US for IT tests positive for COVID-19

Following two drivers in the Innovation and Technology Bureau (ITB) testing preliminary positive for COVID-19, staff in the Principal Official's Office in the ITB underwent swab sampling for COVID-19 testing yesterday (February 22). One preliminary positive case was identified, involving the Under Secretary for Innovation and Technology, Dr David Chung.

He works at 20/F, West Wing, Central Government Offices, Tamar. He last went to work on February 18. He wore face masks and followed relevant disease prevention measures at work. He has no recent travel history. The ITB has conducted thorough cleaning and disinfection at the relevant offices, and arranged for relevant staff members to undergo COVID-19 tests.

The test results for both rapid testing and PCR testing for the Secretary for Innovation and Technology, Mr Alfred Sit, are negative. After consulting the Department of Health and for the sake of prudence, Mr Sit will work from home for seven days until February 26, counting from the last day he had contact with the positive case.

The ITB will continue to implement disease prevention measures vigorously, and has reminded all staff members to pay attention to personal hygiene and stay vigilant at all times. They should seek medical advice if they feel unwell.

Budget Speech by the Financial Secretary (11)

Revised Estimates for 2021-22

189. The 2021-22 revised estimates on government revenue is $682.7 billion, higher than the original estimate by 15.5 per cent or $91.8 billion. This is mainly because revenues from land premium and profits tax are higher than the estimates by $43.5 billion and $32.4 billion respectively.

190. As for government expenditure, the revised estimate is $699 billion, four per cent (or $28.8 billion) lower than the original estimate. This is mainly because the operating expenditure is $18.8 billion lower than the estimate.

191. All in all, I forecast a surplus of $18.9 billion for 2021-22. Fiscal reserves are expected to be $946.7 billion by 31 March 2022.

192. The civil service establishment recorded zero growth in this financial

year. Departments have enhanced effectiveness and efficiency through prioritisation, internal redeployment and streamlining of work processes, so that the workload can be handled even without increase in the civil service establishment.

Estimates for 2022-23

193. The major policy initiatives announced in the 2021 Policy Address involve an operating expenditure of about $10.4 billion and a capital expenditure of $4.7 billion. I will ensure that adequate resources are provided to fully support the launch of these initiatives.

194. Total government revenue for 2022â€‘23 is estimated to be $715.9 billion. Earnings and profits tax is estimated to be $251.1 billion, increasing by 3.3 per cent over the revised estimate for 2021-22. Having regard to the Land Sale Programme and the land supply target of 2022-23, revenue from land premium is estimated to be $120 billion, decreasing by 15 per cent compared with the revised estimate for 2021-22. Revenue from stamp duties is estimated to be $113 billion, increasing by 11.9 per cent over the revised estimate for 2021-22.

195. Total government expenditure for 2021-22 decreased by 14.4 per cent, with its share in nominal GDP projected to drop from the peak of 30 per cent in 2020-21 to 24.4 per cent. Total government expenditure for 2022-23 will increase by 15.5 per cent to $807.3 billion. Public expenditure will continue to account for about 24.9 per cent of GDP on average during the five-year period up to 2026-27 in the MRF.

196. The recurrent expenditure of the currentâ€‘term Government increased from $361.8 billion in 2017-18 to $467.1 billion in 2020â€‘21, representing an increase of nearly 30 per cent. Of this, expenditure on education, social welfare and healthcare, which are the three policy areas closely related to people’s livelihood, accounts for about 58 per cent. In 2022-23, the estimated recurrent expenditure on education, social welfare and healthcare accounts for 60 per cent or $341.6 billion. Among these, the expenditure on healthcare has recorded the largest increase, representing more than double of that in 2017-18.

197. The Government’s target of zero growth in the civil service establishment will remain unchanged in 2022-23, with the aim of ensuring the sustainability of public finances. It is expected that as at the end of March 2023, there will be about 197 000 posts in the civil service establishment.

