

OFFICIAL REPORT OF PROCEEDINGS

Wednesday, 26 February 1986

The Council met at half-past Two o'clock

PRESENT

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR EDWARD YOUDE, G.C.M.G., M.B.E.

THE HONOURABLE THE CHIEF SECRETARY
SIR DAVID AKERS-JONES, K.B.E., C.M.G., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY
SIR JOHN HENRY BREMRIDGE, K.B.E., J.P.

THE HONOURABLE THE ATTORNEY GENERAL
MR. MICHAEL DAVID THOMAS, C.M.G., Q.C.

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

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

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

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

THE HONOURABLE HU FA-KUANG, O.B.E., J.P.

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

THE HONOURABLE DONALD LIAO POON-HUAI, C.B.E., J.P.
SECRETARY FOR DISTRICT ADMINISTRATION

THE HONOURABLE CHAN KAM-CHUEN, O.B.E., J.P.

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

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, O.B.E., J.P.

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

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

THE HONOURABLE MARIA TAM WAI-CHU, O.B.E., J.P.

DR. THE HONOURABLE HENRIETTA IP MAN-HING, J.P.

THE HONOURABLE CHAN NAI-KEONG, C.B.E., J.P.
SECRETARY FOR LANDS AND WORKS

THE HONOURABLE CHAN YHOW, J.P.

THE HONOURABLE MRS. RITA FAN HSU LAI-TAI, J.P.

THE HONOURABLE MRS. PAULINE NG CHOW MAY-LIN, J.P.

THE HONOURABLE PETER POON WING-CHEUNG, M.B.E., J.P.

THE HONOURABLE YEUNG PO-KWAN, C.P.M., J.P.

THE HONOURABLE JAMES NEIL HENDERSON, O.B.E., J.P.
SECRETARY FOR EDUCATION AND MANPOWER

THE HONOURABLE KIM CHAM YAU-SUM, J.P.

THE HONOURABLE JOHN WALTER CHAMBERS, J.P.
SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE IAN FRANCIS CLUNY MACPHERSON, O.B.E., J.P.
SECRETARY FOR TRANSPORT

THE HONOURABLE JACKIE CHAN CHAI-KEUNG

THE HONOURABLE CHENG HON-KWAN

THE HONOURABLE HILTON CHEONG-LEEN, C.B.E., J.P.

THE HONOURABLE CHUNG PUI-LAM

THE HONOURABLE THOMAS CLYDESDALE

THE HONOURABLE HO SAI-CHU, M.B.E., J.P.

THE HONOURABLE HUI YIN-FAT

THE HONOURABLE RICHARD LAI SUNG-LUNG

DR. THE HONOURABLE CONRAD LAM KUI-SHING

THE HONOURABLE LAU WONG-FAT, M.B.E., J.P.

THE HONOURABLE MARTIN LEE CHU-MING, Q.C., J.P.

THE HONOURABLE LEE YU-TAI

THE HONOURABLE DAVID LI KWOK-PO, J.P.

THE HONOURABLE LIU LIT-FOR, J.P.

THE HONOURABLE NGAI SHIU-KIT, O.B.E., J.P.

THE HONOURABLE PANG CHUN-HOI, M.B.E.

THE HONOURABLE POON CHI-FAI

PROF. THE HONOURABLE POON CHUNG-KWONG

THE HONOURABLE HELMUT SOHMEN

THE HONOURABLE SZETO WAH

THE HONOURABLE TAI CHIN-WAH

THE HONOURABLE MRS. ROSANNA TAM WONG YICK-MING

THE HONOURABLE TAM YIU-CHUNG

DR. THE HONOURABLE DANIEL TSE CHI-WAI, O.B.E., J.P.

THE HONOURABLE ANDREW WONG WANG-FAT

THE HONOURABLE PANG YUK-LING, I.S.O., J.P.
SECRETARY FOR HOUSING (*Acting*)

ABSENT

THE HONOURABLE ERIC PETER HO, C.B.E., J.P.
SECRETARY FOR TRADE AND INDUSTRY

THE HONOURABLE ALLEN LEE PENG-FEI, O.B.E., J.P.

DR. THE HONOURABLE CHIU HIN-KWONG

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR. LAW KAM-SANG

Papers

The following papers were laid on the table pursuant to Standing Order 14(2):

<i>Subject</i>	<i>L.N. No.</i>
Subsidiary Legislation:	
Legal Aid Ordinance	
Legal Aid (Assessment of Resources and Contributions) (Amendment) Regulations 1986	32
Summary Offences Ordinance	
Summary Offences Ordinance (Exemption From Section 13) Order 1986	33
Dangerous Goods (Consignment by Air) (Safety) Regulations 1985	
Dangerous Goods (Consignment by Air) (Safety) Regulations (Amendment of Schedule) Order 1986	36
Legislative Council (Electoral Provisions) Ordinance 1985	
Legislative Council (Electoral Provisions) (Registration of Electors and Appointment of Authorised Representatives) (Amendment) Regulations 1986	37
Securities Ordinance	
Securities (Accounts and Audit) (Amendment) Regulations 1986	38
Port Control (Cargo Working Areas) Ordinance	
Port Control (Public Water-Front) Order 1986	39
Summary Offences Ordinance	
Summary Offences Ordinance (Exemption from Section 13) (No. 2) Order 1986	40
Legal Practitioners Ordinance	
Admission and Registration (Amendment) (No. 2) Rules 1986	41
Customs and Excise Service Ordinance	
Customs and Excise Service (Discipline) (Amendment) Rules 1986	42
Securities Ordinance	
Securities (Recognition of Stock Markets) Notice 1986	43
Securities Ordinance	
Securities (Registration of Dealers) (Approved Examinations) Notice 1986	44

<i>Subject</i>	<i>L.N. No.</i>
Interpretation and General Clauses Ordinance Cancellation of Specification of Public Office.....	45
Bills of Sale (Amendment) Ordinance 1985 Bills of Sale (Amendment) Ordinance 1985 (Commencement) Notice 1986.....	46

Sessional Papers 1985-86:

No. 42—Draft Estimates for the year ending 31 March 1987 Volume 1—Expenditure.

No. 43—Draft Estimates for the year ending 31 March 1987 Volume 2—Revenue, Funds and Statistical Appendices.

No. 44—Report of the Establishment Sub-Committee of Finance Committee for 1985-86.

No. 45—Report of the Public Works Sub-Committee of Finance Committee for 1985-86.

Government Business

First Reading of Bill

APPROPRIATION BILL 1986

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 1986

THE FINANCIAL SECRETARY moved the Second Reading of: 'A Bill to amend the Appropriation Ordinance'.

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He said: Sir, after moving the Appropriation Bill 1986 be read the Second time, I present my last Budget. It is specifically directed to the financial year 1986-87, but is shaped by an annually updated five-year medium range forecast of the public finances about which I shall have more to say later.

2. As last year, I think that it will be helpful first to give an overall picture. This will set the scene for subsequent more detailed comments and proposals.

3. During the financial year 1982-83 our revenue dropped precipitously mainly because of the collapse of the real estate market. The adverse budgetary swing was over \$9 billion in just one year. It was nearly much more. We thereafter faced the vicissitudes brought about by acknowledged and inevitable political uncertainties against a background of a general world recession. Banking and currency problems were only part of the story.

4. This is now past history. For the current financial year 1985-86 there is an estimated General Revenue Account surplus of \$98 million as compared with the budgetted deficit of \$961 million. This swing is relatively insignificant given total revenue plus expenditure of about \$80 billion. Revenue has been unexpectedly buoyant. Recurrent expenditure is below Budget. This is the luck of one year's draw. We must anticipate opposite swings. The need to smooth one year with another is clear.

5. When it is possible and appropriate, it has always seemed to me far sighted to build up working reserves, which in this context means the balances in the major funds. Indeed to this end the Capital Works Reserve Fund was established in early 1982. As is the general rule for governments, the Hong Kong Government's accounts are attuned to cash accounting. I shall comment further about this later, but at the start of next financial year the balances in the funds will have increased by \$1.7 billion. They form in effect our first line of defence against possible future untoward turns in affairs outside our control, which could lead to domestic cash flow problems. This outcome inter alia reflects rational treatment of windfall land revenue in 1985-86 of a capital nature, which will be some \$2.5 billion more than expected.

6. The Budget shows a surplus of \$348 million for the coming financial year 1986-87. We plan no further build up in funds.

7. We last enjoyed a surplus on General Revenue Account in the financial year 1981-82. It was very considerable. I do not wish to dwell on history because Hong Kong looks forward not back. Pundits are sounder on past than future events. But it is arguable now with hindsight that for various good reasons we arrived in a position where exuberant recurrent expenditure was over dependent on burgeoning capital income from land sales. That is to say on extraordinary profits. This was certainly true of my first Budget for 1982-83. We live and learn.

8. No important programmes have had stop and go procedures inflicted on them. We have nevertheless since 1982 succeeded in containing expenditure and

increasing revenue so that the public finances are now back in equilibrium. This is a major achievement. Land sales proceeds, welcome in themselves, no longer fuel recurrent expenditure. Tough though not indiscriminate measures have been necessary, to which Hong Kong has responded well. I see no reason why we should not be able over a period of years to maintain this balance without increasing the overall burden of taxation provided that we ensure broadly that public sector expenditure growth including all new programmes and initiatives over a period of years does not exceed growth in GDP. Of course this is easy to say but more difficult to put into practice in the face of rising aspirations. Moreover as tax revenue lags economic performance, which is itself cyclical, it would be extremely foolish to make snap decisions based on just one year's outcome. It is thus absolutely essential that we observe carefully the overall trends, say over two or three years, and do not allow ourselves to be blown off a smoothed course into either optimism or pessimism by the results of one year. This will require responsible judgement from both the Administration and this Council.

9. A general background to these comments will become clearer later in my speech because in 1985 our domestic exports were much lower than expected and GDP growth has therefore been depressed. In fact for several reasons it was the lowest for many years. But over the five years 1981-85 exports including re-exports have increased in real terms by an average of 10.4 per cent per year and GDP by 5.7 per cent. In 1986 GDP growth is presently estimated to be about 4.5 per cent. It is the trend that matters and we must not be over sensitive to one disappointing year.

10. In my first winding up speech on the Second Reading of the Appropriation Bill in 1982 I noted Miss Dunn's and Mr. Brown's apprehensive (and indeed perceptive) comments on possible future problems with regard to the relationship between capital expenditure and capital revenue and the allied possibility of falling revenue from land sales⁽¹⁾. I wish like them I had been more far sighted, though I was not alone. But I always acknowledge my mistakes. I did reply: 'if for instance Government land sales or profits tax or any other major head of revenue fall off sharply then initially any deficit in overall return would have to be taken up by our satisfactory reserves. That is what savings are for and we must not get excited about one or possibly two difficult years. For subsequent Budgets we would then have to consider whether to raise taxation, cut expenditure, use the reserves or raise loans'. This is exactly what has been done. All of it. And it has succeeded.

11. I then went on to say⁽²⁾ that, to this end, it was essential for Finance Branch to set up a planning unit to work on models for projection over a five-year period so that we could see what might happen to future Budgets in the

(1) 1982 concluding speech, paragraph 29.

(2) 1982 concluding speech, paragraph 30.

light of various assumptions. This medium range forecast (which for the first time is included in the appendices to the printed speech)⁽³⁾ is only a planning tool and I will comment further on it later. All experienced businessmen will be familiar with the concept of a five-year rolling profit plan, which of course they never make public. All will be equally aware that it must be taken as a planning exercise and not a long range forecast—not least because of the heroic assumptions that have to be made and the impossibility of foreseeing what new policy initiatives or programmes may be agreed or what unexpected contingencies have to be met. I remain anyway very sceptical about the reliability of financial soothsaying. I may say I had better be as I had been wrong so frequently.

12. Last year in the Budget debate I was unwilling to expose the medium range forecast, because it was still clearly in need of further refinement. It can, however, now stand in the open to make the budgetary proposals more comprehensible to this Council. Do please bear in mind that improvements will inevitably be found possible in later years.

13. We are therefore in a position to take an open view each year on the essential medium term trends. This firstly means keeping an eye on probable operating surpluses. It is also possible to see problems coming up and thus to take early corrective action.

14. GDP growth in 1985 was only about 1 per cent. This is obviously disappointing. On the other hand inflation has fallen more than I dared to hope. On consumer price indices for 1985 it was under 4 per cent⁽⁴⁾. A slight upturn this year is expected as a result of the effect on imports of the drop in the value of the US dollar, to which representing long-term Government policy the Hong Kong dollar is firmly linked and will remain linked. The fall in the trade weighted index of the Hong Kong dollar should however be of assistance in our export markets. Moreover the current prime rate of 7 per cent has been unchanged now for six months. It is low by comparison with others e.g. USA, United Kingdom and Australia.

15. As I think you all know, the Government has always attached great importance to our unemployment figures. It remains satisfactory that we have in effect full employment in Hong Kong with real wages increasing moderately. Apart from important social issues, clearly considerable unemployment would require an appreciable increase in public assistance in particular.

16. My revenue proposals for 1986-87 include further increases in salaries tax allowances, a small amendment to estate duty and removal of the unpopular 1984 overseas interest tax provisions. There will be moderate adjustments in some licence fees, duties and charges, but overall in money not in real terms.

(3) *Appendix A.*

(4) *CPI A 3.2 per cent—Applicable to the majority of households.*

CPI B 3.5 per cent

Hang Seng CPI 4 per cent

They are designed only to maintain real revenue yields. I believe that these proposals will prove to be sensitive to the situation in which we all actually live, though they cannot expect universal approval. They actually cut, I repeat cut expected revenue by \$40 million next financial year in money terms. I hope that this Budget may mark the end of regular real tax increases.

17. I will, however, remind Members again of the possible yields from increases in direct taxation, which I certainly do not recommend. My view has not changed since the 1985 Budget debate when in my opening speech I said: 'it seems to me to be important yet again to acknowledge that enterprise and hard work are stimulated by low direct taxation and by confidence that it will remain low'.⁽⁵⁾

18. Setting aside other arguments the addition of one percentage point to the present standard rate of 17 per cent is now estimated to yield \$150 million in the first year and \$300 million in a full year. Similarly, the addition of one percentage point in the corporate rate of 18.5 per cent would yield \$230 million in the first year and \$485 million in a full year. If, therefore, there is support for further increases in public sector expenditure, which I believe would be most unwise particularly at this juncture, Members can see what it would cost to balance increased spending by higher direct taxation. They can also easily judge what increases in indirect taxation would be involved, because the figures in Volume II of the Estimates are clear. Indeed I commend Volume II to Members because it is extremely interesting. Naturally a degree of juggling or differential slicing remains possible though long-term stabilisation of all tax measures is an important consideration. A sales or value added tax remains a theoretical possibility. Whatever we do must be suitable for Hong Kong. I assume that few will advocate deficit financing in our circumstances.

19. In the year 1985-86 public sector expenditure will be rather over 16 per cent of GDP. It would have been appreciably lower if GDP itself had not been lower than forecast. The cut of about three percentage points in three years is still very large. However painful, control of public sector expenditure is of fundamental importance. We simply must be frugal. I believe that it should run at about the same percentage level in 1986-87 and in the years beyond, though it is impossible to make accurate forecasts. As one example of administrative problems, the provisional acceptable levels of expenditure for the next year have to be released to branches and departments of the Government in September, i.e. at least five months before the Budget date, itself over a month before the new financial year starts. They cannot therefore be based on any (relatively) accurate forecast of the current year's expenditure or of expected growth in the subsequent financial year's GDP. Though of course we do adjust subsequently as much as possible, generally speaking we have to work on the blunt assumptions of the medium range forecast. These assumptions should be dependable

(5) 1985 Budget speech, paragraph 82.

when averaged over a series of years. But they will not be accurate for one year, unless we are extraordinarily lucky. In 1985-86 public sector expenditure growth thus unwittingly nosed ahead of GDP growth. I do not think this matters on a one off basis. There was of course an opposite swing the previous year.

20. On 1 April 1986 our fiscal reserves on General Revenue Account will be about \$15.6 billion. The Hong Kong Government has no net debt. This is a strong position. For most governments service of the national debt represents a large portion of public sector expenditure. The Hong Kong Government earns income. For most governments unexpected disasters must mean more borrowing. Hong Kong has resources in hand.

21. I do not want to be accused of misleading optimism. Our economy is entirely externally oriented. Visible trade now represents about 175 per cent of GDP. As has been underlined in 1985 we are always exposed to the cyclical winds that howl around world trade. Frequently we can do little to help ourselves beyond prudent management of public finances and reliance on market forces and on the vigour of our properly motivated entrepreneurs. Our economy is also changing shape under our eyes. I thus make no apologies for what some will undoubtedly call excessive conservatism in my approach towards Hong Kong's public finances. They are now, I believe, again in sound shape. But even this comment could be proved sanguine by events wholly outside our control.

The economy: 1985 experience and 1986 prospects

22. I turn now to the economy. Its performance in 1985 was disappointing. The major factor was a fall in domestic exports, though total exports still grew by 6 per cent. Reflecting the slowdown in economic growth in our major export markets, in particular the United States, and the relative strength of the Hong Kong dollar in early 1985, domestic exports declined by 5 per cent in real terms. All subsequent figures are also in real terms unless otherwise indicated. Re-exports and imports continued to grow, by 25 per cent and 6 per cent respectively. As a result, the visible trade account recorded a surplus equivalent to 1.6 per cent of the value of imports, a unique outcome for Hong Kong in the post war period⁽⁶⁾.

23. Within domestic demand, private consumption expenditure grew by 5 per cent. Overall expenditure on building and construction, however, declined by 10 per cent due to the completion of a number of public works projects and the major part of the MTR Island Line. Overall expenditure on plant and machinery declined by 3 per cent, reflecting the effect of the poor domestic export performance on manufacturers' investment plans⁽⁷⁾.

(6) *1985 Economic Background paragraphs 2.1 to 2.3.*

(7) *Overall expenditure on gross domestic fixed capital formation declined by 3 per cent in real terms.*

24. In national accounts terms, public sector expenditure overall declined by 8 per cent in 1985⁽⁸⁾.

25. Overall the GDP grew by about 1 per cent, representing a significant slowing down compared with the growth rate of over 9 per cent in 1984⁽⁹⁾.

26. Despite the poor domestic export performance, the unemployment and underemployment rates remained at a low level. The effect of job losses in manufacturing was offset by increased employment in the services sectors, particularly those associated with the re-export trade. The latter has become of greater value to Hong Kong than is generally acknowledged. In the fourth quarter of 1985 the seasonally adjusted unemployment rate stood at 3.2 per cent — effectively full employment and lower than 12 months before — and the underemployment rate at only 1.1 per cent. During the year earnings in most sectors increased in real terms, helped by the slowing down in the rate of inflation⁽¹⁰⁾.

27. The average rate of inflation, as measured by the Consumer Price Index (A), which priced the majority of our workers was 3.2 per cent in 1985, compared with 8.1 per cent in 1984. This welcome outcome is attributable to a number of factors, including the weak growth in domestic demand, the modest rates of inflation in our major trading partners, generally soft commodity prices, sound Government policies, and the relative strength of the Hong Kong dollar in early 1985.

28. This in 1985 in common with a number of other economies in this region, more difficult international trading conditions resulted in a GDP growth rate substantially below that earlier forecast. For 1986 I expect the growth rate of the GDP to improve⁽¹¹⁾. Our domestic export sector should benefit from the expected improved growth in most major economies. In particular, according to OECD and other forecasts, the growth rates of several of our major markets, including the United States and the Federal Republic of Germany, are expected to accelerate. Moreover the trade weighted depreciation of the Hong Kong dollar in the latter part of 1985 will help to enhance the price competitiveness of our domestic exports in world markets. But protectionism remains a constant threat, and the forthcoming negotiations on the Multi-Fibre Arrangement are going to be tough. Even the uncertainty created by the threat of growing protectionism has some adverse effect on domestic export performance.

(8) *In national accounts, not Consolidated Account, terms. The major difference between the two accounts is that public sector expenditure in national accounts terms includes capital expenditure by public corporations (which is not included in the Consolidated Account) but excludes recurrent expenditure by Government trading departments, expenditure on land acquisitions and property purchase, recurrent and capital subventions, and welfare payments (all of which are included in the Consolidated Account and, for 1985-86, were major sources of growth in this account). Excluding capital expenditure by public corporations, public sector expenditure in national accounts terms declined by only 2 per cent in real terms in 1985.*

(9) *The growth rate for 1985 is a preliminary estimate, while that for 1984 is provisional.*

(10) *1985 E.B. paragraphs 4.16 to 4.19.*

(11) *See '1986 Economic Prospects'.*

29. China is now Hong Kong's second largest domestic export market. The understandable measures adopted by China in early 1985 to restrict imports and to control the use of foreign exchange reserves have nevertheless resulted in a slowing down in the growth rates of Hong Kong's domestic exports and re-exports to China. These measures are likely to persist throughout 1986.

30. As always the forecast of domestic exports is the most crucial part of the whole forecasting exercise. It is also the most difficult because of the impact of factors which are simultaneously outside our control and difficult to predict. With this warning, the forecast of the growth rate of domestic exports in 1986 is 7.5 per cent, a marked improvement compared with the decline in 1985. This forecast, combined with an expected growth rate of re-exports of 4 per cent, gives a forecast for total exports of 6 per cent, which is about the same as in 1985. Such an overall growth rate of exports is modest by Hong Kong standards but the shift in favour of domestic exports implies a greater increase in their domestic value-added content.

31. Private consumption expenditure is forecast to grow at 3.5 per cent and Government consumption expenditure at 2 per cent.

32. In line with improvement in export performance, private sector expenditure on plant and machinery is forecast to grow by 3 per cent and private sector expenditure on building and construction by 6 per cent. The latter takes account of work-in-progress for many large scale projects of which the new container terminals and the Eastern Harbour Crossing are only more obvious examples. Public sector expenditure on building and construction is forecast to grow by 3 per cent, taking into account work-in-progress for the public housing programme and such large public works projects as Route 5 linking Sha Tin with Kwai Chung and the Tuen Mun light rail transit system. These forecasts, when combined with the forecasts of other, smaller, components, give a growth rate for gross domestic fixed capital formation for 1986 of 3 per cent, which is a significant improvement on 1985.

