

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 24 February 1982****The Council met at half past two o'clock****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR CRAWFORD MURRAY MACLEHOSE, G.B.E., K.C.M.G., K.C.V.O.

THE HONOURABLE THE CHIEF SECRETARY
SIR CHARLES PHILIP HADDON-CAVE, K.B.E., C.M.G., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY
MR. JOHN HENRY BREMRIDGE, O.B.E.

THE HONOURABLE THE ATTORNEY GENERAL
MR. JOHN CALVERT GRIFFITHS, Q.C.

THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR. DENIS CAMPBELL BRAY, C.M.G., C.V.O., J.P.

THE HONOURABLE DAVID AKERS-JONES, C.M.G., J.P.
SECRETARY FOR CITY AND NEW TERRITORIES ADMINISTRATION

THE HONOURABLE LEWIS MERVYN DAVIES, C.M.G., O.B.E., J.P.
SECRETARY FOR SECURITY

THE HONOURABLE DAVID WYLIE McDONALD, C.M.G., J.P.
SECRETARY FOR LANDS AND WORKS

THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, C.M.G., J.P.
SECRETARY FOR EDUCATION

THE HONOURABLE DAVID GREGORY JEAFFRESON, C.B.E., J.P.
SECRETARY FOR ECONOMIC SERVICES

THE HONOURABLE ALAN JAMES SCOTT, C.B.E., J.P.
SECRETARY FOR TRANSPORT

DR. THE HONOURABLE THONG KAH-LEONG, C.B.E., J.P.
DIRECTOR OF MEDICAL AND HEALTH SERVICES

THE HONOURABLE ERIC PETER HO, C.B.E., J.P.
SECRETARY FOR SOCIAL SERVICES

THE HONOURABLE JOHN MARTIN ROWLANDS, C.B.E., J.P.
SECRETARY FOR THE CIVIL SERVICE

THE HONOURABLE JAMES NEIL HENDERSON, J.P.
COMMISSIONER FOR LABOUR

THE HONOURABLE GERALD PAUL NAZARETH, O.B.E., Q.C.
LAW DRAFTSMAN

THE HONOURABLE WILLIAM DORWARD, O.B.E., J.P.
DIRECTOR OF TRADE, INDUSTRY AND CUSTOMS

THE HONOURABLE JOHN MORRISON RIDDELL-SWAN, O.B.E., J.P.
DIRECTOR OF AGRICULTURE AND FISHERIES

THE HONOURABLE DONALD LIAO POON-HUAI, O.B.E., J.P.
SECRETARY FOR HOUSING

THE HONOURABLE GRAHAM BARNES, J.P.
REGIONAL SECRETARY (HONG KONG AND KOWLOON), CITY AND NEW TERRITORIES
ADMINISTRATION

THE HONOURABLE SELWYN EUGENE ALLEYNE, J.P.
DIRECTOR OF SOCIAL WELFARE

THE HONOURABLE IAN FRANCIS CLUNY MACPHERSON, J.P.
REGIONAL SECRETARY (NEW TERRITORIES), CITY AND NEW TERRITORIES
ADMINISTRATION

THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
DIRECTOR OF EDUCATION (*Acting*)

THE HONOURABLE ROGERIO HYNDMAN LOBO, C.B.E., J.P.

DR. THE HONOURABLE HARRY FANG SIN-YANG, C.B.E., J.P.

THE HONOURABLE LO TAK-SHING, C.B.E., J.P.

THE HONOURABLE FRANCIS YUAN-HAO TIEN, O.B.E., J.P.

THE HONOURABLE ALEX WU SHU-CHIH, O.B.E., J.P.

THE REVD. THE HONOURABLE JOYCE MARY BENNETT, O.B.E., J.P.

THE HONOURABLE CHEN SHOU-LUM, O.B.E., J.P.

THE HONOURABLE LYDIA DUNN, O.B.E., J.P.

DR. THE HONOURABLE HENRY HU HUNG-LICK, O.B.E., J.P.

THE REVD. THE HONOURABLE PATRICK TERENCE McGOVERN, O.B.E., S.J., J.P.

THE HONOURABLE PETER C. WONG, O.B.E., J.P.

THE HONOURABLE WONG LAM, O.B.E., J.P.

DR. THE HONOURABLE RAYSON LISUNG HUANG, C.B.E., J.P.

THE HONOURABLE CHARLES YEUNG SIU-CHO, O.B.E., J.P.

DR. THE HONOURABLE HO KAM-FAI, O.B.E., J.P.

THE HONOURABLE ALLEN LEE PENG-FEI, J.P.

THE HONOURABLE DAVID KENNEDY NEWBIGGING, O.B.E., J.P.

THE HONOURABLE ANDREW SO KWOK-WING, J.P.

THE HONOURABLE HU FA-KUANG, J.P.

THE HONOURABLE WONG PO-YAN, O.B.E., J.P.

THE HONOURABLE WILLIAM CHARLES LANGDON BROWN, J.P.

THE HONOURABLE CHAN KAM-CHUEN, J.P.

THE HONOURABLE JOHN JOSEPH SWAINE, O.B.E., Q.C., J.P.

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, J.P.

THE HONOURABLE CHEUNG YAN-LUNG, M.B.E., J.P.

THE HONOURABLE MRS. SELINA CHOW LIANG SHUK-YEE, J.P.

THE HONOURABLE MARIA TAM WAI-CHU

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MRS. JENNIE CHOK PANG YUEN-YEE

Papers

The following papers were laid pursuant to Standing Order 14(2):—

<i>Subject</i>	<i>L.N. No.</i>
Subsidiary Legislation:	
Public Health and Urban Services Ordinance. Public Health and Urban Services (Designation of Libraries) (No. 2) Order 1982	37
Public Health and Urban Services Ordinance. Public Health and Urban Services (Public Pleasure Grounds) (Amendment of Fourth Schedule) (No. 2) Order 1982.....	38
Pilotage Ordinance. Pilotage (Dues) (Amendment) Order 1982.....	39
Road Tunnels (Government) Ordinance 1981. Road Tunnels (Government) Ordinance 1981 (Commencement) Notice 1982.....	40
Offences Against the Person Ordinance. Termination of Pregnancy (Amendment) Regulations 1982	50
Waterworks Ordinance. Waterworks (Amendment) Regulations 1982.....	51
Evidence Ordinance. Evidence (Authorized Persons) Order 1982	52
Public Health and Urban Services Ordinance. Public Health and Urban Services (Civil Centres) (Amendment of Thirteenth Schedule) Order 1982	53
Public Order Ordinance. Public Order Ordinance (Designated Public Areas) Order 1982	54
Shipping and Port Control (Typhoon Shelters) Regulations. Shipping and Port Control (Typhoon Shelters) Regulations (Amendment of Schedule) Order 1982	55
Chinese Permanent Cemeteries Ordinance. Chinese Permanent Cemeteries Rules 1975	56

Sessional Papers 1981-82:

No. 37—Police Welfare Fund—Income and Expenditure Account with Balance Sheet and Certificate of the Director of Audit for the year ended 31 March 1980

No. 38—Supplementary Provisions approved by the Urban Council during the third quarter of the Financial Year 1981-82

No. 39—Draft Estimates of Expenditure 1982-83

No. 40—Revenue Estimates 1982-83 (Draft)

No. 41—Supporting Financial Statements and Statistical Appendices from the Estimates of Revenue and draft Estimates of Expenditure 1982-83

No. 42—Estimates of Revenue and Expenditure for the year ending 31 March 1983
Report of the Public Works Sub-Committee of Finance Committee for 1981

No. 43—Report of the Establishment Sub-Committee of Finance Committee for 1981-82

Government business

First reading of bill

APPROPRIATION BILL 1982

Bill read the first time and ordered to be set down for second reading pursuant to Standing Order 41(3).

Second reading of bill

APPROPRIATION BILL 1982

THE FINANCIAL SECRETARY moved the second reading of:—‘A bill to apply a sum not exceeding \$35,522,581,000 to the service of the financial year ending on 31 March 1983’.

He said:—

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Sir, I begin my first budget speech by acknowledging my debt to my predecessor who has left me a clean slate on which to draw. I am also grateful to my new colleagues in Government who have worked so hard on the budget, and have loyally pointed me in approximately the right direction, though the choice of paths is mine—even in a budget which naturally reflects governmental not personal policy. I cannot name them all, but they particularly include officers in Finance, Economic Services, Monetary Affairs, and Inland Revenue.

2 My speech deals with three main issues—where Hong Kong has been and why; the current state of the Government's accounts and my proposed estimates and tax concessions; and where Hong Kong then seems likely to go in 1982. It is supported by the accompanying cross referenced 1981 Economic Background and 1982 Economic Prospects, plus footnotes and appendices bound with the printed version.

General Economic Approach

3 Let me first generalize on our economic environment. Hong Kong is dependent upon visible and invisible export earnings, without which we cannot survive. Trade, Industry and Commerce represent our life blood. If they falter then Hong Kong will retrogress rapidly. Government prudence in this general area is thus of overwhelming importance, and our general policies have long so had regard.

4 The past year has been notable for the still continuing recession which has affected in particular our three main export markets of the USA, UK and Germany. It is remarkable therefore that in 1981 in real terms our domestic exports should have increased by 7.6%, re-exports by 24%, and thus total

exports of goods by 12%⁽¹⁾. Our Gross Domestic Product has increased again in real terms by 10%⁽²⁾. We are also notably fortunate in having little significant long-term unemployment⁽³⁾. Moreover this has been accompanied by a large budget surplus⁽⁴⁾. Of course there are some snakes in the garden; in particular I am concerned at the current level of inflation, about which I shall say more later. But overall this is a story of success in difficult times. I believe that it supports two main themes, which underline Government's economic, fiscal and monetary policies.

5 First, the importance of the healthy and growing economic relationship between Hong Kong and China. We in Hong Kong admire the progress which China has made in modernizing her economy; and we are a beneficiary, and at the same time are fortunately placed in being able to contribute to the process. Certainly the Government's general policies must reflect this opportunity for mutual benefit—and not least towards the Special Economic Zone just North of our border.

6 Second, our entrepreneurs and industrialists are nimble on their feet, adept at seeking and turning to good account new opportunities, motivated by the profits that arise from free markets open to all the talents, and unfettered by heavy taxation. They are well served by our labour force, which also is hard working and highly motivated. Thus in our business community the successful prosper. The unsuccessful are not carried by Government subsidy. Businesses either sink or swim as they adapt to changing competitive conditions. A policy directed towards the survival of the fittest may seem harsh and unfeeling, but it has been shown to be appropriate in the particular circumstances of Hong Kong. As a community we cannot afford to carry industrial or commercial failures.

7 In sharp contrast, however, we set a net of social services to catch those individual citizens who through misfortune or disability cannot make their fair way in society. It should be clearly understood that the whole long-term purpose of our policy of the encouragement of the creation of wealth is not to enable the rich to get richer but rather to achieve an improving standard of life in all its aspects for the whole community⁽⁵⁾. Experience has taught us an effective and pragmatic basic approach, but naturally there is always need for continuing debate about the detailed means which we should use to achieve our civilized ends. I say civilized, for in our society material gains are not the only criteria.

8 There have in the past year been several clearly self-interested appeals from industrialists and others for special treatment (that is to say generally handouts from other taxpayers) in respect of land costs, rent, interest rates, electricity and water charges and so on. We are an ordinarily non-interventionist but certainly

(1) *1981 Economic Background Chapter 1 paragraph 5.*

(2) *1981 E.B. 1.1 and 1.10.*

(3) *1981 E.B. 4.3: but see 1982 Economic Prospects 2.3.*

(4) *\$7.7 billion.*

(5) *See paras. 122 and 124.*

not laissez faire Government, dependent for recurrent revenue upon low levels of taxation and reliant usually—though with notable exceptions—on the disciplines of the market place. However sympathetic to hard cases we may be, we consequently must generally refuse direct special assistance. Equally however the Government must continually seek to strengthen the basic infrastructure that is needed to support a manufacturing and services-based economy that is always developing and changing; for we must keep up with new technologies and the fresh demands of our export markets.

9 It is for this reason that I attach great importance to improvements in those economic areas in which Government must be the protagonist. These clearly include vocational, technical and tertiary education; industrial investment promotion and training schemes; Government institutions designed to assist diversification; all the support that the Government can give in trade relations and facilitation; transport including roads, airport and harbour; tele-communications; production of more land and public housing; oversight of markets; and promotion of wise monetary policies. Increasing demands in these areas must continue to be a major concern of the Government. Nevertheless the maintenance and growth of such services, and indeed of all community services, depend on the creation of wealth. We must first have money before we argue how best to spend it. There is always a temptation to forget that only a strong and growing economy and sensible reserves can underwrite the provision of growing Government services, including naturally social welfare services.

10 I shall have more to say later about priorities in and control of public sector expenditure⁽⁶⁾. I acknowledge that the quality of the infrastructure required by rapidly changing Hong Kong is wide open to intelligent argument: the more the better. Each of my fellow Members of this Council will have his or her own priorities. But I do hope that this debate will not see further proposals for Government subsidy of those businesses which can no longer survive in a competitive world. Though I am aware of the agonies of decent companies in their seemingly unmerited death throes, we must never allow our hearts to rule our heads.

1981 Economic Background

11 Let us see where this approach broadly took Hong Kong last year. Details can be studied in the '1981 Economic Background'; indeed I hope that Members and all other serious students of our affairs will read this publication. I propose now only to highlight some features. Among the more obvious is the good performance of our domestic exports. Although the growth rate in real terms of 7.6% in 1981 represents a considerable slowing down compared with 11% in 1980⁽⁷⁾, it was nevertheless achieved against a background of unfavourable economic conditions in all Hong Kong's major markets: for example imports of the O.E.C.D. countries from all sources actually dropped by 2% in 1981.

(6) *Paras. 20-31. See also Appendix A.*

(7) *1981 E.B. 2.1.*

Moreover the growth rate of our domestic exports was clearly accelerating throughout the year reversing the decelerating trend during 1980 which had caused concern.

12 Nevertheless it is clear that in 1981 the impetus to economic growth came more from domestic demand than from exports. Private consumption expenditure grew by 10% in real terms. Increased by the front end loading of our contribution under the revised Defence Costs Agreement, Government consumption expenditure grew by 25%; and overall investment grew by 13%⁽⁸⁾. But at 11% the growth rate of domestic demand was not so rapid as to have created any imbalance between the demand for our domestic resources and the supply of them. The growth rate of total final demand (excluding re-exports) at 9% was actually less than the growth rate of the gross domestic product at 10% and so imports were not being sucked in at a disproportionately rapid rate⁽⁹⁾. The growth rate of retained imports in 1981 was only about 7%. After allowing for re-exports the growth rate of total exports at 13% was higher than the growth rate of imports at 12%, and the visible trade gap in 1981 of 11.7% was slightly lower than that in 1980 at 12%⁽¹⁰⁾. This overall situation thus compared reasonably well with that in 1980.

13 During the course of the year, there was also a clear tendency for the impetus to economic growth to shift back to domestic exports. The year-on-year growth rate of domestic exports accelerated from rather less than 6% in real terms in the first half of the year to about 10% in the second half, while the growth rate of consumer demand slowed down sharply as indicated by the marked fall in the growth rate of retained imports of consumer goods⁽¹¹⁾.

14 Reflecting this development, up until about August the visible trade gap was on a widening trend. At the same time concern was growing about the overall domestic economic situation in the face of recession in our major markets and the persistently high inflation rate, which affected attitudes adversely and not least in the foreign exchange market. In consequence the Hong Kong dollar depreciated sharply during the third quarter. From 90.7 on 5 June, the highest point for the year, the trade weighted exchange rate index dropped to 81.1 by 23 September, the lowest point for the year. Against the US dollar the Hong Kong dollar depreciated by 20% over the first nine months of the year. But as the interest rate differential moved in favour of the Hong Kong dollar in early October and as the visible trade gap narrowed in response to a slowing down in the growth rate of imports, the exchange rate recovered. The net depreciation in the year against the US dollar was 10.7%. In terms of the trade-weighted exchange rate index the depreciation was only 2.6%⁽¹²⁾.

(8) 1981 E.B. 1.2-4.

(9) 1981 E.B. 1.12.

(10) 1981 E.B. 1.17 and 2.22. 1982 E.P. 2.6.

(11) 1981 E.B. 2.14.

(12) 1981 E.B. 3.15-18.

15 These wide fluctuations in the exchange rate inter alia inevitably affected domestic prices. Although the property and land markets, which were characterized generally by falling prices⁽¹³⁾, were no longer stimulating prices generally (thus emphasizing again the virtues of allowing the free play of market forces), the rate of inflation as measured by the consumer price indices remained high at 15%. But reflecting an economy adjusting automatically through the market mechanism in favour of export competitiveness, the rate of increase in the G.D.P. deflator was less at 10%, a considerable slowing down on the increase in 1980 of 13%.

16 Another factor which contributed to domestic inflationary pressures was the continued growth of loans and advances for use in Hong Kong, despite maintenance of the best lending rate at historically high levels. For the year as a whole loans and advances for use in Hong Kong grew by 45% and the money supply M3 grew by 27%. Part of the rapid expansion in domestic credit was attributed to the level of money market rates, which were at times low in relation to the best lending rate, and at times both rates were low in relation to the rate of inflation. Thus borrowers were able to resort to lending facilities arranged on a less expensive cost-of-funds (HIBOR) basis, which frustrated in part the restraint on borrowing which would otherwise have been exerted by the relatively high best lending rate. Consequently in November an experimental scheme was implemented to enable the Government to intervene in the money market through the Exchange Fund in an attempt to influence the level of money market rates. It is too early to assess the extent to which the scheme has yet played a part in curbing the untoward expansion of domestic credit. Certainly it is not a cure-all, and I do not rule out the introduction of additional arrangements if other efficient and equitable measures can be devised. Nevertheless the growth rate of the monetary aggregates did slow down during the year⁽¹⁴⁾. Loans and advances for use in Hong Kong rose by 26% in the first half of the year and by 15% in the second half. Similarly M3 rose by 20% in the first half and by only 6% in the second half.

17 Thus overall the economy did as well in 1981 as could reasonably be expected. There was also a marked trend towards economic stability throughout the year. Employment grew substantially and the unemployment rate, which had been increasing continuously since March 1979 under the influence of immigration, also stabilized. In fact between March and September there was a fall in the unemployment rate from 4.1% to 3.6% while employment in the manufacturing sector hit an all time high⁽¹⁵⁾. In some sectors there developed labour shortages, and real wages began to move up again.

18 When I was a businessman, I was irritated from time to time by optimistic generalizations by Government spokesmen because they often did not seem to

(13) 1981 E.B. 6.13-18.

(14) 1981 E.B. note 6 to 3.3 and note 9 to 3.6.

(15) 1981 E.B. 4.2 and 4.9 1982 E.P. 2.7.

reflect a sensitive understanding of the individual problems and variations which are hidden by averaged results that may be satisfactory overall. Let me say therefore that I fully realize that 1981 meant for some industrialists and merchants rising prices, fluctuating exchange rates, continuing inflation, difficult markets, growing protectionism, thin profit margins, and all the problems of adjustment that new technologies bring. They truly have my sympathy. I accept that some have had and will continue to have problems: this situation is not unique to Hong Kong. But I am sure that the fittest will survive.

19 It is only one of the many damnations of inflation that it brings with it understandable public scratchiness at constantly rising prices. Nevertheless in a situation in which overseas prices are rising, the Hong Kong dollar has depreciated and credit expansion has been rapid, some increases in domestic prices are inevitable. There is however always scope for the intervention of other factors that tend to keep prices down, for instance economies of scale, use of coal instead of oil, management efficiency, cheaper or alternative raw materials, greater productivity, and so on. We are fortunate in Hong Kong that because productivity is rising real wage levels are now again increasing even for unskilled labour, though it is a close run thing⁽¹⁶⁾. Although the fight against inflation is a priority for the Hong Kong Government as for every other government in the world, we have no panacea. The general course we must continue to take is obvious, but particular corrections must reflect Hong Kong circumstances and Hong Kong style. All of us have our own predilections. Given the choice, mine include a conscious bias towards reasonably full employment.

The Public Sector

20 I turn now to the important issue of the right share of the public sector in the economy, and of the imperative need to control its universally prolific and weed-like growth.

21 It is a truism, which should nevertheless be made, that it is hard to restrain the growth of Government expenditure; that it is harder to explain to the public why such restraints are necessary; that it is harder still when for some years as a result of wise management of expenditure we have had budgetary surpluses leading to comfortably growing reserves.

22 This experienced Council will nevertheless understand that at the present time the true shortage is of resources including people—and not of money. Put simply, Government expenditure requires use of resources which might otherwise be better used by the private sector including in particular the production of those exports on which Hong Kong depends. A good government must therefore exercise thrift at all times.

23 It is axiomatic that the public sector, because of the importance of the activities it alone can undertake including the provision of an element of social wage, must have an adequate share of total resources. What, however, actually

(16) 1981 E.B. 4.13.

constitute essential activities and an adequate share have been debated since time immemorial. The central issue moreover in an expanding economy is not proportionate size but trends of growth.

24 Government has great power to pre-empt resources. It is more difficult, however, for Government to assess the effectiveness of expenditure and to establish criteria for decision making than for the private sector, which is generally responsive to relatively simplistic profit and loss account considerations⁽¹⁷⁾. There is therefore a constant risk of Government expenditure expanding beyond cost effective limits, and taking a larger share of available resources than it should. Thus less government tends to be more efficient government. But there exist no rules of logic which postulate what is a proper share of resources for the public sector. For example in Japan the public sector has been reported to represent about 32% of the G.D.P.; in Britain at 44% the share is higher than in the USA and Japan but lower than in France and Germany; and so on. Naturally there tends to be a lack of common factors, which indeed differ widely: for example the imperatives of major defence spending, or as in Hong Kong of an under-housed population. Circumstance and history not logic are our masters.

25 Having been engaged in many debates on this issue in this Chamber I do not personally think that for Hong Kong anyway there is any ideal percentage figure. Nevertheless it is clear that in any growing economy it is appropriate that public expenditure should increase, for economic growth inevitably encourages and requires some growth of the public sector. In Hong Kong I believe strongly that for the future firstly we should try to keep this growth rate in public expenditure down to the growth rate of the G.D.P., and secondly even if this is not feasible or appropriate every year that the trend should be clearly this way inclined. A trend of unrestrained growth in the relative size of the public sector would be deplorable, for it would inevitably affect our exchange rate, inflation and basic credibility in Hong Kong.

26 I am of course only reiterating consistent Government policy. But the practical difficulties that can arise simply must not be under-estimated. They emphasize the need for constant vigilance and resistance to special pleas. In any case the best of plans can go very wrong. Last year the Budget forecast an easing back in the growth rate of expenditure in real terms on Consolidated Account from 21.4% in 1980-81 to 12.8% in the current financial year. What actually has happened is quite different. Expenditure has been boosted by the need to operate the desalter and the increased costs of land acquisition. Neither could be anticipated, and neither could be offset against other savings. Moreover actual 1980-81 expenditure, used as a base, turned out to have grown by 17.8% rather than 21.4% as estimated. Consequently instead of the planned easing back in the current year, we will have experienced in fact a growth rate of

(17) Although directors of public companies in particular also have responsibilities both towards the community in which they operate and towards their staff.

21.8% in real terms. This outcome is unacceptable except as a flash in the pan. I accept fully the strictures I shall get. The lesson is however more important than excuses.

27 Be that as it may, when preparing guidelines last November for the draft Estimates of Expenditure for 1982-83 I set out firmly to cut growth on General Revenue Account in the Draft Estimates in money terms to 18%, meaning about an 8% growth in the public sector in real terms allowing for the then expected increase of about 10% in the G.D.P. deflator. Within the 18% growth in money term Finance Branch expected to be able to maintain existing programmes, to expand them where appropriate, and to make suitable provision for new programmes. In particular within commonsense limits I agreed to support all land production, public housing and road transport projects. I knew that this could be optimistic, for earlier continuing commitments could not be disregarded: and I accepted that there would have to be considerable internal flexing, meaning more for some expenditure heads and less for others. 8% was only a best guess at G.D.P. growth for 1982, but I hope that nobody will consider that 8% growth in public sector expenditure in real terms would have been in any way parsimonious. It is by world standards very large indeed. Many governments are now seeking actual cutbacks while even Japan is reportedly set on a standstill.

28 In the cut and thrust of the estimating process for 1982-83 we were able indeed to agree finally, subject to this Council's approval, on a growth in money terms of 18% in the Draft Estimates. This is still arguably on the high side though it does include considerable contingencies, but certainly it is trending the right way—if indeed it is accomplished⁽¹⁸⁾. Heads of Department are naturally as difficult to convince as members of the public about the need to curtail desirable expenditure against a backcloth of budgetary surpluses. I would like to pay tribute to their forbearance this year in what was as usual a difficult exercise.

29 Excluding new Public Works Reserve Fund factors I believe that in 1982-83, barring the unexpected but after allowing appropriately for contingencies, the growth rate in public sector expenditure in real terms on Consolidated Account will be about 10.7%. Taking account of a likely civil service pay award the public sector should represent about 24% of G.D.P. I hope that you may agree that we have done our best to restrain growth, although I accept that all loopholes are not closed—for instance the definition of Consolidated Account results arguably in too loose a leash on expenditure by the M.T.R. now and the K.C.R. soon. But it is the trend that is all important; and this trend must be carried forward into the years ahead.

