

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 2 March 1994

The Council met at half-past Two o'clock

PRESENT

THE PRESIDENT

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

THE CHIEF SECRETARY

THE HONOURABLE MRS ANSON CHAN, C.B.E., J.P.

THE FINANCIAL SECRETARY

THE HONOURABLE SIR NATHANIEL WILLIAM HAMISH MACLEOD, K.B.E., J.P.

THE ATTORNEY GENERAL

THE HONOURABLE JEREMY FELL MATHEWS, C.M.G., J.P.

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

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

THE HONOURABLE HUI YIN-FAT, O.B.E., J.P.

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

DR THE HONOURABLE DAVID LI KWOK-PO, O.B.E., LL.D., J.P.

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

THE HONOURABLE SZETO WAH

THE HONOURABLE TAM YIU-CHUNG

THE HONOURABLE ANDREW WONG WANG-FAT, O.B.E., J.P.

THE HONOURABLE EDWARD HO SING-TIN, O.B.E., J.P.

THE HONOURABLE RONALD JOSEPH ARCULLI, O.B.E., J.P.

THE HONOURABLE MARTIN GILBERT BARROW, O.B.E., J.P.

THE HONOURABLE MRS PEGGY LAM, O.B.E., J.P.

THE HONOURABLE MRS MIRIAM LAU KIN-YEE, O.B.E., J.P.

THE HONOURABLE LAU WAH-SUM, O.B.E., J.P.

DR THE HONOURABLE LEONG CHE-HUNG, O.B.E., J.P.

THE HONOURABLE JAMES DAVID MCGREGOR, O.B.E., I.S.O., J.P.

THE HONOURABLE MRS ELSIE TU, C.B.E.

THE HONOURABLE PETER WONG HONG-YUEN, O.B.E., J.P.

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE VINCENT CHENG HOI-CHUEN, O.B.E., J.P.

THE HONOURABLE MOSES CHENG MO-CHI

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE CHIM PUI-CHUNG

REV THE HONOURABLE FUNG CHI-WOOD

THE HONOURABLE FREDERICK FUNG KIN-KEE

THE HONOURABLE TIMOTHY HA WING-HO, M.B.E., J.P.

THE HONOURABLE MICHAEL HO MUN-KA

DR THE HONOURABLE HUANG CHEN-YA

DR THE HONOURABLE LAM KUI-CHUN

DR THE HONOURABLE CONRAD LAM KUI-SHING, J.P.

THE HONOURABLE LAU CHIN-SHEK

THE HONOURABLE EMILY LAU WAI-HING

THE HONOURABLE LEE WING-TAT

THE HONOURABLE ERIC LI KA-CHEUNG, J.P.

THE HONOURABLE FRED LI WAH-MING

THE HONOURABLE MAN SAI-CHEONG

THE HONOURABLE STEVEN POON KWOK-LIM

THE HONOURABLE HENRY TANG YING-YEN, J.P.

THE HONOURABLE TIK CHI-YUEN

THE HONOURABLE JAMES TO KUN-SUN

DR THE HONOURABLE SAMUEL WONG PING-WAI, M.B.E., J.P.

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE HOWARD YOUNG, J.P.

THE HONOURABLE ZACHARY WONG WAI-YIN

DR THE HONOURABLE TANG SIU-TONG, J.P.

THE HONOURABLE CHRISTINE LOH KUNG-WAI

THE HONOURABLE ROGER LUK KOON-HOO

THE HONOURABLE ANNA WU HUNG-YUK

THE HONOURABLE JAMES TIEN PEI-CHUN, O.B.E., J.P.

THE HONOURABLE ALFRED TSO SHIU-WAI

ABSENT

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

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

THE HONOURABLE MARVIN CHEUNG KIN-TUNG, O.B.E., J.P.

THE HONOURABLE SIMON IP SIK-ON, O.B.E., J.P.

DR THE HONOURABLE PHILIP WONG YU-HONG

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR CLETUS LAU KWOK-HONG

Papers

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

Subject

Subsidiary Legislation	<i>L.N. No.</i>
Aerial Ropeways (Fees) (Amendment) Regulation 1994.....	112/94
Lifts and Escalators (Safety) (Fees) (Amendment) Regulation 1994	113/94
Census and Statistics (Quarterly Survey of Construction Output) (Amendment) Order 1994.....	114/94
Census and Statistics (Quarterly Survey of Employment, Vacancies and Payroll) (Amendment) Order 1994	115/94
Census and Statistics (Quarterly Survey of Service Industries) Order	116/94
Pension Benefits Ordinance (Established Offices) Order	117/94
Chinese Permanent Cemeteries (Amendment) Rules 1994.....	118/94
Legal Practitioners (Fees) (Amendment) Rules 1994.....	119/94
Banking Ordinance (Amendment of Sixth Schedule) Notice 1994	120/94
Hawker (Permitted Place) (Cessation) Declaration 1994.....	121/94
Hawker (Permitted Place) Declaration 1994	122/94
Statutes of the University of Hong Kong (Amendment) Statutes 1994	123/94
Declaration of Constituencies (Districts) Order 1994 (L.N. 93 of 1994) Corrigendum.....	124/94

Sessional Papers 1993-94

- No. 65 — Draft Estimates for the Year Ending 31 March 1995; Volume I General Revenue Account — Expenditure Summaries and Controlling Officers' Reports
- No. 66 — Draft Estimates for the Year Ending 31 March 1995; Volume II General Revenue Account — Expenditure by Heads and Subheads
- No. 67 — Draft Estimates for the Year Ending 31 March 1995; Volume III — Fund Accounts

Written answers to questions**Railway accidents**

1. REV FUNG CHI-WOOD asked (in Chinese): *Will the Government inform this Council:*

- (a) *whether it is aware of the reasons for not making public the investigation reports of the following accidents:*
- (i) *the injury of a platform supervisor of the Kowloon-Canton Railway Corporation who fell onto the track on 9 June 1993;*
 - (ii) *the catching fire of the chassis of a north-bound train on 17 June in the same year; and*
 - (iii) *the blaze at the platform of Sha Tin Station on 21 September in the same year; and*
- (b) *what measures will be taken by the relevant authorities to prevent the recurrence of similar accidents?*

SECRETARY FOR TRANSPORT: Mr President, it has always been, and will remain, the Kowloon-Canton Railway Corporation's practice to carry out an immediate and detailed investigation into the causes of every railway incident. A report is produced both for the independent Hong Kong Railway Inspectorate and the Corporation's own consideration so that, where necessary, remedial action can be taken to enhance safety. Such reports are not published because they are very technical, complex and lengthy and are not easy to digest. However, to facilitate understanding, a simplified version is prepared and is available upon request.

To address both public concern and interest, both the Corporation and the Government do their best to provide facts and explain the situation and findings to the media and the public. In addition, with regard to the three incidents mentioned by Rev the Honourable FUNG, the Corporation has held a total of seven meetings with various political and local organizations and one meeting with the Sha Tin District Board Traffic and Transport Committee to brief them on the main findings and recommendations of its investigations.

A brief account of the measures taken, in respect of these three incidents, is as follows:

- (a) To prevent the recurrence of an accident similar to the 9 June 1993 incident, the Corporation has reminded all platform staff to keep behind the yellow line, especially when trains are approaching or leaving the platform, and strictly observe safety procedures.
- (b) As regards the fire at the underframe of a train car on 17 June 1993, the Corporation identified the cause to be a fault in a minor electrical component under the carriage floor. It has reinforced the inspection and maintenance of all such equipment to prevent recurrence.
- (c) Concerning the fire in the contractor's work area at Sha Tin Station on 21 September 1993, the Corporation has increased its level of supervision and control over contractors on its premises to reinforce safety requirements and to ensure that they take all necessary measures to prevent similar occurrences. It has also reviewed its evacuation and recovery procedures with the police and Fire Services Department in the light of experience gained from this incident.

Trading Funds

2. MR LAU CHIN-SHEK asked (in Chinese): *Will the Government inform this Council:*
 - (a) *of details of its plans to establish trading funds in a number of government departments;*
 - (b) *of the specific data now in hand to show that the establishment of trading funds can provide more efficient services to the public than the existing modus operandi or other forms of management arrangements, such as privatization and corporatization;*
 - (c) *of the safeguards against the setting up of trading funds having adverse effects on the existing services of the departments concerned or the future development of their services; and*

- (d) *whether the staff of the departments concerned have been consulted on proposals to set up trading funds?*

CHIEF SECRETARY: Mr President,

- (a) The following departments are under consideration for the establishment of trading funds: Drainage Services Department, Office of the Telecommunications Authority, Water Supplies Department, Marine Department, Post Office and Electrical and Mechanical Services Department.
- (b) Trading funds are established by resolution of this Council under the Trading Funds Ordinance. The case for each trading fund will be made when the concerned draft resolution is prepared. It must then be demonstrated that the proposed trading fund department will be able to provide an efficient and effective operation that meets an appropriate standard of service.

Typically trading funds help departments achieve this in cases where traditional vote-funded arrangements cannot be varied on a day to day basis to match fluctuating demand for services; or where a department cannot compete successfully for the allocation of resources necessary to run its business, even though it fully recovers the costs of the services it provides.

The Land Registry and Companies Registry operation as trading funds since 1 August 1993 already illustrates the benefits of the above.

In that time the Land Registry has been able to deploy more temporary staff and other resources to meet fluctuating service demands and to improve its service delivery times. It has also decided to develop several information technology projects including the computerization of the New Territories land register, microfilming/imaging of New Territories land records and the provision of on-line search of the urban areas land register through computer terminals at customers' offices. These new services will commence in the second half of 1994.

The Companies Registry has maintained its published service target standards through the flexible use of its resources. It has also been able to improve some of these standards (for example, time taken to register company charges). It will introduce a computerized index showing all the directorships held by directors of listed companies. It has also decided to computerize its control book and document index system. These improvement projects will be in place within 1994.

Both Registries are also planning to expand and renovate their public areas in order to provide a more user-friendly and customer-oriented environment.

All these projects are progressing more rapidly than would otherwise be possible because of the greater flexibility provided under the Trading Funds Ordinance.

Trading funds introduce relatively straightforward administrative changes to enable departments to operate more like businesses where this is appropriate, while remaining as part of government. The assets of a trading fund remain government assets; the staff remain civil servants. Privatization and corporatization would involve more far-reaching changes, and are thus not considered an alternative form of management arrangement to trading funds.

- (c) The key safeguards on the services of a trading fund department are:
- (i) the Trading Funds Ordinance, which provides for the establishment by this Council of trading funds, and which specifies legal and financial requirements for such funds. Before a trading fund is established, the Administration will need to satisfy itself and this Council of the capability and suitability of a proposed department to become a trading fund;
 - (ii) the terms of the resolution on the setting up of each individual fund which must be approved by this Council;
 - (iii) the annual report of the operation, the certified statements and the report of the Director of Audit of each trading fund, all of which are presented to this Council;
 - (iv) the powers of the Director of Audit to audit the efficiency and effectiveness of the operation; and
 - (v) the Framework Agreement between the appropriate Branch Secretary and the General Manager of a trading fund covering commercial and non-commercial objectives, financial targets, operating targets and other matters of concern, such as arrangement to adjust fees and charges.
- (d) The Administration attaches great importance to the need to secure staff support in the establishment of a trading fund. Each concerned department informs and briefs its staff of the proposed setting up of a trading fund and discusses with them the implications of the fund for the staff of the department.

Reclamation projects in Central and Wan Chai

3. MR ALBERT CHAN asked (in Chinese): *With the commencement of the reclamation projects in the Central and Wan Chai districts, the central fairway has been cramped and the eastbound and westbound vessel traffic in Victoria Harbour has thus been affected. Will the Government inform this Council:*

- (a) *whether the reclamation will affect the safety of vessel traffic; and*
- (b) *what contingency measures are in hand to mitigate the impacts of the narrowing of the fairway?*

SECRETARY FOR ECONOMIC SERVICES: Mr President, the Central and Wan Chai reclamation projects are carried out outside the central fairway, and hence the width of the fairway will not be reduced. Reclamation activities, as such, do not affect the safety of vessel traffic. However, vessel traffic along the central fairway has become busier as the area of navigable waterway is reduced due to reclamation. To alleviate the impact and to maintain efficiency of navigation, the Marine Department has undertaken the following measures:

- (a) careful pre-planning of reclamation works, in conjunction with relevant works departments to minimize disruption to regular marine activities and franchised ferry operations;
- (b) disseminating detailed instructions to contractors to undertake safety precautions;
- (c) consulting and giving advice to pilots, ferry operators and local vessel associations and other major port users; and
- (d) stepping up harbour patrols and maintaining close communication with all parties to ensure that the department can respond to emergency situations immediately, and to co-ordinate and control various activities effectively. In this connection, two additional patrol launches will be deployed in May this year.

In addition to the above measures, and in view of the likely impact on marine traffic arising from the vast increase in marine works associated with territory-wide infrastructure development, the Marine Department will undertake a number of activities to enhance efficiency and safety of the waters of Hong Kong as a whole. These activities include:

- (a) conducting a full navigational risk assessment for the whole of Hong Kong waters;
- (b) identifying marine traffic black spots and industry malpractices and devising appropriate control measures; and

- (c) examining the port and waterway layouts including fairways, channels and anchorages, with a view to identifying the safest, most economic and efficiency marine traffic flow. As part of this review, new fairways and anchorages in the Western harbour area will be introduced later this year.

Suspension of flushing water supply in public housing estates

4. MR LEE WING-TAT asked (in Chinese): *Will the Government inform this Council of the number of incidents of suspension of flushing water supply in public housing estates due to road repair, road subsidence and other circumstances beyond the control of the Housing Authority over the past three years? Please provide statistics on the number of such cases reported each year in each public housing estate in the Kwai Tsing district over the past three years.*

SECRETARY FOR WORKS: Mr President, WSD's records for suspension of flushing water supply in public housing estates in all districts are indicated in the following table. It should be noted that these suspension cases were caused by mains bursts and planned isolations (for maintenance and connection work) in distribution mains outside the boundary of public housing estates. Suspension cases due to faults and works in the plumbing system within public housing estates are not included.

Suspension of Flushing Water Supply affecting Public Housing Estates

<i>Year</i>	<i>Mains burst caused by road work</i>	<i>Mains burst due to other reasons, including road subsidence and so on</i>	<i>Suspension due to planned isolation</i>	<i>Total No. of suspension cases</i>
1991	23	48	34	105
1992	20	72	67	159
1993	17	80	65	162

It should be noted that the total number of public housing estates with flushing water supply is 244. The number of suspension cases per housing estate per year is hence less than one. Note also that most of the suspension cases only affect part of the housing estate.

Detailed records of interruption of flushing water supply in distribution mains which affect public housing estates in the Kwai Tsing district are given in the Appendix.

In order to reduce the number of mains burst incidents the Water Supplies Department is now stepping up its control on excavation works near water mains by conducting regular inspection on roadworks sites and advising contractors on the method of preventing damage to water mains.

Appendix

Suspension of Flushing Water for each public housing estate in Kwai Tsing District

<i>District</i>	<i>Name of Public Housing Estate</i>	<i>No. of Suspension in 1991</i>	<i>No. of Suspension in 1992</i>	<i>No. of Suspension in 1993</i>	<i>Total No. in 3 years</i>
Kwai Chung	Kwai Chung Estate	5	3	2	10
	Tai Wo Hau Estate	8	5	3	16
	Shek Lei Estate	4	6	7	17
	Shek Yam Estate	2	1	-	3
	Lei Muk Shue Estate	1	-	-	1
	Kwai Fong Estate	4	3	3	10
	Kwai Hing Estate	3	4	2	9
	Lai King Estate	1	2	-	3
	Lai Yiu Estate	1	4	4	9
	Cho Yiu Estate	1	9	6	16
	Ching Lai Court	1	1	1	3
	Yuet Lai Court	1	-	-	1
	Kwai Shing Estate	3	2	1	6
	Tsing Yi	Tsing Yi Estate	*	1	6
Tsing Wah Court		*	1	5	6
Tsing Tai Court		*	1	5	6
Cheung Tsing Estate		*	1	7	8
Cheung Hong Estate		*	1	5	6
Cheung Hang Estate		*	1	5	6
Cheung On Estate		*	1	5	6
Cheung Fat Estate		*	1	5	6

* No record of flushing water mains burst since the major portion of the support network was commissioned in 1992.

Income disparity between the rich and the poor

5. DR CONRAD LAM asked (in Chinese): *Will the Government inform this Council:*

- (a) *whether efforts have been made to provide annual figures on the disparity of income between the rich and the poor and how these figures are to be interpreted;*
- (b) *in relation to the overall income distribution of our community in the past five years, what percentage the total earnings of the top 5% of the highest income level and of the bottom 5% of the lowest income level represented respectively; and*

- (c) *how the distribution of resources is determined in the formulation of policies on social welfare, medical services, housing and taxation, and whether this is done with a view to reducing the disparity in the quality of living between the rich and the poor so as to ensure that the people at grass-roots level in Hong Kong could enjoy a reasonable and fair share of the fruit of economic success?*

SECRETARY FOR THE TREASURY: Mr President,

- (a) From the population censuses and by-censuses conducted at five-yearly intervals, the Commissioner for Census and Statistics collects and compiles data statistics on income diversity between the rich and the poor. He publishes such statistics as part of the census results.

In the on-going General Household Survey, he also collects the broad income data as one of the aspects of the household characteristics. However, because of the limited sample size, he could not apply these data to derive satisfactory statistics on income diversity. Annual statistics on income diversity are hence not available.

- (b) According to the 1991 Population Census, the 5% of households in the bottom income bracket accounted for 0.3% of the total household income in Hong Kong for that year, while the 5% of households in the top income bracket accounted for 26% of the total household income.
- (c) The Administration does not allocate resources in order to achieve income re-distribution *per se*. Rather, it determines priorities in resource allocation on the basis of the community's needs. In this context the community regards social welfare, medical services and housing as deserving particular priority. The Administration accepts this and proposes an allocation of resources accordingly. For example, public spending in these three areas in the past five years (since 1988-89) has increased by \$19.1 billion, an average annual increase of 8.6%. This is more than double the average annual growth rate of the economy of 4.2% in the same period.