33. The forecast growth rate of imports associated with these forecasts of final demand is 6 per cent, the same as in 1985. Net exports of services are forecast to grow by 9 per cent compared with a decline of 1 per cent for 1985.

34. Let me get to the crux. These forecasts for the individual components of expenditure, when combined, give a forecast growth rate of the GDP of about 4.5 per cent.

35. If these expectations are fulfilled, economic growth in 1986 will be largely export-led. The growth rate of total final demand (excluding re-exports), at 5 per cent, is expected to be only slightly higher than that of the GDP and should not therefore generate significant internal inflationary pressures. There will, however, be some inflationary pressure if the Hong Kong dollar depreciates further, along with the US dollar under the linked exchange rate system. The average rate of inflation of consumer prices in 1986 is expected to

be about 5 per cent, and thus slightly higher than in 1985. The forecast rate of increase in the GDP deflator is 4 per cent. I distinguish between the estimate of 5 per cent of growth in consumer price inflation and of 4.5 per cent assumed for Government cost inflation in the medium range forecast.

36. The forecast growth rate of the GDP in 1986 in money terms is 9 per cent, implying a current price GDP of \$289 billion. At current prices, per capital GDP in 1986 should thus be \$53,000, or about US\$6,800.

Monetary issues

37. I move now to monetary issues. Thanks to the link with the US dollar, we have experienced remarkable stability in the exchange rate despite volatile conditions in the foreign exchange markets in 1985 and indeed earlier this year. Maintenance of the link continues to be Government policy. This should now be taken for granted. It has served Hong Kong well.

38. After much debate in this Council the insolvent Overseas Trust Bank was acquired by the Government in June last year. Since then a few smaller local banks have sought strong partners to improve their positions. I acknowledge the responsible attitude of those involved. Not all have been so helpful.

39. The causes of the problems which have emerged in the banking sector are complex. Outdated prudential supervision has not helped. In my last Budget speech I said that we were examining various options for improvement in this area, and would be consulting the Banking and Deposit-taking Companies Advisory Committees. I also said that new legislation would be necessary.

40. Extensive consultation was undertaken last year with the two advisory committees, which I already mentioned, the Hong Kong Association of Banks, the Hong Kong Deposit-taking Companies Association, the Society of Accountants, and others. I take this opportunity to express my appreciation for all their advice.

41. Though it is impossible to suit all interests, there has resulted a general consensus on a comprehensive package, and on the need for a single piece of new legislation to replace the present Banking and Deposit-taking Companies Ordinances. A major Bill is now ready and will take the usual legislative course, allowing ample time for scrutiny and amendment. It embodies a different approach to prudential supervision. This approach is one that relies more on the Commissioner of Banking's direction and qualitative judgement than on quantitative compliance with technical requirements. At the same time it introduces a greater degree of accountability by the commissioner in the exercise of his powers. It is intended that implementation of some of the new requirements will be phased in over a period of time.

42. During the process of consultation it was repeatedly emphasised by the banking industry that the quality and adequacy of the staff in the commission was crucial to effective supervision. The commissioner has arranged—and

indeed will continue to arrange—training and development for his professional staff. The draft estimates of expenditure which I am presenting also contain appropriate increases in resources for the commission.

43. The Government is determined to promote sound business practice amongst all financial institutions and to provide a measure of protection for depositors. Whilst there will be sustained efforts to improve prudential supervision, we must realise that this does not and cannot provide a foolproof system which fully safeguards all interests. Our banking system, despite recent difficulties, is intrinsically sound. But it must depend on honest practices. In the final analysis the integrity of the system rests on the behaviour of our bankers, who bear the trust of the community.

44. The intensive consultations carried out in the past year or so also focussed on whether there should be some form of deposit insurance. All recognised that the protection of depositors was important. There was, however, also general agreement that practical difficulties make deposit insurance a non-starter in Hong Kong. The major banking groups would have to bear an unfair share of the burden. It also needs to be noted that deposit insurance could not prevent the problems of one bank spreading across the banking system as a whole as a result of inter-bank market relationships. Promotion of sound business practice through improved prudential supervision is the objective.

Strategy for public sector finances

45. The strategy for public sector finances now requires explanation. Emergence from a period of adjustment does not obviate the continuing need for forward financial planning. It underlines its necessity. As I mentioned earlier, our latest medium range forecast for Government's finances in the period up to the end of the decade is included as an appendix to the printed version of this speech. Members will wish to study it carefully.

46. I must emphasise that we produce this forecast not because anybody seriously believes that future financial performance in Hong Kong's circumstances can be precisely anticipated, but in order to ensure that before important decisions are taken we have a firm eye on their possible longer term impact. The forecast constitutes, therefore, not a plan but a baseline against which progress can be measured and the need for further action assessed. Its publication is a major innovation on which I much look forward to Members' views.

47. In view of their inherent fallibility, for some time a series of tests have been continuously applied to these projections to assess their sensitivity to changes in some of the major assumptions. In this way I have been able to satisfy myself as to the robustness of the underlying trends.

48. The forecast also embodies a review of the former budgetary guidelines as promised in my Budget speech last year. They are now effectively replaced by

eight key assumptions. Two are basic economic assumptions having a significant impact on Government's finances—they are the average annual growth in GDP and the average rate of inflation as it affects public sector costs. We have taken 4.5 per cent for both. They can be changed on regular update if necessary. The remaining six are set out in the appendix to the printed speech. They are specific to the Government's finances and are thus arguably subject to direct control. They cover total net cash flow, total expenditure growth, capital expenditure growth, taxation policy, the relationship between recurrent revenue and expenditure, and the size of the Civil Service.

49. Even with the recent recovery in property prices we have had to learn to accept a much lower proportion of our capital programmes being financed from capital revenue. To fill the gap we must rely on a continuing excess of recurrent revenue over recurrent expenditure. It is the maintenance of this recurrent, or operating, surplus on which the stability of the Government's finances will depend. The shift in emphasis in this direction has now been achieved. Its maintenance will need constant care through regular reviews of specific rates of tax and charges in order to ensure that their real value is kept up-to-date. The lesson of the late '70s and early '80s is clear. If we ever allow this operating surplus to slip, falsely reassured by a temporary abundance of capital revenue, it will be a painful process to effect repair.

50. Total expenditure growth in real terms is projected at between about 3.5 per cent and 4 per cent per year: in other words just slightly below assumed economic growth. This should be sufficient *prima facie* when averaged over a period of years to finance the additional staffing and other recurrent costs flowing from completion of new projects and facilities and also to respond reasonably to projected demands for new or improved services. At the same time, allowance has been made for savings from continuing value for money disciplines. At this rate of growth, public sector expenditure should stay around 16 per cent of gross domestic product having fallen in recent years from a high of just over 19 per cent in 1982-83. Viewed in another way, on conservative assumptions about 16 per cent of GDP represents the level of public activity supportable by present fiscal policy. Nothing that I have said implies that a figure lower than 16 per cent is not achievable. It will come if GDP growth burgeons. On the other hand some will press for greater public sector expenditure. If conceded, it would have to be paid for by higher taxes.

51. It was put to me last year that in calculating public sector expenditure I ought to include, i.e. consolidate, the finances of MTRC and KCRC. It is a responsible and reasoned argument which has required much thought. The Government's view however has not changed that, given full public knowledge of all the figures, there is greater merit in limiting the definition of consolidated expenditure to that voted from public funds. This is clear and well understood. Our medium range forecast, for instance, identifies all the equity injections into MTRC which are agreed to be necessary, since they have been or will be voted from public funds. It does not, however, include the day to day operating

expenditure and revenue of the corporation. To include these would, I suggest, be misleading since the whole concept of the MTRC as an autonomous corporation sets it clearly in the private sector as a competing transport mode. Anyway, we take no account of the profits already made by KCRC and which we expect from MTRC in the mid-1990s. It may also appear appropriate one day to offer a shareholding to the public.

52. That aside, I agree that there is a need to have a fresh look at our consolidated statistics given considerable organisational change in recent years; and a full review is being undertaken.

53. I will refer later to the allocation of resources over the main functional programme areas of Government i.e. land production, housing, medical, education and social welfare.

54. In terms of total consolidated cash flow the forecast projects a surplus in 1986-87, followed ostensibly by a small deficit in 1987-88 due to a further equity injection in MTRC arising in that year, and a return to surplus in 1988-89. In the (distant) year 1989-90, we provide for a possible further tranche of equity injection into MTRC and for repayment of the 1984 bond issue both are of course untested assumptions. Over the forecast period as a whole the apparent position is one of a small underlying surplus of less than \$600 million. I expect this to be a minimum figure. No budgets can be exactly projected and it is preferable for planning purposes to err on the side of caution both to provide a cushion against unforeseen events and to allow reserve balances to grow in money terms, thus preserving their real value.

55. These balances are carried partly in the General Revenue Account and partly in the various funds set up to finance capital expenditure. The General Revenue Account balance will have fallen from \$22.5 billion at the end of 1981-82 to \$15.6 billion at the end of the financial year 1985-86 having absorbed the shock of a period of deficit. I now expect this decline to halt. It marks the goal of so many efforts.

56. I mentioned in my speech last year that I would be taking a fresh look at the cover we require for contingent liabilities. Members will find a somewhat extended list of such potential liabilities in the Director of Accounting Services report on the annual accounts, and at Appendix G to the printed speech.

57. There are many philosophical problems. Our conclusion has been that our previous device of a blanket overall cover of one third of the total value of these contingent liabilities is now somewhat simplistic. Instead, we have taken a fresh and critical look at each single item and assessed the nature and amount of each risk. In some cases the effective risk is minimal and in others fuller cover is prudent. Whilst it is imprudent for me to quote publicly our assessment of risk in each case, I now regard a total cover of \$7.5 billion as proper. I continue, as you would expect, to be somewhat conservative. There are also all sorts of contingencies which any government must be prepared to face but which are unquantifiable. We have in addition many unquantifiable assets.

58. Thus about \$8 billion of our General Revenue Account balances are readily available to meet cash flow fluctuations and to act as a cushion against further shocks that might beset us. This seems sensible. I would not wish to see the figure go significantly lower, though of course there is room for many different views.

59. Balances carried in the various funds will on 31 March 1986 amount to some \$10 billion. Their purpose is to smooth out the often uneven annual cash flow in and out of the funds and to provide a firm backing for our long-term capital commitments. The magnitude of this figure, which is often overlooked, must be related to the outstanding commitments for projects which will have already started by 1 April 1986. For the Capital Works Reserve Fund, the Development Loan Fund, the Home Ownership Fund and the Mass Transit Fund, these commitments are in excess of \$26.5 billion. This figure will increase to well over \$30 billion as new projects are started during the coming financial year.

60. I will now review in more detail Government's finances in the current year and set out my proposals for 1986-87.

Revised Estimates 1985-86

61. A deficit of \$961 million on General Revenue Account⁽¹²⁾ was shown in the printed estimates for 1985-86. This indicated a continued and deliberately planned downward trend from deficits of \$3.5 billion in 1982-83, \$3 billion in 1983-84 and \$1.6 billion in 1984-85⁽¹³⁾.

62. In the event capital revenue has increased due to higher land prices, to a number of land sales concluded before the Sino-British Joint Declaration requiring sharing came into effect, to use of cash instead of letters B⁽¹⁴⁾, and to KCRC's early repayment of \$500 million out of the debt of \$1 billion due to Government. We have largely tucked this windfall revenue into reserves to help finance the \$1.5 billion equity injection into MTRC (which was not envisaged) and to provide for the further injection of \$1 billion due in 1987-88.

63. These exceptional matters aside, there has been an underspending of 1.2 per cent on recurrent account and a gain of 1.6 per cent in recurrent revenue.

(12)	<i>Recurrent</i>	<i>Capital</i>	<i>Total</i>
	(\$mn)	(\$mn)	(\$mn)
<i>Revenue</i>	34,871	2,530	37,401
<i>Expenditure (excl. transfers)</i>	<u>29,685</u>	<u>1,547</u>	<u>31,232</u>
<i>Surplus</i>	<u>5,186</u>	<u>983</u>	6,169
<i>Less transfers to funds</i>			<u>7,130</u>
<i>Deficit</i>			<u><u>(961)</u></u>

(13) Before allowing for the \$1 billion proceeds from the bond issue.

(14) Which only postpones the Government's liability to redeem them.

Control of expenditure Budgets by cash limits has continued very successfully. The latest forecasts indicate a surplus on General Revenue Account of \$98 million⁽¹⁵⁾.

64. Some of the revenue forecasts may still prove to be too conservative. We have also been somewhat cautious in our forecasts about the impact of the fall in the economic growth rate in 1985 on profits tax and related areas of revenue. The final position which will be known in summer will inevitably show some variance.

65. A significant factor has been the effective achievement in this current year of the zero growth target set for the size of the Civil Service establishment. By December 1985 total establishment at 181 700 was a mere 41 posts higher than at the same point in the previous year. The increased productivity thus implied is a credit to the controlling officers. Clearly all those responsible have done well. It was not easy.

66. I have already referred to the fact that the greater part of the Government's capital expenditure is now undertaken through a variety of fund accounts rather than through General Revenue Account. This is essential to smooth the inevitable fluctuations to which capital revenue and expenditure are subject.

67. The total revised estimate of expenditure on these capital funds in 1985-86 is \$10.4 billion⁽¹⁶⁾. The balances of the funds will have increased by \$1.7 billion

(15)	<i>Recurrent</i> (\$mn)	<i>Capital</i> (\$mn)	<i>Total</i> (\$mn)
<i>Revenue</i>	35,443	4,468	39,911
<i>Expenditure (excl. transfers)</i>	<u>29,326</u>	<u>1,434</u>	<u>30,760</u>
<i>Surplus</i>	<u>6,117</u>	<u>3,034</u>	9,151
<i>Less transfers to funds</i>			<u>9,053</u>
<i>Surplus</i>			<u>98</u>
(16)	<i>Expenditure</i> (\$mn)	<i>Revenue</i> (\$mn)	<i>Net</i> <i>Expenditure</i> (\$mn)
<i>Capital Works Reserve Fund</i>	6,024	760	5,264
<i>Development Loan Fund</i>	1,700	662	1,038
<i>Home Ownership Fund</i>	793	1,513	(720)
<i>Student Loan Fund</i>	94	58	36
<i>Mass Transit Fund</i>	<u>1,744</u>	<u>—</u>	<u>1,744</u>
	<u>10,355</u>	<u>2,993</u>	<u>7,362</u>
<i>Transfers from GRA</i>			<u>9,053</u>
<i>Net increase in balances</i>			<u>1,691</u>

due partly to some underspendings on budgetted expenditure, but also to the deliberate policy, to which I have already referred, of building up the balances from extraordinary capital revenue. A businessman would call the latter extraordinary profits. In particular they will help finance possible further MTRC equity injections.

68. Having completed this background, I now present the draft estimates of expenditure, the revenue estimates and my revenue proposals for 1986-87.

Estimates 1986-87

General Revenue Account—Draft Estimates of Expenditure

69. As I have already emphasised, the medium range strategy against which we now monitor Government's finances requires total expenditure to grow by no more than the expected growth in the economy. Indeed at last expenditure is expected to be shaped by likely revenue over a period of years. In the short-term this balance may not be available because there is no exact correlation between revenue and GDP growth. Moreover GDP growth must be cyclical. For 1986-87 the consolidated estimates which I now put before you imply total expenditure growth of 3.8 per cent in real terms⁽¹⁷⁾. This real growth compares with a revised estimate of 3.4 per cent in 1985-86, which was high when tested against actual rather than estimated GDP growth.

70. Total expenditure on General Revenue Account is budgetted at \$39.5 billion⁽¹⁸⁾. The guidelines which I set departments in the autumn resulted from a critical examination of their requirements aimed at allowing continuation of all existing activities, operation of new facilities, response to natural growth (or fall) in demand and provision for essential new services. In addition this year, however, it has been possible to set aside a relatively small provision of \$80 million within total planned expenditure towards the very many service improvements proposed by departments. They actually sought over \$300 million. The selectivity thus obliged has assisted in reinforcing the tone of controlled growth.

(17) See Appendix A.

(18)

	<i>Draft Estimates</i>
	<i>1986-87</i>
	<i>(\$mn)</i>
<i>Recurrent expenditure</i>	<i>30,763</i>
<i>Capital expenditure</i>	<i>1,431</i>
	<i>32,194</i>
<i>Additional commitments</i>	<i>1,750</i>
<i>Transfers to funds</i>	<i>5,600</i>
	<i>39,544</i>

71. Avoidance in Hong Kong of the more serious disruptive aspects of the stop-go cycles that have plagued other government's public accounts requires steadiness. On the one hand, we must not over-react when setbacks occur. We have not done so. On the other hand, we also must not accelerate quickly when the corner has seemingly been turned. It is in this spirit that I set my Budget guidelines, to which heads of departments have responded with their usual common sense.

72. Civil Service growth is expected to be around 2.5 per cent in 1986-87. Even with due regard to continuing and most successful value for money efforts it is clear that the staffing requirements of new hospitals, schools, fire stations, immigration posts, police and so on make some growth inevitable. Nevertheless this figure still represents a considerable containment of departmental aspirations. It is below the projected rate of growth of total expenditure in real terms reflecting further improvements in the effective deployment of staff and increasing productivity. Because recurrent expenditure on staff is both the single biggest item and difficult to reduce, tight control must be maintained.

73. Within the total figure, a sum of \$1.75 billion has been allowed for additional commitments and contingencies. This makes provision for, without assuming, possible salaries adjustments, plus the usual range of new and unforeseen items that arise each year.

74. Also within the total expenditure Budget on General Revenue Account I propose the transfer of \$5.6 billion to our various funds for the purposes of financing capital expenditure. This will stabilise the size of the funds at around their present level.

General Revenue Account—Draft Estimates of Revenue

75. I now turn to revenue. Before allowing for any new budgetary measures, total revenue on General Revenue Account is estimated to be \$39.9 billion⁽¹⁹⁾. This takes into account the effects of the first full year of the new land revenue sharing arrangements with the future SAR Government, under which revenue from new sales accrues direct to the Capital Works Reserve Fund. It is thus no longer included in the General Revenue Account.

(19)

	<i>Draft Estimates</i>
	<i>1986-87</i>
	<i>(\$mn)</i>
<i>Recurrent revenue</i>	<i>38,231</i>
<i>Capital revenue</i>	<i>901</i>
	<hr/> <i>39,132</i>
<i>Transfer back from Home Ownership Fund</i>	<i>800</i>
	<hr/> <i>39,932</i> <hr/>

76. A further \$500 million may be available during 1986-87 if the KCRC repays the remainder of the outstanding loan to Government. Since this is at KCRC's option, however, and may depend on comparative interest rates at the time, no allowance is made in the revenue estimates. It is up our sleeve. But there also may well be unforeseeable items of expenditure arising from legal claims.

77. As the Home Ownership Fund continues to run in surplus, I propose to transfer \$800 million back from the fund in 1986-87. I emphasise that this will not affect any housing programmes.

General Revenue Account—Summary of Draft Estimates

78. Consequently it would appear that the target of a balanced Budget can be achieved in 1986-87 without further revenue measures. Taken together, the draft estimates of revenue and expenditure on General Revenue Account imply a small surplus of \$388 million⁽²⁰⁾. This is a great relief after four difficult years.

79. Nevertheless some taxes and charges are fixed in cash terms and are, therefore, non-responsive to inflation. In all equity salaries tax allowances must also be reviewed. I thus propose a small package of increases in tax and charges more than offset by tax concessions. It will cost, I repeat cost, a net \$40 million in 1986-87. I will describe this package in more detail a little while later.

80. The estimated surplus in 1986-87 will consequently fall from \$388 million to \$348 million.

Fund Accounts—Draft Estimates

81. As to the various funds from which expenditure of a capital nature is financed, I propose a total expenditure Budget of \$9.4 billion. This will be met partly by internal revenue generated by the funds themselves in terms of land transactions, loan repayments and interest and partly by a transfer of

(20)	<i>Recurrent</i>	<i>Capital</i>	<i>Total</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>
<i>Revenue (excl. transfers)</i>	38,231	901	39,132
<i>Expenditure (excl. transfers)</i>	32,363	1,581	33,944
<i>Surplus/(deficit)</i>	<u>5,868</u>	<u>(680)</u>	5,188
<i>Less transfers to funds (net)</i>			<u>4,800</u>
<i>Less cost of revenue measures</i>			388
<i>Surplus</i>			<u>40</u>
			<u>348</u>

funds from General Revenue Account⁽²¹⁾. The breakdown is shown in the printed speech.

82. Projected revenue for the Capital Works Reserve Fund now includes \$2 billion as the Hong Kong Government's share of land revenue to be used for financing capital works. It excludes the share attributable to the future SAR Government under the terms of the Sino-British Joint Declaration.

83. Revenue from future land transactions has always been difficult to estimate. It is now rendered doubly difficult by the need not only to estimate gross proceeds but also to decide how much of it will eventually be credited to the works account of the Capital Works Reserve Fund when the proceeds are shared at the end of each quarter⁽²²⁾. A detailed programme of land disposal for 1986-87 is currently being considered by the Land Commission and should, I hope, be agreed shortly. From a provisional draft programme, which includes at least two more large sites in the urban areas and a number of valuable sites for PSPS housing, we estimate that the gross land revenue to be shared in 1986-87 should be \$3.4 billion. About \$1.4 billion would accrue to the future SAR Government and \$2 billion to the works account. These figures, however, are dependent on so many unknowns that they cannot be reliable. They represent only a best guess. The gross estimate of \$3.4 billion for the suspense account together with the revenue of \$500 million accruing to the General Revenue compare with a revised estimate for 1985-86 totalling \$4.6 billion and actual revenue in 1984-85 of \$4.3 billion⁽²³⁾. The downward trend is obvious.

