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31 March 2005

Clerk to the Finance Committee
(Attn : Miss Becky Yu)
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Miss Yu,

Finance Committee
Follow-up to the briefing on 17 March 2005

Thank you for your letter of 17 March, seeking clarification on various issues arising from the Budget briefing that morning. The Administration's co-ordinated response is set out in the paragraphs to follow.

Estate Duty

A breakdown of the dutiable cases finalised in 2003/04 based on whether the assessed value is within or beyond \$20 million is tabulated below -

Assessed value [#]	Amount collected		Number of cases		Average duty collected
	(a)	(b)	(a)	(b)	(a)/(b)
	(\$ million)	(%)		(%)	(\$ million)
Up to \$20 million	257.68	22.8%	177	68.6%	1.46
Over \$20 million	872.36	77.2%	81	31.4%	10.77
Total	1,130.04 [@]	100.0%	258	100.0%	

Assessed value refers to the value of the estates net of the exempted items, such as the matrimonial home inherited by the surviving spouse, assets located overseas and life insurance benefits, etc.

@ Part of the payments was received in earlier years. The total estate duty collection in 2003/04 was \$1,455 million, including part payments from new estates.

Cases are considered to be finalised in 2003/04 if the duty was fully paid, and certificate of receipt of estate duty and schedule of property were issued in 2003/04. As can be seen, about 31% of the cases finalised in 2003/04, involving some 77% of the estate duty collected, relate to estates of assessed value over \$20 million.

Ex-Municipal Council Projects

The Home Affairs Bureau had briefed the Legislative Council Panel on Home Affairs on 21 March 2005 on the latest position of the outstanding ex-Municipal Council projects. The details are contained in LC Paper No. CB(2)1083/04-05(01).

Head Start Programme

The Health, Welfare and Food Bureau (HWFB) has earmarked \$10 million to launch in phases the Head Start Programme in Sham Shui Po, Tin Shiu Wai, Tseung Kwan O and Tuen Mun on a trial basis. HWFB aims to launch the pilot programme in Sham Shui Po in

July 2005 first. Based on the experience gained, HWFB shall roll out the pilot programme in the other three communities in the last quarter of 2005-06.

Capital Works Programme

For the five-year period ending 2004-05, the actual expenditure on the Capital Works Programme (inclusive of the Public Works Programme and Capital Subventions) averaged at \$29.2 billion per annum, as detailed below –

Year	Actual Expenditure (\$ billion)
2000-01	27.7
2001-02	26.5
2002-03	28.3
2003-04	31.4
2004-05	32.1*

* *Revised estimate*

For 2005-06, the estimated provision on capital works is \$27.6 billion, slightly lower than the past average. Due to the favourable weather conditions in 2004, many of the projects under construction achieved good progress and hence some payments originally scheduled for 2005-06 have been advanced. On the other hand, construction activities for some mega projects (notably Shenzhen Western Corridor, Deep Bay Link and infrastructure for the Hong Kong Disneyland) reached their peak in 2004-05, and are expected to moderate in the coming year.

Meanwhile, the increasing public aspirations for more participation in the planning and implementation of mega projects like Kai Tak Development and Wan Chai Development Phase 2 have delayed commencement of the associated works, for which about \$1.3 billion was originally planned to be spent in 2005-06 alone. The level of capital works expenditure in 2005-06 has also been affected by the progress of

the School Improvement Programme and deferral of a few school building projects in 2004-05, pending the outcome of the School Building Programme reviews.

The Government will exercise vigilance and monitor the progress of capital works projects including those earmarked for commencement in 2005-06. The Government has pledged to allocate an average provision of \$29 billion per annum for capital works projects to 2008-09. We will adhere to this commitment.

Investment Returns

Chart 15 of the power point presentation on 17 March 2005 highlighted only income from the placing of fiscal reserves with the Exchange Fund and interests from bank deposits. As returns from unallocated funding, such income is typically distinguished in accounting terms from income arising from other strategic investments or loan schemes. A breakdown based on the revised estimate for 2004-05 is set out below –

	2004-05
	\$B
Investment income on fiscal reserves placed with Exchange Fund	14.5
Interest income on bank deposits	0.1
Returns on equity investments/dividends/ interest on loans	3.0
	<u>17.6</u>
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Though not highlighted in the presentation, returns from strategic investments or loan schemes have been duly taken into account and reflected separately in the Estimates. For example, dividend receipts from statutory agencies/corporations such as the Kowloon Canton

Railway and MTR Corporation Limited are accounted for under *Head 7 Subhead 060* of the General Revenue Account in accordance with the respective Ordinances of such organisations. The Estimates of the Capital Investment Fund and Loan Fund have also budgeted for the dividends and interest from investments or loans of the two Funds as appropriate.

Yours sincerely,

(Miss Elizabeth Tse)
for Secretary for Financial Services
and the Treasury

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