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The 2018-2019 Budget

April 2018

Armed with a record-breaking budget surplus and guided by the new fiscal philosophy, the Financial Secretary has unveiled a progressive Budget for 2018-2019.

Total education expenditure is forecast to increase by 28.4% in 2018-2019, but much of the increase will be fuelled by non-recurrent and capital expenditure items.

While the share of social welfare expenditure in total government expenditure has risen during the past decade, growth in expenditure on services for the elderly may not be proportionate to the needs of an ageing population.

While development of new medical facilities can proceed apace, the manpower constraints may make it difficult for the Government to rectify the overloaded public healthcare system in the near future.

Since the implementation of the Ten Major Infrastructure Projects in 2007, capital works expenditure more than quadrupled over the past decade. The rising costs of some major capital works projects have aroused wide concern in recent years.

The recent years have seen increasing use of the hefty budget surplus and fiscal reserves by the Financial Secretary to set aside money for specific purposes and/or establish designated funds to address specific public concerns. A review of the funding earmarked since the 2008-2009 Budget reveals under-utilization of some of the funds.

The Council will resume the Second Reading debate on the Appropriation Bill 2018 at its meeting of 25 April 2018.

1. Introduction

1.1 The Financial Secretary delivered on 28 February 2018 the first Budget of the current-term Government. He reported a budget surplus of HK$138 billion for 2017-2018, which is HK$121.7 billion more than the original estimate of HK$16.3 billion. As a result of the record-high budget surplus, the Government's fiscal reserves surpassed the one-trillion-dollar mark for the first time to reach HK$1.092 trillion as at end-March 2018.

1.2 The Financial Secretary also disclosed in the budget document that total public expenditure as a share of Gross Domestic Product ("GDP") will be in the range of 21.2% to 21.8% over the five financial years from 2018-2019. This departs from the long-held budgetary criterion of the Government of keeping total public expenditure at or below 20% of GDP. According to the Financial Secretary, the change reflects the new fiscal philosophy the Chief Executive has set for the current-term Government.[1] The philosophy envisages that on the premise of ensuring the health of public finance, the Government should adopt forward-looking and strategic financial management principles in optimizing the use of surplus to invest for Hong Kong and relieve people's burdens.

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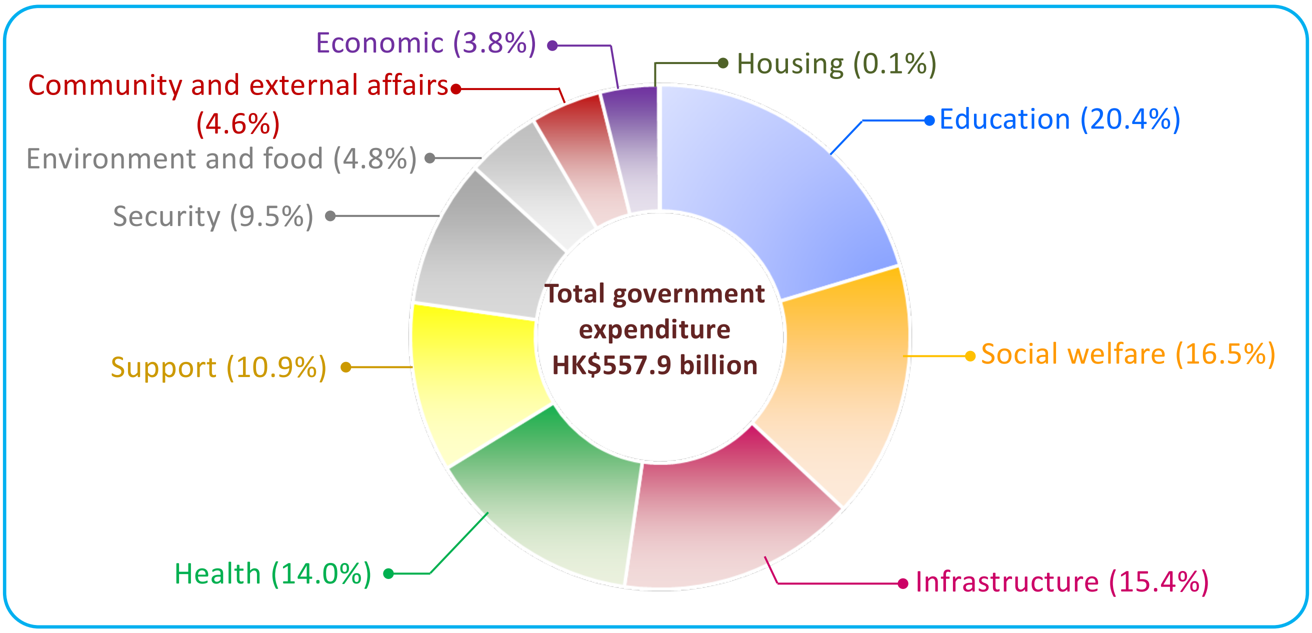
[1] See paragraph 47 of the 2018-2019 Budget.

2. Expenditure initiatives

2.1 Armed with a record-breaking budget surplus and guided by the new fiscal philosophy, the Financial Secretary has unveiled a progressive 2018-2019 Budget characterized by various short-term relief measures, new tax cuts and increased government expenditure. On spending initiatives, total public expenditure is forecast to grow by 16.7% to HK$598.6 billion in 2018-2019, accounting for 21.2% of GDP. Within this overall growth, total government expenditure[2] will increase faster by 17.6% to HK$557.9 billion in one of the most progressive budgets in recent years (**Figure 1**).

Figure 1 – Total government expenditure by policy area, 2018-2019



Data source: 2018-2019 Budget Speech.

2.2 Within total government expenditure, education, social welfare and health remain the major expenditure items in 2018-2019, accounting for a total share of 50.9%. Meanwhile, infrastructure spending continues to take up a large share of total government expenditure at 15.4% in 2018-2019. In addition, the Financial Secretary has continued to set aside a considerable amount of money for specific purposes in the 2018-2019 Budget, including earmarking HK$300 billion to support the second 10-year hospital development plan and HK$50 billion to foster innovation and technology ("I&T") development. This Research Brief studies the above major expenditure items and the latest progress on the use of the funding earmarked in the Budget.

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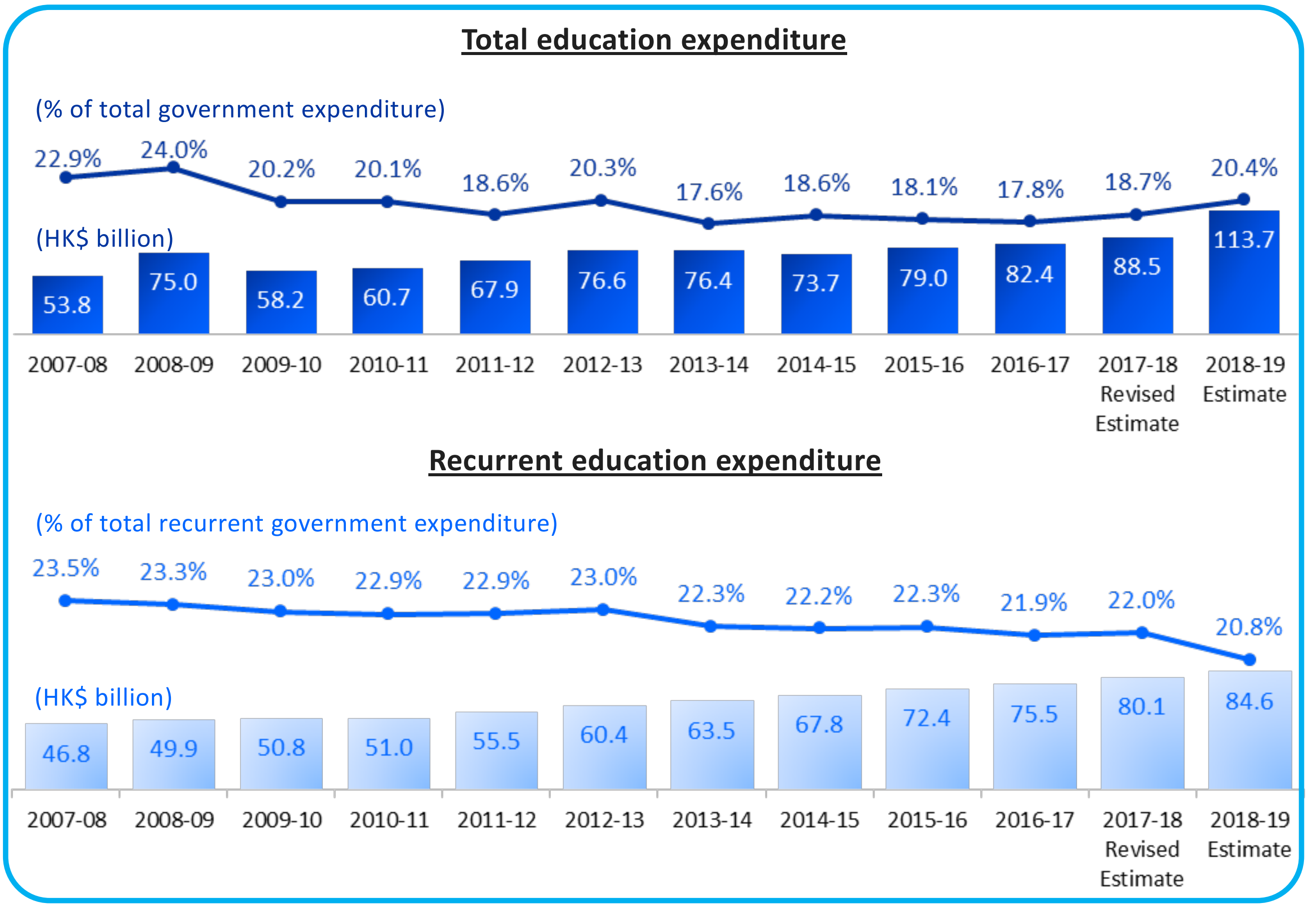
2 Total government expenditure constitutes a substantial part of total public expenditure with the latter including expenditure by other public bodies as well. Yet, total public expenditure does not include expenditure by those organizations, including statutory organizations in which the Government has only an equity position, such as the Airport Authority and the MTR Corporation Limited.