(21)

	<i>Expenditure</i>	<i>Revenue</i>	<i>Net</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>Expenditure</i>
			<i>(\$mn)</i>
<i>Capital Works Reserve Fund</i>	6,625	2,053	4,572
<i>Development Loan Fund</i>	1,846	630	1,216
<i>Home Ownership Fund</i>	772	1,570	(798)
<i>Student Loan Fund</i>	104	64	40
<i>Mass Transit Fund</i>	82	—	82
	<u>9,429</u>	<u>4,317</u>	<u>5,112</u>
<i>Net transfers from GRA</i>			<u>4,800</u>
<i>Ostensible net reduction in balances (see para 84)</i>			<u>(312)</u>

(22) *Land revenue from transactions decided upon after 27 May 1985 which confer a benefit beyond 1997 is initially held in a suspense account. After attributing to the Hong Kong Government revenue to cover the average cost of land production, the balance is shared equally between the Hong Kong Government and the future SAR Government.*

(23)

<i>Paid to</i>	<i>Revenue from land transactions</i>		
	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>
	<i>Actual</i>	<i>Revised</i>	<i>Estimate</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>
<i>Revenue Head 8</i>	4,267	3,630	500
<i>CWRF Works Account</i>	—	572	2,008
<i>Future HKSAR Government Account (still to be confirmed)</i>	—	425	1,404
<i>Total</i>	<u>4,267</u>	<u>4,627</u>	<u>3,912</u>

The above figures exclude interest earned on the CWRF suspense account balances. For details see the memorandum note to the CWRF and the CWRF financial position in Volume II of the Estimates.

84. Allowing for some underspending, I expect, in practice, that fund balances will remain largely unchanged at the end of 1986-87.

Programmes and policies

85. I will now flesh out the major programmes and policies that lead to the expenditure Budgets which I have just outlined. The consolidated expenditure of the Government in 1986-87 on all accounts, including the expenditure of the Housing Authority and Urban and Regional Councils, is forecast to be \$48.5 billion. Because they are so important I shall refer specifically to our land production, housing, education, medical and social welfare programmes. A fuller reference to all programmes will be found in an appendix⁽²⁴⁾ to the printed version of this speech. I do hope that Members will appreciate not only the magnitude of these figures but also their implication for the commitment of public funds to improvement of the infrastructure.

Land production

86. Following the dissolution of the Special Committee on Land Supply, the Land and Building Advisory Committee has taken on responsibility for monitoring the availability of land to meet future requirements.

87. Gross land production in 1986-87 is expected to be 460 hectares compared with a revised estimate for 1985-86 of 648 hectares. Over the three years of the new forecast period 1987-88 to 1989-90, total production is expected to be about 1 365 hectares⁽²⁵⁾.

Public housing

88. Of the total consolidated account capital expenditure in 1986-87, \$3.4 billion will be spent on the construction of housing, including temporary housing areas, compared with the revised estimate of \$3.1 billion for 1985-86. These large figures you should know, exclude the value of land used by the

(24) Appendix B.

(25) The gross figures for land production include land for public housing, Government, institutional and community purposes, open space and roads in both the urban areas and the New Territories. They exclude 13.9 hectares which the Hong Kong Industrial Estates Corporation plans to form during 1986-87. The Corporation did not complete the formation of any new land during 1985-86.

(26)

<i>Year</i>	<i>Production (hectares)</i>
<i>1987-88</i>	<i>480</i>
<i>1988-89</i>	<i>504</i>
<i>1989-90</i>	<i>381</i>
<i>Total</i>	<i>1 365</i>

Housing Authority for rental housing and for flats built under the Home Ownership Scheme⁽²⁶⁾.

89. It is the Government's policy that the public housing programme should achieve a level of production of at least 40 000 flats a year for rental and sale. This target comprises the Housing Authority's rental flats and flats for sale under the Home Ownership Scheme, flats sold under the Private Sector Participation Scheme, and the Housing Society's production through the development of rental housing and the Urban Improvement Scheme. The forecast of Housing Authority production in the four years 1986-87 to 1989-90 exceeds production in the previous four years by 10.4 per cent. This includes a total of 7 241 flats to be produced under the Extended Redevelopment Programme, that is to say the redevelopment of the 26 sub-standard blocks: these are additional to the annual production target of 30 000 rental flats. The total production in the next four years including Private Sector Participation Scheme flats and Housing Society flats is thus estimated at 188 000, with an

(26)	1985-86 Revised estimates (\$mn)	1986-87 Draft estimates (\$mn)
<i>(1) Rental Housing Programme (*):</i>		
<i>Drawings from Development Loan Fund(†)</i>	1,400	1,550
<i>Housing Authority's own resources(‡)</i>	850	880
<i>New Territories Development Department (§)</i>	1	1
<i>Asian Development Bank Loans ()</i>	6	19
<i>Total (1)</i>	2,257	2,450
<i>(2) Home Ownership Scheme (¶)</i>		
<i>Total (1) + (2)</i>	821	840
<i>(3) Temporary Housing Areas</i>		
<i>Total (1) + (2) + (3)</i>	3,078	3,290
	66	91
	3,144	3,381

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.

(§) Residual expenditure on flats built by the Building Development Department prior to 1983-84.

(||) See Memorandum Note on Head 134 Public Debt, and the Memorandum Note on ADB Loans in the Estimates.

(¶) These figures exclude expenditure on the Middle Income Housing Programme (now closed) and the Private Sector Participation Scheme. For the Home Ownership Scheme itself, the expenditure figures include \$84 million and \$80 million for 1985-86 and 1986-87 respectively being drawings by the Housing Authority from the Development Loan Fund for commercial facilities, but exclude the value of land in respect of domestic elements.

average completion rate of 47 000 a year⁽²⁷⁾. In the next four years there will consequently be provided in the public sector new, good quality, subsidised housing for some 750 000 people. This is a remarkable figure. I know of no comparable programme anywhere else in the world. The substantial additional contribution of private sector developers also must not be overlooked. It is an essential element.

90. As regards the Home Ownership Scheme, some 56 650 flats out of 62 250 flats in the first seven phases will have been completed by the end of 1986-87. Work is in hand on the balance and on a further 21 540 flats in phases VIII, IX and X⁽²⁸⁾. More will follow.

Education

91. The consolidated account expenditure on education in 1986-87 will be \$8.7 billion. This represents 18 per cent of total consolidated account expenditure compared with just over 14 per cent in 1981-82. The policies that under-pin this very considerable commitment to extra resources and details of some of the major new facilities under construction are dealt with in Appendix B to the printed speech. The medium range forecast takes account of likely continued growth in this area and the financial impact of expected Education Commission proposals. No doubt all Members with an interest in education will wish to study them closely.

Medical and health

92. Medical services have also consumed a steadily increasing slice of the total cake. Total expenditure in 1986-87 will be \$4.3 billion: this will be 8.9 per cent of consolidated account expenditure as compared with 7.3 per cent in 1981-82. With regard to specific capital projects, in addition to the total estimated cost of \$899 million for the new government hospital in Tuen Mun, \$783 million will be spent over a period on improvements and extensions to Queen Mary and Tang Shiu Kin Hospitals. A further \$123 million will be spent on site formation works and consultants fees for a new hospital to serve the Eastern District of Hong

(27)	<i>Production of Flats</i>				<i>Total</i>
	<i>HA Rental</i>	<i>HOS</i>	<i>PSPS (incl. MIH)</i>	<i>HS (rental and UIS)</i>	
1982-83	27 879	7 508	760	442	36 589
1983-84	28 564	7 877	2 240	10	38 691
1984-85	26 354	10 168	1 408	419	38 349
1985-86	29 553	6 688	11 902	213	48 356
1986-87	30 020	6 838	3 640	1 434	41 932
1987-88	32 770	7 610	2 025	1 159	43 564
1988-89	35 295	5 698	4 515	3 024	48 532
1989-90	37 284	6 062	5 290	5 607	54 243

(28) *The value of land is excluded from the calculation of the selling price of flats produced under the Home Ownership and Private Sector Participation Schemes in order to keep them affordable by the target groups.*

Kong Island. Such major new facilities will give rise to further considerable increases in recurrent operating costs on which we simply must keep a steady eye.

Social welfare

93. Social welfare expenditure has shown the steepest increase in growth of all major programmes since 1981-82. Consolidated account expenditure will be \$2.8 billion in 1986-87 or 5.8 per cent of total expenditure. This share has risen from 4.2 per cent in 1981-82⁽²⁹⁾. I am sure that we shall hear more about social welfare in the course of the debate. Perhaps some Members may believe that its expansion is too pronounced. For my part a fair degree of balance seems to be evident, but I cannot accept a view that more money is the answer to all problems. Control remains essential. There is otherwise no limit to what decent people can spend.

Revenue measures

94. Having described the overall shape of my budgetary proposals for 1986-87, I will now explain the revenue measures which are required.

95. My package of proposals reflects two major criteria. First, we must ensure that all the major charges and tax rates, which are fixed in cash terms, are kept up to date and their yield maintained in real terms. It has required a rigorous discipline over the last few years to regain a situation which had been gradually deteriorating due to the false sense of security engendered by abundant land revenues. Having largely completed the process of updating such charges and tax rates, regular small revisions are the best guarantee of a continuing sound basis for Government's finances.

96. Second, a firm watch must be kept on the relationship between direct and indirect taxation. I have stated in previous Budget speeches my view that by 1983 too much emphasis had come to be placed on direct taxation and not enough on indirect taxation. My Budgets since then have served to reduce the direct: indirect relationship from 69:31 in 1982-83 to 59:41 in 1985-86. Consolidation seems appropriate at about this level.

97. I have already referred to the proposed package of measures costing a net \$40 million in 1986-87. This sum is made up of a number of revenue raising measures designed to yield \$295 million, more than offset by a number of tax concessions estimated to cost \$335 million. I will first describe the proposed revenue raising measures and then the more welcome tax concessions. Detailed expositions can be found in Appendices D to F of the printed version of this speech.

(29) See paras 105-112 in Appendix B.

*Dutiable commodities**Imported hydrocarbon oils*

98. I will deal first with duties. Duty rates on hydrocarbon oils were increased in the 1985 Budget by 10 per cent⁽³⁰⁾. Consumption of motor spirit has declined 21 per cent since 1982-83. This trend is continuing. Revenue over the same period has increased 62 per cent due to duty increases. A decline in yield is presently estimated for 1986-87. Consumption of diesel oil has grown by 18 per cent and revenue by 320 per cent since 1982-83. This just reflects the growth in numbers of diesel engined road vehicles.

99. The 1985 increase of 10 per cent was significantly less than that required to maintain the revenue yield in real terms in the light of inflation since 1983. Nevertheless, I propose for the 1986 Budget an overall increase for all hydrocarbon oils of 4.5 per cent only: that is an increase of the duty rate on motor spirit to \$2.30 and the duty rate on diesel oil to \$1.15 per litre respectively. This will maintain the 1985 yield in real terms. Falling oil prices are likely to ease the actual burden on consumers. Assuming no consumer resistance, I estimate that the additional yield will be \$50 million in next financial year.

100. The current refund on diesel oil to the franchised bus companies will remain at 65¢ a litre. The cost to these companies should be of the order of \$6 million. The effect on bus fares will on average be less than one half of one cent.

Imported tobacco

101. The duty rates on imported tobacco were increased in the 1985 Budget⁽³¹⁾, the main intent being to reduce the differential between unmanufactured raw tobacco and imported manufactured cigarettes to an all time low of 23.5 per cent since its introduction in 1949. I also warned the trade that I would review the merits of imposing a pure ad valorem duty on tobacco. This would be transparently even handed.

102. The tobacco trade has been consulted. Their response has been divided, to put it mildly. Some oppose the imposition of an AV based duty, while others—and I have noted this with great interest—support its introduction on the grounds that those who can afford to pay more by buying more expensive tobacco products should do so.

(30) 1985 Budget speech, paragraph 112.

The increases were—

Motor spirit from \$2.00 to \$2.20 per litre

Diesel oil

*for road from \$1.00 to \$1.10 per litre
vehicles*

The refund on diesel oil for bus companies, introduced in the 1983 Budget when the duty rate increased from 36¢ to \$1 a litre, remained at 65¢.

(31) 1985 Budget speech, paragraph 118.

103. This open dialogue in which Finance Branch has been engaged with the tobacco industry during 1985 has been constructive and intensive. A number of companies have expended considerable resources in order to make very complete proposals, which in their view would produce a more rational and equitable duty regime. I thank them and all in the industry for this helpful and understanding approach. They know that there is no social engineering involved.

104. It has nevertheless become plain that the tobacco trade does not, indeed cannot, speak with unanimity on the merits or otherwise of imposing an ad valorem duty—or indeed on anything except the virtues of low tax.

105. Despite the lowering of the differential to an all time low, allegations of Hong Kong protectionism have continued to be made by US companies. I do not accept that these allegations have real substance because the duty differentials that exist reflect established international practice whereby raw materials are normally taxed at a lower rate than the related manufactured product. I must not, however, provide any excuse for a repetition of these unfair allegations in 1986 when trade negotiations will have such a high profile. Therefore I make two proposals. First, to increase the duty on imported raw tobacco from \$170 to \$190 a kilogram; while maintaining unchanged the duty rate of \$210 a kilogram imposed on imported manufactured cigarettes. Given that the new differential will be as low as 10.5 per cent, it cannot be construed as providing an improper protection to local manufacturers. I estimate the additional revenue yield in 1986-87 to be \$40 million after allowing for consumer resistance. The actual retail price to the consumer of locally produced brands should increase much less than the duty rate increase of 11.8 per cent. Approximate examples are provided in a footnote to the printed speech⁽³²⁾. They range from 4.2 per cent to 6.7 per cent. Of course there should be no significant change to the price of imported cigarettes. Second, consumption of so-called manufactured tobacco (other varieties) has increased considerably in recent years, albeit from a very narrow base. The marked increase in consumption is due to the increased use of puff or cut tobacco by local cigarette manufacturers. This accounts now for 95 per cent of the products falling within this category. Even after an increase in the duty rate of 21 per cent in the 1985 Budget, consumption in the first seven months of this financial year has grown by an enormous 192 per cent. The revised revenue outturn for this category is

(32) *The effect on arbitrarily selected brands of locally manufactured cigarettes might be—*

<i>Description</i>	<i>Packing</i>	<i>Approximate retail price \$</i>	<i>Duty increase \$</i>	<i>% increase</i>
<i>Viceroy</i>	<i>FTKS 20s</i>	<i>7.20</i>	<i>0.30</i>	<i>4.2</i>
<i>Hilton</i>	<i>FTKS 20s</i>	<i>5.20</i>	<i>0.30</i>	<i>5.8</i>
<i>Good Companion</i>	<i>FTKS 20s</i>	<i>5.20</i>	<i>0.30</i>	<i>5.8</i>
<i>Capstan</i>	<i>FTKS 20s</i>	<i>5.20</i>	<i>0.30</i>	<i>5.8</i>
<i>Double Happiness</i>	<i>FTKS 20s</i>	<i>5.20</i>	<i>0.35</i>	<i>6.7</i>

now estimated at \$144 million for the year, the original estimate being \$33 million. In recognition of this and to be consistent with the increased duty for imported raw tobacco I propose to increase the duty rate for this category from \$170 a kilogram to \$190. I estimate the additional revenue yield to be \$15 million in next year, after allowing for slight consumer resistance. The total increase in revenue yield from all these tobacco duties will therefore be about \$55 million.

Vehicle and driving licence fees

106. Although I did increase vehicle and driving licence fees in last year's Budget, this is a sensitive area to which I feel the 'little and often' principle particularly applies. I therefore propose increases of around 4 per cent. Further details are given in Appendix D to the printed version of this speech. They will yield around \$40 million next year.

Bank and deposit-taking company licence fees

107. Bank and DTC licence fees were last increased in 1983 and 1984 respectively. I see no justification for letting their real return slip and, therefore, propose a 20 per cent increase in bank licence fees and a 13 per cent increase in DTC licence fees. There will be similar increases in related fees. Details are given in Appendix E to the printed version of this speech. The yield will be around \$15 million.

Other fees and charges

108. Our efforts to keep fees and charges generally as up to date as possible have been assisted in recent years by computer systems designed specifically for this purpose. During next financial year a number of areas are scheduled for their normal regular review. They will include water charges and Immigration Department charges. In addition, a fresh look will be taken at parking meter charges, which have been unchanged since 1981. I expect that these together with the far more numerous, but individually smaller items that will come up for review in 1986 will yield a total of about \$135 million.

Tax concessions

109. I turn now to tax concessions. My simple proposals are a combination of revisions to personal tax allowances to ease the effect of fiscal drag, rationalisation in two areas (one of which involves estate duty) and repeal of the controversial 1984 amendment, which brought some interest derived by business enterprises from offshore deposits into the profits tax net.

Personal taxation

110. I propose an increase in the additional personal allowance from \$7,500 to \$8,500 for single persons and from \$17,000 to \$19,000 for married persons. Thus taken together the basic personal allowance plus additional allowance will

total \$29,000 for a single person and \$60,000 for a married couple. In addition, I propose an increase in the basic dependent parent allowance from \$8,000 to \$9,000. This means that the total allowance available in respect of a dependent parent residing with the taxpayer will be \$12,000.

111. These proposals will benefit about 96 per cent of those who might expect to pay salaries tax⁽³³⁾. They will also save the Inland Revenue Department the considerable task of processing a larger number of tax returns for a relatively small yield. Examples of the effects which these concessions will have for various categories of taxpayers are set out in Appendix F to the printed version of the Budget speech.

112. While the impact of these concessions will inevitably not be as large as some might wish, I believe them to be reasonable when viewed in the context of the current low inflation rate and the changes made to personal taxation in my last Budget. Following the practice I adopted last year I propose to introduce these new concessions with effect from the year of assessment commencing on 1 April 1986. The first occasion on which they will apply, therefore, will be to provisional salaries tax assessments for the fiscal year 1986-87 as well as final tax assessments for that year; and to 1986-87 personal assessments also. I estimate that the cost, I repeat the cost, to revenue in 1986-87 will be about \$127 million and, for a full year, about \$180 million.

Stamp duty

113. The stamp duty charge of 1 per cent on Hong Kong bearer instruments relating to loan capital has brought in a negligible amount of revenue. This is because over the past few years most Hong Kong companies seeking loan capital have either issued non-Hong Kong dollar euro bonds or used offshore subsidiaries as the issuing vehicles. Clearly, this stamp duty charge is having an inhibiting effect on the raising of capital through the issue of bonds denominated in Hong Kong dollars. Accordingly, I propose to exclude from the charge to stamp duty Hong Kong bearer instruments which are in respect of loan capital and of units in unit trusts investing only in such instruments. If this amendment encourages the issue of corporate bonds by Hong Kong and foreign companies, the revenue can expect to gain eventually from the additional profits and salaries tax flowing from the increased activity in Hong Kong's financial sector. Furthermore, the existence of more bonds denominated in Hong Kong

(33) *If the proposed concessions are brought into law no less than 602 500 person will benefit in 1986-87, i.e.—*

—33 500 taxpayers previously liable to Salaries Tax will now be exempt;

—35 000 persons who would have become liable to Salaries Tax will be kept out of the tax net; and

—534 000 taxpayers will benefit by way of reduced tax liability.

Furthermore, some 30 000 persons who elect to be assessed under personal assessment will also benefit through reduced liability in 1987-88.

dollars should encourage the growth of secondary markets, thus enhancing the status of Hong Kong as a major financial centre.

Estate duty

114. In my 1982-83 Budget I proposed to exempt from estate duty the principal matrimonial home of a person who died leaving a spouse. My intention was to ensure that the surviving spouse would be free from the worry that the home might have to be sold to pay the estate duty chargeable on it. Subsequently legislation was enacted exempting from duty a principal matrimonial home which passed to the surviving spouse under a will or by operation of law. However, in some cases where a person dies intestate, the surviving spouse has no right to the matrimonial home. Consequently, the exemption available under the present legislation cannot apply. To avoid any hardship that payment of estate duty may cause in such circumstances, I propose, therefore, that the wording of the Ordinance be amended to ensure that the exemption will apply in all cases where there is both a principal matrimonial home and a surviving spouse. The cost of this proposal will be about \$8 million.

115. It has also been suggested to me that the Estate Duty Ordinance might be further amended in a number of ways. These include substitution of the actual proceeds from the sale of assets for their assessed value at the date of death. Another is that the first \$2 million of the estate should be entirely free from duty⁽³⁴⁾. Yet another is that no duty should be payable on any property passing from spouse to spouse. I have examined these proposals carefully but as each has serious drawbacks they are unacceptable.

116. The implementation of all or any of the changes would be very costly to the revenue⁽³⁵⁾. In addition they would complicate our tax system further and would be difficult to administer. The present exemption levels are generous and the rates are low by any standards. As the average man can hardly be expected to regard an estate of \$2 million as being small, the provision of further relief is

(34) *While no estate duty is payable on estates valued at \$2 million and under, duty from 10 per cent to 18 per cent, depending on the size of the estate, is levied on the whole estate if it is over \$2 million in value. Relief is provided under section 32 of the Estate Duty Ordinance for estates marginally in excess of the prescribed limits.*

(35) *The cost of the three individual proposals is estimated to be as follows—*

<i>Substituting actual proceeds for value at date of death in times of falling values when the revenue is most needed</i>	<i>\$44 million to \$130 million depending on decrease in sale proceeds from date of death</i>
<i>Making first \$2 million entirely exempt from duty</i>	<i>\$53 million at 1985 levels</i>
<i>Exempting transfer from spouse to spouse</i>	<i>At least \$100 million in the first year: because it will be realised that estates can be passed on duty free by leaving the assets to the spouse who will almost certainly transfer them to the children during his or her life time. The practical effect would be that duty would be avoided</i>

likely to be seen as giving a benefit only to a wealthy few⁽³⁶⁾. You may be interested to hear also in 1984-85 only 168 estates in all were dutiable. In many cases, because dividends and income with a source outside Hong Kong are not chargeable to profits tax, estate duty is the only direct tax which some Hong Kong residents will ever pay. Estate duty is therefore a way of ensuring that some of those able to afford it make at least one contribution to the Exchequer.

Profits tax

117. Finally, I propose that the amendments made in 1984 to sections 15(1)(f) and (g) of the Inland Revenue Ordinance, which sought to make some interest earned on off-shore deposits chargeable to profits tax, be repealed from 1 April this year.

118. The fact that I propose to reverse legislation that has only been in effect for a short time does not mean that I consider it to have been philosophically misconceived in the first place. It has, however, proved to be far more contentious and difficult to interpret than I at first expected.

