

THE 2015-16 BUDGET

*Speech by the Financial Secretary, the Hon John C Tsang
moving the Second Reading of the Appropriation Bill 2015*

Wednesday, 25 February 2015

Contents

	<i>Paragraphs</i>
Introduction	2 – 8
Economic Performance in 2014	9 – 12
Targeted Support Measures	13
Rebuilding Confidence	14 – 17
Economic Outlook for 2015	18 – 24
Support for Small and Medium Enterprises	25
Relief Measures	26 – 29
Developing Our Economy	30 – 34
Diversified Development	35 – 37
Start-ups	38 – 48
Social Enterprises	49 – 51
Cultural and Creative Industries	52 – 53
<i>Fashion Industry</i>	54 – 55
<i>Film Industry</i>	56 – 57
<i>Art and Culture</i>	58 – 60

	<i>Paragraphs</i>
Augmenting Competitiveness	61
One Belt One Road	62 – 67
Trading and Logistics Industry	68 – 80
Tourism	81 – 86
Business and Professional Services	87
<i>CEPA</i>	88 – 89
<i>Intellectual Property Trading</i>	90
Financial Services	91 – 92
<i>Shanghai-Hong Kong Stock Connect and Offshore Renminbi Business</i>	93 – 96
<i>Asset Management</i>	97 – 99
<i>Bond Market</i>	100 – 101
Overcoming Limitations	102
Human Resources	103 – 105
Manpower Training	106 – 114
Sustainable Development	115 – 122
Land Resources	123
Residential Land	124 – 129
Commercial Land	130 – 133

	<i>Paragraphs</i>
Ageing Population	134
Encouraging Employment	135 – 139
Healthcare	140 – 142
Retirement Protection	143 – 146
Public Finances	147
Containing Expenditure	148
Preserving Revenue Base	149 – 151
Saving up in a Timely Manner	152 – 154
Revised Estimates for 2014-15	155 – 157
Estimates for 2015-16	158 – 167
Medium Range Forecast	168 – 172
Concluding Remarks	173 – 180

This speech, together with the supplement and appendices relating to the 2015-16 Budget, is available at www.budget.gov.hk.

Mr President,

I move that the Appropriation Bill 2015 be read a second time.

Introduction

2. Today is the seventh day of the Lunar New Year, our common birthday in the Chinese tradition. May I wish you, Mr President, Members and fellow citizens good health and happiness in the Year of the Ram.

3. 2014 was an extraordinary year for all of us. Momentous events, local and global, changed the lives of many and transformed our city. Events are still unfolding, and will require our close scrutiny. But, one thing is for sure – a totally different environment has emerged which presents new challenges ahead.

4. Since the start of 2015, the international political arena and global financial markets have provided plenty of breaking news. The launch of quantitative easing by Europe and Japan has increased global liquidity. On top of heightened geopolitical tensions in a number of regions, terrorism has added further uncertainty and once again rattled the nerves of the international community. Locally, with constitutional reform entering the next stage, we anticipate that disputes, both inside and outside the Council, will become even more vehement this year.

5. The long drawn out unlawful occupy movement disrupted different facets of the city to varying degrees. The serious divisions in society that emerged during the 79 days has not only affected the image of Hong Kong, but also aroused concern about much more radical social conflict which in turn will make it harder to mend conflicted relationships among people.

6. Without doubt, the social issues revealed during the incident did not come about, nor can they be resolved, overnight. We should seek to narrow our differences and pursue consensus with patience and pragmatism. Prolonged bickering will only bog down our development.

7. I am glad to see that most people do care dearly for our home, Hong Kong. People do cherish our fine tradition of the rule of law, and do not want to see our well-developed systems eroded. Diversity, openness, peace and freedom are not only our core values, but also the foundations of our success, and the most reliable co-ordinates of our development path. If we can firmly grasp these fundamentals, we shall be more confident charting our way forward.

8. This year's Budget will complement the initiatives announced in the Policy Address and address the constraints on land and manpower through the effective use of resources. We seek to reinforce the foundation for long-term economic development. In addition to capitalising on our strengths, I shall explore new ideas and strive for diversity to help members of the community realise their aspirations. In particular, I shall make the best use of resources generated by the community's efforts, and continue to care for the disadvantaged and promote sustainable development, so that people from different sectors as well as our next generations can share the benefits of economic growth.

Economic Performance in 2014

9. Global economic performance was less than spectacular in 2014. Despite the steady performance of the Mainland's economy and signs of recovery in the US, our trade performance was beset by Eurozone's weakening economy and Japan's relapse into recession. Merchandise exports grew by one per cent and service exports by 0.5 per cent in real terms. As a result, our economy grew by only 2.3 per cent last year, the third consecutive year with a growth rate lower than the annual average of 3.9 per cent over the past decade.

10. The unemployment rate averaged at a low level of 3.2 per cent for the year as a whole, sustaining a state of full employment. Private consumption expenditure maintained moderate growth, but investment expenditure was soft and sentiment turned cautious.

11. Inflation continued to ease. Overall rentals rose, but the rises were generally modest. With steady increases in labour costs and mild imported inflation, the headline inflation rate for 2014 was 4.4 per cent. Netting out the effects of Government's one-off relief measures, the underlying inflation rate was 3.5 per cent, lower than the four per cent in 2013.

12. Prolonged political bickering is detrimental to public administration and the international image of Hong Kong as a stable, law-abiding and efficient city. It may even dampen investors' confidence in Hong Kong. Such self-inflicted harm does not serve the city well. The occupy movement affected tourism, hotel, catering, retail and transport industries, etc. to varying degrees. To offset the impact on economic confidence, I shall implement an array of support measures targeting affected industries and launch a new round of efforts to promote Hong Kong.

Targeted Support Measures

13. I shall launch the following short-term measures to support the affected sectors –

- (a) waive the licence fees for 1 800 travel agents for six months;
- (b) waive the licence fees for 2 000 hotels and guesthouses for six months;
- (c) waive the licence fees for restaurants and hawkers and fees for restricted food permits for six months, benefiting 26 000 restaurants and operators in total; and
- (d) waive the fees for vehicle examination once for the renewal of vehicle licences of taxis, light buses, franchised and non-franchised buses, goods vehicles, trailers and special purpose vehicles within a year.

Rebuilding Confidence

14. More importantly, we need to rebuild international investors' and tourists' confidence in Hong Kong and uplift our international image. Starting from January, the Hong Kong Tourism Board (HKTB) has launched a new round of publicity in Japan, Korea, Southeast Asia and major Mainland cities.

15. I shall allocate an additional \$80 million for HKTB to step up its promotion efforts in the coming year. These activities will include running overseas promotions, organising shopping festivals and offering merchandise concessions and electronic discount coupons in collaboration with the retail industry, and arranging large-scale familiarisation tours to Hong Kong for overseas trade missions. HKTB will expand the scale of overseas promotion fairs this year and waive local traders' participation fees.

16. I shall also allocate an additional \$26 million to the Information Services Department for inviting overseas media organisations and opinion leaders from around the world to visit Hong Kong, arranging for more overseas visits, and launching another round of publicity campaign for Brand Hong Kong. The Invest Hong Kong (InvestHK), Hong Kong Trade Development Council and Hong Kong representation overseas, and in the Mainland and Taiwan will also organise promotional activities.

17. This series of support measures and promotion efforts, costing \$290 million, will render the affected sectors some tangible assistance, help rebuild confidence in Hong Kong, and enhance the city's image.

Economic Outlook for 2015

18. The year 2015 will be a challenging year. Amid improvement in the US economy, the US Federal Reserve Board is preparing to raise interest rates, running counter to the further easing measures pursued by the central banks of Europe and Japan. The stance of the new Greek government has added uncertainties to the market.

19. The drop in international oil prices is beneficial to Hong Kong and other net energy importers. Excessive oil price volatility, however, will pose a real threat to the global economy and financial markets.

20. The interaction of these factors will further complicate the external environment: (a) the US inflation outlook will be affected, making it more difficult to forecast the pace of interest rate rise; (b) rising deflation risks in Europe and Japan will add headwinds to the economic recovery; and (c) some oil exporting countries face huge pressures on finance and exchange rates due to geopolitical tensions and dropping oil prices. All these macroeconomic factors will upset the stability of global financial markets.

21. Emerging Asian markets are showing a better performance in general. The Mainland's economic growth is relatively stable but faces downward pressure this year. The global economy as a whole is likely to stay on a slow-growing path in the post-financial tsunami period. This, amid a stronger US dollar, will continue to put a drag on Hong Kong's trade performance.

22. Domestically, local consumption and investment sentiment will be dampened by the increased uncertainties over the US interest rate hike and weaker spending power of inbound visitors. In the face of internal and external challenges, I forecast Gross Domestic Product (GDP) growth at one to three per cent in 2015.

23. The labour market will hold largely stable. But if the domestic sector continues to be trapped in a slow-growing path, the pace of job creation by enterprises will be affected.

24. As regards inflation, with the softening of global commodity prices in the past year, imported inflation will remain mild. Retail sales have weakened recently, and rental pressure is less than that in previous years. I forecast that the headline inflation rate for 2015 as a whole will be 3.5 per cent with an underlying inflation rate at three per cent.

Support for Small and Medium Enterprises

25. Our external trade performance will be affected by a host of uncertainties this year. It can hardly drive our economic growth. As such, we shall need to rely on domestic demand for maintaining economic vibrancy and preserving employment. There are 320 000 small and medium enterprises (SMEs) in Hong Kong, accounting for 98 per cent of the total local enterprises and employing 50 per cent of the private sector workforce. This underscores SMEs' role as the mainstay of our economy. To support SMEs, I shall –

- (a) extend the application period for the special concessionary measures under the SME Financing Guarantee Scheme to 29 February 2016;
- (b) inject \$1.5 billion into the SME Export Marketing and Development Funds;
- (c) increase the maximum amount of funding support for each project under the SME Development Fund from \$2 million to \$5 million; and
- (d) expand the scope of the SME Export Marketing Fund.

Relief Measures

26. I am aware that many of our citizens are expecting relief measures from Government to allay their burdens. In view of the challenging international macroeconomic environment, the unstable economic factors, the need to boost the local economy in the short term, and Government's relatively sound fiscal position in the short to medium term, I shall increase public expenditure in a prudent manner according to the principle of committing resources as and when justified and needed, and introduce the following one-off relief measures –

- (a) reduce salaries tax and tax under personal assessment for 2014-15 by 75 per cent, subject to a ceiling of \$20,000. The reduction will be reflected in the final tax payable for 2014-15. This proposal will benefit 1.82 million taxpayers in the territory and reduce government revenue by \$15.8 billion;
- (b) reduce profits tax for 2014-15 by 75 per cent, subject to a ceiling of \$20,000. The reduction will be reflected in the final tax payable for 2014-15. This proposal will benefit 130 000 taxpayers in the territory and reduce government revenue by \$1.9 billion;
- (c) waive rates for the first two quarters of 2015-16, subject to a ceiling of \$2,500 per quarter for each rateable property. It will benefit 3.15 million properties and reduce government revenue by \$7.7 billion;
- (d) provide an extra allowance to Comprehensive Social Security Assistance (CSSA) recipients, equal to two months of the standard rate CSSA payments, and an extra allowance to the recipients of Old Age Allowance, Old Age Living Allowance and Disability Allowance, equal to two months of the respective allowances. This will involve an additional expenditure of \$5.5 billion; and

- (e) pay one month's rent for lower income tenants living in the rental units of the Hong Kong Housing Authority (HKHA) and the Hong Kong Housing Society (HKHS). Involving an expenditure of \$1.1 billion, this measure will not apply to tenants who are required to pay additional rent to HKHA and non-elderly tenants of the HKHS Group B estates.

27. I have to point out that recurrent measures and one-off measures serve different objectives and purposes. The former addresses recurrent needs of the community, while the latter serves counter-cyclical objectives to provide cushioning effects for the economy and alleviate imminent economic hardships. They are not interchangeable.

28. I raised the child allowances for three consecutive years from 2011-12 to 2013-14. Many parents want Government to provide more specific tax exemptions to ease their burden in taking care of their children. I understand the problems they are facing, but we need also to avoid complicating the tax regime. I shall increase the basic and additional child allowances from \$70,000 to \$100,000 from 2015-16 onwards. This will reduce government revenue by \$2 billion each year.

29. Amounting to \$34 billion, the six relief measures above should help alleviate the financial burden on the public, stimulate consumption, stabilise the economy and preserve employment. Together with other measures in the Budget, they will have a fiscal stimulus effect of boosting GDP by one percentage point.

Developing Our Economy

30. My key mission as Financial Secretary is to maintain a favourable business environment, promote sustainable economic development, and make available diverse and quality jobs to enable citizens to lead better and more fulfilling lives. I must also ensure that Government has adequate resources to enhance social services and improve people's livelihood.

31. Technologies have brought economic globalisation into a new phase. Competition between economies has never been so fierce as potential customers became more accessible to enterprises all over the world. Only the fittest will survive, a reality that local enterprises have to face.

32. This new norm enables enterprises to adopt modern modes of production led by global supply chains and choose the most competitive partners from around the world. With Hong Kong's established position as an international financial, trading and logistics hub, our commercial sector is accustomed to utilising supply chain management. This gives them the opportunity to benefit from the ample room for development brought about by the close connections between regions.

33. In the face of such challenges and opportunities, we should seek to lay a solid foundation for long-term development in a pragmatic manner, and enhance our overall strengths step by step through adding value to traditional industries and developing diversified new industries.

34. Manpower mismatch is becoming more and more evident in Hong Kong in recent years. This, coupled with the imminent challenge of an ageing population, has directly hindered the sustainable economic development of our city. We must strive to overcome the constraints on our development potential and rise to the challenges together. Otherwise, our next generations will have to bear the price of our short-sightedness.

Diversified Development

35. Hong Kong has long been a cradle for entrepreneurs. The city is renowned for its favourable business environment, with a fair and transparent market system, a liberal and open investment climate, and a simple and low tax regime. Legends of rags to riches live on for generations. Many entrepreneurs started their business without much experience, technology or capital. But their flexibility and market acumen have opened up new opportunities in different trades and markets.

36. Social enterprises are gaining recognition in Hong Kong. With business models that balance economic and other social values, they mark the maturing of our society. Research showed that each dollar of public funding contributed four to seven dollars of workfare to those disadvantaged employees, reflecting the significant benefits brought about by social enterprises.

37. Diversified and dynamic, Hong Kong boasts a melting pot of cultures with a blooming talent pool in the cultural and creative sectors. I shall take the fashion industry, the film industry and the arts and culture sector as examples to unveil Government's initiatives in promoting these industries.

Start-ups

38. A new wave of entrepreneurship, in the form of start-ups, is emerging around the world. Many start-ups boldly apply new technologies, information technology in particular, disrupting the traditional mode of operation. They translate state-of-the-art technologies into competitive products and services that change consumption patterns and open up new markets.

39. Last few years saw a notable burgeoning of start-ups in Hong Kong. They managed to build up a wider clientele base by conducting in-depth market studies, over and above their clearly-defined positioning and inspiring marketing strategies. I have seen an enterprise developing wireless chargers for electronic devices, and another designing a mobile application for pre-ordering coffee.