This targeting of public expenditure, and the fact that the services provided in these areas are heavily subsidized, underline the Government's determination and continuous effort in improving the quality of life for the less fortunate sectors of the community.

The Administration also targets tax allowances in such a way as to eliminate or reduce the tax burden on the lower income groups. As a result, over half of the working population pays either no tax or very little tax.

Sewage charging scheme

6. MISS EMILY LAU asked (in Chinese): *Under the sewage charging scheme proposed by the Government, the sewage charges to be paid by certain households would be higher than their water bills in certain circumstances. Will the Government inform this Council:*

- (a) *of the number of such households; and*
- (b) *given that the public have already had the impression that sewage charges will be calculated on the basis of water consumption and any sewage charges higher than the water bills will be deemed as unfair, what explanation will be given by the Government as to such anomalies?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President,

- (a) For about 14% or approximately 236 000 households sewage charges may be higher than their water bills.
- (b) The reason for this is that households who consume between 14 m³ and 24 m³ of water over a four month billing period have the advantage of receiving the first 13 m³ of water free of charge under the existing water tariff. Additionally, their sewage charges may be as low as \$9.50 to \$11.20 a month compared with the expected average of \$15 a month.

In line with the polluter pays principles, those who use sewage services should pay for them. However, to provide an incentive to households to generate less sewage and to facilitate introduction of the charging scheme, we propose that households who consume 13 m³ of water or less in four months, and who therefore pay no water charges under the present water tariff, should also be exempt from sewage charges. This will benefit about 287 000 households or 17%. Otherwise sewage charges will be based on a fixed service charge of \$7 per month and 70 cents per cubic metre of water consumed so that the resulting revenue will recover the operating costs of sewage services. Given the low-user exemption and the modest charges proposed for all other users, the scheme should be broadly acceptable to the community.

Single parent allowance

7. MR FRED LI asked (in Chinese): *Will the Government inform this Council of the criteria for determining and adjusting the amount of tax allowance for "single parents"; and whether, other than being a "single parent", a person needs to fulfil additional conditions in order to be entitled to the allowance?*

SECRETARY FOR THE TREASURY: Mr President, we introduced the single parent allowance in 1989 for those parents who are solely or predominantly responsible for the care of dependent children, but who are ineligible for a personal allowance at the higher rate applicable to married persons. In recognition of the extra financial burden they bear in raising a family on their own, we had set the allowance at a level which would provide some appreciable relief to this particular category of taxpayers.

Each year, the allowance is reviewed alongside other salaries tax allowances in the context of the Budget. Adjustments are made having regard to the need to maintain the real value of the allowance and government's fiscal position.

Under existing law, a person is entitled to claim a single parent allowance if at any time during a year of assessment he had the sole or predominant care of a child in respect of whom he was entitled to a child allowance. But, a claim would not be entertained:

- (a) if at any time in that year he was married and living with his spouse; or
- (b) he claimed the allowance by reason only that he made contributions to the maintenance and education of the child during the year of assessment; or
- (c) he claimed the allowance in respect of the second and subsequent child.

In addition, where two or more persons are entitled to claim a single parent allowance in respect of the same child for the same year of assessment, the allowance will be apportioned. The single parent can be a man or a woman in this context under the law.

Curriculum Development Institute

8. MR TIK CHI-YUEN asked (in Chinese): *The Education Commission Report No. 4 recommended the setting up of a Curriculum Development Institute, with 60% of the posts filled by open recruitment. Will the*

Government inform this Council of the percentage of posts in the existing establishment filled by open recruitment, and the time frame as well as specific plans to meet the recommended target?

SECRETARY FOR EDUCATION AND MANPOWER: Mr President, the Education Commission, in its Report No. 4, recommended that a proportion of the professional posts in the Education Department's Curriculum Development Institute (CDI) should be filled by open recruitment on contract terms. It envisaged that ultimately 60% of the posts would be filled this way. This would be achieved through the conversion of civil service posts to non-civil service posts following the retirement or resignation of staff in the Inspector grade.

At present, the total number of professional posts in the CDI is 130, of which 32 (25%) are filled through open recruitment. This is expected to increase to 44 (34%) by 1994-95. At this rate, the 60% target would be achieved by 1998-99.

Parking spaces in HOS estates

9. DR TANG SIU-TONG asked (in Chinese): *In view of the discontent recently vented by residents of Home Ownership Scheme (HOS) estates about the substantial increase in the rent of parking spaces, will the Government inform this Council:*

- (a) of the total number of parking spaces that were provided in the car-parks of all HOS estates as at the end of last year; of the number of such parking spaces which were owned by private developers;*
- (b) what ratio has been adopted in general with regard to the number of parking spaces and the number of residential units in a HOS estate; how this ratio has been determined; and*
- (c) whether the Government is aware of any monopoly of or speculation in the sale of parking spaces in HOS estates under the Private Sector Participation Scheme in which parking spaces can be sold or let without any restrictions by the developers; if so, whether the departments concerned will review the present situation in a bid to prevent future recurrence of such irregularities?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President, the monthly charges for parking spaces in Home Ownership Scheme (HOS) estates were increased by about 20% in January 1994. These increases were generally considered reasonable as the new charges represent about 80% of the prevailing market rates. The Housing Department is aware of

recent complaints from Private Sector Participation Scheme (PSPS) flats owners concerning increases in car-park charges; but these have been few in number.

- (a) At present there are more than 15 000 and 10 000 parking spaces in HOS and PSPS estates respectively. Car-parks in the PSPS estates are owned by private developers, but most of the parking spaces have been sold to individual purchasers.
- (b) The ratio of parking spaces for private cars to residential units in HOS/PSPS estates is 1:5 to 8 flats in the metropolitan area and 1:8 to 11 flats in non-metropolitan area. The provision of car parking spaces in HOS/PSPS estates is planned on the basis of assessed need.
- (c) Under the Conditions of Sale for existing PSPS estates, while the use of car-parks is restricted to residents only, their ownership is not. The Government is aware that car-parks in PSPS estates have been sold in lots by the developers to single purchasers who later resell or let for profit. In order to limit this practice, the Conditions of Sale of new PSPS sites were revised in 1993 to restrict ownership of car-parks in future projects to flat owners and to prevent any flat owner from owning more than one parking space.

Property management in HOS and PSPS estates

10. REV FUNG CHI-WOOD asked (in Chinese): *In view of a great number of complaints by residents of Home Ownership Scheme and Private Sector Participation Scheme estates against the unco-operative attitude of area managers of the relevant property management agencies and their unsatisfactory performance in handling estates affairs, will the Government inform this Council:*

- (a) *of the measures taken by the Housing Authority and Housing Department in monitoring the service of these property management agencies; and*
- (b) *whether the Housing Authority and Housing Department have assessed the qualifications of area managers of these agencies; if so, what the details are; if not, the reasons for not doing so?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President, according to feedback from residents, the performance of the agencies and companies managing Home Ownership Scheme (HOS) and Private Sector Participation Scheme (PSPS) estates is generally satisfactory. Contrary

to the opening clauses of the question, very few complaints have been received by the Housing Department about the performance of these managers.

- (a) HOS estates are normally managed by Property Management Agents (PMAs) who are included on the Housing Authority's Approved List subject to compliance with a set of objective requirements. Their performance is monitored by Housing Managers of the Housing Department who pay regular visits to the HOS estates and report on the management services provided. PMAs are also required to submit monthly reports to the supervising Housing Manager on estate management.

For PSPS estates, the developers are responsible for appointing and supervising management companies. The Housing Department is involved in prescribing performance standards by vetting management proposals submitted by developers at the project tender stage. Since December 1991, the appointment of management companies by PSPS developers must also be approved by the Director of Housing who takes account of the management experience, past performance, organizational structure and financial status of the companies.

- (b) Each of the 15 PMAs currently on the Approved List as well as the management companies of PSPS estates has its own staff management policy. To ensure quality of service, the Housing Department maintains close liaison with the PMAs and management companies, pays regular visits to estates and advises how to improve the standard of service. The department will report unsatisfactory performance by estate managers to their companies for appropriate action.

Extortion of public light buses

11. MR LAU CHIN-SHEK asked (in Chinese): *Will the Government inform this Council:*

- (a) *of the respective numbers of complaints, prosecutions and convictions concerning triad extortion from Public Light Bus (PLB) drivers or operators in each of the past three years, and the respective numbers of these cases involving red PLBs and green PLBs; and*
- (b) *apart from encouraging red PLBs to operate as green PLBs in order to minimize extortion from red PLB drivers, what specific measures are in place to tackle the problem?*

SECRETARY FOR SECURITY: Mr President,

- (a) The number of cases reported to the Commissioner of Police concerning operators or drivers of public light buses being blackmailed or extorted by triads was one each in 1991 and 1992 and nine in 1993. As a result of these complaints, two people were prosecuted in 1991; none in 1992; and eight in 1993. The number of persons convicted was two in 1991; none in 1992; and one in 1993; the prosecution of six persons has not yet been concluded.

The police do not maintain records on whether the public light buses involved are red or green. But they believe that most of the cases involved red public light buses.

- (b) The Police Force Criminal Intelligence Bureau analyses intelligence and co-ordinates strategy against triad extortion of public light buses. The Force has deployed considerable resources at regional and district levels to fight triad extortion. At regional level, intelligence-based operations are mounted using undercover officers in operations which have had considerable success. At district level, both uniformed and plain-clothed officers are regularly deployed on the routes and in the vicinity of queues to reassure the public and glean intelligence on the current situation.

Funeral parlour at Tin Shui Wai

12. MR WONG WAI-YIN asked (in Chinese): *Regarding the proposal to provide a funeral parlour at Tin Shui Wai, will the Government inform this Council:*

- (a) *whether the proposal will violate the planning criterion of locating funeral parlours away from residential areas, as public housing estates will be built in Area 13 which is close to the proposed site of the funeral parlour; whether consideration has been given to identifying another site for such purpose; if so, which sites have been considered and why they have not been chosen; and*
- (b) *of the latest position of the proposal and when the proposal will be gazetted; and whether open tenders will be invited for the operation of the funeral parlour; if not, what the reasons are?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President,

- (a) While funeral parlours may not be welcome in urban areas they nevertheless provide an essential community service. Although rigid criteria for siting a funeral parlour, such as distances from housing estates or other areas, are not laid down, they should be separated from residential and commercial developments by topographical features or land uses such as community facilities, public utilities or open space as far as possible. These guidelines have been followed in selecting the funeral parlour site in Tin Shui Wai. Other sites in Area 14 and elsewhere in Tin Shui Wai have also been considered but found to be less suitable.
- (b) The funeral parlour will be operated on a non-profit basis for the benefit of the less well off members of the community. It is proposed that the site should be granted by private treaty to the Pok Oi Hospital which has long experience in providing non-profit-making community services. The draft Tin Shui Wai Outline Zoning Plan, which incorporates the site, is under preparation and will be gazetted later this year. Subject to the outcome of the statutory objection procedures, the land grant will be taken forward thereafter.

Consular protection

13. MR HENRY TANG asked: *In view of the seemingly contradictory remarks by the Security Branch and the British Foreign Office in Hong Kong reported in the press regarding consular protection for those who have been granted British citizenship under the British Nationality Selection Scheme, will the Government seek clarification from the British Government as to whether the said group of people will enjoy such protection in Hong Kong after 1997 and make public the British Government's reply; and if protection is to be denied, will the British Government be asked to explain the reasons and to advise on the type of assistance that would be provided should members of this group of people get into any trouble?*

SECRETARY FOR SECURITY: Mr President, there have been no contradictory statements given by the Foreign Office and the Security Branch on the issue of consular protection for these particular British nationals. But as a matter of international law, a person with dual nationality is not given consular protection in the country of his second nationality. It follows that the United Kingdom cannot give a dual British/Chinese national consular protection in Hong Kong after 1997. The question of whether British nationality was obtained through the Selection Scheme or in accordance with any other provisions of British Nationality legislation is irrelevant.

ICAC's review of election laws

14. MS ANNA WU asked: *Following an election corruption case last year, the Independent Commission Against Corruption has conducted an examination to identify any loopholes in existing election laws, particularly with regard to functional constituency elections. Will the Government inform this Council of the findings of the examination and the recommendations made to the Government; and whether it will make available the full report on the examination to Members of this Council?*

SECRETARY FOR CONSTITUTIONAL AFFAIRS: Mr President, following a recent review, the Independent Commission Against Corruption (ICAC) has recommended a number of improvements to the functional constituency election procedures. The main recommendations are:

- (a) that consideration should be given to computerizing or mechanizing voting for functional constituencies with small electorates, which are considered more prone to election malpractice. This would make it more difficult to link individual votes with individual voters, thus discouraging vote buying;
- (b) that consideration should be given to making rural elections subject to the Corrupt and Illegal Practices Ordinance;
- (c) that polling agents who have witnessed the sealing of ballot boxes at polling stations should be admitted into counting stations to witness the breaking of the seals;
- (d) that guidelines on electioneering activities should be issued to the representative organizations of the functional constituencies to promote fair and equal election campaigns;
- (e) that guidelines should be issued to government departments on how to handle requests from candidates who wish to enter government offices to canvass support from the staff working there, so that there is consistent practice throughout Government; and
- (f) that publicity on functional constituency elections should be improved through enlisting the support of representative organizations.

The Commission's recommendations have been formulated on the basis of the existing functional constituency system. As Members are aware, the Electoral Provisions (Miscellaneous Amendments) Bill 1994, which was gazetted on 25 February 1994 for introduction into this Council on 9 March 1994, has proposed a number of changes to this system. First, it proposes the creation of nine new functional constituencies which would cover the entire

working population. Secondly, it proposes broadening the franchise of existing functional constituencies, and replacing all forms of corporate voting with individual voting. These proposals, if implemented, will greatly reduce the scope for abuse and corruption in future functional constituency elections. The Boundary and Election Commission and the relevant government departments will consider the ICAC's recommendations in the light of the final shape of the legislative changes.

Since the report is an internal consultancy document, the Administration does not consider it appropriate to make public the full report. However, before implementing any of the recommendations, either through legislation or in the form of guidelines, the community will be thoroughly consulted.

Age restrictions for government temporary positions

15. MS ANNA WU asked: *Will the Government inform this Council what the justifications are for setting age restrictions for a number of temporary positions in various government departments (for example, 17-24 for Temporary Clerk in the Social Welfare Department, 17-40 for Temporary Personal Secretary II in the Land Registry and 17-40 for Temporary Clerical Assistant in the Companies Registry) and why persons over 24 or 40 are ineligible for these positions?*

SECRETARY FOR THE CIVIL SERVICE: Mr President, Civil Service guidelines are that age requirements should only be laid down by government departments when they are considered necessary for operational reasons. Such reasons may include, for example, the need for a certain degree of physical fitness in jobs where a substantial amount of manual work has to be performed, to have had recent educational exposure to modern technology, or for certain jobs which have frequent contact with the public, to have a mature personality.

Setting out age requirements in such circumstances helps to reduce the number of applications from those who are unlikely to be found suitable and also reduces the resources needed for conducting recruitment exercises.

The age requirements in the three examples quoted were originally laid down in accordance with the guidelines. However, in the case of the Temporary Clerk in the Social Welfare Department the age limit was subsequently withdrawn. The Companies Registry has decided not to stipulate age requirements in its future recruitment notices. As for the vacancy for a Personal Secretary II in the Land Registry, in the event the position has already been filled by a permanent member of staff and no temporary position will be offered for the time being.

Rehabilitation care

16. DR HUANG CHEN-YA asked (in Chinese): *Will the Government inform this Council of:*

- (a) *the types and number of patients occupying rehabilitation beds in the past year and the average occupancy period of each type of patients;*
- (b) *the existing number of nursing, physiotherapy and occupational therapy staff serving these patients; and*
- (c) *the existing number of doctors who have received specialized training in rehabilitation care?*

SECRETARY FOR HEALTH AND WELFARE: Mr President,

- (a) In 1992-93, there were about 90 000 in-patients requiring rehabilitation care mainly in geriatric, pulmonary and orthopaedic services. Their average length of stay was 18 days. A breakdown by each type of patients is not available.
- (b) As at 31 December 1993, 258 physiotherapists and 463 occupational therapists were providing rehabilitation care to the patients admitted to public hospitals. All nursing staff are trained to provide general patient care, including rehabilitation services. However, there is no separate designation of nurses specifically for providing care to acute or rehabilitation patients.
- (c) As at 31 December 1993, about 100 out of a total of 288 doctors working in the specialties of geriatrics, respiratory medicine and orthopaedics and traumatology have received training in their respective specialties with a significant component of rehabilitation care.

Amendments to Official Languages Ordinance

17. MR TAM YIU-CHUNG asked (in Chinese): *Given that the Official Languages Ordinance (Cap. 5) has provided that judicial proceedings in the Court of Appeal, the High Court and the District Court shall be conducted in the English language and that a great number of the forms specified in the laws of Hong Kong are available in the English texts only, which have in effect restricted the full use of the Chinese language by members of the public in matters dealing with the judicial and executive authorities, will the Government inform this Council whether legislative amendments will be introduced before 1997 to make the relevant laws consistent with the Basic Law?*

ATTORNEY GENERAL: Mr President, two working parties appointed by the Chief Justice have been asked to consider the means by which the use of the Chinese language may be further promoted in court proceedings. Those working parties may well make recommendations to the Chief Justice as to whether and, if so, how the Official Languages Ordinance needs to be amended to allow Chinese to be used in the Court of Appeal, High Court and District Court. The Chief Justice will, in due course, decide what action, if any, he will take in respect of those recommendations.

With regard to statutory forms, the bilingual laws exercise now being conducted is designed to ensure that all forms that remain specified in the Laws of Hong Kong will, before 1997, be specified in both English and Chinese.

School drop-out service

18. MR TIMOTHY HA asked (in Chinese): *According to the findings of a recent survey of school drop-outs at secondary I to III levels, about 60% of the respondents have expressed their wishes to go back to school. However, it takes the Education Department, on average, about five and a half months to help arrange a school place for a drop-out.*

Will the Government inform this Council:

- (a) what procedures the Education Department has to go through in helping these drop-outs return to school, whether there are any plans to streamline the procedures so as to shorten the time needed for making such arrangements; and*
- (b) what kinds of assistance are now being offered to the drop-outs by the Education Department and the Social Welfare Department; whether these kinds of assistance are adequate; whether the departments concerned have any plans to strengthen their assistance to the drop-outs?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President, the answers to Mr HA's question are:

- (a) Upon receipt of reports of suspected drop-outs from schools, the Education Department will assess the reasons for their absence from class and, in the light of findings, seek to place the students in schools most able to meet their individual needs. This process requires the co-operation of parents, schools and the students themselves. It takes about two months for straight forward cases and three or four months when professional assessment and counselling are involved.

