

LCQ3: Supply of anti-epidemic items

Following is a question by the Hon James To and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (February 26):

Question:

As the novel coronavirus epidemic has been serious recently, various government departments, public organisations and members of the public have a strong demand for anti-epidemic items. In this connection, will the Government inform this Council:

- (1) of (i) the quantities received and (ii) the stock held, by the public healthcare system in respect of the various types of anti-epidemic items each day from January 21 to February 21 this year;
- (2) in respect of the face masks produced by the Correctional Services Department (CSD), of (i) the quantity retained for use by the Department, and (ii) the respective quantities supplied to the following government departments, public organisations and non-governmental organisations each month since December last year (set out in a table): Hong Kong Police Force, Customs and Excise Department, Immigration Department, Hong Kong Fire Services Department, Independent Commission Against Corruption, Food and Environmental Hygiene Department, Leisure and Cultural Services Department, Department of Health, Administration Wing of the Chief Secretary for Administration's Office, Hongkong Post, Auxiliary Medical Service, Home Affairs Department, and the various public health-related organisations such as the Hospital Authority (HA);
- (3) of the protection specifications of the face masks currently produced by CSD, and whether such specifications meet those prescribed by HA for face mask procurement; if not, whether CSD will produce face masks which meet the specifications prescribed by HA;
- (4) of CSD's current stock of face masks available for distribution;
- (5) of the stock of the various raw materials (including aluminum/plastic strips, elastic bands, non-woven fabrics and filter papers) currently used by CSD for producing face masks, and the places of origin of those raw materials; the number of face masks that can be produced with such stock;
- (6) whether CSD will recruit volunteers who possess the knowledge of operating sewing machines to join the production line of face masks so as to increase output; if so, when the recruitment will be conducted; if not, of the reasons for that; and
- (7) whether it will distribute face masks free of charge to the elderly in Hong Kong; if not, of the reasons for that?

Reply:

President,

With consolidated input from relevant policy bureaux and departments, my reply to the questions raised by the Hon James To is as follows:

(1) As at February 20, the stock of personal protective equipment (PPE) of public hospitals include approximately 18 million surgical masks, 2.3 million isolation gowns, 0.45 million face shields and 1.19 million N95 respirators.

(2) The Government Logistics Department (GLD) procures masks from the Correctional Services Department (CSD) as well as other suppliers through various channels. As masks provided by different suppliers are handled collectively, GLD does not have a breakdown of the number of masks provided by individual suppliers.

In light of the developments concerning the disease, all government departments have worked very hard to keep their demands for masks to a minimum. GLD will comply strictly with distribution guidelines and accord priority to front-line staff participating in quarantine-related work, execution of quarantine orders (including medical and port health staff of the Department of Health) and maintenance of essential public services.

(3) According to tests conducted by accredited laboratories, the bacterial filtration efficiency (BFE) and particulate filtration efficiency (PFE) of filter masks produced by the CSD are over 99% and 98% respectively.

As for the procurement of surgical masks by the Hospital Authority (HA), it has mainly made reference to the US Food and Drug Administration's standards on surgical mask, ASTM F2100-11. ASTM accredits surgical masks that are up to standard in 4 aspects, including BFE, PFE, synthetic blood resistance and delta-P/differential pressure. With the ongoing development of COVID-19, HA has significantly increased its usage of PPE, and has been striving to expedite procurement. HA also takes into consideration other international standards when sourcing surgical masks, including European Standards, EN14683.

(4) and (6) In 2019, CSD produced an average of about 1.1 million masks per month. In an effort to meet the demand for masks from government departments, CSD has increased its output on three occasions since January 2020. Moreover, since early February, it has been producing masks around the clock, increasing its monthly output to about 1.8 million masks. CSD has subsequently recruited over 800 off-duty and retired CSD officers as volunteers in mask production work since February 7. The target is for output to reach 2.5 million masks per month.

