

Budget Speech by the Financial Secretary (11)

Reinforcing Fiscal Consolidation Programme

229. To uphold the principles of fiscal prudence, I recommend reinforcing the fiscal consolidation programme as put forward in last year's Budget. The key is managing expenditure growth, making good use of the Government's fiscal resources, and identifying new revenue resources. Our principles are:

(a) to focus on strictly controlling government expenditure, supplemented by increasing revenue. Regardless of increasing revenue or cutting expenditure, the impact to the general public should be minimised. In particular, the Government will lead by example to demonstrate our commitment in cutting expenditure, whilst ensuring the delivery of high-standard public services. The Government will also continue to press ahead with infrastructure works projects in the NM and those related to the economy and people's livelihood;

(b) to maintain the competitiveness of Hong Kong's simple and low tax regime, and to avoid considerable increase in tax rates or introducing new taxes; and

(c) to uphold the "user pays" and the "affordable users pay" principles as far as practicable whilst increasing revenue.

Strictly Containing the Growth of Government Expenditure

Operating Expenditure

230. We will step up efforts to contain government operating expenditure. I have instructed all bureaux and departments to further review their resource allocation and work priorities, and provide public services in a more cost effective manner through consolidating internal resources, streamlining procedures and leveraging technology.

231. On the premise of maintaining efficient public services, we will implement the following measures:

(a) stepping up the Productivity Enhancement Programme. On the premise that CSSA, Social Security Allowance and statutory expenditure will not be affected, the rate of reduction of recurrent government expenditure will be increased from the original one per cent to two per cent in 2025-26. This arrangement will be extended for two more years to 2027-28. Taking into account the one per cent cut in 2024-25, the cumulative rate of reduction will be seven per cent in total. Using 2023-24 recurrent expenditure as the basis, it will deliver a saving in recurrent government expenditure of around \$3.9 billion, \$11.7 billion, \$19.5 billion and \$27.3 billion in the respective financial years;

(b) in view of the reduction in expenditure and enhancement in manpower utilisation, the civil service establishment will be reduced by two per cent

each in 2026-27 and 2027-28. By 1 April 2027, about 10 000 posts are expected to be deleted within this term of Government; and

(c) the Government will provide funding of \$68.1 billion to the University Grants Committee (UGC)-funded universities in the coming three years. This funding has reflected a two per cent reduction target each year, which is in line with the magnitude of government's recurrent expenditure cut. I must stress that this funding level is still higher than the \$63.2 billion in the last triennium.

232. In last year's Budget, I have requested the relevant bureaux to review the operation of two transport subsidy schemes that incur relatively high expenditure with a rapid growth rate, namely the Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities (i.e. the \$2 Scheme) and the Public Transport Fare Subsidy Scheme (PTFSS). In order to enable the continued operation of the schemes in a financially sustainable manner, we propose the following adjustments after review:

(a) the \$2 Scheme: On the basis that the targeted beneficiaries remain unchanged, the Government will change the concessionary fare to "\$2 flat rate cum 80 per cent discount", which means that beneficiaries will continue to pay \$2 for trips with fare below or equal to \$10. For trips with fare above \$10, the beneficiaries will have to pay the amount of full fare after 80 per cent discount. Furthermore, the number of concessionary trips will also be limited to 240 per month. This fine-tuned proposal preserves our policy intent while striking a balance between enhancing the sustainability of the scheme and minimising the impacts to the beneficiaries; and

(b) PTFSS: From June 2025 onwards, the threshold of monthly public transport expenses incurred for receiving the subsidy under the Scheme will be raised from \$400 to \$500. The Government will continue to provide a subsidy amounting to one-third of the expenses in excess of \$500, and the prevailing subsidy cap at \$400 per month will remain unchanged.

233. The relevant policy bureaux will announce the details later. Upon implementation of the refined arrangements, the Government is expected to save \$6.2 billion in the coming five years.