The Department treats all suspected drop-out cases urgently. It operates an Early Notification System under which schools are encouraged to report by telephone absence without permission for seven days. This is in addition to the requirement to furnish written reports involving unauthorized absence of 14 days. The Department seeks to return the students to the original schools or, if appropriate, facilitate prompt placement in alternative schools. The Code of Aid is being amended to clarify the Director's powers to place students in such circumstances, following consultation with school councils.

- (b) In addition to preventive measures which have been strengthened through emphasis on school based counselling and support, services available to drop-outs include:
- (i) counselling by Educational Counsellors and School Social Workers,
 - (ii) assessment and therapeutic services by Educational Psychologists,
 - (iii) adjustment programmes for those with emotional and behavioural difficulties,
 - (iv) re-entry programmes for re-integration into mainstream schools,
 - (v) on-site and off-site intensive remedial teaching service after resumption of schooling.

These services are considered to be adequate, but further improvements to staffing ratios are being implemented. These include:

- (i) raising the ratio of School Social Workers to students from the present 1 to 2 500 to 1 to 2 000 by 1995-96. An additional 39 School Social Workers will be provided in 1994-95; and
- (ii) increasing the number of Educational Psychologists by five per year. This will raise the total number from the present 33 to 71 by the year 2000-2001.

Tourists robbed and killed in Thailand

19. MR CHIM PUI-CHUNG asked (in Chinese): *The Thai Government arrested a number of policemen who have since admitted having robbed and killed many tourists, including some from Hong Kong. Will the Government inform this Council:*

- (a) *whether complaints were received in the past three years about Hong Kong people having gone missing while in Thailand and how such complaints were handled;*
- (b) *whether it has plans to follow up the matter through the British Foreign and Commonwealth Office;*
- (c) *whether it will seek compensation on behalf of the victims' family members;*
- (d) *what measures are in place to protect the safety of Hong Kong people on overseas tours, and whether such measures will be subject to review?*

SECRETARY FOR SECURITY: Mr President,

- (a) Over the past three years, three requests for assistance have been received by the Hong Kong Government from family members who have lost contact with relatives visiting Thailand. The British Embassy in Bangkok was contacted for assistance in each case. We did not receive any request for assistance in relation to the four cases of Hong Kong residents now believed to have been murdered in Thailand.
- (b) Through the British Foreign and Commonwealth Office, the Immigration Department has sought details of these four Hong Kong tourists from the British Embassy in Bangkok, which has also liaised with the families over funeral arrangements. We understand that the Thai police are continuing their investigations into the case.
- (c) The Hong Kong Government does not get involved in private compensation claims.
- (d) Based on information from the Foreign and Commonwealth Office, the Hong Kong Government issues travel advice, through the media, whenever there is a special need to do so. In addition, people travelling in tour groups get advice and guidance from their tour operators.

Guide on the right of abode in Hong Kong

20. DR LEONG CHE-HUNG asked: *At the Legislative Council Sitting on 17 January 1990, the Secretary for Security undertook to publish a guide setting out the right of abode, right to land, and right to work in Hong Kong in respect of residents who had foreign passports or nationality. Will the Government inform this Council whether such a guide has been published; if not, why, and when it will be published?*

SECRETARY FOR SECURITY: Mr President, shortly after my predecessor undertook to publish a guide on the rights that residents with foreign nationality could enjoy, we started to consider how we might amend the right of abode provisions of the Immigration Ordinance to enable such residents to acquire right of abode in Hong Kong, in accordance with Article 24 of the Basic Law. In view of likely changes to the rights that these residents might enjoy, we deferred publishing the guide.

We have yet to reach agreement with the Chinese side on the alignment of the Immigration Ordinance with the Basic Law, including the provision to enable residents with foreign nationality to acquire right of abode in Hong Kong. We hope that further talks with the Chinese side will take place on this matter soon and we hope to be able to publish a comprehensive guide as soon as agreement is reached on future right of abode in the Hong Kong Special Administrative Region.

First Reading of Bill**APPROPRIATION BILL 1994**

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 1994**

THE FINANCIAL SECRETARY moved the Second Reading of: "A Bill to apply a sum not exceeding \$137,102,752,000 to the service of the financial year ending on 31 March 1995."

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He said: Mr President,

INTRODUCTION

I move that the Appropriation Bill 1994 be read the Second time.

2. My Budget this year will once again reflect the solid performance of the economy and its robust prospects for the year ahead. 1993 was the 27th successive year in which the economy grew in real terms since the start of the GDP figures in 1966. A whole generation has grown up in our community which has never known anything other than unbroken economic expansion. It is a staggering fact that GDP per head has more than trebled in real terms since 1970. This generation takes it for granted that enterprise, education and personal endeavour will bring improved personal incomes and a better quality of life year by year. We have been described as "one of the richest and most sophisticated urban societies in the world". But we also know that we cannot take this success for granted; we only have to look at much of the rest of the world to see that. We have to keep investing in the future.

3. Given our success, then, the community rightly expects our increased prosperity to be used to improve the range and quality of the Government's services and to develop the infrastructure required for future expansion. And the community rightly expects the Financial Secretary in particular to ensure the prudent management of the additional revenue which a flourishing economy provides.

4. The Government does not claim a monopoly of wisdom in deciding the proper allocation of these increasing resources. The community itself has quite clear ideas about what the priorities should be. In preparing this Budget, I have once again consulted Members of this Council. As I present the details of my Budget proposals, Members will, I hope, recognize many of their own recommendations. I have also considered carefully the valuable advice I have received from professional bodies, commercial associations, labour and welfare groups. I have been struck, even more than in previous Budget exercises, by the degree of consensus which I found during my consultations on this year's Budget. This growing consensus has made my task easier in identifying how the community expects the Government to spend the taxpayers' money to the best advantage.

5. I believe the community wishes me to present a Budget this year which will meet four expectations.

- First, the expectation that the Government will continue to raise the standards of its own services to the community, in particular through funding the over 100 undertakings for 1994 announced by the Governor in his policy address to this Council last October.

- Secondly, the Government must go on improving the social and physical infrastructure on which the future creation of wealth will depend.
- Thirdly, in a year of buoyant revenues, the Government should take this opportunity to leave money where it can do most good — in the pockets of the taxpayers.
- Finally, the Government should continue to fight inflation and to relieve its impact upon those hardest hit.

6. These are the priorities the community has set, and which I accept. Before spelling out in detail how I intend to meet them, I want to restate the fundamental economic policies of the Government, policies which I believe command the full support of the community and of this Council. These principles, so fundamental to our economic success, are:

- free trade and fair markets, which remain the best guarantees of economic efficiency,
- a stable currency and a sound financial system, both essential for business confidence,
- low and predictable taxes, to minimize the burdens on those who create our wealth and encourage new investment, and
- prudent budgets, so that public spending does not outstrip the rate of economic growth.

7. It is of course also fundamental that the broader environment should be supportive of our economic success. I refer in particular to the existence of an efficient and honest Administration, the rule of law, a questioning media and a legislature able and willing to monitor and query the executive.

THE ECONOMY

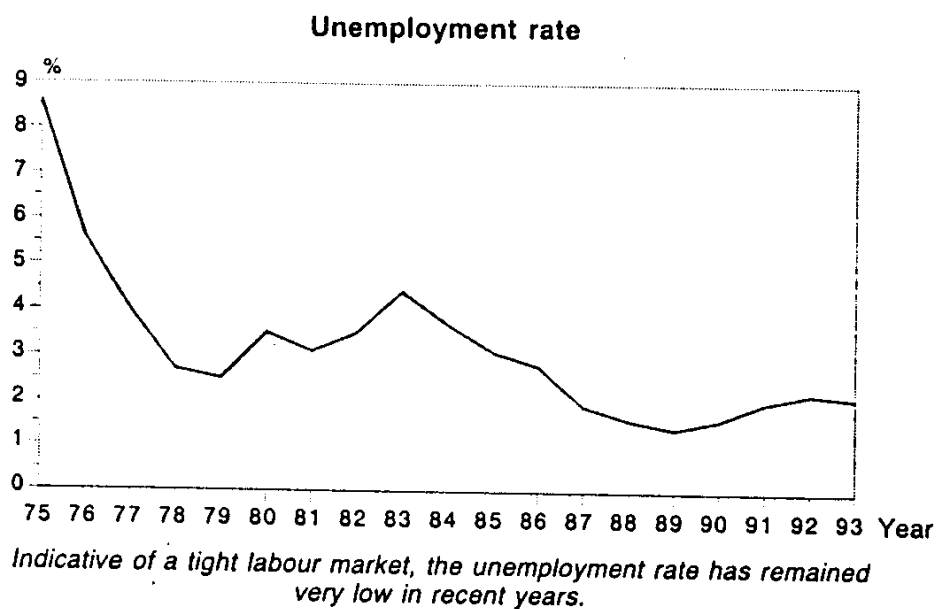
1993 performance

8. I turn now to our economic performance and prospects. In 1993, Hong Kong's economy once again performed handsomely. We achieved a satisfactory growth rate of 5.5% in real terms. I say satisfactory because this is a good level of growth for an economy as mature as ours. We are not rising from a low economic base, as are many of our neighbours. We are now a service-based economy, and what we have to offer is our expertise, not low-wage factory labour. Our role in the Asian economic miracle is to provide the expertise which countries in the region need in order to raise their own standards of living. I will have more to say about this later this afternoon, when

I describe the remarkable transformation which has been achieved over the last 15 years. A transformation which has taken us to an advanced service economy based increasingly on our skills in management, design, marketing, finance and communications.

9. Let me start by giving you the basic facts of how well we did last year.

- As I said, GDP grew by 5.5% in real terms, the fastest increase since 1988.
- GDP per head in 1993 reached US\$18,500.
- Total exports grew by 13% in real terms, led by re-exports.
- Exports of services grew by 8% in real terms.
- Inflation retreated still further, to 8.5% for the year (compared with 9.4% in 1992).
- Median household income grew in real terms by 3.8%.
- Unemployment remained at around 2%, a very low level by any international standard.



10. In producing this performance, I have no doubt that the business community has been looking beyond current political controversies to the long-term growth potential of both Hong Kong and China, and indeed to the promising economic outlook for the Asia-Pacific region as a whole. This bullish attitude affects foreign investors too. For example, investment from around the world has continued to flow into our asset markets, and more foreign companies continue to establish their presence here in Hong Kong.

1994 prospects

11. 1993, in short, was a very good year, and we have no reason to be any less confident about our prospects for 1994. I say this because the factors which led to last year's success will persist, while recent developments in the world economy offer additional encouragement.

- The successful conclusion of the Uruguay Round has boosted trade potential and blunted protectionist pressure.
- Prospects in our major overseas markets have improved. The United States and the United Kingdom economies are set to grow by around 3% in the year ahead.
- Even more important for Hong Kong, the Chinese economy should have little difficulty in continuing to achieve an annual growth of about 10% in real terms.
- Our other neighbours in East Asia are likely to maintain their dynamic growth, with trade within the region expanding by around 15% in 1994.

12. We have entered 1994, then, in better shape than we might have expected. Inevitably, however, we also face some uncertainties. The annual battle for the renewal of China's MFN status in the United States will have to be fought yet again. Hong Kong must hope that politics is not allowed to damage this important trading relationship. For our part, we shall do all we can to emphasize to our friends in Washington the importance of trade between China and the United States. We will go on arguing that politics should not be allowed to damage trade.

13. This is not only a matter of Hong Kong's self-interest, although this is clearly a key factor. And for good reason. We estimate that failure to renew MFN would slash Hong Kong's GDP growth by up to three percentage points, and employment by up to 75 000 jobs. But there are wider issues at stake too. It is trade which generates growth, the growth essential for economic and social progress. The avoidance of trade discrimination — the encouragement of a level playing field and the virtues of free trade — are aims which underlie the GATT. It is for this reason also that China's wish to rejoin the GATT is of such significance.

14. Another factor bearing on our prospects for 1994 will be the success of the Chinese Government in managing high rates of economic growth while avoiding serious overheating. The Chinese Government has recognized the dangers of inflation and has announced measures to deal with it. We must hope that these measures are successful.

15. In producing our forecasts for the coming year, while we have to bear in mind these downside risks, we must also give due weight to our underlying strengths. For 1994, I am forecasting:

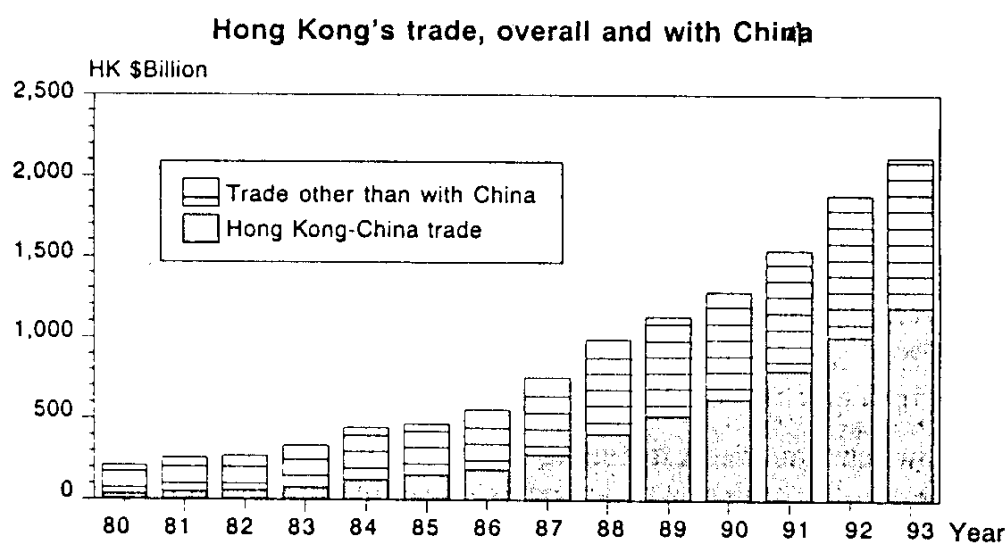
- GDP growth in real terms will again reach 5.5%,
- GDP per head will reach some US\$20,600,
- total trade will increase by around 17% in real terms, and
- inflation will keep to an average of around 8.5%.

SERVICING THE CHINESE ECONOMY

16. The continuing development of the Chinese economy matters considerably to the whole international community. But to us in Hong Kong, it is increasingly the key to our future economic success. Through servicing and investing in China, we continue to find new markets for our expertise in manufacturing, marketing, banking, communications, tourism and professional services.

17. Already, we play a vital and increasing role in China's economic modernization.

- China accounted for 35% of our total external trade in 1993.
- Hong Kong accounted for around two-thirds of total external investment in China. In turn, China is probably the largest external investor in Hong Kong.



The proportion of Hong Kong's trade involving China has increased from 17% in 1980 to 56% in 1993.

18. The relationship is not simply about the flows of goods and services. There is also an enormous flow of people.

- Hong Kong residents made no less than 23 million visits to Chinese destinations in 1993.
- In addition, nearly 2 million foreign visitors used Hong Kong as a gateway to China.
- There were 7.4 million road crossings by cars and lorries.
- Hong Kong handled 34 000 flights to and from China.

19. But this momentum in our trade and traffic with China cannot be taken for granted. It has to be nurtured. As I shall describe later, it is crucial that we continue to develop our road, rail, air and sea links with Guangdong province, and the rest of China. We must match the flows of people, trade and investment with the infrastructure to support them.

ENTERPRISE AND EXPERTISE

20. It has become a truism to talk about Hong Kong as a service economy. But behind the cliché is a profound change in the nature and direction of the Hong Kong economy.

21. Our post-war economic takeoff was based on the export of our manufactured goods. And manufacturing still accounts for 13% of GDP, although over the last 10 years, manufacturing has shed 350 000 jobs. But these have been more than replaced by the rapid growth of our service industries, which account for 76% of GDP. This transition from manufacturing to services has been achieved remarkably rapidly, and without the mass unemployment, social strains and urban decay which have characterized the process in other mature economies. We have, in effect, moved upmarket in terms of how we earn our living.

22. No other major economy, either in Asia or in the Western world, has gone so far or so rapidly in replacing manufacturing with service industries. No other economy has managed the process so well. Let me emphasize that this transformation has been driven by markets, not by government planning or policies. Business has led it, the Government has facilitated it. Our economic success in the future will more and more be based on our ability to sell our services to the world, the region and, above all, to the Chinese economy. We must sell our expertise with the same enterprise as we have sold our manufactured goods. We should be aided in this by the inclusion of an agreement on services in the outcome of the Uruguay Round.

23. This switch from manufacturing to services has put a premium on education and skills. Our value added is no longer low-cost manufacturing but the expertise of our workforce, the enterprise of our investors and the integrity of our markets. We should bear this reality in mind in responding to calls for assistance to business. Too often, these seem to overlook the transformation in the way we earn our living and the emergence of the service industries as the dominant sector of our economy. There is little point in using the taxpayer's money in pursuit of policies which go against the economic tide. Nevertheless, there will continue to be scope for helping our manufacturing industry move upmarket, hence the injection of funds into the Industry and Technology Development Council, into the new industrial estate at Tseung Kwan O, and into the new Industry Technology Centre Corporation, all to help move us up the technology ladder.

FINANCIAL SERVICES

24. The best example of the dynamic development of the service economy is our financial services. This sector now accounts for nearly 10% of GDP, fast approaching the contribution of the entire manufacturing sector.

The latest results

25. In 1993, the stock market was the focus of most attention.

- The Hang Seng Index rose by 116% during the year, the second best performance in the world.
- Market capitalization increased by 123%, raising Hong Kong to sixth largest stock market in the world, up from 15th place only five years ago.
- Average daily stock market turnover rose by three-quarters.
- Average daily turnover on index futures doubled.