30 Naturally within expenditure budgets of this magnitude there is considerable scope for arguing different priorities, leading inevitably to various parish pumps. I sincerely hope that Members of this Council will accept the

(18) *There must be later problems if the base changes i.e. if the final outturn for 1981-82 is different from the revised Estimates. The contingencies are \$1.3 billion: paras. 50 and 52.*

overall need for firm though sensitive restraint of the growth of public expenditure, bearing in mind that restraint does not mean petty-minded meanness. Nor am I seeking reductions except where there is clear waste or programmes change or end. In the debate which will follow Members may wish when promoting their own priorities (and of course I accept that Government's views are fallible) to indicate at the same time where they think that balancing savings can be made. I cannot accept increased overall expenditure, for I must emphasize my belief that a thrifty use of resources and a correct allocation of priorities represent the prudent approach. Merely throwing money at problems solves nothing in the long run.

31 At this particular point in my speech and in this particular year of the Lunar Calendar it seems appropriate to remind you of Trollope's words 'It's dogged as does it. It ain't thinking about it' (I must say I am looking forward to being told of what the Cantonese translation of that is). Anyone who has control of large expenditure budgets has experienced the inevitable conflicts of principle with commonsense. Control in the long run depends on perseverance; but control there must be.

Revised Estimates 1981-82

32 Before presenting my estimates of revenue and expenditure for 1982-83, I must first bring you up to date on the present state of the Government's accounts. For clarity and simplicity when speaking I shall normally work to one decimal place and use the term billion as representing one thousand million. Exact figures can of course be found elsewhere in the estimates, footnotes, appendices and accompanying publications.

33 On General Revenue Account the budget for 1981-82 envisaged a surplus of HK\$7.9 billion⁽¹⁹⁾.

34 The revised estimates of revenue and expenditure are \$34.8 billion and \$27.1 billion respectively. On the basis of these figures the year's operations will result in a surplus of \$7.7 billion, just 3% below the surplus budgetted⁽²⁰⁾.

(19) *i.e.* \$7,881 million: the difference between estimated revenue of \$32,524 million and estimated expenditure of \$24,643 million. These figures, and those used throughout this speech in respect of the General Revenue Account and the Consolidated Account, have been adjusted for analytical reasons. They are different from the figures in the printed Estimates and in the Treasury's cash book; the differences are explained in the Statistical Tables.

(20)	\$ mn		\$ mn	
	Original/ Approved	Revised	Original/ Approved	Revised
<i>Recurrent Account:</i>				
Revenue	20,605	24,417	—	—
Expenditure	15,188	16,695	+5,417	+7,722
<i>Capital Account:</i>				
Revenue	11,919	10,346	—	—
Expenditure	9,455	10,415	+2,464	— 69
Overall surplus	—	—	+7,881	+7,653

The revised estimates take account of a maximum of 9 months performance. As the cost of land resumptions in particular continues to run high, the final surplus could be rather lower. It is most unlikely to be higher.

35 This outcome for 1981-82 largely reflects a continuing flush in revenue, particularly on recurrent account, for it will be observed that the revised estimate of expenditure is no less than \$2.5 billion, or 10%, in excess of the approved estimate.

36 The excess is made up by \$1.5 billion on recurrent account and \$960 million on capital account. On recurrent account⁽²¹⁾ the excess is accounted for by civil service salary revisions and adjustments and their consequences for the salaries of staff in subvented organizations, and by the need to operate the desalter. Personal emoluments subheads require additional provision of \$729 million, recurrent subventions require an additional \$510 million and public works recurrent expenditure is up by \$409 million. On capital account⁽²²⁾ the excess is

(21)	<i>Approved Estimates 1981-82 (\$ mn)</i>	<i>Revised Estimates 1981-82 (\$ mn)</i>
<i>Component</i>		
(1) <i>Personal Emoluments</i>	5,271	6,000
(2) <i>Departmental Other Charges</i>	2,290	2,561
(3) <i>Public Works Recurrent</i>	891	1,300
(4) <i>Subventions</i>	2,869	3,278
(5) <i>University and Polytechnic Grants Committee</i>	656	757
(6) <i>Defence</i>	1,375	1,204
(7) <i>Pensions</i>	449	730
(8) <i>Public Debt</i>	23	22
(9) <i>Miscellaneous</i>	1,364(*)	843
<i>Total Recurrent Expenditure</i>	<u>15,188</u>	<u>16,695</u>

Note: (*) Includes \$600 million for expenditure unforeseen at the time the Draft Estimates were prepared. The increases have been offset against this amount, other than those arising from salary revisions and adjustments and pensions.

(22)	<i>Approved Estimates 1981-82 (\$ mn)</i>	<i>Revised Estimates 1981-82 (\$ mn)</i>
<i>Component</i>		
(1) <i>Public Works Programme (other than New Towns and Housing)</i>	2,650	2,810
(2) <i>Public Works Programme (New Towns and Housing)</i>	1,888	2,280
(3) <i>Land Acquisition</i>	800	1,600
(4) <i>Transfers to D.L.F. for on-lending to the Housing Authority</i>	2,114	2,114
(5) <i>Transfers to Home Ownership Fund</i>	—	—
(6) <i>Subventions</i>	251	225
(7) <i>University and Polytechnic Grants Committee</i>	182	183
(8) <i>Departmental Special Expenditure</i>	471	425
(9) <i>Defence Costs Agreement: Capital Works</i>	119	67
(10) <i>Defence: Miscellaneous Measures</i>	245	222
(11) <i>Other Transfers</i>	24	78
(12) <i>Miscellaneous</i>	711(*)	411
<i>Total Capital Expenditure</i>	<u>9,455</u>	<u>10,415</u>

Note: (*) Includes \$700 million for expenditure unforeseen at the time the Draft Estimates were prepared.

more than accounted for by increased spending on the Public Works Programme, which requires additional provision of \$552 million, and by increases in land resumption and clearance costs requiring an additional \$800 million, as more land-holders opted for full cash compensation in preference to accepting Letter B exchange entitlements. I shall say more about Public Works Programme expenditure later⁽²³⁾.

37 The revised estimate of revenue is \$2.2 billion, (or 7%) higher than the original. The increase is entirely on recurrent account. Capital revenue is down by \$1.6 billion, and recurrent revenue is up by \$3.8 billion.

38 The shortfall in capital revenue results from lower than expected land prices. The original estimate envisaged revenue of \$9.8 billion from the sale of 79 hectares of land. The revised estimate includes \$8.1 billion from the sale of 86 hectares of land.

39 Critics who allege despite such repeated proof to the contrary that the Government adopts a high land price policy will anyway be pleased to note that the actual sale of 86 hectares of land owned by the community has exceeded the original estimate of 79 hectares.

40 Recurrent revenue is higher than the original estimate mainly because of increased yields from earnings and profits tax, up by \$1.9 billion or 21%, and from stamp duties, up by \$1.1 billion or 96%.

41 With the transfer of the 1981-82 surplus to the General Revenue Balance our fiscal reserves at the beginning of the financial year 1982-83 will be about \$23 billion⁽²⁴⁾. After allowing (on the basis of a gearing of three) \$6.5 billion as cover for our formal contingent liabilities (which will be around \$19.5 billion by 31 March 1986, the last year of the new forecast period⁽²⁵⁾), we shall have at 1 April 1982 'free' fiscal reserves of about \$16.5 billion.

(23) Paragraph 54.

(24) General Revenue Balance at 1 April 1981 = \$16,036 million plus assumed actual surplus of \$7,092 million for 1981-82 (that is, the cash book surplus without the adjustments made for analytical purposes: see footnote (19) above) = \$23,128 million, say, \$23,000 million.

(25)	At 31 March:	
	1982 (\$ mn)	1986 (\$ mn)
Guarantees of M.T.R.C. debt	3,890	6,800
Export Credit Insurance Corporation: outstanding accounts	2,500	4,400
Home Ownership Scheme: guarantees to banks and d.t.cs.	800	7,180
Asian Development Bank: uncalled capital	256	484
Gold coins	252	473
H.K. Building & Loan Agency	150	150
H.K. Arts Centre: guarantee of bank loan	12	—
Demonetized currency notes	10	10
Owensbord Enterprises Ltd.: guarantee of bank loan	10	—
	Total	7,880
		19,497

Assessment of performance

42 An assessment of our performance over the past five years—that is to say, 1977-78 to 1981-82—on the basis of four principles which we apply in the management of Hong Kong's public finances is at Appendix A of the printed speech.

The Budget for 1982-83

43 Against this background I now present the Draft Estimates of Expenditure, the Revenue Estimates, and my revenue proposals for 1982-83.

44 As I have said earlier, when preparing initial guidelines for the Draft Estimate of Expenditure I set out rather sanguinely further to cut growth in money terms to 18%. This meant a limit to total expenditure on General Revenue Account of about \$33 billion⁽²⁶⁾.

45 The printed Draft Estimates provide for total expenditure of \$35.5 billion; *but* this figure takes into account the establishment of the new Capital Works Reserve Fund about which I shall have more to say later. Without this Fund total expenditure would be \$32.9 billion⁽²⁷⁾, and thus just within the limit I set, though the amount reflected in the Appropriation Bill is \$35.5 billion. Please do not thus be misled.

46 For analytical reasons certain minor adjustments need to be made to this figure; these are explained in the Statistical Tables attached to the printed version of this speech.

47 On recurrent account, the provision sought of \$19.5 billion represents an increase of \$2.8 billion, or 17%, on the revised estimate for 1981-82⁽²⁸⁾.

48 Personal emoluments account for 35% of recurrent expenditure, compared with 38% over the past five years. But at \$6.7 billion the provision thus sought as is our usual practice makes no allowance for the cost of any revision of civil

(26) *The unadjusted revised estimate for 1981-82 of \$28,100 million* × 1.18 = \$33,100 million.

(27) \$35,523 million in the printed Draft Estimates minus transfer to the Capital Works Reserve Fund of \$11,000 million plus estimated Public Works Non-Recurrent expenditure of \$8,372 million.

(28)	Component	1982-83 Draft Estimates (\$ mn)	1982-83 Draft Estimates (%)	Historical ratio, 1977-78 to 1981-82 (%)
(1)	Personal Emoluments	6,654	35.2	38.3
(2)	Departmental Other Charges	3,788	20.1	14.7
(3)	Public Works Recurrent	1,258	6.7	6.8
(4)	Subventions	3,792	20.1	21.1
(5)	University and Polytechnic Grants Committee	842	4.5	4.7
(6)	Defence	1,315	7.0	5.7
(7)	Pensions	607	3.2	3.9
(8)	Public Debt	26	0.1	0.3
(9)	Miscellaneous	584	3.1	4.5
		<u>18,866</u>	<u>100.0</u>	<u>100.0</u>
	Additional commitments	600		
	Total Recurrent Expenditure	<u>19,466</u>		

service salaries that may be agreed in 1982-83. The approved establishment shown in the Draft Estimates is 137 838 posts⁽²⁹⁾ of which about 89% are likely to be filled on 1 April 1982. The vacancy ratio of 11% is slightly higher than the historical ratio, reflecting the significant increase in the approved establishment during 1981-82 of over 12 000 posts, or 9.5%. Provision is made for a possible further increase of 16 500 posts during 1982-83. The total size of the civil service has increased substantially in recent years, and none of us is satisfied that the most effective use is being made of available staff resources. This is one area that will require particular attention during the forthcoming year.

49 Departmental other charges account for 20% of recurrent expenditure, substantially more than the proportion over the past five years of 15%. At \$3.8 billion the provision sought takes account of increased prices, particularly in respect of electricity, fuel and transportation costs. But it also includes provision for staff-related expenses such as training and quartering, which were previously classified as miscellaneous expenditure.

50 Provision for all other recurrent expenditure amounts to \$9 billion, including \$600 million for additional commitments which may arise during the year.

51 On capital account, the provision sought of \$16 billion includes a transfer of \$11 billion to the new Capital Works Reserve Fund, but excludes estimated Public Works Non-Recurrent expenditure of \$8.4 billion which will be charged to the Fund. For comparative purposes, the provision sought would otherwise be \$13.4 billion, which would represent an increase of \$3 billion or 29% on the revised estimate for 1981-82⁽³⁰⁾.

(29) Exclusive of 28 192 posts in the Urban Services and Housing Departments the personal emoluments of which are met by the Urban Council and the Housing Authority.

(30)	Component	Revised Estimates 1981-82 (\$ mn)	Draft Estimates 1981-82 (\$ mn)
(1)	Public Works Programme (other than New Towns and Housing)	2,810	3,525(*)
(2)	Public Works Programme (New Towns and Housing)	2,280	3,175(*)
(3)	Land Acquisition	1,600	1,672(*)
(4)	Transfers to D.L.F. for on-lending to the Housing Authority	2,114	2,432
(5)	Transfers to Home Ownership Fund	—	—
(6)	Subventions	225	374
(7)	University and Polytechnic Grants Committee	183	264
(8)	Departmental Special Expenditure	425	564
(9)	Defence Costs Agreement: Capital Works	67	153
(10)	Defence: Miscellaneous Measures	222	427
(11)	Other Transfers	78	108
(12)	Miscellaneous	411	712(**)
	Total Capital Expenditure	<u>10,415</u>	<u>13,406</u>

Notes: (*) To be charged to the Capital Works Reserve Fund.

(**) Includes \$700 million for additional commitments which may arise during the year.

52 Provision of \$2.4 billion is sought for transfer to the Development Loan Fund for on-lending to the Housing Authority. The provision sought for Subventions and the U.P.G.C. is \$638 million, considerably higher than the revised estimate for 1981-82 of \$408 million. For all other components of the capital account provision of \$2 billion is sought, including \$700 million for additional commitments which may arise during the year.

Capital Works Reserve Fund

53 Provision of \$11 billion is sought for transfer to the new C.W.R.F.⁽³¹⁾. This Fund was established by Resolution of this Council on 20 January 1982 for the purpose of financing the Public Works Programme and land acquisitions. The justification for setting up this Fund was set out in a Finance Committee agenda item which is attached as an Appendix⁽³²⁾ to the printed version of this speech, and I shall not rehearse again the several advantage we see resulting from this new arrangement.

54 The estimated expenditure from the Fund in 1982-83 on the Public Works Programme is \$6.7 billion, an increase of \$1.6 billion or 32% over the revised estimate for 1981-82. On land acquisitions the estimated expenditure for 1982-83 is \$1.7 billion, higher than the revised estimate of \$1.6 billion for 1981-82 which is itself double the approved estimate.

55 Total estimated expenditure from the Fund in 1982-83 is therefore \$8.4 billion, against the proposed transfer from General Revenue to the Fund of \$11 billion. There should thus be a surplus in the Fund at the end of the year of about \$2.6 billion.

Size of the Public Works Programme

56 The outstanding commitment (or overhang) in respect of projects in hand on 1 April 1981 was nearly \$23 billion. This was increased by over \$7 billion, as a result of the injection of new projects during 1981-82 but reduced by roughly \$7 billion in expenditure. During 1982-83 work is scheduled now to start on new projects of a total value of about \$3 billion. After allowing for estimated expenditure on other continuing projects during 1982-83, the outstanding commitment at 1 April 1983 will be no less than \$18 billion, but will certainly be much higher as further new works are approved during the year.

(31) This amount has been calculated, in accordance with a guideline formula (which is not sacrosanct), on the basis of 80% of estimated revenue from land sales (\$9,224 million) and 15% of estimated recurrent revenue (of \$27,096 million).

(32) Appendix B.

Priorities

57 Every effort has been made to accommodate all land production and transport projects that are ready to proceed. The priority given to these projects and to public housing is reflected in the breakdown of expenditure on Consolidated Account. The estimated total expenditure on transport, roads, civil engineering and land is \$6.4 billion, which is 17% of total Consolidated Account expenditure, compared with \$1 billion or 11% as recently as 1977-78.

58 The importance which we continue to attach to land production is demonstrated by the objectives of the efficient Special Committee on Land Supply, which recommends targets to meet the needs of both the public and private sectors and which monitors the Administration in the achievement of those targets⁽³³⁾. Gross land production in 1982-83 is expected to be 644 hectares, and it was 632 hectares in 1981-82⁽³⁴⁾. This is nearly seven times more than five years ago.

59 Over the three years of the new forecast period 1983-84 to 1985-86 gross land production is estimated to total 2 203 hectares⁽³⁵⁾.

Public Sector Housing

60 We all know the importance to Hong Kong of new housing, and the part that you, Sir, have played. Within the total Consolidated Account expenditure on housing in 1982-83, \$4.1 billion will be spent on the actual construction of housing, including temporary housing areas, compared with \$3.9 billion in

(33) *The Special Committee on Land Supply has been paying particular attention to:*

- (a) *improving the methodology of land production forecasts;*
- (b) *setting targets for the supply of land for all categories of use (other than for public housing which has priority and for which the supply is geared to the Housing Authority's requirements) on the basis of estimates of demand rather than on estimates of production of new land;*
- (c) *reviewing progress of the plans to produce additional land in the 1980s—at Ma On Shan, as an extension to Sha Tin New Town, and at Junk Bay; and*
- (d) *examining the effects of temporary uses of land and of squatting upon the provision of land for development.*

(34) *Excluding 27 hectares and 40 hectares respectively for land formed by/for the Industrial Estates Corporation.*

(35) Year	<i>Production excluding I.E.C. (Hectares)</i>	<i>Production by/for I.E.C. (Hectares)</i>	<i>Total (Hectares)</i>
1983-84	830	22	852
1984-85	724	5	729
1985-86	622	—	622
	<u>2,176</u>	<u>27</u>	<u>2,203</u>

1981-82. These figures exclude the value of land used by the Housing Authority for rental housing and for flats built under the Home Ownership Scheme to be sold from early 1982 onwards⁽³⁶⁾.

61 The Government's public housing programme was recast in 1979 as a four-year programme aimed at achieving a level of production of about 35 000 flats a year for both rental and sale by the Housing Authority, with a substantial addition by the Housing Society and the Private Sector Participation Scheme: this programme was increased again last year⁽³⁷⁾. The forecast of production in the four years 1982-83 to 1985-86 of 148 900 flats exceeds production in the previous four years, 1978-79 to 1981-82, by 31 429 flats. These production figures do *not* include 2 454 Housing Society flats and 19 450 Home Ownership (Private Sector Participation and Middle Income Housing) Scheme flats

(36)	1981-82 <i>Revised Estimates</i> (\$ mn)	1982-83 <i>Draft Estimates</i> (\$ mn)
(1) <i>Rental Housing Programme (*)</i> :		
<i>Drawings from Development Loan Fund (**)</i>	2,020	2,570
<i>Housing Authority's own resources (***)</i>	512	273
<i>Public Works Department</i>	23	15
<i>Asian Development Bank Loans (****)</i>	19	27
<i>Total (1)</i>	2,574	2,885
(2) <i>Home Ownership Scheme (*****)</i>	1,299	1,163
<i>Total (1) + (2)</i>	3,873	4,048
(3) <i>Temporary Housing Areas</i>	20	50
	3,893	4,098

Notes:

(*) Not including the Housing Society.

(**) For housing and ancillary facilities, but nothing for land, because land is granted to the Housing Authority at nil premium, although the full market value of the land is entered in the Authority's accounts as a Government contribution.

(***) Difference between rent income and running expenses plus premia from commercial lettings.

(****) See Memorandum Note on Head 134 Public Debt, and the Memorandum Note on A.D.B. Loans of the Estimates.

(*****) Not including the Home Ownership (Private Sector Participation and Middle Income Housing) Scheme. For the Home Ownership Scheme itself, the expenditure figures include \$131 million and \$170 million for 1981-82 and 1982-83 respectively being drawings by the Housing Authority from the D.L.F. for commercial facilities, but exclude the value of land in respect of domestic elements to be sold from early 1982 onwards.

(37) B.S., 1979, paragraph 153; and see Appendix C. Government even now provides low cost housing for about 2.2 million people.

expected to come on stream during the same four-year period, thus achieving an average completion rate of 42 700 a year or 170 804 in the next four years⁽³⁸⁾.

62 As regards the Home Ownership Scheme, 22 100 flats out of a total of about 27 800 flats in the first four phases will have been completed by the end of 1982-83. Work will be in hand on the balance, and also on a further 20 200 flats in Phases V and VI. In order to ensure that purchasers of the 8 413 flats in Phases IV a and IVb of the Home Ownership Scheme to be sold in 1982-83 have access to adequate mortgage finance, I shall shortly be writing to over 400 financial institutions seeking their participation in providing the HK\$1.4 billion required. My similar invitation in respect of Phases IIb, IIIa and IIIb of the Home Ownership Scheme and the second stage of the Private Sector Participation Scheme has raised \$1.2 billion from 46 banks and deposit-taking companies. New mortgage terms have been negotiated which should provide the basis for even wider participation in the coming Phases while preserving a preferential element for Home Ownership Scheme purchasers.

63 Although the annual public housing target of production of 35 000 flats for rental and for sale has been achieved, *and will at least be maintained*, the length of the Housing Authority's waiting list has remained disappointingly static in recent years: it is likely to remain so for some time in view of continuing clearances, the increasing numbers of eligible households, and other factors. I am aware also that the cost of Home Ownership Scheme flats has increased considerably since the first flats were offered for sale in early 1978; indeed it became apparent in early 1981 that selling prices were no longer within the reach of the target group. Since there was limited scope for further reduction of construction costs without unreasonable lowering of the standards, in September 1981 the Executive Council agreed that a revised basis for determining the selling price of Home Ownership Scheme flats should be adopted for future phases as soon as possible. Under this new scheme, the value of land will be excluded from the calculation of selling prices. The revised basis was announced in Your Excellency's address at the opening session of this Council on 7 October 1981. The intention is to build more flats to meet the

(38)	<i>Production of Flats</i>				
	<i>H.A. Rental</i>	<i>H.O.S.</i>	<i>P.S.P.S.</i>	<i>H.S. Rental</i>	<i>Total</i>
			<i>(incl. M.I.H.)</i>		
1978-79	14 130	—	1 200	—	15 330
1979-80	29 759	2 439	—	800	32 998
1980-81	26 769	8 674	1 506	618	37 567
1981-82	31 300	4 400	—	3 725	39 425
1982-83	28 600	6 600	760	519	36 479
1983-84	31 400	4 400	—	290	36 090
1984-85	33 300	5 700	8 262	788	48 050
1985-86	31 900	7 000	10 428	857	50 185

In the four years 1982-83 to 1985-86 private sector production additionally is expected to be at least 100 000 flats, and possible more.

demonstrated aspirations of those eligible under these home ownership schemes. Consideration is also being given to ways of extending the revised pricing policy to flats produced under the Private Sector Participation Scheme.

Revenue Estimates

64 The Revenue Estimates as printed anticipate total revenue collections of \$39.7 billion, which on an analytically adjusted basis become \$39.2 billion comprising recurrent revenue of \$26.6 billion and capital revenue of \$12.6 billion.

65 The estimate of recurrent revenue at \$26.6 billion is an increase of \$2.2 billion, or 9%, on the revised estimate for 1981-82.

66 I expect earnings and profits taxes to yield \$12.5 billion, an increase of \$1.7 billion, or 16%, on the revised estimate for 1981-82⁽³⁹⁾. I am assuming that total profits assessable to profits tax in 1982-83 will be around 20% higher than profits assessed to tax in 1981-82, and that there will be little change in holdover orders, so providing a yield of \$8.5 billion. For salaries tax the estimate of \$2.2 billion is some 20% higher than the revised estimate for 1981-82, and takes into account the number of taxpayers coming into the tax net and higher earnings. The estimate of \$950 million for interest tax assumes a continuation of highish interest rates, and the estimate of \$840 million for property tax takes into account the new assessable values and assumes a moderate growth in properties chargeable to tax.

67 As regards indirect taxes, the estimate of \$5.5 billion is \$646 million or 10% less than the revised estimate of \$6.2 billion for 1981-82. There are two reasons for this. Firstly, the expected yield from General rates is only \$691 million following the recent decision to reduce the percentage charge on the urban areas from 7½% to 3½%, and to double the percentage charge for Urban Council rates from 4% to 8%⁽⁴⁰⁾. This has meant a reduction in the yield from General rates, and a corresponding increase in the yield from Urban Council rates of \$459 million in 1982-83. Secondly, I am looking for a yield from stamp duties of \$1.7

(39)	1981-82		
	1980-81 <i>Actual</i> (\$ mn)	<i>Revised</i> <i>Estimates</i> (\$ mn)	1982-83 <i>Estimates</i> (\$ mn)
<i>Profits tax</i>	5,496	7,095	8,480
<i>Salaries tax</i>	1,490	1,810	2,170
<i>Personal assessment</i>	108	95	105
<i>Interest tax</i>	540	1,070	950
<i>Property tax</i>	331	770	840
<i>Total</i>	<u>7,965</u>	<u>10,840</u>	<u>12,545</u>
<i>Profits tax:</i>			
<i>Corporations</i>	4,818	6,246	7,460
<i>Other Businesses</i>	678	849	1,020

(40) The Resolution to implement this was passed on 20 January 1982.

billion, a reduction of \$495 million, or 22%, on the revised estimate for 1981-82. This seems prudent because the latter is no less than 96% higher than the original estimate⁽⁴¹⁾, thanks to the turnover recorded on the stock exchanges last year.