Medium Range Forecast

198. The MRF projects, mainly from a macro perspective, the revenue and expenditure as well as financial position of the Government. From 2023-24 to 2026-27, a real economic growth rate of three per cent per annum is adopted for the MRF.

199. During the above period, the average annual capital works expenditure

will exceed $100 billion. While the recurrent government expenditure is expected to drop by 1.8 per cent in 2023-24, it will subsequently grow at a rate between 4.1 per cent and 4.6 per cent per annum.

200. Regarding revenue from land premium, the forecast for 2023-24 continues to be based on the average proportion of revenue from land premium to GDP over the past 15 years, which is 3.8 per cent of GDP. I also assume that the growth rate of revenue from profits tax and other taxes will correspond to the economic growth rate in the next few years.

201. In addition, the MRF reflects the bringing back of the investment return of the Future Fund and the proceeds of the Government Green Bond Programme.

202. Based on the above assumptions and arrangements, I forecast a deficit in the Operating Account in 2022-23, which will turn into a surplus in 2023-24. There will be a surplus in the Capital Account in each of the five years during the MRF period. Except for the estimated deficit in the Operating Account in 2022â€‘23 which is mainly attributed to the one-off relief measures and anti-epidemic expenditure announced in this Budget, there will be a surplus in the subsequent four years. The above forecast has not taken into account any tax rebate or relief measure that the Government may implement over the coming four years.

203. Fiscal reserves are estimated at $1.065 trillion by the end of March 2027, representing 28.9 per cent of GDP, or equivalent to 16 months of government expenditure.

Concluding Remarks

204. Mr President, Hong Kong is currently experiencing its hardest time in the fight against the epidemic, and we are facing enormous challenges. Yet, we do have great strength and staunch support to ride out the storm. As long as we are united in taking decisive action with firm determination and unwavering confidence, we can surely win the battle against the epidemic and our difficulties will eventually go away.

205. After containing the epidemic, our next task will be to propel economic revival and accelerate medium-to-long-term development. To this end, we must stand high and stand firm to see clearly the big picture, better understand the long-term development trends, have a good grasp of the economic patterns, concentrate on the focal points and map out long-term plans, while remaining steadfast against fluctuations in the short-term. Meanwhile, in the face of the profound changes worldwide unseen in a century and the complex external environment, we must plan ahead and get well-prepared to guard against risks, so as to consolidate our development path and achievements.

206. Since Reunification, Hong Kong has weathered many storms with its economic and financial conditions remaining largely stable. Yet, amid the adversities, many issues have emerged, such as the imbalance in economic development, inadequate opportunities for young people to give full play to their strengths as well as the distribution of economic gains, which have scope for improvement. Such issues need to be resolved step by step in the

future. However, all these issues, which have implications for our social harmony and stability in the long run, cannot be resolved at one stroke and have to be dealt with through the concerted efforts of our whole community.

207. While every fascinating story is full of twists and turns, every success is spurred by the strength gained from overcoming setbacks. If there is one common factor, it may be that those who are striving to overcome setbacks and achieve success are all guided by firm determination and faith that they will be able to navigate through troubled waters. We deeply believe that Hong Kong can steer towards becoming a more equitable, just, caring and inclusive society.

208. This year marks the 25th anniversary of Hong Kong's return to the Motherland, a landmark occasion that can usher in the start of a new chapter in Hong Kong's development. The implementation of the National Security Law and improvements to the electoral system have brought Hong Kong back on a track focusing on development. We are on course to embark on a new phase of good governance, which we all look forward to. Our country has always provided the strongest backing for Hong Kong. During the ups and downs of our development, our Motherland has always given us staunch support, enabling us to write the next line in Hong Kong's success story.

209. In the great rejuvenation of the Chinese nation, Hong Kong has a unique and irreplaceable role to play. On the back of our country's sustained and steady development, Hong Kong has a bright and promising future under "One Country, Two Systems". We share the same dream with our country. Together and united, we can build a better home with courage, wisdom, confidence and action.