26. But just as impressive, although less noticed, was the growth of our capital markets last year.

- The number of debt instruments listed on the Hong Kong Stock Exchange increased four times.
- The total volume of funds reached \$190 billion, an astounding increase of 41 times.

27. The number of our financial institutions also continued to increase and their business to expand.

- Hong Kong now has a total of 174 licensed banks.
- The local insurance market has achieved annual growth rates of 20% to 30% in recent years. It is now a major industry in its own right, with a workforce of 20 000, and gross insurance premiums of over \$30 billion.

The regulatory environment

28. I referred earlier to the importance of the integrity of our markets. This has been a precondition for the expansion we have seen. To a large degree, their impressive performance is the reward for our past determination to reach the very highest standards in the supervision of our financial markets. But this is a never-ending task if we are to stay in the first rank of international markets. A special feature of the financial services industry is the speed with which new products and new systems are introduced. Regulators must keep pace with innovations to avoid compromising either the growth or the integrity of our markets.

29. I am determined that we shall continue to keep pace in the coming year.

- We must restrict the opportunities for abuse such as that caused by insider dealing. We have already proposed measures to bring derivatives within the scope of the existing law. In addition, a review has begun, in conjunction with the Securities and Futures Commission, to see what more should be done to limit the scope for malpractice.
- The Monetary Authority is working closely with the banking community to manage the risks arising from financial innovation. In particular, they are considering improvements to our bank payment and settlement system to deal with the massive growth in the volume of transactions on our financial markets.
- We have tried in the past to respond to developments in the corporate world through piecemeal amendment of the Companies Ordinance. I believe that we have reached a stage when a thorough review has become essential. We now need an ordinance for the 21st century. I have therefore asked the Secretary for Financial Services to take this forward.

30. I have talked so far about strengthening regulation. But we also need to make room for innovations. Short selling has become an important tool for hedging risk. But Hong Kong still has restrictions which prevent the full

utilization of this technique. To overcome this obstacle, I intend to forward proposals shortly for the exemption from stamp duty of stock borrowed for up to 12 months, instead of the present 14 days. This will be a major step forward.

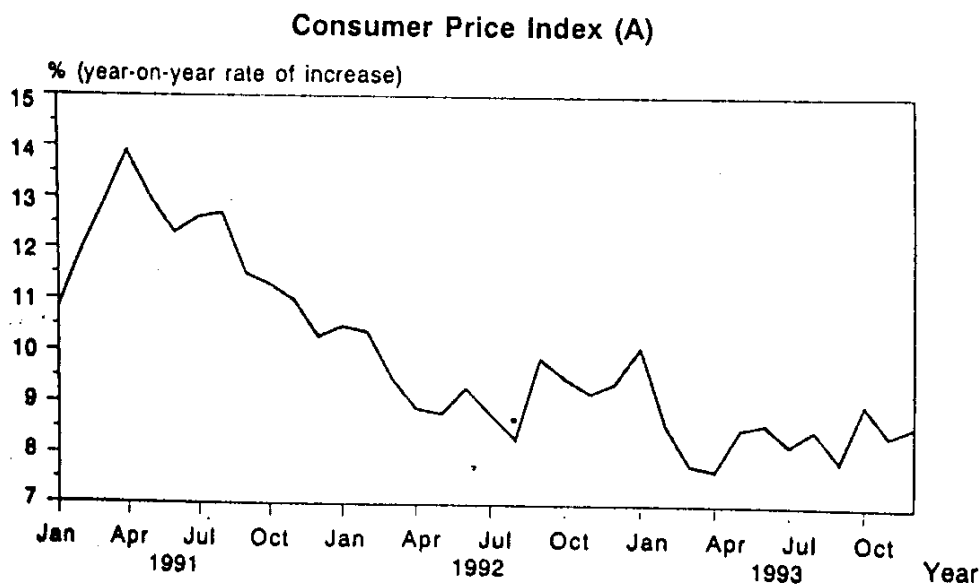
THE CHALLENGES AHEAD

31. Our economic prospects are good, but there are challenges to be met if they are to remain that way. Hong Kong is good at identifying its problems, facing them squarely, and then finding solutions. I want to focus today on four pressing problems to which we must find remedies.

- We must continue to contain inflation and to relieve its impact upon those hardest hit.
- We must improve the capacity of our road, rail, air and sea links to our main trading partners and travel destinations.
- We must tackle the mounting congestion on our roads.
- We must make important decisions about how best to provide financial security for our growing elderly population.

Inflation

32. Let me address first what is probably the most intractable challenge, the persistence of relatively high inflation in Hong Kong. True, last year we achieved a welcome reduction in inflation. But it will still be too high at the 8.5% rate we are forecasting for 1994.



Inflation in 1993 was down from the levels in 1991 and 1992.

33. We need to be clear about the causes of inflation and the consequences for Hong Kong. And honest about what we can and cannot do to tackle it.

- Inflation is not the result of over-expansion of the public sector. There is no major economy in the world with a smaller public sector.
- Inflation is not imported, it is home-grown. Import prices have increased by an annual average of around only 1% over the past five years.
- Inflation has not priced us out of world markets. Our export prices have increased by an annual average of around only 2% over the past five years.
- Inflation is not the result of the Hong Kong dollar link with the US dollar. The link has brought necessary stability to the external value of our currency. But it is true that the link means we cannot use interest rates to curb inflation.
- Inflation has not overtaken wages. Median household income has risen by a total of about 20% in real terms over the past five years. And of course, recreational, welfare, medical and educational services which the average family enjoys are either heavily subsidized or free. And half the population enjoys subsidized housing.
- Inflation has not caused the disadvantaged, the disabled or the elderly to be left behind by rising consumer prices because this Government is committed to maintaining the real value of social security benefits. Indeed, in practice we have increased their value in real terms. As my colleague, the Secretary for Health and Welfare, pointed out in this Chamber on 2 February this year, the standard social security rate has increased by 14 times over the last two decades whereas inflation, as measured by the CPI(A), has increased by a mere six times over the same period.

34. The most worrying features of our inflation, and the area we have to focus on for possible solutions, result from Hong Kong's special economic constraints.

- Property prices are rising to increasingly uncomfortable levels because of our acute shortage of land combined with growing prosperity and the understandable ambition of families to own their own homes.

- Our workforce is, quite simply, too small. For an economy expanding at our rate into new markets and industries, the shortage of labour inevitably aggravates inflation pressures.

35. I would like to deal with these two important issues — the supply of land and labour — in more detail.

36. First land, and the particular circumstances which affect Hong Kong's situation.

- First and foremost, the supply of suitable building sites will always be limited because of Hong Kong's size and its geography.
- Secondly, buildings cannot be erected overnight. Major construction projects have long lead times, and thus supply cannot respond quickly, even to sharp increases in demand.
- Thirdly, the property market is subject to quite sharp cycles. As we know very well from past experience, market conditions can change abruptly.
- Fourthly, after 1997, it will no longer be necessary to discuss and agree an annual land programme with the Land Commission.
- Finally, we will obtain 62 hectares of new land for residential and commercial development as a result of the airport railway alone. So early agreement on the airport railway land and financing is vital to enable us to make these new sites available as speedily as possible.

37. We also need to look at land supply in terms of different sectors of the property market. Over the last 10 years, commercial rents have risen by 230%. If Hong Kong is to maintain its position as the region's leading business centre, we must be able to offer the new office space needed to accommodate corporations wishing either to establish a presence here or to expand their existing operations.

38. We have already taken important steps to further increase the supply of land in response to the growing demand. A significant contribution will come from changes in town planning rules. These will make it easier to increase the supply of commercial premises, particularly through redevelopment of existing sites. For example:

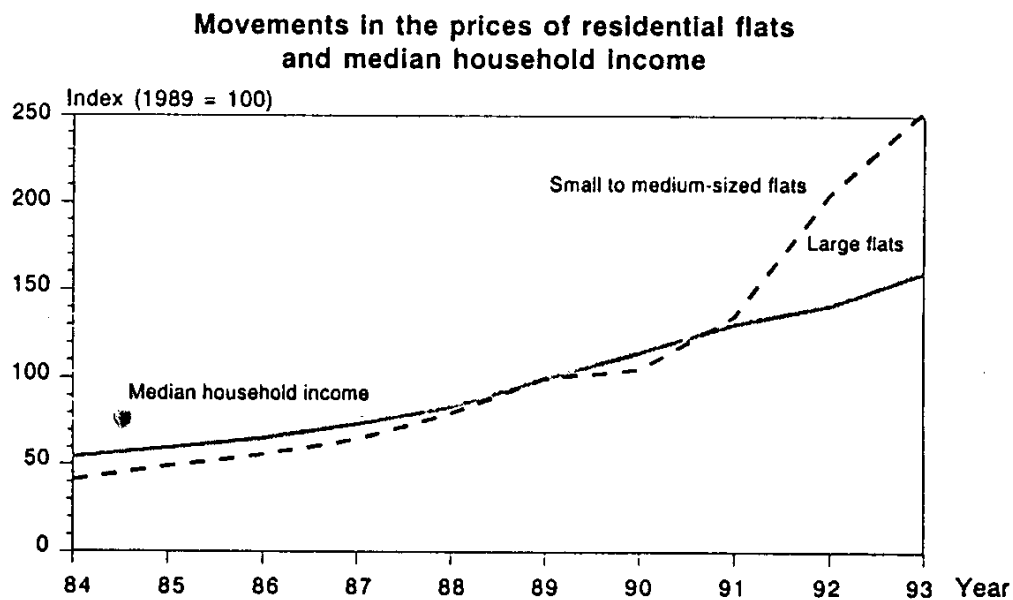
- Kowloon South and both sides of Nathan Road are now zoned for commercial purposes, which should further encourage redevelopment. Committed developments already exceed 600 000 m² of office space,

- more flexible guidelines on industrial-office buildings will allow a considerable expansion of office accommodation in such buildings. Indeed, already applications have been approved for industrial-office development which will produce 1.2 million m² of additional floor space, the majority of which will be office space,
- planning approval has also been given to many more smaller office buildings in other land-use zones, so far totalling 300 000 m² of office space.

39. In addition, we are directly increasing the supply of new sites.

- Where new land is being formed close to existing commercial areas, suitable sites are reserved for commercial development. The Hung Hom Bay reclamation, for example, will provide 100 000 m² of office space.
- The Land Development Corporation will provide 218 000 m² of new office space through two major projects close to Central District.

40. While commercial property prices have risen, as I have said, the price of residential property has risen faster and longer. Over the last 10 years, the average price of domestic accommodation rose by 430%.



The prices of residential flats have been rising ahead of household income since 1990.

41. In recent years, we have tried to counter speculative pressure through introducing a ceiling on mortgage lending and by extending the scope of stamp duty. These measures have provided some useful relief, but they have not been effective enough by themselves.

42. Once again, we have to do everything possible both to increase the supply of new land and to encourage redevelopment of existing sites wherever suitable. The Secretary for Planning, Environment and Lands is taking urgent steps to achieve both goals.

- In the coming year, we propose to increase the Land Department's staff by over 100, in order to accelerate the processing of new land grants, land exchanges and lease modifications.
- It may also be possible to facilitate redevelopment of existing sites through finding ways to allow private developers to apply for land resumptions where displaced residents are offered relocation and fair and reasonable compensation.
- We will be looking for ways to involve the private sector in supplying the infrastructure for major private sector projects. This should help to eliminate significant sources of delay in starting construction work on new sites.

43. A useful contribution will also be made by the sandwich class housing programme. Phase I of the loan scheme, which has a quota of 1 000, was over-subscribed three times. Phase II will be launched next month. For the longer term, land for five sites in Tsing Yi, Ma On Shan and Tseung Kwan O for 5 000 flats will be allocated to the Housing Society this month. Presale of the first batch of these flats will start early next year.

44. Some Members of this Council have suggested that a way to curb speculation is to impose some form of capital gains tax. I have considerable reservations about this idea. The most effective way to counter speculative activities is to increase the supply and that must be our priority. We shall be pursuing vigorously the possible solutions I have just described.

45. The second key issue is labour. In theory, the shortage of labour is easier to tackle. In practice, however, we have imposed tighter constraints on our freedom to import labour than have our competitors. We have to live with the consequences of that decision in terms of lower growth and higher inflation.

46. Our current arrangements to import labour are extremely limited. The ceiling of 25 000 (equal to less than 1% of our workforce) on the general scheme to import workers is low. The special scheme for the airport and related projects provides some additional relief but is only 5 500 at the present time. True, our investment in retraining is helping. Since last April, over 8 000 people have been retrained, and most have succeeded in finding alternative employment. But the labour shortage is still very serious.

47. We have been looking at other ways to ease the shortage while taking account of the community's understandable desire — which I share — to protect the interests of our own workforce. I believe Members will welcome a new

scheme to admit graduate professionals and managers recruited directly from China. This will start shortly with a modest pilot scheme for 1 000 people. If the scheme works, it could be expanded. It will offer some relief for the shortage of people with degree-level qualifications and knowledge of China.

Air and sea links

48. It is vital that we forge ahead with our airport and port development, if Hong Kong's growth is to be sustained beyond 1997, and with it the growth of southern China. Latest indications are that both air and container traffic are increasing faster than previous forecasts had anticipated.

49. It is painfully clear that Kai Tak is an airport working beyond its capacity, despite the considerable improvements being made. Even if you never travel, but are one of the 300 000 or so people living nearby, Kai Tak is becoming a more and more noisy neighbour to live with.

50. The economic benefits of the new airport can best be described by looking at what Hong Kong would stand to lose if we did not have the new airport in 1997. Economic losses would be \$3 billion in the first year after 1997, another \$6 billion in the following year and a massive \$10 billion the year after that.

51. We shall do all we reasonably can in dialogue with the Chinese Government to ensure that the expansion of the container port and the financing of the Airport Core Programme can proceed as swiftly as we would all wish. It is because of these economic benefits, and the good financial position we now find ourselves in, that we made our fourth financing proposal to address the Chinese Government's concerns. I shall refer again to this proposal in discussing the Medium Range Forecast.

The land links

52. Every day, more than 20 000 goods vehicles pass through the border crossing points. The figure is growing by about 15% a year. This traffic is the life blood of our economic growth. But the road arteries are becoming increasingly clogged by a volume of vehicles far beyond what they were designed to handle.

53. As I have explained in previous Budgets, we must invest heavily in improvements to the road and rail links which serve our trade, tourism and investment in China, as well as the everyday needs of our population. Much work is already in hand.

- In September this year, the Yuen Long Southern Bypass will be completed at a cost of \$400 million. This will bring more relief to the Western New Territories.

- In August, we shall be awarding the \$3.7 billion construction contract for the Ting Kau Bridge. When it opens in mid-1997, traffic will be able to bypass the container port and its bottlenecks in Kwai Chung.
- By the end of this year, we hope to award the franchise to construct and operate the Country Park Section of Route 3. When it comes into operation in late 1998, it will provide a fast new route linking the border, the container port and the urban areas.
- We have reached agreement in principle with the Chinese authorities to open the Lok Ma Chau crossing point round the clock, for implementation, we hope, in the first half of this year. Meanwhile two additional channels have just been opened.
- A major expansion of the Lowu Station will be completed early next year at a cost of \$280 million.

54. Much of the cross-border freight is far more suited to be moved by rail than road. But existing rail capacity simply cannot cope with demand. Last year, the Railway Development Study was completed. This set out ambitious but costly proposals, including the construction of a new rail track to link up with the Chinese national rail system, which itself is being rapidly upgraded. We are not yet in a position to make a firm decision on the best way forward. But I suspect a consensus will emerge that high on the list of our long-term transport priorities should be a new railway to the border through the northwest New Territories.

Reducing road congestion

55. But congested roads involve more than higher costs for our business firms. They make travel a daily trial for hundreds of thousands of men, women and children; and particularly for those who live in the northwest New Territories. The problem is serious. Hong Kong has 270 vehicles for every kilometre of road, amongst the highest vehicle densities in the world.

56. The number of private cars on our roads is growing by 10% a year. While we plan to complete 100 kilometres of new roads by 1997, this will not be enough to prevent a decline in the average speed at which the traffic moves.

57. Let me state clearly that we cannot spend our way out of this problem. The potential demand for road space is insatiable. But, given the size of Hong Kong, the supply of new highways is self-evidently constrained. Quite apart from the huge sums of money involved, the environmental consequences would surely be unacceptable. There is a limit on how much of our scarce land we can cover with roads, especially in heavily built-up areas.

58. The Secretary for Transport has recently announced the establishment of a working party to look at these difficult issues. He is treating this matter as an urgent priority and plans to come forward soon with practical solutions. In the final analysis, we will have the difficult task of balancing the ambitions of the private motorist against the broader interests of the community.

A financially-secure retirement

59. Hong Kong has not only reached a high level of maturity as an economy. Its age structure is also maturing. Retired and elderly groups form an increasing proportion of our community. In the past, our biggest challenge was to provide homes and schools for our young families. For the next century, the challenge will be to provide for the special needs of the older age groups, and in particular, to underpin their financial security.

60. Public discussion is now focussing on the rival merits of two alternatives: some form of Central Provident Fund (CPF) or the Old-age Pension Scheme which the Government has proposed.

61. The Secretary for Education and Manpower has explained to this Council why the Government advocates a pension scheme. This afternoon, I only want to highlight a few key issues. The priority question must be how best to remove financial anxiety from retirement and old age. To do so, we need to put in place arrangements which are simple and effective. Quite simply, we believe that a pension scheme meets these aims while a CPF does not.

- A pension scheme will provide more certainty in benefits than a CPF. It will not raise complex issues such as investment risks, uncertainty of returns, and the management of huge fund balances, again unlike a CPF.
- A pension scheme can provide financial security for the aged much more rapidly and rely on lower levels of contribution than a CPF.
- Finally, a pension fund will provide a financially secure old age for everybody, including housewives, low-income earners, casual workers and the other groups whose needs would not be met by a CPF.

62. Members have voiced concerns on two points which I should like to comment on briefly.

- Instead of a pension, why not increase the level of social security payments and means-test the beneficiaries?

- How would a pension fund collect contributions from the 146 000 members of the workforce who are self-employed, a group which includes professionals as well as hawkers?

