

For information

13 July 2022

**Report to the Legislative Council
on the Control and Management of the Special Fund to Meet the
Expenditure for Safeguarding National Security**

Background

It is the constitutional responsibility of the Hong Kong Special Administrative Region (“HKSAR”) to safeguard our country’s sovereignty, security and development interests. On 30 June 2020, the Standing Committee of the National People’s Congress passed The Law of the People’s Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region (“NSL”) and included it in Annex III to the Basic Law in accordance with Article 18 of the Basic Law. The NSL was gazetted and took effect in Hong Kong on the same day.

2. According to Article 12 of the NSL, the HKSAR shall establish the Committee for Safeguarding National Security (“HKSAR Committee on National Security”), which shall be responsible for affairs relating to and assume primary responsibility for safeguarding national security in the HKSAR. It shall be under the supervision of and accountable to the Central People’s Government (“CPG”). The HKSAR Committee on National Security shall have a National Security Adviser, who shall be designated by the CPG (Article 15). The NSL also stipulates that the HKSAR Committee on National Security shall have a secretariat (Article 13), that the Police Force shall establish a department for safeguarding national security (“National Security Department of the Police Force”) (Article 16), and that the Department of Justice shall establish a specialised division for prosecution of offences endangering national security (“National Security Prosecutions Division of the Department of Justice”) (Article 18). Articles 14, 17 and 18 of the NSL state clearly the duties of the HKSAR Committee on National Security, the National Security Department of the Police Force and the National Security Prosecutions Division of the Department of Justice respectively.

3. According to Article 19 of the NSL, the Financial Secretary (“FS”) shall, upon approval of the Chief Executive, appropriate from the general revenue a special fund (“Special Fund”) to meet the expenditure for safeguarding national security and approve the establishment of relevant posts, which are not subject to any restrictions in the relevant provisions of the laws in force in the HKSAR. The FS shall submit an annual report on the control and management of the Special Fund for this purpose to the Legislative Council of the HKSAR.

Control and Management of the Special Fund

4. The funding arrangement for the expenditure for safeguarding national security in the HKSAR has all along been made in strict accordance with the relevant requirements in the NSL. Having considered the approved establishment of relevant posts in the above-mentioned bodies as well as their recurrent and non-recurrent expenditure required for performing duties in relation to safeguarding national security, the FS appropriated from the general revenue an amount of \$8 billion as the Special Fund in December 2020 in accordance with the requirements stipulated above to meet the expenditure for safeguarding national security in the coming few years.

5. Article 51 of the NSL stipulates that the Office for Safeguarding National Security of the CPG in the HKSAR (“CPG Office on National Security”) shall be funded by the CPG. Therefore, the provision of \$8 billion mentioned above does not cover any expenditure of the CPG Office on National Security.

6. In view of the special and confidential nature of the work in relation to safeguarding national security, a dedicated accounting and financial unit (“unit”) has been set up in the secretariat of the HKSAR Committee on National Security. The unit, which reports directly to the FS, is responsible for the revenue and expenditure arrangements and financial matters relating to such work. The accounting and financial policies adopted as well as the financial statements prepared by the unit are in line with the established policies and practice of the HKSAR Government.

7. This paper serves as the report on the control and management of the Special Fund for 2021. There are two main types of expenditure under the Special Fund during the reporting period:

- (i) Recurrent expenditure – including salaries and allowances, expenses on engaging specialised services, rents and other operating and administrative expenses; and
- (ii) Non-recurrent expenditure – including minor construction works, specialised equipment, system set-up, machinery and vehicles, and other capital expenditure.

In terms of revenue, it is mainly in the form of interest from deposits. During the reporting period, the HKSAR Government did not further inject funds into the Special Fund.

8. To strengthen the monitoring of the use and management of the Special Fund, the FS has also arranged an independent financial audit of the relevant accounts to ensure accuracy and propriety of the accounting and financial statements prepared by the unit, as well as their conformity to the accounting policies and principles reasonably applicable.

9. The FS has perused the independently audited 2021 financial statements prepared in respect of the Special Fund, and noted that the independent auditor had agreed that the financial statements were prepared, in all material respects, in accordance with the requirements of Article 19 of the NSL, and that reasonably applicable accounting policies and principles were adopted and consistently applied. The financial audit was conducted in accordance with the Hong Kong Standards on Auditing, and the independent auditor had issued an unqualified audit opinion on the financial statements.

10. According to Article 14 of the NSL, no institution, organisation or individual in the HKSAR shall interfere with the work of the HKSAR Committee on National Security, and information relating to its work shall not be subject to disclosure. Therefore, we will not disclose further details concerning the use of the Special Fund. In fact, quite a number of jurisdictions regard the expenditure and manpower establishment concerning national security as secret information and do not disclose details of the expenditure involved.

Advice Sought

11. Members are invited to note the content of this paper.

Financial Secretary's Office

13 July 2022