40. Hong Kong is among the most advanced information and communication technology hubs in the world. Our well-established business support services and sound system to protect intellectual property (IP) rights provide favourable conditions for the growth of start-ups. Many public and private organisations offer support, including provision of co-working space, incubation programmes, business advisory services, and assistance in building partner networks. The number of such organisations has increased by tenfold over the past three years, and they include world-renowned organisations such as Nest and Accenture.

41. InvestHK launched a large promotion campaign known as “StartmeupHK” two years ago to promote our advantages as a leading global hub for start-ups. The campaign has attracted innovative start-ups with potential to our city, and brought Hong Kong-based enterprises to the attention of many international angel and venture capital investors.

42. We have witnessed a growing interest amongst investors in Hong Kong start-ups. International IT giants such as Microsoft have set up offices here to look for new businesses that are worth investing in. Start-ups nurtured by the Hong Kong Science and Technology Parks Corporation (HKSTPC) and the Cyberport have also attracted hundreds of millions of dollars of investment.

43. Financing needs increase as start-ups grow. To further encourage financing of new enterprises, HKSTPC will earmark \$50 million to set up a corporate venture fund for co-investment, on a matching basis with private funds, in start-ups which are located in the Science Park or have participated in its incubation programmes. I shall also ask the Hong Kong Mortgage Corporation Limited (HKMC) to expand and enhance the Microfinance Scheme.

44. In addition, the proposed injection of \$5 billion to the Innovation and Technology Fund will help strengthen support for relevant enterprises.

45. We strive to provide start-ups with enhanced hardware and software support. HKSTPC will extend the Leading Enterprises Acceleration Programme to help more companies with potential to consolidate their businesses, raise capital and improve corporate management.

46. From this year onwards, free online government information will be released in digital formats to encourage development of more applications by start-ups. Many start-ups have developed a wide range of mobile applications by exploiting such public sector information, including information on real-time traffic and weather conditions.

47. Financial technologies are also an investment target of many venture capitalists or crowd funding efforts. Financial technologies that help facilitate functions such as payment, clearing and settlement systems, big data analytics, cloud computing, information and risk management and network security can enhance operational efficiency and help open new modes of development for the financial sector. Being an international financial centre with years of experience in technology, Hong Kong is an ideal place for developing financial technologies. I have asked the Secretary for Financial Services and the Treasury to set up a steering group to study how to develop Hong Kong into a financial technology hub together with industries, research and development institutions as well as regulatory authorities.

48. I hope to improve the ecosystem for local start-ups and technological enterprises to tie in with the general direction of moving our economy up the value chain and enabling local industries to diversify.

Social Enterprises

49. With the relentless and concerted efforts of Government and various sectors over the years, local social enterprises have attained solid growth. Their scope of services and target clients have become more diversified, earning wider recognition from the community. Apart from creating job opportunities, social enterprises also engage people from different sectors to serve the community. For instance, there are social enterprises renting domestic units to single-parent families with imminent housing need as co-tenants at below-market rates, offering barrier-free taxi services to wheelchair users, and operating restaurants to create jobs for women living in the same district.

50. Since the launch of the Enhancing Self-Reliance Through District Partnership Programme (ESR Programme) in 2006, the Home Affairs Department has so far allocated a total of \$180 million for the establishment of 161 social enterprises, which created 2 600 job opportunities. Eighty per cent of these social enterprises have become self-sustaining after the funding period.

51. I shall earmark \$150 million to roll out a new phase of the ESR Programme from 2016-17 to 2019-20, under which enhancement measures will be implemented to benefit more types of social enterprises and encourage greater participation of the commercial sector in the development of social enterprises.

Cultural and Creative Industries

52. Government has been working closely with the cultural and creative industries to promote their development, with a view to creating an atmosphere that inspires creativity, and expanding the local market as well as exploring outside markets.

53. I shall inject an additional \$400 million into the CreateSmart Initiative to support different sectors of the creative industries. Efforts will be made to assist them to participate in and organise exhibitions and fairs, provide talented people with training programmes and subsidised overseas exchanges and internships so as to afford them opportunities to realise their potential.

Fashion Industry

54. Hong Kong's textiles and clothing industry has a solid foundation. Many famous fashion designers have had spectacular success in creating their own brands. The trade has been dedicated to grooming and nurturing talent. An organisation offers co-working space in an industrial building for promising fashion designers and introduces their designs to international markets. A long-established spinning mill plans to revitalise its old factory into an incubation centre for fashion designers and other related facilities. Promoting collaboration between fashion design and the clothing industry to move them up the value ladder will enable them to generate greater economic benefits.

55. I agree with the recommendations of the Economic Development Commission on promoting the development of the fashion industry. I shall consolidate the existing resources and invest new resources, totalling \$500 million, to launch a series of measures on a pilot basis in the next three years. These include promoting Hong Kong's fashion designers and brands through improving local fashion events and participating in those held overseas, rolling out an incubation programme for up-and-coming fashion design start-ups, providing fashion design graduates with overseas internships and study opportunities, and subsidising participation in international competitions and exhibitions. We shall also set up an advisory body for the trade to advise on and co-ordinate the implementation of these measures.

Film Industry

56. The film industry has long been a key element of Hong Kong's creative industries. The vast Mainland market presents local filmmakers with unprecedented opportunities and big challenges. In recent years, Government has been supporting production of small-to-medium budget films through the Film Development Fund (FDF). Many of these films, such as "Echoes of the Rainbow", "The Way We Dance" and "The Midnight After", are critically-acclaimed box office hits with Hong Kong characteristics.

57. I shall make a further injection of \$200 million into FDF, enhance its funding arrangements and introduce a subsidy scheme for film productions with a budget not exceeding \$10 million, subject to a subsidy ceiling of \$2 million, to boost the volume of local film production and nurture film talent. I shall raise the production budget ceiling of the Scheme for Financing Film Production from \$15 million to \$25 million. To identify new talent for the film industry, Government will relaunch the First Feature Film Initiative with increased subsidies on production costs.

Art and Culture

58. We have seen a blossoming of local arts groups in recent years. Quite a number are emerging ones widely acclaimed for their high artistic attainments. This has not only enriched Hong Kong's cultural landscape by presenting the general public with more high quality performances and exhibitions, but also created more development opportunities for local artists and young people aspiring to pursue careers in the arts field.

59. I shall launch a \$300 million Art Development Matching Grants Pilot Scheme, under which the amount of private donation and sponsorship secured by eligible local arts groups will be matched by grants. It will encourage different sectors of the community to sponsor local art and cultural activities, and help sustain the development of the cultural industry, jazzing up the cultural aura of the city.

60. These measures will offer a platform for Hong Kong people, the younger generation in particular, to actualise themselves and unleash their creativity. We should combine all these efforts to take our economy towards even greater diversity.

Augmenting Competitiveness

61. With continuing economic reform for over three decades, China's remarkable achievements have been impressive. The success of Hong Kong's four pillar industries, namely trading and logistics, tourism, business and professional services and financial services, which are internationally competitive, is attributed not just to their innovation and upgrading efforts over past decades, but also to the economic development of the Mainland. We need to capitalise on today's opportunities to add value to our already competitive pillar industries, keep pace with the times and get ready for challenges, taking a role in fostering China's prosperity.

“One Belt One Road”

62. The Central Government has put forward the initiatives of building the Silk Road Economic Belt and the 21st Century Maritime Silk Road, or “One Belt One Road” in short. These economic co-operation corridors, spanning different regions in Asia, Europe and Africa, will promote co-development among countries and foster co-operation in the political, economic and social areas. The initiatives feature “five links” in the arenas of policy, facilities, trade, capital and culture.

63. Many countries along the “One Belt One Road” have great development potential. To strengthen trade ties with these markets, Hong Kong should expand co-operation, organise exchange visits, gain a deeper understanding of these countries, as well as pursue negotiations on Free Trade Agreements, Investment Promotion and Protection Agreements and Comprehensive Avoidance of Double Taxation Agreements. Trade facilitation and investment promotion to secure business opportunities in various aspects should also be developed.

64. Hong Kong can work with Mainland provinces and municipalities to stage roadshows in these countries to facilitate trade and investment flows for regional economic integration. This will create more favourable conditions for our goods, services and investment to access overseas markets.

65. While the Mainland is further strengthening its economic and trade ties with countries along the “One Belt One Road”, Hong Kong, as an important financial, commercial and maritime centre in the world, can provide Mainland enterprises that seek to “go global” with a wide range of professional services in the financial and legal arenas, including international investment, cross-border trade settlement, Renminbi (RMB) bond issuance and asset and risk management services.

66. Last October, over 20 countries signed a memorandum of understanding in Beijing and formally announced a plan to establish the Asian Infrastructure Investment Bank (AIIB). We shall endeavour to leverage our strength in financing and asset management to support its establishment and operation, and pursue actively the possibility of our joining AIIB.

67. A two-pronged approach should be adopted to further develop our pillar industries. On the one hand, we shall capitalise on the new opportunities created by the “One Belt One Road” initiatives of our nation. On the other, we shall endeavour to speed up the pace of moving our industries up the value chain.

Trading and Logistics Industry

68. Strategically located, and with an extensive trading network as well as a simple and open trading system, Hong Kong for years has been a regional trading and logistics hub underpinned by a well-established international transportation network.

69. We are among the world leaders in terms of both air and port cargo throughput. Last year, Hong Kong’s visible trade, including re-exports, domestic exports and imports of goods, amounted to \$8.4 trillion, approaching four times of GDP.

70. To cater for the demand in modern supply chain management, the trading and logistics industry needs to develop towards the provision of high value-added services. In this respect, air cargo services are of growing importance. The cargo handled by the Hong Kong International Airport accounts for less than two per cent of our total freight volume by weight, but makes up nearly 40 per cent of our exports and imports by value.

71. With rising passenger and cargo throughput at the Hong Kong International Airport, the existing two-runway system will reach its maximum capacity in a few years. It is imperative for us to take forward the development of a three-runway system (3RS) in order to meet our long-term air traffic demand, and to maintain our status as an international and regional aviation centre in the face of fierce competition from other airports in the region. Having gone through the environmental impact assessment process, the Airport Authority (AA) has submitted its recommendations on the planning of the 3RS to Government.

72. I envisage that the construction works for the 3RS could commence in 2016 for commissioning in 2023. AA estimated that, with full operation of the system, the airport could handle 100 million passengers and 9 million tonnes of cargo annually by 2030.

73. Aerospace financing is crucial to the development of high value-added aviation services. Asia sees the fastest growth in demand for aviation services, and an intense need for aerospace financing. We shall ride on the experience of other jurisdictions and explore possible measures that can promote aerospace financing business in Hong Kong.

74. The lack of back-up land is a big problem confronting our logistics industry. The Transport and Housing Bureau has completed technical assessments for the ten hectares of logistics site reserved at Tuen Mun West. We shall consult the local community as early as possible and release the site for the use of the industry by phases.

75. Apart from hardware, supporting software is also essential to strengthen our connection with overseas markets. We are examining how best to further streamline departments' handling of import/export documents. The provision of one-stop customs clearance service through a "Single Window" will closely follow mainstream international development.

76. The burgeoning of internet banking, electronic payment instruments and e-cheques in recent years has spurred the development of e-commerce. With regard to cross-border trade, Government will explore with the industries the feasibility of promoting the use of electronic letters of credit to reduce cost.

77. While the strong growth of e-commerce generates business opportunities for the provision of logistics and delivery services, the prevalence of e-communication poses a challenge to traditional mail delivery business. We shall review the business operation of Hongkong Post with the objectives of enabling the department to further support the development of the logistics industry in Hong Kong and expand its service offerings in response to market needs.

78. Hong Kong, the first among all members of the World Trade Organization (WTO), joined the Trade Facilitation Agreement (TFA) in late 2014. TFA will motivate WTO Members to improve and harmonise the import/export and customs procedures, thereby bringing down trading costs and speeding up goods movement.

79. The Association of Southeast Asian Nations (ASEAN) is Hong Kong's fourth largest trading partner in terms of services and second largest in terms of goods. We started the free trade agreement negotiations with ASEAN in the middle of last year to secure favourable access of our goods, services and investment to this market of enormous potential.

80. To enhance economic co-operation and integration between Hong Kong and Macao Special Administrative Regions, we are exploring a closer economic partnership arrangement with Macao. Such arrangement, coupled with those already signed respectively by Hong Kong and Macao with the Mainland, will constitute a new economic and trade co-operation platform for the region.

Tourism

81. Tourism, making up five per cent of GDP and employing 270 000 people, has been driving the growth of many industries. In 2014, visitors to Hong Kong exceeded 60 million, an increase of 12 per cent over last year. Total spending went up by nine per cent to more than \$350 billion.

82. Our tourism industry would continue moving up the value chain to attract high-spending visitors. We shall explore the construction of a convention centre above the Exhibition Station of the Shatin to Central Link to draw in more international business visitors. We shall also work with the Guangdong and Macao authorities to promote multi-destination tourism for overseas visitors, and invite neighbouring ports to join the Asia Cruise Fund with a view to encouraging cruise companies to include Hong Kong in their itineraries.

83. On tourist facilities, Government will discuss with the Walt Disney Company the Phase 2 development of the Hong Kong Disneyland Resort. This phase will cover an estimated area of 60 hectares, similar to that of Phase 1, with attractions, hotel development and retail facilities.

84. The construction of the “Iron Man Experience” in Hong Kong Disneyland and the waterpark at Tai Shue Wan in Ocean Park is expected to complete in 2016-17. The new Central harbourfront will add new elements to the renowned scenic views of Victoria Harbour. In addition to sightseeing facilities such as the Observation Wheel, a variety of carnivals, exhibitions and open-air concerts will take place from time to time. These new facilities at the harbourfront will provide novel experiences that will keep visitors and locals amused.

85. The new hotel projects in Hong Kong Disneyland, Ocean Park and the airport’s North Commercial District will come on stream, providing a total of over 2 200 rooms. Ocean Park has also invited expressions of interest for the development of the proposed Fisherman’s Wharf Hotel. Furthermore, the sites facing Victoria Harbour within the “hotel belt” adjacent to the Kai Tak Cruise Terminal will be made available to the market starting from the end of this year.

86. Hong Kong has many locations suitable for alfresco dining where visitors can enjoy delicacies and Hong Kong's spectacular scenery at the same time. I have asked relevant departments to implement as early as possible the proposal to facilitate alfresco dining operation, and to consider introducing Food Trucks, which is popular abroad, to the mix of Hong Kong's existing food scene.

Business and Professional Services

87. Business and professional services generate many quality employment opportunities for Hong Kong. Our accounting, legal, architectural and engineering sectors are highly competitive. Their professional services are on a par with international standards and the systems adopted dovetail with those in the advanced regions. These sectors have earned the trust of Mainland and overseas enterprises.

CEPA

88. Since the introduction of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in 2003, ten Supplements to CEPA have been concluded between the Mainland and Hong Kong to expand market liberalisation and further facilitate trade and investment. CEPA has presented tremendous development opportunities to Hong Kong's service suppliers and professionals. Up till now we have issued 3 000 Certificates of Hong Kong Service Supplier and thousands of Hong Kong residents have set up individually-owned stores in the Mainland in accordance with the preferential treatment under CEPA.