(5) Raw materials for masks are supplied to CSD by suppliers on a monthly basis in accordance with contractual requirements. According to the information provided by suppliers, the raw materials are imported. At

present, CSD keeps raw materials that is sufficient for the production of masks over one month.

(7) The Government will work closely with the community, striving to meet the people's needs in the prevention and control of disease. The Government will provide 1 million masks to residential care homes for elderly and residential homes for persons with disabilities, so as to support their continuous operation. The Government has also received donations of masks and disinfection supplies from a number of kind-hearted organisations and individuals; and will support them in the distribution of masks to relevant organisations and underprivileged members of the community. For example, masks will be provided to high-risk patients (e.g. the elderly and pregnant women) and medical workers through the HA, as well as to elders and needy households through major charities.

LCQ2: Combatting illegal parking

Following is a question by the Hon Chung Kwok-pan and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (February 26):

Question:

It has been reported that the problem of illegal parking in various districts has aggravated since June last year. Illegally parked vehicles not only cause traffic obstructions, but may also jeopardise the safety of road users. In this connection, will the Government inform this Council:

(1) whether it has studied the reasons for the aggravation of the problem of illegal parking in various districts in recent months; whether the Police's work of combating illegal parking has been affected due to the need for deploying a lot of manpower to deal with public events in recent months;

(2) of the number of complaints about illegal parking received by the Police in each of the past 24 months, with a breakdown by (i) the type of follow-up actions taken and (ii) the interval between the receipt of the complaint and the taking of such action(s) (in terms of hours);

(3) of the number of fixed penalty notices issued in respect of illegally parked vehicles, as well as the manpower deployed to deal with illegal parking, by the Police in each of the past 24 months, with a breakdown by police region; and

(4) whether the Police will deploy additional manpower to combat illegal parking so as to avoid illegally parked vehicles causing traffic obstructions and jeopardising the safety of road users; if so, of the details; if not, the reasons for that?

Reply:

President,

Upon consultation with the Hong Kong Police Force (the Police), my reply to the various parts of the Hon Chung Kwok-pan's question is as follows:

(1) and (4) Road safety is one of the operational priorities of the Police. Changing the irresponsible behaviour of road users that causes traffic obstructions is also among the Police's traffic enforcement priorities. All along, the Police pay much attention to the problem of illegal parking and seek to change such undesirable behaviour through publicity and education, and combat illegal parking through patrols and law enforcement.

Since June 2019, Hong Kong has seen widespread vandalism committed by violent protestors across the territory. The Police have been discharging their duties with commitment and devotion with a view to restoring social order as soon as possible, and safeguarding the lives and property of the public at large.

On enforcement against illegal parking, the Police issued a total of about 1.4 million fixed penalty notices against illegal parking in 2019. Given the Police's limited manpower, the traffic enforcement figures for the second half of 2019 indeed showed a decrease as compared to the corresponding period of 2018. Nevertheless, with less tension in the recent social atmosphere, all police districts in the territory have re-deployed their manpower to step up traffic enforcement operations and, as a result, the traffic enforcement figures for December 2019 started to rebound. Taking into account the overall manpower distribution of frontline enforcement staff and the deployment of resources in individual police districts, as well as the traffic conditions in different areas, the Police will deploy appropriate manpower according to the actual circumstances for enhancing enforcement action against illegal parking. Should members of the public observe any serious illegal parking on individual road sections which has caused traffic obstruction, they may report such cases to the Police for handling promptly.

(2) The numbers of complaints from members of the public about traffic congestion (including illegal parking) received by the Police each month in 2018 and 2019 are tabulated in Annex 1. As the Police have kept neither the breakdowns of follow-up actions taken on illegal parking nor the time taken for arriving at the scene for handling individual illegal parking cases, no such information can be provided.

(3) The numbers of fixed penalty notices issued by the Police in respect of illegal parking with a breakdown by police regions each month in 2018 and 2019 are tabulated in Annex 2. Since the Police have not kept the figures on the manpower deployed to deal with illegal parking, no such information can be provided. In general, all frontline police officers and traffic wardens can handle illegal parking cases as part of their regular duties.