68 For all other recurrent revenue I am estimating a yield of \$8.6 billion, of which over \$4.1 billion or 48% is expected to come from interest earnings on the General Revenue Balance, and on the balances in the Mass Transit Fund, the Home Ownership Fund, and the C.W.R.F.

Capital Revenue

69 The estimate of capital revenue at \$12.6 billion is an increase of \$2.2 billion or 21% on the revised estimate for 1981-82.

Land Sales

70 Within this estimate of capital revenue, land transactions are expected to bring in \$12.5 billion⁽⁴²⁾, comprising \$9.2 billion from the sale⁽⁴³⁾ of 91 hectares of land, \$2.5 billion from private treaty grants⁽⁴⁴⁾ and \$691 million from modifications and re-grants.

71 The continued expansion of the land sales programme by public auction and tender from 63 hectares in 1980-81 and 86 hectares in 1981-82 to 91 hectares in 1982-83 underlines the Government's determination to dispose of land at a fair market price for development as soon as it is available, even during

(41) *Original estimate \$1,145 million; revised estimate \$2,250 million.*

(42) *The estimate of \$12,452 million is based on an assessment of the prices likely to be realized for the individual lots making up the land sales programmes for 1982-83. That is to say, a view has been taken of the premia likely to be realized—and this view is of necessity highly subjective. For instance the 1982-83 land sales programme includes five large and valuable sites, the revenue from which is likely to exceed 50% of total revenue from sales by public auction and tender, provided that the sites are sold as scheduled and that the view taken of the premia likely to be realized turns out to be correct. The estimate also includes instalments of premia payable to the Treasury in respect of commercial/residential and industrial lots sold in previous years. For sales in the New Territories, a provisional assessment has been made of the number of lots to be sold by auction and by Letters A/B tender, the revenue from the latter being particularly difficult to assess as it depends on the age of the Letters A/B offered by successful tenderers.*

(43) *Land sales being defined so as to include land disposed of by tender in exchange for Letters A/B, the lots themselves being either drawn from newly formed and serviced land or from areas released from other uses (e.g. open storage let on short-term tenancies).*

	<i>Industrial</i>		<i>Non-industrial</i>		<i>Total</i>	
	<i>1981-82</i>	<i>1982-83</i>	<i>1981-82</i>	<i>1982-83</i>	<i>1981-82</i>	<i>1982-83</i>
	<i>(Hectares)</i>		<i>(Hectares)</i>		<i>(Hectares)</i>	
<i>Urban areas</i>	8.4	7.0	20.4	25.4	28.8	32.4
<i>New Territories</i>	8.7	12.8	49.0	45.9	57.7	58.7
	<u>17.1</u>	<u>19.8</u>	<u>69.4</u>	<u>71.3</u>	<u>86.5</u>	<u>91.1</u>

(44) *Most of the revenue from private treaty grants is in respect of premia likely to be realized from sites to be granted to the Mass Transit Railway Corporation in 1982-83 for joint development with property developers.*

a period when prices are falling. The increased area of land to be sold in 1982-83 is, of course, a reflection of the continued increase in expenditure on development works⁽⁴⁵⁾.

72 I gave earlier a forecast of land production in the new three year forecast period 1983-84 to 1985-86⁽⁴⁶⁾. The longer term outlook for land sales should therefore be mentioned here: even though land sales for various reasons tend to lag behind land production, the forecast is that at least 100 hectares will be sold in each of these three years⁽⁴⁷⁾. Together with private treaty grants and modifications and regrants, the potential revenue yields are high enough to suggest that the financing of the capital account in the forecast period will continue to be less dependent on the surplus on recurrent account than in past years. I have no doubt that this subjective view will be raised in the debate to come. Let me add that despite the current cyclical downturn I have complete confidence in the long-term prospects of our real estate developers.

73 The difference between the adjusted estimate of revenue and expenditure for 1982-83 is a surplus of \$3.7 billion. Including the expected balance in the Capital Works Reserve Fund at the end of the year, it is \$6.3 billion.

Tax Proposals

74 I come now to my proposals on taxation. The estimated surplus for 1982-83 is \$6.3 billion as against the revised estimate of \$7.7 billion for 1981-82. Our reserves are now larger at \$23 billion⁽⁴⁸⁾.

75 While there are several sources of increased or additional revenue fairly open, with tobacco and alcohol only among the more obvious, I do not believe that it is ordinarily appropriate for the Government to raise taxation when it clearly does not need the money either for its immediate expenditure requirements or in order further to strengthen prudent reserves. While for years it has been argued in Hong Kong that in normal circumstances taxation should be fiscal in nature there may have to be exceptions. Higher taxes on motor vehicles and duties on petrol are possible examples. There are others. Commonsense in such cases may indicate that the Government should consider not only its fiscal requirements but also the potential of taxation as a supplementary means of achieving other policy ends⁽⁴⁹⁾.

(45) Paragraph 57. The gross figures for land production are, of course, inclusive of large areas appropriated for public housing, Government, institutional use, other community purposes, open space and roads.

(46) Paragraph 59.

(47) The Land Disposal Sub-Committee of the Special Committee on Land Supply was set up in 1980. It monitors the six-monthly land sales programmes and forecasts likely sales eighteen months ahead. This arrangement is designed to provide early warning of any difficulties which may prejudice the fulfilment of the land sales programme.

(48) Paragraph 41.

(49) Appendix A note 6.f.

76 I believe that the new Capital Works Reserve Fund⁽⁵⁰⁾ is a businesslike way of spreading unpredictable and often lumpy capital revenue from year to year against a current Public Works Programme four-year overhang of some \$23 billion. In fact annuality (except as an important control concept) does not really play a part in major capital programmes, for we are not likely to stop large capital schemes in mid-stream unless in extraordinary circumstances.

77 With the C.W.R.F. established and initially funded, the surplus is estimated to drop to \$3.7 billion in 1982-83. This presupposes that Members will accept my recommendation that \$11 billion should be appropriated in 1982-83 for the fund. While the creation of the C.W.R.F. has seemingly diminished the overall surplus on General Revenue Account, we should not allow ourselves to be seduced by this budgetary innovation into inconsistent fiscal behaviour.

78 I make no apology for referring frequently in this speech to the need for consistency in Government policies—and particularly taxation policies. While simultaneously observing our accepted guidelines⁽⁵¹⁾ it is reasonably consistent that I should propose to abate taxation in 1982-83 by some \$1.37 billion, which compares with the figure of \$1.25 billion a year ago. You will note that I do not use the irritating phrase ‘give back’, which presupposes that private monies are all at Government’s beck and call.

79 My major concerns for 1982-83 include the need for appropriate monetary and fiscal counter-inflationary policies, the problems of industry, the continued development of Hong Kong as a major financial centre, and the less privileged. I also acknowledge the burdens of Mr. LOBO’s sandwiched society—the middle class who in Hong Kong as elsewhere tend to be a mainstay of the community. Finally I am well aware that capital revenue yield from future land sales is as enigmatic as it ever has been.

80 I thus propose ten tax concessions in four areas, which I believe reflect these concerns. They otherwise are mainly neutral in effect, and will promote our general economic well-being. In that state of well-being I include a sense of fair play, for good budgets must surely have some satisfying emotional content.

Business Taxation

81 My first two concessions offer incentives for investment to the business sector of our economy and in particular to our manufacturers, who I believe should be further encouraged to expand their investment in new capital equipment. This is essential if our industry is to remain flexible and competitive. I am anyway well aware of the difficulties currently being experienced for example by many in the spinning, weaving, dyeing and finishing sectors. Members will recall that in order to encourage manufacturers to re-equip and upgrade their plant and equipment, Government last year introduced both

(50) Paragraph 53.

(51) See Appendix D.

improved annual depreciation rates and an increased initial allowance, which was raised from 25% to 35% in respect of expenditure incurred on the provision of plant and machinery⁽⁵²⁾. Some have said that we did not go far enough and that we should permit a full 100% write-off in the year of acquisition as indeed is the practice in some other places. This would, however, be an expensive concession, which could not be contemplated in one single bound. Further-more, bearing in mind Hong Kong's unusually low rates of tax fiscal relief alone will probably never be a conclusive incentive to incur expenditure on plant and equipment; other considerations such as a desire for improved production capacity, increased productivity, and particularly enhanced profitability are more likely to be the deciding factors. Nonetheless I accept that tax considerations play their part in the decision-making process; and our manufacturers still represent the backbone of our economy. Accordingly my first proposal is that the initial allowance should be further increased from 35% to 55% for expenditure incurred on the provision of qualifying plant and equipment⁽⁵³⁾. The new initial allowance will apply to both final profits tax assessments for 1981-82 and provisional profits tax for 1982-83. The cost to the revenue of this increased allowance will be \$354 million in 1982-83 and \$180 million in a 'full' year.

82 My second concession, which concerns the industrial buildings allowance, will benefit both manufacturers and those who invest in industrial property for rental income purposes. For just as it is important that our manufacturers should be encouraged to re-equip and upgrade their plant and equipment, so it is desirable that new plant and equipment, and particularly the workers who operate the machines, should be accommodated in modern and efficient factory premises.

83 The present legislation provides for the grant of industrial buildings allowances by reference to the cost of construction only: no account is taken of the profit element included in the price which the property developer charges to the purchaser for his new building. I propose therefore, that where a person carrying on a trade, which consists wholly or partly of the construction of buildings or structures with a view to their sale, sells a qualifying building in the course of that trade, before it is used, then the initial and annual allowances will be computed by reference to the net price paid by the purchaser and not by reference to the actual cost of construction⁽⁵⁴⁾. The cost to the revenue of this concession will be \$66 million 1982-83 and \$34 million in a 'full' year; and the concession will again apply to both final profits tax assessments for 1981-82 and provisional profits tax for 1982-83.

(52) *B.S. 1981, paragraph 243.*

(53) *Thus, for example, an item of weaving or spinning machinery already ranking for the annual rate of allowance of 30% will qualify for a write-off for profits tax purposes (initial and annual allowances taken together) of 68.5% in the year of acquisition.*

(54) *Thus, assuming a factory building is constructed by a property developer at a cost of \$8 million and sold to a corporate manufacturer for, say, \$10 million (which could be a comparatively modest mark-up), then the tax saving to the manufacturer in the year of acquisition as a result of this concession would be \$79,200 (i.e. tax at 16½% on initial and annual allowances granted on the developer's profit of \$2 million).*

Interest Tax

84 I turn now to the controversial issue of interest tax. When presenting his 1981-82 Budget Sir Philip made reference to the taxation treatment of foreign currency deposits and told this Council that an examination was in hand⁽⁵⁵⁾.

85 In the course of our subsequent deliberations we once again concluded that for a variety of reasons there was no present case for the total abolition of interest tax; and that the case for the exemption of foreign currency deposits taken in Hong Kong was not clearcut, because it could lead to switching of funds from Hong Kong dollar deposits to foreign currencies with consequential pressure on the exchange value of the Hong Kong dollar. I have since received two reports prepared by the Hong Kong Association of Banks. The second of these gave information obtained from a survey of member banks, the general consensus of which was (hardly surprisingly) strongly in favour of a tax exemption for foreign currency deposits. These submissions acknowledged the probable fiscal consequences of repeal, but took the view that in the context of our total budgetary situation we could afford the loss in yields from interest tax. They also argued that the monetary and economic advantages, in particular the enhancement of Hong Kong's position as an international financial centre, could well outweigh the fiscal losses; and that such losses would in part at least be offset by increased profits tax yields from financial institution. After long internal debate and much heartsearching we have come to the conclusion that the arguments for a partial repeal of the interest tax on pragmatic and economic grounds outweigh the fiscal arguments for its retention. The Government considers that the continuing growth of Hong Kong as an international financial centre is worthy of encouragement.

86 I therefore propose to exempt foreign currency deposits placed with licensed banks and registered and licensed deposit-taking companies from interest tax; and it follows that those institutions will no longer be under any withholding obligations in respect of such deposits. The original terms of reference for the examination envisaged that exemption would only be available for deposits of a minimum size, and would apply only to deposits placed with licensed banks and licensed deposit-taking companies. We have now come to the view, however, that it would best serve Hong Kong's interests if the exemption were extended to registered deposit-taking companies as well, thus giving to international investors who wish to use our services a wider range of choices. By the same token I have decided not to impose a minimum level of deposit. Any such limitation would necessarily have had to be arbitrary: if set too high it would have vitiated the objective of the exemption; and if set too low could have been readily circumvented, for example by groups of depositors

(55) *B.S. 1981-82, paras. 295-296 ... to consider the implications of the proposition 'that interest payable on deposits denominated in foreign currencies above a certain minimum size, accepted by institutions of a certain status (say, licensed banks and the proposed new category of merchant banks), be made exempt from tax and consequently, that the institutions concerns be made exempt from any withholding obligations'.*

joining together to meet the stipulated minimum. Furthermore a minimum level of deposit which was pitched high would be open to criticism on grounds of equity—helping only the rich investor at the expense of the man in the street. Consequently the exemption will apply to all foreign currency deposits placed with licensed banks and licensed or registered deposit-taking companies. And, I should add, not only is the charge to interest tax removed but also it is intended to provide a corresponding exemption from profits tax in respect of interest accruing on foreign currency deposits placed with these institutions by persons, whether corporate or non-corporate, carrying on a trade, profession or business in Hong Kong (other than the business of ‘financial institution’ as defined in the Inland Revenue Ordinance)⁽⁵⁶⁾. I must stress that the profits tax exemption will not apply to ‘financial institutions’—for obvious reasons. The borrowing and lending of money at interest with a view to profit is the very essence of their business activities, and there is clearly no case for excluding those profits from charge.

87 Having thus decided to exempt interest on foreign currency deposits, there remained the problem to which I have already referred; that is the evident dangers for the Hong Kong dollar if depositors began significantly to move across the exchanges out of Hong Kong dollar deposits into foreign currency deposits. It is also now a relatively simple matter for an investor to minimize his exchange risks at small cost by entering into what is known in the trade as a ‘swap’ transaction—that is the coincidental purchase and resale of the foreign currency deposit. This practice moreover is clearly mushrooming.

88 Bearing in mind, however, that there is a cost element in minimizing exchange risk exposure, we believe that it is possible to discourage widespread switching from Hong Kong dollar to foreign currency deposits; and this I propose to do by reducing the rate of interest tax on Hong Kong dollar deposits with licensed banks and registered and licensed deposit-taking companies from 15% to 10%. At this level the tax advantages of moving into foreign currency deposits will usually be small; indeed a switch could well be disadvantageous when measured against the costs of covering exchange risks. Much will depend, however, upon the relative movements of Hong Kong dollar and other interest rates. I do not incidentally propose to introduce a differential rate for profits tax on Hong Kong dollar deposit interest accruing to business depositors. The practical complications would be considerable and, in my view, not justified. Again it will be appreciated that the concessions now proposed apply only to deposits with banks and deposit-taking companies. Interest on other forms of indebtedness such as mortgages and private loans will continue to attract liability to tax at the standard rate of 15%, or 16½% in the case of the profits of corporations who receive such interest as part of their trading profits.

(56) This profits tax exemption is a logical consequence of the decision to exempt foreign currency deposits from interest tax, and also recognizes that business proprietors could with comparative ease remove surplus funds temporarily from their businesses thus legitimately avoiding the charge to profits tax whilst at the same time enjoying the interest tax exemption.

89 The cost to revenue of exempting foreign currency deposits and of reducing the interest tax rate on Hong Kong dollar deposits to 10% is estimated to be \$400 million in 1982-83, subject always to the influences which variations in interest rates from time to time and in the volumes of deposit business transacted might have on revenue yields.

90 It would be appropriate administratively to introduce these interest tax proposals with effect from 1 April 1982, that is at the commencement of the next fiscal year. As however there could be something of a hiccup in the financial sector in the intervening weeks, I have decided that it will be more intelligent to introduce the new exemption for foreign currency deposits and the reduced rate of 10% forthwith. To this end Your Excellency this morning signed an Order under the Public Revenue Protection Ordinance which will bring these proposals into force so as to apply to interest paid or credited on or after tomorrow, Thursday, 25 February 1982. It is my hope that the clamourings of the interest tax abolitionist lobby will now subside (*laughter*). But whether they do or not, we shall watch carefully the effects of the reliefs now to be introduced. Whatever the monetary and economic advantages may be, we realize that these reliefs introduce a new, untried and somewhat untidy dimension to the well tested fiscal balance of our tax system. If the imbalance which these new reliefs impart to the system is unduly exploited—for example by way of sophisticated gearing devices designed to eliminate or reduce substantially the profits tax liabilities of ordinary trading concerns—we shall have to consider whether the loss to revenue is still justified, or whether we have begun to pay too high a price for the economic advantages gained. It will also be a matter of experience whether 10% is an appropriate level.

Personal Taxation

91 Last year substantial increases were introduced in the level of allowances granted to those liable to salaries tax and to those who elect for personal assessment. I propose this year to introduce further concessions in the field of personal taxation because, as Sir Philip aptly put it last year, we have an on-going commitment ‘to review the system of personal taxation periodically, having regard to our current budgetary situation and to the need to maintain equity as between different income groups at a time when the growth of money incomes is leading to fiscal drag’⁽⁵⁷⁾. If at some future time our revenue needs dictate an increase in the levels of taxation, I shall not hesitate so to address this Council. For the moment, however, I am satisfied that we can afford this year to review again the levels of our personal taxation allowances and to revise upwards the tax thresholds, that is the levels of the entry points into the tax net. Such concessions will ensure that those who would otherwise be brought into the tax net because of the effects of inflation on money incomes are kept out: they will pass on to some of those already in the tax net some of the benefits of our satisfactory budgetary situation: they will also mean that some are no longer liable to tax at all.

(57) *B.S. 1981, paragraph 223.*

92 Firstly, I propose an increase in the level of personal allowances from \$15,000 to \$20,500 for single persons and from \$30,000 to \$41,000 for married persons. The present supplementary personal allowances of \$7,500 for a single person and \$15,000 for a married person will remain unchanged, and the available claw-back mechanism will continue to be zero rated. Thus taken together the basic personal allowance plus supplementary allowance will total \$28,000 for a single person and \$56,000 for a married couple; below these income levels there will be no liability to tax. The new allowances will be, therefore, very nearly 25% higher than the present levels fixed a year ago, and thus considerably in excess of the rate of inflation.

93 Secondly, I propose an increase in the child allowances from \$7,000 to \$8,000 (or by 14.3%) for the first child and from \$5,000 to \$5,500 (or by 10%) for the second child. I do not propose increases in the present allowances for the third to ninth children, which I consider remain appropriate.

94 Thirdly, I propose an increase in the dependent parent allowance from \$7,000 to \$8,000 (or by 14.3%), as before pitching this allowance at the same level as that for the first child. I do not propose to vary the criteria for the granting of this allowance⁽⁵⁸⁾. I shall give further thought to the important social question of persuading children to support their ageing parents, of whom I am one (*laughter*).

95 If approved, my proposals for personal taxation allowances will be applicable to final salaries tax assessments (and for personal assessments also) for 1981-82 and to provisional salaries tax for 1982-83. The cost to the revenue in 1982-83, after allowing for the two instalment system for the payment of provisional salaries tax, will be \$509 million, equivalent to a substantial proportion (22%) of the estimated revenue from personal taxation. The cost in a 'full' year is estimated to be \$316 million at present levels of chargeable income⁽⁵⁹⁾. I do not propose to dwell on the figures, but I suggest that close

(58) *At certain income levels those who contribute only the minimum qualifying annual contribution of \$1,200 to a dependent parent can gain a tax advantage in excess of that sum; the majority of claimants probably make a rather larger contribution to the maintenance of their dependent parents.*

(59) *These increased allowances will benefit an estimated 92 000 persons; 52 000 taxpayers who were previously liable and who will now be exempt, and a further 40 000 who would have become liable in 1982-83 but who will now be kept out of the tax net. This means that in 1982-83 there will be an estimated 218 000 salaried taxpayers, compared with some 310 000 who would have been liable without these new concessions. Furthermore, of those remaining in the tax net some 205 000 will benefit by way of reduced liability. About 13 000, or 6% of the total number in the tax net, will receive no benefit from these concessions and will continue to bear tax on their chargeable incomes at the standard rate of 15%. This high income group continues to contribute well over half of the total yield from salaries tax.*

Additionally an estimated further 55 000 persons who elect for the advantages of personal assessment will also benefit through reduced liability.

Examples of the effects of these new allowances for persons at various income levels and in various personal circumstances are contained in Appendix E to the printed version of this speech; and at Appendix F there appears a table showing examples of the present and future effective rates of tax at different income levels for persons in various personal circumstances. Appendix G shows the income levels at which persons in various personal circumstances will become liable at the standard rate in future.

examination will demonstrate again that our system of personal taxation is extraordinarily modest in its impact. Indeed there can be few other places in the world which have both tax thresholds so high that the majority of the economically active are excluded from charge to tax, and a system which is so efficiently revenue productive (and, I might add, at an extremely low cost by world standards).

Estate Duty

96 Finally I have three concessions relating to Estate Duty. But first I intend to use this opportunity to comment on certain criticisms of Estate Duty at large, which will also enable me to range more widely. It has been suggested that the Estate Duty legislation ought to be repealed because it is cumbersome and complex, its impact is easily avoided, it produces little revenue, and is difficult and expensive to administer.

97 The facts however are that the legislation is well understood by those who have to deal with it professionally, and by the officers of the department who administer it. As regards avoidance, all our direct taxes are susceptible to avoidance, based as they are on our limited territorial source criterion. On the whole because of our modest rates the majority of our entrepreneurs and others who use Hong Kong's excellent infrastructure of services, communications facilities and so on do not conduct their tax affairs as cynically as their counterparts in other places where high levels of taxation prevail. But I am bound to say that, if ever our taxation system ceases to be as revenue productive as it is now, we shall have to think seriously about plugging the leaks even if that means paddling into the muddy waters of highly complex fiscal legislation, which we have always avoided in favour of our simpler system.

98 In the year ended 31 March 1982 estimated estate duty collections are expected to be \$294 million, which though not a significant sum measured against our total revenue yields, is a useful contribution to our total budgetary needs. Nor must we ever commit the cardinal error of being mesmerized by billions: it is an accumulation of small sums that matters, as every man and woman in the street knows. The cost of collection is under 1%, which is hardly an expensive operation. Finally, so the Commissioner informs me, the Estate Duty Office provides an excellent source of information on those who during their lifetime made little or no contribution to the Exchequer—because they evaded or cheated on taxes they ought to have paid (*laughter*). This final opportunity to seek and obtain some restitution (*laughter*) from the estates of such people would in itself be justification for the retention of the estate duty, even if the yield from the duty itself were insignificant—which it is not.

99 But to return to my three concessions. Members will recall that last year we raised the estate duty exemption limit to \$1 million in recognition of rising asset values. This year I propose firstly further to raise the exemption limit to \$2 million: that is to say no duty will be payable on the estates of deceased persons

who die possessed of net assets of a value below that figure. This increase may at first sight seem somewhat generous, but it recognizes that asset values have continued to rise and is consistent with our low tax philosophy.

100 Secondly, one of the effects of successive increases in the exemption limit in recent years has been to make the initial impact of the estate duty rather more significant than it should be, and therefore inconsistent with our low tax philosophy. If my proposal to increase the exemption limit to \$2 million is approved, the rate of duty applicable to estates between \$2 million and \$3 million under the present schedule (and subject, of course, to marginal relief) would be 17%. Therefore in order to reinstate the concept of graduality I propose to replace the present schedule of rates with a new schedule scaled from 10% on estates between \$2 and \$2.5 million to 18% above 4 million⁽⁶⁰⁾.

101 Thirdly, I propose to exempt from duty altogether the principal matrimonial home of the deceased, where the deceased leaves a surviving spouse. This relief acknowledges the claim that sometimes there can be hardship for the surviving spouse because the home is subject to duty. While I know of no case where a widow has been obliged to sell the home in order to pay the duty, it seems logical in the context of our low tax philosophy to exclude it from charges⁽⁶¹⁾.

102 The cost to the revenue of these three proposals will be approximately \$42 million in 1982-83 and an estimated \$52 million in the following year.

Other Matters

103 Before I leave the subject of taxation I wish to comment on other matters on which I have received representations. (My office is of course always open to criticism or to new ideas.)