89. At the end of last year, I signed a new agreement with the Ministry of Commerce to promote liberalisation of trade in services between Hong Kong and Guangdong. After the agreement comes into effect, Guangdong will open up 153 services trade sub-sectors to Hong Kong service suppliers, accounting for 95.6 per cent of all trade sub-sectors under the WTO's classification system. I hope the Mainland will further deepen the liberalisation measures on this basis and extend them nationwide, thereby achieving basic liberalisation of trade in services between the entire Mainland and Hong Kong by the end of this year.

Intellectual Property Trading

90. As an international business centre, Hong Kong is well placed to become a premier IP trading hub providing high value-added IP services in the region. I shall earmark \$23 million in the coming three years for offering IP consultation, manpower training and other services to SMEs. As regards tax deduction for capital expenditure incurred on the purchase of IP rights, I shall consider extending the scope to cover more types of IP rights as appropriate.

Financial Services

91. The Financial Sector Assessment Programme report released by the International Monetary Fund last May acknowledged that Hong Kong's financial sector is one of the largest and most developed in the world. The report also affirmed the resilience of Hong Kong's financial system, and commended our high standard of supervision, comprehensive risk management, and active macro-prudential policies. Government, together with relevant regulators, will strive to keep our regulatory regime up to international standards.

92. As an international financial centre, Hong Kong will step up its efforts in combating cross-border tax evasion in accordance with the latest global standard. In response to the Organisation for Economic Co-operation and Development, we have pledged to adopt the new standard, pursuant to which financial institutions are required to report to the Inland Revenue Department specified financial account information on a regular basis, so that Hong Kong can exchange such information with other jurisdictions by end-2018. We shall consult the industry in the second quarter of this year and introduce the relevant amendment bill in 2016.

Shanghai-Hong Kong Stock Connect and Offshore Renminbi Business

93. The Shanghai-Hong Kong Stock Connect has been operating smoothly since its launch in November last year. For the capital markets of the two places to move towards full mutual access, we shall review the experience of the implementation of this project, and discuss with the relevant authorities of the Central Government the launch of the Shenzhen-Hong Kong Stock Connect and enhancement of the Shanghai-Hong Kong Stock Connect. We shall also work with the industry to stage roadshows in the Mainland to promote Hong Kong's securities market to Mainland investors.

94. While we strengthen our connection with the Mainland market, we are also expanding our RMB business links with the rest of the world. Hong Kong is the world's largest centre for offshore RMB banking, financing and asset management, providing services for RMB transactions around the world.

95. Last year, RMB trade settlement conducted through Hong Kong banks amounted to RMB 6.3 trillion, with a 60 per cent year-on-year increase, while RMB bond issuance amounted to RMB 200 billion, with a 70 per cent year-on-year increase. In the fourth quarter of 2014, the average daily turnover on Hong Kong's RMB Real Time Gross Settlement (RTGS) system amounted to RMB 850 billion, representing an 80 per cent increase over the same period a year earlier.

96. We shall continue to actively develop Hong Kong's capacity to serve as a global hub for offshore RMB business, providing new opportunities for the financial sectors both in the Mainland and Hong Kong. To this end, we shall work with the Mainland authorities to further increase our investment quota for the RMB Qualified Foreign Institutional Investors (RQFII) Scheme and strive for early implementation of the arrangement for mutual recognition of funds.

Asset Management

97. Hong Kong's wealth and asset management business has been growing exponentially. At end-2013, the combined fund management business recorded a year-on-year growth of 27 per cent, exceeding \$16 trillion in total.

98. In last year's Budget, I proposed to waive the stamp duty for the transfer of all exchange traded funds (ETF). The relevant amendment ordinance was passed by the Legislative Council (LegCo) and the stamp duty waiver took effect on the 13th of this month. We plan to table a bill in LegCo later to allow private equity funds to enjoy profits tax exemption available to offshore funds. Furthermore, we are formulating legislative proposals to provide the legal framework for introducing an open-ended fund company structure.

99. To attract multinational and Mainland enterprises to establish corporate treasury centres in Hong Kong to perform treasury services for their group companies, we shall amend the Inland Revenue Ordinance to allow, under specified conditions, interest deductions under profits tax for corporate treasury centres and reducing profits tax for specified treasury activities by 50 per cent. The relevant bill will be introduced in the 2015-16 legislative session.

Bond Market

100. Government issued its first sukuk last year. The US\$1 billion issuance marked the world's first US dollar-denominated sukuk originated by a government with the highest credit rating, setting a significant pricing benchmark for the market. Drawing a strong demand from investors, the sukuk issuance won a number of awards. The successful offering highlighted that the relevant legal framework in Hong Kong has been widely accepted by international investors. Government will consider actively a further sukuk issuance when market conditions are favourable, in a bid to attract more issuers and investors into the local market.

101. The inflation-linked retail bonds (iBond) introduced in 2011 have been well received by the public and helped promote the retail bond market. I shall launch an iBond issue of up to \$10 billion with a maturity of three years. Following the existing practice, the issuance will target Hong Kong residents, and interest will be paid to bond holders every six months at a rate linked to the inflation rates of the last half-year period. The Hong Kong Monetary Authority (HKMA) will announce the details in due course.

Overcoming Limitations

102. While augmenting further the competitiveness of our pillar industries and fostering diversification of our industries, we must strive to overcome the limitations that hamper economic growth.

Human Resources

103. People are the most important asset for Hong Kong. The future of our city hinges upon the quality of people. For generations, Hong Kong people have strived to raise themselves up the social ladder through hard work and self-improvement. Government has been devoting substantial resources to improving the quality of manpower to further diversify the economy and steer the development towards high value-added activities.

104. With specialisation and division of labour in different sectors in modern society, there is growing demand for talent with specific expertise and skills. Young people are offered different options to pursue promising careers. Government has been working closely with different sectors to provide professional training for various trades and industries including construction, retail, clock and watch, printing, health care, and testing and certification. The active engagement of trades and industries, which effectively enhances their professional image and provides clear career pathways, is crucial in attracting new entrants.

105. Skills mismatch in the labour market is becoming more evident in recent years. Chronic manpower shortage and recruitment difficulties in individual sectors will hamper the sustainable and diversified economic development. While according priority to locals in employment, we should seriously consider importing manpower in an appropriate, limited and targeted manner to inject new impetus into the labour market.

Manpower Training

106. In last year's Budget, I announced the allocation of \$130 million to support the manpower development of the retail industry. The series of measures are being rolled out. The first programme for the Earn and Learn Pilot Scheme for the Retail Industry which is run by the Vocational Training Council in collaboration with the industry commenced last September, with the first cohort of student-trainees started coursework and on-the-job training in tandem. The Hong Kong Productivity Council has also launched the Retail Technology Adoption Assistance Scheme for Manpower Demand Management to assist the sector in enhancing productivity. Preparation for the retail industry promotion campaign is under way to enhance the image of the industry with a view to attracting new blood.

107. With our strenuous efforts to promote the professional image and promising career prospects of the construction industry in recent years, more young people are willing to join the industry. Over the past five years, I have allocated a total of \$320 million to the Construction Industry Council (CIC) to train local workers through the provision of training allowances and on-site experience. This year, I shall provide another \$100 million for the CIC to train up more skilled workers to meet the acute manpower demand of the industry.

108. The financial services industry has a keen demand for quality personnel. Last year, I requested the Financial Services and the Treasury Bureau (FSTB) to consult the industry on manpower training needs. There was broad consensus that manpower shortage was particularly acute in the insurance and the asset and wealth management sectors. They also suggested that Government could help promote the industry, enhance the professional competence of practitioners and, in particular, train up more talent for middle and back offices.

109. I shall allocate \$100 million to launch a three-year pilot scheme for insurance and asset and wealth management services. Under the scheme, Government will collaborate with the industry to organise activities and provide internship opportunities to allow the community, in particular students, to have a better understanding of the nature and career prospects of different jobs in the two sectors. Government and industry will also enhance the contents of continuing professional development programmes, and provide financial support to encourage practitioners to enrol in these programmes. FSTB is drawing up details of the pilot scheme.

110. From the 2015/16 academic year onwards, Government will subsidise on a pilot basis 1 000 students per cohort to pursue designated self-financing undergraduate programmes for meeting the manpower needs of Hong Kong. For the first cohort, there will be 13 programmes, covering health care, architecture and engineering, testing and certification, creative industry, logistics, as well as tourism and hospitality. This scheme will cost \$960 million.

111. We shall open up more internship and exchange opportunities for young people to experience the taste of work, broaden their exposure, and be prepared for entering the job market.

112. We plan to increase the short-term internship places provided by government departments for 2015-16 to 3 000, an increase of 30 per cent over the last financial year, so that more young people will have a deeper understanding of different areas of work in Government. This measure will cost \$21 million.

113. Last year, the Hong Kong Economic and Trade Office in Singapore started to arrange internships in ASEAN countries to broaden the international horizons of university students of Hong Kong and enhance their understanding of ASEAN countries. The inaugural round of the scheme saw 90 students taking up internships. A total of 250 internship places will be available in 2015-16.

114. I shall also allocate an additional \$205 million in the next three years to support more young people to participate in Mainland exchange and internship programmes.

Sustainable Development

115. A liveable environment is vital to improving people's livelihood, pooling talent and sustaining economic development. Improving the environment is high on our agenda.

116. Government will phase out 82 000 Euro III or earlier diesel commercial vehicles by the end of 2019, involving an ex-gratia payment of \$11.4 billion. So far, 22 000 of these vehicles have been phased out, and we shall continue to assist the transport industry in resolving relevant issues. The \$80 million programme to support replacement of catalytic converters and oxygen sensors of liquefied petroleum gas taxis and light buses was also completed last year. A total of 18 000 taxis and light buses took part in the programme, accounting for 80 per cent of the eligible vehicles.

117. The port facilities and light dues charged on ocean-going vessels (OGVs) are now reduced by half if these vessels use low sulphur fuel while at berth in Hong Kong. I propose extending this incentive scheme until the end of March 2018, which will involve revenue foregone of \$240 million. We shall introduce legislation this year to require all OGVs at berth in Hong Kong to use low sulphur diesel.

118. Since its launch in 2008, the Cleaner Production Partnership Programme has funded a total of 2 400 cleaner production projects and promotion activities, helping Hong Kong-owned factories in both Hong Kong and Guangdong reduce emissions, conserve energy, etc. We shall allocate an additional \$150 million to extend the programme for five years.

119. To promote the use of electric vehicles, I announced last year that the First Registration Tax exemption for electric vehicles would be extended up to the end of March 2017. We installed 100 faster chargers for electric vehicles at 16 government car parks last year, which can shorten the charging time. The total number of chargers in the territory has increased to 1 100.

120. The Harbour Area Treatment Scheme collects sewage from both sides of Victoria Harbour for treatment at Stonecutters Island to improve the water quality of Victoria Harbour proper. Stage 2A of the scheme will come into operation this year. Stage 1 and Stage 2A of the scheme together cost \$25.8 billion. We plan to commission a new consultancy study on enhancing the leisure and recreational value of the coastal areas of Victoria Harbour in the long run.

121. We shall start working on the design of a desalination plant at Tseung Kwan O and the associated infrastructure in phases this year. It is expected that the desalination plant will commence operation in 2020 and the annual output will account for five to ten per cent of Hong Kong's fresh water consumption. We shall apply the relevant state-of-the-art technology, including efficient energy recovery system, for greater energy efficiency, increased output and lower cost.

122. To minimise water loss, we shall progressively establish Water Intelligent Network by installing sensors in the water supply networks to monitor their conditions. We shall also examine other techniques, such as data mining, to predict water main bursts for early identification and handling of defective water mains.

Land Resources

123. Land, apart from manpower, is the other major constraint to the economic and social development in Hong Kong. To make room for economic, social and personal development, we shall optimise land utilisation and increase land supply through a combination of measures.

Residential Land

124. Government promulgated the new Long Term Housing Strategy at the end of last year, setting the target for public housing supply at 290 000 units for the coming decade. As the major provider of public housing in Hong Kong, HKHA cannot afford the expenditure to be incurred in the long run.

125. The Housing Reserve I set up last December is to provide financial resources to meet the ten-year public housing supply target. The initial injection is the investment returns generated in 2014, which amounted to \$27.5 billion. Further injections will be considered at an appropriate juncture.

126. A total of 20 residential sites were put up for sale by Government in 2014-15, capable of providing 6 300 private residential units. Taking into account the railway property development projects, the Urban Renewal Authority's projects and private redevelopment or development projects, the land supply has a capacity of producing 20 000 units.

127. The 2015-16 Land Sale Programme will include 29 residential sites capable of providing 16 000 units in total. Out of these sites, 16 are new ones. Taking into account the housing land supply from different sources, I expect that a total of 19 000 units can be provided. The Secretary for Development will announce tomorrow the Land Sale Programme for the coming financial year.

128. To promote market circulation of subsidised housing, HKMC will consider launching a new Premium Loan Guarantee Scheme to help owners of subsidised sale flats pay the premium to HKHA or HKHS. After settling the premium payment, owners will have greater flexibility in disposing of their flats, such as letting out or selling the flats in the open market.

129. The property market has revived since April last year, with both flat prices and transactions showing renewed pick-up. There has been a double-digit increase in the prices of small and medium-sized flats. Meanwhile, the external environment is volatile. The timing and pace of the US interest rate hike as well as the further monetary easing measures of the central banks of Eurozone and Japan could have significant impact on the local property market. The public should be extra cautious when making decision on purchasing property, and carefully assess the potential risk they need to bear in case of a market downturn. Government will continue to monitor the market conditions closely, and I will not hesitate to introduce measures when necessary, in order to maintain the healthy and stable development of the property market and safeguard the stability of our macroeconomic and financial systems.

Commercial Land

130. In 2014-15, Government put up for sale a total of five sites for commercial/industrial use and one for hotel development, providing 180 000 square metres of floor area and 1 100 rooms respectively. The Land Sale Programme for the coming financial year will include four sites for commercial/business use and one for hotel development, providing 180 000 square metres of floor area and 500 rooms respectively.

131. We shall increase the supply of commercial floor area through other channels, including relocating government offices away from core business districts. The plan will not only release valuable sites for commercial use, but also generate more economic activities and employment opportunities in various districts.

132. The government offices in the Trade and Industry Department Tower in Mong Kok will be relocated to the Kai Tak Development Area starting in the middle of this year, releasing 18 000 square metres of commercial floor area.

133. We are actively taking forward our plan to relocate the three government office buildings in Wan Chai. The 29 departments accommodated there will be relocated in phases to buildings under planning in various districts, including West Kowloon, Cheung Sha Wan, Kai Tak, Chai Wan and Tseung Kwan O. This will progressively release 175 000 square metres of commercial floor area and increase the supply of Grade A office space in Wan Chai.

Ageing Population

134. The ageing population is a formidable challenge to us. Our labour force will decline as from 2018 and our economic vibrancy will be dampened. The growth of the elderly population will push up demands for healthcare and elderly services, thus increasing public expenditure. We shall encourage the potential workforce to enter or re-enter the labour market. We shall continue to allocate resources to improve healthcare and elderly services.