3. Education expenditure

3.1 While total education expenditure in 2018-2019 will increase by 28.4% or HK$25.2 billion[3] to HK$113.7 billion, its share to total government expenditure has declined over the past years from 22.9% in 2007-2008 to 20.4% in 2018-2019 (**Figure 2**). In particular, a declining trend is witnessed in recurrent education expenditure from 23.5% in 2007-2008 to 20.8% in 2018-2019.[4] Recurrent education expenditure, which reflects the Government's long-term commitment to education, has the year-on-year growth rate at 5.6% in 2018-2019, the second lowest among all the policy areas (**Figure 3**). Nevertheless, education remains the largest recurrent expenditure item among all policy areas.

Figure 2 – Expenditure on education, 2007-2008 to 2018-2019



Data sources: Budget Speech (various years) and Financial Services and the Treasury Bureau.

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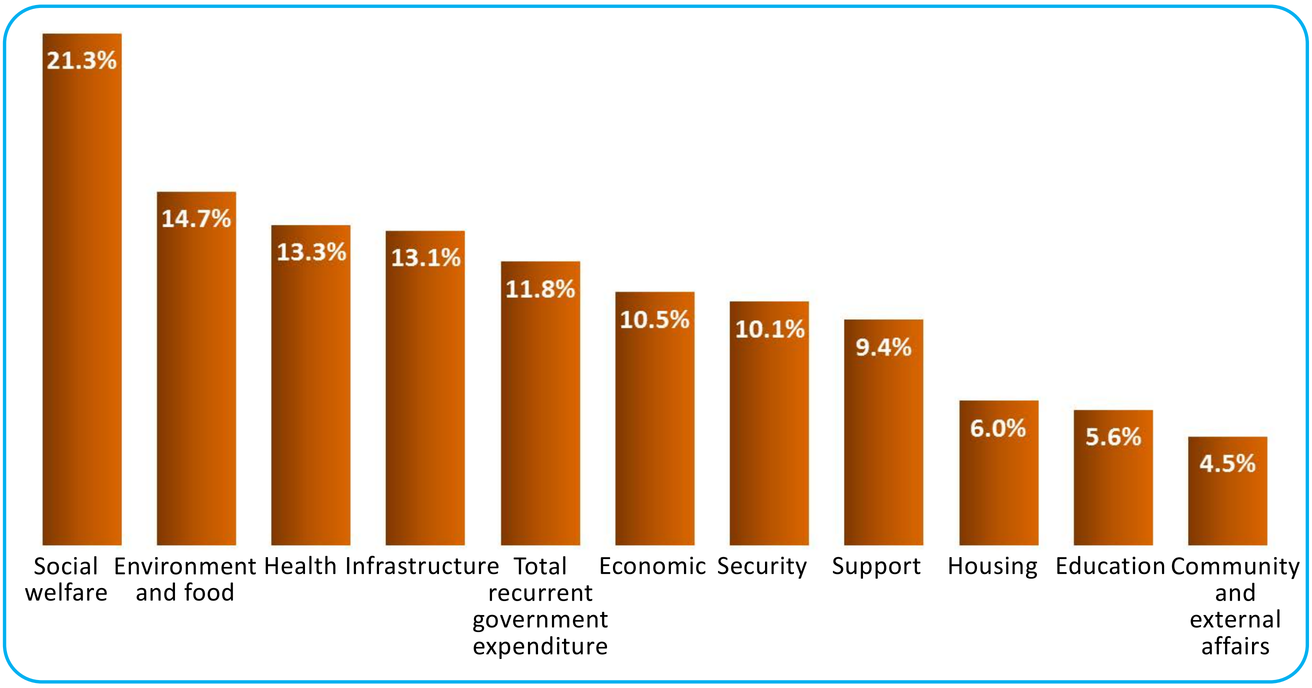
[3] The increase in total education expenditure in 2018-2019 will be fuelled by non-recurrent and capital expenditure items, which are forecast to more than triple to HK$29 billion and account for some 82% of the increase in total education expenditure. Key proposals announced in the 2018-2019 Budget include (a) capital injection into the Research Endowment Fund, the Gifted Education Fund and the HKSAR Government Scholarship Fund; (b) setting up of the Hostel Development Fund and a Student Activity Support Fund; and (c) expediting installation of lifts for public sector schools without such provisions.

[4] The declining trend reflects, among other things, the reduced size of student population over the past decade, when the number of children and teenagers aged 5-24 decreased from 1.6 million in mid-2007 to 1.3 million in mid-2017.

Figure 3 – Year-on-year growth rate of total recurrent government expenditure by policy area, 2018-2019



Data source: 2018-2019 Budget Speech.

3.2 Reflecting the relatively slower growth in recurrent education expenditure, the number of first-year first-degree places funded by the University Grants Committee ("UGC") each year has remained virtually unchanged at 15 000 since 1994. As a result, about 18% of the relevant admission age cohort can now enrol in the UGC-funded undergraduate programmes. Many secondary school leavers have enrolled in self-financing sub-degree or degree programmes after failing to earn a UGC-funded university place (**Figure 4**). It was not until the 2017-2018 academic year that the Government started to provide a non-means-tested annual subsidy of HK$30,000 for eligible local students to take full-time self-financing undergraduate programmes offered by non-UGC-funded institutions.[5] Furthermore, the Government is progressively increasing the number of UGC-funded senior year undergraduate intake places to 5 000 per annum by the 2018-2019 academic year.

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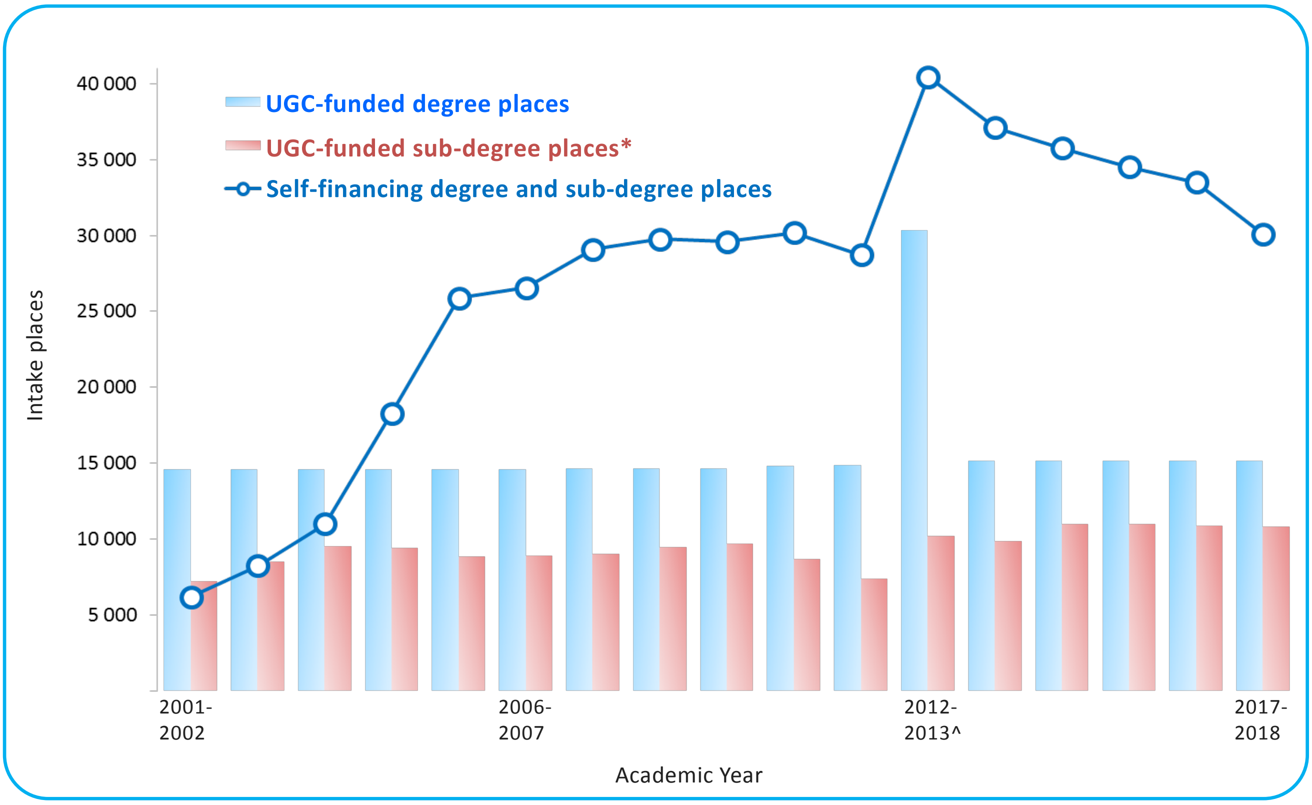
[5] According to the Government, students who are enrolled in self-financing undergraduate programmes of the UGC-funded universities are not the target group of the subsidy scheme.