104 They include allegations that our profits tax legislation enables the Commissioner to charge capital gains to tax. I am advised that this is not so; and the Commissioner assures me that he has never done so and has not the slightest intention of trying to do so. He does concede that there are occasions when he seeks to tax as income what the taxpayer prefers to think of as a capital profit. But there are remedies through the appeal process, if the Commissioner's view in such a case seems incorrect. It has also been represented that executors

(60) *On estates between—*

<i>\$2,000,001 and \$2,500,000</i>	<i>10%</i>
<i>\$2,500,001 and \$3,000,000</i>	<i>12%</i>
<i>\$3,000,001 and \$3,500,000</i>	<i>14%</i>
<i>\$3,500,001 and \$4,000,000</i>	<i>16%</i>
<i>\$4,000,000 and above</i>	<i>18%</i>

(61) *The exemption will be administered by reference to rules which broadly follow the Property Tax owner-occupier exemption; and where there is more than one matrimonial home the estate's legal personal representative will be permitted to designate which property is to be the principal matrimonial home. But for the purposes of determining the appropriate rate of duty to be applied to the remainder of the estate, the matrimonial home will first be aggregated with the other dutiable assets and only thereafter excluded from charge.*

of deceaseds' estates are in some jeopardy in that the Commissioner could successfully recover from the personal assets of the executor taxes owed by the deceased. Again I am advised that this is not a correct interpretation of the law, and the department does not seek to recover taxes in default in this way. I have also been told that in certain circumstances dividends could be chargeable to profits tax. Once more, that is not a view to which the Commissioner subscribes. These, and other miscellaneous matters which have been placed before me, are not in any respect what could be described as burning issues. However, I have taken due note of them; if at some convenient time in the future it is thought that any of them has merit, or that there is indeed some legal doubt as to the proper interpretation of the existing legislation, step will be taken to put matters right.

105 The one proposition which has caused me sleepless nights is the contentious issue of separate taxation for married women. I have of course noted Sir Philip's concluding comments in last year's debate⁽⁶²⁾.

106 I am fortified by two other considerations. Firstly, the cost to revenue of separate taxation for married women would be about \$200 million per year. It would not be prudent to add this considerable sum to this year's total tax cuts, and it would therefore be necessary to sacrifice others of my proposals to make room for benefits for married women. I do not think it sensible that my overall reliefs should thus be distorted.

107 Secondly and fortuitously, the Commissioner for Inland Revenue has told me that because of the considerable changes proposed this year and the computer software problems inherent in a system of separate assessment his department simply could not cope with such a change. On pragmatic grounds, therefore, further tax changes this year are not possible.

108 Perhaps I protest too much. I will admit under pressure that as history moves on the arguments for and against separate taxation for women seem more evenly balanced, while deeply felt emotion rightly or wrongly can be as persuasive as logic. In fact the argument is not simple, for there are great practical problems involved. Nevertheless a dispassionate and pragmatic man should be able to see now which way the tide is running both in Hong Kong and elsewhere. Whether it should so run is another matter; but Canute proved the fallacy of relying on this sort of argument.

109 If, therefore, women Members of this Council and some 50% of the population will bear with me this year, without of course making any promises or commitments and absolutely dependent on the situation as it then exists I hope to be able to have another look at this proposition next year with a view to some movement. I do trust that this olive branch will be accepted, and that I am not forced in subsequent debate to erect defensive battlements. This can be

(62) *'Is there really any valid reason why one family with an income of, say, \$100,000 should pay less tax than another family with a similar income, simply because in the first case, the \$100,000 is produced by the husband and wife, whereas in the second case the husband (or wife) alone contributes to the support of the family.'*

done, but I would like to avoid the necessity, which indeed I think could be counter-productive.

110 The cost to the revenue of my tax concessions is \$1.37 billion, and the estimate of total revenue thus becomes \$37.8 billion. The difference between this and the estimate of total expenditure of \$35.5 billion is \$2.3 billion, which is the surplus we are budgetting for on General Revenue Account in 1982-83⁽⁶³⁾.

111 These concessions produce satisfactory results as far as the balance of the fiscal system⁽⁶⁴⁾ and the budgetary guidelines are concerned⁽⁶⁵⁾.

112 But I must draw attention again particularly to the growth and relative size of the public sector in 1982-83. On Consolidated Account total expenditure will be no less than \$37.7 billion. This is an increase in money terms of \$6.8 billion, or 22% over the revised estimate for 1981-82. In real terms it represents an increase of 10.7%. The growth rate of 10.7% envisaged for 1982-83 though large thus represents a significant slowing down in the growth rate of the public sector, but it will still be higher than the forecast growth rate of G.D.P. of 8%.

113 As a result, the relative size of the public sector will again increase from 22.9% in 1981-82 to about 24% in 1982-83. We clearly must not relax in our efforts to ensure that the growth rate of expenditure on Consolidated Account has due regard to the growth rate of the economy.

(63)	\$ mn	\$ mn
<i>Revenue:</i>		
<i>Recurrent</i>	25,308	
<i>Capital</i>	<u>12,518</u>	<u>37,826</u>
<i>Expenditure:</i>		
<i>Recurrent</i>	19,466	
<i>Capital</i>	<u>16,034</u>	<u>35,500</u>
<i>Surplus on recurrent account</i>	—	5,842
<i>Deficit on capital account</i>	—	3,516
<i>Overall surplus</i>	—	2,326
<i>(Including the surplus in the C.W.R.F. the total overall surplus is \$4,954 million).</i>		

(64) *Ratio between direct and indirect taxes—67:33.*

Ratio between direct and indirect taxes taken together and all other recurrent revenue—66:34 (see Appendix A).

(65) Guideline	Ratio	1982-83
$\frac{\text{Recurrent revenue}}{\text{Total expenditure}}$	At least 77%	77%
$\frac{\text{Recurrent expenditure}}{\text{Recurrent revenue}}$	No more than 85%	77%
$\frac{\text{Surplus on recurrent account}}{\text{Capital expenditure}}$	At least 33%	44%
$\frac{\text{Recurrent expenditure}}{\text{Total expenditure}}$	No more than 65%	59%
$\frac{\text{Capital revenue}}{\text{Capital expenditure}}$	At least 20%	93%

(The percentages for 1982-83 are calculated to include the Capital Works Reserve Fund. See footnote (31) above.)

The Economy in 1982

114 I turn now to my forecast of the Economy for 1982. The purpose of our policies is to increase the future prosperity of the people of Hong Kong. This is the only test that matters. Details of the forecast can be read in the '1982 Economic Prospects' tabled today, which complements the '1981 Economic Background'. As I propose to take time to highlight only a few important features of the forecast, Members will wish no doubt to read the publication in full.

115 I will start by re-emphasizing the caveat in the Introduction⁽⁶⁶⁾ on the difficulties of forecasting generally for Hong Kong in its exposed circumstances and for 1982 in particular. In fact, as Members know, I have the gravest suspicion of all soothsayers and fortune tellers.

116 Opinions about economic prospects in 1982 for Hong Kong's main export markets, which must be the starting point for assessing our economic prospects, have characteristically been changing from week to week⁽⁶⁷⁾. To the extent that a consensus can be detected, the all-important U.S. economy is expected to recover somewhat in the second half of 1982, although the growth rate for the year as a whole may be less than in 1981. A mild recovery is also expected for the United Kingdom and Germany. Overall the growth rate of world trade in manufactured products is expected to be about 5% in real terms in 1982 compared with 2% in 1981. In particular Hong Kong's main markets are expected to import substantially more.

117 But stubbornly high inflation rates may lead them to adopt even more restrictive fiscal and monetary policies, despite their high levels of unemployment. Such policies would obviously affect adversely their demand for imports from Hong Kong. Put simply the external conditions which our economy faces are difficult to interpret.

118 In contrast our domestic economic conditions have recently shown clear favourable trends⁽⁶⁸⁾. The unemployment rate, which had been increasing under the influence of immigration for two years up to March 1981, has since been falling. Although the rate of inflation in terms of the Consumer Price Index remained high last year at 15%, in the last quarter of the year it was clearly slowing down. Land and property prices were falling, and so was the growth rate of the money supply. The growth rate of private consumption expenditure was also slowing down, and the growth rate of domestic exports was increasing. Thus the impetus to growth has been gradually shifting back from domestic demand to domestic exports. Consequently the visible trade gap has been narrowing—not that I believe that the visible gap is very important.

119 At a time when our main export markets are still in recession, we cannot, however, necessarily expect the increasing trend in the growth rate of our domestic exports in the second half of 1981 to continue. Indeed the appreciable

(66) 1982 E.P. 1.2 and 1.3.

(67) 1982 E.P. 3.13 to 3.16.

(68) 1982 E.P. 2.1 to 2.8.

drop in the growth rates of retained imports of raw materials and semi-manufactures in recent months⁽⁶⁹⁾ suggests some slowing down at least in the early part of this year. But I believe that the recovery in demand in our main markets, when it comes, will result in a sharp increase in Hong Kong's exports.

120 Against this background, I expect our G.D.P. to grow in real terms in 1982 by 8%. This is made up of forecast growth rates of 7% for both private and Government consumption expenditure, and of 16% for gross domestic fixed capital formation. The forecast growth rates for domestic exports and re-exports are 7% and 20% giving a forecast of 11% for total exports. The forecast for imports is 12% and for net export of services 5%. I also expect the rate of increase of the G.D.P. deflator, a general measure of inflation, to slow down to 9% compared with 10% in 1981; and the rate of increase in consumer prices to slow down to 12% compared with 15%⁽⁷⁰⁾.

121 Should this forecast actually be borne out, it will be associated with a fair measure of stability⁽⁷¹⁾. There should not be any significant imbalance between aggregate demand and supply, and thus the visible trade gap should not widen appreciably. The growth rate of domestic demand should not be so rapid as to pre-empt adequate resources going to the export sector. Consequently domestic exports should play an increasingly important part in providing the impetus to economic growth. The public sector should still be commanding an increasing share of the economy's resources, but the extent of the increase should be less than in 1981. The growth rate of investment should be reasonably rapid. In respect of building and construction, because there is some spare capacity at present the growth should not be so fast as to create undue pressure on costs. But with the public sector's share of this industry's output increasing when private sector demand is also growing, we shall have to look out for signs of such pressure developing.

122 To sum up, although the forecast growth rate of 8% in real terms for the G.D.P. is lower than our actual achievement in recent years, it implies a greater increase in the growth rate of output per person employed than last year. This is the result of the growth rate of the labour force returning to around 2% to 3% as the effects of illegal immigration subside. Furthermore the G.D.P. forecast, allied with a forecast growth rate of 1.9% in the population, implies a growth rate of 6% in per capita G.D.P., only slightly less than the 7% for 1981. Per capita G.D.P. at current prices will have reached the impressive figure of \$30,370, 16% higher than in 1981. As the depressive effect of immigration on wage increases should continue to subside, there is every reason to believe that our lower paid workers will enjoy their fair share of this expected increase in prosperity.

123 Averages can be misleading, not least because of the large difference between top and bottom wages in Hong Kong, but at current exchange rates

(69) 1982 E.P. 2.3.

(70) 1982 E.P. 3.

(71) 1982 E.P. 4.

US\$5,200 G.D.P. per head will be widely envied⁽⁷²⁾. Goodness knows we work for it.

124 Sir, this is the last of 11 budget speeches in Hong Kong to which you have listened. In these years of your Governorship Hong Kong has experienced remarkable growth often in the face of general adversity. In real terms our total exports have increased by 182%, our G.D.P. by 162%, and our per capita G.D.P. by 106% despite a population increase of 1.1 million. We still have no serious unemployment problem. These figures are significant, but they only herald the general improvements in Hong Kong that your Government has been able to introduce as a result of growing prosperity. There have been two over-riding factors—your own determination to improve the lot of the average man and woman, and your adoption of policies leading to the creation of the wealth on which social progress depends. In housing, health, education, social welfare, recreation, law and order, transport and many other fields these past ten years have seen outstanding improvement in the living standards of our people. What has been done—which all can see—stands as your monument.

125 Sir, I move that the debate on this motion be adjourned.

STATISTICAL TABLES

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(72) *Comparative examples are:*

Per capita G.D.P./G.N.P. in 1980

	<i>(US\$)</i>
<i>F.R. Germany</i>	<i>13,300</i>
<i>U.S.A.</i>	<i>11,320</i>
<i>U.K.</i>	<i>9,300</i>
<i>Japan</i>	<i>8,900</i>
<i>Singapore</i>	<i>4,460</i>
<i>Malaysia</i>	<i>1,760</i>
<i>S. Korea</i>	<i>1,550</i>
<i>Philippines</i>	<i>730</i>
<i>Thailand</i>	<i>700</i>
<i>World average (in 1979)</i>	<i>2,130</i>

Table (1)

GROWTH RATES OF CONSOLIDATED ACCOUNT EXPENDITURE (ADJUSTED)
AND THE RELATIVE SIZE OF THE PUBLIC SECTOR 1971-72 TO 1982-83

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77
Consolidated Account						
Expenditure (Adjusted), at Current Prices (\$ mn):						
Recurrent	2,163.7	2,718.7	3,547.2	4,647.4	4,934.1	5,786.4
(a)	1,986.1	2,472.1	3,273.6	4,320.1	4,583.0	5,407.7
(b)	177.6	246.6	273.6	327.3	351.1	378.7
Capital	788.4	1,156.1	1,513.8	2,044.9	1,642.3	1,568.7
(c)	703.8	941.1	1,378.6	1,897.1	1,477.0	1,411.1
(d)	48.1	58.5	57.7	98.7	105.0	92.7
(e)	36.5	156.5	77.5	49.1	60.3	64.9
Total	2,952.1	3,874.8	5,061.0	6,692.3	6,576.4	7,355.1
Gross Domestic Product at Current Prices (\$ mn) (*)						
	21,873.0	25,854.0	33,964.0	38,786.0	40,574.0	51,973.0
Relative Size of the Public Sector (%)						
	13.6	15.0	15.0	17.3	16.2	14.2
Consolidated Account						
Expenditure (Adjusted), at Constant (1973) Prices (\$ mn):						
Recurrent	2,779.1	3,053.2	3,547.2	4,024.5	4,155.2	4,569.8
(a)	2,536.5	2,749.8	3,273.6	3,730.7	3,831.9	4,244.7
(b)	242.8	285.4	273.6	293.8	323.3	325.1
Capital	1,018.5	1,329.3	1,513.8	1,742.0	1,490.6	1,368.3
(c)	921.2	1,095.6	1,378.6	1,618.7	1,360.0	1,251.0
(d)	50.7	59.6	57.7	80.9	80.2	66.2
(e)	46.6	174.1	77.5	42.4	50.4	50.9
Total	3,797.6	4,364.5	5,061.0	5,766.5	5,645.8	5,937.9
Growth rates of Consolidated Account Expenditure (Adjusted) (%):						
In money terms:						
Recurrent	13.0	25.7	30.5	31.0	6.2	17.3
Capital	34.0	46.6	30.9	35.1	-19.7	-4.5
Total	17.9	31.3	30.6	32.2	-1.7	11.8
In real terms:						
Recurrent	6.3	9.2	16.9	13.5	3.2	10.0
Capital	16.9	30.5	13.9	15.1	-14.4	-8.2
Total	9.0	14.9	16.0	13.9	-2.1	5.2

Legend: (a) Salaries and other recurrent.
(b) Maintenance.
(c) Major capital works and land acquisition.
(d) Purchase of plant and equipment and major capital works.
(e) Other non-recurrent.

Table (1) *Contd.*GROWTH RATES OF CONSOLIDATED ACCOUNT EXPENDITURE (ADJUSTED)
AND THE RELATIVE SIZE OF THE PUBLIC SECTOR 1971-72 TO 1982-83

	1977-78	1978-79	1979-80	1980-81	Revised Estimate 1981-82	Estimate 1982-83
Consolidated Account						
Expenditure (Adjusted), at Current Prices (\$ mn):						
Recurrent	6,933.8	8,183.7	9,969.9	13,404.4	18,576.4	21,906.2
(a)	6,366.3	7,623.6	9,232.9	12,386.5	16,947.5	20,197.8
(b)	567.5	560.1	737.0	1,017.9	1,628.9	1,708.4
Capital	2,234.4	3,937.9	5,649.2	8,652.0	12,361.7	15,822.6
(c)	2,061.8	3,666.6	5,230.0	7,402.6	11,547.5	14,073.0
(d)	94.5	195.5	219.7	918.4	484.3	789.5
(e)	78.1	75.8	199.5	331.0	329.9	960.1
Total	9,168.2	12,121.6	15,619.1	22,506.4	30,938.1	37,728.8
Gross Domestic Product at Current Prices (\$ mn) (*)						
	59,615.0	69,557.0	89,473.0	111,114.0	135,346.0	159,500.0
Relative Size of the Public Sector (%)						
	15.4	17.4	17.5	20.3	22.9	23.7(**)
Consolidated Account						
Expenditure (Adjusted), at Constant (1973) Prices (\$ mn)						
Recurrent	5,071.1	5,532.3	5,930.5	6,575.8	7,962.5	8,552.2
(a)	4,660.5	5,189.7	5,565.3	6,135.0	7,342.9	7,987.1
(b)	410.6	342.6	365.2	440.8	619.6	565.1
Capital	1,789.6	2,768.3	2,955.2	3,894.9	4,791.2	5,566.3
(c)	1,668.1	2,593.1	2,708.4	3,234.0	4,410.5	4,838.8
(d)	64.3	123.6	126.4	497.0	237.8	365.7
(e)	57.2	51.6	120.4	163.9	142.9	361.8
Total	6,860.7	8,300.6	8,885.7	10,470.7	12,753.7	14,118.5
Growth rates of Consolidated Account Expenditure (Adjusted) (%):						
In money terms:						
Recurrent	19.8	18.0	21.8	34.4	38.6	17.9
Capital	42.4	76.2	43.5	53.2	42.9	28.0
Total	24.7	32.2	28.9	44.1	37.5	21.9
In real terms:						
Recurrent	11.0	9.1	7.2	10.9	21.1	7.4
Capital	30.8	54.7	6.8	31.8	23.0	16.2
Total	15.5	21.0	7.0	17.8	21.8	10.7

Notes: (*) Calendar year figures. The figure for 1980 is provisional, that for 1981 is preliminary and that for 1982 is a forecast.

(**) The figure would be higher if the cost of any revision of civil service salaries that may be agreed in 1982-83 was included in the calculation

Table (2)

GENERAL REVENUE ACCOUNT 1972-73 TO 1982-83

(Adjusted for analytical purposes)

	1972-73 (\$ mn)	1973-74 (\$ mn)	1974-75 (\$ mn)	1975-76 (\$ mn)	1976-77 (\$ mn)	1977-78 (\$ mn)	1978-79 (\$ mn)
<i>Revenue:</i>							
Recurrent	3,910	4,550	5,156	5,843	6,850	8,151	10,146
Capital	761	466	437	412	644	1,232	2,296
Total	<u>4,671</u>	<u>5,016</u>	<u>5,593</u>	<u>6,255</u>	<u>7,494</u>	<u>9,383</u>	<u>12,442</u>
<i>Expenditure:</i>							
Recurrent	2,464	3,231	4,175	4,450	5,224	6,219	7,308
Capital	1,068	1,411	1,796	1,573	1,353	1,939	3,648
Total	<u>3,532</u>	<u>4,642</u>	<u>5,971</u>	<u>6,023</u>	<u>6,577</u>	<u>8,158</u>	<u>10,956</u>
Surplus on recurrent account	1,446	1,319	981	1,393	1,626	1,932	2,838
Deficit on capital account	307	945	1,359	1,161	709	707	1,352
Overall surplus/deficit	<u>1,139</u>	<u>374</u>	<u>-378</u>	<u>232</u>	<u>917</u>	<u>1,225</u>	<u>1,486</u>
Surplus/deficit carried forward to the General Revenue Balance for accounting purposes	636	72	-380	487	903	1,236	1,467

Table (2) *Contd.*GENERAL REVENUE ACCOUNT 1972-73 TO 1982-83
(Adjusted for analytical purposes)

	1979-80 (\$ mn)	1980-81 (\$ mn)	1981-82 (Estimates) (\$ mn)	1981-82 (Revised Estimates) (\$ mn)	1982-83 (Draft Estimates) (\$ mn)	1982-83 (After revenue proposals) (\$ mn)
<i>Revenue:</i>						
Recurrent	13,471	18,951	20,605	24,417	26,637	25,308
Capital	3,323	11,236	11,919	10,346	12,560	12,518
Total	16,796	30,187	32,524	34,763	39,197	37,826
<i>Expenditure:</i>						
Recurrent	8,865	11,919	15,188	16,695	19,466	19,466
Capital	4,956	7,756	9,455	10,415	16,034	16,034
Total	13,821	19,675	24,643	27,110	35,500	35,500
Surplus on recurrent account	4,608	7,032	5,417	7,722	7,171	5,842
Deficit on capital account	1,633	+3,480	+2,464	69	3,474	3,516
Overall surplus/deficit	1,975	10,512	7,881	7,653	3,697	2,326
Surplus/deficit carried forward to the General Revenue Balance for accounting purposes	2,924	6,697	7,826	7,092	4,153	2,782

Table (2) *Contd.*(a) *General Notes on the Adjustments*

(1) The Urban Council and Housing Authority were established on 1 April 1973. Figures for 1971-72 and 1972-73 have been adjusted to exclude the previous activities of the Urban Services and Resettlement Departments which were taken over by the Urban Council and the Housing Authority. Between 1 April 1973 and 31 March 1975 the Government continued to be responsible for certain expenditure (e.g. personal emoluments), reimbursements from the Urban Council and the Housing Authority being credited to General Revenue. These transactions were taken below-the-line with effect from 1 April 1975 and so the figures for 1973-74 and 1974-75 have been adjusted to exclude them. Since 1 April 1975, Urban Council and Housing Authority revenue and expenditure have not appeared in the Government's accounts and so no adjustments are necessary for 1975-76 onwards.

(2) Adjustments have been made in respect of three types of transactions, namely:

- (a) transactions, which *could* have been dealt with below-the-line, but which, *in fact* have been passed through the General Revenue Account in accordance with the Government's accounting principles or for some other reason (e.g. purchase of equity in the Mass Transit Railway Corporation);
- (b) drawdowns of loans and repayments of principal. These transactions have to be passed through the General Revenue Account in accordance with the Government's accounting principles, but they affect the General Revenue *Balance* rather than the Account;
- (c) debits and credits in respect of transactions within the same financial year which it was decided to pass through the General Revenue Account not so much for accounting reasons but in order to define the Government's total commitment (e.g. land grants to the Mass Transit Railway Corporation paid for by contra-transfers to the Mass Transit Fund and land grants to the Home Ownership Scheme paid for from the Home Ownership Fund using funds transferred from General Revenue).

(b) *Detailed Notes on the Adjustments*

<i>Year</i>	<i>Recurrent Revenue</i>	<i>Capital Revenue</i>	<i>Recurrent Expenditure</i>	<i>Capital Expenditure</i>
1972-73	-265(U.C. & H.A.)		-236 (U.C. & H.A.)	- 500 (M.T.F.) -29 (U.C. & H.A.) -3 (D.R.)
1973-74	-225 (U.C. & H.A.)		-225 (U.C. & H.A.)	- 300 (M.T.F.) -2 (D.R.)
1974-75	-282 (U.C. & H.A.)		-282 (U.C. & H.A.)	- 2 (D.R.)

Table (2) (b) *Detailed Notes on the Adjustments Contd.*

<i>Year</i>	<i>Recurrent Revenue</i>	<i>Capital Revenue</i>	<i>Recurrent Expenditure</i>	<i>Capital Expenditure</i>
1975-76		-264 (Loans)		-9 (D.R.)
1976-77				-14 (D.R.)
1977-78		-335 (L.P., M.T.R.)		-335 (M.T.F.)
		-488 (L.P., H.O.S.)		-488 (H.O.F.)
		-27 (Loans)		-16 (D.R.)
1978-79		-115 (L.P., H.O.S.)		-5 (M.T.F.)
				-115 (H.O.F.)
				-14 (D.R.)
1979-80				-2 (M.T.F.)
				-49 (D.R.)
1980-81		-80 (L.P., H.O.S.)		-3,540 (M.T.F.) (*)
		-23 (S.C.S.A.)		-80 (H.O.F.)
				-277 (D.R.)
				-22 (J.S.C.)
1981-82 (Estimates)		-332 (L.P., H.O.S.)		-28 (M.T.F.)
		-32 (S.C.S.A.)		-332 (H.O.F.)
				-27 (D.R.)
				-32 (J.S.C.)
1981-82 (Revised Estimates)		-40 (L.P., M.T.R.)		-437 (M.T.R.)
		-18 (C. & W.)		-332 (H.O.F.)
		-332 (L.P., H.O.S.)		-82 (D.R.)
		-32 (S.C.S.A.)		-32 (J.S.C.)
				-100 (C. & W.)
1982-83 (Draft Estimates)		-397 (L.P., M.T.R.)		-23 (D.R.)
				-82 (C. & W.)
<i>Legend:</i>	U.C. & H.A.	=Urban Council & Housing Authority	L.P., M.T.R.	=Land premia, Mass Transit Railway
	D.R.	=Debt repayment	L.P., H.O.S.	=Land premia, Home Ownership Scheme
	M.T.F.	=Mass Transit Fund	J.S.C.	=Jubilee Sports Centre
	H.O.F.	=Home Ownership Fund for land premia	S.C.S.A.	=Special Coin Suspense Account
	C. & W.	=Cable and Wireless (Hong Kong Subsidiary)		

(*) Include transfer of \$3,500 million to the Mass Transit Fund approved by Finance Committee on 11 February 1981.