119. I believe in principle that interest derived through or from the carrying on of a business in Hong Kong should be liable to profits tax irrespective of whether that interest arises from onshore or off-shore deposits. In addition, I still consider that the 'provision of credit' test in this technological age is both artificial and inappropriate in determining the true territorial source of interest income derived by business⁽³⁷⁾. While philosophically there is a considerable difference between the mere holding of investment funds off-shore and the making of deposits off-shore as part of a business carried on in Hong Kong, it has however proved impossible to differentiate between the two in the form of the crisp legal drafting essential to revenue law. Uncertainty in the law is always unsatisfactory. In this case the uncertainty has tended to strengthen the case of those who seek to pretend that we have departed in some way from the important territorial source concept of taxable profits.

120. Accordingly, and on the advice of the helpful UMELCO ad hoc Inland Revenue Review Panel set up to examine this matter amongst others, I agreed that the Practice Notes issued by the Commissioner of Inland Revenue on the assessability of interest should be suitably amended to make the circumstances under which off-shore interest is liable to tax much clearer. I also promised the panel that consideration should be given to repealing the amendments altogether when the fiscal and budgetary position permitted. I had expected that this would not be before 1987.

(36) *To put things in perspective, only 168 estates in 1984-85 were dutiable. This represented only 2.2 per cent of the cases referred to the Commissioner of Estate Duty for clearance prior to probate being granted.*

(37) *1984 Budget speech, paragraph 138.*

121. With the improved Budget position. I am able to contemplate tax concessions for business earlier than I had expected. I have, therefore, decided to advance the repeal of these particular amendments, which inadvertently have created absurd levels of dispute. It is difficult to estimate the cost of this proposal with any accuracy but I believe the loss to the revenue in 1986-87 will be about \$200 million falling to \$150 million per annum thereafter. The reduction after 1986-87 takes account of my expectation that the yield from this source would have been reduced from its initial level, estimated at \$350 million in 1985-86, as methods of avoidance were inevitably found to mitigate the effect of the legislation.

Implementation

122. My proposals for dutiable commodities and transport licence fees were the subject of Public Revenue Protection Orders signed by Your Excellency this morning. My proposals for bank and DTC licence fees will be the subject of further Public Revenue Protection Orders at the end of March and amending legislation will be introduced into this Council shortly thereafter. During the current session three other Bills will also be introduced into this Council to give effect to my proposals on stamp duty, estate duty and tax concessions.

Summing up

123. And now, Sir, I come to my final summing up somewhat delayed. Confidence about the future state of our economy must be accompanied by continual awareness that we depend largely on what happens elsewhere in the world. This is mainly outside our control. Let us consequently be modest. Folie de grandeur always exacts a high price. Our economy is changing rapidly under our eyes as Hong Kong again becomes a major entrepot for China. I wonder if we really yet understand what is going on. For example, as a non-economist I personally find it difficult to comprehend how present prosperity including full employment, rising real wages, a swing to a visible trade surplus and low inflation can be reconciled with last year's ostensible low figure of growth in GDP. I would have expected the latter growth to be somewhat higher. Theodore Roosevelt believed in speaking softly and carrying a big stick. For Hong Kong I prefer scepticism about economic forecasts and carrying large reserves.

124. Our first domestic priority remains the steady improvement of our infrastructure. This is certainly within our capabilities. In surveying the international scene I confess to a feeling of slight unease as perhaps befits the year of the tiger. There exist some worrying storm clouds including the American budget deficit which is one obvious generator of protectionist sentiment everywhere, continuing monetary instability, the North-South problem with sharply falling commodity prices, general lack of success in penetrating the Japanese market, and not least the oil situation. While cheap energy will be of assistance to everyone except the oil producers, a sudden collapse in oil prices will not necessarily be immediately helpful for Hong Kong. I fear a possible ripple effect

in some of our export markets. These are of course problems to be faced by all: not just us. But we should be aware of them.

125. Hong Kong has plainly prospered in the last 40 years. Not everything has been well done either in the public or private sectors, but the lot of the individual man and woman is now transparently better. Further continued increase in wealth, which must be created before it can be divided, will depend on several factors.

126. First, we have the Joint Declaration with its objective of stability and prosperity, and the commitment of the British and Chinese Governments to its faithful implementation.

127. Second, our infrastructure must not only be good but be seen to be getting better. For this the Government accepts responsibility. We must do all that we can within the resources available. Thus there must be law and order; a steady state of the public finances including proper reserves, which has been achieved now; a decent system of medical provision including care for the old; steadily improving housing; better transport and communications; appropriate social welfare; and the best possible educational system. All are important. A personal predilection has always been steady improvement in post secondary education. This seems to me not only vital in itself but also closely in tune with public aspirations. Having said this, let no one doubt that success in our aims depends on being able to pay for what we want without resort to debt.

128. Third, the total system must provide proper incentives to our entrepreneurs and businessmen. Hong Kong's whole economy depends on increasing external trade. This in turn requires for those creatively involved the maximum possible freedom within an appropriate and improving framework of laws and regulations. I am not philosophically opposed to Government intervention in industry. If, indeed, such intervention were ever to achieve the planned results, why not? It is however a truism that Governments usually make large mistakes in this approach. Such mistakes tend then to be very expensive indeed. The burdens that have to be carried by the wretched tax payer and industry itself subsequently become unbearable. For obvious reasons of tact I do not point a finger but the world is littered with examples. In brief, my objection to Government intervention in industry is not philosophical but wholly pragmatic. On the record it is totally inappropriate for Hong Kong. Business here is best conducted by risk bearing businessmen.

129. Fourth and finally, I submit that the implications for Hong Kong are clear. They are not necessarily applicable to everywhere else in the world, for in many ways we are unique. Success here requires a prudent freedom, the ability to operate fearlessly within sound and independently administered laws, the possibility of self improvement for the successful and the certainty of sensitive treatment for the unsuccessful. Above all the burden of direct taxation must remain moderate and public sector expenditure must be constrained. All Governments make mistakes. Let us make fewer than most.

Sir, it has been an honour to work for the Hong Kong Government for five years. My colleagues have been able, sensitive and supportive. I thank them for generous acceptance of an outsider. Within my limitations and without fear or favour I have always done my best. May I remind you of the epitaph on a ship owner: 'And so he faded from the scene, his holes were empty but his hands were clean.'

I beg to move.

Debate adjourned pursuant to Standing Order 54(2).

Unofficial Member's Motion

SECURITIES ORDINANCE

MISS MARIA TAM moved the following motion: That the Securities (Stock Exchange Listing) Rules 1986, published as Legal Notice No.8 of 1986 and laid on the table of the Legislative Council on 22 January 1986, be amended as follows—

In paragraph 7(1)(a)(ii) of the Schedule by deleting '; or' and substituting the following—
'other than trading assets so acquired or disposed of in the ordinary course of business; or'.

She said: Sir, I move the motion standing in my name on the Order Paper which, if supported by this Council, will result in amendment of paragraph 7(1)(a)(ii) of the Schedule to the Securities (Stock Exchange Listing) Rules 1986. It is neither by engineering nor design that this amendment has to be made on Budget day, thus enabling myself and Dr. Kim CHAM to share the limelight with the Financial Secretary. It is purely because under section 34 of the Interpretation and General Clauses Ordinance (Chapter 1), it is provided that subsidiary regulations can only be amended at the first meeting of this Council 21 days after the said regulations have been tabled, thus giving us no alternative in dealing with this amendment on any other occasion.

However, it does afford me with the opportunity to put on record the appreciation one must have of the fact that we can now look forward to a balance Budget and the Financial Secretary has reaffirmed Hong Kong's position as a financial centre, by introducing a series of ordinances and subsidiary regulations to strengthen our prudential supervision of the Banking Bill just announced must be a welcome addition. The regulations before this Council today legislate for proper disclosure of share ownership, dealings, and of company information on major acquisitions and disposal of assets of listed companies: and paragraph 7 of the schedule deals with notification of acquisition or disposal of the assets of such companies to the Commissioner of

Securities. As drafted, paragraph 7(1)(a)(ii) of this schedule places an onus on the listed company to notify its shareholders of acquisition or disposal of assets of that company or any of its subsidiaries 'where the assets are acquired from or disposed of to any of the company's or its subsidiary's directors or chief executive, or any associate or any such director or chief executive.' An ad hoc group of six Members of this Council has formed to study these regulations soon received representations from the business sector to the effect that the interpretation of paragraph 7(1)(a)(ii), if carried to its logical extreme, may create the absurd result that the director of a holding company purchasing a bottle of milk from a subsidiary company would impose upon the holding company the obligation to notify all its shareholders of such a transaction because there is no exemption for acquisition or disposal of trading assets in the ordinary course of business. While the ad hoc group is aware of the fact that under section 15 of the regulations, the Commissioner of Securities can waive any requirement for notification, and in such a case, will probably do so in such a case, nevertheless, we felt that the assets in question should be confined to the equity of the company or subsidiary company. We therefore met with the Commissioner of Securities to look into all the representations submitted by the listed companies, the Hong Kong Society of Accountants and the legal professions on this particular issue.

The views of the Hong Kong Society of Accountants and the Law Society were divided. The Hong Kong Society of Accountants was in favour of the existing wording but the Hong Kong Law Society wished to see the obligation of notification removed for acquisition and for disposal of trading assets in the ordinary course of business. On balance, the ad hoc group decided that the original wording was too wide and indeed, not in spirit with paragraphs 7(1)(a)(i) and 7(1)(a)(iii) of the schedule, where no *de minimis* rule applied*. We therefore recommended an amendment so that paragraph 7(1)(a)(ii) of the schedule now excludes 'trading assets so acquired or disposed of in the ordinary course of business'.

'where the assets are acquired from or disposed of to any of the Company's or its subsidiaries' directors or chief executive, or any associate of any such directors or chief executive *other than trading assets so acquired or disposed of in the ordinary course of business; or*'

Sir, these and other regulations will form a new basis for the operational rules of the Unified Stock Exchange, which will be launched in April 1986. While the Hong Kong community definitely wants Hong Kong to move forwards as a

Paragraph 7(1)(a)(i)

where the assets being acquired or disposed of represent an amount in excess of 15 per centum of the value of the company's assets or consolidated assets, as the case may be, as disclosed in the last audited accounts;

Paragraph 7(1)(a)(iii)

where the assets being acquired or disposed of are an interest in any company, a substantial shareholder of which is a director or chief executive of the company or any subsidiary or any associate of such director or chief executive;

vibrant financial centre, they also look to the Government for legislative measures to strengthen our prudential control, and I am pleased to see that the Government is now answering their calls.

Cooperation and understanding between the business sector and the Commissioner of Securities is vital to make the rules and listing requirements work. And in this context, I must also express concern that other parts of the listing requirements, which are not subject to the statutory rules but which are of equal importance to those affected, have given rise to representations by listed companies and are in some respects unacceptable in their present form. It is a matter of regret that these rules, unlike the statutory rules, appear to have been brought into force without any process of prior consultation.

We have created a statutory monopoly in the form of the new Unified Stock Exchange and have conferred wide powers on the new exchange company. We have not, however, reserved to this Council any control over the manner in which these powers are exercised. It may therefore be appropriate to send a message to those entrusted with the control and management of this vital and highly visible organ of our financial centre activities that we expect them to be at least as diligent as Government itself in consulting with all interested parties and seeking consensus when exercising the powers vested in them.

Sir, as I said during the passage of the Securities (Amendment) Bill in August last year, 'time will prove that in Hong Kong we can claim not only a vibrant market for securities trading but also a fine tradition of self-regulation in this industry.' We wish the Unified Stock Exchange every success.

MR. CHAM: Sir, my learned colleague, Miss Maria TAM, has just eloquently explained the background and the rationale for moving the amendment to the Securities (Stock Exchange Listing) Rules 1986. She has my full support. The enactment of the Securities (Specification of Approved Assets, Liquid Assets and Ranking Liabilities) Notice 1986 and the Securities (Stock Exchange Listing) Rules 1986 under the Securities Ordinance is an important landmark in the development of the securities industry in Hong Kong. Evidently, these two pieces of subsidiary legislation contribute towards the pertinent goal of enhancing and buttressing Hong Kong's position as an international financial centre. Sir, with your permission, I would therefore like to offer my views on the importance of these two pieces of subsidiary legislation to our stock market.

Elsewhere in the world, we have witnessed stock brokers over-stretched in their commitments, creating credit amidst a pyramid of speculative transactions, resulting in a proliferation of credit between stock brokers and their clients. Thus, the failure to honour commitments threatens to bring down the market and its members. The painful lesson drawn from this overseas incident is that the domino effect must be contained and minimised. The notice of specification of assets and liabilities seeks to ensure that securities dealers are financially stable. Such specification of assets obliges the dealers to maintain

quality control within their capital structure. If the quality of assets falls short of the minimum requirement, the broker must cease trading. This ensures that the obligations of one insolvent stock broker are not passed on to the other, thereby threatening the soundness of the entire system. This measure, in turn, therefore enhances the integrity of the market as a whole.

Prescription of assets is clearly desirable for our stock brokers in the interest of their resilience. Of course, there is wishful assumption that this measure offers a full-scale guarantee against any disaster, but as least such a requirement will reduce the chance of financial volatility and insolvency. Furthermore, in order to maintain a 'floor' basket of specified assets, dealers will have to review their asset portfolios on a regular and continuous basis through their internal control systems. This will certainly instill an additional element of caution and prudence within the brokering community.

The Securities (Stock Exchange Listing) Rules 1986 requires disclosure of information by new listing companies in their listing application. This obligation ensures that the necessary information affecting assets, profit, subsidiaries or inter-group transactions is adequately disclosed. The overall purpose is to streamline the process of information flow. The logic is readily comprehensible for a free trading market place. Here, the process of share price formation, as represented by a model of dynamic equilibrium, takes into account all investors' opinions at that point of time, equating supply and demand. But its viability is obviously contingent upon the availability of full and adequate information. Our market made more efficient and as a result will perform better, leading to increased investors' confidence and participation. Undoubtedly, their enhanced confidence will in turn improve liquidity in the market place. Consequently, a more efficacious market mechanism, salient in terms of both its depth and breadth, may evolve.

As Hong Kong looks ahead into the future, our capacity to sustain continuous growth as one of the world's important financial centres will no doubt be an important pillar in our economic system. Indeed, these two pieces of subsidiary legislation are by no means subsidiary in importance for their role to nurture the crystallisation of a sound market mechanism in our city which takes pride in its free enterprise market economy.

Sir, I support the motion.

FINANCIAL SECRETARY: Sir, I am grateful to Miss TAM as convenor of the ad hoc group both for her work and for her helpful remarks. Dr. Kim CHAM'S expert comments also mirror my own views and I share his assessment of the importance to Hong Kong of this subsidiary legislation. There must be steady improvement on all fronts. It should not be surprising that all do not find this attractive.

The minor amendment to paragraph 7(1)(a)(ii) should remove any doubts on that particular provision dealing with in-house transactions. Let us hope all concern can buy their bottles of milk as necessary. Let us now see how the new rules work. They can be changed if necessary.

Like my hon. Friends, I am looking forward to the opening of the Unified Exchange. A successful self-regulated stock exchange operating within the appropriate legal framework will further enhance Hong Kong's position as a world financial centre.

Question put and agreed to.

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT: In accordance with Standing Orders I now adjourn the Council until 2.30 pm on 12 March 1986.

Adjourned accordingly at twenty-seven minutes past Four o'clock.

Note: The short titles of motions/bills listed in the Hansard Report have been translated into Chinese for information and guidance only; they do not have authoritative effect in Chinese.

APPENDICES

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APPENDIX A

MEDIUM RANGE FORECAST 1985-86 TO 1989-90

Background

A series of computer based models is used to derive forecasts of Government's finances for five years ahead. In essence these models reflect a wide range of assumptions about the factors determining each of the components of revenue and expenditure. These are supported by research into historic and expected trends.

2. Over the projections that derive from these detailed assumptions is laid a number of broad parameters which serve to define either general economic assumptions or deliberate budgetary strategy. The results from the latest of these forecasts are summarised in this Appendix.

3. It was stated in the 1985 Budget speech (Appendix A) that the Budget guidelines used for some time were out of date and the subject of review. This review has been undertaken. New guidelines have been established which will play a role in helping define not only the Budget aims for a single year, but also the medium term strategy. The parameters adopted constitute eight assumptions. Two are basic economic assumptions having a significant impact on the Government's financial performance. Six are specific to Government's finances and therefore subject to direct control.

General economic assumptions

4. Growth in gross domestic product (GDP)—There is a clear link between many of our major revenue sources and economic growth. For planning purposes it is assumed that this annual growth will average 4.5 per cent in real terms.

5. Inflation—This has fallen rapidly in recent months. Over the forecast period an average year on year rate of 4.5 per cent is assumed.

Specific Budget assumptions

6. Total cash flow surplus/deficit—As a general aim, a cash flow balance is sought, although erring on the side of surplus to ensure that total balances in GRA and in the funds gradually increase to maintain their real value.

7. Total expenditure growth—Should not in real terms exceed the growth in GDP. For planning purposes expenditure growth is held to slightly below GDP growth to provide room for manoeuvre in the face of unforeseen circumstances.

8. Capital expenditure growth—By its nature some volatility in the level of capital expenditure is to be expected. Taking one year with another it is aimed

to halt the decline of recent years and maintain capital expenditure at around its present level (allowing for inflation). At the same time, regard is had to the recurrent consequences of capital works in terms of staffing and so on.

9. Taxation policy—Having completed the process of returning the overall balance of Government's cash flow to around break-even, no major shifts in taxation burden are assumed. Account is taken, however, of the need to maintain the real yield from fees and charges, fixed duties and so on and to review periodically the various tax thresholds.

10. Operating surplus/deficit—With the reduction in importance of capital revenue from land sales it is assumed that a continuing substantial element of capital expenditure must now be financed from a surplus on operating account. A broad target of at least 50 per cent is adopted.

11. Size of the Civil Service—This is a major determinant in the trend of Government's expenditure. A growth of no more than 2 to 2.5 per cent per annum in Civil Service numbers is assumed.

Detailed assumptions

12. There are many hundreds of assumptions which lie below those already mentioned dealing, for instance, with expected completion dates of individual capital projects and their recurrent consequences in the form of staffing and so on. It is not, however, intended to spell them out here as they are not essential to consideration of the strategy implied. Some are obviously confidential.

The forecasts

13. These are summarised in four tables (extracted from the full output of the computer models) and two diagrams—

Table 1	—Operating statement, being the relationship between recurrent (day to day) revenue and expenditure.
Table 2	—Capital expenditure and financing statement.
Table 3	—Consolidated cash flow in each year and the impact on Government's reserves.
Table 4	—Government's expenditure and the economy.
Diagram 1	—Tests of forecasting sensitivity.
Diagram 2	—Historical and projected relationship between gross domestic product and Consolidated Account Expenditure.

14. The tables concentrate on Government's consolidated finances. They provide no details of the boundaries between the various fund accounts through which, for operational reasons, the Government controls its finances. Projections of individual categories of expenditure may also be at variance with formal budgetted figures due to allowance for underspending of cash limited Budgets.

Table (1)

Operating Statement

Defines the relationship between expenditure and revenue of a regular (recurrent) nature, i.e. it excludes both capital expenditure and revenue which are a collection of major one off items and therefore unpredictable.

	<i>Revised Estimate</i>		<i>Projection</i>		
	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>
<i>Operating expenditure</i>					
Recurrent Expenditure	29,330	32,360	35,560	38,960	42,700
Capital Expenditure of a regular nature	620	750	880	1,020	1,170
Total operating expenditure	29,950	33,110	36,440	39,980	43,870
<i>Recurrent Revenue before interest</i>	34,340	36,800	40,450	44,280	48,680
Operating surplus before interest	4,390	3,690	4,010	4,300	4,810
Interest on balances	1,100	1,400	1,620	1,640	1,670
Operating surplus after interest	5,490	5,090	5,630	5,940	6,480

Table (2)

Capital Expenditure and Financing Statement

Indicates the extent to which capital expenditure on major works and so on is met by capital revenue such as land sales.

	<i>Revised Estimate</i>		<i>Projection</i>		
	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>
<i>Capital expenditure</i>					
General Revenue Account	810	830	940	950	890
Capital Works Reserve Fund	6,020	6,380	6,670	6,970	7,280
Other funds*	4,330	2,670	3,590	2,470	3,840
Bond issue repayment	—	—	—	—	1,000
Total Capital Expenditure	11,160	9,880	11,200	10,390	13,010

Table (2) *Contd.*

	<i>Revised</i>				
	<i>Estimate</i>		<i>Projection</i>		
	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>
<i>Capital Revenue</i>					
General Revenue Account	4,470	900	860	890	900
Capital Works Reserve Fund (land sales and interest)	760	2,060	1,930	2,450	2,290
Other funds*	2,230	2,290	2,370	2,470	2,520
Borrowing	—	—	—	—	—
Total Capital Revenue	<u>7,460</u>	<u>5,250</u>	<u>5,160</u>	<u>5,810</u>	<u>5,710</u>
Capital Financing (Deficit)	<u>(3,700)</u>	<u>(4,630)</u>	<u>(6,040)</u>	<u>(4,580)</u>	<u>(7,300)</u>

* Development Loan Fund, Home Ownership Fund, Mass Transit Fund, Student Loan Fund

Table (3)

Consolidated cash flow

Showing the extent to which the capital financing deficit is covered by the operating surplus and the combined cash flow impact on Government's total reserves.

	<i>Revised</i>				
	<i>Estimate</i>		<i>Projection</i>		
	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>
Capital financing (deficit)	(3,700)	(4,630)	(6,040)	(4,580)	(7,300)
Operating surplus	<u>5,490</u>	<u>5,090</u>	<u>5,630</u>	<u>5,940</u>	<u>6,480</u>
Consolidated cash surplus/(deficit)*	<u>1,790</u>	<u>460</u>	<u>(410)</u>	<u>1,360</u>	<u>(820)</u>
Reserve balances at 1 April	24,043	25,833	26,293	25,883	27,243
Reserve balances at 31 March	25,833	26,293	25,883	27,243	26,423

**Analysis of Consolidated Surplus/
(Deficit)*

General Revenue Account	100	350	20	1,360	(820)
Funds	1,690	110	(430)	—	—

Table (4)

Government's expenditure and the economy

Setting Consolidated Account expenditure in the context of general economic performance.