Encouraging Employment

135. Economic growth is mainly contingent on the working population and its productivity. Encouraging more women and older persons to join the workforce will help boost our economic growth.

136. I shall allocate \$130 million to strengthen child care services, thus providing support for women to achieve a work-family balance. This year, we shall extend the coverage of on-the-job training allowance under the Employment Programme for the Middle-aged to encourage the employment of older persons to take up part-time jobs. The Employees Retraining Board will also focus on providing training for older persons, among other target groups, and help them re-join the job market.

137. I shall earmark \$220 million to extend for two years the Integrated Employment Assistance Programme for Self-reliance, which encourages employable able-bodied CSSA recipients to secure employment and achieve self-reliance.

138. The Labour Department will also continue to employ, on a trial basis, ethnic minority trainees under the Youth Employment and Training Programme as employment services ambassadors to provide employment services to other ethnic minority job seekers.

139. I encourage employers to introduce more flexible working arrangements. I hope they would allow employees to work from home, or offer part-time and job sharing alternatives, to enable more people with family commitments to join the workforce.

Healthcare

140. With ageing population, Government will continue to increase resources on healthcare. In 2015-16, Government's recurrent allocation to the Hospital Authority (HA) will be \$49 billion, up by nearly 50 per cent over five years ago.

141. To cater for the long-term demand for healthcare services, we shall carry out a number of hospital projects. Projects already under construction or planning include the development of an acute general hospital in the Kai Tak Development Area (Phase 1), Tin Shui Wai Hospital and Hong Kong Children's Hospital; the redevelopment of Kwong Wah Hospital and Queen Mary Hospital; and the expansion of United Christian Hospital. A total of 2 800 additional beds will be provided. The works expenditure is estimated at \$81 billion.

142. In the 2008-09 Budget, I earmarked \$50 billion to support healthcare reform. I shall, in light of public views, inject funds into the high risk pool under the Voluntary Health Insurance Scheme, and provide tax concession for subscribers to regulated insurance products. To alleviate pressure on the public healthcare system due to manpower shortages and surge in demand, I shall set up a fund for HA to make use of investment returns for public-private partnership initiatives. One of these is to extend in phases the General Out-patient Clinic Public-Private Partnership Programme to all 18 districts. I shall also offer loans to non-profit-making organisations for private hospital development to address the acute shortage of private hospital beds. The remaining sum will be reserved for general use, including provision of support for public hospital projects.

Retirement Protection

143. Government has, since the 1960s, been studying different forms of retirement protection, on which there have been wide discussions and diverse views in the community. The Commission on Poverty will consult the public again on retirement protection in the latter half of this year.

144. The sustainability of retirement protection must be a prime concern. “Pay-as-you-go” retirement protection means that the contributions from today’s employees and employers are used to pay the pensions of retirees of the previous generation. In other words, funding for retirement protection for people in this generation is to be borne by the next generation.

145. Overseas experiences suggest that, as population ages, the proportion of dependants to the working population increases, retirement protection on a “pay-as-you-go” basis eventually becomes unsustainable. There would either be less protection for the dependent population or heavier burden on the working population. We should consider carefully the consequences of this scenario when we discuss retirement protection.

146. Irrespective of the community’s choice for the way forward on this issue, the community’s consensus is to provide better retirement protection for the elderly in need. I shall set aside \$50 billion for this purpose.

Public Finances

147. In its report released last year, the Working Group on Long-Term Fiscal Planning pointed out that with an ageing population and slowing economic growth, government expenditure would keep growing at a faster pace than that of revenue and the economy. If this trend persists, structural deficits will surface within ten years. While Hong Kong would still experience budget surpluses in the coming few years, we need to take early and positive actions to contain expenditure, preserve the revenue base and save up in a timely manner to avoid the appearance of structural deficits.

Containing Expenditure

148. In light of the Working Group's recommendations, I asked all policy bureaux in the middle of last year to achieve more efficient use of resources through re-engineering and re-prioritising. I have also launched the "0-1-1" envelope savings programme to reduce operating expenditure by a total of two per cent over the next three financial years. Resources saved will be re-allocated for new services.

Preserving Revenue Base

149. Hong Kong maintains a simple and low tax regime with a narrow tax base. Among the working population, only 40 per cent pays salaries tax, and 60 per cent of the revenue comes from the top five per cent of the payers of salaries tax. As for profits tax, only ten per cent of the registered corporations pay the tax, and over 80 per cent of the revenue comes from the top five per cent of payers of profits tax. Therefore, it is of utmost importance for Government to stabilise and broaden the revenue base.

150. Two years ago, I asked government departments to comprehensively review over a thousand fees and charges in accordance with the “cost-recovery” and “user pays” principles. The review is supported by LegCo and our efforts have begun to bear fruits. We shall next review livelihood-related fees and charges.

151. Government launched an extensive consultation on the introduction of a Goods and Services Tax in 2006. The community then did not support the new tax. We may explore again the feasibility of broadening the tax base in due course with the aim of stabilising government revenue and creating room for direct tax concessions.

Saving up in a Timely Manner

152. In late 2014, the Working Group suggested establishing a Future Fund, comprising an endowment of \$220 billion from the Land Fund, which is part of the fiscal reserves, and a proportion of future budget surpluses. The Future Fund will serve as long-term savings and be placed in long-term investments for higher returns.

153. I agree to establish a Future Fund. I have requested the Secretary for Financial Services and the Treasury to work with the Chief Executive of HKMA to hammer out specific management and investment mechanisms. The savings scheme is expected to be in place within this year.

154. The Working Group also offered recommendations on how Government’s assets could be better managed. We shall follow up on their recommendations. I would like to extend my heartfelt thanks to the experts and academics on the Working Group for their contributions over the past two years.

Revised Estimates for 2014-15

155. I forecast that the revised estimate for government revenue for 2014-15 will be \$470.7 billion, 9.4 per cent or \$40.6 billion higher than the original estimate. It reflects mainly the changes in the following revenue items and the arrangement for the Housing Reserve –

- (a) stamp duty revenue is \$29.7 billion higher than the original estimate, representing an increase of over 60 per cent. Of this revenue, over 75 per cent comes from “double stamp duty” which was not budgeted;
- (b) revenue from profits tax is \$18.5 billion or 15.8 per cent higher than originally estimated. It is affected mainly by corporate earnings which are far more volatile than macroeconomic growth, rendering it difficult for us to make an accurate estimate; and
- (c) revenues from salaries tax and land premium are \$5.1 billion and \$3.2 billion higher than their respective original estimates.

156. As for government expenditure, I forecast a revised estimate of \$397.2 billion, 3.4 per cent or \$14 billion lower than the original estimate.

157. For 2014-15, I forecast a surplus of \$63.8 billion, and by 31 March 2015, fiscal reserves are expected to reach \$819.5 billion.

Estimates for 2015-16

158. Operating expenditure for 2015-16 is estimated to be \$354.3 billion, representing an increase of 11.5 per cent or \$36.6 billion over the revised estimate for 2014-15. Recurrent expenditure accounts for \$324.6 billion, or over 90 per cent of the 2015-16 operating expenditure, which is an increase of \$18.3 billion or six per cent over the revised estimate for 2014-15. In the past ten years, recurrent expenditure has been increasing with a cumulative growth of 73.4 per cent over 2005-06. This demonstrates Government's continued commitment towards improving people's livelihood.

159. Of the recurrent expenditure for the next financial year, almost 60 per cent will be deployed for education, health and social welfare, the three major livelihood-related policy areas. Recurrent expenditure on education, the largest spending area of Government, will be \$71.4 billion, or 22 per cent of recurrent expenditure. New initiatives to be introduced from the 2015/16 academic year include progressively increasing the intake of senior-year undergraduate places in University Grants Committee-funded institutions from 4 000 to 5 000 per annum in the 2018/19 academic year, costing \$475 million a year; and increasing the ratio of graduate teacher posts in public sector primary schools in phases, costing \$328 million a year. Further to the increase in voucher value of the Pre-primary Education Voucher Scheme by \$2,500 in the 2014/15 school year, the voucher value will again be adjusted upward by \$2,500 in the 2015/16 school year; and the fee remission ceiling of the Kindergarten and Child Care Centre Fee Remission Scheme will also be raised in these two school years. These will involve additional expenditure of \$840 million in the two school years.

160. Recurrent expenditure on medical and health services will be \$54.5 billion, accounting for 16.8 per cent of recurrent expenditure. We shall continue to enhance our public healthcare services. Measures include providing 250 additional hospital beds, expanding the capacity of specialist out-patient clinics and general out-patient clinics, strengthening geriatric rehabilitation and outreach services, and increasing operating theatre sessions. More drugs with proven efficacy will be incorporated into the Hospital Authority Drug Formulary. These include the expansion of clinical application of special drug for treating multiple sclerosis, as well as new drugs for treating cancer, chronic hepatitis C and Crohn's disease. A total of 4 000 patients will benefit each year.

161. Recurrent expenditure on welfare will reach \$59.7 billion, accounting for 18.4 per cent of recurrent expenditure. Ever since it was launched three years ago, the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities has gradually been extended to cover MTR, franchised buses and ferries to benefit more people. From late March 2015, the scheme will be extended to cover green minibuses by phases. The recurrent expenditure of the scheme has increased by threefold to \$900 million in three years' time. In addition, I shall increase the annual recurrent expenditure by \$71 million to provide additional places for day care and residential care for the elderly, and improve relevant services. Government will also strengthen various support services for persons with disabilities and ex-mentally ill persons, including residential care services and community support services, which will involve an additional annual expenditure of \$160 million.

162. I forecast that capital expenditure for 2015-16 will be \$86.5 billion, including \$70 billion on capital works. We have launched various capital works in recent years for developing transport infrastructure, increasing land supply, as well as medical, educational and leisure facilities, etc. They are of paramount importance in furthering socio-economic development and enhancing quality of life.

163. With a number of projects entering their construction peaks, capital works expenditure is expected to maintain at relatively high levels in the next few years. We are, however, concerned about the sluggish progress of deliberation in LegCo since the last session. This has resulted in the mounting of backlog of funding proposals.

164. Total government expenditure is estimated to reach \$440.8 billion in the next financial year, 11 per cent more than that of last year. Public expenditure will be equivalent to 20.4 per cent of GDP.

165. The civil service establishment is expected to expand by 2 540 posts to 176 448 in 2015-16, representing a year-on-year increase of 1.5 per cent, similar to that of 2014-15. This has to do with manpower increase in government departments for implementing new policies and improving existing services.

166. Total government revenue for 2015-16 is estimated to be \$477.6 billion, of which earnings and profits tax is estimated at \$194.6 billion. Land revenue is estimated to be \$70 billion.

167. Taking all these into account, I forecast a surplus of \$36.8 billion in the Consolidated Account in the coming year. Fiscal reserves are estimated to be \$856.3 billion by the end of March 2016, representing 36.8 per cent of GDP and equivalent to 23 months of government expenditure.

Medium Range Forecast

168. Since the global financial crisis in 2008, the annual growth rate of Hong Kong's economy averaged 2.6 per cent in real terms, lower than our average trend growth rate of 3.8 per cent in the decade before the crisis.

169. For the medium term, the average annual growth rate is forecast to be 3.5 per cent in real terms from 2016 to 2019, and the underlying inflation rate will average three per cent.

170. I forecast an annual surplus in the Operating Account and an annual deficit in the Capital Account in the four years from 2016-17. But a surplus is expected in the Consolidated Account in all years.

171. Fiscal reserves are estimated at \$948.8 billion by end-March 2020, representing 33.6 per cent of GDP and equivalent to 22 months of government expenditure.

172. The medium range forecast is broadly in line with the trend projections of the Working Group. The ageing population will inevitably put mounting pressure on government expenditure and a shrinking workforce will slow down economic growth. We must remain vigilant, and take timely and resolute multi-pronged measures to avert the structural deficit problem.

Concluding Remarks

173. Mr President, on 26 February 2014, less than an hour before the delivery of my last Budget Speech, an old friend of mine was assaulted on his way to work, suffering six chop wounds. This unthinkable violence is my abiding memory of the last Budget. I am glad to see him returning to work and a normal life after a year of treatment and rehabilitation.

174. This is my eighth Budget since I became Financial Secretary in 2007. Throughout these eight years, Hong Kong has remained economically stable and financially healthy despite global economic turbulence and financial market volatility.

175. Hong Kong's success has been built on our sound social system and shared values over the decades. People here have different opinions, different likes and dislikes, and different faiths. But, we can still live together harmoniously and our society can still operate effectively. However, events in recent years seem to have impacted on the system and common values. This is huge concern to me.

176. It is perfectly normal to have dissenting voices and controversies in a diversified and pluralistic society such as Hong Kong. What really matters is to remain objective, rational and pragmatic in handling disagreements. Regrettably, the extremes of stance means that the social bickering of recent years has not led to any solutions to our problems. I am never afraid of an argument or debate as long as they are constructive. If not, then we are just wasting our time without doing any good for Hong Kong.

177. A psychologist once said, “For our chronically and extremely hungry man, Utopia can be defined very simply as a place where there is plenty of food. ... Freedom, love, ... respect, ... may all be waved aside as fripperies which are useless since they fail to fill the stomach.”

178. Having developed for more than a century, Hong Kong ranks in the top tier globally for its economic success. However, behind and beyond material fulfilment, the people of this city, our younger generations in particular, are hungering for spiritual contentment. This is what a mature society should manifest, and this is a change that needs to be addressed and dealt with. Nonetheless, conflicts should be resolved through conversation rather than confrontation, and this is the point that we all must come to terms with.

179. As the saying goes, “Walnuts and pears you plant for your heirs.” The Hong Kong we see today is the result of the exertion of past generations who brought forth good fruit for us to try and thrive on. As for the future, much of the onus will rest with our younger generations who will not just enjoy the good fruit but will work hard for tomorrow’s harvest. I hope that they will continue to sow the seeds, plough the land and plant the trees so their future generations can enjoy the fruits of their labour. Our vision is to make this city a better place with a brighter future for everyone where our legend lives on.

180. Thank you, Mr President.

THE 2015-16 BUDGET

Speech by the Financial Secretary, the Hon John C Tsang
moving the Second Reading of the Appropriation Bill 2015

Supplement and Appendices

Wednesday, 25 February 2015

SUPPLEMENT

Please visit our web-site at www.budget.gov.hk/2015/eng/speech.html for all documents, appendices and statistics relating to the 2015–16 Budget. The Chinese version can be found at www.budget.gov.hk/2015/chi/speech.html.