210. Thank you.

Budget Speech by the Financial Secretary (10)

Public Finance

Financial Position of the Currentâ€‘term Government: Retrospect and Prospect

176. The current-term Government has all along been adhering to the principles of exercising fiscal prudence, keeping expenditure within the limits of revenue and committing resources as and when justified and needed in public finance management. We have also strived to enhance the transparency of public finance. Thanks to years of economic development and the hard work of our people, the fiscal reserves stood at about $950 billion when this term of the Government took office, and subsequently reached a record high of $1.17 trillion in 2018-19. The ample fiscal reserves have

enabled the Government to allocate additional resources in a prompt and decisive manner to defuse crises over the past two years, including setting up the AEF with an injection of about $200 billion in total and implementing counter-cyclical measures on a massive scale to relieve people’s hardship and stabilise the economy. Though consolidated deficits were recorded from 2019-20 to 2020-21 as a result, the positive impact of the above initiatives, along with our solid foundation built on the principle of “One Country, Two Systems”, have turned the consolidated deficit projected in the Original Estimates into a consolidated surplus projected in the Revised Estimates for this financial year. Our fiscal reserves are estimated to stand at about $940 billion at the end of the current-term of the Government, and will gradually rebound to over $1 trillion (equivalent to 16 months of government expenditure) during the fiveâ€‘year period in the Medium Range Forecast (MRF).

177. On enhancing the transparency of public finance, I have brought back the Housing Reserve to the fiscal reserves since 2019-20 and also announced last year that the investment return of the Future Fund would be progressively reflected in the Operating Account. These measures will allow one to have a full grasp of the Government’s fiscal strength and help maintain our financial stability.

Striving to Maintain Healthy Public Finances

178. To address social aspirations and strive for service enhancement, the current-term Government has significantly increased the recurrent expenditure on social welfare, healthcare and education. Based on the Revised Estimates for the current financial year, the overall cumulative increase in the recurrent expenditure in these three areas will exceed 40 per cent, or close to $85 billion in dollar terms. In view of the very substantial increase in the recurrent expenditure from $361.8 billion in 2017â€‘18 to over $510 billion in the Original Estimates for this year, I emphasised last year that government expenditure should enter a consolidation period. I also announced an expenditure reduction programme, under which government departments were required to cut recurrent expenditure by one per cent without affecting livelihood-related spending. Given the lasting effect of the recurrent expenditure reduction, we will not roll out any further expenditure reduction programme this year, otherwise the cumulative impact may disrupt departmental operations and in turn affect the delivery of public services. We will, however, continue to examine carefully any new initiatives that will incur recurrent expenditure and strictly control the growth of the civil service, so as to ensure that our long-term financial commitments are commensurate with the increase in our revenue.

179. The current-term Government actively promotes the Government Green Bond Programme. Given that green bonds are issued to finance certified green projects and our commitment not to use the proceeds for meeting operating expenditure, they are widely accepted by investors. The issuance of green bonds will not undermine our fiscal discipline, but can relieve the Government’s fiscal pressure arising from the need to meet capital expenditure with existing resources, and hence further reinforce the confidence in our public finances.

Increasing Revenue

180. Hong Kong is an open economy with a relatively narrow tax base. Our revenue is susceptible to changes in the economic environment. To maintain healthy public finances, we follow the principle of keeping expenditure within the limits of revenue to ensure that the growth of expenditure is commensurate with economic growth. We also need to maintain the development and vibrancy of Hong Kong's economy and identify new areas of growth, with a view to increasing revenue.