Table (3)

CONSOLIDATED ACCOUNT EXPENDITURE BY MAIN FUNCTIONS 1972-73 TO 1982-83
(Adjusted for analytical purposes)

	1972-73		1973-74		1974-75		1975-76		1976-77	
	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)
(A) <i>General Services</i>										
(1) Administration	80	2.1	103	2.0	120	1.8	120	1.8	140	1.9
(2) Law and order	349	9.0	453	9.0	601	9.0	637	9.7	764	10.4
(3) Defence	129	3.3	114	2.3	119	1.8	117	1.8	253	3.4
(4) Others	79	2.0	103	2.0	110	1.6	113	1.7	146	2.0
	<u>637</u>	<u>16.4</u>	<u>773</u>	<u>15.3</u>	<u>950</u>	<u>14.2</u>	<u>987</u>	<u>15.0</u>	<u>1,303</u>	<u>17.7</u>
(B) <i>Economic Services</i>	<u>369</u>	<u>9.5</u>	<u>439</u>	<u>8.7</u>	<u>530</u>	<u>7.9</u>	<u>550</u>	<u>8.4</u>	<u>570</u>	<u>7.7</u>
(C) <i>Community Services</i>										
(1) Transport, roads, civil engineering and land	358	9.2	595	11.8	717	10.7	640	9.7	739	10.1
(2) Water	366	9.4	498	9.8	711	10.6	491	7.5	472	6.4
(3) Others	249	6.5	329	6.5	459	6.9	432	6.6	540	7.3
	<u>973</u>	<u>25.1</u>	<u>1,422</u>	<u>28.1</u>	<u>1,887</u>	<u>28.2</u>	<u>1,563</u>	<u>23.8</u>	<u>1,751</u>	<u>23.8</u>
(D) <i>Social Services</i>										
(1) Education	711	18.3	1,011	20.0	1,164	17.4	1,290	19.6	1,431	19.5
(2) Medical and health	379	9.8	457	9.0	560	8.4	562	8.5	648	8.8
(3) Housing	247	6.4	339	6.7	675	10.1	667	10.1	621	8.4
(4) Social welfare	88	2.3	153	3.0	276	4.1	359	5.5	365	5.0
(5) Labour	11	0.3	13	0.3	16	0.2	17	0.3	20	0.3
	<u>1,436</u>	<u>37.1</u>	<u>1,973</u>	<u>39.0</u>	<u>2,691</u>	<u>40.2</u>	<u>2,895</u>	<u>44.0</u>	<u>3,085</u>	<u>42.0</u>
(E) <i>Common Supporting Services</i>	<u>200</u>	<u>5.2</u>	<u>238</u>	<u>4.7</u>	<u>318</u>	<u>4.8</u>	<u>246</u>	<u>3.7</u>	<u>270</u>	<u>3.7</u>
(F) <i>Unallocable Expenditure</i>	<u>161</u>	<u>4.2</u>	<u>98</u>	<u>1.9</u>	<u>164</u>	<u>2.4</u>	<u>168</u>	<u>2.6</u>	<u>162</u>	<u>2.2</u>
(G) <i>Other Financial Obligations</i>	<u>99</u>	<u>2.5</u>	<u>118</u>	<u>2.3</u>	<u>152</u>	<u>2.3</u>	<u>167</u>	<u>2.5</u>	<u>214</u>	<u>2.9</u>
Total Expenditure	<u><u>3,875</u></u>		<u><u>5,061</u></u>		<u><u>6,692</u></u>		<u><u>6,576</u></u>		<u><u>7,355</u></u>	

Table (3) *Contd.*

CONSOLIDATED ACCOUNT EXPENDITURE BY MAIN FUNCTIONS 1972-73 TO 1982-83
(Adjusted for analytical purposes)

	1977-78		1978-79		1979-80		1980-81		1981-82 (Revised Estimates)		1982-83 (Draft Estimates)	
	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)
(A) <i>General Services</i>												
(1) Administration	171	1.9	226	1.9	267	1.7	362	1.6	492	1.6	877	2.3
(2) Law and order	906	9.9	1,052	8.7	1,334	8.6	1,760	8.0	2,313	7.5	2,851	7.5
(3) Defence	388	4.2	597	4.9	689	4.4	1,621	7.4	1,558	5.0	1,949	5.2
(4) Others	170	1.8	289	2.4	268	1.7	337	1.5	478	1.5	556	1.5
	<u>1,635</u>	<u>17.8</u>	<u>2,164</u>	<u>17.9</u>	<u>2,558</u>	<u>16.4</u>	<u>4,080</u>	<u>18.5</u>	<u>4,841</u>	<u>15.6</u>	<u>6,233</u>	<u>16.5</u>
(B) <i>Economic Services</i>	645	7.0	781	6.4	1,082	6.9	1,598	7.2	2,363	7.6	2,367	6.3
(C) <i>Community Services</i>												
(1) Transport, roads, civil engineering and land	1,102	12.0	1,784	14.7	2,155	13.8	2,902	13.2	5,183	16.8	6,412	17.0
(2) Water	462	5.0	394	3.3	464	3.0	709	3.2	1,439	4.7	1,516	4.0
(3) Others	629	6.9	777	6.4	972	6.2	1,301	5.9	1,805	5.8	2,422	6.4
	<u>2,193</u>	<u>23.9</u>	<u>2,955</u>	<u>24.4</u>	<u>3,591</u>	<u>23.0</u>	<u>4,912</u>	<u>22.3</u>	<u>8,427</u>	<u>27.3</u>	<u>10,350</u>	<u>27.4</u>
(D) <i>Social Services</i>												
(1) Education	1,655	18.0	1,967	16.2	2,475	15.9	3,358	15.2	4,279	13.8	4,921	13.0
(2) Medical and health	756	8.2	956	7.9	1,238	7.9	1,678	7.6	2,132	6.9	2,402	6.4
(3) Housing	1,027	11.2	1,722	14.2	2,430	15.6	3,816	17.3	5,074	16.4	5,934	15.7
(4) Social welfare	399	4.4	550	4.5	717	4.6	890	4.0	1,280	4.2	1,471	3.9
(5) Labour	24	0.3	31	0.3	39	0.2	77	0.4	95	0.3	76	0.2
	<u>3,861</u>	<u>42.1</u>	<u>5,226</u>	<u>43.1</u>	<u>6,899</u>	<u>44.2</u>	<u>9,819</u>	<u>44.5</u>	<u>12,860</u>	<u>41.6</u>	<u>14,804</u>	<u>39.2</u>
(E) <i>Common Supporting Services</i>	344	3.8	439	3.6	522	3.3	661	3.0	832	2.7	935	2.5
(F) <i>Unallocable Expenditure</i>	235	2.6	275	2.3	620	4.0	529	2.4	863	2.8	2,407	6.4
(G) <i>Other Financial Obligations</i>	255	2.8	282	2.3	347	2.2	459	2.1	752	2.4	633	1.7
Total Expenditure	<u>9,168</u>		<u>12,122</u>		<u>15,619</u>		<u>22,058</u>		<u>30,938</u>		<u>37,729</u>	

Table (4)

GENERAL REVENUE BY MAIN SOURCES 1972-73 TO 1982-83
(Adjusted for analytical purposes)

	1972-73 (\$ mn)	1973-74 (\$ mn)	1974-75 (\$ mn)	1975-76 (\$ mn)	1976-77 (\$ mn)	1977-78 (\$ mn)
<i>Recurrent Account:</i>						
DIRECT TAXES						
Earnings and profits tax	1,083	1,680	2,144	2,234	2,699	3,357
INDIRECT TAXES						
Duties	472	442	473	558	681	734
General rates	291	369	408	534	618	723
Internal revenue:						
Best and sweeps tax	53	62	96	161	265	336
Entertainment tax	34	4	4	19	23	27
Hotel accommodation tax	5	6	6	9	15	20
Stamp duties	713	463	303	382	428	490
Motor vehicles taxes	57	46	32	49	102	148
Franchises	35	34	40	51	51	63
OTHER REVENUE	1,167	1,444	1,650	1,846	1,968	2,253
Total Recurrent	<u>3,910</u>	<u>4,550</u>	<u>5,156</u>	<u>5,843</u>	<u>6,850</u>	<u>8,151</u>
<i>Capital Account:</i>						
DIRECT TAXES						
Estate duty	40	50	42	64	85	110
INDIRECT TAXES						
Taxi concessions	39	85	—	—	—	112
OTHER REVENUE						
Land Sales	669	318	287	346	557	1,008
Others	13	13	108	2	2	2
Total Capital	<u>761</u>	<u>466</u>	<u>437</u>	<u>412</u>	<u>644</u>	<u>1,232</u>
Total Revenue	<u>4,671</u>	<u>5,016</u>	<u>5,593</u>	<u>6,255</u>	<u>7,494</u>	<u>9,383</u>

Table (4) *Contd.*GENERAL REVENUE BY MAIN SOURCES 1972-73 TO 1982-83
(Adjusted for an analytical purposes)

	1978-79 (\$ mn)	1979-80 (\$ mn)	1980-81 (\$ mn)	1981-82 (Revised Estimates) (\$ mn)	1982-83 (Draft Estimates) (\$ mn)	1982-83 (After revenue proposals) (\$ mn)
<i>Recurrent Account:</i>						
DIRECT TAXES						
Earnings and profits tax	4,115	5,724	7,965	10,840	12,545	11,216
INDIRECT TAXES						
Duties	830	883	917	953	987	987
General rates	807	890	986	1,056	691	691
Internal revenue:						
Bets and sweeps tax	509	658	823	1,120	1,220	1,220
Entertainment tax	29	37	45	57	65	65
Hotel accommodation tax	24	33	42	51	65	65
Stamp duties	762	934	2,052	2,250	1,755	1,755
Motor vehicles taxes	259	360	423	469	492	492
Franchises	74	83	112	195	230	230
OTHER REVENUE	2,737	3,871	5,586	7,426	8,587	8,587
Total Recurrent	10,146	13,473	18,951	24,217	26,637	25,308
<i>Capital Account:</i>						
DIRECT TAXES						
Estate duty	128	200	251	294	280	238
INDIRECT TAXES						
Taxi concessions	250	266	288	208	178	178
OTHER REVENUE						
Land Sales	1,893	2,845	10,690	9,768	12,055	12,055
Others	25	12	7	76	47	47
Total Capital	2,296	3,323	11,236	10,346	12,560	12,518
Total Revenue	12,442	16,796	30,187	34,763	39,197	37,826

Table (5)

GENERAL REVENUE ACCOUNT EXPENDITURE BY MAIN COMPONENTS 1972-73 TO 1982-83

(Adjusted for analytical purposes)

	1972-73 (\$ mn)	1973-74 (\$ mn)	1974-75 (\$ mn)	1975-76 (\$ mn)	1976-7 (\$ mn)
<i>Recurrent Account:</i>					
Personal Emoluments	1,058	1,336	1,674	1,782	2,135
Departmental Other Charges	341	498	739	781	794
Public Works Recurrent	198	224	263	277	287
Subventions	551	742	881	950	1,122
University and Polytechnic Grants Committee	97	159	187	217	255
Defence	56	56	60	51	195
Pensions	97	117	151	166	194
Public Debt	2	3	5	9	27
Miscellaneous	64	96	215	217	215
Total Recurrent	2,464	3,231	4,175	4,450	5,224
<i>Capital Account:</i>					
Public Works Programme (other than New Towns and Housing)	764	1,148	1,518	759	727
Public Works Programme (New Towns and Housing)	—	—	—	388	401
Land Acquisition	—	—	—	—	—
Transfers to Development Loan Fund for on-lending to the Housing Authority	—	—	20	125	—
Transfers to Home Ownership Fund	—	—	—	—	—
Subventions:					
Education	32	55	58	40	30
Medical	10	19	10	4	2
Miscellaneous	—	—	—	—	—
University and Polytechnic Grants Committee	30	26	37	93	40
Departmental Special Expenditure	40	50	79	69	74
Defence Costs Agreement: Capital Works	51	32	38	44	22
Defence: Miscellaneous Measures	1	1	1	2	17
Other Transfers:					
Emergency Relief Fund	2	—	2	3	2
Student Loan Fund	—	—	—	—	—
Development Loan Fund	—	—	—	—	—
Miscellaneous	138	80	33	46	38
Total Capital	1,068	1,411	1,796	1,573	1,353
Total Expenditure	3,532	4,642	5,971	6,023	6,577

Table (5) *Contd.*GENERAL REVENUE ACCOUNT EXPENDITURE BY MAIN COMPONENTS 1972-73 TO 1982-83
(Adjusted for analytical purposes)

	1977-78 (\$ mn)	1978-79 (\$ mn)	1979-80 (\$ mn)	1980-81 (\$ mn)	1981-82 (Revised Estimates) (\$ mn)	1982-83 (Draft Estimates) (\$ mn)
<i>Recurrent Account:</i>						
Personal Emoluments	2,475	2,892	3,517	4,671	6,000	6,654
Departmental Other Charges	844	1,076	1,286	1,741	2,561	3,788
Public Works Recurrent	458	428	531	739	1,300	1,258
Subventions	1,327	1,582	1,944	2,633	3,278	3,792
University and Polytechnic Grants Committee	307	348	411	580	757	842
Defence	270	363	448	619	1,204	1,315
Pensions	234	262	326	424	730	607
Public Debt	28	29	33	35	22	26
Miscellaneous	276	328	369	477	843	1,184
Total Recurrent	6,219	7,308	8,865	11,919	16,695	19,466
<i>Capital Account:</i>						
Public Works Programme (other than New Towns and Housing)	753	1,230	1,812	1,770	2,810	—
Public Works Programme (New Towns and Housing)	684	1,044	1,280	1,386	2,280	—
Land Acquisition	—	—	—	636	1,600	—
Transfers to the Capital Works Reserve Fund	—	—	—	—	—	11,000
Transfers to Development Loan Fund for on-lending to the Housing Authority	100	620	1,000	1,831	2,114	2,432
Transfers to Home Ownership Fund	99	284	—	—	—	—
Subventions:						
Education	39	36	71	90	167	237
Medical	13	11	22	30	50	118
Miscellaneous	1	1	1	3	8	19
University and Polytechnic Grants Committee	25	65	135	237	183	264
Departmental Special Expenditure	76	105	183	247	425	564
Defence Costs Agreement: Capital Works	23	38	25	18	67	153
Defence: Miscellaneous Measures	76	96	146	912	222	427
Other Transfers:						
Emergency Relief Fund	4	3	10	8	7	4
Student Relief Fund	—	—	182	37	71	104
Development Loan Fund	—	—	—	400	—	—
Miscellaneous	46	115	89	151	411	712
Total Capital	1,939	3,648	4,956	7,756	10,415	16,034
Total Expenditure	8,158	10,956	13,821	19,675	27,110	35,500

Table (6)

BUDGETARY GUIDELINES 1972-73 TO 1982-83 (\$ MILLION AND %)

(Adjusted for analytical purposes)

	<i>1972-73</i>	<i>1973-74</i>	<i>1974-75</i>	<i>1975-76</i>	<i>1976-77</i>
(1) $\frac{\text{Recurrent Revenue}}{\text{Total Expenditure}}$	$\frac{3,910}{3,532} = 111$	$\frac{4,550}{4,642} = 98$	$\frac{5,156}{5,971} = 86$	$\frac{5,843}{6,023} = 97$	$\frac{6,850}{6,577} = 104$
(2) $\frac{\text{Recurrent Expenditure}}{\text{Recurrent Revenue}}$	$\frac{2,464}{3,910} = 63$	$\frac{3,231}{4,550} = 71$	$\frac{4,175}{5,156} = 81$	$\frac{4,450}{5,843} = 76$	$\frac{5,224}{6,850} = 76$
(3) $\frac{\text{Surplus on Recurrent Account}}{\text{Capital Expenditure}}$	$\frac{1,446}{1,068} = 135$	$\frac{1,319}{1,411} = 93$	$\frac{981}{1,796} = 55$	$\frac{1,393}{1,573} = 89$	$\frac{1,626}{1,353} = 120$
(4) $\frac{\text{Recurrent Expenditure}}{\text{Total Expenditure}}$	$\frac{2,464}{3,532} = 70$	$\frac{3,231}{4,642} = 70$	$\frac{4,175}{5,971} = 70$	$\frac{4,450}{6,023} = 74$	$\frac{5,224}{6,577} = 79$
(5) $\frac{\text{Capital Revenue}}{\text{Capital Expenditure}}$	$\frac{761}{1,068} = 71$	$\frac{466}{1,411} = 33$	$\frac{437}{1,796} = 24$	$\frac{412}{1,573} = 26$	$\frac{644}{1,353} = 48$

Table (6) *Contd.*

BUDGETARY GUIDELINES 1972-73 TO 1982-83 (\$ MILLION AND %)
(Adjusted for analytical purposes)

	1977-78	1978-79	1979-80	1980-81	1981-82 (Revised Estimates)	1982-83 (After revenue proposals)
(1) $\frac{\text{Recurrent Revenue}}{\text{Total Expenditure}}$	$\frac{8,151}{8,158}=100$	$\frac{10,146}{10,956}=93$	$\frac{13,473}{13,821}=97$	$\frac{18,951}{19,675}=96$	$\frac{24,417}{27,110}=90$	$\frac{25,308}{232,872^*}=77$
(2) $\frac{\text{Recurrent Expenditure}}{\text{Recurrent Revenue}}$	$\frac{6,219}{8,151}=76$	$\frac{7,308}{10,146}=72$	$\frac{8,865}{13,473}=66$	$\frac{11,919}{18,951}=63$	$\frac{16,695}{24,417}=68$	$\frac{19,466}{25,308}=77$
(3) $\frac{\text{Surplus on Recurrent Account}}{\text{Capital Expenditure}}$	$\frac{1,932}{1,939}=100$	$\frac{2,838}{3,648}=78$	$\frac{4,608}{4,956}=93$	$\frac{7,032}{7,756}=91$	$\frac{7,722}{10,415}=74$	$\frac{5,842}{13,406^*}=44$
(4) $\frac{\text{Recurrent Expenditure}}{\text{Total Expenditure}}$	$\frac{6,219}{8,158}=76$	$\frac{7,308}{10,956}=67$	$\frac{8,865}{13,821}=64$	$\frac{11,919}{19,675}=61$	$\frac{16,695}{27,110}=62$	$\frac{19,466}{32,872^*}=59$
(5) $\frac{\text{Capital Revenue}}{\text{Capital Expenditure}}$	$\frac{1,232}{1,939}=64$	$\frac{2,296}{3,648}=63$	$\frac{3,323}{4,956}=67$	$\frac{11,236}{7,756}=145$	$\frac{10,346}{10,415}=99$	$\frac{12,518}{13,406}=93$

Note: (*) capital expenditure reduced by \$2,628 million which represents the difference between estimated transfers to and expenditure from the Capital Works Reserve Fund.

Table (7)

BALANCE OF THE FISCAL SYSTEM 1972-73 TO 1982-83

	<i>1972-73</i>	<i>1973-74</i>	<i>1974-75</i>	<i>1975-76</i>	<i>1976-77</i>	<i>1977-78</i>
<u>Direct taxes</u>	39:61	54:46	61:39	56:44	55:45	57:43
Indirect taxes						
<u>Direct and indirect taxes</u>	70:30	68:32	68:32	68:32	71:29	72:28
All other recurrent revenue						
	<i>1978-79</i>	<i>1979-80</i>	<i>1980-81</i>		<i>1981-82 (Revised Estimates)</i>	<i>1982-83 (After revenue proposals)</i>
<u>Direct taxes</u>	56:44	60:40	60:40		64:36	67:33
Indirect taxes						
<u>Direct and indirect taxes</u>	73:27	71:29	71:29		70:30	66:34
All other recurrent revenue						

APPENDIX A

The first of the principles is that the growth rate of public sector expenditure should have regard to the growth rate of the economy. The public sector may be defined with reference to the Consolidated Account, which gives all expenditure financed from public funds irrespective of who incurs the expenditure⁽¹⁾.

2 The average annual growth rate of expenditure on *Consolidated Account* in real terms for the five years 1977-78 to 1981-82 was 16.5%, and of G.D.P. it was 10.7%⁽²⁾. The growth rate of expenditure on Consolidated Account accelerated from 15.5% in 1977-78 to 21% in 1978-79, was held to 7% in 1979-80 but accelerated again to 17.8% in 1980-81. The 1981-82 Budget primarily envisaged a 12.8% growth but the revised estimates for 1981-82 indicate that it will be higher, at 21.8%. This indicates the extent of the problem to be tackled this year.

3 This tendency for the growth rate of expenditure on Consolidated Account in real terms to exceed the growth rate of G.D.P. is a matter for concern, and is referred to in paragraphs 20-31 of the budget speech. The relative size of the public sector increased steadily from 15.4% in 1977-78 to 22.9% in 1981-82.

4 The second principle is that the pattern of public sector expenditure should reflect the Government's conscious view as to priorities. Between 1977-78 and 1981-82 the pattern changed accordingly, with the proportion of total expenditure absorbed by community services⁽³⁾ increasing from 23.9% to 27.3% as greater emphasis was placed on such services as transport, roads, civil engineering and land production. Though the social services group⁽⁴⁾ decreased

(1) *The Consolidated Account comprises expenditure by the Urban Council and the Housing Authority, expenditure financed by certain statutory funds (Development Loan Fund, Home Ownership Fund, Lotteries Fund and Student Loan Fund), expenditure on public works projects financed with loans from the Asian Development Bank and all expenditure charged to the General Revenue Account. So expenditure by institutions in the private or quasi-private sector is included to the extent of their subventions. The activities of Government departments which are partly financed by charges raised on a commercial basis are also included (e.g. Kowloon-Canton Railway, Airport, Waterworks). But not included is expenditure by those organizations, including even statutory organizations, in which the Government has only an equity position, such as the Mass Transit Railway Corporation.*

(2) Year	Growth rates in real terms:	
	C.A. expenditure %	G.D.P. %
1977-78/1977	15.5	10.2
1978-79/1978	21.0	10.3
1979-80/1979	7.0	12.8
1980-81/1980	17.8	9.8
1981-82/1981	21.8	10.4

(3) *Transport, roads, civil engineering and land, environmental protection, water, fire services, amenities and related services.*

(4) *Education, medical and health, housing, social welfare, labour.*

slightly from 42.1% to 41.6%, within it expenditure on housing actually increased from 11.2% in 1977-78 to 16.4% in 1981-82. The proportion of total expenditure absorbed by all other services⁽⁵⁾ decreased as a result from 34% to 31.1%, but these percentages illustrate only the share of total expenditure—in absolute cash terms expenditure on all services increased substantially.

5 The third principle is that a certain balance should prevail between direct and indirect taxation, and between direct and indirect taxation taken together and all other recurrent revenue, and that our tax system as such should meet certain defined requirements⁽⁶⁾.

6 The ratio between direct and indirect taxes moved from 57:43 in 1977-78 to 64:36 in 1981-82. There will always be a tendency for earnings and profits taxes to increase in relative importance, as they are related to the growth rate of the economy in *money* terms while yields from indirect taxes are more closely related to the growth rate of the economy in *real* terms. This reflects fiscal drag and fiscal boost. But these ratios indicate that there is room for a relative shift to higher yields from indirect taxes.

7 The ratio between direct and indirect taxes taken together and all other recurrent revenue moved from 72:28 in 1977-78 to 70:30 in 1981-82 as steps were taken to ensure that fees and charges were generally kept up to date.

(5) General services

Administration, law and order, defence, public relations, revenue collection, financial control; 17.8% in 1977-78, 15.6% in 1981-82.

Economic services

Primary products, airport and harbour, commerce and industry, communications, statistics, survey and town planning, Royal Observatory, certain miscellaneous subventions; 7% in 1977-78, 7.6% in 1981-82.

Common supporting services

Including unallocable expenditure and other financial obligations; 9.2% in 1977-78, 7.9% in 1981-82.

(6) The requirements are—

- (a) *to help generate sufficient recurrent revenue to finance a major proportion of a given level of total expenditure and to maintain fiscal reserves at a satisfactory level;*
- (b) *that the tax system is as neutral as possible as regards the internal cost/price structure, the supply of human effort and private investment decisions;*
- (c) *that the laws governing the tax system are adapted from time to time to make them compatible with changing commercial practices;*
- (d) *that each and every levy is simple and easy (and therefore inexpensive) to administer for both the Government and the taxpayer, and does not encourage evasion;*
- (e) *that the tax system is equitable as between different classes of taxpayers or potential taxpayers and between different income groups; and*
- (f) *that, exceptionally, the tax system is capable of being used to achieve non-fiscal objectives when necessary.*

8 The fourth principle is that certain guidelines⁽⁷⁾ should be borne in mind in preparing the annual estimates of revenue and expenditure so as to ensure the financing of the capital account. In 1977-78 recurrent expenditure absorbed 76% of recurrent revenue, but this dropped satisfactorily to 68% in 1981-82, leaving a larger surplus on recurrent account to help finance capital expenditure. However, while the surplus on recurrent account was sufficient to meet 100% of capital expenditure in 1977-78, in 1981-82 it was sufficient to meet 74% only as capital expenditure increased by more than five times over the five years. Fortunately capital revenue continued to produce yields at a high level throughout the period, being equivalent to 64% of capital expenditure in 1977-78 and 99% in 1981-82.