234. To assist bureaux and departments in reducing expenditure and ensure the proper use of public money, I have requested:

(a) the Audit Commission to organise workshops for the senior management of Government departments and public bodies. Through sharing experience and case studies on its value for money audits, the Commission seeks to foster the management's understanding and adoption of principles and best practices in fiscal prudence and optimal use of public money;

(b) the Financial Services and the Treasury Bureau to review and enhance the Government's procurement regime. We expect that the new arrangements will be introduced in mid-2025, so as to facilitate departments to procure quality goods and services at a reasonable price through an open and fair framework; and

(c) the relevant bureaux to review the expenditures on social welfare, healthcare and education. The recurrent expenditure on each of these three areas amounts to more than \$100 billion in this financial year. The Government should, having regard to demographic changes in Hong Kong, optimise resources and review the sustainability of the use of resources.

235. In addition, the Government puts forward that for 2025-26, the executive authorities, the legislature, the judiciary and members of the District Councils take a pay freeze. This includes the Chief Executive and politically appointed officials; the Non-official Members of the Executive Council; members of the civil service; the President, all Members and Secretariat of the LegCo; Chief Justice of the Court of Final Appeal, judges of the courts at all levels and other members of the Judiciary; and members of the District Councils.

Capital Works Expenditure

236. Overall construction costs have risen in recent years. The Government will strive to enhance control on cost effectiveness when pressing ahead with infrastructure works projects. I have requested the Project Strategy and Governance Office (PSGO) under Development Bureau (DEVB) to support various departments in enhancing governance of public works projects on all fronts. PSGO scrutinises project cost estimates upon inception of a project, and optimises project design in accordance with the principle of "fitness-for-purpose and no frills". PSGO also formulates cost-effective proposals in co-ordination with the relevant policy bureaux and works departments in order to reduce construction costs. Since its establishment, PSGO has reviewed over 540 public works projects, achieving savings in construction costs by over 15 per cent.

237. Meanwhile, PSGO is co-ordinating the relevant work on reducing construction costs. This includes formulating policies for the procurement of construction materials and products, such as MiC modules and steel reinforcement, through direct procurement by relevant works departments and centralised procurement by a single department. PSGO will also study the use of new materials and innovative construction technologies by drawing reference from the Mainland and overseas practices and experience. All these efforts aim to help departments reduce project costs, enhance cost-effectiveness and ensure timely completion of public works projects.

238. Furthermore, the Government is reviewing the scale and mode of delivery of district cooling systems in new development areas, such as Hung Shui Kiu/Ha Tsuen and San Tin Technopole, to tie in with the development of the area with greater cost-effectiveness. The preliminary estimate of savings in terms of works expenditure is at least \$40 billion. The Environment and Ecology Bureau will report the review results in the second quarter this year.

Consolidating and Optimising the Use of Government Financial Resources

239. Bureaux and departments set up funds outside the Government's accounts for specific purposes from time to time in the light of their policy needs.

Currently, there are a total of 42 such funds with an aggregate balance of nearly \$180 billion. Some of these funds only use investment returns to meet their expenditure (i.e. seed capital funds). With different monitoring frameworks and investment strategies, these seed capital funds lock up an enormous amount of public financial resources.

240. To enable the Government to make more flexible and effective use of these resources, we have reviewed the financial arrangements of these seed capital funds. We propose bringing back first six funds with relatively large unspent balance, totalling about \$62 billion, to the Government's accounts in 2025-26, after setting aside resources to meet the necessary expenditure of these funds for the next five years so that it will not affect their sustainable operation. This will provide a more comprehensive picture of the Government's fiscal position and enable better use of its financial resources. We will also require the relevant bureaux to examine the financial arrangements of other seed capital funds.

241. We have reviewed the utilisation of the Anti-epidemic Fund. Taking into account the expenditure requirements, the Fund has a remaining balance of about \$15 billion, which will be brought back to the Government's accounts next month. This sum has been reflected in the revised estimate for 2024-25.