	<i>Revised</i>				
	<i>Estimate Projection</i>				
	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>
<i>Government's expenditure</i>					
Operating expenditure	29,950	33,110	36,440	39,980	43,870
Capital expenditure	11,160	9,880	11,200	10,390	13,010
Total Government expenditure	41,110	42,990	47,640	50,370	56,880
Add other public sector bodies	4,420	5,530	6,320	7,160	8,070
Deduct Debt repayments	50	60	70	70	1,070
MTRC equity injections	1,690	—	1,000	—	1,500
Total consolidated expenditure	43,790	48,460	52,890	57,460	62,380
<i>Gross domestic product</i>					
(calendar year)	265,520	289,470	316,000	345,000	377,000
<i>Growth in GDP</i>					
Money terms	6.4%	9.0%	9.2%	9.2%	9.2%
Real terms	1.0%	4.5%	4.5%	4.5%	4.5%
<i>Growth in consolidated expenditure</i>					
Money terms	9.8%	10.6%	9.1%	8.6%	8.6%
Real terms	3.4%	3.8%	3.8%	3.5%	3.4%
<i>Consolidated expenditure as</i>					
<i>percentage of GDP</i>	16.5%	16.7%	16.7%	16.6%	16.5%

Note: The Consolidated Account comprises expenditure by the Urban Council and the Housing Authority and from 1986-87, the Regional Council, expenditure financed by Government's statutory funds, expenditure on public works projects financed with loans from the Asian Development Bank and all expenditure charged to the General Revenue Account. 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. Airport, Waterworks). But *not* included is expenditure by those organisations, including even statutory organisations, in which the Government has only an equity position, such as the Mass Transit Railway Corporation and, post 1982-83, the Kowloon-Canton Railway Corporation. Similarly, debt repayments and equity payments are excluded as they do not reflect the actual consumption of resources by the Government.

Diagram 1

Tests of Forecasting Sensitivity

A number of sensitivity tests are applied to the forecasts. Perhaps the most important is the impact of changes in GDP assumptions on forecasts. Illustrative tests are shown below.

It should be noted that only the revenue variation is reflected. In practice, any persistent variance from the basic GDP growth assumption of 4.5 per cent would also be followed by an upward or downward change in permitted expenditure growth. In this way, the strategy should ensure that cash flow will always gravitate back towards equilibrium over a period of time. Break-even would conservatively mean a \$1 billion bracket (indicated in shading below) on a total of expenditure plus revenue approaching \$100 billion.

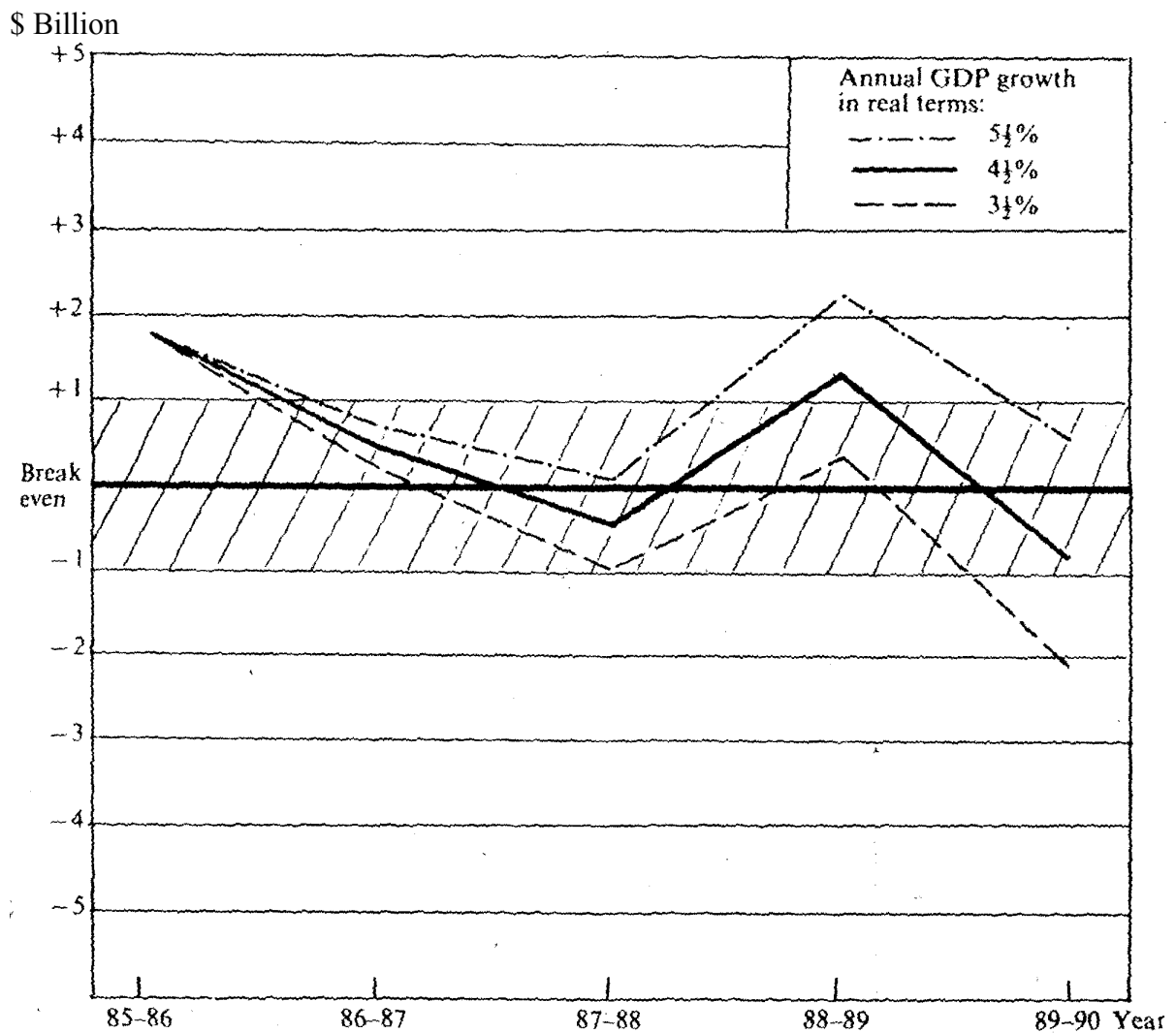
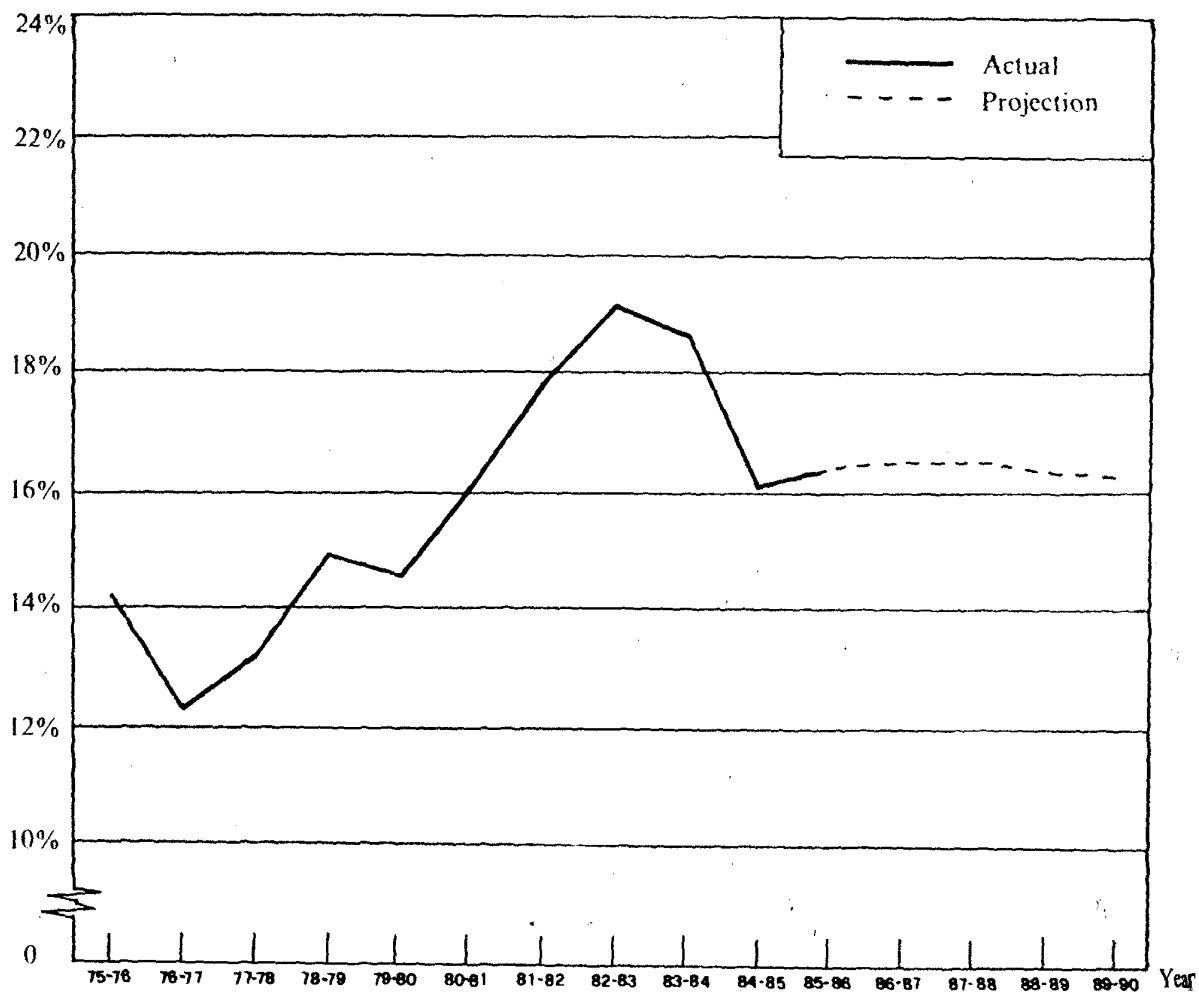


Diagram 2

Historical and projected relationship between gross domestic product and Consolidated Account Expenditure

Illustrates the historical relationship between GDP and Government's Consolidated Account Expenditure since 1975-76 and projected figures up to 1989-90.

*Consolidated
Expenditure as*



percentage of GDP

Note: The small increase in consolidated account expenditure as percentage of GDP in 1985-86 reflects the rapid fall in the economic growth rate in that year.

APPENDIX B

PROGRAMMES AND POLICIES

Individual heads of expenditure contribute to one or more functional programme areas. Expenditure proposals for 1986-87 when analysed into these programme areas are compared with the historical pattern shown below.

Table (1)

Consolidated Account Expenditure by Main Functions 1981-82 to 1986-87

	Para- graphs	<i>Actual</i>								<i>Revised</i>		<i>Estimate</i>	
		1981-82		1982-83		1983-84		1984-85		1985-86		1986-87	
		(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)
(A) <i>General services</i>	3- 8	<u>3,274</u>	<u>11.1</u>	<u>4,800</u>	<u>13.4</u>	<u>5,438</u>	<u>14.1</u>	<u>5,922</u>	<u>14.9</u>	<u>6,651</u>	<u>15.2</u>	<u>6,999</u>	<u>14.4</u>
(B) <i>Security services</i>	9												
(1) <i>Internal security</i>	10- 12	1,498	5.1	1,471	4.1	1,559	4.0	1,523	3.8	1,486	3.4	1,683	3.5
(2) <i>Immigration</i>	13- 17	152	0.5	246	0.7	273	0.7	295	0.7	342	0.8	419	0.9
(3) <i>Law and order</i>	18- 41	<u>2,153</u>	<u>7.3</u>	<u>3,091</u>	<u>8.7</u>	<u>3,189</u>	<u>8.3</u>	<u>3,305</u>	<u>8.3</u>	<u>3,748</u>	<u>8.5</u>	<u>4,125</u>	<u>8.5</u>
		<u>3,803</u>	<u>12.9</u>	<u>4,808</u>	<u>13.5</u>	<u>5,021</u>	<u>13.0</u>	<u>5,123</u>	<u>12.8</u>	<u>5,576</u>	<u>12.7</u>	<u>6,227</u>	<u>12.9</u>
(C) <i>Economic services</i>	42- 48	<u>1,396</u>	<u>4.8</u>	<u>1,357</u>	<u>3.8</u>	<u>1,268</u>	<u>3.3</u>	<u>1,361</u>	<u>3.4</u>	<u>1,532</u>	<u>3.5</u>	<u>1,741</u>	<u>3.6</u>

Table (1) *Contd.**Consolidated Account Expenditure by Main Functions 1981-82 to 1986-87*

	Para- graphs	<i>Actual</i>								<i>Revised</i>		<i>Estimate</i>	
		1981-82		1982-83		1983-84		1984-85		1985-86		1986-87	
		(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)
(D) <i>Community services</i>	49												
(1) Transport	50- 53	2,554	8.7	3,375	9.5	2,912	7.6	2,471	6.2	2,124	4.9	2,341	4.8
(2) Land & civil engineering	54- 57	3,183	10.8	2,491	7.0	2,873	7.4	2,180	5.5	2,790	6.4	2,969	6.1
(3) Water	58- 61	1,263	4.3	1,413	4.0	1,342	3.5	1,240	3.1	1,393	3.2	1,693	3.5
(4) Other	62- 66	2,366	8.1	2,946	8.2	3,371	8.7	3,672	9.2	4,043	9.2	4,538	9.4
		<u>9,366</u>	<u>31.9</u>	<u>10,225</u>	<u>28.7</u>	<u>10,498</u>	<u>27.2</u>	<u>9,563</u>	<u>24.0</u>	<u>10,350</u>	<u>23.7</u>	<u>11,541</u>	<u>23.8</u>
(E) <i>Social Services</i>	67												
(1) Education	68- 86	4,172	14.2	5,105	14.3	5,758	14.9	6,951	17.4	7,674	17.5	8,741	18.0
(2) Medical	87- 94	2,159	7.3	2,665	7.4	2,956	7.7	3,312	8.3	3,791	8.7	4,329	8.9
(3) Housing	95- 104	3,895	13.3	4,919	13.8	5,609	14.5	5,293	13.3	5,603	12.8	5,931	12.3
(4) Social Welfare	105- 112	1,220	4.2	1,710	4.8	1,938	-5.0	2,232	5.6	2,479	5.6	2,799	5.8
(5) Labour	113- 118	98	0.3	95	0.3	110	0.3	125	0.3	139	0.3	154	0.3
		<u>11,544</u>	<u>39.3</u>	<u>14,494</u>	<u>40.6</u>	<u>16,371</u>	<u>42.4</u>	<u>17,913</u>	<u>44.9</u>	<u>19,686</u>	<u>44.9</u>	<u>21,954</u>	<u>45.3</u>
Total consolidated expenditure		<u>29,383</u>	<u>100.0</u>	<u>35,684</u>	<u>100.0</u>	<u>38,596</u>	<u>100.0</u>	<u>39,882</u>	<u>100.0</u>	<u>43,795</u>	<u>100.0</u>	<u>48,462</u>	<u>100.0</u>

2. The remainder of this Appendix will comment on the content of major programmes, the causes of change in financial allocations and possible future developments.

(A) *General services*

3. General services comprise administration, support, public relations, revenue collection, financial control and unallocable expenses. Expenditure in 1986-87 is forecast to be \$6,999 million compared with \$6,651 million in 1985-86—an increase of 5.2 per cent.

4. The main causes of the rapid growth since 1981-82 in expenditure under this programme indicated in Table 1 have been the Home Purchase Scheme and the rising cost of staff pensions and gratuities.

5. The Home Purchase Scheme has two objectives, namely—

- (a) encouraging home ownership among civil servants; and
- (b) reducing Government's long-term commitment to provide heavily sub-sidised housing for senior staff.

Officers joining the scheme may benefit from the payment of Home Purchase Allowance (HPA) for a maximum of 120 months. A total of 8 471 officers have joined the scheme. Of this number, 1 828 are officers who were eligible for private tenancy allowance or non-departmental quarters. The remaining 6 643 were not eligible for such housing benefits.

6. The total expenditure of HPA in 1986-87 is estimated at \$620.8 million compared with the revised estimate in 1985-86 of \$484.5 million. The increase of \$136.3 million is mainly due to the need to make full-year provision of about \$120 million for the 2 000 new participants approved to join the scheme during 1985-86. Provision is made in the 1986-87 draft Estimates for a further 2 000 officers to join the scheme.

7. The cost of staff pensions will continue to rise as new pensioners become eligible for payment at higher terminal salaries.

8. Expenditure on pensions can be expected to rise further in the medium term if a new Civil Service pension scheme, currently under consideration, is introduced. The rate of growth will fall in the long-term.

(B) *Security services*

9. Security services comprise internal security, immigration services and law and order. This encompasses the police, ICAC, Correctional Services, Judiciary and Government legal services. Expenditure in 1986-87 is forecast to be \$6,227 million compared with \$5,576 million in 1985-86—an increase of 11.7 per cent.

(B)(1) *Internal security*

10. As can be seen from Table 1, expenditure on internal security has not been increasing in the last five years but has been fluctuating within a narrow band.

This is mainly due to a gradually decreasing capital programme offsetting the increase in recurrent expenditure in line with inflation. The differences in expenditure over the five years have therefore, in very broad terms, reflected the fluctuation in the exchange rate between the Hong Kong dollar and sterling because a significant proportion of the expenditure is payable in sterling.

11. A higher level of expenditure (\$1,683 million) is forecast for 1986-87 because there cannot be any further significant reduction in the already much reduced capital programme and the effect of the increasing recurrent expenditure will therefore become evident.

12. In 1985-86, a commitment has been approved by Finance Committee for the purchase of a replacement fixed wing twin-engined aircraft at an estimated cost of not more than \$35 million.

(B)(2) *Immigration*

13. Table 1 indicates a rising share of resources allocated to this programme. Over the past few years, the Immigration Department has experienced continuing increase in passenger traffic through its control points. The rates of growth were 11 per cent in 1983-84, 22 per cent in 1984-85 and 21 per cent in 1985-86. The most noticeable increases were at the China-link control points where the growth has been 24 per cent in 1983-84, 43 per cent in 1984-85 and 38 per cent in 1985-86. To cope with this demand, works have been undertaken to expand the facilities at Lo Wu, where the operation hours have also been extended. The Shatin-Meisha ferry terminal was introduced in 1984-85 and the Sha Tau Kok control point was also completed as a second road traffic control point to China. The Man Kam To control point will also be expanded when the new terminal becomes operational in February 1986.

14. The facilities at other control points have also been improved. The Airport is being expanded. The new Macau ferry terminal was completed in October 1985. This enabled the old Macau ferry terminal to be converted into a second China ferry terminal on 15 January 1986 to accommodate about 50 per cent of the passengers previously using the Tai Kok Tsui pier, thereby relieving the pressure there.

15. Funds have been approved for introducing a computer system to assist in immigration control work. The system will be introduced by phases and steady progress is being made.

16. The growth in other areas of immigration control work remains steady. Legal and illegal immigration from China is still the biggest concern.

17. The identity card replacement project which commenced in March 1983 continued to make good progress. In carrying out this project, expenditure was doubled in 1982-83 as compared with the previous year. However, the activities of personal documentation i.e. the issue of travel documents, the registration for identity cards and the registration of births, deaths and marriages, reached

a plateau in the ensuing years. The level of expenditure in this area is not expected to rise significantly until 1987 when the next identity card re-issue exercise will start. In the present re-issue project, the stage where only women over 40 have not yet obtained the new identity cards has been reached. The present project will be completed months ahead of schedule.

(B)(3) *Law and order*

18. After a significant increase in 1982-83 the share of resources allocated to law and order services has remained steady at around 8.5 per cent of total Government expenditure (Table 1).

19. The police force has expanded continuously in the 1980s to strengthen its capability to prevent and combat crime. The Auxiliary Police Force provides support to the regular force during times of emergency and assists the regular force in day-to-day constabulary duties. Statistics showing the establishment of the police force and the average daily turnout of the Auxiliary Police Force over the past five years are as follows—

Table 2

	1981-82	1982-83	1983-84	1984-85	1985-86 (estimated)	1986-87 (estimated)
Establishment	27 369	28 440	29 472	30 310	30 978	31 630
Average daily turnout of Auxiliary Police	1 010*	976	953	683	700	700

* in addition there was an average daily turnout of 79 auxiliary policemen in April to June 1981 to handle the influx of refugees.

20. The primary policing function of watch and ward duties is carried out by the Uniform Branch of the force, which has undergone a series of major restructuring exercises in recent years aimed at improving its effectiveness and efficiency in the deployment of resources. As a part of this change the operational commanders in the field have been given greater autonomy and authority for decision making on operational and management matters. In 1984-85, considerable efforts were made in reviewing the various facets of Uniform Branch deployment, particularly in four key areas of operational policing, i.e. sub-unit command structure, flexible shift system, ground coverage and community policing. Following successful tests of the new systems in the field, they were implemented in the divisions effective from June 1984, initially within existing manpower strength. The deficiencies in manpower particularly at supervisory levels when viewed against the recommended system were corrected in 1985-86 through the creation of Inspectorate and Station Sergeant posts. During 1985, the Communications Branch was reorganised to cope with the increasing demand of the force. It is expected that from now until the end of the decade, an increasing proportion of the force's resources will be allocated to the development and improvement of the communications systems of the force.

21. The Crime Wing of the force is responsible for the investigation of crime, crime prevention, intelligence gathering and maintenance of the security of the territory. In order to improve its effectiveness and efficiency, the criminal investigation and prevention elements of the force were reorganised on 1 October 1982. The Deputy Director (Crime) takes command of the Crime Wing of the Force Headquarters, whereas all regional, district and divisional crime formations are the direct responsibility of the respective commanders. During 1981-82 to 1985-86, commercial crime continued to increase, particularly counterfeit currency and large scale frauds. A great upsurge in the value of property stolen was reported in 1985 compared to that in 1984. To cope with the increase in workload and to enable the Commercial Crime Bureau to assume a more positive role in combating commercial crime, its establishment was increased by phases from 1983-84 to 1985-86. Statistics showing the trend of overall crime cases and commercial crime cases over the past five years are—

Table 3

	1981*	1982	1983	1984	1985
<i>Overall crime</i>					
Number of reported crime cases	79 617	87 227	86 000	83 532	86 418
Detection rate	51.3%	46.4%	42.9%	42.8%	45.8%
<i>Commercial crime</i>					
Value of property stolen (\$mn)	151.3	258.1	440.7	676.1	2,462.4

* The counting rules of crime were revised on 1 January 1983 and crime classification was modified on 1 January 1985.

