

**立法會**  
***Legislative Council***

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**Panel on Financial Affairs**

**Meeting on 7 April 2014**

**Background brief on  
Long-term fiscal planning of Hong Kong**

**Purpose**

This paper provides background information on the long-term fiscal planning of Hong Kong and summarizes the major concerns and views expressed by Members on related issues during the 2013-2014 legislative session.

**Background**

Appointment of the Working Group on Long-Term Fiscal Planning

2. In view of Hong Kong's ageing population and expected soar in public expenditure on welfare and healthcare, the Financial Secretary ("FS") announced in the 2013-14 Budget Speech the initiative to set up a working group to explore ways to make more comprehensive planning for Hong Kong's public finances to cope with the ageing population and the Government's other long-term commitments. The Working Group on Long-term Fiscal Planning ("the Working Group") was appointed on 11 June 2013 with the Permanent Secretary for Financial Services and the Treasury (Treasury) as the Chairperson, and scholars and experts from fields including economics, accountancy, financial services and actuary services as non-official members. The terms of reference and membership of the Working Group are in **Appendix I**.

## Report of the Working Group on Long-term Fiscal Planning

3. The Working Group released its report ("the Working Group Report") on 3 March 2014, which includes a fiscal sustainability appraisal on the current state of public finance in Hong Kong and a package of fiscal measures to cope with the fiscal challenges ahead.

4. The Working Group's fiscal sustainability appraisal covers long-term trend projections on economic growth, government revenue and government expenditure for Hong Kong for the coming 20 to 30 years. The Working Group projects that for the projection period, the nominal Gross Domestic Products ("GDP") will grow at an average annual trend rate of 4.4%. The Government revenue is projected to grow at an average annual trend rate of 4.5%. The Government expenditure is forecast to grow at an average annual trend rate of 5.3% under the assumption that no service enhancement will be made to education, social welfare and health services. The trend growth rates will be 6%, 6.7% or 7.5% per annum under three other spending scenarios which assume that service standards for education, social welfare and health services will grow by 1%, 2% and around 3% per annum respectively.

5. With government expenditure growing faster than government revenue and GDP, the Working Group forecasts that a structural deficit would seem unavoidable. Under the scenarios with no service enhancement, services growth by 1% to 2% and around 3% per annum, the Working Group projects that a structural deficit would surface in 15, eight to 10, and seven years' time respectively.

6. The Working Group recommends to FS the adoption of the following package of fiscal measures to cope with the fiscal challenges ahead:

- (a) containing expenditure growth at or around 20% of the GDP;
- (b) preserving, stabilizing and broadening the revenue base;
- (c) establishing a saving scheme for the future through creating a "Future Fund" comprising the Land Fund<sup>1</sup> and a portion of future surpluses;
- (d) segregating and balancing the Operating and Capital Accounts by capping operating expenditure of the Government at 90% of the operating revenue;

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<sup>1</sup> The Land Fund was established on 1 July 1997 by Resolution of the Provisional Legislative Council to receive and hold all of the assets transferred from the Hong Kong Special Administrative Region Government Land Fund.

- (e) making clear what the fiscal reserves cover;
- (f) stepping up the management of the Government's assets by considering measures like asset disposals or securitization; and
- (g) sustaining the financial health of the Housing Authority.

7. Details of the Working Group's recommendations are hyperlinked in **Appendix II**.

### **Views and concerns expressed by Members**

8. The analyses and recommendations of the Working group have sparked off wide concerns from Members and the public, including the assumptions adopted by and findings of the Working Group, accuracy of the forecasts made, whether the gloomy budget deficit warned by the Working Group would be over pessimistic given that the Government has accumulated huge fiscal reserves and that it has always over-estimated expenditure and under-estimated revenue in the past, and the motive for creating the Future Fund.

#### Special meetings of the Finance Committee to examine the Estimates of Expenditure 2014-2015

9. During FS's briefing on the 2014-2015 Budget at the Finance Committee meeting on 27 February 2014, members expressed various views and concerns about Hong Kong's long-term fiscal planning. Doubts are expressed over whether the structural deficit as suggested by the Working Group would really happen given that the Government has enjoyed fiscal surpluses in the last 10 years. Some members were concerned that the Working Group might not have conducted its research and analysis in an objective manner.

10. As regards the Working Group's suggestion to contain expenditure growth, some members pointed out that the rationale for keeping the public expenditure at around 20% of the GDP was unclear, and urged that the Administration should explain the basis for working out the figure. The Administration should also examine under what circumstances this percentage could be increased.

11. With a view to increasing government revenue, some members suggested that the Administration should enhance Hong Kong's competitiveness. For instance, the Administration should step up its effort in upgrading and restructuring Hong Kong's industries and consider turning long-term

expenditure items, such as services for the elderly, into enterprises. Members also stressed the need for the Administration to exercise stringent control over its non-recurrent expenditure and to launch infrastructure projects in a more prudent manner.