LCQ5: Training courses commissioned by Employees Retraining Board

Following is a question by the Hon Holden Chow and a written reply by the Secretary for Labour and Welfare, Dr Law Chi-kwong, in the Legislative Council today (February 26):

Question:

The Employees Retraining Board (ERB) has commissioned various training bodies to offer training courses. To help the upgrading of skills and the self-enhancement of those persons who became unemployed or under-employed on or after June 1 last year, with a view to assisting them in re-entering the employment market as early as possible, ERB launched a six-month "Love Upgrading Special Scheme" (the Scheme) in October last year to provide such persons with integrated training courses of two to three months. Those trainees who have attained an attendance rate of 80 per cent may be granted special allowances, capped at \$4,000 per month per person. In this connection, will the Government inform this Council:

(1) Whether it knows the number of applications for enrolment on the courses received under the Scheme so far, and a breakdown by course title of the enrolments for the training courses under the Scheme;

(2) Whether the authorities will raise the ceiling of the special allowances that the trainees of the various courses under the Scheme may be granted;

(3) Whether it has compiled statistics on the number of trainees so far who, after completing the courses under the Scheme, have been engaged in course-related jobs; if so, of the titles of the top three courses with the highest number of trainees engaged in related jobs;

(4) Whether it knows the respective enrolments on and graduates of the various training courses commissioned by ERB in the financial year of 2018-2019 (set out by training body); and

(5) Whether it knows the percentage of those graduates of the training courses in the financial year of 2018-2019 who have engaged in course-related jobs?

Reply:

President,

The Employees Retraining Board (ERB) launched the "Love Upgrading Special Scheme" (the Scheme) in October 2019 to provide employees affected by

economic downturn with comprehensive training for two to three months. Special allowance is provided to trainees during the training period. The Scheme imposes no restriction on the trade or education attainment of trainees. Courses covering "Vocational Skills" of 23 trades, as well as "Innovation and Technology" and "Generic Skills" are conducted in full-time and part-time (half-day/evening) modes. Trainees who have completed full-time "Vocational Skills" courses would receive follow-up placement services. Trainees shall attend the courses by end June 2020. It is planned that 10 000 affected employees could take part in the Scheme. My reply to various parts of the Member's question is as follows:

(1) As at end January 2020, a total of 8 401 trainees have applied for enrolment in the Scheme. Each trainee may enrol up to four courses under the Scheme. The total number of applications for enrolment in various training courses during the same period is 9 836. The number of applications for enrolment in various training courses under the Scheme is at Annex 1.

(2) The Financial Secretary announced in December 2019 a new package of measures to support enterprises and employment, which included the enhancement and extension of the Scheme, and increasing the maximum amount of monthly allowance per eligible trainee from \$4,000 to \$5,800 through amendment of the subsidiary legislation concerned. ERB is making the necessary preparation.

(3) The training bodies of ERB will start to collect information on the "percentage of engagement in jobs related to training courses" (note) during the follow-up placement period upon completion of the classes of training courses under the Scheme. As the placement period of respective classes has yet been completed, no relevant information is available at this stage.

(4) The number of enrolled trainees and that of graduate trainees of training courses organised by respective training bodies appointed by ERB in 2018-19 are set out at Annex 2.

(5) The overall percentage of engagement in jobs related to training courses for ERB's placement-tied courses in 2018-19 is 46 per cent.

Note: "Percentage of engagement in jobs related to training courses" means the percentage of trainees who engaged in jobs related to their training courses during the follow-up placement period over the number of trainees who engaged in employment.

Budget Speech by the Financial

Secretary (11)

Public Finance

Deficit Budget

168. The HKSAR Government runs a fiscal deficit in 2019-20, the first time for Hong Kong over the past 15 years. I forecast a deficit for the next five years as well.