(7) *The guidelines are, with possible new ratios suggested in the 1981 budget speech—*

<i>Guideline</i>	<i>Ratio</i>	<i>1977-78</i>	<i>1981-82</i>
<u><i>Recurrent Revenue</i></u> <i>Total expenditure</i>	<i>At least 77%</i>	<i>100%</i>	<i>90%</i>
<u><i>Recurrent expenditure</i></u> <i>Recurrent revenue</i>	<i>No more than 85%</i>	<i>76%</i>	<i>68%</i>
<u><i>Surplus on recurrent account</i></u> <i>Capital expenditure</i>	<i>At least 33%</i>	<i>100%</i>	<i>74%</i>
<u><i>Recurrent expenditure</i></u> <i>Total expenditure</i>	<i>No more than 65%</i>	<i>76%</i>	<i>62%</i>
<u><i>Capital revenue</i></u> <i>Capital expenditure</i>	<i>At least 20%</i>	<i>64%</i>	<i>99%</i>

APPENDIX B

FINANCING OF THE PUBLIC WORKS PROGRAMME AND LAND ACQUISITION

Members are invited to approve in principle the establishment of a Capital Works Reserve Fund for financing the Public Works Programme and land acquisition, and to agree to the introduction of a Resolution in Legislative Council to establish this Fund.

Background

Funds for the Public Works Programme (P.W.P.) and for the acquisition of land are voted annually in the Estimates under five Public Works Non- Recurrent (P.W.N.R.) Heads of Expenditure—Land Acquisition, Buildings, Engineering, New Towns and Public Housing, and Waterworks. Generally speaking each project has its own subhead under the appropriate Head of Expenditure, and an approved project estimate. Funds are provided in each subhead each year to meet the estimated expenditure (cash flow) on that project in that year.

2 A project is usually given a subhead only when it has been upgraded to Category A in the P.W.P. It is at that time that the project estimate is approved, and the maximum funds which may be provided in each subhead in the Estimates each year are limited to the approved project estimate less actual expenditure incurred so far on that project.

Problem

3 This arrangement gives rise to four main problems which may be described as follows:

- (a) it is difficult to estimate with any accuracy the expenditure to be incurred on any particular project during a year;
- (b) the Government's declared aims are obscured, giving rise to misunderstandings as to what achievements are intended;
- (c) the concept of annuality which is implicit in the Estimates is not capable of logical application to capital works, though the control element must remain qua the annual budget exercise; and
- (d) there is no obvious link between the Government's investment on capital works and the funding of those works.

4 *As regards paragraph 3(a)*, the expenditure incurred on a project in any given year is dependent upon a number of factors, not all of which can be controlled. Much depends on the progress of work, which to a large extent is influenced by the contractor's capability and the weather. A comparison of estimated expenditure on any particular project with the actual expenditure on that project in any one year will show clearly the degree of discrepancy that can arise. In the circumstances the need to estimate expenditure on a particular

project in a given year is of questionable value, and could be misleading in that actual performance is very different.

5 *As regards paragraph 3(b)*, it has been commonly assumed in the past that the total estimated expenditure under the five P.W.N.R. Heads represents the Government's declared aim; that is to say, that with the approval of the Estimates, the Government intends spending the total amount of funds provided. As a result when in the past it has become apparent that total expenditure may be less than the total provision approved, steps have been taken to inject new projects into the annual programme of works in order to make use of the funds available. While this has helped to ensure that the total funds voted have been utilized, it has had the undesirable effect of increasing the overhang of carry-over projects from one year to another. Injected projects normally have minimal financial implications in the year they are started, but carry considerable financial implications for the years following. It is now considered that this is the wrong approach. When a project is upgraded to Category A, the intention should be to start work on it within 18 months. And once work has started, the intention should be to complete the project with the best possible speed. This should be the aim, and the total approved provision on an annual basis under the P.W.N.R. Heads is strictly irrelevant in this context.

6 *As regards paragraph 3(c)*, a project once begun should be completed without interruption, unless budgetary considerations are such that actual cut-backs in expenditure must be made (this latter control must remain in place). As expenditure on a project is dependent upon work progress and the contractor's presentation of bills, which must be paid, the concept of annuality implicit in the Estimates is not of great relevance. It is the total commitment entered into when a project is approved that is of greater significance than the pattern of cash flow.

7 *As regards paragraph 3(d)*, the cash flow requirements of the P.W.P. should ideally be met as far as possible from capital revenue (almost entirely made up of revenue from land sales). But there are economic and practical constraints on what can be spent on the P.W.P. in any given year. In a situation where land sales revenue is flushing, as has been the case in recent years (only), the net result has been very considerable overall budgetary surpluses. This can be misleading, particularly to the public, as it is not apparent that there is a very substantial over-hang of capital works which must, at some future date, be financed from these surpluses. In other words the present arrangements do not facilitate the drawing up of a balance sheet to show that the very large surpluses achieved are, in fact, more than committed to capital works projects already in the pipe-line.

Proposals

8 To overcome these problems it is proposed that expenditure on public works should be removed from the annual Estimates. It is proposed that the financing

of public works should be effected through a Capital Works Reserve Fund, to be set up by Resolution of the Legislative Council.

9 The Capital Works Reserve Fund would be funded by transfers from General Revenue each year. An analysis of past figures suggests that an annual transfer of 15% of estimated total recurrent revenue and 80% of estimated land sales revenue would be an appropriate rough guideline:

<i>Year</i>	<i>15% of estimated recurrent revenue plus 80% of estimated land sales</i>		<i>Actual P.W.N.R. expenditure</i>
	<i>\$ million</i>		
1975-76	1,006.4		1,146.8
1976-77	1,193.2		1,128.0
1977-78	1,489.7		1,436.9
1978-79	1,807.5		2,273.9
1979-80	2,761.9		3,092.4
1980-81	6,280.4		3,791.9
		<u>14,538.9</u>	<u>12,869.9</u>
	Total		

10 If a Fund such as that proposed had been established in 1975, the balance available at 1 April 1981 would have been \$1,600 million. Transfers from General Revenue for 1981-82 would have been nearly \$11,000 million, giving a total available in the Fund at 1 April, 1981 of at least \$12,600 million, as against a commitment at that date of \$20,800 million comprising an estimated overhang of outstanding works of nearly \$17,000 million and new works valued at \$3,800 million expected to be introduced in 1981-82.

11 The rationale for this rough guideline is that the surplus on recurrent account should make a contribution to capital expenditure, and a portion of land sales revenue should be retained in the General Revenue Account to recover the overhead and administrative costs involved in land sales. It is not suggested that this rough guideline should be applied automatically. The amount transferred from General Revenue each year would be considered in the context of the budget for the year. The amount proposed for transfer would be entered in the draft Estimates and would be subject to scrutiny by Finance Committee and to the Appropriation Bill being enacted.

12 It is of importance that the funds available in the Fund should be strictly controlled and should be subject to budgetary considerations and the approval of Legislative Council. It is proposed, therefore, that the interest earned on the Fund's balances at any time should accrue to General Revenue and not to the Fund. The Fund will thus only have available the funds voted and transferred to it.

13 The intention would be that expenditure from the Fund would be controlled at three points—first, by the approved project estimate for each project; second, by the upgrading of projects to Category A; and third, by the start date.

14 The approved project estimate for each project would limit expenditure on that project. As at present, no excess would be permitted without formal prior approval of a revised project estimate by Finance Committee or under delegated powers.

15 A project once upgraded to Category A would start within 18 months of its upgrading. Before proposing to Public Works Sub-Committee that a project be upgraded to Category A, regard would be had to the total over-hang of outstanding projects. The intention would be to keep the total value of outstanding works to about four years' worth of expenditure (fitting in with the Five-year Forecast); this would be about \$25,000 million at the present time.

16 As soon as a project is upgraded to Category A, steps would be taken to ensure that work is started within 18 months. The actual start date would be adjusted to have regard to the year's outturn and its economic implications. But once work had started, the aim would be to complete the project with the best possible speed. A formal procedure would be established to determine start dates, involving the setting up of a steering group under Finance Branch chairmanship; the steering group would monitor outturn and decide upon start dates for specific projects.

17 In effect, therefore, the Fund would meet the cash flow requirements of P.W.N.R. expenditure, but the estimated provision shown against each subhead would not be a cash limit.

18 The existing five P.W.N.R. Heads would continue in their present format, but instead of being on white pages in the body of the Estimates, would be on blue pages at the back of the Estimates. The existing P.W.P. procedures would continue to apply. Supplementary provision as required in each subhead would continue to be approved, as required, under delegated powers within each approved project estimate, but without the need to quote savings.

19 An important advantage of this proposal is that the General Revenue Account will no longer be subject to substantial deviations resulting from significant underexpenditure or over-expenditure on capital works, or from land sales revenue flushing or failing. The budgetted surplus (or deficit) in any year on General Revenue Account will thus be somewhat easier to estimate, and the application of cash limits will be more meaningful.

20 The public may be expected to welcome evidence that funds earned on land sales are earmarked for public works rather than seemingly lost in the fiscal reserves. The Public Works Sub-Committee at a meeting held on 23 December considered this proposal to establish a Capital Works Reserve Fund and gave it their unanimous support.

Conclusion

21 Members are invited to approve this proposal to establish a Capital Works Reserve Fund, and to agree to the introduction of the Resolution at Enclosure into the Legislative Council. It is proposed that the Fund be established from 1 April, 1982.

Enclosure

CAPITAL WORKS RESERVE FUND

RESOLUTION OF THE LEGISLATIVE COUNCIL

Resolution made and passed by the Legislative Council on 20 January 1982.

RESOLVED—

- (a) that there will, with effect from 1 April 1982, be established a fund styled the Capital Works Reserve Fund;
- (b) that the Fund shall be administered by the Financial Secretary;
- (c) that there shall be credited to the Fund such appropriations from the general revenue of Hong Kong as may be approved by this Council.
- (d) that there shall accrue to the general revenue of Hong Kong all sums received by way of interest or dividends earned in respect of such unexpended balances as may be held in the Fund at any time;
- (e) that the Financial Secretary may expend moneys from the Fund for the purposes of the Government's Public Works Programme and for the acquisition of land, in accordance with such terms and conditions as are approved by the Finance Committee;
- (f) that the Financial Secretary may from time to time transfer from the Fund to the general revenue of Hong Kong any balances in the Fund which are not required for the purposes of the Fund.

APPENDIX C

EXPENDITURE IN THE MAIN PROGRAMME AREAS

A. PUBLIC HOUSING

Public housing is defined here as domestic flats built for renting under the Housing Authority's housing programme and for sale under the Government's Home Ownership Scheme (including ancillary commercial facilities), and flatted factory units produced by the Housing Authority on behalf of the Government. All public housing is built by the Housing Department except for a residual amount which is being completed by the Public Works Department for the Housing Authority.

Objective of the public housing programme

2 The objectives of the Housing Authority's rental public housing programme are to rehouse low-income families living in unsatisfactory private accommodation, families transferred from the older over-crowded public housing estates, persons rendered homeless as a result of natural disasters and persons cleared to make land available for development. The aim of the Government's Home Ownership Scheme is to enable families whose income is below a specified limit to purchase their own accommodation at a price they can reasonably be expected to afford.

Production of flats

3 By the end of 1981-82, the Housing Authority's stock of domestic accommodation will amount to 464 000 flats, with more than 31 000 flats having been completed in 1981-82. By the same date, about 15 500 flats will have been constructed under the Home Ownership Scheme. In order to meet future demand, the Government's aim is to sustain a level of production of at least 35 000 flats a year (made up of flats for renting by the Housing Authority and flats for sale under the Home Ownership Scheme) under a five year programme which is rolled forward annually. The following table shows production for the four years ending 1981-82, and a forecast for the four years commencing 1982-83:

<i>Year</i>	<i>Housing Authority's rental housing programme (flats)</i>	<i>Home Ownership Scheme (flats)</i>	<i>Total (flats)</i>
1978-79 (actual)	14 130	—	14 130
1979-80 (actual)	29 759	2 439	32 198
1980-81 (actual)	26 769	8 674	35 443
1981-82 (estimated)	31 300	4 400	35 700
1982-83 (estimated)	28 600(*)	6 600	35 200

Note: (*) Including 630 flats to be produced by the Public Works Department.

Year	<i>Housing Authority's</i>		Total (flats)
	<i>rental housing</i> programme (flats)	<i>HomeOwnership</i> Scheme (flats)	
1983-84 (estimated)	31 400	4 400	35 800
1984-85 (estimated)	33 300	5 700	39 000
1985-86 (estimated)	31 900	7 000	38 900

Financing of the rental housing programme

4 The Housing Authority's rental housing programme is financed largely by interest-free loans to the Authority from the Development Loan Fund which are repayable over 40 years. However, within the Housing Authority's accounts, a notional interest of 5% per annum on the reducing balance of the loans is shown in order to demonstrate more accurately Government's contribution towards the provision of public housing. Land is provided free of charge, but its value is shown in the Housing Authority's accounts as a Government contribution. The Housing Authority's rental housing programme is also financed by loans from the Asian Development Bank to the Government. In 1981-82, total expenditure incurred by the Housing Authority on the construction of flats is estimated to amount to \$2,551 million, of which \$2,020 million is financed by loans from the Development Loan Fund. In 1982-83, the Housing Authority's budget provides for capital expenditure amounting to \$2,870 million, of which \$2,570 million will be drawn from the Development Loan Fund. Forecast drawings from the Development Loan Fund for the four years 1982-83 to 1985-86 are estimated to be as follows:

	1982-83	1983-84	1984-85	1985-86	Total 1982-83 to 1985-86
	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)
Estimated drawings from the Development Loan Fund(*)	2,570	2,872	2,557	2,272	10,271

Financing of the Home Ownership Scheme

5 The construction of flats under the Home Ownership Scheme is financed through the Home Ownership Fund which derives its income from appropriations from General Revenue and from proceeds from the sale of flats. No land premium is payable in respect of flats to be sold from early 1982 onwards. In 1981-82, total expenditure on the construction of flats is estimated to amount to \$1,168 million and proceeds from the sale of flats are estimated to be \$1,249 million. For 1982-83, total estimated expenditure amounts to \$993 million and proceeds from the sale of flats are estimated to be \$727 million.

Note: (*) *These estimates include provision for expenditure on contracts relating to production post 1985-86.*

6 Commercial and car-parking facilities associated with the Home Ownership Scheme are constructed by the Housing Authority by means of loans from the Development Loan Fund. Loans are repayable over 20 years (with a grace period up to three years) at an interest rate of 8% per annum on the reducing loan balance. Land premium is payable in respect of commercial facilities. Loans to the Housing Authority for this purpose in 1981-82 amount to \$131 million, and in 1982-83 they are estimated to amount to \$170 million.

Flatted factory programme

7 The aim of the Government's flatted factory programme, which is undertaken by the Housing Authority, is to provide small factory units for eligible industrial undertakings cleared from land required for development. The construction costs are financed by means of loans to the Housing Authority from the Development Loan Fund. Loans are repayable over 20 years (with a grace period up to three years) at an interest rate of 8% per annum on the reducing loan balance. No land premium is payable in respect of flatted factories. There will be no units completed in 1981-82 due to a slight slippage of one of the projects, under which 1 656 units were originally expected to be completed in early 1982. By the end of 1981-82, the Housing Authority's stock of flatted factory accommodation will amount to 12 057 units. Loans to the Housing Authority to meet expenditure on this programme in 1981-82 amount to \$123 million. In 1982-83, the Housing Authority expects to complete 5 023 units and estimates its requirements from the Development Loan Fund will amount to \$126 million.

Summary of estimated expenditure, 1981-82 and 1982-83

8 The revised estimate for 1981-82 and the estimate for 1982-83 of expenditure on public housing and related facilities, excluding the Housing Authority's own resources, is \$3,484 million and \$3,901 million respectively:

	<i>1981-82 (Revised Estimates) (\$ mn)</i>	<i>1982-82 (Draft Estimates) (\$ mn)</i>
(a) <i>Housing Authority's rental housing programme (excluding land costs)</i>		
(i) <i>Flats produced by the Housing Department and financed by loans from the Development Loan Fund</i>	2,020	2,570
(ii) <i>Flats produced by the Housing Department and financed by loans from the Asian Development Bank</i>	19	27
(iii) <i>Flats produced by the Public Works Department and financed from General Revenue</i>	23	15

	<i>1981-82</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$ mn)</i>	<i>1982-83</i> <i>(Draft</i> <i>Estimates)</i> <i>(\$ mn)</i>
<i>(b) Government's Home Ownership Scheme</i>		
<i>(i) Flats produced by the Housing Department and financed by the Home Ownership Fund (excluding land costs in respect of flats to be sold from early 1982 onwards)</i>	<i>1,168</i>	<i>993</i>
<i>(ii) Commercial and car parking facilities constructed by the Housing Departments for the Housing Authority and financed by loans from the development Loan Fund (including land costs)</i>	<i>131</i>	<i>170</i>
<i>(c) Government's flatted factory programme (excluding land costs)</i>		
Flatted factory units produced by the Housing Department and financed by loans from the Development Loan Fund	<u>123</u>	<u>126</u>
	<u>3,484</u>	<u>3,901</u>

B. NEW TOWNS AND RURAL NEW TERRITORIES DEVELOPMENT

9 The prime purpose of the new towns at Tsuen Wan, Sha Tin, Tuen Mun, Tai Po and Fanling, Yuen Long and Junk Bay is to provide housing for the growing and generally over-crowded population of Hong Kong complete with employment opportunities and all the related infrastructure and supporting services.

Ultimate aim, target dates and achievements

10 Since the purpose is basically to provide housing, the best yardsticks for the measurement of progress are population growth and serviced land production. The following tables which exclude Junk Bay indicate achievements to date, together with expected achievements in 1981-82 in relation to final design populations and serviced land areas:

(1)

<i>New Townn/ development area</i>	<i>Population on full development</i>	<i>Expected population at 31 March 1982</i>	<i>Expected increase in 1982-83</i>	<i>Expected population at 31 March 1983 as a percentage of full development (%)</i>	
Tsuen Wan	918 000	684 000	25 000	(709 000)	77
Sha Tin	756 000	199 000	49 000	(248 000)	33
Tuen Mun	547 000	140 000	72 000	(212 000)	39
Tai Po	236 000	77 000	2 000	(79 000)	33
Fanling/Shek Wu Hui	179 000	57 000	14 000	(71 000)	40
Yuen Long	135 000	53 000	10 000	(63 000)	47
Other rural townships including Sai Kung	95 000	46 000	4 000	(50 000)	53
Total	<u>2 866 000</u>	<u>1 256 000</u>	<u>1 76 000</u>	<u>(1 432 000)</u>	<u>50</u>

(2)

<i>New Town/ development area</i>	<i>Hectares on full development</i>	<i>Estimated hectares produced at 31 March 1982</i>	<i>Expected production in 1982-83</i>	<i>Expected hectares produced at 31 March 1983 as a percentage of full development (%)</i>	
Tsuen Wan	1 569	1 065	75	(1 140)	72
Sha Tin	1 311	608	81	(689)	53
Tuen Mun	640	335	56	(391)	61
Tai Po	602	140	37	(177)	29
Fanling/Shek Wu Hui	326	92	18	(110)	34
Yuen Long	126	31	8	(39)	31
Other rural townships including Sai Kung	154	58	7	(65)	42
Total	<u>4 728</u>	<u>2 329</u>	<u>282</u>	<u>(2 611)</u>	<u>55</u>

Provision in 1982-83

11 Expenditure envisaged for 1982-83 from the Capital Works Reserve Fund includes \$4,573.9 million for the continuing development of the new towns and rural New Territories, of which \$1,249 million is for land acquisition.

12 Whilst the main thrust continues to be in the direction of land production for housing, increased emphasis will continue to be placed on the production of community facilities to cater for the needs of the growing populations of the new towns. The following tables illustrate how the provision in 1982-83 for the development of the new towns and rural New Territories is broken down:

(1)

	<i>Public housing</i>	<i>Temporary housing areas</i>	<i>Schools</i>	<i>Hospitals and Clinics</i>	<i>Recreational facilities</i>	<i>Other public buildings</i>	<i>Total</i>
	<i>(\$ mn)</i>	<i>(\$ mn)</i>	<i>(\$ mn)</i>	<i>(\$ mn)</i>	<i>(\$ mn)</i>	<i>(\$ mn)</i>	<i>(\$ mn)</i>
Tsuen Wan	3.0		33.7	0.2	41.5	42.4	120.8
	(5.2)		(24.6)	(2.5)	(12.5)	(22.6)	(67.4)
Sha Tin	0.1		73.0	123.8	75.7	88.1	360.7
	(-)		(51.1)	(137.4)	(14.5)	(16.1)	(219.1)
Tuen Mun	2.4		54.1	29.8	30.6	48.5	165.4
	(6.1)		(65.8)	(10.8)	(10.9)	(14.7)	(108.3)
Tai Po/ Fanling	—		49.4	5.8	1.6	21.3	78.1
			(42.0)	(1.5)	(1.7)	(9.0)	(54.2)
Yuen Long/ Rural Townships	—		20.0	—	24.8	27.7	72.5
			(15.8)		(29.7)	(4.5)	(50.0)
Junk Bay/ Sai Kung	—		—	—	2.9	1.4	4.3
					(2.4)	(0.8)	(3.2)
Miscel- laneous	9.0(*)	50.0(**)					59.0
	(12.0)	(21.0)					(33.0)
Total	14.5	50.0	230.2	159.6	177.1	229.4	860.8
	(23.3)	(21.0)	(199.3)	(152.2)	(71.7)	(67.7)	(535.2)

Note: Revised estimates for 1981-82 shown in brackets.

(*) Urban housing.

(**) Temporary housing areas will be built in the new towns and other areas where suitable sites are available.

(2)

	<i>Sewage engineering disposal</i>	<i>Site formation, drainage & other works</i>	<i>Rubish disposal</i>	<i>Roads & highways</i>	<i>Waterworks</i>	<i>Miscellaneous</i>	<i>Total</i>
	<i>(\$ mn)</i>	<i>(\$ mn)</i>	<i>(\$ mn)</i>	<i>(\$ mn)</i>	<i>(\$ mn)</i>	<i>(\$ mn)</i>	<i>(\$ mn)</i>
Tsuen Wan	7.4	185.7	18.4	256.0	28.0		495.5
	(8.3)	(183.4)	(11.0)	(197.5)	(22.5)		(422.7)
Sha Tin	60.7	265.7	7.0	78.8	31.7		443.9
	(67.7)	(278.0)	(3.0)	(82.2)	(50.7)		(481.6)
Tuen Mun	0.3	342.1	9.6	130.4	20.3		502.7
	(5.3)	(218.6)	(1.5)	(125.6)	(25.1)		(376.1)
Tai Po/ Fanling	38.9	245.0	2.9	247.1	32.9		566.8
	(60.0)	(155.7)	(1.5)	(150.9)	(20.2)		(388.3)
Rural New Territories	34.0	134.6	6.5	116.5	8.0		299.6
	(21.0)	(95.3)	(0.9)	(115.1)	(11.5)		(243.8)
Junk Bay	—	80.0	0.6	26.2	0.2		107.0
		(25.0)	(0.2)	(17.9)	(-)		(43.1)
Miscel-laneous						48.6(*)	48.6(*)
						(16.1)	(16.1)
Total	141.3	1,253.1	45.0	855.0	121.1	48.6	2,464.1
	(162.3)	(956.0)	(18.1)	(689.2)	(130.0)	(16.1)	(1,971.7)

Note: Revised estimates for 1981-82 shown in brackets

(*) Miscellaneous provision includes \$40.0 million \$10.0 million for furniture and equipment and \$8.6 million \$6.1 million for minor works.

C. MAIN INFRASTRUCTURE FACILITIES

(a) Highways

13 The aim of road development in Hong Kong is to provide a highways network that will permit the free and rapid movement of vehicular traffic to and from any part of the territory with safety and economy. To this end, eight main trunk routes have been identified and a large number of projects have either been started or are being planned to improve these routes.

14 A description of these main routes and the planned improvements to them under projects in the Public Works Programme is as follows:

Route 1: from Aberdeen through the new Aberdeen Tunnel and via the Canal Road flyover to the Cross-Harbour Tunnel, and then to Wo Hop Shek via Princess Margaret Road, Waterloo Road, the Lion Rock Tunnel, Road T1 through Sha Tin and the Sha Tin to North Tai Po coastal road. The total estimated cost of improvements to this route is \$2,169 million. Expenditure to 31 March 1982 is expected to amount to \$872 million, mainly on the Aberdeen Tunnel (\$444 million), the Sha Tin to North Tai Po coastal trunk road (\$108 million), N.T. trunk road improvements— Lam Kam Road to Wo Hop Shek (\$26 million) and the Wong Nai Chung Gap Road/Stubbs Road flyover (\$92 million) which, although not strictly part of Route 1, nevertheless has an effect on it. Provision of \$291 million in 1982-83 is mainly for the completion of the Aberdeen Tunnel (\$22 million), the Wong Nai Chung Gap Road/Stubbs Road flyover (\$18 million), the Sha Tin to North Tai Po coastal trunk road (\$137 million) and N.T. trunk road improvements—Lam Kam Road to Wo Hop Shek (\$30 million).

