

LCQ3: Burden on public finance

Following is a question by the Hon Mrs Regina Ip (Hon Yung Hoi-yan to ask on her behalf) and a reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (September 15):

Question:

In the coming decade, a number of major infrastructure projects will be implemented in Hong Kong. Among such projects, the Lantau Tomorrow Vision is the largest in scale, involving reclamation in the waters near Kau Yi Chau and Hei Ling Chau to the east of Lantau for the construction of artificial islands with a total area of up to 1 700 hectares at an estimated construction cost of \$624 billion. On the other hand, the Financial Secretary indicated earlier that the Government's fiscal deficits for the last and the current financial years were projected to be \$257.6 billion and \$101.6 billion respectively, and fiscal deficits are also expected to be recorded in the coming four financial years. In this connection, will the Government inform this Council whether it will consider setting up a special purpose vehicle by adopting a public-private partnership approach, so as to facilitate the raising of funds from the capital market and society for taking forward the various infrastructure projects, thereby alleviating the burden on public finance; if so, of the details; if not, the reasons for that?

Reply:

President,

I would like to thank Hon Mrs Regina Ip for raising this question in relation to the implementation of major infrastructure projects. Having consulted the Development Bureau (DEVB), my reply is as follows:

Firstly, I would like to point out that our overall fiscal position is currently sound and healthy. The Government's objective is to achieve fiscal balance in the Consolidated Account over time. According to the Medium Range Forecast in the 2021-22 Budget, while the fiscal deficit for 2021-22 would reach \$101.6 billion, it is estimated that the fiscal deficit in the coming years will be substantially narrowed to within \$20 billion annually and a fiscal surplus will be recorded in 2025-26. We therefore anticipate that the fiscal deficit is temporary. In the medium to long term, the Consolidated Account would return to positive.

We will also adhere to the principle of financial prudence and accord priorities to projects taking into consideration their justifications, urgency and cost-effectiveness, etc. This ensures that the Government maintains the financial capabilities to meet public expenditure and services while implementing works projects for promoting the development of our

society and improving people's livelihood.

When taking forward infrastructure projects, government bureaux and departments have all along been drawing up the most suitable financial proposals having regard to their policy objectives and needs, as well as the characteristics and requirements of individual projects. Different financial arrangements have their own characteristics, and there is no single proposal that suits all government works projects. Hence, the Government has been keeping an open mind when formulating financial proposals and considering different options as far as practicable.

Apart from seeking funding approval from the Finance Committee of the Legislative Council for public works through the Capital Works Reserve Fund, the Government has been adopting other financial arrangements to support the delivery of different projects, and has been encouraging the private sector organisations to participate in the provision of public services. We have accumulated much experience in the process. Adopting such arrangements is not always based on fiscal considerations, but is driven by the fact that such arrangements would enable the Government to leverage the efficiency and flexibility of the private sector to speed up project and service delivery, encourage innovation and enhance productivity, thereby providing better and more efficient services as well as creating more development opportunities for the market.

A common mode under Public-Private Partnership approach is Build-Operate-Transfer. Under this arrangement, a private sector organisation is responsible for funding the project whilst the Government grants it a franchise to design, build, operate and maintain the facility in accordance with the Government's specifications and service requirements. When the specified franchise period expires, the private sector organisation will transfer the ownership of the facility to the Government. Generally, this arrangement is more suitable for projects that will bring adequate and stable returns, such as the Western Harbour Crossing.

The Government had also taken forward major infrastructure projects through pre-selling development rights in the past. For example, when developing the Sha Tin New Town, private sector organisations bore the cost of land reclamation and returned the majority of the land reclaimed to the Government for public housing development and other uses upon completion of the works, with the remaining land parcels being kept by them for private housing development. Under this approach, the Government is not only relieved from the burden of shouldering the upfront construction costs, but can also leverage the skills and experience of private sector organisations to deliver works projects more efficiently.

Apart from the above approaches, the Government also establishes special purpose vehicles (SPVs), as mentioned by the Hon Mrs Ip, having regard to individual circumstances. By bringing in the management and expertise from the private sector, this approach provides flexibility in terms of financial arrangements and operation, which enables the SPV to respond effectively to the ever-changing market environment. The Government had, in the past, set up

joint venture companies through equity injection when delivering infrastructure projects, such as AsiaWorld-Expo.

Taking the Lantau Tomorrow Vision mentioned by the Hon Mrs Ip in her question as an example, the Government will, as always, keep an open mind when considering various options for the financial arrangements of the project, including setting up a SPV. In this regard, the DEVB engaged a consultant in June this year to conduct a detailed planning and engineering study for the artificial islands of about 1 000 hectares around Kau Yi Chau, a feasibility study on the priority road link and the priority rail link connecting the artificial islands, and a study on the financial arrangements for the entire project. In general, setting up a SPV is suitable for a project requiring the Government's continued involvement in its operation, and would enable the injection of private capital and enhance the efficiency in delivering the project. In considering whether a SPV should be set up for taking forward major infrastructure projects such as the Lantau Tomorrow Vision, the Government will holistically consider relevant factors. To this end, in conducting the financial study, the consultant will work out suitable financing arrangements taking into account the characteristics of each component of the project, its economic value, commercial viability, whether the Government will take part in its future operation and project cost, etc. Subject to the study outcome, it is possible that a mixture of different options may be adopted in terms of the financial arrangements of the entire project.

Bearing in mind the importance of prudent financial management, the Government will continue to take forward infrastructure projects in an appropriate and orderly manner with a view to improving people's quality of living, enhancing our long-term competitiveness and promoting the economic development of Hong Kong. Meanwhile, the Government will closely monitor changes in the economic environment and continue to exercise effective financial management when formulating implementation strategies for major infrastructure projects in future.

Thank you, President.