181. Our simple and low tax regime, one of the cornerstones of our success in maintaining Hong Kong's competitiveness, is of utmost importance in bolstering our competitive edge. It is also closely related to our economy and people's livelihood. On the other hand, owing to the implementation of various policy objectives, enhancement of services and increase in investment in various areas of the community pursued by the current-term of Government, public expenditure will remain at a relatively higher level. Our anti-epidemic efforts and the relief measures implemented in the past two years have also incurred additional expenditure. Given that government revenue should be commensurate with its expenditure, we need to implement measures to increase revenue without affecting people's livelihood, so that we can broaden our revenue sources while maintaining our policy of low tax rate in Hong Kong.

182. In last year's Budget, I proposed to raise the rate of Stamp Duty on Stock Transfers as a measure to help increase government revenue in the short run. However, with the outbreak of the fifth wave of the epidemic, businesses and individuals are generally under considerable financial pressure. Having regard to the current economic situation, I believe that this is still not the appropriate time to revise the rates of profits tax and salaries tax, which are our major sources of revenue. We anticipate that a deficit will still be recorded in 2022-23. In the medium term, with the implementation in 2023 of the international tax reform proposals drawn up by the Organisation for Economic Co-operation and Development (OECD), the introduction of a global minimum tax rate may help increase revenue from profits tax. I also propose to introduce a progressive rating system for domestic properties to reflect the "affordable users pay" principle. I will elaborate on these two measures in the latter part of the Budget.

183. Taking into account these new revenue streams, we expect that the Government will start to achieve fiscal balance beginning from 2023-24.

184. In the long run, there will still be challenges in alleviating the pressure on public expenditure in the face of an ageing population. The Government will continue to explore different ways to broaden revenue sources, and will initiate in-depth discussions in due course to forge a consensus on how to sustain healthy public finances to meet the development needs of our economy and society.

Rating System

185. Revenue from rates accounts for about three to four per cent of total

government revenue. Last year, I announced in my Budget a review of the rating system. Upon review, I propose to revise the rating system as follows:

(a) granting rates concession in a more targeted manner: The Government will continue to consider on an annual basis whether to provide rates concession in the light of the prevailing circumstances, to allow flexibility for the measure. In addition, in view of public concern over the multiple rates concession received by owners with multiple domestic properties under the current rates concession mechanism, we propose that for future rates concession for domestic properties, only those eligible owners who are natural persons can apply for rates concession for one domestic property under their name. Taking the rates concession ceiling of 2022-23 as a reference, the new arrangement can save around $3.1 billion for the Government when a oneâ€‘off rates concession is implemented in the future; and
(b) introducing a progressive rating system for domestic properties: For domestic properties with rateable value of $550,000 or below, it is proposed that rates be charged at the present level of five per cent of the rateable value. For domestic properties with rateable value over $550,000, it is proposed that rates be charged at five per cent of the rateable value on the first $550,000 and at eight per cent of the rateable value on the next $250,000, and then at 12 per cent on rateable value exceeding $800,000. This can better reflect the “affordable users pay” principle. It is expected that about 42 000 domestic properties will be affected, accounting for around two per cent of the total number of private domestic properties, with an increase of about $760 million in government revenue each year.

186. The above revisions to the rating system will involve significant modifications of the IT system of the Rating and Valuation Department. The Government will implement the above revision proposals in phases. The proposal regarding rates concession for domestic properties will be rolled out in the first phase in 2023-24, whereas the proposed progressive rating system for domestic properties will be introduced in the second phase in 2024-25. The Government will in due course consult the LegCo Panel on Financial Affairs on the outcome of the rating system review, the details and the implementation timetable of the proposals.

New International Tax Standards

187. Last year, Hong Kong, together with more than 130 jurisdictions across the globe, pledged to implement the international tax reform proposals drawn up by the OECD to address base erosion and profit shifting (abbreviated as BEPS 2.0). As the global minimum effective tax rate under BEPS 2.0 only targets large multinational enterprise (MNE) groups with global turnover of at least 750 million euros, it will not affect local SMEs. The Government has been exchanging views with the affected MNEs on matters relating to the implementation of BEPS 2.0, and reaffirmed that we would preserve the advantages of Hong Kong’s tax regime in terms of its simplicity, certainty and transparency, maintain our the territorial source principle of taxation as well as minimise the compliance burden on MNEs when implementing BEPS 2.0. The Government will maintain communication with relevant MNEs to enable

them to familiarise with the new tax rules as soon as possible.