63. We should be absolutely clear about the consequences of relying on a more "generous" social security system as some Members have urged.

- This approach would create an open-ended commitment, which the taxpayer would have to finance. Nor would means-testing reduce the burden on the taxpayer to any worthwhile extent over the long term because the elderly as a group is among the least well-off in society.
- The proposed pension scheme, by contrast, would link benefit levels to the total contributions levied. It would not write a blank cheque for the future which the taxpayer would have to honour.

64. As for ensuring that pension scheme contributions are collected from all who are liable, this will be a problem for any type of compulsory contributory scheme. The pension scheme would not face any unique difficulties.

- The problem is a limited one, in the sense that the self-employed account for less than 6% of the workforce.
- The pension scheme we have proposed would, for the majority, offer bigger benefits for smaller contributions than a CPF. The pension scheme could be expected, therefore, to be regarded as the better investment by the public.

65. I am convinced that we should not go on relying on the social security system to provide for the financial needs of our elderly population indefinitely. As the Chief Secretary has said elsewhere, we need to bring the same vision and resourcefulness to solving the challenge of retirement incomes as we did in establishing our first public housing programmes 40 years ago. I believe that a pension scheme is the socially and financially responsible solution which the Government ought to recommend, both to the Council and the community.

66. However, I also accept that it is our responsibility to produce as soon as possible a consultation document which covers all the key details and enables an informed debate to take place. This is one of the most important decisions we will have to take. Members are entitled to the facts before being asked to decide on our proposals.

BUDGET STRATEGY

67. Let me now turn to my Budget strategy. I have already set out the basic principles of our economic policy. I have also dealt at length in my two

previous Budgets with my general Budget strategy. But this year three particular points need to be made.

The spending constraints

68. The first is that we must recognize that there are economic as well as financial limits to what the Government should spend. Hong Kong's economy has thrived because we believe in private enterprise and small government. Only in this way can we ensure that business will have the freedom and the opportunity to generate the wealth we need. I am convinced that a major reason for our success is that we have not succumbed to the temptation to spend money simply because we have it. Instead, we have made sure that government spending grows no faster than the economy as a whole.

69. The result is plain to see. In Hong Kong, public expenditure is half the proportion of GDP that is typical of other advanced economies.

70. In Hong Kong, we plainly practise what we preach. We leave resources as far as possible in the private sector, where they can be most productively employed. We have achieved this partly by using the private sector wherever this makes sense. In Hong Kong, we have a long record of bringing private sector equity or loan capital into play in our major infrastructural projects. Just to underline what I mean by "long record", I mean it began last century, for example, with the construction of the Peak Tram, and the beginning of this century with the building of the Hong Kong tramway system.

71. The value of this private sector investment in Hong Kong, in terms of saving public resources, has been enormous. Three major tunnels, the first Cross-Harbour Tunnel, the Tate's Cairn Tunnel and the Eastern Harbour Crossing, would take something in the order of \$12 billion to build in today's dollars. To build the existing MTR system would take about \$68 billion in today's dollars, and our existing container ports would cost some \$30 billion to build. These facilities are paid for by the people who use them and benefit from them most. And what is more, at a price which the ordinary man in the street has never found to be a real burden.

72. What these figures demonstrate is that, unlike many other societies, both Asian and Western, we have found the right budgetary balance. We have been able to fund our extensive social service programmes without a massive public sector and crippling taxation. Like the community, I fully accept welfare as one of the Government's primary obligations. But also like the community, I am very conscious of the need to maintain tight control of recurrent expenditure. It is the taxpayer who foots the bill. When we hear calls for "the Government to contribute", the real meaning, we should never forget, is a demand for the taxpayer to dig deeper into his pockets.

Adequate reserves

73. The second important point about our Budget strategy is that we must maintain adequate reserves to meet our known commitments and to guard against future uncertainties. Putting aside the money to meet known commitments is relatively easy. For example, in addition to our commitment under the MOU on the Airport Core Programme to set aside \$25 billion for the future Special Administrative Region (SAR) Government, we have also announced our intention to set aside \$7 billion to reassure the Civil Service that we can meet their pension obligations. Putting aside money to provide adequate protection against future uncertainties involves more difficult judgments. As I shall explain in detail later this afternoon, I believe that our reserves, both at the present and projected levels, are clearly adequate to meet the demands on them which we might reasonably anticipate. But I would reiterate that even when the reserves are buoyant, we must be extremely careful not to relax our budgetary discipline.

74. Clearly, any discussion of the reserves would be incomplete without consideration of the likely impact of funding the new airport. This I will deal with when I come to discuss the Medium Range Forecast.

Avoiding inflation

75. The third point is that we should, as far as possible, avoid creating inflationary pressures. In current circumstances, I must take care not to give, through tax concessions, too great a boost to domestic demand, and thus reverse the welcome reduction seen in inflation over recent years. I hope Members will bear this in mind when assessing whether I have gone far enough in my revenue proposals.

EXPENDITURE AND REVENUE ESTIMATES**The 1993-94 outturn** *(Note)*

76. I come now to the details of our public finances and to the likely results for 1993-94. I forecast last year that 1993-94 would see a deficit of \$3.4 billion. For reasons which are mainly welcome, this deficit will not occur. Instead, I expect a surplus of \$15.1 billion. As a consequence, our reserves on 31 March 1994 are now expected to total \$136.1 billion.

Note: The estimates of expenditure and outturn in 1993-94, and reserve balances throughout the period to 1997-98, assume the establishment of a sewage services trading fund and injection of \$6.8 billion in 1993-94 into that fund.

77. This is an improvement in our finances of \$18.5 billion, an improvement due for the most part to a growth in revenue well above what had been forecast. That is why I say the change is welcome. A year ago, I forecast total revenue would be \$150 billion. In the event, revenue has surged from stamp duty (in respect of both stock market and property transactions) and from land sales. As a result, I have revised the revenue forecast to \$164.4 billion, some \$14 billion above the original estimate.

78. These additional revenue receipts are good news. At the same time, we must recognize that they arise from sources which, by their very nature, are volatile. Who, for instance, would have ventured to predict a year ago the level of stock market turnover seen in recent months? And we have been reminded in recent weeks just how volatile stock markets can be.

79. Our finances have also been affected by some underspending on the expenditure side. I am now forecasting an overall underspending of \$4.1 billion, or under 3% of our original forecast. The major part of this underspending was caused by the failure to reach an agreement on the airport financing package. As a result of this, we have had to postpone the \$3.7 billion we had planned to inject into the MTRC.

80. These figures also underline a welcome reduction in the level of underspending on the capital works programme. In the debates on my two previous Budgets, Members expressed considerable disquiet about our inability to achieve our capital expenditure targets. I shared their concern and last year announced urgent steps to improve our performance. I am glad to say that the efforts made by the Secretary of Works and his team have begun to pay off. After excluding the exceptional subvention of \$4.8 billion to finance the Trade Development Council's construction of an extension to the Convention and Exhibition Centre, capital underspending came to about \$2 billion, or about 6%. This is a heartening improvement over the three previous years.

81. I believe that Members will recognize that this is a useful start. Our consultants have recommended a number of solutions to particular problems, such as the lead time in land acquisition and resumption. We are now developing a prototype computerized project management system which has the potential to become one of the largest such systems in the world. Members of this Council have been briefed on the consultants' recommendations by the Secretary for Works. But remedies put in place now will inevitably take some time to feed through to spending performance. Our forecasts of expenditure over the medium-term assume, therefore, only a gradual return to the levels previously planned.

Draft Expenditure Estimates 1994-95

82. In turning to the new financial year, I must begin by thanking Members for the part they have played in helping formulate both the spending and the

revenue proposals. My consultations with Members began last summer. They have continued through the preparation of this Budget. These consultations have become a central part of the Budget exercise.

83. I deal first with the expenditure estimates for the coming year. I estimate that in 1994-95, total expenditure, excluding payments from the Capital Investment Fund, will amount to \$146 billion. This is an increase of \$13.6 billion compared with the original estimate for 1993-94.

84. Members have already received copies of the draft estimates of expenditure and will be examining these in detail during the special meetings of Finance Committee which have been arranged for this purpose. This afternoon, I shall highlight only the more significant improvements to our services planned for the coming year. I believe that our principal priorities in allocating additional recurrent resources should be our social services. For the coming year, I am proposing increases in recurrent expenditure:

- on social welfare, of 8.4%,
- on health, of 6.9%, and
- on education, of 6.5%.

These increases in recurrent spending on our social services are in real terms, after taking full account of inflation.

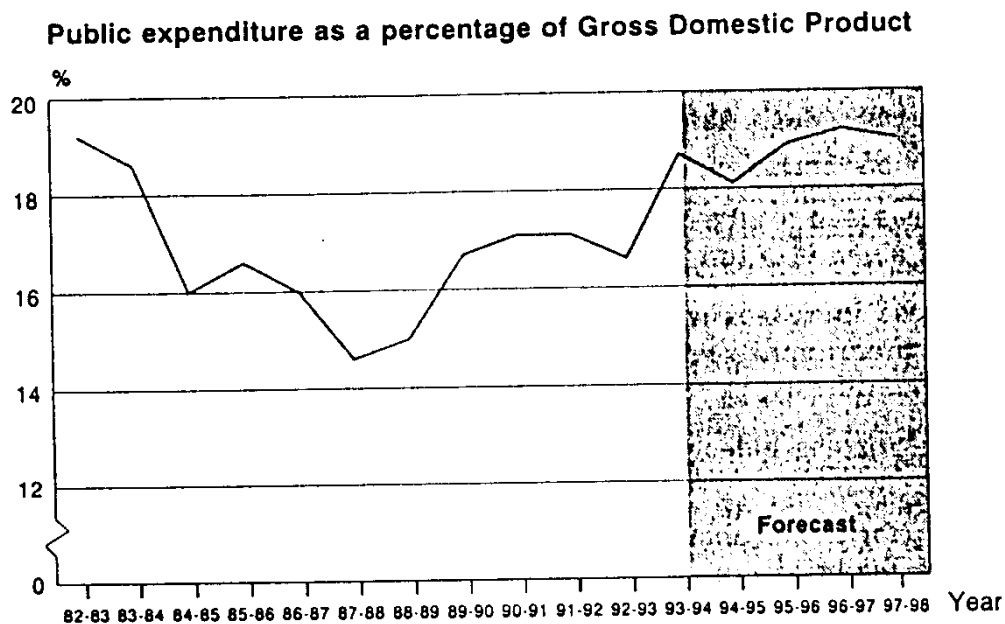
85. These increases will allow us to meet in full our commitments to the ambitious programmes set out by the Governor in his policy addresses to this Council. Specifically, in 1994, we plan to provide:

- for the elderly, an extra 1 660 places in care and attention homes,
- for the disabled, an extra 1 460 places in residential and other facilities,
- for children, an extra 1 825 places in nurseries, creches, foster care and small group homes,
- for the sick, 950 extra hospital beds, as well as hospice care for an additional 500 patients,
- for schools, 980 additional graduate teachers.
- For pre-school children, the planned improvements to the Kindergarten Fee Remission Scheme will start three years earlier than previously scheduled.

- For the disadvantaged, the standard rate payable to children under the Comprehensive Social Security Assistance Scheme will be increased by \$100 per month. In addition, there will be the normal increases to compensate for inflation.

86. I believe that the spending proposals I have outlined for the social services this afternoon, and the pension proposals I have described earlier, are ample evidence of the Government's commitment to improving the community's quality of life and to better care and support for the elderly, the disadvantaged and the disabled in particular. Hong Kong has a better record in this respect than we are usually given credit for. Nearly half of total public spending in Hong Kong is devoted to housing and the social services. A recent study suggests that the comparable figure for the United Kingdom is one third and for the United States only a fifth.

87. I would like to reassure Members that these substantial increases in the funds devoted to welfare can be achieved without breaching our public expenditure guidelines. Total public expenditure will amount to \$174 billion in 1994-95. This figure includes not only the Government's own spending but, in addition, the expenditure by trading funds, the two municipal councils, the Housing Authority and the Lotteries Fund. Public expenditure will represent 18.1% of GDP, and present forecasts indicate that the proportion will remain below 20% over the forecast period to 1997-98.



MANAGEMENT OF THE PUBLIC FINANCES

88. Before I turn to my revenue proposals, let me deal briefly with two important issues covering the management of our public finances.

The Housing Authority

89. As Members know, we have been reviewing the Government's financial arrangements with the Housing Authority. During these discussions, we have been very conscious of two facts.

- First, the Housing Authority already provides homes for almost half the population.
- Secondly, however, at least 200 000 households are still estimated to be in need of the Housing Authority's assistance.

90. The Government is determined to achieve the targets of the Long Term Housing Strategy.

- We shall go on providing land for public rental housing at nil cost.
- In addition, we shall go on providing subsidized land for the Home Ownership Scheme, currently at less than one fifth of full market value.

The cost to the taxpayer of this free and subsidized land for next year alone will amount to about \$21 billion.

91. Over the years, at a conservative estimate, the Government has provided over \$200 billion in today's prices in support of the Authority and its programmes. The review to which I have referred has confirmed that the Housing Authority is in robust financial health. The actual figures may come as a surprise. The Authority estimates that as at 31 March of this year, it will have a positive cash balance of about \$18 billion. This figure is expected to rise to some \$29 billion by the end of 1997-98. Both figures take into account the Authority's future payments to the Government under existing arrangements. If account is also taken of the Authority's other liabilities, we estimate that over the next four years the Authority is likely to have funds at its disposal of about \$15 billion which are not required to meet existing commitments under the Long Term Housing Strategy.

92. I do not believe it would be financially prudent to leave these enormous sums lying idle on the Housing Authority's balance sheet. They must be put to productive use. Under the Authority's existing arrangements, the surplus funds should be returned to the general revenue. However, as I have already said, many people still need Housing Authority homes. I believe that the best use of

the Authority's surplus funds, therefore, would be to enable the Housing Authority to speed up construction of new accommodation and supporting infrastructure and to improve the Authority's existing housing stock. We are currently finalizing concrete proposals to achieve these important goals.

93. We shall soon be consulting the Authority on these proposals as well as on the revised financial arrangements between us. I do wish, however, to reassure Members that we intend to continue the relationship between the Authority and the Government as set out in the Housing Ordinance. Furthermore, I reaffirm the principle adopted when we agreed the present financial arrangements in 1988. That is, that need and affordability will remain the guiding principles in the provision of, and charging for, public housing. Recognizing these social and financial principles, the Government will continue to support the Housing Programme with finance to the Authority where necessary, and to subsidize rental housing with the provision of land on concessionary terms.

The Government's accounts

94. In recent years, some Members of this Council have argued the case for moving from the cash basis on which the Government keeps its accounts to systems closer to those used in the private sector.

95. I have examined this issue carefully and have concluded that there are strong reasons for retaining the existing cash-based accounts. Nevertheless, I would like to try to address concerns that our existing accounts provide insufficient information about the full cost of the resources consumed by the Government's various activities. We propose, therefore, on an experimental basis, to prepare supplementary statements which will help us to see the full cost of selected activities. These will also be useful in helping us to make a judgment on the merits of providing such additional financial information about government activities as a whole.

REVENUE PROPOSALS

96. I turn now to my revenue proposals. My starting point must obviously be the very encouraging economic performance which has generated such buoyant revenues. As I have already said, I expect another year of robust economic growth and strong government revenues. In framing my revenue proposals against this encouraging background, I have had four objectives which will be mercifully brief:

- to find ways to enable the taxpayer to benefit from our healthy fiscal situation,

- to avoid radical changes which could compromise the simplicity and predictability of our tax system,
- to maintain Hong Kong's competitiveness as a business centre, and
- to continue our efforts to combat tax avoidance and tax evasion.

Revenue sources

Salaries tax

97. I begin with salaries tax. Let me say straight away that I entirely agree with views expressed by Members during my consultations with them that the highest priority for concessions should again be salaries tax. There was also a preference for focusing these concessions mainly on those who pay below the standard rate.

- These taxpayers include the technicians, the managers, the junior executives, the young professionals, whose expertise is so essential to our service-based economy. And the teachers, the social workers, the nurses and others who sustain our community's well-being.
- They are also the group which tends to benefit least from the protection offered by public housing against the high cost of domestic accommodation.

98. My concern to respond to the needs of these salaries taxpayers last year led me to increase personal allowances and revise tax bands. Those tax measures reduced the amount of tax paid by over 90% of those liable to salaries tax. Those major concessions should be seen in the context of the overall salaries tax environment.

- Almost half the workforce pay no direct personal tax of any kind.
- The effective tax rate paid by those liable to salaries tax averages only 8%, which is extraordinarily low by international standards.
- And, of course, unlike most developed economies, only salaries earned in the territory are liable to tax. We have no comprehensive income tax, let alone a levy on total worldwide incomes and earnings.

99. Nevertheless, I believe we can afford to make our low-tax regime even more attractive by proposing a further range of major concessions on personal taxation.

- First, I propose to increase the basic allowance from \$56,000 to \$72,000 and the married person allowance from \$112,000 to \$144,000. The allowances will rise by about 28%, which is more than three times the rate of inflation in 1993.
- Secondly, I propose to increase the allowance for the first and second child by nearly 18%, from \$17,000 to \$20,000.
- Thirdly, I propose to increase the single-parent allowance by about 19%, from \$27,000 to \$32,000.
- Fourthly, I propose to increase the basic dependent parent allowance by nearly 18%, from \$17,000 to \$20,000.

100. I am also conscious of the community's desire to encourage our families to provide care and support for their elderly members. This goal was underlined by the Governor in his policy address last year. I propose, therefore, that a dependent grandparent allowance be introduced to cover dependent grandparents resident in Hong Kong for whom no dependent parent allowance has been claimed. I estimate that this measure will assist 10 000 taxpayers.