Contents

	Pages
Rates	(1)
Salaries Tax	(2)
One-off Reduction of Tax	(3)
Economic Performance in 2014	(4) – (7)
Economic Prospects for 2015	(8)

EFFECT OF RATES CONCESSION ON MAIN PROPERTY CLASSES

2015-16

<i>Property Type</i>	<i>No Concession⁽⁶⁾</i>		<i>With Rates Concession⁽⁷⁾</i>	
	<i>Average Rates Payable (\$ for the year)</i>	<i>Average Rates Payable (\$ per month)</i>	<i>Average Rates Payable (\$ for the year)</i>	<i>Average Rates Payable (\$ per month)</i>
Private Domestic Premises ⁽¹⁾				
Small	5,484	457	2,808	234
Medium	12,084	1,007	7,644	637
Large	27,684	2,307	22,956	1,913
Public Domestic Premises ⁽²⁾	2,772	231	1,380	115
All Domestic Premises⁽³⁾	5,520	460	3,228	269
Shops and Commercial Premises	41,712	3,476	37,848	3,154
Offices	45,444	3,787	41,328	3,444
Industrial Premises ⁽⁴⁾	14,652	1,221	11,316	943
All Non-domestic Premises⁽⁵⁾	36,540	3,045	33,276	2,773
All Properties	9,528	794	7,104	592

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

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

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

(3) Including car parking spaces in domestic premises.

(4) Including factories and storage premises.

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

(6) The rates payable have reflected the changes in rateable values for 2015-16 after the General Revaluation.

(7) The proposed rates concession is capped at \$2,500 per quarter for the first two quarters of 2015-16.

SALARIES TAX

Changes to Allowances and Deductions

	<i>Present</i> (\$)	<i>Proposed</i> (\$)	<i>Increase</i> (\$) (%)	
Personal Allowances:				
Basic	120,000	120,000	—	—
Married	240,000	240,000	—	—
Single Parent	120,000	120,000	—	—
Other Allowances:				
Child:				
1st to 9th child				
Year of birth	140,000	200,000	60,000	43
Other years	70,000	100,000	30,000	43
Dependent Parent/Grandparent:				
Aged 60 or above				
Basic	40,000	40,000	—	—
Additional allowance (for a dependant living with the taxpayer)	40,000	40,000	—	—
Aged 55 to 59				
Basic	20,000	20,000	—	—
Additional allowance (for a dependant living with the taxpayer)	20,000	20,000	—	—
Dependent Brother/Sister	33,000	33,000	—	—
Disabled Dependant	66,000	66,000	—	—
Deduction Ceiling:				
Self-Education Expenses	80,000	80,000	—	—
Home Loan Interest (Number of years of deduction)	100,000 (15 years of assessment)	100,000 (15 years of assessment)	—	—
Approved Charitable Donations	35% of income	35% of income	—	—
Elderly Residential Care Expenses	80,000	80,000	—	—
Contributions to Recognised Retirement Schemes	18,000	18,000	—	—

**EFFECT OF THE PROPOSED
ONE-OFF REDUCTION OF SALARIES TAX,
TAX UNDER PERSONAL ASSESSMENT AND PROFITS TAX**

Salaries tax and tax under personal assessment-
75% tax reduction subject to a cap at \$20,000 per case

Income in 2014-15	No. of taxpayers	Average amount of tax reduction	Average % of tax reduced
\$120,001 to \$200,000	424 000	\$710	75%
\$200,001 to \$300,000	422 000	\$3,810	75%
\$300,001 to \$400,000	299 000	\$8,470	73%
\$400,001 to \$600,000	334 000	\$14,160	55%
\$600,001 to \$900,000	177 000	\$19,130	31%
Above \$900,000	164 000	\$20,000	7%
Total	1 820 000	—	—

Profits tax-
75% tax reduction subject to a cap at \$20,000 per case

Profits in 2014-15	No. of businesses#	Average amount of tax reduction	Average % of tax reduced
\$100,000 and below	42 000	\$4,540	75%
\$100,001 to \$200,000	17 000	\$17,000	72%
\$200,001 to \$300,000	10 000	\$20,000	50%
\$300,001 to \$400,000	7 000	\$20,000	35%
\$400,001 to \$600,000	9 000	\$20,000	25%
\$600,001 to \$900,000	8 000	\$20,000	17%
Above \$900,000	36 000	\$20,000	1%
Total	129 000	—	—

Including 99 000 corporations and 30 000 unincorporated businesses.

ECONOMIC PERFORMANCE IN 2014

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2014:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	2.7
Government consumption expenditure	3.1
Gross domestic fixed capital formation	-0.3
<i>of which :</i>	
Building and construction	6.5
Machinery, equipment and intellectual property products	-5.2
Total exports of goods	1.0
Imports of goods	1.0
Exports of services	0.5
Imports of services	1.9
Gross Domestic Product (GDP)	2.3
<i>Per capita GDP in real terms</i>	1.6
<i>Per capita GDP at current market prices</i>	HK\$310,100 (US\$40,000)
(b) Rates of change in:	
Underlying Composite Consumer Price Index	3.5
GDP Deflator	3.0
Government Consumption Expenditure Deflator	4.6
(c) Growth rate of nominal GDP	5.3

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> (%)
2012	0	-13
2013	3	-9
2014	2	5
<i>Share in the value of total exports of goods in 2014</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> (%)
2012	4	6	2	22	-6	-7
2013	6	3	9	22	-3	0
2014	5	8	5	-7	13	-6

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> (%)
2012	22	22	-26	-26	100
2013	22	9	-24	57	52
2014	-7	-69	28	-9	15

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

Exports of services

	<i>Total</i> (%)	<i>Trade-related</i> <i>services</i> (%)	<i>Transportation</i> <i>services</i> (%)	<i>Travel</i> <i>services</i> (%)	<i>Finance,</i> <i>insurance,</i> <i>business and</i> <i>other services</i> (%)
2012	2	1	-4	10	3
2013	5	1	-2	18	2
2014	0	1	2	-3	1

6. Hong Kong's visible and invisible trade balance in 2014 reckoned on GDP basis ^(Note 1):

	(HK\$ billion)
Total exports of goods	3,878.6
Imports of goods	4,471.8
<i>Visible trade balance</i>	-593.2
Exports of services	1,076.9
Imports of services	481.2
<i>Invisible trade balance</i>	595.7
<i>Combined visible and invisible trade balance</i>	2.6

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>
2012	3.3	1.5	2.2	2.4
2013	3.4	1.5	1.9	1.8
2014	3.2	1.5	0.7	0.9

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>
2012	4.1	4.7	3.6	4.3	4.1
2013	4.3	4.0	5.1	4.1	3.8
2014	4.4	3.5	5.6	4.2	3.5

ECONOMIC PROSPECTS FOR 2015

Forecast rates of change in the Gross Domestic Product and prices in 2015:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	1 to 3
<i>Nominal GDP</i>	2.5 to 4.5
<i>Per capita GDP in real terms</i>	0.2 to 2.1
<i>Per capita GDP at current market prices</i>	HK\$315,200-321,400 (US\$40,400-41,200)
Composite Consumer Price Index	
<i>Headline Composite Consumer Price Index</i>	3.5
<i>Underlying Composite Consumer Price Index</i>	3
GDP Deflator	1.5

APPENDICES

APPENDICES

	Page
A. MEDIUM RANGE FORECAST	5
Forecast of Government expenditure and revenue for the period up to 2019-20	
B. ANALYSIS OF EXPENDITURE AND REVENUE	15
Allocation of resources among policy area groups and analysis of revenue	
C. GLOSSARY OF TERMS	33

Note: Expenditure figures for 2014-15 and before have been adjusted to align with the definitions and policy area group classifications adopted in the 2015-16 estimate.

APPENDIX A

MEDIUM RANGE FORECAST

CONTENTS		Page
SECTION I	FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA	6
SECTION II	MEDIUM RANGE FORECAST	7
SECTION III	RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/ PUBLIC EXPENDITURE AND GDP IN THE MEDIUM RANGE FORECAST	10
SECTION IV	CONTINGENT AND MAJOR UNFUNDED LIABILITIES	12

SECTION I FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

1 The Medium Range Forecast (MRF) is a fiscal planning tool. It sets out the high-level forecast of government expenditure and revenue covering the five-year period including the budget year, i.e. from 2015-16 to 2019-20.

2 A wide range of assumptions underlying the factors affecting Government's revenue and expenditure are used to derive the MRF. Some assumptions are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activities (other assumptions).

General Economic Assumptions

Real Gross Domestic Product (real GDP)

3 GDP is forecast to increase by 1% to 3% in real terms in 2015. We have used the mid-point of this range forecast in deriving the MRF. For planning purposes, in the four-year period 2016 to 2019, the trend growth rate of the economy in real terms is assumed to be 3.5% per annum.

Price change

4 The GDP deflator, measuring overall price change in the economy, is forecast to increase by 1.5% in 2015. For the four-year period 2016 to 2019, the GDP deflator is assumed to increase at a trend rate of 1.5% per annum.

5 The Composite Consumer Price Index (CCPI), measuring inflation in the consumer domain, is forecast to increase by 3.5% in 2015. Netting out the effects of various one-off relief measures, the underlying CCPI is forecast to increase by 3% in 2015. For the ensuing period 2016 to 2019, the trend rate of increase for the underlying CCPI is assumed to be 3% per annum.

Nominal Gross Domestic Product (nominal GDP)

6 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 2.5% to 4.5% in 2015, and the trend growth rate in nominal terms for the period 2016 to 2019 is assumed to be 5% per annum.

Other Assumptions

- 7 Other assumptions on expenditure and revenue patterns over the forecast period are as follows –
- The operating expenditure for 2016-17 and beyond represents the expenditure guideline only, assuming operating expenditure would grow in line with nominal GDP.
 - The capital expenditure for 2015-16 and beyond reflects the estimated cash flow requirements for capital projects including approved capital works projects and those at an advanced stage of planning.
 - The revenue projections for 2016-17 and beyond basically reflect the relevant trend yields.

Budgetary Criteria

8 Article 107 of the Basic Law stipulates that “*The Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product.*”

9 Article 108 of the Basic Law stipulates that “*... The Hong Kong Special Administrative Region shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation.*”

10 For the purpose of preparing the MRF, the following criteria are also relevant –

Budget surplus/deficit

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

Expenditure policy

The general principle is that, over time, the growth rate of expenditure should not exceed the growth rate of the economy. The Government aims to keep public expenditure at or below 20% of GDP.

Revenue policy

The Government aims to maintain, over time, the real yield from revenue.

Fiscal reserves

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

SECTION II MEDIUM RANGE FORECAST

11 The financial position of the Government for the current MRF period (*Note (a)*) is summarised below –

Table 1

(\$ million)	2014-15 Revised Estimate	2015-16 Estimate	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast
Operating Account						
Operating revenue (<i>Note (b)</i>)	390,189	392,586	426,019	433,509	466,747	490,107
Less: Operating expenditure (<i>Note (c)</i>)	317,678	354,300	379,600	397,300	410,900	410,400
Operating surplus	72,511	38,286	46,419	36,209	55,847	79,707
Capital Account						
Capital revenue (<i>Note (d)</i>)	80,489	84,995	75,721	77,758	82,086	85,483
Less: Capital expenditure (<i>Note (e)</i>)	79,462	86,527	105,048	110,321	115,911	114,000
Capital surplus/(deficit)	1,027	(1,532)	(29,327)	(32,563)	(33,825)	(28,517)
Consolidated Account						
Government revenue	470,678	477,581	501,740	511,267	548,833	575,590
Less: Government expenditure	397,140	440,827	484,648	507,621	526,811	524,400
Consolidated surplus before repayment of bonds and notes	73,538	36,754	17,092	3,646	22,022	51,190
Less: Repayment of bonds and notes (<i>Note (f)</i>)	9,688	-	-	-	-	1,500
Consolidated surplus after repayment of bonds and notes	63,850	36,754	17,092	3,646	22,022	49,690
Fiscal reserves at 31 March	819,567	856,321	873,413	877,059	899,081	948,771
In terms of number of months of government expenditure	25	23	22	21	20	22
In terms of percentage of GDP	36.5%	36.8%	35.8%	34.2%	33.4%	33.6%
Being balance held in –						
General Revenue Account	473,774	496,831				
Funds with designated use	126,063	127,675				
Capital Works Reserve Fund	72,203	71,126				
Capital Investment Fund	1,499	1,636				
Civil Service Pension Reserve Fund	27,029	28,617				
Disaster Relief Fund	18	50				
Innovation and Technology Fund	971	2				
Loan Fund	2,626	2,860				
Lotteries Fund	21,717	23,384				
Land Fund	219,730	231,815				
	819,567	856,321				

Notes –

(a) *Accounting policies*

- (i) The MRF is prepared on a cash basis and reflects forecast receipts and payments, whether 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 takes into account the revenue measures proposed in the 2015-16 Budget, and is made up of –

(\$ million)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Revised Estimate	Estimate	Forecast	Forecast	Forecast	Forecast
Operating revenue before investment income	389,978	355,085	393,442	400,854	427,180	452,527
Investment income	211	37,501	32,577	32,655	39,567	37,580
Total	<u>390,189</u>	<u>392,586</u>	<u>426,019</u>	<u>433,509</u>	<u>466,747</u>	<u>490,107</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 is 5.5% for 2015 (vs 3.6% for 2014) and is assumed to be in the range of 4.3% to 5% a year for 2016 to 2019.
- (iii) The investment income for 2014-15 includes investment income from cash balances but excludes investment income placed with the Exchange Fund for 2014. The latter, which stood at \$22,748,856,000, along with the investment income under the Capital Account, has been set aside and retained within the Exchange Fund for the Housing Reserve (Note d(iv) is also relevant).

(c) *Operating expenditure*

- (i) This represents expenditure charged to the Operating Account of the General Revenue Account. The operating expenditure for 2016-17 to 2019-20 assumes a 5% growth per annum, in line with the latest GDP forecast in nominal terms. This would be the expenditure guideline for the purpose of containing Government's expenditure growth. The figures for 2016-17 and beyond do not represent the spending needs of departments; unless otherwise flagged up, they do not reflect the impact of population ageing, policy changes or service enhancements.
- (ii) 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.

(d) Capital revenue

(i) The breakdown of capital revenue is –

(\$ million)	2014-15 Revised Estimate	2015-16 Estimate	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast
General Revenue Account	1,873	2,903	642	627	1,697	1,693
Capital Investment Fund	1,517	1,044	1,079	1,046	1,068	1,072
Capital Works Reserve Fund	73,380	70,025	64,578	67,808	71,549	75,498
Disaster Relief Fund	2	-	-	-	-	-
Innovation and Technology Fund	40	8	-	-	-	-
Loan Fund	2,137	2,216	2,391	2,589	2,628	2,704
Lotteries Fund	1,384	1,384	1,445	1,509	1,576	1,647
Capital revenue before asset sales and investment income	80,333	77,580	70,135	73,579	78,518	82,614
Asset sales	153	216	223	223	223	223
Investment income	3	7,199	5,363	3,956	3,345	2,646
Total	80,489	84,995	75,721	77,758	82,086	85,483

(ii) Land premium included under the Capital Works Reserve Fund for 2015-16 is assumed to be \$70 billion. For 2016-17 onwards, it is assumed to be 2.7% 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.

(iv) The investment income for 2014-15 includes investment income from cash balances but excludes investment income placed with the Exchange Fund. The latter, which stood at \$4,738,564,000, along with the investment income under the Operating Account, has been set aside and retained within the Exchange Fund for the Housing Reserve (Note b(iii) above is also relevant).

