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From: Clerk to the Legislative Council

To : All Members of the Legislative Council

Council meeting on 16 June 2004

**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 16 June 2004 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 draft speech, in both English and Chinese versions, which the Secretary for Financial Services and the Treasury will deliver when moving the proposed resolution, is also attached.

(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, with respect to the Land Fund established by 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, that a sum of \$40,000,000,000 be transferred from the Land Fund to the general revenue.

DRAFT

**SPEECH BY THE
SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY
IN THE LEGISLATIVE COUNCIL
ON 16 JUNE 2004**

PUBLIC FINANCE ORDINANCE (CHAPTER 2)

**Resolution under section 29 of the Public Finance Ordinance
to authorise the transfer of \$40 billion
from the Land Fund to the General Revenue Account**

Madam President,

I move that the motion, as printed on the Agenda, be passed.

This motion seeks to authorise the transfer of \$40 billion from the Land Fund to the General Revenue Account under section 29 of the Public Finance Ordinance in order to meet the cashflow requirements of the General Revenue Account during the course of 2004-05.

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.

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. From the tenor of the resolution, the Land Fund can be used only for investment and not for the provision of any government services. The resolution also had no provision to allow the Government to transfer money from the Land Fund to the General Revenue Account or other government funds.

To cope with the continued budget deficits, we sought the authorisation of the Legislative Council on 7 May 2003 to enable the Government to transfer \$120 billion from the Land Fund to the General Revenue Account in order to meet the fiscal deficits formerly envisaged for 2003-04 to 2005-06. The fund transfer was effected in May 2003.

According to the updated asset sale/securitisation programme published in this year's Budget, total proceeds from the sale/securitisation of assets in 2004-05 will be \$13 billion less than the forecast in last year's Budget. There may also be slippage in the cashflow of the land revenue forecast of \$12 billion in the year. These will necessitate the transfer of funds from the General Revenue Account to the Capital Works Reserve Fund to ensure that there is a sufficient cash balance in the latter to meet capital expenditure requirements prior to the completion of the planned asset sale/securitisation as well as the budgeted issuance of \$20 billion Government bonds during 2004-05. The 2003-04 year-end balance of the General Revenue Account would only be about \$76 billion, approximately equivalent to four months' recurrent expenditure. As a result, the General

Revenue Account will likely have a shortfall of about \$28 billion in the third quarter of 2004-05 if there is no topping up by transfer of funds within the fiscal reserves.

I wish to emphasise that our proposal is to help solve the cashflow requirements and is not meant to provide additional funds to finance 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. The Government will remain committed to enforcing strict financial discipline in controlling its expenditure. In view of the prevailing fiscal condition, our proposal is a measure necessary to provide funds from one part of the fiscal reserves to meet the expected cashflow shortfalls in other parts.

The estimated balance of the Land Fund is \$158 billion by the end of March 2004, representing about 57% of the Government's fiscal reserves. In 2003, we undertook to examine and consult the Financial Affairs Panel of the Legislative Council in future on the review of the long-term use of the Land Fund, including whether or not the Land Fund should be abolished and the fund balance be transferred to the general revenue. We consulted the Financial Affairs Panel on our preliminary proposal on the way forward for the Land Fund on 3 May 2004. While some Panel Members supported the dissolution of the Land Fund, others opined that the entire balance of the Fund should not be transferred to the General Revenue Account in one go and that each fund transfer be subject to the approval of the Legislative Council on a need basis. As a consensus view has not been reached, we will review the issue in the light of further consultation with Panel Members.

Madam President, I wish to conclude by reiterating that the proposed resolution would enable us to utilise part of the Land Fund to meet the cashflow requirements of the General Revenue Account during the course of 2004-05. I hope that Members will support the resolution.

Madam President, I beg to move.