

**Motion on “Optimizing public finances and
enhancing the impetus for innovation in Hong Kong’s economy”
at the Legislative Council meeting on 16 October 2013**

Progress Report

At the Legislative Council (LegCo) meeting on 16 October 2013, the motion on “Optimizing public finances and enhancing the impetus for innovation in Hong Kong’s economy” moved by the Hon Kenneth LEUNG, as amended by Dr Hon Elizabeth QUAT, Hon Andrew LEUNG, Hon Ronny TONG and Hon Charles Peter MOK, was carried. The wording of the motion carried is at Annex. This report informs Members of the follow-up actions taken by the Administration in respect of the motion.

Innovation and technology

2. The Government recognises the importance of innovation and technology (I&T) to economic growth and development, and is therefore committed to supporting the I&T sector in competing in quality, focusing on its niches and moving up the value chain by producing high value-added products/services with innovative technology content. Our policy direction is summarised in the following statement -

“The Government firmly believes that I&T is a key driver for economic development. We are committed to developing Hong Kong into a knowledge-based economy that thrives as an innovation hub in the region. In meeting such commitment, we will enhance collaboration among the Government, industry, academia and the research sector to promote research and development as well as technology transfer. A multi-pronged approach will be adopted, comprising the provision of infrastructural and financial support, human resource development, collaboration with economies outside Hong Kong and fostering an innovation culture in the community.”

3. We are committed to promoting I&T development in Hong Kong. Recent initiatives include –

- (a) development of Hong Kong Science Park Phase 3 with a strong focus on green technology;
- (b) extension of the Innovation and Technology Fund (ITF) to strengthen the realisation/commercialisation of Research and Development (R&D) results;
- (c) increasing the level of cash rebate under the R&D Cash Rebate Scheme from 10% to 30% of qualified R&D expenditure, thus encouraging companies to engage in more R&D collaborations with our public research institutions;
- (d) enhancement of the Small Entrepreneur Research Assistance Programme under the ITF by increasing the matching fund ceiling from \$4 million to \$6 million for each project, with the funding scope expanded to facilitate commercialisation activities;
- (e) provision of funding of up to \$4 million for about 3 years starting from 2013-14, to each of the six institutions engaged in technology R&D and designated as local public research institutions¹, thus strengthening their technology transfer capability;
- (f) enhancement of the funding support to the Partner State Key Laboratories (PSKLs) in Hong Kong to further recognise their achievements, strengthen their R&D capabilities and promote their joint effort with the Mainland counterparts. From 2013-14 until 2015-16, the existing funding support ceiling for each PSKL will be increased from \$2 million to \$5 million each year; and
- (g) provision of funding support to Hong Kong Branch(es) of Chinese National Engineering Research Centres (CNERC(s)) to enhance their R&D capabilities and collaboration with the Mainland. Starting from 2013-14, funding up to a ceiling of \$5 million each year, initially for three years, will be provided to each Hong Kong Branch of CNERC.

4. Besides, the Economic Development Commission's Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries (MICWG) is considering how the Government could better support those industries which Hong Kong has a competitive advantage. The deliberations at MICWG and its recommendations would be of great value to us when we work out the way forward for I&T development in Hong Kong.

¹ Six universities designated as local public research institutions by the Innovation and Technology Commission are eligible for the funding support - City University of Hong Kong, Hong Kong Baptist University, The Chinese University of Hong Kong, The Hong Kong Polytechnic University, The Hong Kong University of Science and Technology, and The University of Hong Kong.

Creative industries

5. The Government has been working closely with the trade through Create Hong Kong to promote the development of creative industries. With the approval of the Finance Committee of the Legislative Council in May 2013, an additional \$300 million has been injected into the CreateSmart Initiative to provide funding support for more initiatives to facilitate the development of the creative industries.

6. The Government has also helped promote the development of creative start-ups and offered funding support to the Hong Kong Design Centre for operating the Design Incubation Programme (DIP) at the InnoCentre to provide newly set-up small design companies with training, support services and office facilities. The DIP has admitted 140 incubatees over the years. It is estimated that some 20 more companies will be admitted in the next 18 months. The Cyberport Incubation Programme (CIP) administered by the Cyberport provides support to local start-ups in the fields of digital entertainment and information technology. Over the years, the CIP has admitted 203 incubatees and 96 of them have completed incubation.