12. On the establishment of the Future Fund, members considered that the Administration should elaborate on the rationale for setting up the Fund. There were views that the Future Fund should not be used to finance infrastructure projects only as such projects might not be conducive to economic growth. Instead, the Future Fund should be used in other areas like retirement protection, tackling the ageing population and poverty alleviation.

13. FS responded that according to the Working Group's analysis, Government's overall fiscal position in the short to medium term remained healthy. The Working Group had assessed various scenarios and conducted its research and analysis in an objective manner. The Working Group's projections had provided scientific data and a basis for the Government and the community to discuss issues and take forward appropriate measures to prevent a structural deficit from surfacing. Hong Kong people should neither take the problem lightly nor over-worry. It was necessary for the Government and the community to acknowledge the problem and continue to develop the economy, as well as to ensure that the growth in public expenditure would be commensurate with that of the economy and government revenue. As regards the Future Fund, FS pointed out that the aim of the Fund was to finance important infrastructure projects in times of economic difficulties. The preliminary thinking was that the Fund could be used to support non-recurrent expenditure items. It would not be suitable for the Fund to support recurrent expenditure like retirement protection. The infrastructure projects to be funded by the Fund would include hospitals and homes for the elderly.

14. Members have raised a number of written questions relating to the work and recommendations of the Working Group in connection with the examination of the Estimates of Expenditure 2014-2015. The major issues are related to details for establishing the Future Fund, its usage and investment; measures to step up the management of Government's assets and broaden the revenue base; and details and resources for implementing the recommendations of the Working Group. Details of the questions and the Administration's written responses are hyperlinked in **Appendix II**.

#### Legislative Council meeting

15. Hon Kenneth LEUNG raised a written question at the Council meeting on 26 March 2014 on issues relating to Hong Kong's long-term fiscal planning and the Working Group Report. The primary concern is about the

recommendations of the Working Group and whether and how the Administration will take on board the various recommendations. The question and the Administration written responses are hyperlinked in **Appendix II**.

### **Latest Development**

16. The Administration and members of the Working Group have been invited to attend the meeting of the Panel on Financial Affairs on 7 April 2014 to brief members on its analyses and recommendations as well as exchange views with them on issues related to long-term fiscal planning of Hong Kong.

### **Relevant papers**

17. A list of relevant papers is in **Appendix II**.

Council Business Division 1  
Legislative Council Secretariat  
2 April 2014

**The terms of reference and membership of the  
Working Group on Long-Term Fiscal Planning**

The Working Group is tasked to –

- (a) review projections of the Government's long-term fiscal position up to around 2041, having regard to forecasts of demographic trends, economic growth and other major funding liabilities under prevailing policies;
- (b) review measures adopted by other economies in coping with longer term challenges on public finances; and
- (c) identify and analyze options consistent with Articles 107 and 108 of the Basic Law to address the longer term funding needs of Hong Kong.

The membership of the Working Group is as follows:

**Chairperson**

Ms Elizabeth Tse	Permanent Secretary for Financial Services and the Treasury (Treasury)
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**Non-official Members**

Professor Liu Pak-wai	Research Professor and Emeritus Professor of Economics The Chinese University of Hong Kong
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Professor Francis Lui	Head and Professor Department of Economics School of Business and Management The Hong Kong University of Science and Technology
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Mr Mark Saunders	Managing Director Asia Pacific Insurance Sector Towers Watson
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Mrs Jennifer Wong                      Partner  
KPMG

Mr Marcellus Wong                      Senior Adviser  
PricewaterhouseCoopers

**Ex-officio Members**

Mrs Lesley Wong                      Director of Accounting Services  
(up to 20 January 2014)

Mr Martin Siu                              Director of Accounting Services  
(from 21 January 2014)

Mrs Helen Chan                          Government Economist

Ms Esther Leung                          Deputy Secretary for Financial Services and the  
Treasury (Treasury)<sup>1</sup>

**Secretary**

Mr Charlix Wong                          Principal Assistant Secretary for Financial  
Services and the Treasury (Treasury)(H)

(Source: Report of the Working Group on Long-Term Fiscal Planning)

## Appendix II

### List of relevant papers

Date	Event	Paper/Minutes of meeting
11 June 2013	The Financial Secretary ("FS") announced the appointment of the Working Group on Long-Term Fiscal Planning ("the Working Group")	<a href="#">Press release</a>
26 February 2014	FS presented the 2014-2015 Budget	<a href="#">Budget speech</a>
3 March 2014	The Working Group released its report	<a href="#">Press release</a> <a href="#">Report</a>
31 March 2014	Members raised questions relating to the work and recommendations of the Working Group during the examination of the Estimates of Expenditure 2014-2015	<a href="#">Administration's replies to Members initial written questions for the session on "Public Finance"</a> (Reply Serial Nos. FSTB(Tsy) 059, 069, 083, 097, 109, 111, 115 and 119)
26 March 2014	Hon Kenneth LEUNFG raised a written question on the work and recommendations of the Working Group	<a href="#">Press release</a>