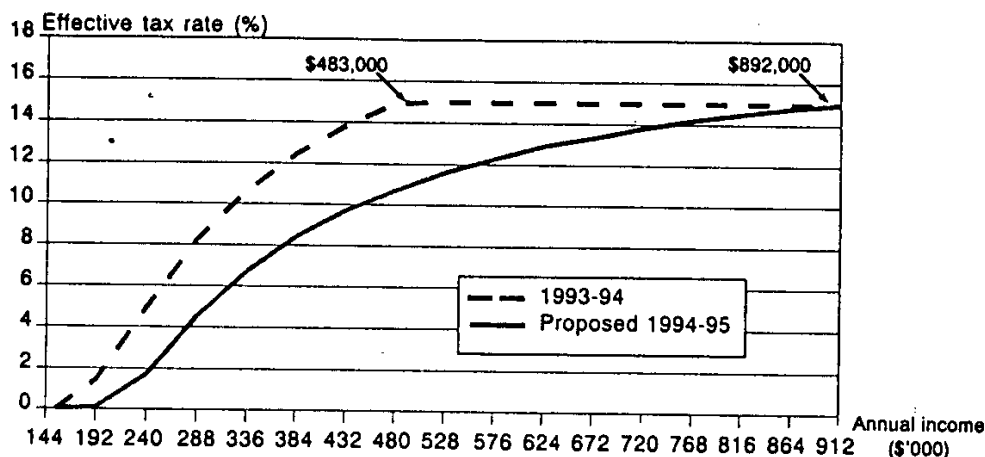
101. What will these proposed concessions mean to the average family?

- A single-income family of four will have to earn more than \$184,000 a year before paying any tax. At present, they would be liable to tax when their annual earnings exceeded \$146,000.
- A similar household, with two dependent parents or grandparents, will have to earn more than \$224,000 before paying any tax. At present, they would be liable to pay tax when their annual earnings exceeded \$180,000.

102. My proposals for concessions on personal taxation go further than the allowances. Last year, I made adjustments to the marginal tax bands, which benefited the sandwich class. I believe we can make a further major adjustment this year to reduce the number of salaries taxpayers who have to pay the standard rate of 15%. I propose that the top marginal tax rate be reduced from 25% to 20%. Once again, the sandwich class will be the principal beneficiaries. For example:

- an unmarried taxpayer will have to earn at least \$444,000 before paying tax at the standard rate, compared with \$258,000 at present,
- a single-income family of four will have to earn at least \$892,000 before paying tax at the standard rate, compared with \$483,000 at present.

**Comparison of effective tax rates
(Married person with 2 children)**



There will be a dramatic reduction in effective tax rates. A single income family of four will have to earn at least \$892,000 before paying tax at the standard rate, compared with \$483,000 at present.

103. These are dramatic improvements. The concessions I have proposed will take effect from the year of assessment starting on 1 April 1994. I estimate that they will cost \$3.2 billion in 1994-95 and \$20.7 billion up to 1997-98. Full details of the concessions are set out in the Supplement to the printed version of this speech, together with examples of their effects on different categories of taxpayer.

104. Let me summarize here the main consequences of the concessions I have proposed.

- About 420 000 taxpayers, or a quarter of the total, will drop out of the tax net entirely.
- A further 1.13 million taxpayers will pay less tax.
- The number of standard rate taxpayers will drop by 60%.

My concessions will bring the largest benefits to taxpayers earning less than \$500,000 a year.

- The average household, with median monthly earnings of \$13,000, will no longer have to pay any salaries tax.

- The typical sandwich class household, with monthly earnings of \$20,000, will be liable for only \$343 a month in salaries tax, or the equivalent of the price of a restaurant meal. Indeed, this family's tax bill will be cut by over \$7,000 a year.

Profits tax

105. I turn now to profits tax. Hong Kong already offers a highly competitive business tax environment.

- Our profits tax rates are very low by any international standard.
- Tax is generally payable only on profits derived from Hong Kong and not on worldwide incomes and earnings.
- No tax at all is payable on company dividends.

106. This favourable tax regime remains one of the key attractions for setting up and doing business in Hong Kong. Nevertheless, I believe it would be right to take advantage of our healthy financial position to reduce the corporate profits tax rate to 16.5% from the present level of 17.5%. This will cost \$1.6 billion in 1994-95 and over \$10 billion up to 1997-98.

107. My proposed concession will, of course, enhance our competitiveness as a regional business centre. But this is not my only reason. The principle should be that the Government only raises in taxation what it needs to finance its agreed policies and programmes.

Business registration fee

108. Hong Kong has some 600 000 registered businesses. Of these, well over half have no liability at all to profits tax. This can of course occur perfectly legitimately. For example, some earn no profits in Hong Kong and others no profits whatsoever. Nevertheless, all these firms enjoy free access to the convenience and the public facilities which Hong Kong offers business firms.

109. Their only contribution to the revenue is a modest \$1,000 business registration fee. I think it reasonable that such businesses be asked to contribute a little more, whilst companies which do pay profits tax will pay a little less as a result of the reduction I have just announced. There is a further advantage to this proposal. It will also have the effect of modestly broadening our tax base and achieving greater stability of revenue. I, therefore, propose that the basic fee should be doubled to \$2,000. This measure will generate additional revenue of \$700 million in 1994-95 and \$3.4 billion up to 1997-98.

110. To provide relief to businesses with a small turnover, I propose to increase substantially the levels below which payment of the business registration fee is exempt. In future, a business will be exempt from the fee if its average monthly sales do not exceed \$15,000; or, where the business consists of rendering services, if its average monthly receipts do not exceed \$4,000.

Estate duty

111. Last year, I raised the exemption level for estate duty and adjusted the schedule of asset values for assessing estate duty. To offset the effect of inflation on asset values, I now propose to further increase the level below which no duty is payable to \$5.5 million. Above that level, I propose that estate duty be payable at 6% on estates of between \$5.5 million and \$6.5 million; 12% for estates of between \$6.5 million and \$7.5 million; and 18% on estates with a value over \$7.5 million.

112. I have three additional concessions to propose in relation to estate duty.

- First, I propose that, in future, the value of the matrimonial home should be excluded completely when determining the value of the estate for duty purposes. At present, although the matrimonial home is exempt from estate duty, its value is taken into account in calculating the aggregate value of the estate for the purposes of determining the applicable rate of estate duty. This has caused confusion and complicated the computation of estate duty liability. Rationalization of the existing requirement is also desirable because of the heavy burden it imposes on the smaller estates.
- Secondly, I propose to increase the limit for gifts made by the deceased within three years before the date of death. I propose to double the limit to \$200,000 from the present figure of \$100,000 set in 1987.
- Thirdly, I propose a major increase in the allowance for funeral expenses incurred in Hong Kong from the existing level of \$10,000 to \$50,000.

113. The cost of these proposals will be \$85 million in 1994-95 and \$425 million up to 1997-98.

Stamp duty on property transactions

114. Over the past year, property prices have continued to rise. This has created difficulties for many families who want to own their own homes. Accordingly, I propose to reduce the impact of stamp duty.

115. The present duty on property transactions was set in 1988, when property prices were considerably lower than today. To take account of the increase in property prices during the intervening years, I propose to adjust stamp duty on lower and medium-value flats.

- For properties with a value not exceeding \$500,000, a fee of \$100 will be charged.
- Above this level, stamp duty will be charged according to a sliding scale, subject to marginal relief. The threshold at which the 2.75% rate begins to apply will be raised from \$1.5 million to \$3 million.

116. As a result of the proposed adjustments, the stamp duty paid on a typical \$1 million flat under the Home Ownership Scheme will be halved, from \$15,000 to \$7,500. I estimate that about 100 000 property transactions will attract less stamp duty, which will cost \$810 million in 1994-95 and \$3.9 billion up to 1997-98. Details of the new schedule of stamp duty rates are set out in the Supplement to the printed version of this speech.

Stamp duty on stock transfers

117. Over the past three years, the rate of stamp duty on stock transfers has been halved from 0.6% to 0.3%. As I pointed out in previous Budget speeches, this concession was intended to reduce the overall cost of stock market transactions and to maintain Hong Kong's ability to compete with other major markets. I am pleased to see that the cost of trading securities in the local market is currently among the lowest in the world. The extremely buoyant state of our stock market in recent months supports the view that the Hong Kong securities market is sufficiently attractive to local and overseas investors without any additional incentive by way of a further reduction in stamp duty. I do not propose, therefore, any change to the contract note duty for the time being.

Air passenger departure tax

118. The air passenger departure tax was increased to \$150 in 1991. I am sympathetic to the view that, at this level, it may discourage transit passengers from venturing beyond the confines of the transit halls. This not only means a loss of business to our retail trade but also aggravates congestion at Kai Tak. To address this problem, as well as to benefit local residents who travel by air, I propose to reduce the air passenger departure tax from \$150 to \$50. This will cost \$960 million in 1994-95 and \$4.1 billion up to 1997-98.

Lottery duty

119. The Lotteries Fund plays an important part in financing our plans to improve our social services. At present, 30% of Mark Six proceeds go to the general revenue as lottery duty and 5% to the Lotteries Fund. During last year's debate on the Governor's policy address, I undertook to review my position on the proposal made by the Welfare Panel to reduce the Government's share of lottery proceeds in favour of the Lotteries Fund.

120. Over the next few years, the Lotteries Fund will face increasing demands. There is the Government's commitment to meet the key targets in the White Paper on Social Welfare and the Green Paper on Rehabilitation. In addition, the Governor announced in his policy address last year plans to build seven nursing homes by 1997 and to provide 800 additional care-and-attention places within two years, over and above the White Paper target. I have, therefore, decided to triple, from 5% to 15%, the share of lottery proceeds to be allocated to the Lotteries Fund at the expense of lottery duty. This will generate \$1,800 million for the Lotteries Fund over the next four years to meet capital expenditure. The Government's share of the lottery proceeds will be reduced accordingly from 30% to 20%.

Duties***Tobacco***

121. Revenue from tobacco duty decreased substantially in 1993-94, despite a moderate inflation-related adjustment of 9.5% in the duty rate. This reduction would not have been a cause of concern had it resulted from a reduction in smoking. After all, a main reason for our present high rate of tobacco duty is to discourage smoking, especially among the young. Unfortunately, that is not the reason for the diminishing returns. The explanation lies in increased smuggling. There is a real risk that the cheaper, contraband cigarettes actually encourage smoking. There is also a risk that any further increase in the rate of duty would only lead to a higher level of smuggling. I have, therefore, decided to maintain tobacco duty rates at their present level on grounds both of public order and of health.

122. But I propose that we take direct measures to tackle both problems.

- Subject to this Council's approval, additional resources will be provided to the Customs and Excise Department for the establishment of a 40-strong task force to tackle the tobacco smugglers. Its main priority will be to step up investigations and to gather the intelligence needed to attack smuggling syndicates.

- I have also approved a grant of \$7.5 million to the Hong Kong Council on Smoking and Health (COSH) to be spent on anti-smoking campaigns and research over the next two years. This sum will be in addition to the annual recurrent grant of \$4.1 million proposed for COSH in the 1994-95 draft estimates.

123. By holding tobacco duty at its present level, we shall be forgoing the additional revenue which would have been obtained by an inflation-linked adjustment of \$185 million in 1994-95 and \$865 million in the period to 1997-98.

Hydrocarbon oils

124. Next, hydrocarbon oils. As long as traffic congestion shows no signs of an improvement, and vehicular growth remains unabated, any budget measure which reduced the fuel duty in real terms would only add to the pressure on our roads. I, therefore, propose to increase the duty by 8.5% to keep pace with inflation.

Alcohol

125. In my last two Budgets, I sought to simplify our system of duties by the abolition of the duty on soft drinks and then the duty on cosmetic products. There is scope for further simplification. This year, I want to focus on the duty on alcohol.

126. The present structure of duty on alcohol is a confusing cocktail of specific and *ad valorem* levies. It is also open to criticism as regressive, because the overall duty represents a lower percentage of the total cost of an expensive product than of a cheaper product of the same type. I propose to reform these arrangements by introducing a simple *ad valorem* system. This will apply different rates to different products, except for methyl alcohol, on the basis of three tiers defined broadly according to alcoholic strength.

- Liquor with an alcoholic content above 30% will pay a 100% duty rate.
- Grape products with an alcoholic content of 30% or below will pay a 90% rate.
- Non-grape alcoholic beverages and alcohol products with an alcoholic content of no more than 30% will pay a 30% rate.

The new system is designed to be revenue neutral in its impact in present market conditions. It is a reform measure, not a revenue raising device. Its impact on individual products will, however, vary. Broadly speaking, products at the lower end of the market, which hitherto have been subject to a high rate of duty relative to their cost, will benefit as a result of a reduction in the duty payable.

127. A further reform will be that duty will be levied on the price of the product at the point of delivery from the seller. This is an improvement over the existing system where *ad valorem* duty is calculated on a CIF basis (that is to say, the aggregate value of cost, freight and insurance). The new method of calculation will have the important consequence of creating a completely level playing field for both imported and locally-manufactured products.

Rates

128. I said in my last Budget speech that a routine revaluation of rates would be conducted in 1993-94 and come into effect on 1 April 1994. It is only fair to reassess rateable values regularly so that the rates paid reflect up-to-date rental values.

129. Last November, the Commissioner of Rating and Valuation was directed to prepare a new list of rateable values in the Urban and Regional Council areas based on rental values on 1 July 1993. For each class of property there will be a wide variation in increases due to changes in the environment and the infrastructure of the area in which the property is located, as well as market preferences for particular types of property. The average increase in rateable values will be about 34% for domestic properties and 32% for non-domestic properties.

130. The rates eventually to be paid by ratepayers will depend on two factors: firstly, the overall percentage charge to be applied to the rateable values and, secondly, any rates relief that may be introduced. I propose that the overall percentage charge should be maintained at its current level of 5.5%.

131. But I believe we should cushion the initial impact of the general revaluation on ratepayers who would otherwise face large increases in their rateable values. I propose, therefore, to extend an important measure of relief by introducing a 20% cap on increases in rates for 1994-95 and 1995-96. As a result, the maximum the individual will be asked to pay in 1994-95 will be no more than 20% above what was paid in 1993-94. Similarly, the maximum payment in 1995-96 will be no more than 20% above the amount payable in 1994-95. This relief will apply to about 80% of properties in 1994-95. For 1995-96, over 20% of properties will continue to benefit from this relief.

132. With the proposed rates relief measure, the average increase in rates in 1994-95 for a small private flat will be about \$53 per month and for a large flat about \$247 per month.

133. Let me remind Members that those living in public rental housing, the largest single group of tenants in Hong Kong, will not be directly affected by the increase in rates. In the past, the Housing Authority has absorbed the immediate effect of any rates increases until rents came up for revision. These rents, which are inclusive of rates, are revised on a rolling cycle every two

years. I understand that the Housing Authority will continue this practice and that rents will continue to be set on the basis of affordability. Consequently, public housing tenants will be little affected in practice from these rates increases, even in the longer term.

134. Members are aware that revenue from rates helps to finance the two municipal councils. I have reviewed the financial position of the two councils and their planned programme of activities for the next three years. I have revised the split of the rates revenue between general revenue and the councils. The details are set out in the Supplement to the printed version of this speech. The net effect of these measures is that the Government's revenue from rates in 1994-95 will increase by about 15% to \$5.1 billion.

Other concessions

135. I have two further tax concessions, both in the transport field. If daily travel is a chore for the average family, how much more trying must it be for the disabled members of our community. We already recognize their special difficulties by granting various concessions to disabled drivers of private cars. I believe that similar concessions should apply to the dial-a-ride Rehabus service. I propose, therefore, that passengers on these services should be exempt from government tunnel tolls and the Cross-harbour Tunnel passage tax.

136. I also believe that the fiscal system can play its part in developing solutions to our environmental problems. Fuel-engined vehicles are a major cause of air pollution, unlike electric vehicles. These, however, are at present still more expensive than fuel-engined ones because of high development costs and low production levels. I propose to exempt electric vehicles registered during the next three years from first registration tax. This should make electric vehicles more attractive by reducing their initial cost. I shall assess the benefits of this concession towards the end of the period to see whether it should be extended.

Implementation

137. The proposed increase in the fuel duty and the new alcohol duty structure come into effect under a Public Revenue Protection Order issued today. My proposals on personal taxation, profits tax, business registration fee, estate duty, stamp duty, air passenger departure tax, lottery duty and rates, as well as my concessions in respect of electric cars and dial-a-ride Rehabus passengers, will come into effect on 1 April this year.

Economic impact of the Budget

138. Overall, the Budget will have little net impact on inflation. Budgeting for a surplus is itself deflationary. However, I cannot place too much weight on this point, given above all the relatively small size of the public sector in Hong Kong. Furthermore, while the budgetted surplus for 1994-95 is smaller than the surplus now expected in the current year, the difference is very small and within the margin of error. It should also be seen against the very substantial equity investments we intend to make in the coming year, which will not all be spent during the 12-month period.

The taxpayer's obligations

139. By any standards, Hong Kong's taxes are low, simple and predictable. Indeed, the World Competitiveness Report 1992 estimated that Hong Kong's total tax revenue — at only 11.25% of GDP — was the lowest percentage of all 36 economies surveyed. The package of concessions and reforms I have proposed today will further reduce the tax payable by both individuals and businesses. There is, in consequence, no possible excuse for failing to pay in full the modest tax obligations which Hong Kong imposes to finance its public services and facilities. Evasion cannot be tolerated. Avoidance must be combatted. I believe that the community rightly expects me to attack both vigorously. After all, evasion and avoidance by a minority unfairly shifts the financing of our public services and facilities on to the rest of the community.

140. In previous Budgets, I was encouraged by the support of Members for intensifying our action against evasion. The results have been encouraging. Over the past two years, the Inland Revenue Department's investigation and field audit staff have tackled over 2 000 cases and obtained more than \$1.4 billion in back tax and penalties. This sum would be enough to finance the construction of a hospital with 600 beds, for example.

141. However, it has become apparent that there is still substantial under-reporting by members of some professions who receive cash payments for their services. This under-reporting of income is intolerable. I understand that for one profession alone, which I will leave anonymous (*laughter*), of 237 cases examined, 224 involved tax evasion which, with penalties, amounted to almost \$100 million. A remedy is clearly needed. As a first step, we shall request professional bodies to insist that their members keep proper accounts and issue proper receipts. Let me make myself very clear. If this fails to achieve the desired result, I shall have no choice but to legislate for a solution including the mandatory issue of receipts.