7. Works are now under way to turn the former Police Married Quarters on Hollywood Road into a creative industries landmark “PMQ” with a focus on the design sector. PMQ is expected to be fully commissioned in 2014 to provide over 100 studios to designers and practitioners of the creative industries to create, display and sell their creative products. PMQ will build up creative clusters, provide a major exchange and promotion platform for the trade, and facilitate the development of the Hong Kong’s creative industries.

8. As a new landmark for Hong Kong’s animation and comic sectors, Comix Home Base (CHB) was opened in July 2013. Studios, function rooms and exhibition areas at CHB are leased to the artists in animation, comic, and other sectors at concessionary rates for displaying their animation and comic works as well as associated commercial products. Create Hong Kong presented “Hong Kong Ani-com Summer 2013”, a large-scale promotional programme which covered 14 activities, from July to August 2013 with the objectives to arouse interest in animation and comics in the community and to mark the opening of CHB. The activities concerned attracted over 900 000 visitors or attendees.

Education and vocational training

9. The Vocational Training Council (VTC) is the major vocational education and training (VET) provider in Hong Kong. It provides various VET programmes through its member institutes, including Technological and Higher Education Institute of Hong Kong, Hong Kong Institute of Vocational Education, Hong Kong Design Institute, Youth College, Hospitality Industry Training and Development Centre, Chinese Cuisine Training Institute, Maritime Services Training Institute, Pro-Act by VTC and Integrated Vocational Development Centre.

10. VTC provides a wide range of full-time and part-time vocational education courses which lead to formal qualifications from post-secondary 3 up to degree level. It offers around 250 000 training places each year, providing people of different education levels with pre-employment and in-service VET programmes including degree programmes, Higher Diploma programmes, in-service short training programmes, training programmes for non-engaged youths and apprentice training. VTC also implements a trade testing and certification system to help participants obtain recognised qualifications.

11. The programmes offered by VTC are in a spectrum of disciplines, including applied science, design, engineering, hospitality, child education and community services, business and information technology. With the implementation of free senior secondary education since the 2008/09 academic year, the Government has been providing full subvention for full-time programmes offered by VTC for secondary 3 school leavers, thus making available an alternative free avenue for students to further their studies other than in mainstream education.

12. Starting from 2012/13 academic year, VTC has set up a Youth College to provide a diversify progression pathway for young people, as well as specialised support for non-Chinese speaking students and students with special educational needs. Besides, VTC has started offering its own self-financing degree programmes through its member institute, Technological and Higher Education Institute of Hong Kong.

13. Furthermore, VTC will develop the International Culinary College (renamed to International Culinary Institute with effect from 1 November 2013) for training quality manpower in international culinary art.

14. The Government will continue to invest substantially in education so as to provide quality and diversified education for our people, nurture outstanding talent for the community, and enhance the competitiveness of Hong Kong.

Employees retraining

15. The Employees Retraining Board (ERB) offers over 870 training courses straddling 28 industries for people aged 15 or above with education attainment at sub-degree or below. The training courses include placement-tied courses for the unemployed and “Skills Upgrading Scheme Plus” courses that assist employees in enhancing their skills. In 2013-14, ERB offers 130,000 training places.

16. In June 2013, the Labour Department increased the subsidy under the “Youth Employment and Training Programme”, the “Employment Programme for the Middle-aged” and the “Work Orientation and Placement Scheme” to encourage employers to provide more on-the-job training opportunities to young people, the middle-aged and persons with disabilities to help them acquire work skills and knowledge, thereby enhancing their employability. The Government will continue to closely monitor the local employment market situation and ensure that the employment support services provided can suitably cater for the needs of job seekers.

Long-term planning of infrastructure

17. The Government recognises the importance of long-term infrastructure planning as well as that of infrastructure investment in boosting economic development, creating jobs, enhancing our long-term competitiveness and promoting sustainable development in Hong Kong. With the support of LegCo Members and the community, we continued to increase our infrastructure investment in the past few years. In 2013-14, it is expected that the Capital Works Expenditure will reach \$70 billion. In the next few years, with major infrastructures and other projects entering their construction stage, it is estimated that the capital expenditure for each of the next few years would exceed \$70 billion. According to the construction output forecasts announced by the Construction Industry Council in end October this year, the local construction volume, including public and private projects, will reach an annual average of \$170 billion in the next 10 years. Relevant bureaux will continue to work closely to take forward infrastructure projects in an orderly and effective manner to cater for different policy needs, and strive to maintain a stable construction volume of government capital works.