188. We plan to submit a legislative proposal to the LegCo in the second half of this year to implement the global minimum tax rate and other relevant requirements in accordance with the international consensus. At the same time, we will consider introducing a domestic minimum top-up tax with regard to the aforesaid MNEs starting from the year of assessment 2024-25 to ensure that their effective tax rates reach the global minimum effective tax rate of 15 per cent so as to safeguard Hong Kong's taxing rights. Based on our rough estimates, the domestic minimum topâ€‘up tax will involve an amount of about HK$15 billion per year.

(To be continued.)

Budget Speech by the Financial Secretary (9)

Quality Living

162. In order that Hong Kong people and tourists can enjoy the diverse cultural heritage, the beauty of the harbourfront and the enhanced cultural, sports and recreational facilities in Hong Kong, we will take forward our work in the following areas.

Enhance Harbourfront

163. The current-term Government has allocated $6.5 billion for developing new harbourfront promenades and open space as well as improving harbourfront facilities. In 2021, a total of 13 new harbourfront sites, including the harbour steps at Wan Chai harbourfront, were opened, providing the public with more well-connected open space in close proximity to the Victoria Harbour and giving them a variety of water-friendly experience. In the coming year, we will continue to adopt the incremental approach in taking forward our plans to open the Hoi Sham Park Extension in Kowloon City and the first section of the promenade under private development in the Kai Tak former runway area. This will extend the Victoria Harbour promenade by one kilometre to a total length of 26 kilometres.

Sports Development

164. The Government has been proactively promoting sports development with new resources allocation of more than $60 billion since 2017 for promoting sports in the community, supporting elite sports and maintaining Hong Kong's status as a centre for major international sports events, as well as for providing more sports and recreational facilities. These efforts encourage collaboration among different sectors of the community in fostering a strong

sports culture. In 2019, the Government injected $6 billion into the Elite Athletes Development Fund to subsidise the provision of comprehensive support to athletes through the Hong Kong Sports Institute. We also injected $250 million into the Hong Kong Athletes Fund in 2020 to encourage more athletes to commit to full-time training as well as dual-track development in sports training and academic studies. I am delighted to see that Hong Kong athletes achieved outstanding and encouraging results in international sports events last year, and I hope more young people in Hong Kong will pursue a career in sports, develop their potential and bring glory to Hong Kong.

165. Besides, we are pressing ahead with the Kai Tak Sports Park project, which is scheduled for completion by the end of next year. We are also actively implementing the $20 billion Fiveâ€‘year Plan for Sports and Recreational Facilities, and taking forward the construction and upgrading of community sports and recreational facilities. Meanwhile, we are progressively carrying out the fiveâ€‘year plan to transform the public play spaces managed by the LCSD.

Cultural Facilities

166. As announced in the 2018-19 Budget, the Government would set aside $20 billion for the improvement and development of cultural facilities in the following 10 years. We plan to seek funding approval this year for taking forward the main works of a cultural centre in Fanling, the construction of Yau Ma Tei Theatre Phase 2 as well as the main works of the Leisure and Cultural Complex at Tin Yip Road, Tin Shui Wai project Phase 1.

Community Arts Scheme

167. Popularisation of arts can enrich people’s quality of life. Starting from the 2024-25 financial year, I will allocate $20 million per year for regularising the LCSD’s Community Arts Scheme, with the aim of providing more opportunities for members of the public to take part in arts and cultural activities, thereby promoting the integration of arts into our community.