Route 2: from the Cross-Harbour Tunnel westwards via Tsuen Wan and Tuen Mun to Yuen Long and Fanling. The route follows Gascoigne Road and Tong Mi Road initially, and then proceeds along the coast through Yau Ma Tei, Sham Shui Po and Lai Chi Kok (the West Kowloon Corridor) to join the Tsuen Wan by-pass. It then continues via the by-pass, the Tuen Mun Highway and the Castle Peak Road to Tuen Mun and Yuen Long. From Yuen Long, Route 2 continues via Au Tau and Mai Po to join Route 1 at the southern end of the Fanling by-pass. The total estimated cost of improvements to this route is \$3,022 million. Expenditure to 31 March 1982 is expected to amount to \$896 million, mainly on the Tuen Mun Highway (\$443 million), the West Kowloon Corridor (\$151 million), the Tsuen Wan by-pass (\$214 million) and the Yuen Long to Au Tau dual carriageway (\$20 million). Provision of \$288 million in 1982-83 is mainly for the Tuen Mun Highway (\$45 million), the Tsuen Wan by-pass (\$133 million), Yuen Long to Au Tau dual carriageway (\$25 million), N.T. circular road improvements, Au Tau to Fan Kam (\$20 million) and the West Kowloon Corridor (\$50 million).

Route 3: from the Cross-Harbour Tunnel via Wuhu interchange and Chatham Road to the Airport Tunnel and then across Kowloon Bay reclamation to Lei Yue Mun via the Kwun Tong Road. The total estimated cost of improvements to this route is \$545 million. Expenditure to 31 March 1982 is expected to amount to \$434 million, mainly for the Airport Tunnel and its approaches (\$383 million). The Tunnel is already completed. Provision of \$76 million in 1982-83 is mainly for the Airport Tunnel Road and its approaches (\$56 million).

Route 4: from Lai Chi Kok via Ching Cheung and Lung Cheung Roads, past the southern entrance to the Lion Rock Tunnel to join the Kwun Tong Road at Ping Shek and then to join Route 3 at Ngau Tau Kok. The total estimated cost of improvements to this route is \$209 million. Expenditure to 31 March 1982 is expected to amount to \$70 million. Provision of \$45 million in 1982-83 is mainly for the elevated road from Ngau Tau Kok Road to Kowloon Bay (\$33 million).

Route 5: this is a proposed route from Sha Tin to Tsuen Wan for which a feasibility study has just been completed.

Route 6: from the interchange north of Mei Foo Sun Chuen via the Castle Peak Road through Tsuen Mun to join Route 2 at the eastern end of the Tuen Mun highway. The total estimated cost of improvements to this route is \$190 million. Expenditure to 31 March 1982 is expected to amount to \$84 million, mainly in respect of the Tai Wo Tsuen interchange on Castle Peak Road (\$34 million) and the Castle Peak Road/Texaco Road grade separated intersection (\$30 million). These two projects have now been completed. \$10 million is provided in 1982-83.

Route 7: from Aberdeen westwards on reclamation via Kellett Bay, Telegraph Bay and Sandy Bay to join Connaught Road at the western reclamation, and then via Connaught Road, Harcourt Road and Gloucester Road to Victoria Park. The total estimated cost of improvements to this route is \$2,477 million. Expenditure to 31 March 1982 in respect of this route is expected to amount to \$42 million, almost entirely for the widening of Connaught Road Central which has now been completed. Provision of \$15 million in 1982-83 is mainly for the investigation and detailed design of the elevated road along Connaught Road (\$8 million) and the feasibility study and preliminary design of the road from Kennedy Town to Aberdeen (\$6 million).

Route 8: from Victoria Park to Chai Wan via the Hong Kong Island Eastern Corridor which is at present under construction. The total estimated cost of improvements to this route is \$1,800 million. Expenditure to 31 March 1982 is expected to amount to \$219 million, almost entirely in respect of the Hong Kong Island Eastern Corridor. Provision of \$345 million in 1982-83 is mainly for the Hong Kong Island Eastern Corridor.

15 In addition to improvements to the main routes, expenditure is envisaged in 1982-83 of \$551 million for secondary routes, miscellaneous minor roadworks and roads within new town layouts. The area traffic control system which is designed to increase the capacity of existing roads by improving traffic flow is already operating successfully in West Kowloon and is being extended to cover East Kowloon and the northern part of Hong Kong Island.

16 Annual expenditure on roadworks is shown in the following table:

	1977-78	1978-79	1979-80	1980-81	1981-82 (Revised Estimates)	1982-83 (Draft Estimate)
	(\$ mn)	(\$ mn)	(\$ mn)	(\$mn)	(\$ mn)	(\$ mn)
Hong Kong	95	149	206	328	327	549
Kowloon	75	91	127	128	175	253
New Territories	<u>162</u>	<u>265</u>	<u>263</u>	<u>352</u>	<u>689</u>	<u>855</u>
Total	<u>332</u>	<u>505</u>	<u>596</u>	<u>808</u>	<u>1,191</u>	<u>1,657</u>

(b) *Kowloon-Canton Railway*

17 The programme for the modernization and electrification of the Kowloon-Canton Railway which includes double-tracking, electrification, electronic signalling, refurbishment and modernization of existing stations and the provision of new stations, is expected to cost in the order of \$3,000 million.

18 When these works are completed, the railway will be dual tracked and fully fenced from Hung Hom to Lo Wu, and all vehicular and pedestrian crossings will be grade-separated. Passenger services will be provided by air-conditioned electric trains travelling at between 80 and 100 kilometers per hour. The present service frequency is one train an hour each way. The new level of service between Sha Tin and Hung Hom will be at four-minute intervals during peak hours, whilst beyond Sha Tin the peak frequency will be between 7½ and 15 minutes depending on the station being served. Freight traffic and the ability to handle it is also expected to increase significantly. The electrified service to Sha Tin is expected to start in late spring 1982 and the delivery and commissioning of electric trains is proceeding as scheduled in conjunction with this programme.

19 Nearly all the main contracts for the modernization and electrification programme have now been awarded. Total expenditure incurred by the end of 1981-82 is expected to amount to \$1,622 million, of which \$800 million is expected to be spent in 1981-82. Expenditure of \$730 million is estimated in 1982-83.

(c) *Mass Transit Railway*

20 In December 1980 the Government agreed to the construction of the Island Line by the Mass Transit Railway Corporation. The line will run from Sheung Wan in the west to Chai Wan in the east and the section from Admiralty to Chai Wan is scheduled to open in mid-1985 with the remaining section opening in 1986.

21 As at the end of December 1981 a number of advance contracts for the Island Line had been let, together with the first two main civil works contracts. As a result of these awards and the recognition of the effect of the rate of inflation in 1981 being greater than previously estimated which has affected contractors costs, together with increasing costs for tunnelling works in soft ground, the total estimated construction cost of the project has been re-assessed at \$7,700 million at 1980 prices, which expenditure will be spread over six years.

22 As regards financing of the Island Line, it is estimated that approximately 45% of the contract costs will be financed from loans supported by various export credit authorities.

23 During 1981 continuing high interest rates had a severe effect on the Corporation's financial position. In consequence, the \$3,500 million earmarked in the Government's accounts to assist in financing the Island Line was released to the Corporation between June and September 1981. A further capital injection may have to be considered during the period 1982-86 depending on the levels of interest rates, other costs, profits from property developments and the loans to equity capital ratio.

24 The Tsuen Wan Extension is now scheduled to open in May 1982, approximately six months ahead of the original programme. The final cost is estimated to be within the original budget of \$4,085 million.

(d) *Waterworks*

25 Design for the reception and distribution system to handle the increased supply of water from China is well in hand and construction of part of the system is in progress. This is a very large project which will ultimately cost in the order of \$1,300 million, and provision for the Stage I works accounts for a major portion of expenditure on waterworks in 1982-83.

26 The remaining work for receiving additional water from the East River is in progress and is expected to be completed in early 1983.

27 Work on improvements to urban water supply systems, including those for Ap Lei Chau, Chai Wan and Shouson Hill on Hong Kong Island, and Beacon Hill, Ho Man Tin, Lam Tin and Kowloon Bay in Kowloon, is in hand. In the New Territories, new water supply systems are being constructed for various rural townships including Yuen Long, Sai Kung, Cheung Chau, Tai O, Kat O, Tai Po, Sheung Shui and Fanling. Work on provision of a water supply for Lamma Island is progressing well.

28 Expenditure in 1982-83 on waterworks is estimated at \$684 million from the Capital Works Reserve Fund. The following table gives the breakdown of this provision, the total cost of the projects involved and expenditure to 31 March 1981:

<i>Description of projects</i>	<i>Total estimated cost of projects (\$ mn)</i>	<i>Estimated expenditure to 31 March 1982 (\$ mn)</i>	<i>Provision in 1982-83 (\$ mn)</i>	<i>Percentage complete as at 31 March 1982 (%)</i>
<i>Projects of a territory-wide nature—</i>				
On-going projects	4,183	2,913	372.0	70
New projects	839	—	19.2	—
<i>Urban improvements—</i>				
Hong Kong	340	83	86.3	25
Kowloon	214	71	49.4	33
<i>New Territories projects</i>	<u>951</u>	<u>476</u>	<u>157.2</u>	<u>50</u>
Total	<u>6,527</u>	<u>3,543</u>	<u>684.1</u>	<u>54</u>

D. SOCIAL SERVICES

(a) Education

29 The education programme comprises pre-primary, primary and secondary education, including special schools and classes for handicapped children, the technical institutes, the Colleges of Education, the two universities and the Polytechnic and certain courses at two post-secondary colleges.

Primary

30 The Draft Estimates include provision of \$1,297 million for Government and aided primary schools compared with the revised estimate for 1981-82 of \$1,147 million.

31 Free and universal primary schooling has been available since 1971 and there is a surplus of places in some primary schools in older parts of the urban area. Notwithstanding this surplus, it is the Government's policy that no child should have to travel an unreasonable distance to attend primary school and nine new primary schools are expected to be completed in 1982-83 in conjunction with the development of public housing estates in the new towns and other developing areas.

Secondary

32 The policy for the development of secondary education in the public sector was first laid down in a White Paper published in 1974. A subsequent White Paper, published in 1978, set out the policy objectives on the development of senior secondary and tertiary education.

33 From September 1980, subsidized places in Forms I to III of secondary schools have been available to meet the full demand at this level—this being the main objective of the 1974 White Paper on education.

34 It is the Government's aim to increase during the 1980s the number of places in schools, technical institutes and adult education centres to meet the full

demand from Form III leavers who are suitable for the kind of courses provided. In pursuit of this objective, expenditure is envisaged in 1982-83 of \$1,640 million on secondary schools and technical institutes compared with the revised estimate for 1981-82 of \$1,453 million.

35 In September 1981, there were 57 255 subsidized Form IV places in secondary schools. By September 1982, the number of such places will increase to 57 635. At the five technical institute, the number of full-time places on craft and diploma courses will increase from just under 3 600 in October 1981 to 4 300 in September 1982 and the number of part-time day courses are planned to increase from just under 10 100 to 16 400. Some Ordinary Diploma and Ordinary Certificate courses were transferred from the Polytechnic to the institutes with effect from September 1981. This process of transfer, which will continue in 1982-83 is in line with a recommendation in the 1978 White Paper to enable the Polytechnic to concentrate a greater proportion of its work at the Higher Diploma and Higher Certificate levels.

Qualitative improvements

36 The White Paper on Primary Education and Pre-primary Services was tabled in the Legislative Council in July 1981 and the financial implications accepted by Finance Committee in December 1981. The White Paper set out proposals for the improvement of the quality and standards of education and child care. The main proposals are—

- (a) the introduction of a scheme of fee assistance for needy children attending kindergartens and child care centres;
- (b) an enhancement of the teacher to class ratio in primary schools from 1.1 to one to 1.2 to one and an increase in the number of senior teachers;
- (c) a reduction in the maximum class size in primary schools from 45 to 40 pupils and to 35 pupils for schools adopting the activity approach;
- (d) a lowering of the permitted age of entry into Primary 1 to five years and eight months;
- (e) the introduction of a system to control entry into Primary 1; and
- (f) numerous other smaller measures designed to improve the standard of teaching, equipment and supervision in primary schools.

37 The introduction of these measures will be phased, and will start in September 1982. \$87 million has been included in the Draft Estimates for this purpose.

38 The Draft Estimates include provision of \$15 million in capital subventions for building and equipping new primary school buildings, and a further \$91 million will be spent under the Public Works Programme for the construction of 44 primary schools.

39 the general expansion in the number of secondary school places is combined with developments to improve the overall standard of secondary education by a progressive increase in the number of places in fully aided schools. This is being achieved, in part, by the phased conversion of 57 private non-profit-making schools into fully aided schools, which will be completed by September 1982.

40 Apart from bringing some private schools on to full subsidy under the Code of Aid, the Government is also engaged in a major secondary school building programme which will produce some 60 new schools over the next three to four years. The Draft Estimates include provision of \$133 million in capital subventions for building and equipping new school buildings, and a further \$170 million is provided under the Public Works Programme expenditure for the construction of 44 secondary schools.

41 A major development approved in December 1981 is an increase in the level of staffing of secondary schools. Initially, in September 1982 funds will be provided for two additional graduate teachers which will allow schools to concentrate more staff resource in the areas of remedial teaching of English and Chinese. It is intended that one further graduate teacher will be introduced in September 1983 and two further non-graduate teachers as and when trained non-graduate teachers are available. The estimated expenditure on these developments in 1982-83 is \$21 million.

42 In the area of teacher training, in order to train sufficient non-graduate teachers for the various developments approved, the teacher training colleges are being expanded. Two annexes will be opened in September 1982 and the enrolment of students will be increased from 2 156 to 2 824 full time equivalents. A new institute of Language in Education will also start operation in September 1982 and will run refresher courses for some 200 language teachers in its first year of operation. The number of teachers attending courses will rise until 1986-87 when 1 000 teachers will attend annually.

Post-secondary and tertiary level

43 The 1978 White Paper stated the Government's intention to assist the post-secondary colleges if they restructured their courses to provide places at the Form VI and post-Form VI levels. Two colleges, the Baptist College and the Lingnan College, have opted for such assistance. Following a visit by the Council for National Academic Awards (C.N.A.A.), which was asked to comment on the level of courses offered at the Baptist and Lingnan Colleges, the level of assistance given to the Baptist College has been substantially increased. The estimate of expenditure on the post-secondary colleges in 1982-83 is \$32 million, compared with the revised estimate of \$24 million for 1981-82.

44 At the tertiary level the Draft Estimates provide \$1,110 million for expenditure in connection with university and Polytechnic education. This

compares with the revised estimate for 1981-82 of \$943 million. The U.P.G.C.'s recommendations for grants in the triennium which commenced in mid-1981 take account of an increase in the annual student growth rate at the universities from 3% to 4%. They also provide for the commencement of degree course at the Polytechnic in Social Work, Building Services Engineering and Computer Studies, Applied Science and Mathematics, and for the enrolment of some 230 part-time students for degree courses at The Chinese University.

45 These grant levels include expenses in connection with the development of a new medical school at The Chinese University and the new dental school at the University of Hong Kong, for which earmarked grants of \$51 million each have been provided. The dental school had its first intake of students in September 1980, and the statutory board of governors for the Prince Philip Dental Hospital was appointed in August 1981. A subvention of \$18.2 million is included in the 1982-83 Draft Estimates to meet the operating expenses of the hospital. The medical school had its first intake of 60 students in September 1981.

46 Capital expenditure at the three tertiary institutions will remain at a high level of \$260 million as progress continues to be made to complete major building projects.

47 Significant improvements and changes have been introduced in the schemes of financial assistance for students at the post secondary and tertiary level. Locally, the grants and loan schemes have been improved so that the scheme is now open-ended. Thus the allocation of funds is made in strict accordance with a theoretical formula, in the knowledge that supplementary funds will be made available by the Government, if necessary. Other improvements ensure that the maximum grant and loan levels are revised regularly and that students from lower income families are protected. Overseas, a loan scheme has been introduced for full-time students on first degree or Polytechnic Higher National Diploma courses. The estimated gross expenditure on grants and loans in 1982-83 is \$164 million compared with the revised estimate for 1981-82 of \$134 million.

48 A new Technical Education and Industrial Training Department is being established to serve as the executive arm of the Vocational Training Council, which will be created by the Vocational Training Council Ordinance 1982. This will combine the important fields of technical education and industrial training under one authority.

49 The total estimate for the education programme in 1982-83, compared with the revised estimate for 1981-82 is as follows:

	<i>1981-82</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$ mn)</i>	<i>1982-83</i> <i>(Draft</i> <i>Estimates)</i> <i>(\$ mn)</i>
Education Department	573.5	495.9
Technical Education and Industrial Training Department (Technical institutes only)	—	78.0
Education subventions	2,424.3	2,802.9
U.P.G.C.	943.0	1,109.9
Capital works (Public Works Programme)	<u>228.1</u>	<u>272.4</u>
	<u>4,168.9</u>	<u>4,759.1</u>

(b) Medical and Health

50 The main objectives of the Government's medical policy are the prevention and control of communicable diseases, the promotion of personal health and the treatment of the sick and injured (including, where necessary, their rehabilitation).

51 The expansion of medical services in accordance with the aims set out in the 1974 White Paper, *The Further Development of Medical and Health Services in Hong Kong*, is monitored annually by the Medical Development Advisory Committee (M.D.A.C.). Progress in implementing the White Paper's main proposals are summarized as follows—

(a) Medical and health services to be organized on a regional basis

The integration of Government and subvented medical services within the regional system has alleviated overcrowding in the main Government regional hospitals and improved the utilization of bed in the subvented hospitals. Additional senior staff have been provided in the Medical and Health Department to complete the process of regionalization and to rationalize the administrative structure at headquarters. To enable subvented hospitals to assume a greater role in the treatment of acute hospital cases, development programmes are under way in the Caritas, Pok Oi and Yan Chai Hospitals, requiring capital subvention of some \$36 million in 1982-83.

(b) The ratio of 5.5 hospital beds per 1 000 population should be regarded as a desirable standard for long term planning

The formula for determining the needs for hospital beds is constantly being refined by the M.D.A.C. in terms of the actual number of beds required,

rather than a crude bed: population ratio. By the end of 1981-82, there will be some 22 500 beds in Government, subvented and private hospitals. The Draft Estimates provide for the establishment of some 300 additional beds which, together with the existing supply, will meet approximately 81% of the estimated requirement. In addition to \$123 million for the completion of the Prince of Wales Hospital with its related polyclinic and staff quarters, a further \$25 million will be spent in 1982-83 for a new hospital project in Tuen Mun.

(c) *Each region to be served with the appropriate general and specialist facilities*

In addition to the construction of general and specialist hospitals, twelve new clinics and polyclinics are presently included in the Public Works Programme. The following projects are due for completion in 1982-83—

	<i>Target completion date</i>
Shun Lee Estate general out-patient clinic	March 1982
Cheung Hong Estate medical clinic Tsing Yi	April 1982
Kowloon East Polyclinic	Early 1983

(d) *Introduction of school dental service*

The aim of this service is to provide dental health education and conservation treatment to primary school children. Two school dental clinics are currently in operation at the MacLehose Dental Centre and at Argyle Street providing treatment for children in Primary 1 and 2. During 1982-83, these two centres will extend their coverage to children in Primary 3. Five other clinics are planned to extend the service progressively to cover all primary school children.

52 The Draft estimates provide for expenditure by the Medical and Health Department in 1982-83 of \$1,369.8 million compared with the revised estimate for 1981-82 of \$1,204.6 million, and for expenditure on medical subventions of \$775.8 million compared with the revised estimate for 1981-82 of \$639.5 million.

53 The total estimate for the medical and health programme in 1982-83, compared with the revised estimate for 1981-82 is as follows—

	<i>1982-82 (Revised Estimates) (\$ mn)</i>	<i>1982-83 (Draft Estimates) (\$ mn)</i>
Medical and Health Department	1,204.6	1,369.8
Medical subvention	639.5	775.8
Capital works	202.0	204.0
	<u>2,046.1</u>	<u>2,349.6</u>

(c) Social Welfare

54 Social welfare services include social security (mainly public assistance and special needs allowances), services for offenders, family welfare, services for the elderly, community building, personal social work among young people, and rehabilitation.

55 The planning of social welfare development is reviewed and updated annually and takes account of new policies outlined in White Papers such as Social Welfare into the 1980s and Integrating the Disabled into the Community—a United Effort. A brief outline of aims is as follows—

Social security—to meet the basic and particular needs of the recognized vulnerable groups in the community who are in need of financial or material assistance, by a balanced system of social security schemes.

Service for offenders—to give effect to the directions of the courts on the treatment of offenders by social work methods through probation supervision, residential training, and aftercare services, with the aim of reintegrating them into the community.

Family welfare—to enable individuals and family members to prevent personal and family problems and to deal with them when they arise, with a view to preserving and strengthening the family as a unit, and to meet those needs which cannot be met from within the family.

Services for the elderly—to promote the well-being of people who have passed their 60th birthday by providing services that will enable them to retain their self-respect and, where necessary, to provide residential care suited to their varying needs.

Community building—to promote social relationships, to develop a sense of self-reliance and social responsibility and cohesion within the community, and to encourage the participation of the people themselves in solving community problems and improving the quality of community life.

Personal social work among young people—to prevent anti-social and delinquent behaviour in young people from six to 24 years of age.

Rehabilitation—to provide such comprehensive rehabilitation services as are necessary to enable disabled persons to develop their physical, mental and social capabilities to the fullest extent which their disabilities permit.

Progress

56 Progress in the main activity areas can be seen from the following tables:

<i>Activity area</i>	<i>Service</i>	<i>1977-78</i>	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>
Social security	Public assistance (caseload)	48 157	47 000	46 200	46 800
	Special needs allowances (caseload)	152 884	175 300	185 300	205 900
Services for offenders	Correctional institutions (number of places)	550	586	586	586

<i>Activity area</i>	<i>Service</i>	<i>1977-78</i>	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>
Family welfare services	Counselling (caseload)	15 050	22 526	25 000	26 000
	Day care centres (number of places)	9 550	11 006	11 296	13 766
Services for the elderly	Homes for the aged (number of places)	2 750	3 235	3 730	4 230
	Hostels (number of places)	650	930	1 140	1 355
	Care and attention homes (number of places)	233	375	375	690
Community building	Community and youth offices	15	17	19	19
	Community centres. Estate community centres and community halls	33	41	45	53
Personal social work among young people	School social work (number of student guidance officers)	—	96	218	215
	Outreaching social work (number of teams)	—	18	18	18
Rehabilitation	Special child care centres (number of places)	149	347	420	528
	Residential care for the disabled (number of places)	1 659	2 127	2 308	2 398

57 The public assistance scheme is designed to bring the income of a family, or of a single person in certain circumstances, up to a level where essential needs such as food and clothing can be met. The cost of accommodation is covered separately by a rental allowance, the maximum rates of which were increased in June 1981 to 200% and 150% of the highest public housing rent for singleton-households and families respectively. The public assistance caseload, which fell steadily from around 55 500 in 1976 to around 44 700 in 1980, rose by the end of 1981 to around 46 700. Only some 5.5% of the present caseload is in respect of persons unemployed or earning a low income.

58 The basic rates for public assistance and the special needs allowances (disability and old age) were increased by 25% in real terms in July 1981 in order to reflect increases in general living standards since the introduction of the public assistance scheme in 1971. The Draft Estimates include provision of \$309 million for public assistance (compared with \$303.5 million in 1981-82) and \$468 million for special needs allowances (compared with \$416 million in 1981-82). Included in this latter figure is \$5 million for a non-means-tested death grant which will be introduced with effect from 1 April 1982. This will be payable to the dependent survivors of persons who die in employment if the deceased are not covered by the terms of the Employment Ordinance or if the survivors are not in receipt of any other form of compensation or *ex-gratia* assistance.

59 A large proportion of recurrent expenditure will continue to be channelled through social welfare subventions to voluntary agencies. In October 1981 a

revised subvention system was approved under which the social services and facilities provided by organizations and trusts will be classified as Category I or Category II dependent on their nature (most services will be in Category I). The intention is to set standard costs as far as possible for such services and to meet the costs in full, disregarding any income (other than fee income) which the agencies receive. It will take some time to set standard costs and, in the meantime, with effect from April 1982, Category I services will receive subventions at 100% of their existing recognized expenditure, adjusted for price increases but disregarding all their income except fees. Category II services will receive either a fixed percentage determined on the average level of financial support given to a particular service (adjusted for price increases but disregarding all income except fees) or an appropriate arbitrary lump sum.

60 The additional cost in 1982 of introducing the new system is estimated at \$31.33 million and, after allowing for this and the expansion of such services, provision of \$289 million is included in the Draft Estimates (including \$38 million for rehabilitation services) compared with \$192 million in 1981-82 (of which \$26 million was for rehabilitation services).