Figure 4 – Number of first-year first-degree and sub-degree intake places, 2001-2002 to 2017-2018



Notes: (*) In addition to offering degree programmes, some UGC-funded universities, together with the Vocational Training Council and the Hong Kong Academy for Performing Arts, also offer UGC-funded sub-degree programmes.

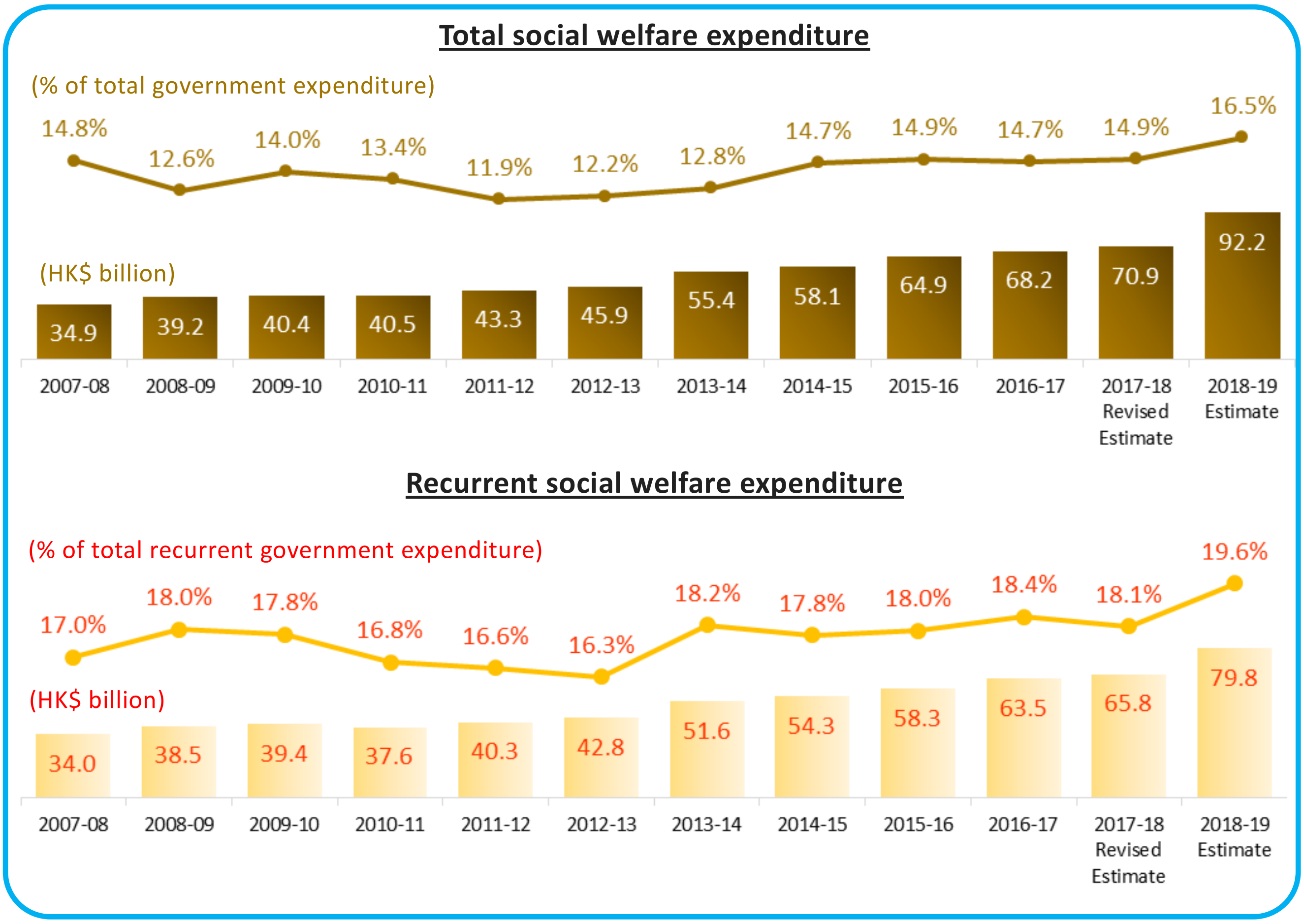
(^) The UGC-funded first-year first-degree places doubled in the 2012-2013 academic year for two cohorts of secondary school graduates (i.e. the Hong Kong Advanced Level and Hong Kong Diploma of Secondary Education cohorts).

Data source: Committee on Self-financing Post-secondary Education.

4. Social welfare expenditure

4.1 The share of social welfare expenditure in total government expenditure has risen over the years due to growing demand from individuals and families in need (**Figure 5**). In 2018-2019, total social welfare expenditure will surge by 30.1% to HK$92.2 billion, with the share rising to 16.5% of total government expenditure. Within the total, recurrent social welfare expenditure amounts to HK$79.8 billion in 2018-2019, which is 21.3% higher than that in 2017-2018. As a result, social welfare will take up the second largest share of total recurrent government expenditure after education in 2018-2019.

Figure 5 – Expenditure on social welfare, 2007-2008 to 2018-2019

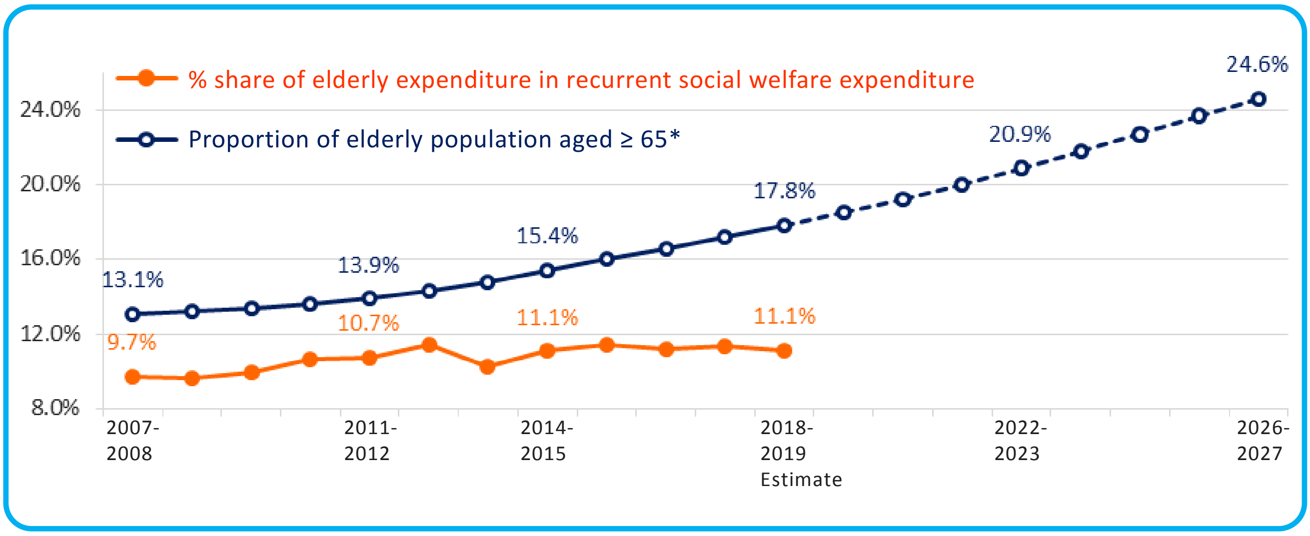


Data sources: Budget Speech (various years) and Financial Services and the Treasury Bureau.

4.2 During the past decade, recurrent social welfare expenditure as a share of total recurrent government expenditure increased from 16.3% in 2012-2013 to some 18% thereafter, before rising further to 19.6% in 2018-2019 (Figure 5). Yet, expenditure on services for the elderly[6] as a share of recurrent social welfare expenditure only increased modestly from 9.7% in 2007-2008 to 10.7% in 2011-2012 and then remained largely stable at around 11% throughout most of the ensuing years (**Figure 6**). It is noted that such a trend, if continues, may not be proportionate to the needs of an ageing population.

6 According to the 2018-2019 Estimates of Expenditure, the Social Welfare Department provides seven core welfare services in this financial year. The financial provision for services for the elderly is the second largest after social security, at HK$8.9 billion in 2018-2019.

Figure 6 – Elderly population and expenditure on services for the elderly



Note: (*) The proportion is compiled based on mid-year population in calendar year.
Data sources: Estimates of Expenditure (various years) and Census and Statistics Department.

4.3 According to the Census and Statistics Department, the proportion of elderly persons aged 65 and above is projected to increase from 17.8% in mid-2018 to 24.6% in mid-2026, representing an increase of 558 000 persons during the period. Population ageing will be a key challenge for Hong Kong in the medium- to long-term future and is expected to weigh on fiscal sustainability in view of its pressure on social welfare and healthcare services expenditure. According to the consultation document published by the Commission on Poverty in December 2015, the estimated expenditure related to the elderly in 2064-2065 will be two to four times the amount in 2014-2015 (**Figure 7**). Likewise, the International Monetary Fund forecast in 2017 that population ageing could increase Hong Kong's pension spending to 3.9% of GDP by 2050 from 1.8% of GDP in 2015.