Heritage Conservation

168. Over the past decade or so, we have allocated a total of $2.4 billion for the Revitalising Historic Buildings through Partnership Scheme, under which 19 historic building conservation projects have been launched so far. Through the Financial Assistance for Maintenance Scheme on Built Heritage, we have also assisted private owners in carrying out proper maintenance works for 71 historic buildings. Moreover, we are committed to enhancing public awareness of conservation of historic buildings and supporting relevant academic research.

169. The Built Heritage Conservation Fund has subsidised many successful revitalisation projects, such as Tai O Heritage Hotel, Lui Seng Chun and Jao Tsung-I Academy since its establishment. These revitalisation projects have become local highlights, attracting many people to visit during leisure time. They also enhance Hong Kong’s appeal as a tourist destination, and many of them have won international awards for heritage conservation. I

propose to earmark an additional funding of $1 billion for the Fund, with a view to further promoting the conservation of heritage and historic buildings.

Caring and Inclusion

170. We will continue to strengthen community and residential care services as well as social work services to support the elderly, persons with disabilities and children, involving an additional annual expenditure of over $1.9 billion.

171. On residential care services, we will regularise three pilot schemes, namely the Pilot Scheme on Multi-disciplinary Outreaching Support Teams for the Elderly, the Pilot Scheme on Residential Care Service Voucher for the Elderly and the Pilot Scheme on Professional Outreaching Teams for Private Residential Care Homes for Persons with Disabilities. We will also allocate additional resources to upgrade the standard of EA2 homes under the Enhanced Bought Place Scheme.

172. On community care services, we will regularise the Pilot Scheme on Home Care and Support for Elderly Persons with Mild Impairment and the speech therapy service of the Enhanced Home and Community Care Services, so as to help the elderly in need age in place.

173. On the provision of additional welfare facilities, we will set up seven contract residential care homes in the Multiâ€‘welfare Services Complex, which is near completion, at Kwu Tung North NDA, as well as a new contract residential care home under the development project at Queen’s Hill in Fanling. In addition, a neighbourhood elderly centre, a special child care centre and an early education and training centre will also be set up in Area 54, Tuen Mun to provide community support and training services for the elderly, carers of elderly persons and children with special needs in the area.

174. We will also regularise the Pilot Scheme on Social Work Service for Pre-primary Institutions to facilitate early identification of and provision of assistance to preâ€‘primary children and their families with welfare needs. Moreover, persons with disabilities receiving subsidised residential care and community rehabilitation services will be provided with soft meals from October this year onwards to cater for the needs of users with a swallowing problem.

Neighbourhood Support Child Care Project

175. Under the Neighbourhood Support Child Care Project launched in 2008, service operators recruit child carers to provide families in their neighbourhood with flexible day child care services at home, as a way to foster the spirit of mutual help in the community. To better meet the keen demand for day child care services, the Government will review the implementation mode and effectiveness of the project, including the need for home-based child carers to undergo certified training and the level of their pay, with a view to enhancing service quality as well as attracting more

people to become home-based child carers. The review is expected to be completed by mid-2023.

(To be continued.)

Registry of LAD’s Crime Section temporarily closed

The Legal Aid Department (LAD) announced today (February 23) that an Assistant Clerical Officer had preliminarily tested positive for COVID-19.

The staff member, who had no recent travel history, works at the registry of Crime Section at LAD headquarters on 25/F, Queensway Government Offices, and is responsible for assisting in the gathering of information and documents from the public for the processing of legal aid applications, and last performed duties this morning. The staff member's body temperature was normal, and the person had been wearing a mask while performing duties.

The registry of Crime Section on 25/F of the Queensway Government Offices will be temporarily closed until further notice for arranging thorough cleaning and disinfection. In the meantime, LAD staff of the office concerned will work from home. For enquiries on any new criminal legal aid applications or service of criminal case-related legal documents, please call 2867 3082.

The LAD is highly concerned about the COVID-19 epidemic. Staff are reminded to pay attention to personal hygiene and to stay vigilant. They should seek medical advice immediately if feeling unwell.