22. In the maintenance of law and order on roads, the issue of summonses and fixed penalty tickets to traffic offenders has continued. The steady decrease in the number of fixed penalty tickets issued since 1982 is attributable to many factors, the primary being the increased deterrent effect following improved adjustments of the fixed penalty rates. This trend will surprise critics. The fixed penalty rates include the adjustment in respect of parking offences on 1 April 1983 from \$70 to \$140, and in respect of some moving offences on 25 August 1984 from \$140 to \$200, and the introduction of the double penalty on 1 April 1984. Statistics showing the number of summonses and fixed penalty tickets issued over the past five years are—

Table 4

	1981	1982	1983	1984	1985
Number of summonses issued	128 331	149 576	119 508	125 680	153 551
Number of fixed penalty tickets issued	1 967 232	2 210 548	1 880 245	1 459 472	1 226 176

23. Consolidated account expenditure of the Judiciary underwent a substantial increase in 1982-83 mainly due to provision of additional posts to cope with the increased workload as a result of the increased number of criminal and

civil cases being tried in the high court, district courts and magistracies. The trend is reflected in the following statistics—

Table 5

Number of cases heard in high court, district courts and magistracies

	1981	1982	1983	1984	1985
<i>High Court</i>					
Criminal jurisdiction	215	319	308	335	262
Magisterial appeals	683	689	977	846	1 144
Civil jurisdiction	12 198	16 637	19 824	14 363	12 835
Sub-total:	13 096	17 645	21 109	15 544	14 241
<i>District Courts</i>					
Criminal jurisdiction	1 238	1 199	1 277	1 246	1 359
Civil jurisdiction	35 833	47 659	51 155	64 105	58 443
Sub-total:	37 071	48 858	52 432	65 351	59 802
<i>Magistracies</i>					
Charge case	130 756	135 261	163 436	184 363	178 000
Summons	529 795	829 954	755 980	558 700	413 166
Anti-litter	57 945	48 548	55 034	67 838	48 137
Miscellaneous proceedings	6 538	7 478	12 389	14 199	14 843
Sub-total:	775 034	1 021 241	986 839	825 100	654 146
Total:	825 201	1 087 744	1 060 380	905 995	728 189

24. The number of criminal cases tried in the high court increased by 50 per cent from 215 in 1981 to 319 in 1982. It levelled off in 1983 and increased by 8.8 per cent in 1984 but declined by 21.8 per cent in 1985. Nevertheless the average time for the trial of cases increased from 6.3 court days in 1983 to about seven court days in 1984 and 1985. The number of civil cases increased by 36.4 per cent in 1982 and by 19.2 per cent in 1983. The number fell by 27.5 per cent in 1984 and 10.6 per cent in 1985 but the average time for the trial of high court actions increased by about 21 per cent in 1984 and 1985 compared to 1983. The number of magisterial appeals, though considerably increased in these five years, has little significance as they take up only a very small proportion of the high court's time.

25. The number of criminal cases tried in district courts has been quite constant throughout recent years with a slight increase of 9 per cent in 1985 over 1984. The number of civil cases tried in district courts experienced the highest increase of 33 per cent in 1982. The rate of increase was reduced to 7 per cent in 1983 but it went up again by 25 per cent in 1984. The number, however, has declined slightly by 8.8 per cent in 1985. Nevertheless the number of civil cases in 1985 is still higher than before 1984.

26. Although the number of cases tried in magistracies has been decreasing since 1982, the workload has not decreased. The main reason for the falling trend is the reduced number of summons and anti-litter cases tried in magistracies in recent years but each of these cases in fact takes up very little magisterial time. The number of charge cases and miscellaneous proceedings

has been increasing throughout these years. While the number of charge cases has increased by 36.1 per cent in 1985 compared with that in 1981, the number of miscellaneous proceedings has more than doubled during the same period. Despite the reduction in the number of summons and anti-litter cases, the increase in charge cases and miscellaneous proceedings has in fact increased the overall workload due to the complexity and onerous nature of these cases.

27. Another reason for the increase in expenditure in 1982-83 was the procurement of law references and publications to improve the library references at various courts and the provision of a central library in the Supreme Court.

28. Considerable increases in expenditure in 1984-85 and 1985-86 were mainly due to the additional running expenses required to operate the new Supreme Court building and the Kwun Tong Law Court building.

29. Additional expenditure will arise in 1986-87 from the opening of the District Court/Magistracy and Government Office building at Wan Chai reclamation and the Sha Tin Court building, employment of a consultant from the United Kingdom to review the administration of the Judiciary and a visit by a group of Chinese legal practitioners to Hong Kong for an exchange of views and ideas in respect of the judiciary system.

30. The growth in expenditure on Legal Department services in past years is mainly due to the department's need to increase the staff establishment in order to cope with the additional workload generated by the increased number and growing complexity of both criminal and civil cases. The rapid growth of commercial crime and civil arbitration cases started in 1983-84 and has led to a need for additional staff by the department, and engagement of leading Queen's Counsel and expert witnesses from overseas to assist the department in presenting such cases. The following table shows the expenditure of the department in engaging lawyers and expert witnesses in the past few years—

Table 6

	<i>1981-82</i>	<i>1982-83</i>	<i>1983-84</i>	<i>1984-85</i>	<i>1985-86</i> <i>Revised</i> <i>Estimate</i>	<i>1986-87</i> <i>Draft</i> <i>Estimate</i>
Expenditure (\$mn)	3.3	4.2	7.4	15.5	22.8	34.3
Percentage increase over the preceding year		27.3%	76.2%	209.5%	47.1%	50.4%

31. Another consequent impact of the increased number of commercial crime cases on the department's expenditure is the need to employ professional accountants in the investigation of a number of cases.

32. In 1985-86, the department started a programme to translate all the laws of Hong Kong into Chinese and, initially, eight Senior Chinese Language

Officers have been employed and trained to do the translation work. In 1986-87, this programme of translating the Laws of Hong Kong will be expanded. A further 18 Senior Chinese Language Officers and nine supporting posts are required to carry out this task. This contributes to the increase in expenditure of the department in 1985-86 and 1986-87.

33. From 1981-82 to 1986-87, the Independent Commission Against Corruption experienced a steady growth in consolidated account expenditure.

34. To promote a greater awareness of the evils of corruption, the Community Relations Department launches a publicity campaign every year through television, radio and the press. Since 1983, the department has produced annually a 13-part ICAC spot series entitled 'Money Isn't Everything'. These were telecast on the two local Chinese television channels. The current series is being produced and will be screened in early 1986. An ICAC drama series comprising six one-hour episodes was produced and screened on television in 1985. On the public education front, the department has since 1983 embarked on the promotion of moral education in schools. So far, three social morality programmes and two sets of supplementary teaching materials have been produced for secondary schools. Efforts are being made to extend the production of similar teaching programmes for use in primary schools.

35. In bringing the message of the ICAC to the people Hong Kong, the department conducted 17 703 liaison functions in 1985 to various local organisations and residents. In addition, 166 special programmes each with a particular theme for a special category of people were organised. These included exhibitions, door-to-door visits, competitions, camps, seminars, funfairs and variety shows. Statistics showing the number of such functions over the five years are as follows—

Table 7

	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>
Number of liaison functions completed	9 566	11 796	14 049	17 975	17 703
Number of special programmes undertaken by local offices	176	158	175	177	166

36. The number of corruption reports received a year has been quite steady in the last five years and so is the number of those reports investigated. Statistics on the number of corruption reports received and the number of those reports with investigations undertaken are as follows—

Table 8

	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>
Number of corruption reports received	2 344	2 349	2 526	2 365	2 550
Number of reports investigated	1 091	1 082	1 110	1 124	1 129

37. The main categories of work of the Corruption Prevention Department are the study of new subject areas, the review or monitoring of previously completed studies, and the provision of corruption prevention advice and external training. The statistics on the number of assignments and monitoring work undertaken over the five years are as follows—

Table 9

	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>
Number of assignment reports completed	73	71	67	78	78
Number of completed studies monitored	33	23	16	35	18

38. The number of convicted prisoners and persons held on remand in Correctional Services institutes showed a slight increase in 1985 to 7 969 compared with 7 895 in 1984. This was mainly due to the admission of a larger number of convicted persons into correctional institutions. The number of Vietnamese refugees in government-run centres declined from 6 005 on 1 January 1985 to 4 832 on 31 December 1985: a decrease of 19.5 per cent over the year.

39. An estimated total of \$17.1 million is required in 1986-87 for capital expenditure on Correctional Services buildings and installations, notably the expansion of detention facilities at Siu Lam Psychiatric Centre, further expansion of Hei Ling Chau, a security wall for Tai Lam Centre for Women, additional departmental staff quarters and a pier for the maximum security prison at Shek Pik. This compares with \$18.4 million in 1985-86.

40. The expansion and diversification of Correctional Services Industries continued in 1985-86 with the aim of keeping prisoners gainfully employed and enabling them to learn work skills. The approved provision for purchasing industrial materials for 1985-86 was increased from \$25 million to \$30 million as a result of increased production by Correctional Services Industries. The total commercial value of goods and services produced in 1985-86 is estimated to be \$127.5 million, an increase of \$14.9 million, or 13.2 per cent over 1984-85.

41. Expenditure on laws and order building projects was highest in 1982-83 when it was \$735.8 million. In that year, construction of a number of major projects including the new Supreme Court building, Shek Pik maximum security prison, expansion of the Hei Ling Chau drug addiction treatment centre and Stage V of the Police Training School were well underway. The expenditure dropped in the following two years to \$264.5 million in 1984-85. It is expected that the expenditure in 1985-86 is about that of 1984-85. With the police and law court buildings being constructed and the imminent commencement of a number of major projects including Phase I of the new Police Headquarters, the expenditure in 1986-87 is estimated to be \$485.4 million.

(C) *Economic services*

42. Economic services comprise aviation, shipping, trade, industry, posts and communications. Expenditure in 1986-87 is forecast to be \$1,741 million compared with \$1,532 million in 1985-86—an increase of 13.6 per cent. The share of resources allocated to this programme group has remained relatively steady in recent years at around 3.5 per cent of total Government expenditure (Table 1).

43. The Hong Kong International Airport continued to be heavily used in 1985. 9.87 million passengers passed through and 419 700 tonnes of cargo were handled, representing increases of 3.5 per cent and 0.6 per cent respectively over 1984. The Stage V extension to the terminal building is expected to be completed by 1987-88.

44. In 1985, 13 260 ocean-going vessels entered and 13 330 cleared the port. The total deadweight tonnes of cargo loaded onto and discharged from these vessels were 13 644 800 and 32 053 500 respectively, which compared with 1984 was an overall increase of 10 per cent. The permanent Hong Kong-Macau ferry terminal commenced operation in 1985. The China passenger ferry services terminal at Tsim Sha Tsui is expected to be completed by 1987-88. The request-for-proposal phase of the Vessel Traffic Management System consultancy is due for completion by mid-1986.

45. Efforts continued to attract overseas industrial investment in Hong Kong. The fifth industrial promotion office was set up in New York in 1985. The range of services available to local manufacturers was expanded. In 1985, the laboratory accreditation scheme was launched and a company was formed to provide a product innovation and design service to industry. During 1986, additional resources will be made available to the Productivity Council to promote industrial automation.

46. Efforts to promote and develop Hong Kong's trade overseas continued. New trade promotion offices in Beijing and Shanghai will be opened by the Trade Development Council in 1986.

47. During 1985 the Post Office recorded a 10.1 per cent increase in mail traffic bringing the total number of postal articles handled to 571.6 million. Speedpost items handled increased by 40.1 per cent to 1 108 705. There was an increase of 17.6 per cent in the issue of new telecommunications licences.

48. A mechanised letter sorting system to deal with ever-increasing mail traffic has been approved. Tenders will be called in April 1986 and the system will be ready for commissioning in May 1988.

(D) *Community services*

49. Community services comprise transport facilities, land and civil engineering, water supply and so on. Expenditure in 1986-87 is forecast to be \$11,541 million compared with \$10,350 million in 1985-86—an increase of 11.5 per cent.

(D)(1) *Transport*

50. The share of resources allocated to this programme has fallen steadily during this decade as a number of very major schemes have been completed including many of the KCR related works. In addition, KCR operation has been transferred to the private sector.

51. Nevertheless, significant works of development and improvement continue. During 1985-86, both 'Hong Kong Island Eastern Corridor—stage II, phase II (Tai Koo Shing to Shau Kei Wan) (\$479 million) and part of 'Hong Kong Island Eastern Corridor, stage III, phase I—Pak Chai Wan to Chai Wan' for the construction of the Wing Tai interchange costing \$37 million were completed and opened to traffic on 26 July 1985 and 18 June 1985 respectively. It is currently planned to start works on 'Upgrading and dualling of Connaught Road and ancillary roadworks', estimated to cost \$400 million, in July 1986.

52. In Kowloon, progress on 'Elevated road—Cheung Sha Wan Road to Boundary Street' (\$58 million) and 'West Kowloon Corridor, Cheung Sha Wan Section and Tung Chau Street—Tong Mei Road ramp' (\$250 million) has been satisfactory and the works under these two projects are expected to be in full swing in 1986-87. Significant projects to start in 1986-87 include 'Tai Po Road improvement—Sha Tin to Tai Wo Ping interchange, stage I' (\$30 million).

53. In the New Territories, 'Tai Po development, package 9, trunk road—Sha Tin to North Tai Po' (\$1,221.5 million), 'New Territories Circular Road improvement—Lam Kam Road to Wo Hop Shek' (\$169 million) and 'New Territories trunk road system—North Tai Po to Lam Kam Road' (\$156 million) were completed and opened to traffic on 25 September 1985. Significant transport projects to start in 1986-87 include 'Widening of Kwai Chung Road and grade-separated intersection at Kwai On Road' (\$140 million), 'Intersection of Castle Peak and Kwai Chung Road: improvement, stage II' (\$99 million), 'New Territories circular road improvement, Au Tau to Fan Kam Road—Au Tau to Mai Po Road and remaining works' (\$168 million) and part of 'Junk Bay development—principal access road' (\$182 million).

(D)(2) *Land and civil engineering*

54. Since activity carried out under this programme is primarily of a capital nature, it is inherently subject to expenditure fluctuation year on year. However, it has averaged around 7 per cent per annum of Government's total spending during this decade.

55. A significant drainage and erosion protection project to start in 1986-87 is 'Improvement to Shenzhen River bends at Lok Ma Chau and Liu Pok'. The costs of these works will be shared equally between the Hong Kong Government and the Shenzhen Authorities. Hong Kong's share is estimated to cost \$50 million.

56. With respect to land development projects in the urban areas, 'Chai Wan remaining reclamation and breakwater—works' (\$66 million), 'Aldrich Bay reclamation, area C' (\$33 million), 'Quarry Bay reclamation, stage II' (\$40 million) and 'To Kwa Wan reclamation' (\$10 million) were completed in 1985-86. Progress on 'Siu Sai Wan development—works, stage I' (\$31 million) and 'Diamond Hill development—works, stage I' (\$100 million) has been satisfactory and they are expected to be completed in February 1987 and September 1988 respectively. A significant project planned to start in 1986-87 is stage I of the Hung Hom Bay reclamation which is estimated to cost above \$103 million.

57. In the New Territories, progress on 'Junk Bay development, head of Bay stage I, engineering works' (\$442 million), 'Fanling development, package 7, phase II: formation and servicing—Fanling South' (\$92.8 million) and 'Tin Shui Wai development, package 3, part I—construction access and initial drainage' (\$100 million) has been satisfactory. Work on 'Formation of a light rail transit reserve in the Tuen Mun—Yuen Long corridor and associated structures, stage I, (\$256 million) started in January 1986 and is expected to be completed by the end of 1989. A significant land development project to start in 1986-87 is 'Tin Shui Wai development, package 3, part II—land formation and main drainage' (\$480 million).

(D)(3) *Water*

58. Expenditure on water services has averaged around 3.5 per cent of Government's total annual expenditure in this decade (Table 1).

59. Construction of the stage I works for the reception and distribution of the increased supply of water from China is nearing completion. Construction of the stage II works is continuing. These large projects will continue to account for the major portion of waterworks expenditure in 1986-87.

60. Construction of the new treatment works at Sheung Shui and Yau Kom Tau was completed and construction of a new treatment works at Pak Kong including the water transfer systems to Junk Bay New Town and Kowloon East has started.

61. Design and construction of new installations to meet anticipated increases in demand for Hong Kong Island, the Kowloon urban area, rural market towns and new towns continue. New projects planned to start in 1986-87 include 'Additional fresh water supply to Chai Wan', 'Stanley/Repulse Bay water supply—stage IV', and 'Wan Chai salt water flushing system'. Works for extension of Sha Tin and Tuen Mun treatment works, improvements to Shing Mun catchwater, and for supplying Shau Kei Wan, Kowloon East high level districts and Tap Mun are substantially complete.

(D)(4) *Other community services*

62. This programme comprises public safety, environmental protection, recreation and amenity works. Its share of total Government spending has risen steadily from 8.1 per cent in 1981-82 to an allocation of 9.4 per cent in 1986-87 (Table 1). The increase reflects the considerable allocation of extra resources to fire and ambulance services, sewerage works and recreational and cultural amenities particularly in the New Territories.

63. A total allocation of \$46 million is made in 1986-87 for the construction of the Fire Services Headquarters, one ambulance depot and 15 divisional/sub-divisional fire stations in the urban area. In the New Territories a total allocation of \$27 million is made for the construction of seven divisional/sub-divisional fire stations and seven ambulance depots.

64. As regards environmental protection in the urban areas, 'Chai Wan sewerage district development—screening plant' (\$17 million) and 'Kowloon East sewerage district development—submarine outfall off Kai Tak runway' (\$41.6 million) were completed in 1985-86. Significant projects to start in 1986-87 include 'North Point sewerage, district development—Healthy Street West screening plant' (\$40 million) and 'To Kwa Wan sewerage district development—screening plant and submarine outfall' (\$66 million).

65. For the New Territories, 'Tai Po development, package 5, stage I, IIA and IIB' (\$322.9 million) is expected to be completed in March 1986. Progress for 'Sha Tin New Town—permanent sewage treatment works, stage II: design and construction' (\$318 million), 'Sai Kung and Tui Min Hoi, area sewage development—works' (\$130 million) and 'Junk Bay development, phase I sewage disposal works, trunk sewer and submarine outfall' (\$295 million) is good. A significant project to start in 1986-87 is 'Controlled tipping of refuse at Junk Bay, stage II, phase I' (\$70 million).

66. With the development of the new towns, various recreation, culture and amenities projects are provided to keep pace with the needs of the growing community. Major projects nearing completion include 'Sha Tin cultural complex and library' (\$137.3 million) and 'Civic and cultural complex, Tuen Mun Town Centre, phase I—auditorium' (\$137.6 million). Others being constructed are 'Tso Kung Tam Park, stage I', phase IIA and B of the Tuen Mun Town Park, and 'Swimming pool complex, area 16, Tuen Mun'. Projects to start in 1986-87 include 'Yeung Uk Road market, office and indoor games hall, Tsuen Wan' and 'District open space, area 37, Kwai Chung—stage III: construction of phase IB facilities'. \$54 million is allocated to the Tsim Sha Tsui auditoria complex in 1986-87.

(E) *Social services*

67. The Social services group of programmes is made up of education, medical, housing, social welfare and labour services. Expenditure in 1986-87 is

forecast to be \$21.954 million compared with \$19,686 million in 1985-86—an increase of 11.5 per cent. It is not only the biggest of the programme areas, it is also the fastest growing.

(E)(1) *Education*

68. Expenditure on education since 1980-81 has increased substantially in real terms. Its share of Government's total spending has increased from 14.2 per cent in 1981-82 to an allocation of 18 per cent in 1986-87. This is largely due to the developments outlined below.

69. The education programme comprises not only pre-primary, primary, secondary and special education but also adult education, technical education and industrial training, vocational training for the disabled, teacher training and retraining as well as education at the two universities, the two polytechnics, the Baptist College and the Lingnan College.

70. The Government provides financial assistance to non-profit-making kindergartens by refunding rent and rates. Fee assistance is also provided to needy children attending kindergartens.

71. Free and universal primary education has been available since 1971. The minimum age of entry into Primary 1 is now five years and eight months and the maximum class size is being reduced by stages from 45 to 40 pupils, and to 35 pupils for classes adopting the activity approach.

72. There are surplus places in some primary schools, mainly in the older parts of the urban area. Nevertheless, given the Government's policy that no child should have to travel an unreasonable distance to attend primary school, new schools are being built in conjunction with new housing developments. In 1986-87 14 new primary schools are expected to be completed in conjunction with public housing estates in the new towns and other developing areas.

73. The policy to develop secondary education in the public sector was first laid down in a White Paper published in 1974. A second White Paper, published in 1978, set out the policy objectives for senior secondary and tertiary education. The Education Commission's first report, accepted by the Government in January 1985, sets out further policy objectives in respect of secondary education.

74. From September 1980, subsidised places in Forms I to III of secondary schools have been available to meet the full demand at this level. The Government now plans to increase the number of places in schools, technical institutes and adult education centres to meet the demand from Form III leavers and to phase out the Junior Secondary Education Assessment by 1991.

75. Additional teachers have been provided so that students can benefit from more counselling and guidance, remedial teaching and extra-curricular activities. Each standard-sized government and aided secondary school has been provided with three additional graduate teachers (two in September 1982

and one in September 1983) and one additional non-graduate teacher (in September 1985). A further non-graduate teacher will be provided in September 1986.

76. Government policy is to provide first year first degree places for 6 per cent of the mean of the 17 to 20 age group by 1989-90 rising to 8 per cent by 1994-95. The percentage is 3.7 per cent in 1985-86 and a figure of 4.8 per cent is planned in 1986-87. The two universities, the two polytechnics and the Baptist College will increase the number of full-time equivalent students they accommodate from 29 510 in 1985-86 to 31 870 in 1986-87. In addition, about 4 700 Hong Kong students will follow first degree or Higher National Diploma courses in the United Kingdom.

77. The transfer of Diploma and Certificate Courses from the Hong Kong Polytechnic to the technical institutes, which began in 1981, will continue in 1986-87. The objective is to let the technical institutes be responsible for the operation of most of the Diploma and Certificate courses and to enable the Polytechnic to concentrate a greater proportion of its work at the Higher Diploma and Higher Certificate levels and degree courses.