18. Long-term infrastructure projects currently under planning and study stages include the Liantang / Heung Yuen Wai Boundary Control Point and the Third Airport Runway for enhancing Hong Kong's connectivity with the Mainland and other areas; new railway projects, the proposed Tseung Kwan O - Lam Tin Tunnel and Tseung Kwan O Cross Bay Link for improving local transport; waste management facilities for up-lifting the citizens' quality of life; upgrading of public health facilities such as the redevelopment of Queen Mary Hospital etc.. These projects are vital in improving the quality of life and enhancing Hong Kong's competitiveness. Colleagues of relevant bureaux and departments are actively studying the projects and arranging consultation and public engagement exercises, and will report to relevant LegCo Panels and seek their support in due course.

Land sales

19. As Hong Kong is a small, open economy with a narrow tax base, it is indisputable that some of our major revenues such as profits tax are especially sensitive to economic fluctuations. However, government revenue is, to a large extent, not reliant on land sale proceeds. In 2012-13, for example, profits tax and salaries tax, being the largest revenue sources, account for about 40% of government revenue, while land sale proceeds account for some 15%. It is the Government's on-going exercise to conduct reviews on relevant policies with a view to stabilising and diversifying revenue sources.

Management of public finances

20. Fiscal prudence has been the guiding principle of the HKSAR Government on the management of public finances. Article 107 of the Basic Law stipulates that the Hong Kong Special Administrative Region shall follow three principles in drawing up its budget: first, keeping the expenditure within the limits of revenues; second, striving to achieve a fiscal balance and avoid deficits; and third, keeping the budget commensurate with the growth rate of its gross domestic product (GDP). In other words, the budget should not grow faster than the economy as a whole. Since 1997-98, both our revenue and expenditure averaged at about 20% of GDP. We have experienced 5 years of deficits and 11 years of surpluses. Up to 2012-13, cumulative GDP growth in nominal terms is about 50%. While the cumulative growth in revenue is largely similar, the cumulative growth in expenditure has almost doubled. We must observe fiscal prudence. Meanwhile, we also adhere to the principles of pragmatism, commitment to society and sustainability in managing public finances.

Conclusion

21. To sum up, we have been committed to allocating resources for our human capital and social infrastructure investment. Nevertheless, as both public resources and fiscal reserves are limited, coupled with the long-term demands for resources arising from ageing population, we must make early preparation. The use of public resources has always been guided by the principle of pragmatism. Resources are allocated in accordance with actual needs and priorities, taking into account fiscal sustainability. When implementing new policies and measures, especially those involving long-term financial commitments, the Government must consider them thoroughly and carry out appropriate planning well in advance to ensure proper use of resources.

22. In preparing the Budget every year, the Government will take into account the views from various sectors, including Members of the Legislative Council. The Budget consultation for the next financial year has commenced in October 2013 and will end in February 2014. We will continue to carefully consider the relevant proposals put forward by various sectors in the preparation of the next Budget.

Financial Services and the Treasury Bureau
December 2013

(Translation)

**Motion on
“Optimizing public finances and enhancing the impetus
for innovation in Hong Kong’s economy”
moved by Hon Kenneth LEUNG
at the Council meeting of 16 October 2013**

**Motion as amended by Dr Hon Elizabeth QUAT, Hon Andrew LEUNG,
Hon Ronny TONG and Hon Charles Peter MOK**

That in the Global Competitiveness Report published by the World Economic Forum last month, Hong Kong ranks seventh in the world, rising by two places; but at the same time, the report points out that if Hong Kong is to upgrade its competitiveness, it must enhance its standards of higher education and innovation; given the insufficient impetus for innovation in Hong Kong’s economy, this Council urges the Government to optimize the use of fiscal reserves, take the lead in promoting and guiding the development of technological research, creative industry or other industries with competitive edge and development potentials, so as to open up new economic areas, and at the same time, to increase substantially its investment in human capital and social infrastructure, with a view to attaining the goal of diversified economic development; this Council also urges the Government to formulate long-term infrastructure planning and nurture talents through various channels such as education and vocational training, etc., so as to enhance Hong Kong’s competitiveness and foster upward social mobility; this Council also urges the Government to improve the existing over-reliance on the high land price policy; this Council also urges the Government to formulate long-term, comprehensive and concrete policies on technology industries, including enhancing technology education, creating a good environment for starting up businesses, supporting the development of local applied scientific research and technology transfer, and assisting Hong Kong technological enterprises in developing the local, Mainland and overseas markets, so as to further strengthen the economic impetus of Hong Kong.