(e) Capital expenditure

The breakdown of capital expenditure is –

(\$ million)	2014-15 Revised Estimate	2015-16 Estimate	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast
General Revenue Account	2,912	3,917	4,423	4,565	4,708	4,851
Capital Investment Fund	12	18	2,154	410	268	268
Capital Works Reserve Fund	71,264	75,373	89,288	97,010	103,980	103,818
Disaster Relief Fund	44	-	-	-	-	-
Innovation and Technology Fund	882	1,014	1,065	1,101	1,135	1,178
Loan Fund	3,508	5,286	4,946	4,150	3,387	2,706
Lotteries Fund	840	919	3,172	3,085	2,433	1,179
Total	79,462	86,527	105,048	110,321	115,911	114,000

(f) Repayment of bonds and notes

Repayment of bonds and notes is only in respect of the global bond issue in 2004. The outstanding principal of \$1,500 million would be fully repaid in 2019-20.

SECTION III RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE/PUBLIC EXPENDITURE AND GDP IN THE MEDIUM RANGE FORECAST

12 For monitoring purposes, expenditure of the Trading Funds and the Housing Authority (collectively referred to as “other public bodies” in this Appendix) 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)	2014-15	2015-16 Estimate	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast
	Revised Estimate					
Operating expenditure	317,678	354,300	379,600	397,300	410,900	410,400
Capital expenditure	79,462	86,527	105,048	110,321	115,911	114,000
Government expenditure	397,140	440,827	484,648	507,621	526,811	524,400
Other public bodies expenditure	28,864	33,336	37,328	40,693	45,073	47,193
Public expenditure (Note (a))	426,004	474,163	521,976	548,314	571,884	571,593
Gross Domestic Product (calendar year)	2,245,747	2,324,300	2,440,600	2,562,600	2,690,700	2,825,300
Nominal growth in GDP (Note (b))	5.3%	3.5%	5.0%	5.0%	5.0%	5.0%
Growth in government expenditure (Note (c))	-8.4%	11.0%	9.9%	4.7%	3.8%	-0.5%
Growth in public expenditure (Note (c))	-6.9%	11.3%	10.1%	5.0%	4.3%	-0.1%
Public expenditure in terms of percentage of GDP	19.0%	20.4%	21.4%	21.4%	21.3%	20.2%

Notes –

- (a) Public expenditure comprises government expenditure and expenditure by other public bodies. 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 2015-16, the nominal GDP growth of 3.5% represents the mid-point of the range forecast of 2.5% to 4.5% for the calendar year 2015.
- (c) The growth rates refer to year-on-year change. For example, the rates for 2014-15 refer to the change between revised estimate for 2014-15 and actual expenditure in 2013-14. The rates for 2015-16 refer to the change between the 2015-16 estimate and the 2014-15 revised estimate, and so forth.

13 Table 3 shows the relationship amongst the sum to be appropriated in the 2015-16 Budget, government expenditure and public expenditure.

**Relationship between Government Expenditure
and Public Expenditure in 2015-16**

Table 3

(\$ million)	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
Expenditure					
General Revenue Account					
Operating					
Recurrent	324,584	324,584	-	324,584	324,584
Non-recurrent	29,716	29,716	-	29,716	29,716
Capital					
Plant, equipment and works	2,288	-	2,288	2,288	2,288
Subventions	1,629	-	1,629	1,629	1,629
	358,217	354,300	3,917	358,217	358,217
Transfer to Funds	3,130	-	-	-	-
Capital Investment Fund	-	-	18	18	18
Capital Works Reserve Fund	-	-	75,373	75,373	75,373
Innovation and Technology Fund	-	-	1,014	1,014	1,014
Loan Fund	-	-	5,286	5,286	5,286
Lotteries Fund	-	-	919	919	919
Trading Funds	-	-	-	-	5,189
Housing Authority	-	-	-	-	28,147
	361,347	354,300	86,527	440,827	474,163
Revenue					
General Revenue Account					
Taxation		319,747	70	319,817	
Other revenue		60,754	2,833	63,587	
Land Fund		380,501	2,903	383,404	
		12,085	-	12,085	
		392,586	2,903	395,489	
Capital Investment Fund		-	1,155	1,155	
Capital Works Reserve Fund		-	74,296	74,296	
Civil Service Pension Reserve Fund		-	1,488	1,488	
Disaster Relief Fund		-	2	2	
Innovation and Technology Fund		-	45	45	
Loan Fund		-	2,520	2,520	
Lotteries Fund		-	2,586	2,586	
		392,586	84,995	477,581	
Surplus/(Deficit)		38,286	(1,532)	36,754	

SECTION IV CONTINGENT AND MAJOR UNFUNDED LIABILITIES

14 The Government's contingent liabilities as at 31 March 2014, 31 March 2015 and 31 March 2016, are provided below as supplementary information to the MRF –

(\$ million)	2014	At 31 March 2015	2016
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	31,397	31,902	34,332
Guarantees provided under the SME Financing Guarantee Scheme – Special Concessionary Measures	26,531	27,504	25,967
Legal claims, disputes and proceedings	6,364	7,713	7,804
Possible capital subscriptions to the Asian Development Bank	6,577	6,172	6,172
Guarantees provided under the SME Loan Guarantee Scheme	7,610	6,819	6,048
Guarantees provided under the Special Loan Guarantee Scheme	41,689	22,871	5,733
Guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation	-	2,048	2,002
Guarantees provided under a commercial loan of the Ocean Park Corporation	1,388	1,388	1,388
Total	121,556	106,417	89,446

15 The Government's major unfunded liabilities as at 31 March 2014 were as follows –

(\$ million)	
Present value of statutory pension obligations	747,157
Untaken leave (<i>Note (a)</i>)	25,838
Government bonds and notes issued in 2004 (<i>Note (b)</i>)	11,250

Notes –

(a) The estimate for “untaken leave” gives an indication of the overall value of leave earned but not yet taken by serving public officers.

(b) Based on US\$1 = HK\$7.8

16 The estimated outstanding commitments of capital works projects as at 31 March 2014 and 31 March 2015 are \$338,174 million and \$296,074 million respectively. Part of these are contractual commitments.

APPENDIX B

ANALYSIS OF EXPENDITURE AND REVENUE

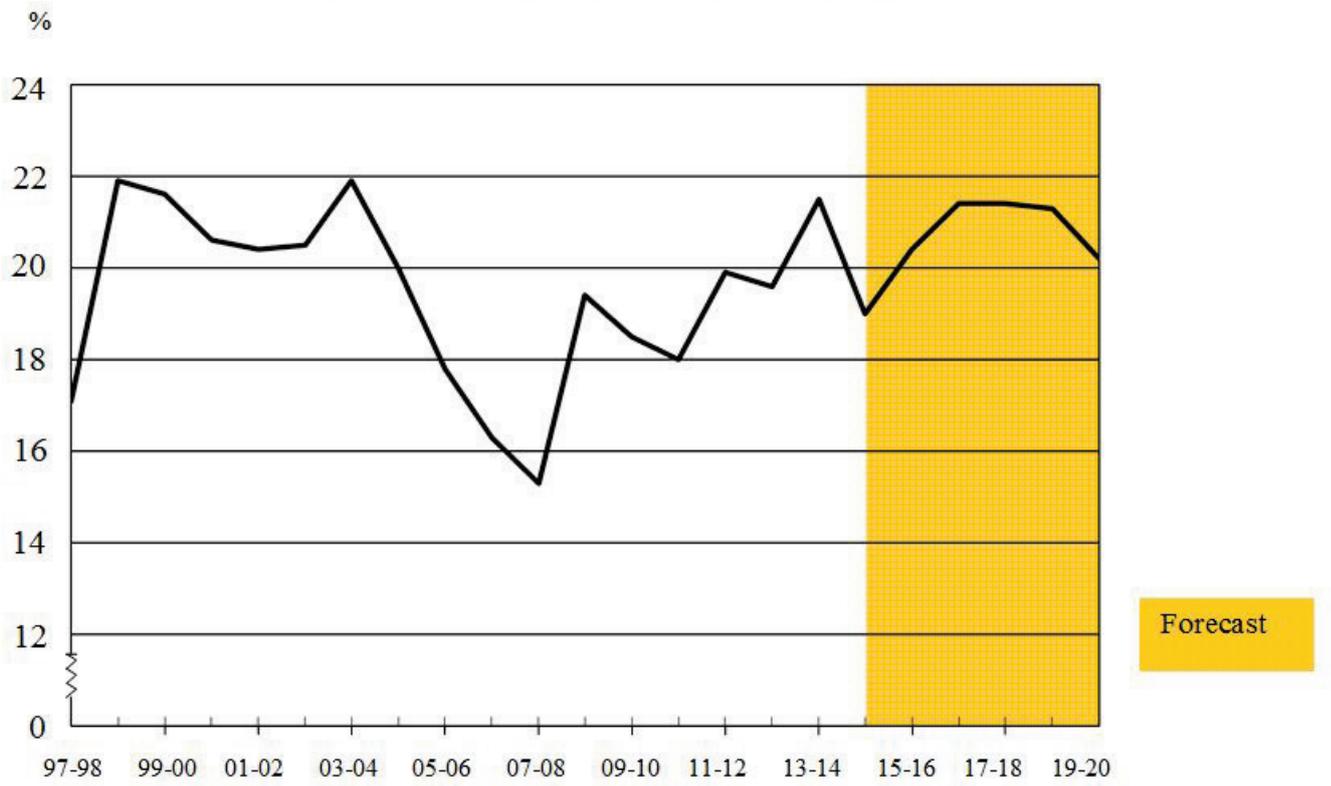
CONTENTS	Page
SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY	
Relationship between Government Expenditure, Public Expenditure and GDP	16
SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP	
Recurrent Public Expenditure : Year-on-Year Change	19
Recurrent Government Expenditure : Year-on-Year Change	20
Percentage Share of Expenditure by Policy Area Group	21
Recurrent Public Expenditure	
Recurrent Government Expenditure	
SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP	
Total Public Expenditure : Year-on-Year Change	22
Total Government Expenditure : Year-on-Year Change	23
Percentage Share of Expenditure by Policy Area Group	24
Total Public Expenditure	
Total Government Expenditure	
SECTION IV MAJOR CAPITAL PROJECTS PLANNED FOR COMMENCEMENT IN 2015-16	25
SECTION V TRENDS IN PUBLIC EXPENDITURE : 2010-11 TO 2015-16	27
SECTION VI ANALYSIS OF GOVERNMENT REVENUE	29
SECTION VII CLASSIFICATION OF POLICY AREA GROUP	30

SECTION I THE ESTIMATES IN THE CONTEXT OF THE ECONOMY

Relationship between Government Expenditure, Public Expenditure and GDP

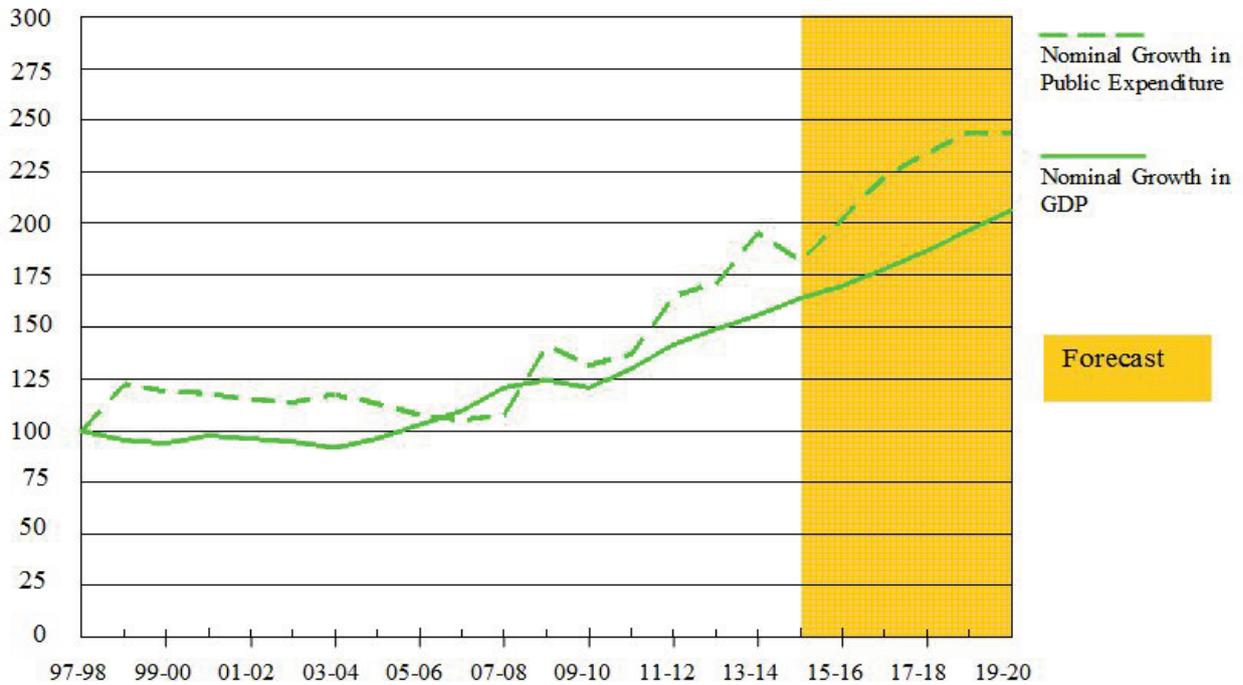
	2015-16 Estimate ₹m
General Revenue Account	
Operating	354,300
Capital	3,917
	<hr/> 358,217
Capital Investment Fund	18
Capital Works Reserve Fund	75,373
Innovation and Technology Fund	1,014
Loan Fund	5,286
Lotteries Fund	919
	<hr/> 440,827
Government Expenditure	440,827
Trading Funds	5,189
Housing Authority	28,147
	<hr/> 474,163
Public Expenditure	474,163
	<hr/>
GDP	2,324,300
Public Expenditure in terms of percentage of GDP	20.4%

