

LCQ15: Financial burden on Government

Following is a question by the Hon Paul Tse and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (October 28):

Question:

Last month, the Financial Secretary pointed out that the fiscal deficit for the current financial year would soar to over \$300 billion and fiscal reserves would plunge to around \$800 billion. Other than the fiscal deficit, the expenditure has continued to increase. It has been reported that as both the Hong Kong-Zhuhai-Macao Bridge (HZMB) and the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) have failed to make ends meet as they had been hit by the coronavirus disease 2019 epidemic, the Government needs to provide subsidies of \$1 billion and \$350 million respectively. As the epidemic still persists, some academics and members of the public are worried that structural fiscal deficits will, coupled with the imminent implementation of the costly large-scale reclamation projects under the "Lantau Tomorrow Vision", deteriorate further and the financial pressure on the Government will surge. They have pointed out that it is incumbent upon the Government to generate revenue and manage costs, and to put the money previously allocated to various funds to effective use. In this connection, will the Government inform this Council:

(1) of the operating expenditures and income profiles, since the beginning of this year, of various major infrastructure projects (including HZMB, XRL and the Kai Tak Cruise Terminal); the amounts of subsidies provided by the Government to various infrastructure projects;

(2) of the accumulated balance of the Future Fund, set up by the Government in early years, and those of the eight funds (including the Capital Works Reserve Fund, Capital Investment Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund) established under the Public Finance Ordinance (Cap. 2); whether it has estimated the amount of money that can be ploughed back from the balances of such funds to the Treasury and used to support those parties that have allegedly been neglected by the Government, namely the middle class, the small and medium enterprises and the unemployed persons; if so, of the details; if not, whether it will immediately conduct such an estimation;

(3) as some members of the public are worried that the implementation of the large-scale reclamation projects under the "Lantau Tomorrow Vision" by the Government amid the economic downturn will expedite the depletion of fiscal reserves in case it fails to exercise effective cost control, whether the Government will consider expanding the terms of reference of the Project Strategy and Governance Office and strengthening the manpower of the Office, so as to review the construction costs of each public works project costing over \$100 million and the large-scale reclamation projects under the "Lantau

Tomorrow Vision" (including the studies related to artificial islands in the Central Waters with an estimated cost of \$550 million);

(4) of (i) the total amounts of default payments owed to, (ii) the expenditures incurred in recovering the default payments by, and (iii) the total amounts of default payments written off, by various government departments and public organisations (including the Hospital Authority, the Water Supplies Department, the Inland Revenue Department and the Judiciary) in each of the past five years; the policies and measures adopted by various government departments for recovering default payments, as well as the effectiveness of the recovery actions (set out in detail); and

(5) given that it may be necessary for the Government to use fiscal reserves to boost the economy and launch relief measures amid the epidemic, whether the Government will step up efforts in recovering default payments, so as to improve its financial position?

Reply:

President,

This reply is prepared in consultation with the Transport and Housing Bureau, Development Bureau and Commerce and Economic Development Bureau as follows:

(1) The Hong Kong-Zhuhai-Macao Bridge (HZMB) Main Bridge is situated in the Mainland waters. The HZMB Authority was established pursuant to the Mainland laws as a non-profit-making public institution legal person, operating on a self-financing basis. It is not appropriate for the Hong Kong Special Administrative Region Government to disclose information relating to the income and expenditure of the HZMB unilaterally.

For the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL), to prevent and control the epidemic, the Hong Kong West Kowloon Station of the XRL has been temporarily closed since January 30, 2020, and the XRL train service between the Hong Kong West Kowloon Station and the Mainland has also been suspended. There is currently no scheduled date for service resumption. During the suspension of XRL service, the Hong Kong West Kowloon Station only maintains basic operations, such as regular maintenance and cleaning work. The MTR Corporation Limited (MTRCL), as the operator, has to bear the operating expenses of the Hong Kong Section of the XRL. The MTRCL presented the total operating expenditure of its railway services in its annual report and there is no breakdown of the figures of various operating expenditure (including that of the Hong Kong Section of the XRL). The Kowloon-Canton Railway Corporation and the MTRCL shall share the upside gain and downside risk regarding the Hong Kong Section of the XRL according to the signed "Supplemental Service Concession Agreement".