78. The Vocational Training Council continues to expand its activities in technical education and industrial training. It plans to open two new technical institutes and two new industrial training centres in 1986-87, bringing the total numbers to seven technical institutes and 13 industrial training centres.

79. The number of students admitted by the Colleges of Education has been increased in order to train sufficient non-graduate teachers for the planned developments in schools.

80. Schemes of financial assistance for students at the post-secondary and tertiary level provide for grants and loans to students at the universities, polytechnics and colleges of education, to post-advanced level students at the Baptist College and Lingnan College and for loans to students at Shue Yan College. In addition a scheme of assistance jointly financed by the United Kingdom and Hong Kong Governments provides grants for full time students on first degree and Higher National Diploma courses in the United Kingdom. The estimated gross expenditure on grants and loans in 1986-87 is \$194 million compared with the revised estimate for 1985-86 of \$169 million.

81. As stated in the 1977 White Paper, 'Integrating the Disabled into the Community: A United Effort', the Government intends:

'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.'

82. When children enter primary school they are screened for possible speech defects, vision or hearing impairment, and for difficulties in learning and possible retardation. Children identified as needing further assessment or remedial treatment are referred to specialists in either the Medical and Health

Department or the Education Department and are given the type of education most appropriate to their needs and capabilities.

83. For handicapped children studying in ordinary schools, a range of support services has been developed to meet the increasing demand for integration. These services include special classes, revised resource classes and visiting resource teachers for blind, hearing impaired and physically handicapped children, and for children with learning difficulties. The number of resource teaching centres for children with learning difficulties and adjustment units for children with behaviour problems will continue to be increased.

84. Aided special schools provide special education for blind, hearing impaired, physically handicapped and mentally handicapped children as well as care such as the provision of social workers and para-medical staff and boarding care.

85. In 1986-87, the number of pupils receiving assessment and remedial services is forecast to be 35 350 compared with 34 760 in 1985-86. One special school for mildly and moderately mentally handicapped pupils with a capacity of 300 places will be completed in 1986-87.

86. In the area of vocational training for the disabled, the total provision of training places in government and subvented vocational training centres will be increased from 664 to about 750 in 1985-86. It is expected that the demand for vocational assessment will continue to be strong and the facilities available will be able to meet the demand.

(E)(2) *Medical*

87. The share of total Government expenditure allocated to medical services has also shown a steady increase throughout this decade and has risen from 7.3 per cent in 1981-82 to an allocation of 8.9 per cent in 1986-87. This largely reflects the construction and subsequent operation of major new facilities.

88. The two main principles underlying the provision of medical and health services are the need to safeguard and promote the general public health of the community as a whole and the need to ensure there are adequate medical and personal health facilities for the people of Hong Kong, including particularly that large section of the community which relies on subsidised medical attention.

89. The expansion and phased implementation of medical and health services are kept under continuous review by the Medical Development Advisory Committee (MDAC). Recent developments in the medical and health field are summarised below.

90. The process of regionalisation has been continued by the provision of additional staff to strengthen the regional offices for Hong Kong, Kowloon and the New Territories. In January 1984, the New Territories region was split into two regions, East and West respectively. To develop further the integration of government and subvented medical services by enabling subvented hospitals to

assume a greater role in the treatment of patients, development programmes are under way in the Caritas, Pok Oi, Yan Chai and United Christian Hospitals and the Ruttonjee Sanatorium, for which capital subventions of \$106.9 million have been provided in 1986-87.

91. The formula for determining the need for hospital beds is constantly being refined by the MDAC in terms of the actual number of beds required, rather than a crude bed: population ratio of 5.5 per 1 000 population. By the end of 1986-87, there will be some 24 500 beds in government, subvented and private hospitals. These will meet approximately 75 per cent of the estimated requirement. Essential services of the \$894.7 million Prince of Wales Hospital were fully operational by the middle of 1985. In addition to \$899 million for the government hospital project in Tuen Mun, \$783.6 million will be spent on improvements and extensions to Queen Mary and Tang Shiu Kin Hospitals. A further \$123.5 million will be spent on site formation works and consultants' fees for a new hospital to serve the Eastern District of Hong Kong Island.

92. In addition to the construction of general and specialist hospitals, thirteen new clinics and polyclinics are at present included in the Public Works Programme.

93. The aim of the school dental service is to provide dental health education and conservation treatment to primary school children. Three school dental clinics are currently in operation. Work on a fourth school dental clinic will be completed towards the end of this year. Work will also start in 1986-87 on the fifth and the sixth clinics in Sha Tin and Tuen Mun. Two other clinics are planned and when completed the service will cover all primary school children.

94. The community nursing scheme has been recognised as an integral part of medical and health services in Hong Kong. The Government has participated directly in the scheme since 1979 and participating voluntary organisations are subvented on a deficiency grant basis. In 1984-85, the service handled a total of 12 059 patients involving more than 213 000 home visits. At present, there are 20 government centres and 27 centres run by seven voluntary agencies. An additional 13 centres are being planned in the next five years.

(E)(3) *Housing*

95. Although the share of total Government spending absorbed by housing has fallen slightly in the last few years to 12.3 per cent this is primarily due to improved tender prices for capital works and the phasing of start and completion dates.

96. Public housing is defined 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 the Private Sector Participation Scheme, and temporary accommodation in temporary housing areas. Normally Government does not incur capital

expenditure on projects in the Private Sector Participation Scheme because they are funded by private developers.

97. 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 displaced by clearances. The aim of both the Home Ownership Scheme and the Private Sector Participation 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 and to encourage tenants in public rental estates to purchase homes of their own.

98. By the end of 1985-86, the Housing Authority's stock of domestic accommodation will amount to more than 585 000 flats, with over 29 000 flats having been completed in 1985-86. By the same date, about 50 000 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 40 000 flats a year (made up of flats for renting (30 000) by the Housing Authority and flats for sale (5 000 each) under the Home Ownership Scheme and the Private Sector Participation Scheme) under a five year programme which is rolled forward annually. The following table shows production for the four years ending 1985-86, and a forecast for the four years commencing 1986-87—

Table 10

<i>Year</i>	<i>Housing Authority's rental housing programme (flats)</i>	<i>Home Ownership Scheme (flats)</i>	<i>Private Sector Participation Scheme (flats)</i>	<i>Total (flats)</i>
1982-83 (actual)	27 879 (*)	7 508	760	36 147
1983-84 (actual)	28 564	7 877	2 240 (†)	38 681
1984-85 (actual)	26 354	10 168	1 408	37 930
1985-86 (estimated)	29 553	6 688	11 902	48 143
1986-87 (estimated)	30 020	6 838	3 640	40 498
1987-88 (estimated)	32 770 (‡)	7 610	2 025	42 405
1988-89 (estimated)	35 295 (‡)	5 698	4 515	45 508
1989-90 (estimated)	37 284 (‡)	6 062	5 290	48 636

Note:

(*) Including 622 flats produced by the Building Development Department.

(†) Built under the now defunct Middle Income Housing Programme.

(‡) Including a total of 7 241 flats to be produced under the Extended Redevelopment Programme (816 in 1987-88, 2 503 in 1988-89 and 3 922 in 1989-90).

99. The Housing Authority's rental housing programme is financed largely by loans to the authority from the Development Loan Fund which are repayable over 40 years at a notional interest rate of 5 per cent per annum on the reducing balance of the loans. Although the interest is not payable in cash, the authority is required to include the amount of interest in its accounts 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 1985-86 total expenditure incurred by the Housing Authority on the construction of flats (including flats to be built under the Extended Redevelopment Programme and those transferred to the Home Ownership Scheme) is estimated to amount to \$2,086 million. For 1986-87, it is estimated that the capital expenditure would amount to \$2,166 million.

100. Provision has been made in the Development Loan Fund for the structural repair and redevelopment of defective public housing estates under the Extended Redevelopment Programme (including the demolition of 26 sub-standard blocks) together with the development of additional rehousing units on supplementary sites to cater for the initial rehousing of the tenants affected. This provision will allow for both immediate action and continuing redevelopment and improvement of the housing estates affected, similar to the authority's successful planning and progress in the redevelopment of the Marks I and II resettlement blocks. Since this programme is still in the formative stage and will continue in phases relating to priority of works, there are likely to be adjustments and fine-tuning in subsequent years.

101. 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 sold since early 1982. In 1985-86, total expenditure on the construction of flats and transfers from the rental programme is estimated to amount to \$737 million and proceeds from the sale of flats are estimated to be \$1,469 million. For 1986-87, total estimated expenditure amounts to \$760 million and proceeds from the sale of flats are estimated to be \$1,565 million.

102. 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 cent 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 1985-86 amount to \$84 million, and in 1986-87 are estimated to amount to \$80 million.

103. The programme for the development of temporary housing areas is funded from the Capital Works Reserve Fund and is rolled forward annually to meet anticipated demand arising from clearances, people made homeless by fires, natural disasters and other causes. From 1 April 1985, the programme has also included certain improvements to cottage areas in order to provide facilities such as individually metered water supply and basic amenities.

104. Under the Private Sector Participation Scheme (a supplement to the Home Ownership Scheme). Government offers sites for sale on the condition that the developer builds a set number of flats to laid-down specification for sale at a stipulated average price to purchasers nominated by the Government. The projects in this scheme are financed solely by private developers. The Government receives revenue in the form of land premium, but in the event that the end-selling price of the flats is fixed below the guaranteed price or Government has to purchase unsold flats, it is required to reimburse the developer using funds from the Home Ownership Fund for the purpose.

(E)(4) *Social welfare*

105. The share of Government's total spending allocated to social welfare has increased considerably in this decade from 4.2 per cent in 1981-82 to 5.8 per cent in 1986-87.

106. 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.

107. The planning of social welfare development is reviewed and updated 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 needs of vulnerable groups in the community through a system of measures which provide financial or other assistance.

Services for offenders—to give effect to the directions of the courts on the treatment of offenders with the aim of re-integrating them into the community through probation, supervision, residential and after-care services.

Family welfare—to maintain the family unit and relationships and to deal with personal and family problems and to meet needs which cannot be met within the family.

Services for the elderly—to promote the well-being of the elderly through the provision of community support services and residential care.

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 guide and counsel young people from anti-social and delinquent behaviour.

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.

108. Progress in the main activity areas can be seen from the following table—

Table 11

<i>Activity area</i>	<i>service</i>	<i>1982-83</i>	<i>1983-84</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>
Social security	Public assistance (caseload)	51 267	56 090	59 990	63 900	68 000
	Special needs allowances (caseload)	221 953	240 311	260 095	277 900	296 900
Services for offenders	Correctional institutions (number of places)	586	586	646	706	706
	Probation (supervision caseload)	3 036	3 389	3 469	3 630	3 800
	(number of social enquiry reports)	8 092	8 610	9 061	10 482	11 000
Family welfare services	After-care (caseload)	277	259	251	230	230
	Counselling (caseload)	26 310	28 050	28 450	28 482	28 720
Services for the elderly	Child Care Centres (number of places)	13 174	14 830	16 536	17 476	18 002
	Hostels/Homes for the aged (number of places)	3 624	3 921	4 117	4 585	5 335
	Care and attention homes (number of places)	369	887	1 027	1 367	1 367
Community building	Housing for the elderly (number of places)	—	474	589	589	589
	Youth and community offices (number of offices)	19	19	19	19	19
	Group work units (number of units in community centres, estate community centres and youth centres)	—	—	—	27	28
Personal social work among young people	School social work (number of student guidance officers)	215	215	215	215	215
	School social workers	120	122	125	129	130
	Outreaching social work (number of teams)	18	18	18	18	18
Rehabilitation	Family life education (number of workers)	54	56	56	56	56
	Special child care centres (number of places)	360	420	480	480	480
	Residential care for the disabled (number of places)	1 234	1 286	1 286	1 421	1 736

109. 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 per cent and 150 per cent of the highest public housing rent for singleton-households and families respectively. The public assistance caseload, which fell steadily from around 49 900 in 1976 to around 45 700 in 1980, rose by the end of 1985 to around 62 900. Only some 6 per cent of the present caseload is in respect of persons unemployed or earning a low income.

110. The basic rates for public assistance and the special needs allowances (disability and old age) were increased by 13.3 per cent in February 1984. The Draft Estimates include provision of \$689.7 million for public assistance (compared with the revised estimate of \$630.8 million for 1985-86) and \$974.2 million for special needs allowances (compared with the revised estimate of \$909.4 million in 1985-86).

111. 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 organisations and trusts are classified as Category I or Category II depending on their nature. Services in Category I receive subvention at 100 per cent of the standard cost and services in Category II part only of the standard cost or a lump sum if standard costs cannot be established. In 1983-84 standard costs were introduced and at present apply to seven services, namely neighbourhood level community development projects, family life education, family casework, small group homes, foster care, school social work and pool buses for the elderly. However, a review of the standard cost system showed that the application of mid-point salary in the calculation of personal emoluments has resulted in large surpluses in agencies' accounts. This is clearly undesirable and, pending consideration of the proposed modifications to the current subvention system, the Director of Social Welfare does not recommend any further extension of the standard cost in 1986-87. Subventions for other services, in the interim, will continue to be granted for Category I services at 100 per cent of existing recognised expenditure, adjusted for price increases, and for Category II services at a fixed percentage based on the average level of financial support for that service (adjusted for price increases) or an appropriate lump sum. In calculating subventions to social welfare agencies only fee income received by agencies and interest accrued from subvention moneys not immediately spent will be taken into account.

112. Rehabilitation services in the social welfare field continue to be expanded and improved through the Government and subvented voluntary agencies. Funds are provided for establishing four half-way houses for the ex-mentally ill, five homes/hostels for the disabled, three work activity centres, one sheltered workshop, and for expansion of the vocational training centre for the disabled.

During 1986-87, the Social Welfare Department plans to operate a sheltered workshop, a work activity centre and a home-cum-work activity centre.

(E)(5) *Labour*

113. Spending on labour services stands at around 0.3 per cent of Government's total spending.

114. Government services related to labour include employment assistance, labour-management relations, regulating employment conditions, air pollution control, administering legislation on prospecting, mining, quarrying and explosives, and administering legislation on trade unions.

115. The Government provides employment assistance to employers and job-seekers. It helps not only able-bodied job seekers but also the disabled. Since July 1984, employment assistance to disabled job-seekers has been extended to the mentally handicapped and to former mental patients.

116. In April 1985, the Protection of Wages on Insolvency Fund came into operation to assist workers in obtaining arrears of wages owed by insolvent employers.

117. A new system for assessing compensation for employees injured at work was implemented in the second half of 1983. The procedures for claiming compensation were simplified and Government now performs a more active role. As a result, the number of employees' compensation cases handled has been considerably increased.

118. The Government began an education programme for trade unionists in 1983. The number of courses has increased gradually since then and this effort will be sustained in 1986-87.

APPENDIX C

GENERAL REVENUE ACCOUNT SUMMARIES

Background

The General Revenue Account is the main operating account through which the Government's finances are controlled. The following tables summarise the estimates for 1986-87 making due allowance for revenue measures and set these estimates in their historic context.

Table 1—Summary

Table 2—Expenditure analysis

Table 3—Revenue analysis

Table (1)

General Revenue Account—Summary

	1981-82 (\$mn)	Actual 1982-83 (\$mn)	1983-84 (\$mn)	1984-85 (\$mn)	Revised Estimate 1985-86 (\$mn)	Estimate (after revenue proposals) 1986-87 (\$mn)
<i>Recurrent Account</i>						
Expenditure	16,295	20,499	22,876	25,992	29,326	32,363
Revenue	24,014	24,882	27,251	30,582	35,443	38,199
Surplus	7,719	4,383	4,375	4,590	6,117	5,836
<i>Capital Account</i>						
Expenditure*	1,597	1,345	1,337	1,404	1,434	1,581
Revenue	10,299	6,216	3,149	4,756	4,468	1,693
Surplus	8,702	4,871	1,812	3,352	3,034	112
Surplus before transfers to funds	16,421	9,254	6,187	7,942	9,151	5,948
Transfers to funds	9,886	12,754	9,180	9,506	9,053	5,600
Surplus/(Deficit) Government Bonds proceeds	6,535	(3,500)	(2,993)	(1,564)	98	348
Total surplus/(shortfall)	6,535	(3,500)	(2,993)	(559)	98	348

* Excluding transfers to funds

Table (2)

General Revenue Account—Expenditure Analysis

	1981-82		<i>Actual</i> 1982-83		1983-84		1984-85		1985-86		<i>Estimate</i> 1986-87	
	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)
<i>Recurrent Expenditure</i>												
Personal emoluments	6,026	37	7,479	36	8,335	36	9,603	37	10,959	37	11,062	36
Personnel related expenses	818	5	1,551	7	1,881	8	2,149	8	2,451	8	2,627	8
Departmental expenses	2,428	15	2,564	13	2,742	12	2,829	11	3,005	10	3,311	11
Other charges	3,041	19	3,606	18	3,997	18	4,407	17	4,868	17	5,154	17
Subventions	3,982	24	5,299	26	5,921	26	7,004	27	8,043	28	8,609	28
Sub-total	16,295	100	20,499	100	22,876	100	25,992	100	29,326	100	30,763	100
Additional commitments	—	—	—	—	—	—	—	—	—	—	1,600	—
Total Recurrent Expenditure	16,295	—	20,499	—	22,876	—	25,992	—	29,326	—	32,363	—
<i>Capital Expenditure</i>												
Plant, equipment & works	494	31	599	45	546	41	443	32	370	26	492	34
Defence Costs Agreement	56	4	64	5	81	6	75	5	36	2	27	2
Subventions	356	22	328	24	461	34	675	48	569	40	795	56
Other	691	43	354	26	249	19	211	15	459	32	117	8
Sub-total	1,597	100	1,345	100	1,337	100	1,404	100	1,434	100	1,431	100
Additional commitments	—	—	—	—	—	—	—	—	—	—	150	—
Total Capital Expenditure	1,597	—	1,345	—	1,337	—	1,404	—	1,434	—	1,581	—
Transfers to funds	9,886	—	12,754	—	9,180	—	9,506	—	9,053	—	5,600	—
Total expenditure	27,778	—	34,598	—	33,393	—	36,902	—	39,813	—	39,544	—

Table (3)

General Revenue Account—Revenue Analysis

		1981-82		1982-83	Actual	1983-84		1984-85		Revised		Estimate
	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(after revenue proposals) 1986-87 (%)
<i>Recurrent Revenue</i>												
Direct taxes												
Earnings & profits tax	10,567	44	11,849	48	11,423	42	13,515	44	15,615	44	16,988	44
Indirect taxes												
Duties	937	4	1,245	5	2,584	10	2,344	8	3,147	9	3,392	9
General rates	1,051	4	697	3	1,156	4	1,222	4	1,800	5	1,190	3
Internal revenue	3,345	14	2,630	11	3,184	12	4,049	13	5,145	14	5,585	15
Motor vehicle taxes	484	2	384	1	316	1	350	1	600	2	670	2
Royalties & concessions	200	1	257	1	270	1	359	1	382	1	408	1
Total indirect taxes	6,017	25	5,213	21	7,510	28	8,324	27	11,074	31	11,245	30
Other revenue												
Fines, forfeitures & penalties	291	1	292	1	343	1	366	1	362	1	366	1
Revenue from properties & investments	3,565	15	2,957	12	2,638	9	2,395	8	1,594	5	1,914	5
Reimbursements & contributions	364	1	825	3	831	3	1,021	3	1,060	3	1,451	4
Utilities	1,587	7	1,918	8	2,093	8	2,321	8	2,640	7	2,854	7
Fees & charges	1,623	7	1,828	7	2,413	9	2,640	9	3,098	9	3,381	9
Total other revenue	7,430	31	7,820	31	8,318	30	8,743	29	8,754	25	9,966	26
Total Recurrent Revenue	24,014	100	24,882	100	27,251	100	30,582	100	35,443	100	38,199	100
<i>Capital Revenue</i>												
Direct taxes												
Estate duty	316	3	313	5	316	10	300	5	345	8	342	20
Indirect taxes												
Taxi concessions	208	2	268	4	191	6	120	2	46	1	27	2

Table (3) *Contd.**General Revenue Account—Revenue Analysis*

	1981-82		<i>Actual</i> 1982-83		1983-84		1984-85		<i>Revised</i> <i>Estimate</i> 1985-86		<i>Estimate</i> <i>(after</i> <i>revenue</i> <i>proposals)</i> 1986-87	
	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)
Other revenue												
Land transactions	9,677	94	5,048	81	2,267	72	4,267	74	3,630	81	500	30
Donations & grants	55	1	65	1	112	4	51	1	20	—	20	1
Repayments of loans & advances	43	—	122	2	13	—	18	—	427	10	4	—
Proceeds from the Issue of Bonds	—	—	—	—	—	—	1,005	18	—	—	—	—
Other	—	—	400	7	250	8	—	—	—	—	800	47
Sub-total	<u>9,775</u>	<u>95</u>	<u>5,635</u>	<u>91</u>	<u>2,642</u>	<u>84</u>	<u>5,341</u>	<u>93</u>	<u>4,077</u>	<u>91</u>	<u>1,324</u>	<u>78</u>
Total Capital Revenue	<u>10,299</u>	<u>100</u>	<u>6,216</u>	<u>100</u>	<u>3,149</u>	<u>100</u>	<u>5,761</u>	<u>100</u>	<u>4,468</u>	<u>100</u>	<u>1,693</u>	<u>100</u>
Total Revenue	<u>34,313</u>	—	<u>31,098</u>	—	<u>30,400</u>	—	<u>36,343</u>	—	<u>39,911</u>	—	<u>39,892</u>	—

Statistical Analysis

	1981-82	<i>Actual</i> 1982-83	1983-84	1984-85	<i>Revised</i> <i>Estimate</i> 1985-86	<i>Estimate</i> <i>(after</i> <i>revenue</i> <i>proposals)</i> 1986-87
	Direct tax as % of Direct + Indirect taxes	64%	69%	60%	62%	59%
Direct tax as % of Total Revenue	32%	39%	39%	38%	40%	43%
Recurrent Revenue as % of Total Revenue	70%	80%	90%	84%	89%	96%
Capital Revenue as % of total Revenue	30%	20%	10%	16%	11%	4%