Enhancing Public Service Efficiency

242. The Government has all along endeavoured to deliver more efficient public services to citizens through leveraging technology, streamlining processes and driving the digital transformation of public services.

243. We are striving to realise "single portal for online government services", with a view to providing a one-stop shop for citizens to obtain information, apply for services and settle bills. Since the launch of the "iAM Smart" mobile application, the number of registered users has exceeded 3.2 million. "iAM Smart" connects about 500 services of the Government as well as public and private organisations and provides nearly 600 electronic government forms.

244. The DPO is planning to progressively implement a "Digital Corporate Identity" Platform before the end of next year. This will enable Hong Kong enterprises to undergo corporate identity authentication and digital signature process in a secure and convenient manner when using electronic government services or conducting online business transactions. This measure will facilitate digital transformation of enterprises, and help enhance government departments' efficiency in processing online applications.

245. The Transport Department will roll out a number of electronic licensing services, including electronic driving licences, progressively from the middle of this year to early next year. The Department will continue to launch various electronic permits and integrated, user-friendly online services. It also plans to introduce a bill into LegCo on electronic driving licence in the first half of this year to provide the option of displaying driving licences through dedicated applications on smartphones.

246. The Housing Bureau has selected 10 public rental housing estates as the pilot sites for smart estate management to adopt more technologies, such as Internet of Things sensors, robots, etc, in daily estate management. It will also launch a centralised estate management platform this year to enhance management efficiency and service quality.

247. DEVB is driving digitalisation of public works in full swing, and applying AI technology for big data analysis to reduce the risk of project delay and cost overrun. DEVB is also driving the wider application of highly-effective construction robots in projects with functions including automated processes, remote control, AI, etc, to support construction personnel in various fields to enhance work efficiency, cost-effectiveness, site safety and works quality.

248. The Civil Service College will enhance the content on technology application in civil service leadership training, equipping departmental leaders to optimise their information technology systems, better utilise big data and AI, and arrange appropriate training for their staff.

Increasing Revenue

249. For some time in the past, some government fees and charges have not been adjusted in accordance with the established mechanisms. As a result, these fees and charges are not pegged to their costs and fail to reflect the "user pays" principle. I am going to introduce the following measures:

(a) the rate of air passenger departure tax will be increased from \$120 to \$200 per passenger starting from the third quarter of 2025-26. It is anticipated that government revenue will increase by about \$1.6 billion per year. The impact on air passengers is expected to be minimal;

(b) an application fee of \$600 will be charged under various talent and capital investor admission schemes with immediate effect. The visa fees, to be charged based on the duration of limit of stay, will be raised to \$600 or \$1,300. It is estimated that government revenue will increase by about \$620 million per annum;

(c) the Government has cancelled the tolls of some major tunnels and strategic routes three years ago and the tolls of some Government tunnels have not been adjusted for over 30 years. Considering the fact that the Government has invested heavily in building these infrastructure, the Transport and Logistics Bureau will review the tolls of relevant government tunnels and trunk roads to embody the "user pays" principle. The Government will also review the annual licence fee for electric private cars, parking meter charges, as well as the fixed penalties for traffic offences for better traffic management. Based on preliminary estimation, the relevant adjustments could generate about \$2 billion additional revenue per annum;

(d) we will explore introducing a boundary facilities fee on private cars departing via land boundary control points. Coaches, goods vehicles, etc, will not be affected. Taking a fee of \$200 per private car as an example, the measure will bring in revenue of about \$1 billion per annum; and

(e) in January 2025, we submitted a bill to LegCo on the implementation of the global minimum tax proposal drawn up by the Organisation for Economic Co-operation and Development to address base erosion and profit shifting. We aim to apply the global minimum tax rate of 15 per cent on large multinational enterprise groups with an annual consolidated group revenue of at least EUR750 million and impose the Hong Kong minimum top up tax. Subject to the passage of the bill, the proposal will bring in tax revenue of about \$15 billion for the Government annually starting from 2027-28.