide more intensive counselling and support for families/carers of ex-mentally ill persons, with a view to alleviating their caregiver stress and consolidating their mutual help network; and
 - Around \$3 million to increase the manpower of social workers in the existing subvented Parents/Relatives Resource Centres to improve parents' ability to take care of their children with special needs, particularly young children.

The above measures will benefit over 1 200 users of various residential care services and day training and vocational rehabilitation services for persons with disabilities, 1 600 ageing service users in hostels for moderately mentally handicapped persons and long stay care homes, families/carers of about 2 000 ex-mentally ill persons and 800 users of Resource Centres.

- Around \$71 million for providing 227 additional subsidised residential care and day care places for the elderly and enabling six existing contract homes and one day care unit to enhance their services.
- Earmarked about \$800 million to issue a total of 3 000 service vouchers in phases in three years from 2015-16 to 2017-18 subject to the result of Elderly Commission's feasibility study on introducing residential care service voucher scheme for the elderly.
- About \$15 million to increase the number of professional social workers in Integrated Family Service Centres and Integrated Services Centres, and to increase the number of residential places in small group homes.

- \$220 million for extending the Integrated Employment Assistance Programme for Self-reliance for two years and engage non-governmental organisations to provide employment assistance services for employable able-bodied CSSA recipients. This will enhance their employability, and help and encourage them to secure employment and achieve self-reliance.

Non-recurrent initiatives

- Increase \$200 million to continue the short-term food assistance service for two more years up to end-2017.

Health

- Estimated total expenditure on health amounts to \$70.6 billion in 2015-16, which is \$13.1 billion, or 22.7% higher than the 2014-15 revised estimate. This is mainly due to the provision of \$10 billion in 2015-16 for supporting healthcare reform.
- Recurrent expenditure on health is estimated at \$54.5 billion in 2015-16 (2.3% in terms of Gross Domestic Product), taking up 16.8% of government recurrent expenditure and representing a 0.8% increase over the 2014-15 revised estimate.
- New and additional resource provisions are mainly to provide for the following services:

Recurrent expenditure initiatives

- Additional recurrent subvention of \$153 million to the Hospital Authority (HA), coupled with mobilisation of its revenue reserve and redeployment of internal resources, for implementing various measures to meet the increasing demand for hospital services and to improve the quality of clinical care. Examples of such measures are –
 - increasing a total of 250 beds in Tuen Mun Hospital, Pok Oi Hospital, Prince of Wales Hospital, Tseung Kwan O Hospital, Pamela Youde Nethersole Eastern Hospital and Ruttonjee Hospital to enhance the capacity of inpatient services, including additional emergency beds (over \$320 million);
 - providing additional operating theatre sessions to allay the waiting list for surgeries (\$77 million);
 - widening the indications of Special Drug for Multiple Sclerosis and introducing new drugs of proven safety and efficacy to the Drug Formulary for cancer treatment, chronic Hepatitis C and Crohn's disease to benefit around 4 000 patients annually (\$45 million);
 - enhancing endoscopy service by performing around 5 300 additional endoscopic procedures (over \$32 million);
 - increasing the episodic quota for general outpatient clinics in five Clusters (namely Kowloon Central, Kowloon East, Kowloon West, New Territories East and New Territories West) by 55 000 attendances for 2015-16 (\$29 million);

- setting up Hong Kong's fourth Joint Replacement Centre in the New Territories East Cluster¹ for performing 90 additional operations for 2015-16 and 250 additional operations per year thereafter (\$22 million);
- strengthening manpower of the psychiatric teams and introducing a peer support element to the Case Management Programme for patients with severe mental illness (\$15 million);
- relocating the Geriatric Day Rehabilitation Centre of Yan Chai Hospital to the hospital's new wellness centre and expanding the geriatric day places from 20 to 40 places (\$9 million); and
- strengthening the Community Geriatric Assessment Team service by conducting 3 000 additional visits to residential care homes for the elderly (\$7 million).

In 2015-16, the recurrent subvention to HA amounts to \$49 billion, representing an increase of nearly 50% over the five years ago (\$33.5 billion).

- \$286 million to the Department of Health for service enhancement and initiatives including
 - earmarking a larger provision for the Elderly Health Care Voucher Scheme for the increase in the estimated number of eligible elders (from 737 000 in 2014-15 to 751 000 in 2015-16) and adjustment to the estimated take-up rate (from 75% in 2014-15 to 80% in 2015-16) (\$111 million);
 - preparing for the launching of the colorectal cancer screening pilot programme for specific age groups and other supporting measures for cancer prevention and screening (\$46 million);
 - full-year provision for implementation of the "Outreach Dental Care Programme for the Elderly" in residential care homes and day care centres (\$19 million);
 - topping up provision of health screening services at Boundary Control Points (\$17 million);
 - topping up drug cost (\$11 million);
 - launching a territory-wide education and promotion campaign to raise public awareness on mental health (\$10 million);

¹ The other three existing Joint Replacement Centres are located at the Buddhist Hospital, Yan Chai Hospital and Pok Oi Hospital.

- supporting the roll out preparation and enrollment to the Clinical Information Management System and the Electronic Health Record Sharing System (\$7 million);
- covering the operation cost of the Communicable Disease Information System (\$7 million);
- strengthening manpower support for Child Assessment Centres and Chinese Medicine Division (\$6 million);
- conducting a pilot project on neonatal screening of inborn error of metabolic diseases (\$5 million);
- promoting breast feeding (\$5 million); and
- enhancing the services of the Elderly Health Centres (EHCs) by setting up one more clinical team in Wan Chai EHC (\$3 million).

Non-recurrent and capital expenditure initiatives

- \$767 million for procurement of equipment items and implementation of computerisation projects in HA.