

**Extract of the draft minutes of meeting of
Panel on Financial Affairs held on
7 April 2003 at 10:00am in
the Chamber of the Legislative Council Building**

(The draft has been seen
by the Administration)

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VI. Proposed amendment to the Resolution of the Land Fund

(LC Paper No. CB(1) 1343/02-03(07))

At the invitation of the Chairman, the Deputy Secretary for Financial Services and the Treasury (Treasury) 2 (DS(Tsy)2) briefed members on the Administration's proposal to amend the resolution of the Land Fund to permit transfer of funds from the Fund to the General Revenue Account (GRA) in order to meet Government's expenditure requirements. As a result of the continued budget deficits in recent years, the balance of GRA was anticipated to have a shortfall soon. The Administration proposed to transfer part of the Land Fund to help resolve the cashflow requirements of the Government. The estimated balance of the Land Fund was \$259 billion by the end of March 2003. As shown in the 2003-04 Estimates, an estimated sum of \$120 billion was required to be transferred from the Land Fund for this purpose. DS(Tsy)2 advised that the Administration intended to move a resolution to amend the Resolution of the Land Fund at the Council meeting on 30 April 2003.

Regulatory mechanism

2. Mr NG Leung-sing remarked that as one of the trustees of the Hong Kong Special Administrative Region Government Land Fund during the period from 1988 to 1997, he was supportive of the Administration's proposal to transfer funds from the Land Fund to GRA to meet the budget deficits. He enquired if any mechanism would be put in place to govern the timing and circumstances under which any balance held in the Land Fund could be transferred to GRA. He also enquired why the Administration did not envisage any major requirement for further transfer of fund in subsequent years of the projection period. He was concerned that there was no limit to the authority granted to the Financial Secretary (FS) for transferring fund from the Land Fund to GRA although the intention was for transferring \$120 billion only. There was also no stipulation in the resolution itself that the transfer of fund was to meet fiscal needs.

3. In reply, DS(Tsy)2 remarked that according to the latest Medium Range Forecast, the proposed \$120 billion to be transferred to GRA was sufficient to cover the cash flow requirement in the medium term. He advised that the need for further transfer of funds would be reviewed when the Medium Range Forecast was updated and the requirements for funds would be incorporated into the annual Estimates exercise and subject to the Council's scrutiny and approval.

4. Ms Cyd HO commented that the wording of the resolution resembled a "blank cheque" in that the FS may transfer any balance in the Land Fund which was not in his opinion required for the purpose of the Fund. She considered such sweeping powers unreasonable and might lead to abuse. DS(Tsy)2 explained that the proposed Resolution was aimed at bringing the Land Fund into line with the similar arrangements for other funds such as the Capital Works Reserve Fund, the Capital Investment Fund and the Loan Fund. There was already a mechanism in place for the transfer of such funds to finance shortfalls in GRA, i.e. through the annual Estimates exercise which was subject to the Council's scrutiny.

5. Given that the Land Fund had a specific source of income, Ms Margaret NG asked if there would be any mechanism to enable any unused portion of the fund transferred to GRA to be ploughed back into the Land Fund. DS(Tsy)2 explained that if the balance of the Fund had to be topped up in future, a further Resolution would be required for such a purpose.

Abolition of the Land Fund

6. Mr CHAN Kam-lam enquired about the reasons for the Administration not abolishing the Land Fund so that the balance could be freely utilized by the FS as part of the fiscal reserves. Ms Margaret NG remarked that the proposed resolution would be tantamount to a de facto abolition of the Land Fund as the FS would be empowered to transfer any balance in the Fund which was not in his opinion required for the purpose of the Fund.

7. In reply, DS(Tsy)2 stressed that the decision not to abolish the Land Fund was based on the belief that the Fund could still be used for a designated useful purpose in future. The proposed Resolution did not amount to a de facto

abolition of the Land Fund, and that any requirements for further funds would be incorporated into the annual Estimates and subject to LegCo's scrutiny and approval.

8. As regards the long term use of the Land Fund, Mr NG Leung-sing enquired about whether the Administration would consult the public on the matter. In reply, DS(Tsy)2 remarked that currently, the Administration did not have plan to conduct a proactive consultation exercise. He emphasized, however, that the Administration would welcome suggestions from Members on the long term use of the Land Fund.

Balance of reserves

9. Mr CHAN Kam-lam asked about the projected balance of the fiscal reserves. Ms Emily LAU also enquired about the projected level of fiscal reserves as a result of the transfer. The Principal Assistant Secretary for Financial Services and the Treasury (MA) advised that according to the Medium Range Forecast, the balance of the fiscal reserves by the end of 2007-08 would be \$201 billion, a majority of which being the balance of the Land Fund. He agreed to provide supplementary information on the estimated sum to be transferred from the Land Fund, the projected balance of the fiscal reserves and statutory provisions on the use of accumulated surplus of the Exchange Fund.

10. Miss Emily LAU also enquired about the circumstances under which the accumulated surplus of the Exchange Fund could be used to meet operating and contingency requirements of the Government. DS(Tsy)2 remarked that there was a mechanism to enable the Financial Secretary to transfer from the Exchange Fund to GRA under the Exchange Fund Ordinance (Cap.66) . The Ordinance, however, defined clearly that the Exchange Fund was to be used for safeguarding the exchange value of the Hong Kong dollar and maintaining the stability and integrity of the monetary and financial systems of Hong Kong. He agreed to provide more information in this respect.

(Post-meeting note: The supplementary information provided by the Administration was issued to members vide LC Papers Nos. CB(1)1405/02-03 and CB(1)1443/02-03 on 9 April and 14 April 2003 respectively.)