142. I turn now to the question of tax avoidance. It is a principle of our system that individuals have the right to order their affairs so as to pay the least tax consistent with their legal obligations. But by the same token we cannot tolerate attempts to reduce tax liabilities through resort to shams and artificial

arrangements. In recent years, Hong Kong has suffered increasingly from one particular device which is clearly wrong in equity and which has little or no commercial justification. I refer to the proliferation of service companies established to avoid our already low rates of tax. Indeed, these companies are being widely promoted by tax advisers and a recent press headline sums up the situation very aptly: "use service companies to unlock tax bonanza". I am not in the business of tolerating tax bonanzas. I consider that the time has come to legislate. I hope that the Council will give its full support to tackling this problem, despite the extensive and self-interested lobbying which will be inevitable.

143. Let me give you two examples of service company arrangements with which I am particularly concerned.

144. The first amounts to an attempt to disguise an employer/employee relationship. Typically, remuneration for services rendered under employment-like conditions is not paid as salary to the individual who provides the service. Instead, a fee is paid to a company which he controls. A substantial reduction in the amount of tax which would otherwise be payable can then be obtained through the service company providing the individual with generous employee benefits.

145. The second example is rather more complicated. It involves the payment of inflated management fees by a firm to a service company which is controlled by the firm's proprietor or its partners. The service company employs the proprietor or partners and uses the fees to pay them "employee benefits". As in the first example, the provision of these benefits is designed to reduce the overall tax liability.

146. I propose to introduce legislation to deal with the tax-avoidance aspects of service company arrangements. I expect the result to be significant additional revenue.

THE MEDIUM RANGE FORECAST

147. As in previous years, I have published the Medium Range Forecast in Appendix A to the printed version of this Speech. Before I discuss the forecast, I should like to make four points.

148. First, in accordance with our normal practice, this forecast covers the current financial year, the estimates year, and three further years. Hence, my forecast will for the first time include the 1997-98 financial year, a period most of which follows the transfer of sovereignty. I should emphasize that this is a forecast only, presented today solely to provide the appropriate context for Hong Kong's planning. It in no way imposes any commitment on the future SAR Government.

149. Secondly, in previous forecasts, we have allowed for the financial implications of the first airport financing proposal put to the Chinese Government. And specifically, in addition to public works expenditure, for equity injections of \$20.3 billion from the reserves. Whilst the financing arrangements have yet to be agreed, it is clearly desirable to make our forecasts as realistic as possible. Without going into details of the fourth financing proposal at this stage, in our latest forecast we have allowed for a further equity injection of \$20 billion from the reserves. We have also estimated the likely additional revenue to be obtained from airport railway-related land, and how much of that sum would be used as a further equity injection. Notwithstanding the great increase in land values since 1992, no more than about \$40 billion in gross premium from airport railway-related land is expected to be received in the limited period up to June 1997, half of which would of course go to the Land Fund. These estimates are reflected in the new forecast.

150. Thirdly, the format of the Medium Range Forecast has been modified. The changes reflect the comments made during last year's Budget debate and detailed discussions held with interested Members, for whose contributions I am most grateful. Members will note that the new format no longer focuses on the surplus or deficit in any one year. Instead, it highlights separately:

- the operating surplus, demonstrating the underlying recurrent strength of our finances,
- capital expenditure under the various funds and their sources of financing, and
- the overall level of reserves.

151. I believe that the new format gives a better insight into the health of our finances. For the convenience of Members and the public, I am publishing the forecast in both the old and the new format, together with a ready reconciliation between the two versions.

152. Lastly, a point of clarification. The first trading funds were set up in August 1993. One of their objectives is to free appropriate services from the Government's normal expenditure controls and so permit them to respond more readily to changing commercial circumstances. Thus trading funds keep accounts which are separate from those of the Government, and their expenditure no longer forms part of government expenditure. Trading funds do, however, remain part of the wider government structure, and their payments remain within the definition of public expenditure for the purpose of measuring the public sector share of the economy.

153. Now for the Medium Range Forecast itself. Two different factors are at work.

- First, revenues have been buoyant over the past three years. And revenue forecasts have been increased to reflect this.
- Secondly, on the expenditure side, the forecast reflects a more realistic estimate of our capacity on public works.

154. On this basis, I forecast that we shall add \$7.7 billion to our fiscal reserves in 1994-95. Throughout the forecast period, we shall continue to see a healthy surplus on the operating account. However, in 1995-96 and 1996-97, we are forecast to draw on our reserves to take account of an increasing spending capacity on public works, as well as increased investment in our physical infrastructure, including most notably the Airport Core Programme.

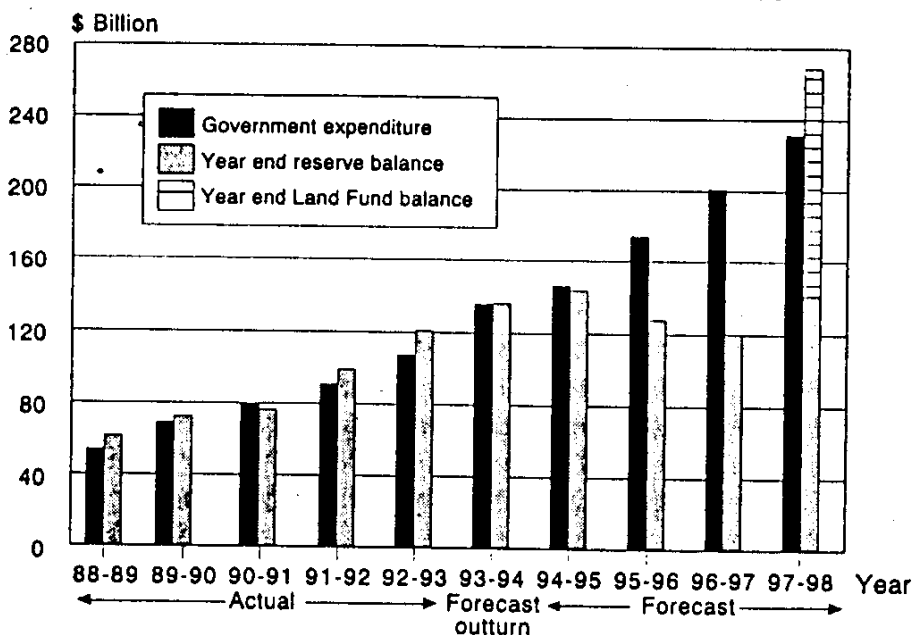
155. I forecast that on 31 March 1997, our fiscal reserves will stand at an impressive \$120 billion. This is a dramatic increase over the figure of \$78 billion which I forecast in my Budget last year. This \$120 billion is all the more remarkable an achievement when you remember that it takes into account both the spending proposals and the tax concessions I have announced today. And it also fully allows for the proposed additional equity injection into the Airport Core Programme, and explains my willingness to make such a large investment.

156. Moving to the last year of the forecast, namely 1997-98, the Medium Term Forecast predicts an overall surplus for the year of \$21 billion. This very satisfactory figure reflects the fact that, in accordance with the Joint Declaration, the SAR Government will receive the full proceeds from land sales, and will collect rents for the extension of New Territories leases. The end result is that the forecast predicts that the fiscal reserves will total \$141 billion at the end of 1997-98.

157. Nor is this the full picture, as these figures do not take into account the position of the SAR Government Land Fund, which represents a significant asset for the future SAR Government. Members will recall that a senior Chinese official has been reported recently as indicating that the fund was likely to exceed \$100 billion in 1997. Our own estimate of \$105 billion, before taking into account the disposal of sites along the airport railway, is broadly in line with this. But when account is taken of the fund's share of the likely additional receipts from these sites, the balance of the fund in 1997 should reach \$125 billion.

158. Thus, at the end of 1997-98, the SAR Government is likely to have combined reserves, including interest, of about \$269 billion, incorporating both the fiscal reserves and the Land Fund. Fortunately, therefore, we are able to continue to build up reserves greater than our annual expenditure. This is something we have been able to achieve in recent times. And something that few other communities have been able to do.

Medium Range Forecast of government expenditure and year end reserve balances 1988-89 to 1997-98



Total reserves in 1997-98 will cover forecast annual government expenditure.

CONCLUSION

159. To a considerable extent, we are engaged in managing the prosperity we have achieved, and in ensuring that it continues. In practice, this has involved me in striking the right balance between spending and savings:

- spending, both to improve the quality of life for the community as a whole and to create the infrastructure for our future growth, and
- savings, to meet future liabilities and unforeseen contingencies, because economic success cannot be taken for granted year after year.

There will always be a temptation to spend a little more and save a little less. It might sometimes seem tempting politically to bow to some of the inevitable pressures to do so. But it would not be responsible government. And it would risk increasing consumption and fuelling inflation.

160. I hope that this Council will agree that we have found the right balance this afternoon. My Budget proposals will:

- put \$38 billion back into the taxpayer's pocket over the next five years,

- implement the ambitious expansion in social services set in motion by the Governor's first two policy addresses, and
- put an additional \$8 billion into our fiscal reserves next year and put us on course for total fiscal reserves of \$269 billion by the end of the forecast period.

161. It is not the Government which has made today's Budget possible. This has been achieved by the hard-working men and women of Hong Kong. It is, first and last, their success and their money on which we rely, and it is their way of life, their livelihood we are all trying to secure.

162. Mr President, I move that the debate on this motion be now adjourned.

(Clapping)

Adjournment and next sitting

PRESIDENT: In accordance with Standing Order 54(2), the debate on the Second Reading of the Appropriation Bill 1994 is now adjourned. I refer the Estimates to the Finance Committee for examination. In accordance with Standing Orders, I now adjourn the Council until 2.30 pm on Wednesday, 9 March 1994.

Adjourned accordingly at ten minutes past Four o'clock.

SUPPLEMENT

NOTES ON THE TEXT

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SALARIES TAX CONCESSIONS**Summary of concessions****A. Increase in allowances**

<i>Allowances</i>	<i>Present</i> <i>(\$)</i>	<i>Proposed</i> <i>(\$)</i>	<i>Increase</i> <i>(\$)</i>	<i>(%)</i>
<i>Basic</i>	56,000	72,000	16,000	28.6
<i>Married</i>	112,000	144,000	32,000	28.6
<i>Child:</i>				
<i>First child</i>	17,000	20,000	3,000	17.6
<i>Second child</i>	17,000	20,000	3,000	17.6
<i>Dependent parent *</i>	17,000	20,000	3,000	17.6
<i>Dependent grandparent *</i>	-	20,000	-	-
<i>Single parent</i>	27,000	32,000	5,000	18.5

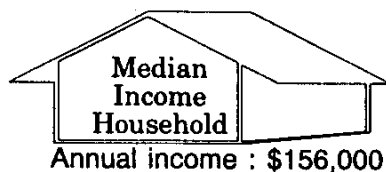
* *excluding \$3,000 additional allowance for parent/grandparent residing with taxpayer*

B. Revision of Marginal Tax Rates

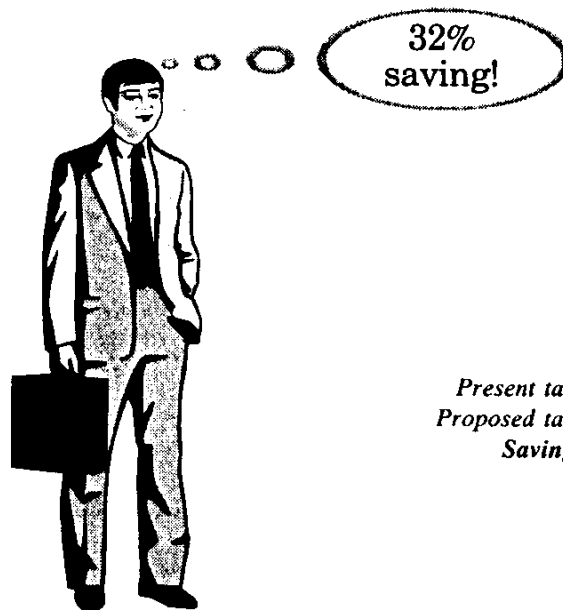
<i>Net Chargeable Income</i>	<i>Marginal Tax Rate</i>		<i>Reduction</i>
	<i>Present</i>	<i>Proposed</i>	
First \$20,000	2%	2%	-
Next \$30,000	9%	9%	-
Next \$30,000	17%	17%	-
Remainder	25%	20%	5%

Salaries tax rates and allowances

What you save !

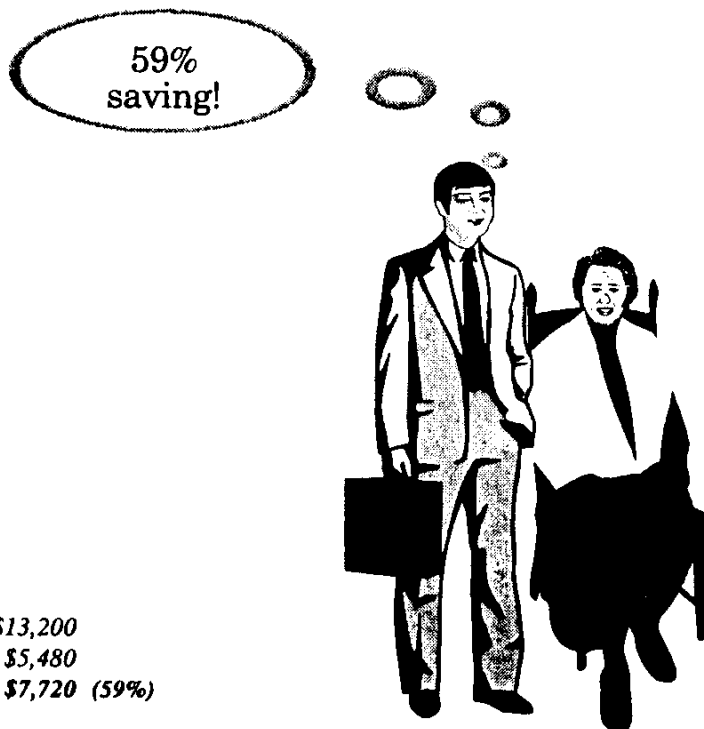


Single person



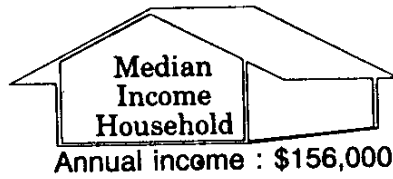
Present tax : \$13,200
Proposed tax : \$9,000
Saving : \$4,200 (32%)

Single person with a dependent grandparent



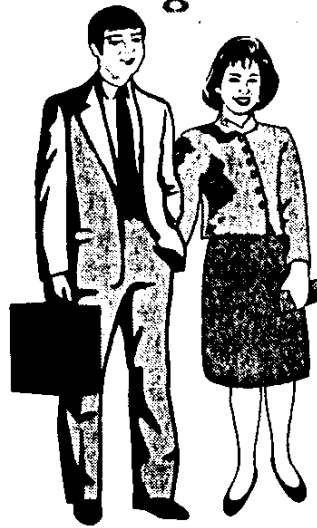
Present tax : \$13,200
Proposed tax : \$5,480
Saving : \$7,720 (59%)

What you save !



Married couple with no children

91%
saving!



Present tax : \$2,560
Proposed tax : \$240
Saving : \$2,320 (91%)

Married couple with 2 children

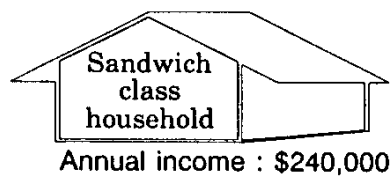
No tax!



Present tax : \$200
Proposed tax : \$0
Saving : \$200 (100%)

Salaries tax rates and allowances

What you save !

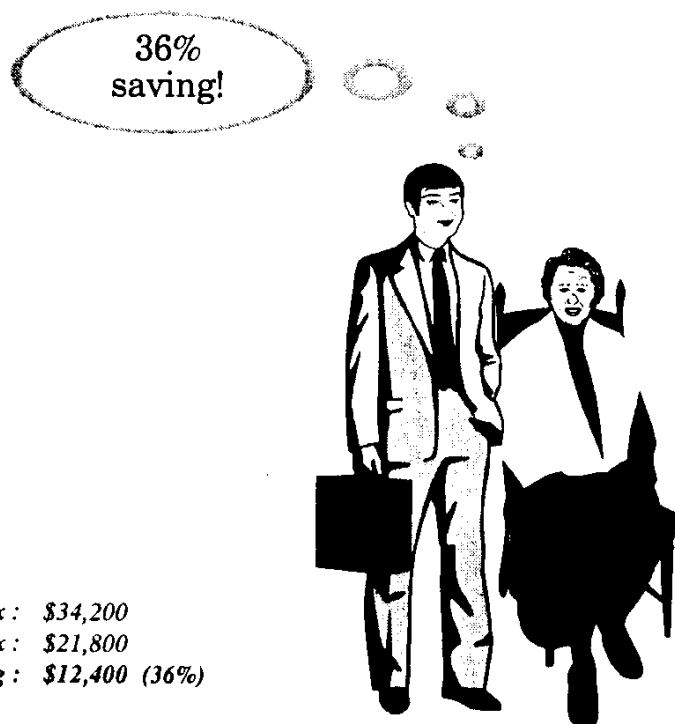


Single person



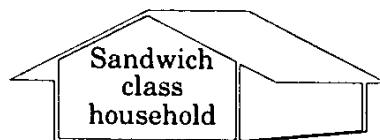
Present tax : \$34,200
Proposed tax : \$25,800
Saving : \$8,400 (25%)

Single person with a dependent grandparent



Present tax : \$34,200
Proposed tax : \$21,800
Saving : \$12,400 (36%)

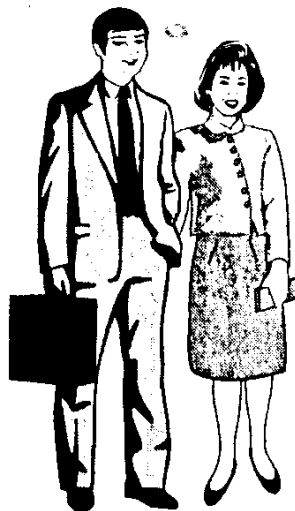
What you save !