Figure 7 – Forecast for elderly expenditure

(at 2015 price)	2014-2015	2064-2065*
Social security benefits for the elderly^	HK$24.1 billion	Doubled
Public healthcare services for the elderly	HK$23.9 billion	Tripled
Residential and community care services for the elderly	HK$6.2 billion	Tripled
Public transport fare concession scheme for the elderly	HK$0.4 billion	Quadrupled
Elderly Health Care Voucher Scheme	HK$0.7 billion	Quadrupled

Notes: (*) Discounting the factor of inflation and assuming that there is no service improvement.
(^) The benefits include Comprehensive Social Security Assistance, Old Age Living Allowance, Old Age Allowance, Disability Allowance and allowance under the Guangdong Scheme.
Data source: Commission on Poverty.

4.4 Not long before Hong Kong announced its budget, Singapore made its budget announcement on 19 February 2018. Ageing has been identified in Singapore's 2018-2019 Budget as one of the three major shifts in the next decade,[7] as the total number of the elderly will increase by about 450 000 to 900 000 by 2030. The Budget announced the plan of increasing the Goods and Services Tax ("GST") rate by two percentage points sometime during 2021-2025, in order to ensure sufficient fiscal revenue to prepare for, among other things, the rapidly ageing population.

5. Health expenditure

5.1 Total health expenditure will increase by 9.5% or HK$6.8 billion to HK$78 billion in 2018-2019 (**Figure 8**), accounting for 14% of total government expenditure. Within the total, recurrent health expenditure will increase faster by 13.3% or HK$8.4 billion to HK$71.2 billion, representing 17.5% of total recurrent government expenditure. The year-on-year growth rate, at 13.3% in 2018-2019, is considerably faster than the average annual growth of 7.1% over the past decade. The accelerated growth rate reflects the pressing need to improve the existing overloaded public healthcare sector as evidenced by long waiting times and high bed occupancy rates in public hospitals.[8]

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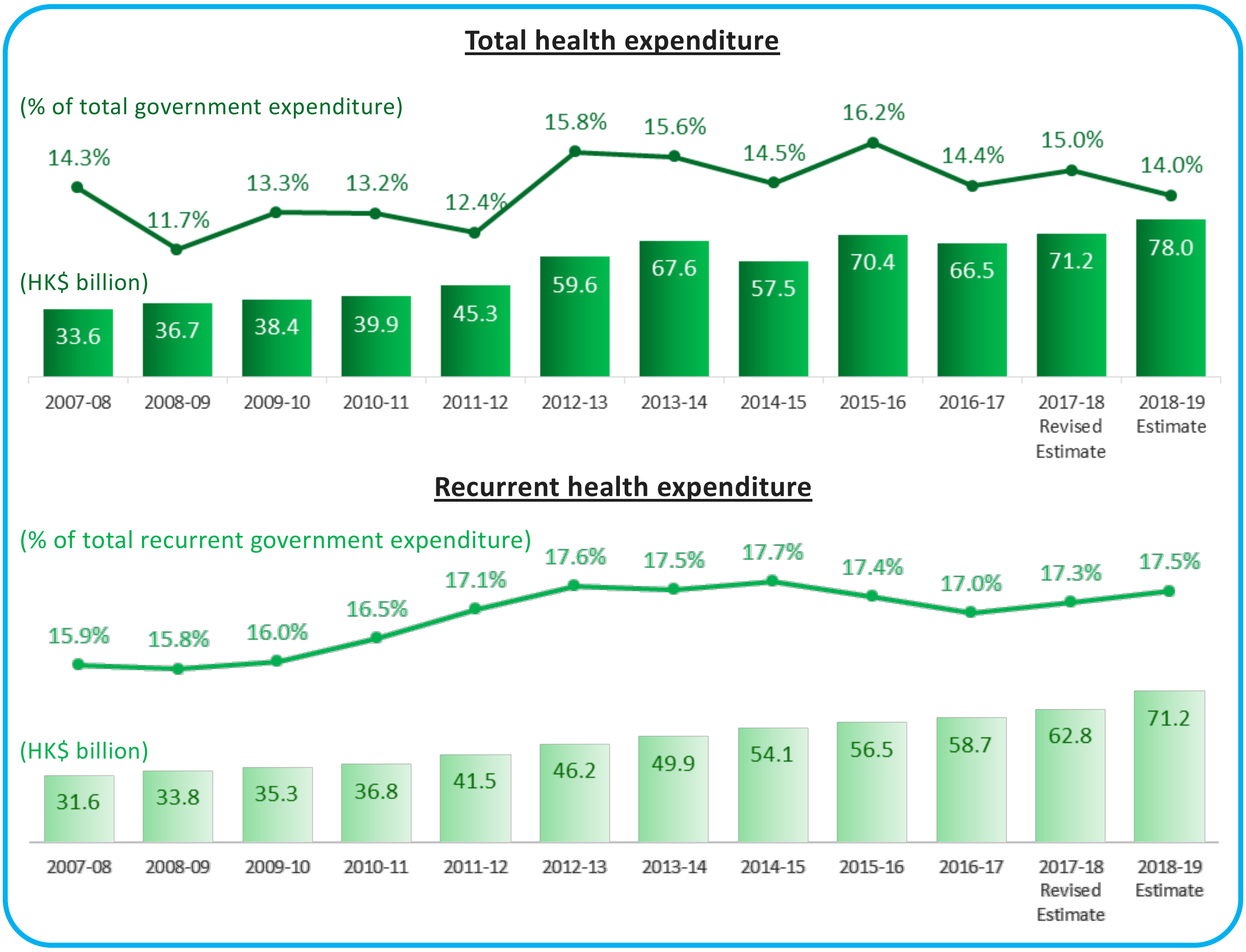
7 The other two are the shift in global economic weight towards Asia and emergence of new technologies.

8 The Hospital Authority reviews on a regular basis the waiting time for patients with colorectal cancer, breast cancer and nasopharyngeal cancer to receive their first treatment after diagnosis. During the period between July 2016 and June 2017, the corresponding waiting times at the 90^{th} percentile for patients with colorectal cancer, breast cancer and nasopharyngeal cancer were 80 days, 65.5 days and 54 days respectively. During the recent outbreak of winter influenza, it was reported that bed occupancy rose to 130% in some public hospitals, causing overflow into corridors.

Figure 8 – Expenditure on health, 2007-2008 to 2018-2019



Data sources: Budget Speech (various years) and Financial Services and the Treasury Bureau.

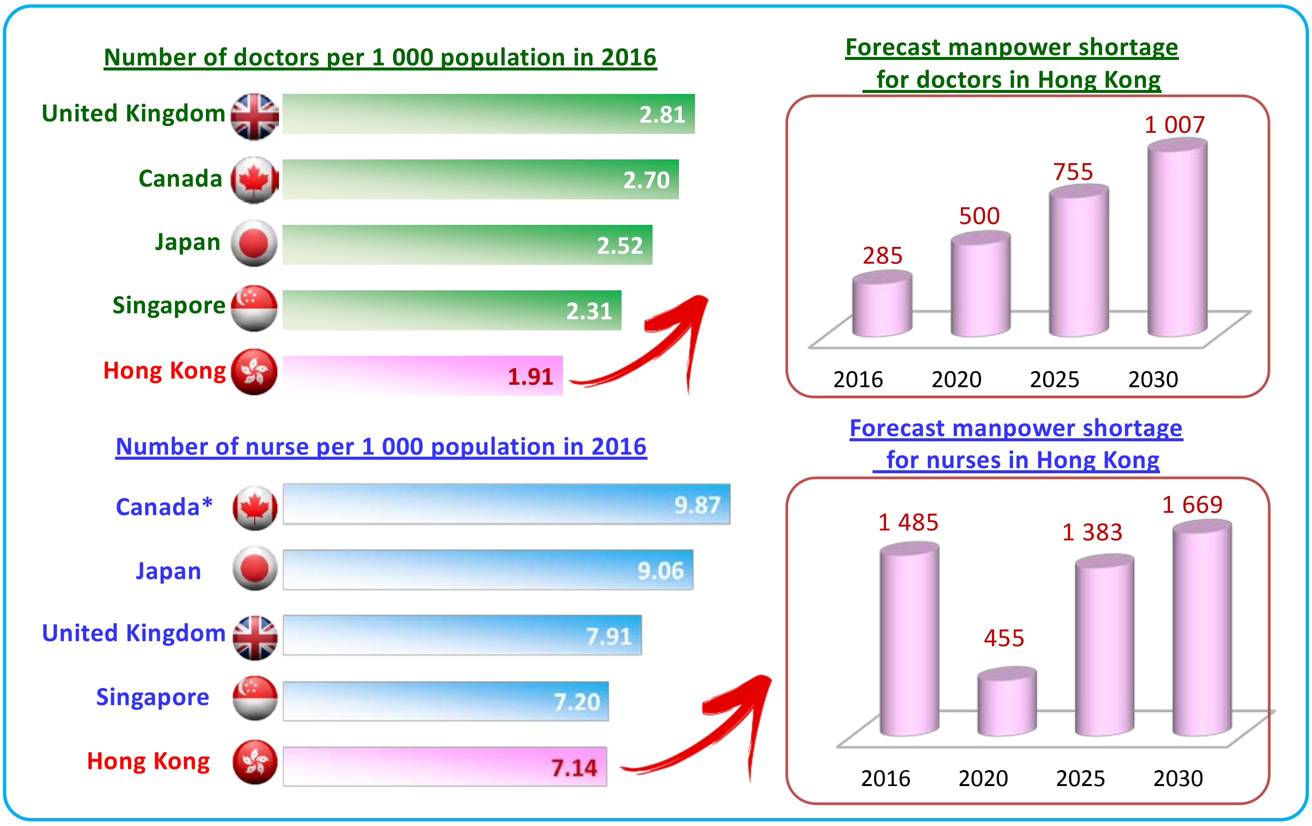
5.2 In the 2018-2019 Budget, the Financial Secretary has set aside HK$300 billion as an initial provision to support the second 10-year hospital development plan, improve the clinics in the Department of Health, and upgrade and increase healthcare teaching facilities. The second 10-year hospital development plan is expected to deliver another 3 000-4 000 hospital beds, on top of the 5 000 hospital beds planned under the ongoing first 10-year hospital development plan.[9]