169. The US-China trade conflict and the violent incidents in Hong Kong significantly dampened our economic momentum. In the past six months, I have announced four rounds of relief measures costing over \$30 billion. These measures, together with the \$30 billion Anti-epidemic Fund established in response to the recent novel coronavirus outbreak, resulted in a deficit of about \$37.8 billion for 2019-20, which is about 1.3 per cent of GDP.

170. Regarding 2020-21, taking into account the impact of the external economic environment and the epidemic, Hong Kong's economy is expected to be under contractionary pressure, with enterprises facing difficulties and the unemployment rate on the rise. As such, this year's Budget focuses on "supporting enterprises, safeguarding jobs, stimulating the economy and relieving people's burden". Measures for supporting the general public and enterprises, including the cash payout scheme, will be rolled out.

171. Though confident in Hong Kong's fundamental strengths and long-term prospects, I must prudently assess the impact of the current situation on government revenue in the coming year. I thus forecast a decrease in tax and land revenues. Taking also into account the launch of countercyclical fiscal measures on a much larger scale and the continued increase in recurrent expenditure as I have just mentioned, I expect that the fiscal deficit for next year will be \$139.1 billion, accounting for 4.8 per cent of GDP.

172. Although the deficit will hit an all-time high, a close look at its components shows that almost \$120 billion of the deficit is related to the cash payout scheme and other one-off relief measures, which will not incur long-term financial commitments.

173. Besides, the revenue for the same financial year will include \$19.5 billion from the issuance of green bonds and \$22 billion brought back from the Housing Reserve. Netting out the aforesaid revenue and one-off expenditure, the deficit is about \$59 billion, accounting for 2 per cent of GDP.

174. Our current fiscal reserves of about \$1,100 billion enable us to roll out special measures amid the prevailing economic downturn, such as paying out cash. Such special measures and the ever-growing expenditure, however, will deplete our fiscal reserves. Take the 2020-21 financial year as an example. Our reserves which are equivalent to 22 months of government expenditure at the beginning of the year will drop to a level equivalent to

16 months of government expenditure at year-end. If we keep running a fiscal deficit, our reserves will eventually be used up. This is something which we do not want to see. Moreover, the Government will have to draw on the fiscal reserves to meet the funding already earmarked for a number of large-scale projects, for example the two 10-year Hospital Development Plans amounting to about \$500 billion in total.

175. It is worth noting that the Operating Account is projected to record a deficit for five consecutive years, as shown in the Medium Range Forecast. In the four financial years starting from 2021-22, there will be an annual deficit of about \$50 billion in the Operating Account, and the overall deficit in the Consolidated Account will range between \$7.4 billion and \$17 billion. That said, the above forecast has not taken into account tax rebate and relief measures that the Government may implement.

176. The deficits are mainly caused by the fact that government revenue cannot keep up with drastic increases in government expenditure, especially recurrent expenditure. Since reunification, recurrent expenditure increased from \$150 billion to \$440 billion recorded last year. It started to rise from \$150 billion to \$200 billion in the first decade after reunification, further increased to \$300 billion over the following seven years (i.e. in 2014-15) and to \$400 billion after four years (i.e. in 2018-19). For this year (i.e. in 2019-20) alone, recurrent expenditure shows a further increase of about \$40 billion, and in the coming year (i.e. in 2020-21), it will be almost \$500 billion. Such rapid growth is not sustainable.

Face the Challenge

177. The significant rise in government expenditure over the years was for enhancing services or increasing investment in various areas of the community, which were essential to catching up with the needs of the public. In the coming years, government expenditure will enter a consolidation period. We will focus on the optimal use of resources to implement the committed initiatives in an orderly and effective manner so that the public will see progressive improvements in public services and social infrastructure. As for future increase in spending, we should be more mindful of the Government's long-term affordability. It should also be commensurate with the increase in revenue.

178. We need to maintain the growth and vibrancy of our economy and identify new areas of economic growth, with a view to increasing our revenue, promoting social development, coping with the challenges arising from an ageing population, and providing more quality employment opportunities. Besides, we may need to consider seeking new revenue sources or revising tax rates. The one-off relief measures may also have to be progressively reduced.