Public Expenditure in terms of Percentage of GDP



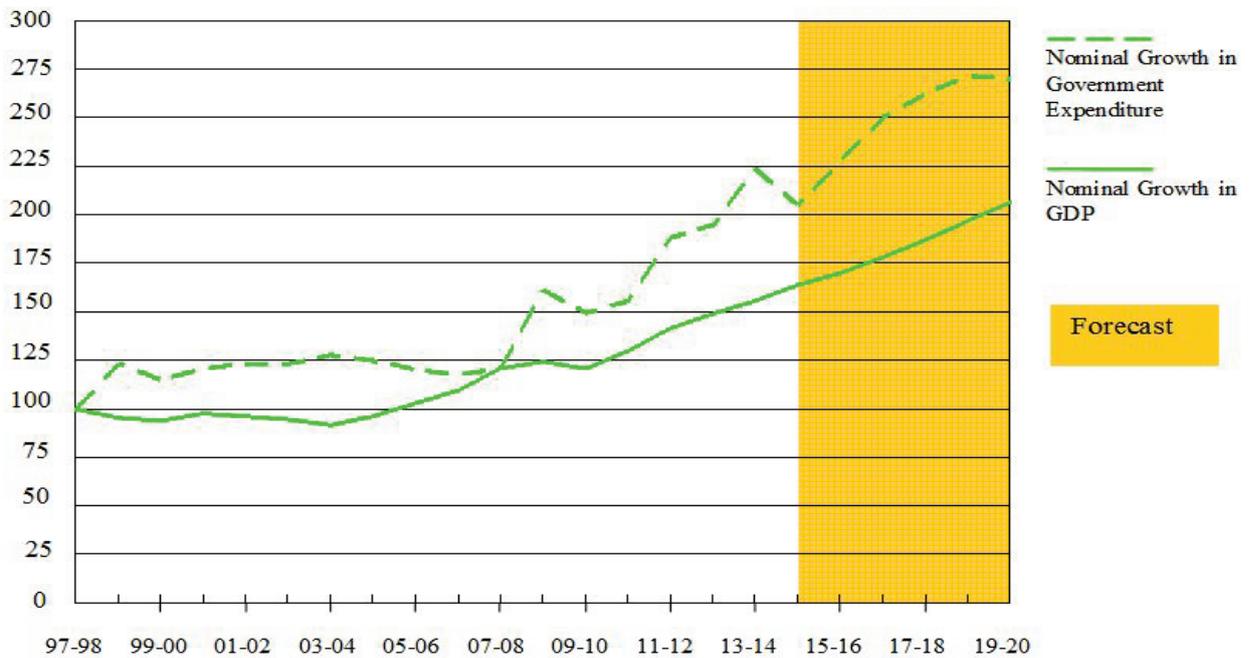
Comparison of Cumulative Growth in Public Expenditure
with Cumulative Growth in GDP
since 1997-98

Index
(97-98 = 100)



Comparison of Cumulative Growth in Government Expenditure
with Cumulative Growth in GDP
since 1997-98

Index
(97-98 = 100)



**SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE
BY POLICY AREA GROUP**

Recurrent Public Expenditure : Year-on-Year Change

	2013-14 Actual \$m	2014-15 Revised Estimate \$m	2015-16 Estimate \$m	Increase/Decrease over 2014-15 Revised Estimate	
				in Nominal Terms %	in Real Terms %
Education	63,458	68,157	71,380	4.7	4.3
Social Welfare	51,635	54,530	59,733	9.5	5.7
Health	49,890	54,083	54,502	0.8	0.4
Security	32,942	35,640	36,605	2.7	2.4
Infrastructure	17,997	19,027	19,781	4.0	1.6
Economic	14,097	14,797	15,160	2.5	1.3
Environment and Food	11,669	12,879	13,900	7.9	7.0
Housing	11,554	12,858	13,523	5.2	3.3
Community and External Affairs	9,740	10,571	11,207	6.0	5.1
Support	37,593	41,310	46,945	13.6	11.8
	<u>300,575</u>	<u>323,852</u>	<u>342,736</u>	5.8	4.4

Nominal GDP growth in 2015

2.5% to 4.5%

**SECTION II RECURRENT PUBLIC/GOVERNMENT EXPENDITURE
BY POLICY AREA GROUP**

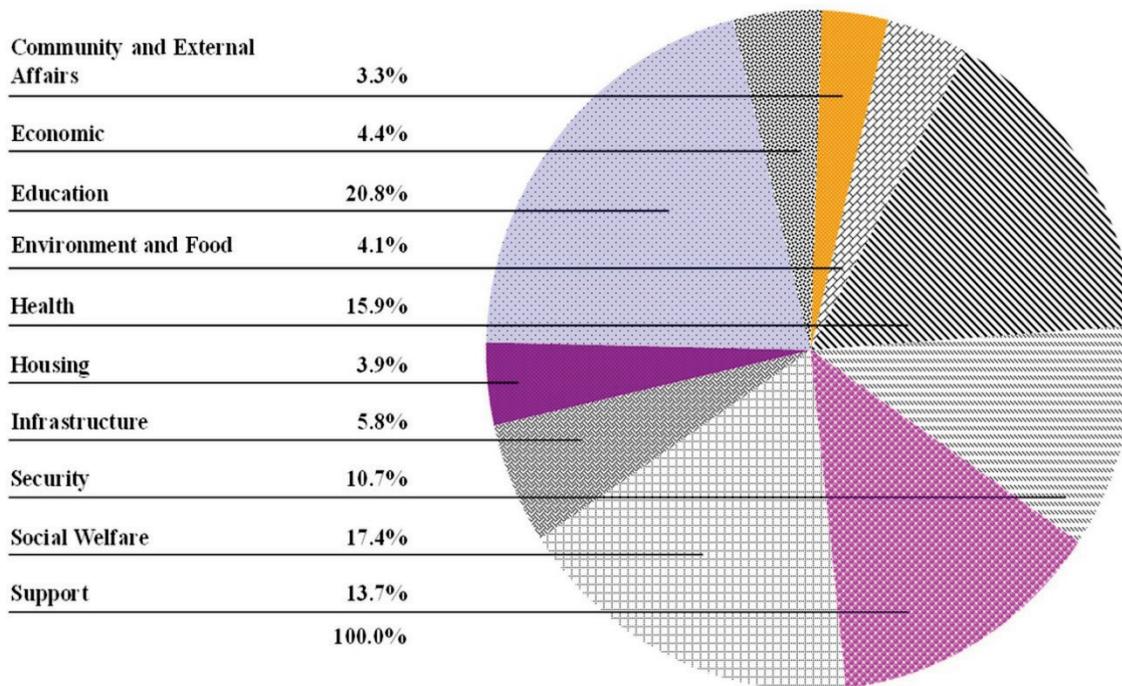
Recurrent Government Expenditure : Year-on-Year Change

	2013-14 Actual \$m	2014-15 Revised Estimate \$m	2015-16 Estimate \$m	Increase/Decrease over 2014-15 Revised Estimate	
				in Nominal Terms %	in Real Terms %
Education	63,458	68,157	71,380	4.7	4.3
Social Welfare	51,635	54,530	59,733	9.5	5.7
Health	49,890	54,083	54,502	0.8	0.4
Security	32,942	35,640	36,605	2.7	2.4
Infrastructure	17,844	18,826	19,588	4.0	1.7
Economic	9,334	9,985	10,363	3.8	3.1
Environment and Food	11,669	12,879	13,900	7.9	7.0
Housing	284	352	361	2.6	2.6
Community and External Affairs	9,740	10,571	11,207	6.0	5.1
Support	37,593	41,310	46,945	13.6	11.8
	<u>284,389</u>	<u>306,333</u>	<u>324,584</u>	6.0	4.6

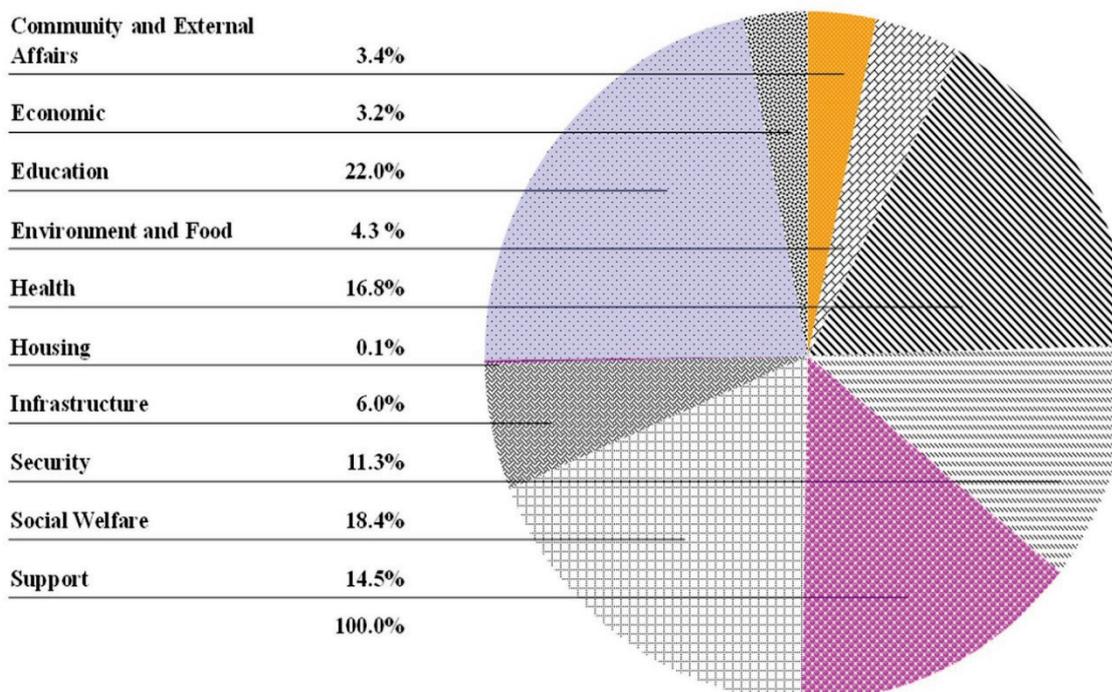
Nominal GDP growth in 2015

2.5% to 4.5%

**Percentage Share of Expenditure by Policy Area Group
 Recurrent Public Expenditure : 2015-16 Estimate**



**Percentage Share of Expenditure by Policy Area Group
 Recurrent Government Expenditure : 2015-16 Estimate**



**SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE
BY POLICY AREA GROUP**

Total Public Expenditure : Year-on-Year Change

	2013-14 Actual \$m	2014-15 Revised Estimate \$m	2015-16 Estimate \$m	Increase/Decrease over 2014-15 Revised Estimate in Nominal Terms %	in Real Terms %
Education	76,392	74,112	79,329	7.0	6.4
Social Welfare	55,352	58,300	67,655	16.0	12.3
Health	67,602	57,526	70,558	22.7	21.9
Security	35,293	38,928	41,628	6.9	6.2
Infrastructure	73,723	73,866	76,330	3.3	-1.5
Economic	37,298	20,837	21,975	5.5	4.1
Environment and Food	23,762	21,618	23,750	9.9	7.7
Housing	21,268	25,134	29,806	18.6	14.3
Community and External Affairs	27,718	12,609	13,710	8.7	7.0
Support	38,938	43,074	49,422	14.7	12.9
	<u>457,346</u>	<u>426,004</u>	<u>474,163</u>	11.3	9.0

Nominal GDP growth in 2015

2.5% to 4.5%

**SECTION III TOTAL PUBLIC/GOVERNMENT EXPENDITURE
BY POLICY AREA GROUP**

Total Government Expenditure : Year-on-Year Change

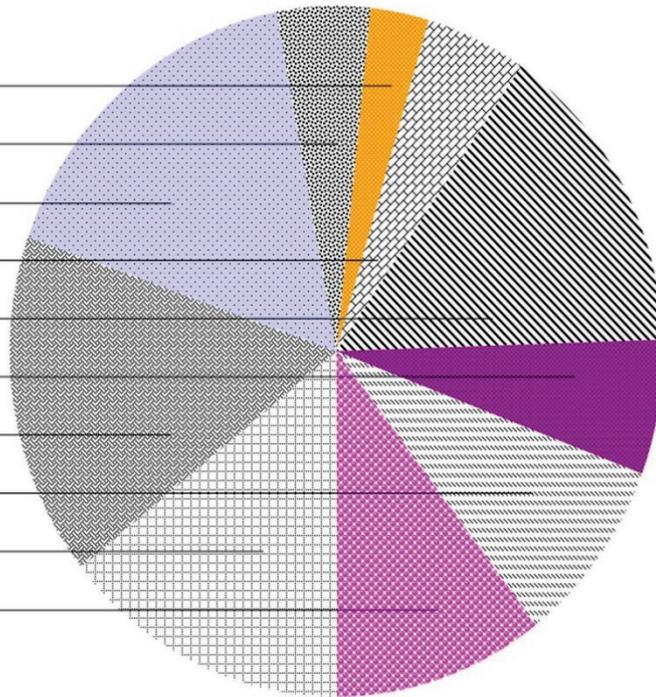
	2013-14 Actual \$m	2014-15 Revised Estimate \$m	2015-16 Estimate \$m	Increase/Decrease over 2014-15 Revised Estimate in Nominal Terms %	in Real Terms %
Education	76,392	74,112	79,329	7.0	6.4
Social Welfare	55,352	58,300	67,655	16.0	12.3
Health	67,602	57,526	70,558	22.7	21.9
Security	35,293	38,928	41,628	6.9	6.2
Infrastructure	73,564	73,654	76,126	3.4	-1.5
Economic	32,462	15,843	16,990	7.2	6.1
Environment and Food	23,762	21,618	23,750	9.9	7.7
Housing	2,460	1,476	1,659	12.4	11.8
Community and External Affairs	27,718	12,609	13,710	8.7	7.0
Support	38,938	43,074	49,422	14.7	12.9
	<u>433,543</u>	<u>397,140</u>	<u>440,827</u>	11.0	8.8

Nominal GDP growth in 2015

2.5% to 4.5%

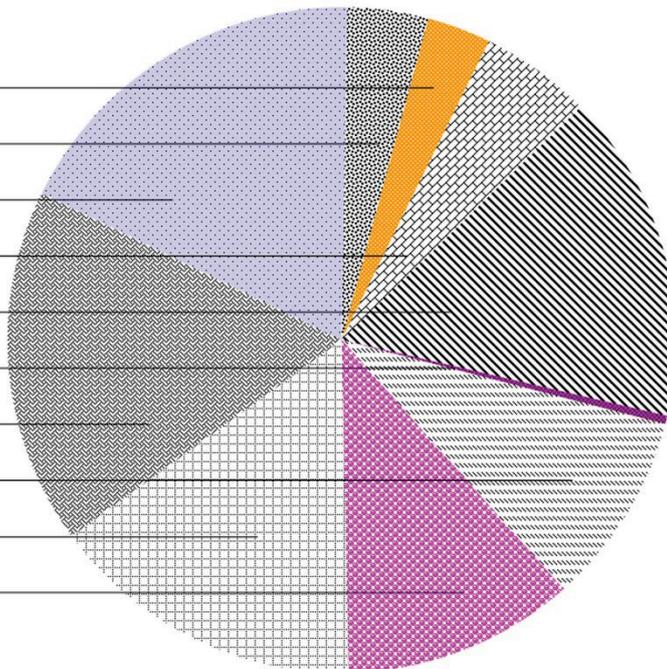
**Percentage Share of Expenditure by Policy Area Group
Total Public Expenditure : 2015-16 Estimate**

Community and External Affairs	2.9%
Economic	4.6%
Education	16.7%
Environment and Food	5.0%
Health	14.9%
Housing	6.3%
Infrastructure	16.1%
Security	8.8%
Social Welfare	14.3%
Support	10.4%
	100.0%



**Percentage Share of Expenditure by Policy Area Group
Total Government Expenditure : 2015-16 Estimate**

Community and External Affairs	3.1%
Economic	3.9%
Education	18.0%
Environment and Food	5.4%
Health	16.0%
Housing	0.4%
Infrastructure	17.3%
Security	9.4%
Social Welfare	15.3%
Support	11.2%
	100.0%