5.3 While development of new medical facilities can proceed apace, a huge challenge to Hong Kong's public health system is to recruit sufficient manpower to operate the newly added facilities, particularly ensuring an adequate supply of healthcare professionals for the additional 8 000-9 000 hospital beds expected to

[9] The Government earmarked a total provision of HK$200 billion in 2016-2017 for the implementation of a 10-year hospital development plan to provide 5 000 extra hospital beds. In the 2018-2019 Budget, the Financial Secretary disclosed that he had invited the Hospital Authority to start planning the second 10-year hospital development plan, instead of waiting for the mid-term review of the first 10-year plan to be conducted in 2021.

come on stream in the year ahead. At present, Hong Kong is facing a severe problem of manpower shortage of doctors and nurses. The number of doctors and nurses per 1 000 population is relatively low compared with many developed economies (**Figure 9**). The problem is expected to continue at least into 2030 according to a manpower review on medical professionals published by the Food and Health Bureau in 2017.

Figure 9 – Number of doctors and nurses and the manpower shortage, 2016-2030



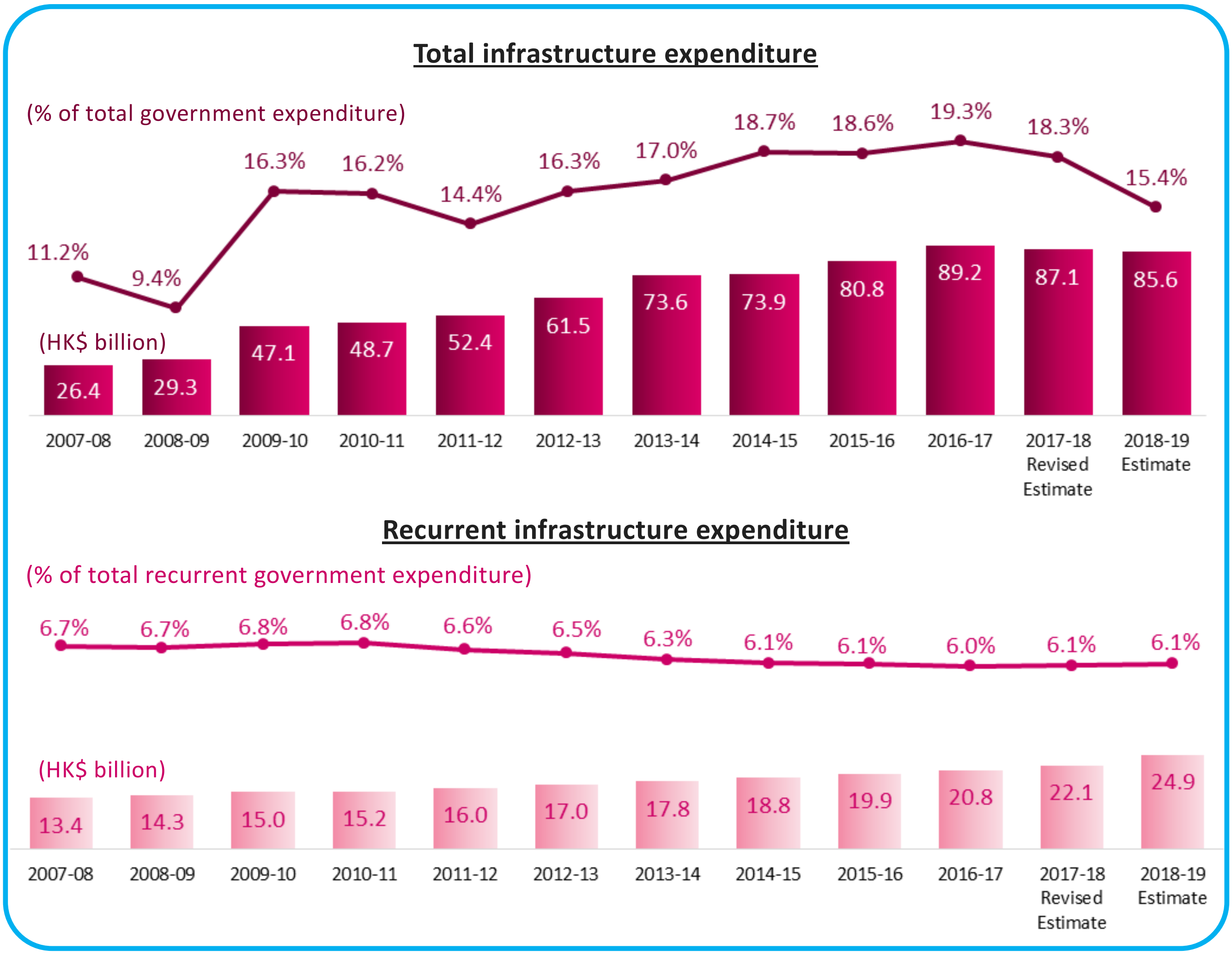
Note: (*) Latest available figure for Canada is only of 2015, rather than 2016.
Data sources: Census and Statistics Department, Food and Health Bureau, Organisation for Economic Co-operation and Development, Ministry of Health of Singapore, and Ministry of Health, Labour and Welfare of Japan.

5.4 In the 2018-2019 Budget, the Financial Secretary stated that the Government was discussing with UGC to further increase publicly-funded training places for healthcare professionals in the coming three years. Yet, it takes time to train a healthcare professional, e.g. six years required for a doctor and three to five years for a nurse. Added to this, there is limitation to the UGC-funded universities to increase its training capacity in the short- to medium-term because of infrastructure constraints. Amid the above manpower constraints, it might take years for the Government to rectify the overloaded public healthcare sector, notwithstanding the flexibility afforded by the strong fiscal position to allocate more financial resources to the sector.

6. Infrastructure spending

6.1 Following the launch of the Ten Major Infrastructure Projects in 2007[10], infrastructure spending more than tripled from HK$26.4 billion in 2007-2008 to HK$87.1 billion in 2017-2018 (**Figure 10**), and its share in total government expenditure increased from 11.2% to 18.3% over the period. Following the strong growth over the past decade, infrastructure spending is forecast to show a moderate decline of 1.6% to HK$85.6 billion in 2018-2019, albeit with its share in total government expenditure remaining substantial at 15.4%.

Figure 10 – Expenditure on infrastructure, 2007-2008 to 2018-2019

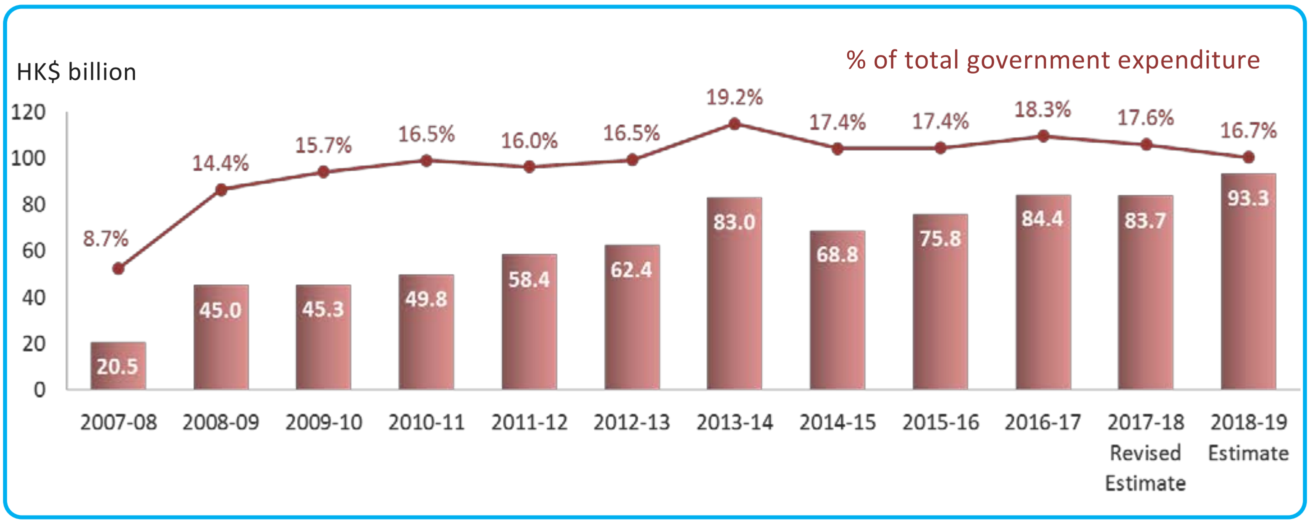


Data sources: Budget Speech (various years) and Financial Services and the Treasury Bureau.