APPENDIX D

VEHICLE AND DRIVING LICENCE FEES

	<i>Existing rate</i>	<i>Proposed rate</i>
	\$	\$
1. <i>Driving Licences</i>		
Full	160 p.a.	170 p.a.
Driving instructor's	500 p.a.	520 p.a.
Learner's	330 p.a.	350 p.a.
Temporary	160	170
Driving test	330	350
Driving instructor's test	330	350
2. <i>Vehicle Licences</i>		
<i>Goods vehicle</i>		
not exceeding 1.9 tonnes	750	800
exceeding 1.9 tonnes but not exceeding 5.5 tonnes	1,500	1,550
exceeding 5.5 tonnes	3,000	3,150
<i>Taxi</i>	2,000	2,100
<i>Private car</i>		
not exceeding 1 500 cc	2,500	2,600
exceeding 1 500 cc but not exceeding 2 500 cc	3,750	3,900
exceeding 2 500 cc but not exceeding 3 500 cc	5,000	5,200
exceeding 3 500 cc but not exceeding 4 500 cc	6,200	6,500
exceeding 4 500 cc	7,400	7,700
<i>Motor cycle</i>	800	830
<i>Motor tricycle</i>	750	830
<i>Public light bus</i>	5,500	5,700
<i>Private light bus</i>	1,750	1,800

APPENDIX E

BANK AND DEPOSIT-TAKING COMPANY LICENCE FEES

	<i>Existing rate</i> \$	<i>Proposed rate</i> \$
<i>Banks</i>		
1. Annual licence fee (section 12(1))	300,000	360,000
2. Fee for establishment of a local branch (section 12B(1))	15,000	17,000
3. Annual fee for maintaining a local branch (section 12B(1))	15,000	17,000
4. Fee for establishment of an overseas branch (section 12H(3)(a))	30,000	34,000
5. Fee for establishment of an overseas representative office (section 12H(3)(b))	7,500	8,500
6. Annual fee for maintaining an overseas branch (section 12H(3)(c))	30,000	34,000
7. Annual fee for maintaining an overseas representative office (section 12H(3)(d))	7,500	8,500
8. Fee for establishment of a local representative office (section 12E(3)(a))	15,000	17,000
9. Annual fee for maintaining a local representative office (section 12E(3)(b))	15,000	17,000
<i>Deposit-taking Companies</i>		
1. Registration fee (section 11(1))	45,000	50,000
2. Renewal of registration fee (section 11(2))	45,000	50,000
3. Licence fee (section 16C(1))	150,000	170,000
4. Renewal of licence fee (section 16C(2))	150,000	170,000
5. Fee for establishment of a local branch (section 16I(1))	7,500	8,500
6. Annual fee for maintaining a local branch (section 16I(1) and (2))	7,500	8,500
7. Fee for establishment of an overseas branch (section 16L(1) and (2))	15,000	17,000
8. Annual fee for maintaining an overseas branch (section 16L(1) and (2))	15,000	17,000
9. Fee for establishment of an overseas representative office (section 16L(1))	7,500	8,500
10. Annual fee for maintaining an overseas representative office (section 16L(1) and (2))	7,500	8,500

*APPENDIX F***PERSONAL TAX CONCESSIONS**

A. *Examples of salaries tax payable by various taxpayers with same income levels and having regard to proposed increases in personal and dependent parent allowances*

Example 1—Annual earnings of \$72,000 (i.e. \$6,000 per month)

	<i>Single</i>	<i>Single with two dependent parents</i>	<i>Single with two dependent parents with additional allowance</i>	<i>Married with no children</i>	<i>Married with two children</i>	<i>Married with two dependent parents</i>	<i>Married with two children and two dependent parents</i>	<i>Married with two children and two dependent parents with additional allowance</i>
	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)+J!</i>
Salary per annum	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000
Less: Personal allowance	29,000	29,000	29,000	60,000	60,000	60,000	60,000	60,000
	43,000	43,000	43,000	12,000	12,000	12,000	12,000	12,000
Less: Child allowance	—	—	—	—	15,000	—	15,000	15,000
Dependent parent allowance	—	18,000	24,000	—	—	18,000	18,000	24,000
Net chargeable income	43,000	25,000	19,000	12,000	NIL	NIL	NIL	NIL
Tax thereon	5,600	2,250	1,400	700	NIL	NIL	NIL	NIL
Effective rate	7.8%	3.1%	1.9%	1.0%	—	—	—	—

APPENDIX F Contd.

Example 2—Annual earnings of \$120,000 (i.e. \$10,000 per month)

	Single (\$)	Single with two dependent parents (\$)	Single with two dependent parents with additional allowance (\$)	Married with no children (\$)	Married with two children (\$)	Married with two dependent parents (\$)	Married with two children and two dependent parents (\$)	Married with two children and two dependent parents with additional allowance (\$)+J!
Salary per annum	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Less: Personal allowance	29,000	29,000	29,000	60,000	60,000	60,000	60,000	60,000
	91,000	91,000	91,000	60,000	60,000	60,000	60,000	60,000
Less: Child allowance	—	—	—	—	15,000	—	15,000	15,000
Dependent parent allowance	—	18,000	24,000	—	—	18,000	18,000	24,000
Net chargeable income	91,000	73,000	67,000	60,000	45,000	42,000	27,000	21,000
Tax thereon	17,250	12,750	11,250	9,500	6,000	5,400	2,550	1,650
Effective rate	14.4%	10.6%	9.4%	7.9%	5.0%	4.5%	2.1%	1.4%

APPENDIX F Contd.

Example 3—Annual earnings of \$180,000 (i.e. \$15,000 per month)

	Single (\$)	Single with two dependent parents (\$)	Single with two dependent parents with additional allowance (\$)	Married with no children (\$)	Married with two children (\$)	Married with two dependent parents (\$)	Married with two children and two dependent parents (\$)	Married with two children and two dependent parents with additional allowance (\$)+J!
Salary per annum	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000
Less: Personal allowance	29,000	29,000	29,000	60,000	60,000	60,000	60,000	60,000
	151,000	151,000	151,000	120,000	120,000	120,000	120,000	120,000
Less: Child allowance	—	—	—	—	15,000	—	15,000	15,000
Dependent parent allowance	—	18,000	24,000	—	—	18,000	18,000	24,000
Net chargeable income	151,000	133,000	127,000	120,000	105,000	102,000	87,000	81,000
Tax thereon	30,600	27,750	26,250	24,500	20,750	20,000	16,250	14,750
Effective rate	17.0%	15.4%	14.6%	13.6%	11.5%	11.1%	9.0%	8.2%

APPENDIX F Contd.

Example 4—Annual earnings of \$216,000 (i.e. \$18,000 per month)

	Single (\$)	Single with two dependent parents (\$)	Single with two dependent parents with additional allowance (\$)	Married with no children (\$)	Married with two children (\$)	Married with two dependent parents (\$)	Married with two children and two dependent parents (\$)	Married with two children and two dependent parents with additional allowance (\$)+J!
Salary per annum	216,000	216,000	216,000	216,000	216,000	216,000	216,000	216,000
Less: Personal allowance	29,000	29,000	29,000	60,000	60,000	60,000	60,000	60,000
	187,000	187,000	187,000	156,000	156,000	156,000	156,000	156,000
Less: Child allowance	—	—	—	—	15,000	—	15,000	15,000
Dependent parent allowance	—	18,000	24,000	—	—	18,000	18,000	24,000
Net chargeable income	187,000	169,000	163,000	156,000	141,000	138,000	123,000	117,000
Tax thereon	36,720	36,720	35,250	33,500	29,750	29,000	25,250	23,750
Effective rate	17.0%	17.0%	16.3%	15.5%	13.8%	13.4%	11.7%	11.0%

APPENDIX F Contd.

Example 5—Annual earnings of \$288,000 (i.e. \$24,000 per month)

	Single (\$)	Single with two dependent parents (\$)	Single with two dependent parents with additional allowance (\$)	Married with no children (\$)	Married with two children (\$)	Married with two dependent parents (\$)	Married with two children and two dependent parents (\$)	Married with two children and two dependent parents with additional allowance (\$)+J!
Salary per annum	288,000	288,000	288,000	288,000	288,000	288,000	288,000	288,000
Less: Personal allowance	29,000	29,000	29,000	60,000	60,000	60,000	60,000	60,000
	259,000	259,000	259,000	228,000	228,000	228,000	228,000	228,000
Less: Child allowance	—	—	—	—	15,000	—	15,000	15,000
Dependent parent allowance	—	18,000	24,000	—	—	18,000	18,000	24,000
Net chargeable income	259,000	241,000	235,000	228,000	213,000	210,000	195,000	189,000
Tax thereon	48,960	48,960	48,960	48,960	47,750	47,000	43,250	41,750
Effective rate	17.0%	17.0%	17.0%	17.0%	16.6%	16.3%	15.0%	14.5%

B. *Effect on salaries tax of proposed increases in personal allowances**Single person*

<i>Annual income</i> (\$)	<i>Present</i> (<i>exempt up to \$28,000</i>)		<i>Proposed</i> (<i>exempt up to \$29,000</i>)		<i>Tax saving</i>	
	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	(\$)	(%)
72,000	5,800	8.1	5,600	7.8	200	3.4
84,000	8,500	10.1	8,250	9.8	250	2.9
96,000	11,500	12.0	11,250	11.7	250	2.2
108,000	14,500	13.4	14,250	13.2	250	1.7
120,000	17,500	14.6	17,250	14.4	250	1.4
132,000	20,500	15.5	20,250	15.3	250	1.2
144,000	23,500	16.3	23,250	16.1	250	1.1
(156,250)	26,562	17.0	26,312	16.8	250	0.9
(159,375)	27,093	17.0	27,093	17.0	NIL	—

Married person, with no children

<i>Annual income</i> (\$)	<i>Present</i> (<i>exempt up to \$58,000</i>)		<i>Proposed</i> (<i>exempt up to \$60,000</i>)		<i>Tax saving</i>	
	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	(\$)	(%)
61,000	150	0.2	50	0.1	100	66.7
72,000	900	1.3	700	1.0	200	22.2
84,000	2,400	2.9	2,100	2.5	300	12.5
96,000	4,600	4.8	4,200	4.4	400	8.7
108,000	7,000	6.5	6,600	6.1	400	5.7
120,000	10,000	8.3	9,500	7.9	500	5.0
132,000	13,000	9.8	12,500	9.5	500	3.8
144,000	16,000	11.1	15,500	10.8	500	3.1
180,000	25,000	13.9	24,500	13.6	500	2.0
216,000	34,000	15.7	33,500	15.5	500	1.5
(250,000)	42,500	17.0	42,000	16.8	500	1.2
(256,250)	43,562	17.0	43,562	17.0	NIL	—

Single person, with two children

<i>Annual income</i> (\$)	<i>Present</i> (<i>exempt up to \$43,000</i>)		<i>Proposed</i> (<i>exempt up to \$44,000</i>)		<i>Tax saving</i>	
	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	(\$)	(%)
45,000	100	0.2	50	0.1	50	50.0
60,000	1,200	2.0	1,100	1.8	100	8.3
72,000	2,850	4.0	2,700	3.8	150	5.3
84,000	5,200	6.2	5,000	6.0	200	3.8
96,000	7,750	8.1	7,500	7.8	250	3.2
108,000	10,755	10.0	10,500	9.7	250	2.3
120,000	13,750	11.5	13,500	11.3	250	1.8
144,000	19,750	13.7	19,500	13.5	250	1.3
180,000	28,750	16.0	28,500	15.8	250	0.9
(203,125)	34,531	17.0	34,281	16.9	250	0.7
(206,250)	35,063	17.0	35,062	17.0	NIL	—

Married person, with two children

	<i>(exempt up to \$73,000)</i>		<i>(exempt up to \$75,000)</i>			
76,000	150	0.2	50	0.1	100	66.7
84,000	600	0.7	450	0.5	150	25.0
96,000	1,950	2.0	1,650	1.7	300	15.4
108,000	4,000	3.7	3,600	3.3	400	10.0
120,000	6,400	5.3	6,000	5.0	400	6.3
144,000	12,250	8.5	11,750	8.2	500	4.1
180,000	21,250	11.8	20,750	11.5	500	2.4
216,000	30,250	14.0	29,750	13.8	500	1.7
252,000	39,250	15.6	38,750	15.4	500	1.3
288,000	48,250	16.8	47,750	16.6	500	1.0
(296,875)	50,468	17.0	49,968	16.8	500	1.0
(303,125)	51,531	17.0	51,531	17.0	NIL	—

*C. Effect on salaries tax of proposed increases in personal and dependent parent allowances**Single person, with two dependent parents*

<i>Annual income</i>	<i>Present</i>		<i>Proposed</i>		<i>Tax saving</i>	
	<i>(exempt up to \$44,000)</i>	<i>(exempt up to \$44,000)</i>	<i>(exempt up to \$47,000)</i>	<i>(exempt up to \$47,000)</i>		
<i>(\$)</i>	<i>Tax payable</i>	<i>Effective rate</i>	<i>Tax payable</i>	<i>Effective rate</i>	<i>(\$)</i>	<i>(%)</i>
48,000	200	0.4	50	0.1	150	75.0
60,000	1,100	1.8	800	1.3	300	27.3
72,000	2,700	3.8	2,250	3.1	450	16.7
84,000	5,000	6.0	4,400	5.2	600	12.0
96,000	7,500	7.8	6,800	7.1	700	9.3
108,000	10,500	9.7	9,750	9.0	750	7.1
120,000	13,500	11.3	12,750	10.6	750	5.6
132,000	16,500	12.5	15,750	11.9	750	4.5
144,000	19,500	13.5	18,750	13.0	750	3.8
180,000	28,500	15.8	27,750	15.4	750	2.6
(206,250)	35,062	17.0	34,312	16.6	750	2.1
(215,625)	36,656	17.0	36,656	17.0	NIL	—

Married person, with two dependent parents

	<i>(exempt up to \$74,000)</i>		<i>(exempt up to \$78,000)</i>			
79,000	250	0.3	50	0.1	200	80.0
84,000	500	0.6	300	0.4	200	40.0
96,000	1,800	1.9	1,300	1.4	500	27.8
108,000	3,800	3.5	3,000	2.8	800	21.1
120,000	6,200	5.2	5,400	4.5	800	12.9
132,000	9,000	6.8	8,000	6.1	1,000	11.1
144,000	12,000	8.3	11,000	7.6	1,000	8.3
180,000	21,000	11.7	20,000	11.1	1,000	4.8
216,000	30,000	13.9	29,000	13.4	1,000	3.3
152,000	39,000	15.5	38,000	15.1	1,000	2.6
288,000	48,000	16.7	47,000	16.3	1,000	2.1
(300,000)	51,000	17.0	50,000	16.7	1,000	2.0
(312,500)	53,125	17.0	53,125	17.0	NIL	—

Single person, with two children and two dependent parents

<i>Annual income</i> (<i>\$</i>)	<i>Present</i> (<i>exempt up to \$59,000</i>)		<i>Proposed</i> (<i>exempt up to \$62,000</i>)		<i>Tax saving</i>	
	<i>Tax payable</i> (<i>\$</i>)	<i>Effective rate</i> (<i>%</i>)	<i>Tax payable</i> (<i>\$</i>)	<i>Effective rate</i> (<i>%</i>)	(<i>\$</i>)	(<i>%</i>)
63,000	200	0.3	50	0.1	150	75.0
72,000	800	1.1	500	0.7	300	37.5
84,000	2,250	2.7	1,800	2.1	450	20.0
96,000	4,400	4.6	3,800	4.0	600	13.6
108,000	6,800	6.3	6,200	5.7	600	8.8
120,000	9,750	8.1	9,000	7.5	750	7.7
144,000	15,750	10.9	15,000	10.4	750	4.8
180,000	24,750	13.8	24,000	13.3	750	3.0
216,000	33,750	15.6	33,000	15.3	750	2.2
252,000	42,750	16.9	42,000	16.7	750	1.8
(253,125)	43,031	17.0	42,281	16.7	750	1.7
(262,500)	44,625	17.0	44,625	17.0	NIL	—

Married person, with two children and two dependent parents

	<i>(exempt up to \$89,000)</i>		<i>(exempt up to \$93,000)</i>			
	<i>Tax payable</i> (<i>\$</i>)	<i>Effective rate</i> (<i>%</i>)	<i>Tax payable</i> (<i>\$</i>)	<i>Effective rate</i> (<i>%</i>)		
94,000	250	0.3	50	0.1	200	80.0
108,000	1,400	1.3	1,000	0.9	400	28.6
120,000	3,200	2.7	2,550	2.1	650	20.3
144,000	8,250	5.7	7,250	5.0	1,000	12.1
180,000	17,250	9.6	16,250	9.0	1,000	5.8
216,000	26,250	12.2	25,250	11.7	1,000	3.8
252,000	35,250	14.0	34,250	13.6	1,000	2.8
288,000	44,250	15.4	43,250	15.0	1,000	2.3
324,000	53,250	16.4	52,250	16.1	1,000	1.9
(346,875)	58,968	17.0	57,968	16.7	1,000	1.7
(359,375)	61,093	17.0	61,093	17.0	NIL	—

D. *Income levels at which salaries taxpayers enter the standard rate zone*

	<i>Present</i> (<i>\$</i>)	<i>Proposed</i> (<i>\$</i>)
<i>No dependent parent</i>		
Single	156,250	159,375
Married	250,000	256,250
Married + 1 child	278,125	284,375
Married + 2 children	296,875	303,125
Married + 3 children	306,250	312,500
<i>Including two dependent parents</i>		
Single	206,250	215,625
Married	300,000	312,500
Married + 1 child	328,125	340,625
Married + 2 children	346,875	359,375
Married + 3 children	356,250	368,750
<i>Including two dependent parents with additional allowance</i>		
Single	225,000	234,375
Married	318,750	331,250
Married + 1 child	346,875	359,375
Married + 2 children	365,625	378,125
Married + 3 children	375,000	387,500

E. *Analysis of salaries tax yield in terms of income of taxpayers**Estimated salaries tax yields 1986-87*

<i>Assessable income per annum (\$)</i>	<i>No. of taxpayers</i>	<i>Percentage of total taxpayers</i>	<i>Tax yield (\$mn)</i>	<i>Percentage of total yield</i>
50,000 & under	219,000	39.1	243	4.2
50,001-100,000	197,000	35.1	950	16.7
100,001-240,000	113,000	20.2	1,980	34.6
240,001-300,000	10,000	1.8	450	7.8
300,001-500,000	15,000	2.7	1,020	17.8
500,001 & over	6,500	1.1	1,080	18.9
Total	<u>560,500</u>	<u>100.0</u>	<u>5,723</u>	<u>100.0</u>

It should be noted that only 26,500 (4.7%) of the 560,500 taxpayers are estimated to pay tax in 1986-87 at the standard rate of 17%. This small group of taxpayers, however, will contribute almost \$2,220 million or 38.8% of the total yield. The group of standard rate taxpayers includes (in round figures)—

- 7 000 single persons with incomes of \$159,375 plus per annum;
- 9 000 married couples with incomes of \$256,250 plus per annum;
- 10 500 married couples with one or more children and/or dependent parents and with incomes of \$284,375 plus per annum.

APPENDIX G

CONTINGENT LIABILITIES AS AT 31 MARCH 1985

The contingent liabilities identified by the Director of Accounting Services as at 31 March 1985 are listed below. The approximate maximum potential amount of each liability as at that date is indicated in brackets. It is not an assessment of actual risk.

1. The Government's Asian Development Bank capital subscription (\$1.0 million);
2. A guarantee on notes issued by the Hong Kong Building and Loan Agency Ltd (\$400.0 million);
3. All moneys potentially due by the Hong Kong Export Credit Insurance Corporation under contracts of insurance (\$3,367.0 million);
4. Outstanding currency notes demonetised under the Dollar and Subsidiary Currency Notes Ordinance (Cap 67) (\$10.3 million);
5. One cent notes issued under Section 4(1) of the Dollar and Subsidiary Currency Notes Ordinance (Cap 67) (\$1.0 million);
6. Guarantees in respect of the repayment of loans made to and the discharge of indebtedness of the Mass Transit Railway Corporation under the facilities specified in the Schedules to L.N. 242 of 1975 and L.N. 105 of 1978 (\$7,107.0 million);
7. Guarantees in respect of the redemption or repayment of bonds or notes issued by the Mass Transit Railway Corporation in Hong Kong (L.N. 121 of 1976 and L.N. 324 of 1983) (\$400.0 million);
8. A guarantee in respect of the reimbursement of costs incurred by the Mass Transit Railway Corporation arising from the possible extension of the mass transit railway to Junk Bay (\$0.7 million);
9. Gold coins issued in accordance with L.N. 97 of 1975 (\$293.0 million);
10. A guarantee in respect of the repayment of a bank loan for the German Swiss International School Foundation Ltd (\$0.4 million);
11. Full and partial default guarantees in respect of mortgage loans made by banks and other financial institutions under the Home Ownership Scheme and the Private Sector Participation Scheme (\$2,987.8 million);
12. A guarantee in respect of the reimbursement to the developers of the projects under the Private Sector Participation Scheme for unsold flats and flats sold at a price below the stipulated average price (\$4,754.3 million);
13. A guarantee in respect of underwriting the Hong Kong War Memorial Fund and the Far Eastern Relief Fund (\$13.1 million);

14. A guarantee under Section 13 of the Kowloon-Canton Railway Corporation Ordinance (Cap 372) in respect of the repayment of the principal of, the payment of interest on, and the discharge of any other financial obligation in connexion with any sums borrowed by the Kowloon-Canton Railway Corporation (commitment to a total sum of \$500.0 million given but nil amount borrowed as at 31 March 1985);
15. The Government's contribution to the third replenishment of the Asian Development Fund (US\$0.5 million);
16. A guarantee in respect of the City Polytechnic of Hong Kong against any capital loss on disposal of the temporary premises and a guarantee in respect of a commercial loan to the City Polytechnic of Hong Kong for the acquisition of temporary premises (\$260.0 million);
17. A guarantee in respect of a commercial borrowing facility for the Hong Kong Nuclear Investment Company Limited (commitment to a total sum of \$500.0 million given but nil amount borrowed as at 31 March 1985);
18. Outstanding New Territories Land Exchange Entitlements (Letters A/B) (estimated monetized value of \$2,270.0 million as at 31 March 1985).