61 The total estimate for the social welfare programme in 1982-83, compared with the revised estimate for 1981-82, is as follows—

	<i>1981-82</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$ mn)</i>	<i>1982-83</i> <i>(Draft</i> <i>Estimates)</i> <i>(\$ mn)</i>
Social Welfare Department	896.3	971.4
Social Welfare subvention	204.6	300.0
Capital works	<u>45.8</u>	<u>45.9</u>
	<u>1,146.7</u>	<u>1,317.3</u>

(d) *Rehabilitation*

62 As stated in the 1977 White Paper, Integrating the Disabled into the Community: a United Effort, the Government decided:

‘To provide such comprehensive rehabilitation services as are necessary to enable disabled persons to develop their physical, mental and social capabilities to the fullest extent which their disabilities permit.’

63 As part of a concerted programme to prevent serious disability by the detection of abnormalities as early as possible, the Medical and Health Department operates a comprehensive observation scheme for the development testing of children from birth to five years old. The Draft Estimates provide funds for 19 full-time and 19 part-time centres for such tests.

64 When children enter primary school they are screened for possible vision or hearing impairment and, in due course, for difficulties in learning and possible retardation. Children identified as needing further assessment or remedial treatment are referred to specialists either in the Medical and Health or Education Departments and, subsequently, placed in the type of school or special class most appropriate to their capabilities. Vocational training centres for the disabled are also operated to train school-leavers for employment.

65 Recurrent expenditure on special education of \$166 million is envisaged in the Draft Estimates, compared with the revised estimate of 1981-82 of \$129 million. This takes account of the transfer of responsibility for subventing boarding care and transport facilities from the Social Welfare Department to the Education Department, in line with the general objectives of the 1977 White Paper on Integrating the Disabled into the Community—a United Effort. Considerable improvements have also been introduced in the level of staffing eligible for subvention and in the level of grants given for other charges. An additional 1 519 places in special schools and special and resource classes in ordinary schools will be provided in 1982-83 bringing the total to over 30 322 by March 1983.

66 In April 1980, Finance Committee approved a total commitment of \$116 million for a consolidated programme to build new special schools and to convert ordinary school buildings for use as special schools. Expenditure of \$25 million on this programme is included in the Draft Estimates.

67 In the field of medical rehabilitation, priorities are the improvement of services for the mentally ill, more hospital beds for the mentally retarded and the setting up of medical rehabilitation centres specifically designed to provide intensive in-patient services. The first of three Government medical rehabilitation centres will be located in the Prince of Wales Hospital. In the subvented sector, the Hong Kong Society for Rehabilitation is building a centre at Sandy Bay for which capital expenditure of \$23 million will be required in 1982-83. In all, the Draft Estimates provide some \$120 million for the medical rehabilitation services operated by the Medical and Health Department compared with a revised estimate for 1981-82 of \$107 million.

68 In the social welfare field, rehabilitation services continue to be expanded and improved through subvented voluntary agencies. Within a total provision of \$38 million (compared with \$26 million in 1981-82) for subventions to rehabilitation services in 1982-83, funds are included to increase special child care centre places for disabled pre-school children, and sheltered workshop places for disabled adults. Additional places will also be provided in ordinary child care centres for mildly disabled pre-school children.

E. LAW AND ORDER AND DEFENCE

(a) Law and Order

69 Expenditure on law and order covers the costs of Hong Kong's Police, prison and immigration services, together with allied services related to the enforcement of the law in Hong Kong.

70 Total provision in the Draft Estimates for law and order is \$2,513 million, compared with a revised estimate of \$2,155 million in 1981-82. The largest area of spending in 1982-83 is the Royal Hong Kong Police Force, for which \$1,682 million is required, including the Auxiliary Police Force. The Police Force will continue to expand in 1982-83, and it is estimated that the net strength (after retirements, resignations and dismissals) will increase by around 1 000 disciplined personnel to 22 920.

71 A major effort continued to be required of the Police Force in deterring illegal immigration by both land and sea. As regards the latter, the expansion of the Marine Police fleet continued in 1981-82 with 12 launches delivered. A further 15 launches at a capital cost estimated at \$192 million will be ordered in 1982-83.

72 A comprehensive communications system for the Mass Transit Railway's Modified Initial System and the Tsuen Wan Extension will be implemented at a cost of \$9 million. A further \$5 million will be spent on improving radar installations in Marine Police launches.

73 It is estimated that \$72 million will be spent on Police buildings and installations, compared with \$43 million in 1981-82. A further 21 neighbourhood police units and reporting centres are planned to open during 1982-83 to encourage more reporting of crime and better communication between the Police and the public.

74 In 1981, the Immigration Department recorded a 14% increase in passenger traffic entering and leaving Hong Kong to 24 million. Legal immigration from China remained steady at just under 55 000. The number of illegal immigrants and overstayers repatriated totalled 13 065.

75 The headquarters of the Immigration Department will move in 1982-83 to leased accommodation in Kowloon. A new temporary passenger terminal will come into use at LO WU, and an improved computerized index for immigration records will be in operation in 1982-83. Preparation is under way to replace the existing 4.5 million identity cards in a phased exercise with a more secure card, supported by a new computerized records system.

76 Although the rise in crime was contained in 1981, when there was a drop of 7% in violent crime and a marginal increase of 2% in overall crime, the prison muster of convicted criminals and persons held on remand by the Correctional Services Department rose from 6 611 in January to 6 979 in December 1981.

77 An estimated total of \$120 million is required in 1982-83 for capital expenditure on correctional services buildings and installations, notably for a half-way house and pre-release centre, and the maximum security prison at Shek Pik.

78 The expansion of prison industries continued in 1981-82 with the opening of a new laundry at Pik Uk Prison and the pre-cast concrete workshop in the Tai Lam Correctional Institution. The gross expenditure on raw materials of \$10 million in 1981-82 will increase to \$16 million in 1982-83. The bulk of the expenditure is to meet orders from Government departments at cost price. In commercial terms, the value added, estimated broadly, amounted to a further \$22 million in 1981-82.

79 The level of service in the Judiciary is determined mainly by reference to the time which the public must wait before a case is brought to trial. In the Supreme Court, the targets set are a maximum of six months for a case on the fixture list, three months for a case on the running list and two months after an indictment has been filed in a criminal case. Two posts for High Court judges and three posts for Justices of the Appeal Court were created in 1981-82. For the District Courts, the corresponding targets are a maximum waiting time of three months in civil cases and two months in criminal cases, and seven posts for District Court judges were created in 1981-82.

80 It is estimated that \$140 million, compared with \$15 million in 1981-82, will be spent on the Judiciary's buildings and installations, notably the new Supreme Court Building and the District Court and Magistracy Building on the Wan Chai Reclamation.

(b) Defence

81 Expenditure on defence covers the cost of maintaining a garrison of Her Majesty's Forces in Hong Kong, capital works related to accommodation for the garrison and defence installations, and the various auxiliary services (other than Auxiliary Police Force) which are available to assist the armed forces and the civil power in times of emergency.

82 The Draft Estimates provide for total expenditure of \$1,948 million on defence in 1982-83, compared with the revised estimate of \$1,553 million for 1981-82. The main item in defence spending is the Defence Costs Agreement, under which the United Kingdom Government provides contingents from the Royal Navy, the Army and the Royal Air Force under the unified command of the Headquarters British Forces to preserve the integrity of Hong Kong's borders and to support the civil power in preserving stability within Hong Kong.

83 The Defence Costs Agreement, effective for seven years from 1 April 1981, provides, inter alia, for an increase in the size of the British garrison from four to five battalions. During 1981 in preparation for the formation of the 5th

battalion in January 1982 the garrison and other local support units were increase in strength.

84 The apportionment of costs under the Agreement provides for the Hong Kong Government to contribute 75% and the United Kingdom Government 25%. Costs are related as closely as possible to the actual strength and expenditure of the garrison.

85 The Agreement also provides for a programme of capital works and maintenance designed to ensure that the garrison is adequately, efficiently and rationally housed and that the value of property occupied by the Ministry of Defence is maintained. Expenditure on these works services for 1982-83 will total \$228 million. This sum includes about \$95 million for work on new barracks for the additional battalion. In addition to works services under the Agreement there is a reprovisioning programme for military facilities at 100% cost to the Hong Kong Government in order to release military land required for public purposes. The main reprovisioning item is the replacement of the facilities at Lyemun Barracks and Sham Shui Po Camp. The release of Lyemun Barracks will be delayed to provide temporary accommodation for the new infantry battalion until its new barracks are completed (scheduled for 1986). Expenditure on the Lyemun and Sham Shui Po reprovisioning programme in 1982-83 is estimated at \$199 million.

86 The capital costs of the replacement of five patrol craft, which from the Royal Navy Squadron in Hong Kong, are subject to separate arrangements outside the terms of the Defence Costs Agreement. The new vessels are scheduled for phased delivery between April 1983 and September 1984. \$176 million is required in 1982-83 for the Hong Kong Government's 75% contribution to the capital cost in the year.

87 On the land border, work is almost complete on the construction of a new fence, tactical lighting and patrol road; the defence system is now being extended across the Mai Po Marshes. Construction will be completed by mid-1982 and \$42 million will be required for expenditure in 1982-83.

88 To improve co-ordinated radio communications among the Security forces involved in maritime operations a Joint Maritime Communications Project has been set up. \$4.5 million is required in 1982-83 to construct facilities for improved maritime communications. The cost of equipment for the project is being met from the Police Force vote, and \$31 million will be spent in 1982-83.

89 Expenditure on aircraft maintenance for the Royal Hong Kong Auxiliary Air Force will rise from \$4 million to \$6.4 million in 1982-83, which represents an estimated peak in the maintenance cycle as the three twin engine helicopters enter their third year of service. Anti-illegal immigration patrols will continue, with a tendency now emerging for the Auxiliary Air Force to operate further off-shore. The Royal Hong Kong Regiment (The Volunteers) is currently being

equipped with new radios to improve radio communications and provide compatibility with the garrison in the field. The estimated total cost of the package is \$16.8 million, of which the final \$1.2 million will be incurred in 1982-83. The activities of the Auxiliary Medical Services and the Civil Aid Services will remain at much the same level in 1982-83, allowance being made for limited expansion in the new towns.

APPENDIX D

The concessions for direct taxation have been framed having regard to the broad guidelines which we have endeavoured to follow consistently over the years, namely—

- (a) that within the framework of our relatively simple and unsophisticated fiscal legislation⁽¹⁾ we should maintain equity as between different income groups⁽²⁾;
- (b) that the level of taxation should take account of our current budgetary situation and the need to generate a sufficient contribution to revenue to finance a major proportion of total expenditure and to maintain our fiscal reserves at a satisfactory level⁽³⁾;
- (c) that the laws governing the system are adapted from time to time to make them compatible with changing commercial practices⁽⁴⁾; and
- (d) that the tax system is as neutral as possible⁽⁵⁾, but *exceptionally* must be capable of being used to achieve non-fiscal (economic and social policy) objectives⁽⁶⁾.

(1) The fourth requirement of our tax system—see *B.S. 1981-82, paragraph 97*.

(2) The fifth requirement of the tax system—see *B.S. 1981-82, paragraph 98*.

(3) The first requirement of the tax system—see *B.S. 1981-82, paragraph 94*.

(4) The third requirement—see *B.S. 1981-82, paragraph 96*.

(5) The second requirement—see *B.S. 1981-82, paragraph 95*.

(6) The sixth requirement—see *B.S. 1981-82, paragraph 99*.

APPENDIX E

EXAMPLES OF SALARIES TAX PAYABLE BY VARIOUS TAXPAYERS WITH SAME INCOME LEVELS AND HAVING REGARD TO PROPOSED INCREASES IN PERSONAL, CHILD AND DEPENDENT PARENT ALLOWANCES

Example 1—Annual earnings of \$72,000

		<i>Single with two dependent parents</i>	<i>Married with no children</i>	<i>Married with two children</i>	<i>Married with two children and two dependent parents</i>
	<i>Single (\$)</i>	<i>Single (\$)</i>	<i>Married (\$)</i>	<i>Married (\$)</i>	<i>Married (\$)</i>
Salary per annum	72,000	72,000	72,000	72,000	72,000
Less: Personal allowance	<u>28,000</u>	<u>28,000</u>	<u>56,000</u>	<u>56,000</u>	<u>56,000</u>
	44,000	44,000	16,000	16,000	16,000
Less: Child allowance	—	—	—	13,500	13,500
Dependent parent allowance	—	<u>16,000</u>	—	—	<u>16,000</u>
Net chargeable income	44,000	28,000	16,000	2,500	NIL
Tax thereon	6,000	2,700	1,100	125	NIL
Effective rate	8.3%	3.7%	1.5%	0.2%	—

Example 2—Annual earnings of \$108,000

		<i>Single with two dependent parents</i>	<i>Married with no children</i>	<i>Married with two children</i>	<i>Married with two children and two dependent parents</i>
	<i>Single (\$)</i>	<i>Single (\$)</i>	<i>Married (\$)</i>	<i>Married (\$)</i>	<i>Married (\$)</i>
Salary per annum	108,000	108,000	108,000	108,000	108,000
Less: Personal allowance	<u>28,000</u>	<u>28,000</u>	<u>56,000</u>	<u>56,000</u>	<u>56,000</u>
	80,000	80,000	52,000	52,000	52,000
Less: Child allowance	—	—	—	13,500	13,500
Dependent parent allowance	—	<u>16,000</u>	—	—	<u>16,000</u>
Net chargeable income	80,000	64,000	52,000	38,500	22,500
Tax thereon	15,000	11,000	8,000	4,700	1,875
Effective rate	13.9%	10.2%	7.4%	4.4%	1.7%

Example 3—Annual earnings of \$156,000

	<i>Single</i>	<i>Single</i>	<i>Married</i>	<i>Married</i>	<i>Married</i>
	<i>(\$)</i>	<i>with two</i>	<i>with no</i>	<i>with two</i>	<i>with two</i>
		<i>dependent</i>	<i>children</i>	<i>children</i>	<i>and two</i>
		<i>parents</i>	<i>children</i>	<i>children</i>	<i>dependent</i>
		<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>parents</i>
		<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Salary per annum	156,000	156,000	156,000	156,000	156,000
Less: Personal allowance	<u>28,000</u>	<u>28,000</u>	<u>56,000</u>	<u>56,000</u>	<u>56,000</u>
	128,000	128,000	100,000	100,000	100,000
Less: Child allowance	—	—	—	13,500	13,500
Dependent parent allowance	<u>—</u>	<u>16,000</u>	<u>—</u>	<u>—</u>	<u>16,000</u>
Net chargeable income	128,000	112,000	100,000	86,500	70,500
Tax thereon	23,400	23,000	20,000	16,625	12,625
Effective rate	15.0%	14.7%	12.8%	10.7%	8.1%

Example 4—Annual earnings of \$192,000

	<i>Single</i>	<i>Single</i>	<i>Married</i>	<i>Married</i>	<i>Married</i>
	<i>(\$)</i>	<i>with two</i>	<i>with no</i>	<i>with two</i>	<i>with two</i>
		<i>dependent</i>	<i>children</i>	<i>children</i>	<i>and two</i>
		<i>parents</i>	<i>children</i>	<i>children</i>	<i>dependent</i>
		<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>parents</i>
		<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Salary per annum	192,000	192,000	192,000	192,000	192,000
Less: Personal allowance	<u>28,000</u>	<u>28,000</u>	<u>56,000</u>	<u>56,000</u>	<u>56,000</u>
	164,000	164,000	136,000	136,000	136,000
Less: Child allowance	—	—	—	13,500	13,500
Dependent parent allowance	<u>—</u>	<u>16,000</u>	<u>—</u>	<u>—</u>	<u>16,000</u>
Net chargeable income	164,000	148,000	136,000	122,500	106,500
Tax thereon	28,800	28,800	28,800	25,625	21,625
Effective rate	15.0%	15.0%	15.0%	13.3%	11.3%

APPENDIX F

(1) EFFECT ON SALARIES TAX OF PROPOSED INCREASES IN PERSONAL ALLOWANCES

Single person

<i>Annual income (\$)</i>	<i>Present (exempt up to \$22,500)</i>		<i>Proposed (exempt up to \$28,000)</i>		<i>Tax saving (\$)</i>	<i>(%)</i>
	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>		
29,000	325	1.1	50	0.2	275	84.6
36,000	850	2.4	400	1.1	450	52.9
48,000	2,325	4.8	1,500	3.1	825	35.5
60,000	4,500	7.5	3,400	5.7	1,100	24.4
72,000	7,375	10.2	6,000	8.3	1,375	18.6
84,000	10,375	12.4	9,000	10.7	1,375	13.3
96,000	13,375	13.9	12,000	12.5	1,375	10.3
(106,250)	15,937	15.0	14,562	13.7	1,375	8.6
(120,000)	18,000	15.0	18,000	15.0	NIL	—

Married person, with no children

<i>Annual income (\$)</i>	<i>Present (exempt up to \$45,000)</i>		<i>Proposed (exempt up to \$56,000)</i>		<i>Tax saving (\$)</i>	<i>(%)</i>
	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>		
57,000	700	1.2	50	0.09	650	92.9
72,000	2,550	3.5	1,100	1.5	1,450	56.9
84,000	4,800	5.7	2,700	3.2	2,100	43.8
96,000	7,750	8.1	5,000	5.2	2,750	35.5
108,000	10,750	10.0	8,000	7.4	2,750	25.6
120,000	13,750	11.5	11,000	9.2	2,750	20.0
132,000	16,750	12.7	14,000	10.6	2,750	16.4
144,000	19,750	13.7	17,000	11.8	2,750	13.9
(162,000)	24,375	15.0	21,625	13.3	2,750	11.3
(190,000)	28,500	15.0	28,500	15.0	NIL	—

(2) EFFECT ON SALARIES TAX OF PROPOSED INCREASES IN PERSONAL AND CHILD ALLOWANCES

Single person, with two children

<i>Annual income (\$)</i>	<i>Present (exempt up to \$34,500)</i>		<i>Proposed (exempt up to \$41,500)</i>		<i>Tax saving (\$)</i>	<i>(%)</i>
	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>		
42,500	400	0.9	50	0.1	350	87.5
60,000	2,325	3.9	1,350	2.3	975	41.9
72,000	4,500	6.3	3,100	4.3	1,400	31.1
84,000	7,375	8.8	5,625	6.7	1,750	23.7
96,000	10,375	10.8	8,625	9.0	1,750	16.9
108,000	13,375	12.4	11,625	10.8	1,750	13.1
120,000	16,375	13.6	14,625	12.2	1,750	10.7
(136,250)	20,437	15.0	18,687	13.7	1,750	8.6
(153,750)	23,062	15.0	23,062	15.0	NIL	—

Married person, with two children

<i>Annual income (\$)</i>	<i>Present (exempt up to \$57,000)</i>		<i>Proposed (exempt up to \$69,500)</i>		<i>Tax saving (\$)</i>		<i>(%)</i>
	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>			
70,500	850	1.2	50	0.07	800		94.1
84,000	2,550	3.0	950	1.1	1,600		62.7
96,000	4,800	5.0	2,475	2.6	2,325		48.4
108,000	7,750	7.2	4,700	4.4	3,050		39.4
120,000	10,750	9.0	7,625	6.4	3,125		29.1
132,000	13,750	10.4	10,625	8.0	3,125		22.7
144,000	16,750	11.6	13,625	9.5	3,125		18.7
156,000	19,750	12.7	16,625	10.7	3,125		15.8
168,000	22,750	13.5	19,625	11.7	3,125		13.7
180,000	25,750	14.3	22,625	12.6	3,125		12.1
(192,500)	28,875	15.0	25,750	13.4	3,125		10.8
(233,750)	33,562	15.0	33,562	15.0	NIL		—

(3) EFFECT ON SALARIES TAX OF PROPOSED INCREASES IN PERSONAL, CHILD AND DEPENDENT PARENT ALLOWANCES

Single person, with two children and two dependent parents

<i>Annual income (\$)</i>	<i>Present (exempt up to \$58,500)</i>		<i>Proposed (exempt up to \$57,500)</i>		<i>Tax saving (\$)</i>		<i>(%)</i>
	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>			
58,500	500	0.9	50	0.09	450		90
72,000	2,025	2.8	950	1.3	1,075		53.1
84,000	4,100	4.9	2,475	2.9	1,625		39.6
96,000	6,875	7.2	4,700	4.9	2,175		31.6
108,000	9,875	9.1	7,625	7.1	2,250		22.8
120,000	12,875	10.7	10,625	8.9	2,250		17.5
132,000	15,875	12.0	13,625	10.3	2,250		14.2
144,000	18,875	13.1	16,625	11.5	2,250		10.3
156,000	21,875	14.0	19,625	12.6	2,250		11.9
(171,250)	25,687	15.0	23,437	13.7	2,250		8.8
(193,750)	29,062	15.0	29,062	15.0	NIL		—

Married person, with two children and two dependent parents

<i>Annual income (\$)</i>	<i>Present (exempt up to \$71,000)</i>		<i>Proposed (exempt up to \$85,500)</i>		<i>Tax saving</i>	
	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>	<i>(\$)</i>	<i>(%)</i>
86,500	1,050	1.2	50	0.05	1,000	95.2
96,000	2,250	2.3	550	0.6	1,700	75.6
108,000	4,400	4.1	1,875	1.7	2,525	57.4
120,000	7,250	6.0	3,900	3.3	3,350	46.2
132,000	10,250	7.8	6,625	5.0	3,625	35.4
144,000	13,250	9.2	9,625	6.7	3,625	27.4
156,000	16,250	10.4	12,625	8.1	3,625	22.3
168,000	19,250	11.5	15,625	9.3	3,625	18.8
180,000	22,250	12.4	18,625	10.3	3,625	16.3
192,000	25,250	13.2	21,625	11.3	3,625	14.4
204,000	28,250	13.8	24,625	12.1	3,625	12.8
216,000	31,250	14.5	27,625	12.8	3,625	11.6
(227,500)	34,125	15.0	30,500	13.4	3,625	10.6
(240,000)	36,000	15.0	33,625	14.0	2,375	6.6
(252,000)	37,800	15.0	36,625	14.5	1,175	3.1
(263,750)	39,562	15.0	39,562	15.0	NIL	—

APPENDIX G

INCOME LEVELS AT WHICH SALARIES TAX PAYERS ENTER THE STANDARD RATE ZONE

	<i>Present</i>	<i>Proposed</i>
	(\$)	(\$)
<i>Single</i>	106,250	120,000
Married	162,500	190,000
Married + 1 child	180,000	210,000
Married + 2 children	192,500	223,750
Married + 3 children	200,000	231,250
Married + 4 children	205,000	236,250
Married + 5 children	210,000	241,250
Married + 6 children	215,000	246,250
Married + 7 children	217,500	248,750
Married + 8 children	220,000	251,250
Married + 9 children	222,500	253,750
 (Including two dependent parents)		
Single	141,250	160,000
Married	197,500	230,000
Married + 1 child	215,000	250,000
Married + 2 children	227,500	263,750
Married + 3 children	235,000	271,250
Married + 4 children	240,000	276,250
Married + 5 children	245,000	281,250
Married + 6 children	250,000	286,250
Married + 7 children	252,500	288,750
Married + 8 children	255,000	291,250
Married + 9 children	257,500	293,750

APPENDIX H

COMPARISON OF TAX PAYABLE AND EFFECTIVE TAX RATE OF TAXPAYERS OF SIMILAR CIRCUMSTANCES AND INCOME LEVELS UNDER TAX LAWS OF FOUR DIFFERENT ADMINISTRATIONS (*)

Status/Income	Tax payable in:			
	Hong Kong (**) (\$)	Singapore (HK\$2.78 = S\$1) (\$)	Malaysia (HK\$2.54 = R1) (\$)	U.K. (HK\$10.80 = £ 1) (\$)
<i>Single person</i>				
<i>(annual income)</i>				
<i>(\$)</i>				
36,000	400 (1.1%)	1,655 (4.6%)	2,200 (6.1%)	6,344 (17.6%)
72,000	6,000 (8.3%)	6,652 (9.2%)	10,779 (15.0%)	17,146 (23.8%)
140,000	21,000 (15.0%)	22,073 (15.8%)	36,304 (25.9%)	37,910 (27.1%)
<i>Married person, with no children</i>				
<i>(annual income)</i>				
<i>(\$)</i>				
60,000	200 (0.3%)	4,341 (7.2%)	6,008 (10.0%)	11,052 (18.4%)
84,000	2,700 (3.2%)	8,354 (9.9%)	12,916 (15.4%)	18,251 (21.7%)
144,000	17,000 (11.8%)	22,378 (15.5%)	35,781 (24.8%)	36,249 (25.2%)
204,000	30,600 (15.0%)	40,072 (19.6%)	62,742 (30.8%)	62,071 (30.4%)

Note: (*) *Not including such other compulsory levies as the U.K. national insurance contribution, payroll tax in Singapore, and capital gains taxes in the U.K. and Malaysia.*

(**) *After proposed increases in personal allowances. Percentage figures in brackets are the effective rates of tax.*

Debate adjourned pursuant to Standing Order 54(2).

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT:—In accordance with Standing Orders I now adjourn the Council until 2.30 p.m. on Wednesday 10 March.

Adjourned accordingly at eleven minutes past four o'clock.