[10] In his 2007-2008 Policy Address, the Chief Executive announced the implementation of Ten Major Infrastructure Projects to boost Hong Kong's regional competitiveness and foster further integration with the Pearl River Delta.

6.2 The massive infrastructure spending, coupled with increased expenditure on other capital works projects such as schools, hospitals and cultural facilities, has more than quadrupled the capital works expenditure from HK$20.5 billion in 2007-2008 to HK$93.3 billion in 2018-2019 (**Figure 11**). As a result, the share of capital works expenditure in total government expenditure surged from 8.7% to 16.7% over the same period.

Figure 11 – Capital works expenditure, 2007-2008 to 2018-2019



Data sources: 2018-2019 Budget Speech and The Treasury.

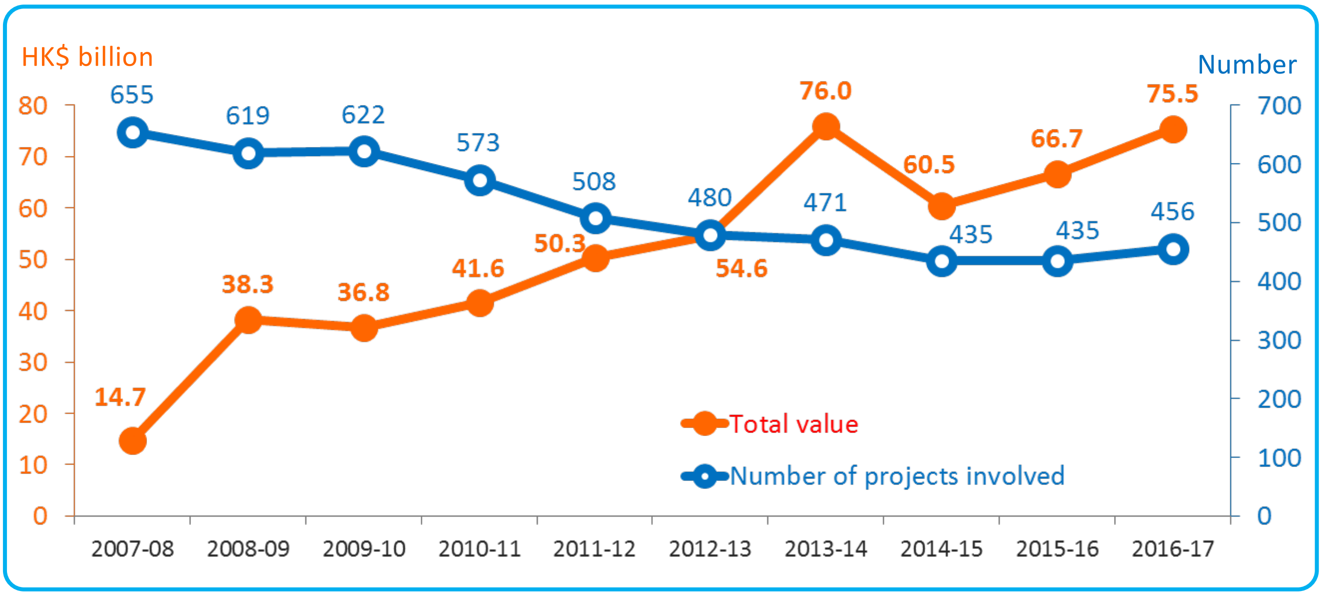
6.3 Capital works expenditure mentioned above are funded under the Capital Works Reserve Fund[11] and approved by the Finance Committee of the Legislative Council ("FC") or the Financial Secretary acting under delegated power. It comprises the Capital Works Programme expenditure approved for (a) individual project basis and (b) minor works items under the block allocations arrangement. For projects costing less than HK$30 million each, the Government normally uses the block allocations as a lump sum to cover a multitude of minor work items.

6.4 Capital works expenditure incurred by the Government, after excluding block allocations, surged from HK$14.7 billion in 2007-2008 to HK$75.5 billion in 2016-2017 while the number of project items involved decreased from 655 to 456 over the same period (**Figure 12**). Yet, there was an increasing number of projects valued at HK$1 billion or above during the period (**Figure 13**). Based on the above, the average cost of a capital works project under the Capital Works Programme increased from HK$22.4 million in 2007-2008 to HK$165.6 million in 2016-2017. The increase was fuelled by, among other things, the commencement

[11] Capital works projects that involve the construction of social welfare facilities such as residential care homes and day care centres for the elderly are financed by the Lotteries Fund.

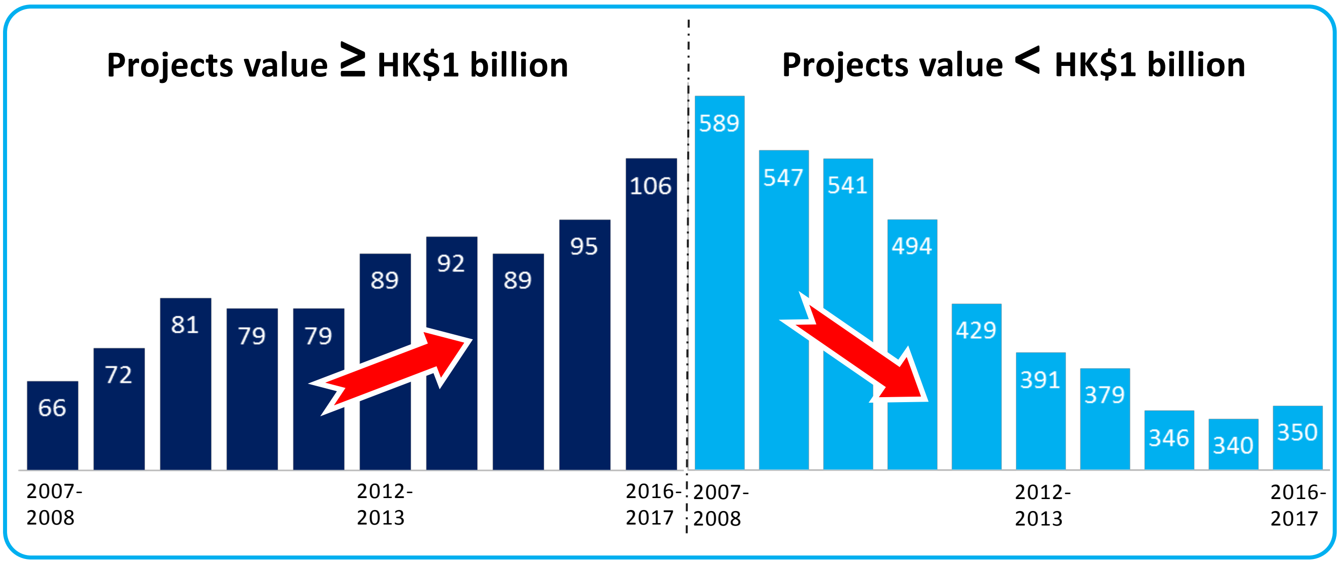
of the Ten Major Infrastructure Projects and rising construction costs during the period.[12]

Figure 12 – Capital works expenditure excluding block allocations, 2007-2008 to 2016-2017



Data source: The Treasury.

Figure 13 – Number of capital works projects by value, 2007-2008 to 2016-2017

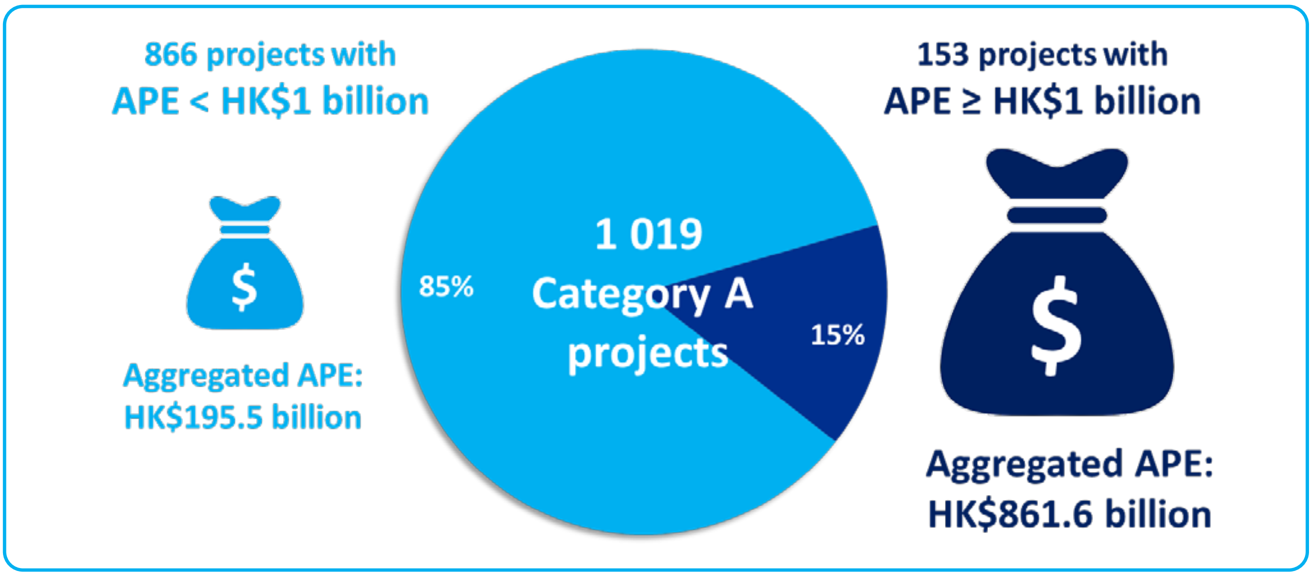


Data source: The Treasury.