179. Hong Kong is renowned for its simple and low tax regime which is based on the principle of territorial source. In recent years, we rolled out a number of tax concession measures to promote investment in and the development of specific sectors. However, new developments in the international tax arena will affect the competitiveness of Hong Kong's tax

regime.

180. In response to the use of tax policy in the international community as a means of competition, the Organisation for Economic Co-operation and Development (OECD) is actively exploring the proposal of setting rules for imposing a global minimum tax rate. Under this proposal, if the tax paid by a multinational corporation in Hong Kong is lower than the new global minimum tax rate, its parent company will be subject to additional taxes or defensive measures imposed by the jurisdictions where they are located. As an international financial and business centre, Hong Kong will inevitably be affected.

181. The imposition of a global minimum tax rate may undermine the attractiveness of Hong Kong's low tax policy to multinational corporations, thus posing challenges to our territorial-source-based tax regime. The proposal will also bring additional tax burden and compliance costs to multinational corporations, and affect their incentives for investing and operating in Hong Kong.

182. The Government will continue to keep a close watch on the developments of the OECD's work, make assessments and devise corresponding measures. I will invite scholars, experts and members of the business community who are experienced in the fields of international taxation and economic development to tender advice on the matter. This is to ensure that Hong Kong's tax regime is not only in line with new developments in the international tax scene, but also helps us maintain our premier business environment and competitiveness.

Future Fund

183. The Government set up the Future Fund in 2016. In its first three years of operation, the Fund achieved a composite rate of return of 4.5 per cent, 9.6 per cent and 6.1 per cent respectively. To further optimise the Future Fund, I indicated in my last Budget that I would invite several experienced persons in the financial services sector to advise on the Fund's investment strategy and portfolios, with a view to enhancing returns while reinforcing Hong Kong's status as a financial, commercial and innovation centre. This is also crucial for raising Hong Kong's productivity and competitiveness in the long run.

184. A team led by Dr Victor FUNG Kwok-king has made recommendations to me, which include using part of the Future Fund to set up the Hong Kong Growth Portfolio for direct investments in projects with a "Hong Kong nexus". I have accepted the recommendations and will start preparing for their implementation.

Concluding Remarks

185. Hong Kong has been intensely affected by the profound changes in the international political and economic landscape. Meanwhile, we had an extraordinary year with the occurrence of local social incidents. Social unrest and turbulence have revealed deep-seated conflicts in our community,

which cannot be resolved overnight. We need to address these conflicts patiently and carefully as they have a far-reaching impact on the stability and development of Hong Kong in the future.

186. I have picked an earth tone colour for the cover of this year's Budget Speech. I believe that Hong Kong is still a fertile piece of land. The quality of its crops, however, depends on the seeds we sow and the way we cultivate and irrigate it. I believe that, no matter what our backgrounds, beliefs and aspirations are, we all cherish and love Hong Kong.

187. Living on the same land, we are closely connected, sharing joys and sorrows. Hong Kong may have all sorts of shortcomings, but it is our home which allows diversity and freedom of development. Even if we have been disappointed, we can choose to feel hopeful for our future. Even if we are striving for different goals, we can work together to put aside our differences, make room for resolving conflicts, and drive Hong Kong forward.

188. Thank you, Mr President.

[Budget Speech by the Financial Secretary \(10\)](#)

Revised Estimates for 2019-20

152. The 2019-20 revised estimates on government revenue is \$567.3 billion, lower than the original estimate by 9.4 per cent or \$58.8 billion. This is mainly because revenues from profits tax, salaries tax and stamp duties are lower than the original estimate by \$53.4 billion.

153. Revenues from profits tax and salaries tax dropped substantially by \$40.4 billion due to economic condition, enhanced tax concessions and a deferred tax assessment cycle as compared with previous years. On the other hand, stamp duty revenue is \$63 billion, \$13 billion less than the original estimate, attributed to smaller-than-expected trading volumes brought about by adjustments in the property and stock markets over the year.

