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Date : 9 April 2003

From : Clerk to the Legislative Council

To : All Members of the Legislative Council

Council meeting of 30 April 2003

Proposed resolution under the Public Finance Ordinance

I forward for Members' consideration a proposed resolution which the Secretary for Financial Services and the Treasury will move at the Council meeting of 30 April 2003 under the Public Finance Ordinance. The President has directed that "it be printed in the terms in which it was handed in" on the Agenda of the Council.

2. The speech, in the draft Chinese version, which the Secretary for Financial Services and the Treasury will deliver when moving the proposed resolution, is also attached. The English version of the draft speech will be issued as soon as it is available.

(Ray CHAN)
for Clerk to the Legislative Council

Encl.

PUBLIC FINANCE ORDINANCE

RESOLUTION

(Under section 29 of the Public Finance
Ordinance (Cap. 2))

LAND FUND

RESOLVED that the resolution made and passed by the Provisional
Legislative Council on 23 July 1997 and published in the
Gazette as Legal Notice No. 398 of 1997 be amended -

- (a) in paragraph 7, by repealing the full stop at the end
and substituting a semicolon;
- (b) by adding after paragraph 7 -

"8. the Financial Secretary may, from time to
time, transfer from the Land Fund to the
general revenue any balance held in the Land
Fund which is not in his opinion reasonably
required for the purposes of the Land Fund." .

DRAFT

**SPEECH BY THE
SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY
IN THE LEGISLATIVE COUNCIL
ON 30 APRIL 2003**

PUBLIC FINANCE ORDINANCE (CHAPTER 2)

**Amendment to the Resolution of the Land Fund
under section 29 of the Public Finance Ordinance**

Madam President,

I move that the resolution as set out under my name on the Agenda be passed.

2. This motion seeks to make an amendment to the Resolution of the Land Fund under section 29 of the Public Finance Ordinance to permit the transfer of funds from the Land Fund to the General Revenue Account in order to meet Government expenditure requirements.

3. The Land Fund was established on 1 July 1997 by Resolution of the Provisional Legislative Council to receive and hold all of the assets, net of expenses, transferred from the Hong Kong Special Administrative Region Government Land Fund. With the establishment of the Government of the HKSAR, the assets of the HKSARG Land Fund with a net value of \$197 billion were handed over from the Trustees to the HKSARG, and the Deed of Declaration

of Trust ceased to have effect. It was thereafter for the HKSARG to decide how the Fund should be expended. The Chief Executive appointed the Financial Secretary as the public officer to receive these assets as part of the HKSARG fiscal reserves. These assets became part of the general revenue in accordance with section 3 of the Public Finance Ordinance.

4. The arrangement to set up the Land Fund as a separate fund within the fiscal reserves was mainly to facilitate the management of the assets and to provide flexibility for the Administration to decide on the long-term use of the assets. As provided in the Resolution, the Land Fund can be used only for investment and not for the provision of any Government services. The Resolution also has no provision to allow the Government to transfer money from the Land Fund to the General Revenue Account or other Government Funds.

5. As a result of the continued budget deficits, the balance of the fiscal reserves is projected to decline from \$303 billion in 2002-03 to \$202 billion in 2007-08 according to the latest Medium Range Forecast. The balance of the General Revenue Account, which is the main Government account for day-to-day departmental expenditure and revenue collection, will consequently drop from an opening balance of \$87 billion by \$72 billion to a closing balance of \$15 billion during 2002-03, and will then have shortfalls in subsequent years of the projection period if there is no topping up by transfer of funds within the fiscal reserves. The Capital Works Reserve Fund and the Capital Investment Fund will similarly have shortfalls if there is no topping up.

6. I wish to emphasise that the purpose of holding the fiscal reserves is to meet operating and contingency requirements of public finance. In case there are budget deficits which arise either in those months of the financial year when expenditure exceeds revenue, or as a result of the downswing in the economic cycle, we use the fiscal reserves to finance shortfalls.

7. The Land Fund has accounted for and will continue to account for the vast majority of Government's fiscal reserves. The estimated balance of the Land Fund is \$259 billion by the end of March 2003, representing about 85% of Government's fiscal reserves.

8. To obviate the anticipated shortfalls in the General Revenue Account, the Capital Works Reserve Fund and the Capital Investment Fund, we propose to add a provision to the Resolution of the Land Fund to enable the Fund balance to be transferred to the general revenue as and when needed to meet the cashflow requirements of the General Revenue Account and subsequent transfers as necessary to other Government Funds. In view of the prevailing fiscal constraints, this is a measure necessary to provide funds from one part of the fiscal reserves to meet the expected shortfalls in other parts.

9. As shown in the 2003-04 Estimates, we anticipate that an estimated sum of \$120 billion is required to be transferred from the Land Fund to the general revenue in 2003-04 to meet the cashflow requirements in the medium term. Thereafter, we do not envisage any major requirement for further transfers in subsequent years of the projection period when we are able to restore fiscal balance.

10. We do not favour the options to resort to external borrowing or to transfer funds from the Exchange Fund to top up the anticipated shortfalls. The disadvantages of these options are as follows -

- (i) The external borrowing option would cause an alarm bell to ring for observers of our public finances who may doubt Government's resolve to achieve a balanced budget by 2006-07;
- (ii) We would take on an added burden to pay interest and a considerable debt repayment obligation for the future; and
- (iii) The transfer of funds from the Exchange Fund to meet operating and contingency requirements of Government does not fall within the purposes defined in the Exchange Fund Ordinance. The Ordinance defines clearly the purposes for which the Exchange Fund may be used in safeguarding the exchange value of Hong Kong dollar and maintaining the stability and the integrity of the monetary and financial systems of Hong Kong. This option may also lead to unwarranted speculation on our ability to safeguard the exchange value of Hong Kong dollar and maintain the stability and the integrity of the monetary and financial systems of Hong Kong.

11. We also do not favour the option to dissolve the Land Fund and to transfer its entire balance to the General Revenue Account or other Government Funds. Abolition of the Land Fund will deprive us of considering further uses for the Fund on a longer term basis. We remain open to suggestions from Members and the general public on the usage of the Fund.

12. Finally, I wish to emphasise that our proposal is to help solve the cashflow requirements and is not meant to generate additional fund to finance certain Government spending, which will be subject to the approval of the Legislative Council via the Appropriation Bill at the beginning of the financial year or the Finance Committee during the year.

13. Madam President, I wish to conclude by reiterating that the Amending Resolution would enable us to utilise part of the Land Fund to meet the budget deficits in the medium term, while retaining the flexibility to formulate a policy on the long-term use of the Fund in future. I hope that Members will support the amendment.

14. Madam President, I beg to move.