The Kai Tak Cruise Terminal (KTCT) is operated by a terminal operator under commercial principles, and any surplus and deficit are to be borne by the terminal operator. According to the tenancy agreement between the

Government and the terminal operator, the terminal operator is required to pay the Government a monthly fixed rent and a variable rent which is set as designated percentages of the terminal operator's gross receipts. As the relevant income and expenditure of the terminal operator involves commercially sensitive information, the Government cannot disclose the details. To combat the pandemic, the immigration service at the KTCT and Ocean Terminal has been suspended since February 5, 2020. In this connection, the Government has introduced relief measures to support the cruise industry, including waiving the monthly fixed rent and management fee from June 2020 to March 2021. As at October 19, 2020, the total concessions involved is about \$3.28 million.

(2) The balances as at September 30, 2020 for the eight Funds set up by Resolutions of the Legislative Council are tabulated below:

	\$ million
Capital Works Reserve Fund	167,270
Capital Investment Fund	5,260
Civil Service Pension Reserve Fund	41,266
Disaster Relief Fund	43
Innovation and Technology Fund	24,692
Land Fund	219,691
Loan Fund	4,241
Lotteries Fund	21,238
Total	483,701

The total balances of the General Revenue Account (GRA) and the above eight Funds constitute the Government's fiscal reserves.

The GRA is for meeting the day-to-day cash flow requirements of the Government's operation. For Funds set up by Resolutions of the Legislative Council, they have their respective designated use. For instance, the Capital Works Reserve Fund is designated for capital works, major systems and equipment; the Innovation and Technology Fund is committed to projects to promote innovation and technology, etc. The Government reviews the fund balances from time to time and will arrange the transfers from Funds to the GRA or vice versa as appropriate.

The Future Fund was established on January 1, 2016 and was intended to implement a long-term investment strategy for the purpose of enhancing the overall investment returns. The fund balance of the Future Fund is \$224.49 billion and will be placed in the Exchange Fund to the end of 2025 according to the original plan.

(3) The Government has all along been implementing a stringent review and monitoring mechanism on project estimate and expenditure of public works. The

Development Bureau upgraded the Project Cost Management Office (PCMO) to the Project Strategy and Governance Office (PSGO) in April 2019 and further implemented strategic initiatives to lower the project cost through design optimisation based on the "Fitness for Purpose and No Frills" principle. The Development Bureau also established the Centre of Excellence for Major Project Leaders in July 2019 to uplift project governance capabilities of public officers.

The PCMO had scrutinised the "Studies related to artificial islands in the Central Waters" project and reviewed the project estimate before consulting the Legislative Council. Similar to other works projects, during project implementation, the PSGO will continue to actively collaborate with relevant departments and regularly review and follow up the development and design of the project. With regard to manpower, we will review the resources required by the PSGO from time to time for implementing various measures on cost monitoring and project governance more effectively.

(4) and (5) The total amounts written off by the Government due to default payments in each of the past five years are as follows:

2015-16 (\$ million)	2016-17 (\$ million)	2017-18 (\$ million)	2018-19 (\$ million)	2019-20 (\$ million)
290	282	541	793	533

Revenue collection is a day-to-day activity of government departments. A breakdown in this respect is not available.

The Government does not have any information on the expenditures incurred by subvented organisations for the recovery of default payments, nor the total amounts written off by them. Generally speaking, same as government departments, subvented organisations should ensure the proper use of public funds. As such, the bureaux and departments concerned require subvented organisations to submit audited annual financial statements and put in place an appropriate financial control and monitoring system to ensure that public funds are used prudently by subvented organisations in the provision of cost-effectiveness public services.

Regarding the handling of receivables, according to the internal guidelines of the Government, Controlling Officers (COs) are responsible for prompt collection and for taking timely and appropriate actions to recover arrears of revenue within their jurisdiction. COs should satisfy themselves that appropriate arrangements are made and put in place in their bureaux/ departments such that if payment is not received within a reasonable time, appropriate and timely follow up actions are taken to recover the arrears. Such actions include the issue of reminders and taking legal action as necessary. In addition, COs must regularly review the procedures and the activities within their purview which give rise to revenue due to the Government and, where necessary, issue departmental accounting instructions and procedures on the recovery of arrears of revenue as appropriate to meet

the particular requirements and applications of their bureaux/ departments. COs should consider writing off the receivables only after all exhaustive actions taken to recover the amounts have failed and upon seeking the necessary legal advice.

To safeguard public funds, Government bureaux and departments will continue to strictly adhere to the above guidelines and recover through different means the receivables from defaulters.