154. As for government expenditure, the revised estimate is \$611.4 billion, 0.6 per cent or \$3.6 billion higher than the original estimate. This is mainly because of the establishment of the Anti-epidemic Fund, and that expenditures on public works projects were lower than the original estimates.

155. All in all, I forecast a deficit of \$37.8 billion for 2019-20. Fiscal reserves are expected to be \$1,133.1 billion by 31 March 2020.

156. The civil service establishment increased by 3 481 posts in this

financial year, representing a growth of 1.8 per cent, close to the average growth of one to two per cent over the past decade.

Estimates for 2020-21

157. The major policy initiatives announced in the 2019 Policy Address involve an operating expenditure of \$48.7 billion and capital expenditure of \$24.8 billion. I will ensure that adequate resources are provided to fully support the launch of these initiatives.

158. Total government revenue for 2020-21 is estimated to be \$572.5 billion. Earnings and profits tax are estimated to be \$202 billion. Having regard to the Land Sale Programme and the land supply target of the coming year, land revenue is estimated to be \$118 billion which decreased by 16.6 per cent compared with the revised estimate for 2019-20. Revenue from stamp duties is estimated to be \$75 billion which increased by 19 per cent compared with the revised estimate for 2019-20.

159. Since taking office, the current-term Government has launched a series of measures to improve people's livelihood. Operating expenditure for 2019-20 increased by 22.2 per cent, compared with the last financial year with an increase in total government expenditure by 15 per cent. The operating expenditure for the new financial year will further increase by 16.9 per cent, demonstrating the Government's determination to stimulate the economy and ease people's burden. Public expenditure will account for about 23.2 per cent of our GDP during the five-year period up to 2024-25 in the Medium Range Forecast.

160. In 2020-21, the estimated recurrent expenditure on education, social welfare and healthcare accounts for about 60 per cent of government recurrent expenditure, together exceeding \$280 billion. Recurrent expenditure in these three areas recorded a cumulative increase of 50 per cent over the past five years.

161. We will increase the manpower of various departments as appropriate in 2020-21. The civil service establishment is expected to expand by 6 082 posts to 197 845, representing a year-on-year increase of about 3.2 per cent. The increase in manpower is to cope with additional workload and support the implementation of new government policies and initiatives.

Medium Range Forecast

162. The Medium Range Forecast (MRF) projects, mainly from a macro perspective, the revenue and expenditure as well as financial position of the Government. From 2021-22 to 2024-25, a real economic growth rate of 2.8 per cent is adopted for the MRF which is slightly lower than the previous trend.

163. During the above period, the average annual capital works expenditure will exceed \$100 billion, while the growth of recurrent government expenditure ranges between 4.3 per cent and 8.6 per cent per annum.

164. Regarding land revenue, the forecast on land premium from 2021-22

onwards is based on the average proportion of land revenue to GDP over the past decade, which is 4.2 per cent of GDP. I also assume that the growth rate of revenues from profits tax and other taxes will be similar to the economic growth rate in the next few years.

165. In addition, the forecast reflects that the Housing Reserve will be brought back to the fiscal reserves over four years starting from 2019-20, and the proceeds of the Government Green Bond Programme.

166. Based on the above assumptions and arrangements, I forecast an annual deficit in the Operating Account in each of the coming five financial years, as well as a surplus in the Capital Account every year for the same period. The estimated deficit in the Operating Account in 2020-21 is mainly due to the expenditure arising from the one-off relief measures announced in this Budget and some of the relief announced last year. The subsequent forecast deficit in the Operating Account is attributed to a higher growth in recurrent expenditure than that of revenue receipts. The above forecast has not taken into account tax rebate and relief measures that the Government may implement over these four years.

167. Fiscal reserves are estimated at \$937.1 billion by the end of March 2025, representing 26.5 per cent of GDP, equivalent to 15 months of government expenditure.

(To be continued.)