[12] The Building Works Tender Price Index ("BWTPI") more than doubled from 821 in the first quarter of 2007 to 1 773 in the third quarter of 2017, reflecting rising construction costs during the period. BWTPI is a quarterly index compiled by the Architectural Services Department to provide an indication of the level of tender prices for new building works undertaken by the department.

6.5 The surge in the average cost of capital works projects should also be reflected by the increase in approved project estimates ("APEs") approved by FC or the Financial Secretary under delegated power for Category A projects of the Capital Works Programme.[13] During the past decade, a total of 1 019 Category A projects were funded under the Capital Works Reserve Fund according to the annual Estimates of Expenditure[14]. Among them, 85% were projects with an APE of less than HK$1 billion, and the remaining 15% with an APE at or above HK$1 billion (**Figure 14**).

Figure 14 – Capital Works Programme Category A projects, 2008-2009 to 2017-2018 (up to end-December 2017)



Data source: Estimates of Expenditure (various years).

6.6 For projects with an APE less than HK$1 billion, 5.7% of them obtained additional funding approval which represented an increase of HK$1.4 billion or 18.7% of the original aggregate APE. As to projects with an APE at or above HK$1 billion, 12.4% of them required additional funding in the amount of HK$60.7 billion in total or 31.1% of the original aggregate APE (**Figure 15**). These projects were mainly highway projects, which accounted for 47.4% and 74.7% of the total in number and value terms respectively. For some mega projects, the magnitude of increase in APE due to rising construction costs ranged from 22% to 196% (**Figure 16**).

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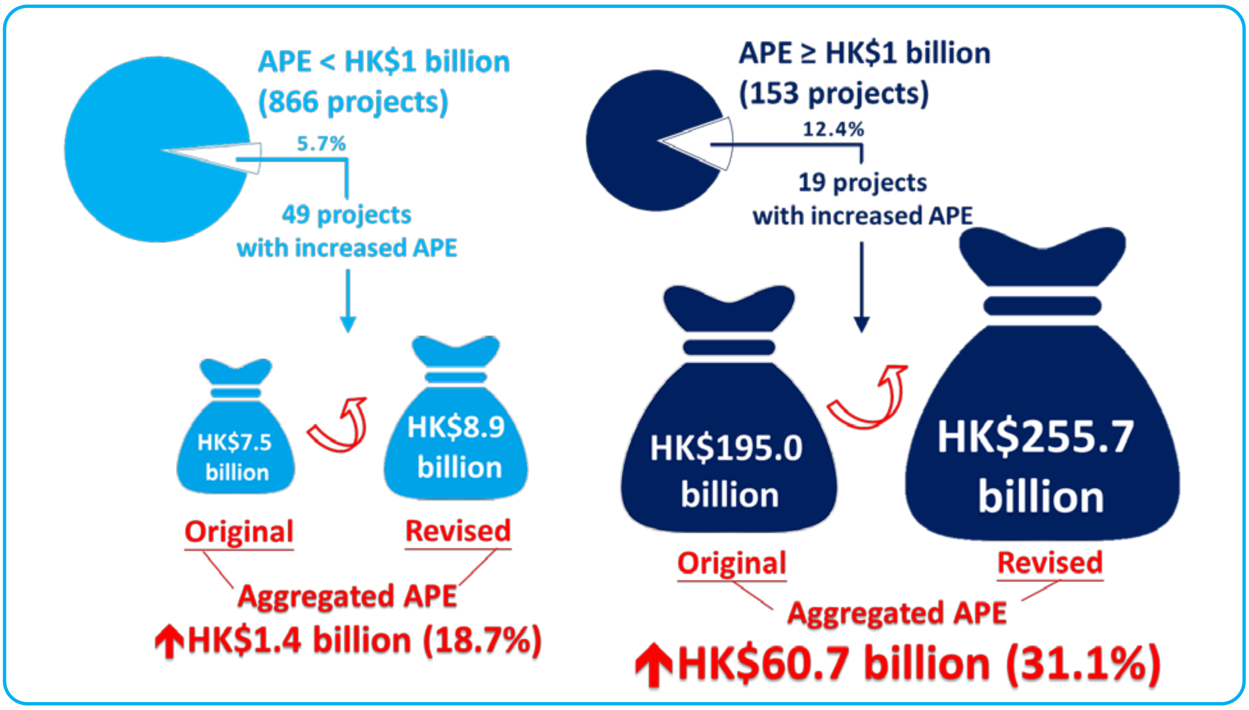
[13] Category A projects are those which are ready in all aspect for tenders to be invited and for construction work to process, and have APEs.

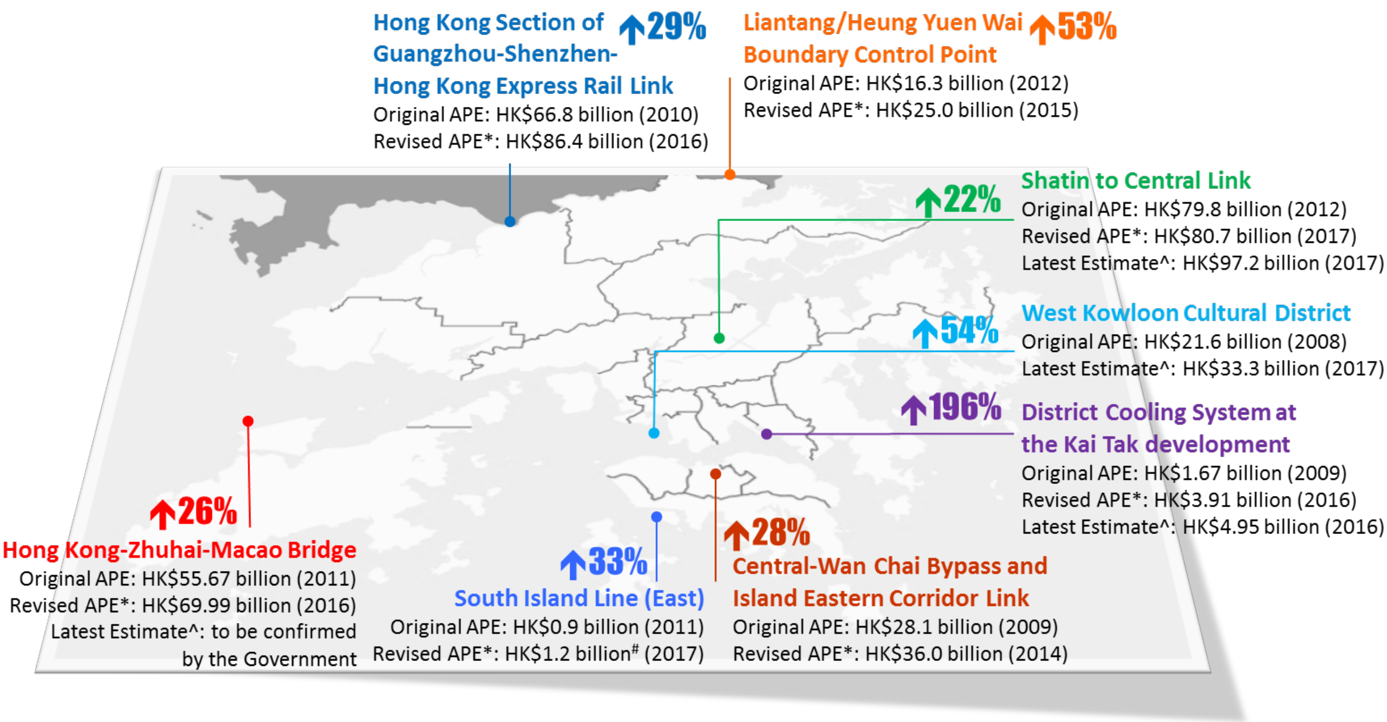
[14] Including some ongoing projects with the final accounts to be confirmed.

Figure 15 – Capital Works Programme Category A projects with increased APE, 2008-2009 to 2017-2018 (up to end-December 2017)



Data source: Estimates of Expenditure (various years).

Figure 16 – Selected mega projects with increased APE, 2008-2009 to 2017-2018



Notes: (^) To be submitted to FC for approval.

(*) Already approved by FC.

(#) The estimated construction cost of the South Island Line (East) during its commission was HK$16.9 billion, of which the Government was responsible for HK$1.2 billion and the MTR Corporation Limited for the remaining HK$15.7 billion.

Data sources: Estimates of Expenditure (various years), MTR Corporation Limited and HKSAR Government.

6.7 There are views that the Government has implemented a large number of infrastructure projects simultaneously in recent years,[15] and that the bunching of those projects has led to escalating construction and labour costs.[16,17] According to the Government,[18] the main reasons for the increase in APE are:

(a) the increase in project contingency[19] (and its associate provision for price adjustment) to account for unforeseen circumstances as from the date the project obtained funding approval to tendering as well as during construction stage of the project, such as higher-than-expected tender return, worse-than-expected ground conditions, and additional costs for extra works to meet local concerns; and

(b) the increase in provision for price adjustment to cover higher-than-expected escalation in labour and material costs.