SECTION IV MAJOR CAPITAL PROJECTS PLANNED FOR COMMENCEMENT IN 2015-16

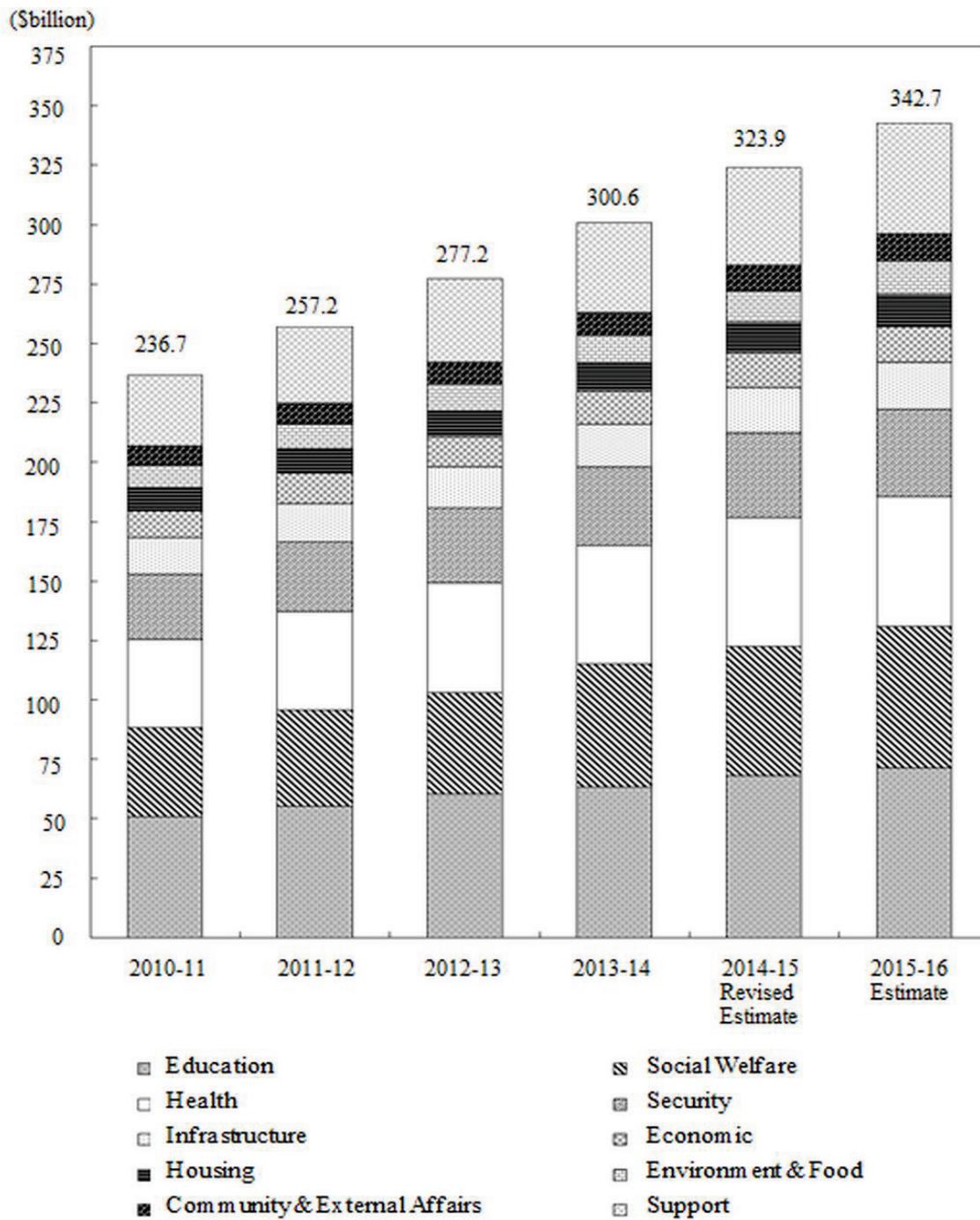
Major capital projects estimated to begin in 2015-16 include –

	Project Estimates \$ billion
Infrastructure	20.5
— Demolition of buildings, structures and chimneys at Kennedy Town Comprehensive Development Area	
— Dualling of Hiram's Highway between Clear Water Bay Road and Marina Cove and improvement to local access to Ho Chung	
— Formation, roads and drains in Area 54, Tuen Mun—phase 2 stages 3 & 4A works	
— Infrastructure works for West Kowloon Cultural District, phase 1—construction (package one)	
— In-situ reprovisioning of Sha Tin water treatment works (South Works)—advance works	
— Integrated basement for West Kowloon Cultural District—design, site investigation and advance works	
— Kai Tak development—infrastructure works for developments at the southern part of the former runway	
— Public transport interchange and associated works at Kiu Cheong Road East, Ping Shan	
— Reprovisioning of Harcourt Road fresh water pumping station	
— Retrofitting of noise barriers on Tuen Mun Road (Town Centre Section)	
— 3 projects under Revitalisation Scheme	
Security	15.3
— Construction of rank and file quarters for Customs and Excise Department at Yau Yue Wan Village Road, Tseung Kwan O	
— Kowloon East Regional Headquarters and Operational Base-cum-Ngau Tau Kok Divisional Police Station	
— Liantang/Heung Yuen Wai Boundary Control Point and associated works—construction of boundary control point buildings and associated facilities	
— Redevelopment of Kwun Tong staff quarters at 4 Tseung Kwan O Road, Kowloon	
— Relocation of supporting operational facilities of Tsim Sha Tsui Fire Station Complex	
Environment and Food	11
— Development of waste electrical and electronic equipment treatment and recycling facility	
— Provision of a columbarium and garden of remembrance at Tsang Tsui, Tuen Mun	
— Reprovisioning of Food and Environmental Hygiene Department Sai Yee Street Environmental Hygiene Offices-cum-vehicle depot at Yen Ming Road, West Kowloon Reclamation Area	
— Shek Wu Hui sewage treatment works—further expansion phase 1A—advance works, consultants' fees and investigation	
— Southeast New Territories landfill extension	
— Tuen Mun sewerage—Castle Peak Road trunk sewer and Tuen Mun village sewerage	
— Upgrading of San Wai sewage treatment works—phase 1	
Community and External Affairs	8.5
— Construction of the East Kowloon Cultural Centre	
— Cycle tracks connecting North West New Territories with North East New Territories—Tuen Mun to Sheung Shui section (Remaining)	
— Expansion and renovation of the Hong Kong Museum of Art	
— Government Complex in Area 14 (Siu Lun), Tuen Mun	
— Sports centre in Area 24D, Sha Tin	
— 14 projects under Signature Project Scheme	

	Project Estimates \$ billion
Support	8.2
— Construction of West Kowloon Government Offices	
— Relocation of New Territories West Regional Office and Water Resources Education Centre of Water Supplies Department to Tin Shui Wai	
Health	3.2
— Expansion of the blood transfusion service headquarters	
— Expansion of United Christian Hospital—main works (demolition and substructure works)	
— Refurbishment of Hong Kong Buddhist Hospital	
Education	0.7
— Two 24-classroom primary schools at ex-Tanner Road Police Married Quarters site at Pak Fuk Road, North Point, Hong Kong	

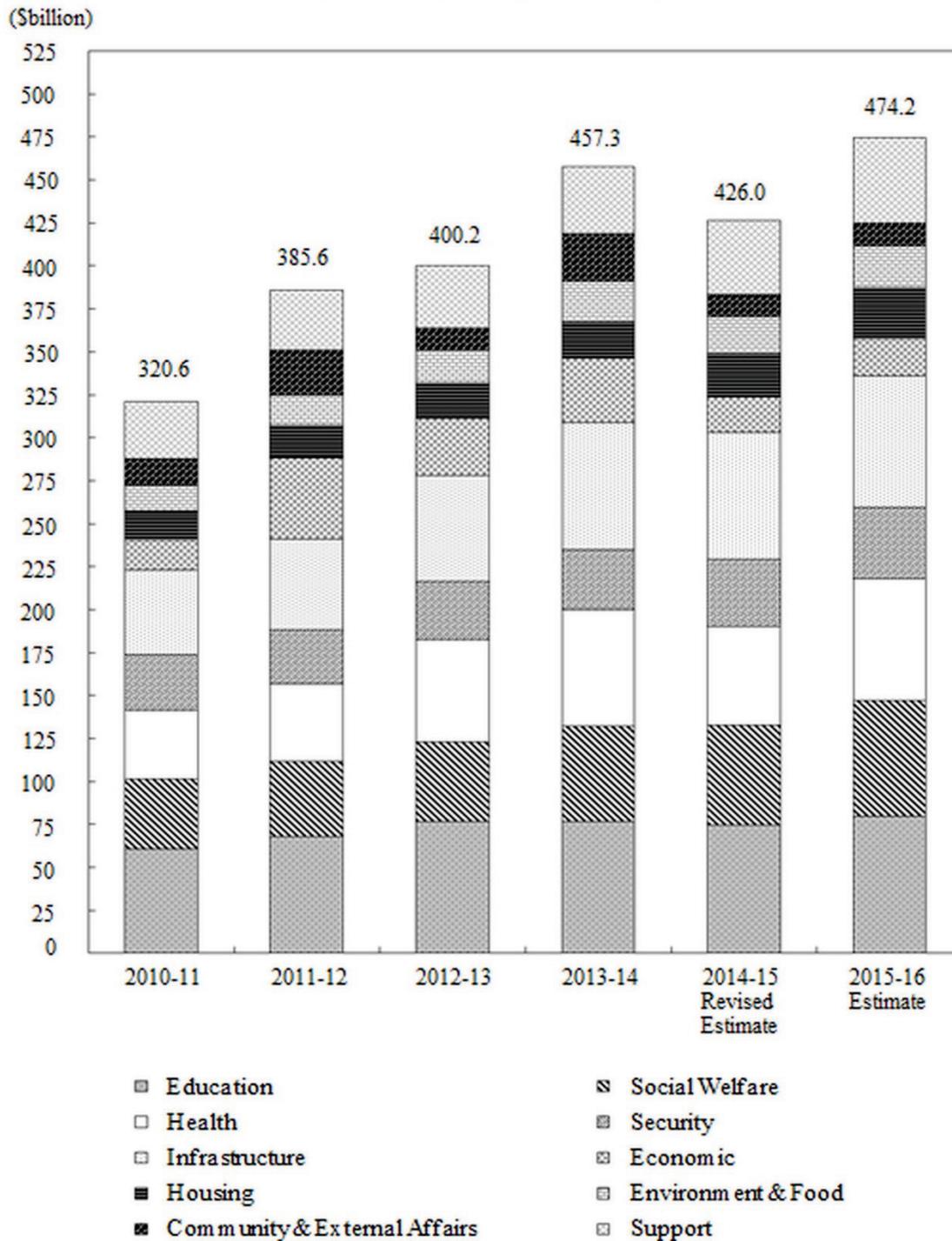
SECTION V TRENDS IN PUBLIC EXPENDITURE : 2010-11 TO 2015-16

Recurrent Public Expenditure by Policy Area Group 2010-11 to 2015-16



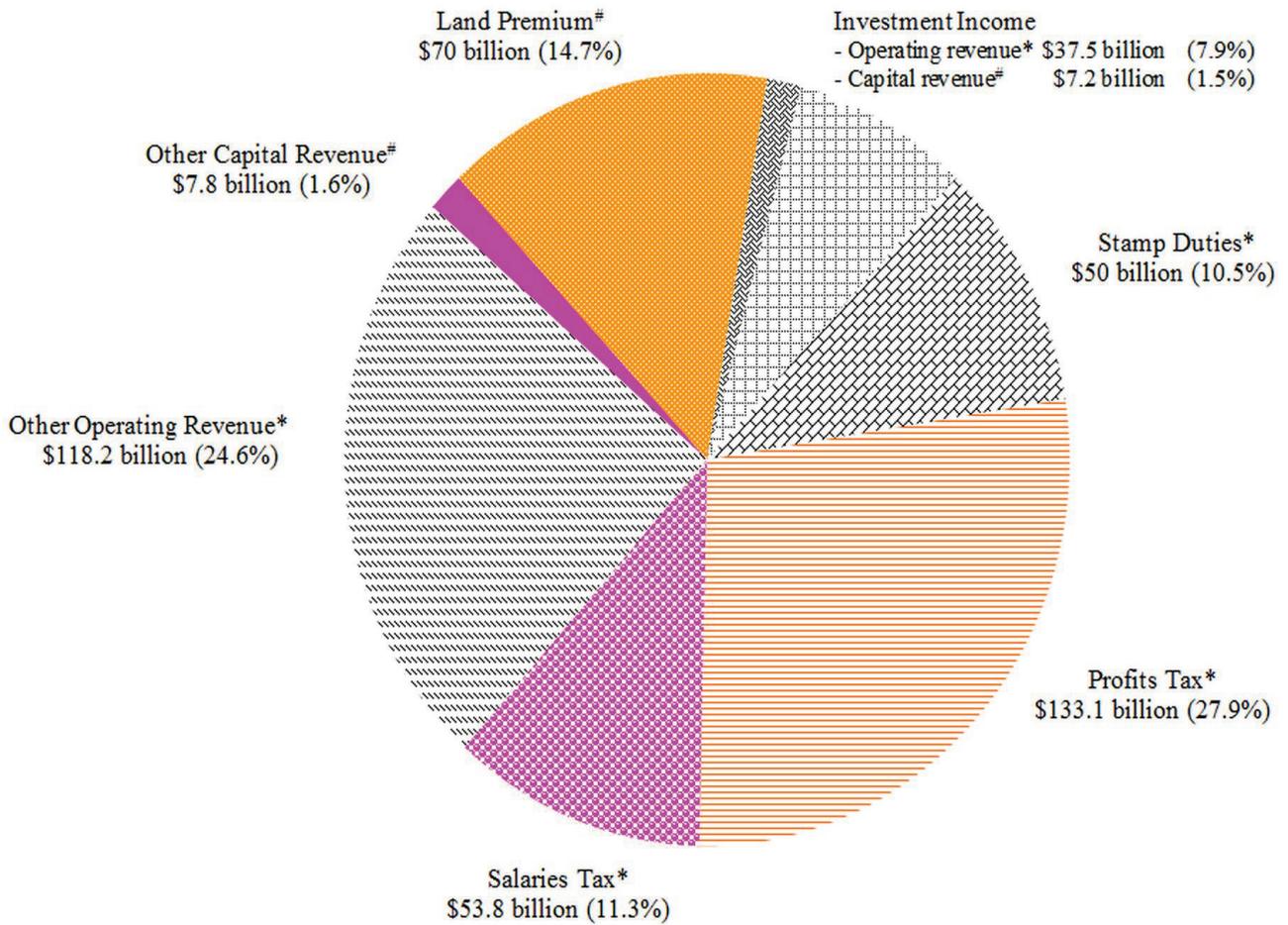
SECTION V TRENDS IN PUBLIC EXPENDITURE : 2010-11 TO 2015-16

Total Public Expenditure by Policy Area Group 2010-11 to 2015-16



SECTION VI ANALYSIS OF GOVERNMENT REVENUE

2015-16 Estimate (\$477.6 billion)



* Operating Revenue \$392.6 billion (82.2%)

Capital Revenue \$85.0 billion (17.8%)

SECTION VII CLASSIFICATION OF 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 2015-16 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.