6.8 Infrastructure spending is expected to be maintained at a high level in the years ahead. Spending of the Capital Works Reserve Fund will increase by an average annual rate of 7.1% between 2017-2018 and 2022-2023, from HK$87.8 billion to a high of HK$123.9 billion over the period. With Hong Kong entering a "construction peak period[20]", the possibility of recurrence of capital works projects requesting substantial increase in APE remains a concern. This is particularly the case in view of the manpower constraint facing the construction industry. In 2017, the Construction Industry Council forecast the need for an additional 5 000 to 10 000 skilled workers during 2018-2022 to sufficiently complete the anticipated projects by the private and public sectors.[21]

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15 For example, see Ejinsight (2014) and 馮蘊妍 、 姚松炎 (2017).

16 See Financial Services and the Treasury Bureau (2014).

17 According to a report published by an architecture consultancy in 2017, Hong Kong was Asia's most expensive city in terms of construction cost and second only to New York globally. See Arcadis (2017).

18 See GovHK (2015).

19 Generally speaking, the project cost for public works projects comprises "Base Estimate", "Project Contingency" and "Provision for Price Adjustment".

20 On-going and new development projects include Liantang/Heung Yuen Wai Boundary Crossing Point; West Kowloon Cultural District Government Infrastructure Project; Kai Tak Development; Wan Chai Development II and the associated works for Central-Wan Chai Bypass; new development areas at Kwu Tung North, Fanling North, Kam Tin South, Yuen Long South and Hung Shui Kiu; development of Lok Ma Chau Loop; Tung Chung New Town Extension; topside development at the Hong Kong boundary crossing facilities island of the Hong Kong-Zhuhai-Macao Bridge; reclamations outside Victoria Harbour; and Lantau development and conservation. See Transport and Housing Bureau (2018).

21 See Construction Industry Council (2017).

6.9 There are also concerns over the complexity in implementing mega projects. According to the Government,[22] these projects are more exposed to higher risks in view of the massive scale and longer planning horizons and implementation timeframes. Experience also indicated that the implementation of some of mega projects has suffered from substantial delays due to developments beyond the Government's control, such as legal challenges, judicial reviews, and longer than expected consultation time.

7. Funding earmarked in the Budget

7.1 The Financial Secretary has made provision in this year's Budget to earmark considerable sums of money for specific purposes. These include setting aside HK$300 billion to support the second 10-year hospital development plan, HK$50 billion to foster I&T development, HK$20 billion to improve and develop cultural facilities, and HK$15 billion to effect the abolition of the MPF "offsetting" arrangement.

7.2 The above funding arrangement reflects the increasing use of the hefty budget surplus and fiscal reserves by the Financial Secretary in recent years to set aside money for specific purposes and/or establish designated funds to address specific public concerns. A review of the funding earmarked since the 2008-2009 Budget reveals under-utilization of some of the funds (**Table**). For example, the Housing Authority has recently projected that it has sufficient financial resources in the coming five-year period and will not need any government support from the Housing Reserve.[23] Meanwhile, the Hong Kong Monetary Authority has only invested about half of the Future Fund managed by it.[24] Furthermore, a total of HK$50 billion was set aside in 2008-2009 to implement healthcare reform, which has hitherto obtained the funding approval for using only HK$14.03 billion or 28% of the funding earmarked.

[22] See Legislative Council Secretariat (2014).

[23] In 2014, the Government established the Housing Reserve at about HK$27 billion to provide financial resources for the Housing Authority to meet the 10-year public housing supply target. In the 2016-2017 Budget, the Financial Secretary announced to set aside the investment income of HK$45 billion on the fiscal reserves for 2015-2016 as a further capital injection into the Housing Reserve.

[24] Faced with the possible structural fiscal deficit, the Government established the Future Fund in 2016 with a view to securing higher investment returns for the fiscal reserves. The Fund is managed by the Hong Kong Monetary Authority.

Table – Progress on the use of funding earmarked since the 2008-2009 Budget as at end-March 2018

Budget year	Funding earmarked	Purposes	Latest progress
2008-09	HK$50 billion	Implementing health-care reform	• A total of HK$14.03 billion or **28%** of the funding earmarked was approved by FC in 2015-2016 for implementing the reform.
2008-09	HK$1 billion	Providing subsidy for the elderly in need to carry out maintenance or safety improvement works for their self-occupied properties in the next five years	• A total of HK$1 billion was approved by FC in 2008 for implementing the Building Maintenance Grant Scheme for Elderly Owners.
2011-12	HK$1 billion	Injecting into the Health and Medical Research Fund ("the Fund") for supporting health and medical research in Hong Kong	• FC approved an increase in the commitment by HK$1.5 billion in 2016. As at end-March 2017, the Fund committed a total of HK$628 million on project grants and research fellowships, representing **37%** of its cash balance.
2015-16	HK$50 billion	Improving retirement protection for the elderly in need, with HK$25 billion provided in each of 2016-2017 and 2017-2018	• The Government announced in January 2017 measures to strengthen the retirement protection system. The proposed measures would incur an estimated additional recurrent expenditure of HK$90 billion in the first 10 years. The Government has not provided the actual expenditure for the measures proposed.
2016-17	HK$220 billion	Injecting into the Future Fund to address the structural deficit forecast in the next 10 years	• About 50% of the Future Fund managed by the Hong Kong Monetary Authority has been invested.
2016-17	HK$200 billion	Implementing the Hospital Authority's first 10-year hospital development plan	• FC has so far approved a total of HK$8.4 billion or **4%** of the funding earmarked for launching seven hospital development/redevelopment projects. • Five more projects will be submitted to FC in the 2017-2018 legislative session for funding approval.
2016-17	HK$45 billion	Earmarked for the Housing Reserve to meet the 10-year public housing supply target	• The Housing Authority will not need any government support from the Housing Reserve in the coming five years.

Table – Progress on the use of funding earmarked since the 2008-2009 Budget as at March 2018 (cont'd)

Budget year	Funding earmarked	Purposes	Latest progress
2017-18	HK$18.7 billion	Education	• Only HK$3.5 billion or **19%** of the funding earmarked has been included in the 2018-2019 Estimates and Medium Range Forecast ("MRF").
2017-18	HK$10 billion	Supporting I&T development in Hong Kong	• Only HK$0.6 billion or **6%** of the funding earmarked has been included in the 2018-2019 Estimates and MRF.
2017-18	HK$20 billion	Launching 26 sports and recreation facilities projects in different districts in the next five years	• The proposal of upgrading three of the 26 projects proposed to Category A at an estimated cost of HK$590.8 million has been submitted to the Public Works Subcommittee of the Legislative Council. Seven more projects will be submitted for funding approval in the 2017-2018 legislative session.
2017-18	HK$30 billion	Providing support to the elderly and the disadvantage	• Only HK$2.9 billion or **10%** of the funding earmarked has so far been included in the 2018-2019 Estimates and MRF.

Data sources: Financial Services and the Treasury Bureau, Health and Medical Research Fund, Budget Joint TV Forum (2018), GovHK (2018) and Home and Affairs Bureau.

8. Observations

8.1 The following observations are made based on the findings above:

(a) armed with a record-breaking budget surplus and guided by the new fiscal philosophy, the Financial Secretary has unveiled a progressive 2018-2019 Budget. Education, social welfare and health remain the major expenditure items which will together account for 50.9% of total government expenditure. Meanwhile, infrastructure spending continues to take up a large share of total government expenditure, at 15.4% in 2018-2019;

(b) some 82% of the increase in total education expenditure will be fuelled by non-current and capital expenditure items. Recurrent education expenditure, which reflects the Government's long-term commitment to education, will account for a smaller share of total recurrent government expenditure from 22.0% in 2017-2018 to 20.8% in 2018-2019, extending the generally declining trend over the past decade;

(c) the above declining share of recurrent education expenditure in total recurrent government expenditure reflects, among other things, the slower pace of increase in the amount of long-term financial resources allocated for the education sector. In 2018-2019, the forecast year-on-year growth of recurrent education expenditure, at 5.6%, is slower than that of other major expenditure items such as social welfare (21.3%), health (13.3%) and housing (6%);

(d) the share of social welfare expenditure in total government expenditure has risen over time. Yet, expenditure on services for the elderly as a share of recurrent social welfare expenditure remained largely stable at around 11% in recent years. Such a trend, if it continues, may not be proportionate to the needs of an ageing population;

(e) the Government's strong fiscal position has allowed the Financial Secretary to allocate more resources towards addressing the pressing need to rectify the overloaded public healthcare system. The new policy initiatives include setting aside HK$300 billion to support the second 10-year hospital development plan. While development of new medical facilities can proceed apace, a huge challenge to Hong Kong's public health system is to recruit sufficient manpower to operate the newly-added facilities. Hong Kong is facing a severe problem of manpower shortage of healthcare professionals, and the problem is expected to continue with a shortage of about 1 007 doctors and 1 669 nurses by 2030;

(f) following the launch of the Ten Major Infrastructure Projects in 2007, capital works expenditure almost quadrupled over the past decade. While infrastructure development helps underpin Hong Kong's long-term economic development, the spiralling costs of some major infrastructure projects have aroused wide concern in recent years. During the past decade, 12.4% of the projects with an APE at or above HK$1 billion required additional funding from FC or the Financial Secretary acting under the delegated power. The amount of increase was HK$60.7 billion, representing 31.1% of the original aggregate APE; and

(g) the recent years have seen increasing use of the hefty budget surplus and fiscal reserves by the Financial Secretary to set aside money for specific purposes and/or establish designated funds to address specific public concerns. A review of the funding earmarked since the 2008-2009 Budget reveals under-utilization of the funds.

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