Annual income : \$240,000

Married couple with no children

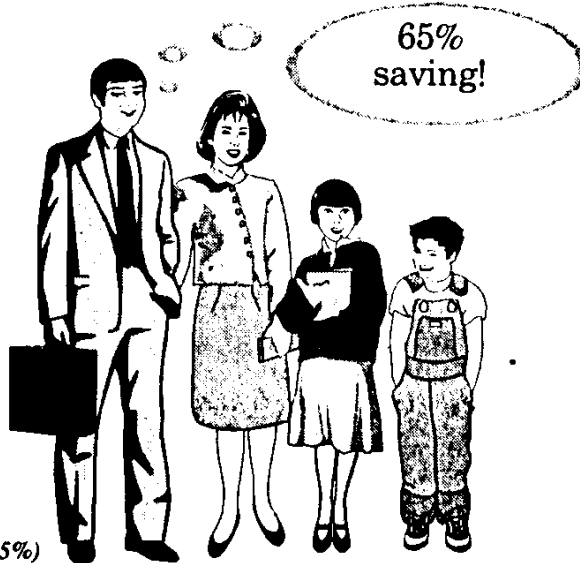
44%
saving!



Present tax : \$20,200
Proposed tax : \$11,400
Saving : \$8,800 (44%)

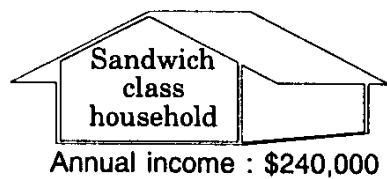
Married couple with 2 children

65%
saving!

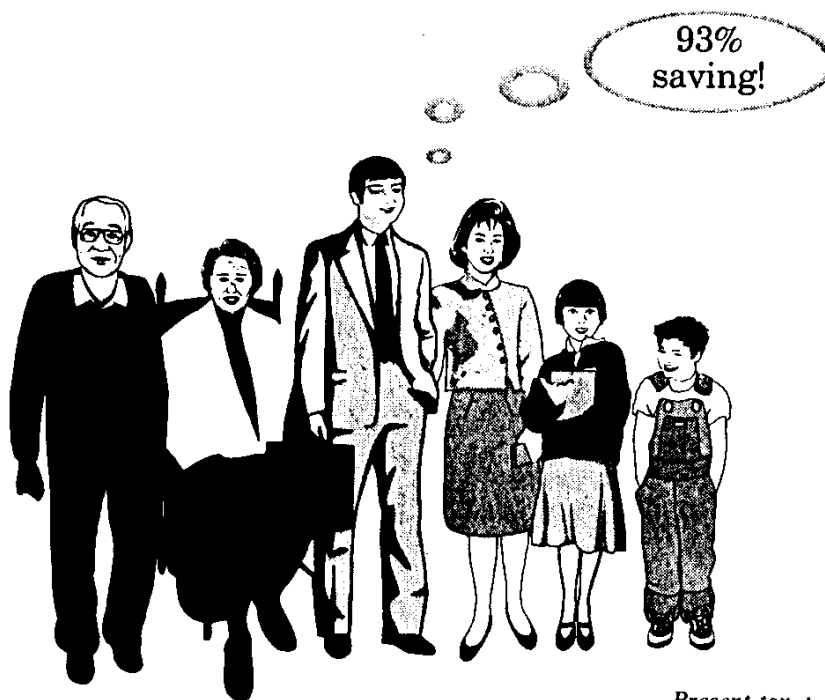


Present tax : \$11,700
Proposed tax : \$4,120
Saving : \$7,580 (65%)

What you save !



**Married couple with 2 children
and 2 dependent parents**



Present tax : \$4,800
Proposed tax : \$320
Saving : \$4,480 (93%)

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

	<i>Present</i> (\$)	<i>Proposed</i> (\$)	%
No dependent parent/grandparent			
Single	258,000	444,000	+72.1
Married	398,000	732,000	+83.9
Married + 1 child	440,500	812,000	+84.3
Married + 2 children	483,000	892,000	+84.7
Including two dependent parents			
Single	343,000	604,000	+76.1
Married	483,000	892,000	+84.7
Married + 1 child	525,500	972,000	+85.0
Married + 2 children	568,000	1,052,000	+85.2
Including two dependent parents with additional dependent parent allowance			
Single	358,000	628,000	+75.4
Married	498,000	916,000	+83.9
Married + 1 child	540,500	996,000	+84.3
Married + 2 children	583,000	1,076,000	+84.6
Including one dependent grandparent			
Single	258,000	524,000	+103.1
Married	398,000	812,000	+104.0
Married + 1 child	440,500	892,000	+102.5
Married + 2 children	483,000	972,000	+101.2

Income levels below which no salaries tax is payable

	<i>Present</i> (<i>\$</i>)	<i>Proposed</i> (<i>\$</i>)	%
No dependent parent/grandparent			
Single	56,001	72,001	+28.6
Married	112,001	144,001	+28.6
Married + 1 child	129,001	164,001	+27.1
Married + 2 children	146,001	184,001	+26.0
Including two dependent parents			
Single	90,001	112,001	+24.4
Married	146,001	184,001	+26.0
Married + 1 child	163,001	204,001	+25.2
Married + 2 children	180,001	224,001	+24.4
Including two dependent parents with additional dependent parent allowance			
Single	96,001	118,001	+22.9
Married	152,001	190,001	+25.0
Married + 1 child	169,001	210,001	+24.3
Married + 2 children	186,001	230,001	+23.7
Including one dependent grandparent			
Single	56,001	92,001	+64.3
Married	112,001	164,001	+46.4
Married + 1 child	129,001	184,001	+42.6
Married + 2 children	146,001	204,001	+39.7

Effect of the increase in allowances and reduction in the top marginal rate

Single person

Annual Income	Present tax payable (Exemption level: \$56,000)		Proposed tax payable (Exemption level: \$72,000)		Tax Saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A)-(B)	(%)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
							All taxpayers earning less than \$444,000 will benefit from the concessions.
60,000	80	0.1	-	-	80	100.0	Taxpayers with incomes not exceeding \$72,000 will not be required to pay tax as a result of the increase in the basic allowance.
72,000	320	0.4	-	-	320	100.0	
84,000	1,120	1.3	240	0.3	880	78.6	Taxpayers earning more than \$72,000 but not exceeding \$152,000 will have reduced tax liabilities as a result of the increase in the basic allowance.
96,000	2,200	2.3	760	0.8	1,440	65.5	
108,000	3,440	3.2	1,840	1.7	1,600	46.5	
120,000	5,480	4.6	2,920	2.4	2,560	46.7	
132,000	7,520	5.7	4,800	3.6	2,720	36.2	
144,000	10,200	7.1	6,840	4.8	3,360	32.9	
@ 156,000	13,200	8.5	9,000	5.8	4,200	31.8	
168,000	16,200	9.6	11,400	6.8	4,800	29.6	
180,000	19,200	10.7	13,800	7.7	5,400	28.1	
192,000	22,200	11.6	16,200	8.4	6,000	27.0	
204,000	25,200	12.4	18,600	9.1	6,600	26.2	Taxpayers earning more than \$152,000 but less than \$444,000 will have reduced tax liabilities as a result of the increase in the basic allowance and the reduction in the top marginal rate.
216,000	28,200	13.1	21,000	9.7	7,200	25.5	
228,000	31,200	13.7	23,400	10.3	7,800	25.0	
# 240,000	34,200	14.3	25,800	10.8	8,400	24.6	
* 258,000	38,700	15.0	29,400	11.4	9,300	24.0	
264,000	39,600	15.0	30,600	11.6	9,000	22.7	
288,000	43,200	15.0	35,400	12.3	7,800	18.1	
312,000	46,800	15.0	40,200	12.9	6,600	14.1	
336,000	50,400	15.0	45,000	13.4	5,400	10.7	
360,000	54,000	15.0	49,800	13.8	4,200	7.8	
384,000	57,600	15.0	54,600	14.2	3,000	5.2	
408,000	61,200	15.0	59,400	14.6	1,800	2.9	
432,000	64,800	15.0	64,200	14.9	600	0.9	
† 444,000	66,600	15.0	66,600	15.0	-	-	Taxpayers earning \$444,000 or more will pay tax at the standard rate.
456,000	68,400	15.0	68,400	15.0	-	-	

* Income level at which salaries taxpayers enter the standard rate zone at present.

† Income level at which salaries taxpayers will enter the standard rate zone after the 1994 Budget.

@ Median income household

Sandwich class household

Effect of the increase in allowances and reduction in the top marginal rate

Single person, with two dependent parents

Annual Income	Present tax payable (Exemption level: \$90,000)		Proposed tax payable (Exemption level: \$112,000)		Tax Saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A)-(B) (\$)	(%)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
96,000	120	0.1	-	-	120	100.0	All taxpayers earning less than \$604,000 will benefit from the concessions. Taxpayers with incomes not exceeding \$112,000 will not be required to pay tax as a result of the increases in the basic and the dependent parent allowances.
108,000	360	0.3	-	-	360	100.0	
120,000	1,300	1.1	160	0.1	1,140	87.7	
132,000	2,380	1.8	400	0.3	1,980	83.2	Taxpayers earning more than \$112,000 but not exceeding \$192,000 will have reduced tax liabilities as a result of the increases in the basic and the dependent parent allowances.
144,000	3,780	2.6	1,480	1.0	2,300	60.8	
@ 156,000	5,820	3.7	2,560	1.6	3,260	56.0	
168,000	7,860	4.7	4,120	2.5	3,740	47.6	
180,000	10,700	5.9	6,160	3.4	4,540	42.4	
192,000	13,700	7.1	8,200	4.3	5,500	40.1	
204,000	16,700	8.2	10,600	5.2	6,100	36.5	
216,000	19,700	9.1	13,000	6.0	6,700	34.0	
228,000	22,700	10.0	15,400	6.8	7,300	32.2	
# 240,000	25,700	10.7	17,800	7.4	7,900	30.7	
264,000	31,700	12.0	22,600	8.6	9,100	28.7	Taxpayers earning more than \$192,000 but less than \$604,000 will have reduced tax liabilities as a result of the increases in the basic and the dependent parent allowances and the reduction in the top marginal rate.
288,000	37,700	13.1	27,400	9.5	10,300	27.3	
312,000	43,700	14.0	32,200	10.3	11,500	26.3	
336,000	49,700	14.8	37,000	11.0	12,700	25.6	
* 343,000	51,450	15.0	38,400	11.2	13,050	25.4	
360,000	54,000	15.0	41,800	11.6	12,200	22.6	
384,000	57,600	15.0	46,600	12.1	11,000	19.1	
408,000	61,200	15.0	51,400	12.6	9,800	16.0	
432,000	64,800	15.0	56,200	13.0	8,600	13.3	
456,000	68,400	15.0	61,000	13.4	7,400	10.8	
480,000	72,000	15.0	65,800	13.7	6,200	8.6	
504,000	75,600	15.0	70,600	14.0	5,000	6.6	
528,000	79,200	15.0	75,400	14.3	3,800	4.8	
552,000	82,800	15.0	80,200	14.5	2,600	3.1	
576,000	86,400	15.0	85,000	14.8	1,400	1.6	
† 604,000	90,600	15.0	90,600	15.0	-	-	Taxpayers earning \$604,000 or more will pay tax at the standard rate.
648,000	97,200	15.0	97,200	15.0	-	-	

* Income level at which salaries taxpayers enter the standard rate zone at present.

† Income level at which salaries taxpayers will enter the standard rate zone after the 1994 Budget.

@ Median income household

Sandwich class household

Effect of the increase in allowances and reduction in the top marginal rate

Single person, with one dependent grandparent

Annual Income	Present tax payable (Exemption level: \$56,000)		Proposed tax payable (Exemption level: \$92,000)		Tax Saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A)-(B) (\$)	(%)	
(S)	(S)	(%)	(S)	(%)	(S)	(%)	All taxpayers earning less than \$524,000 will benefit from the concessions. Taxpayers with incomes not exceeding \$92,000 will not be required to pay tax as a result of the increase in the basic allowance and the introduction of an allowance for dependent grandparents.
60,000	80	0.1	-	-	80	100.0	
72,000	320	0.4	-	-	320	100.0	
84,000	1,120	1.3	-	-	1,120	100.0	
96,000	2,200	2.3	80	0.1	2,120	96.4	Taxpayers earning more than \$92,000 but not exceeding \$172,000 will have reduced tax liabilities as a result of the increase in basic allowance and the introduction of an allowance for dependent grandparents.
108,000	3,440	3.2	320	0.3	3,120	90.7	
120,000	5,480	4.6	1,120	0.9	4,360	79.6	
132,000	7,520	5.7	2,200	1.7	5,320	70.7	
144,000	10,200	7.1	3,440	2.4	6,760	66.3	
@ 156,000	13,200	8.5	5,480	3.5	7,720	58.5	
168,000	16,200	9.6	7,520	4.5	8,680	53.6	
180,000	19,200	10.7	9,800	5.4	9,400	49.0	Taxpayers earning more than \$172,000 but less than \$524,000 will have reduced tax liabilities as a result of the increase in the basic allowance, the introduction of an allowance for dependent grandparents and the reduction in the top marginal rate.
192,000	22,200	11.6	12,200	6.4	10,000	45.0	
204,000	25,200	12.4	14,600	7.2	10,600	42.1	
216,000	28,200	13.1	17,000	7.9	11,200	39.7	
228,000	31,200	13.7	19,400	8.5	11,800	37.8	
# 240,000	34,200	14.3	21,800	9.1	12,400	36.3	
* 258,000	38,700	15.0	25,400	9.8	13,300	34.4	
264,000	39,600	15.0	26,600	10.1	13,000	32.8	
288,000	43,200	15.0	31,400	10.9	11,800	27.3	
312,000	46,800	15.0	36,200	11.6	10,600	22.6	
336,000	50,400	15.0	41,000	12.2	9,400	18.7	
360,000	54,000	15.0	45,800	12.7	8,200	15.2	
384,000	57,600	15.0	50,600	13.2	7,000	12.2	
408,000	61,200	15.0	55,400	13.6	5,800	9.5	
432,000	64,800	15.0	60,200	13.9	4,600	7.1	
456,000	68,400	15.0	65,000	14.3	3,400	5.0	
480,000	72,000	15.0	69,800	14.5	2,200	3.1	
504,000	75,600	15.0	74,600	14.8	1,000	1.3	
† 524,000	78,600	15.0	78,600	15.0	-	-	Taxpayers earning \$524,000 or more will pay tax at the standard rate.
528,000	79,200	15.0	79,200	15.0	-	-	

* Income level at which salaries taxpayers enter the standard rate zone at present.

† Income level at which salaries taxpayers will enter the standard rate zone after the 1994 Budget.

@ Median income household

Sandwich class household

Effect of the increase in allowances and reduction in the top marginal rate

Married couple, with no children

Annual Income	Present tax payable (Exemption level: \$112,000)		Proposed tax payable (Exemption level: \$144,000)		Tax Saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A)-(B)	(A)-(B)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
120,000	160	0.1	-	-	160	100.0	All taxpayers earning less than \$732,000 will benefit from the concessions. Taxpayers with incomes not exceeding \$144,000 will not be required to pay tax as a result of the increase in the married person's allowance.
132,000	400	0.3	-	-	400	100.0	
144,000	1,480	1.0	-	-	1,480	100.0	
@ 156,000	2,560	1.6	240	0.2	2,320	90.6	Taxpayers earning more than \$144,000 but not exceeding \$224,000 will have reduced tax liabilities as a result of the increase in the married person's allowance.
168,000	4,120	2.5	760	0.5	3,360	81.6	
180,000	6,160	3.4	1,840	1.0	4,320	70.1	
192,000	8,200	4.3	2,920	1.5	5,280	64.4	
204,000	11,200	5.5	4,800	2.4	6,400	57.1	
216,000	14,200	6.6	6,840	3.2	7,360	51.8	
228,000	17,200	7.5	9,000	3.9	8,200	47.7	
# 240,000	20,200	8.4	11,400	4.8	8,800	43.6	Taxpayers earning more than \$224,000 but less than \$732,000 will have reduced tax liabilities as a result of the increase in the married person's allowance and the reduction in the top marginal rate.
264,000	26,200	9.9	16,200	6.1	10,000	38.2	
288,000	32,200	11.2	21,000	7.3	11,200	34.8	
312,000	38,200	12.2	25,800	8.3	12,400	32.5	
336,000	44,200	13.2	30,600	9.1	13,600	30.8	
360,000	50,200	13.9	35,400	9.8	14,800	29.5	
384,000	56,200	14.6	40,200	10.5	16,000	28.5	
* 398,000	59,700	15.0	43,000	10.8	16,700	28.0	
408,000	61,200	15.0	45,000	11.0	16,200	26.5	
432,000	64,800	15.0	49,800	11.5	15,000	23.1	
456,000	68,400	15.0	54,600	12.0	13,800	20.2	
480,000	72,000	15.0	59,400	12.4	12,600	17.5	
504,000	75,600	15.0	64,200	12.7	11,400	15.1	
528,000	79,200	15.0	69,000	13.1	10,200	12.9	
552,000	82,800	15.0	73,800	13.4	9,000	10.9	
576,000	86,400	15.0	78,600	13.6	7,800	9.0	
600,000	90,000	15.0	83,400	13.9	6,600	7.3	
648,000	97,200	15.0	93,000	14.4	4,200	4.3	
696,000	104,400	15.0	102,600	14.7	1,800	1.7	
† 732,000	109,800	15.0	109,800	15.0	-	-	Taxpayers earning \$732,000 or more will pay tax at the standard rate.
744,000	111,600	15.0	111,600	15.0	-	-	

* Income level at which salaries taxpayers enter the standard rate zone at present.

† Income level at which salaries taxpayers will enter the standard rate zone after the 1994 Budget.

@ Median income household

Sandwich class household

Effect of the increase in allowances and reduction in the top marginal rate

Married couple, with two children

Annual Income	Present tax payable (Exemption level: \$146,000)		Proposed tax payable (Exemption level: \$184,000)		Tax Saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A)-(B) (\$)	(%)	
(S)	(S)	(%)	(S)	(%)	(S)	(%)	
@ 156,000	200	0.1	-	-	200	100.0	All taxpayers earning less than \$892,000 will benefit from the concessions. Taxpayers with incomes not exceeding \$184,000 will not be required to pay tax as a result of the increases in the married person's and the child allowances.
168,000	580	0.3	-	-	580	100.0	
180,000	1,660	0.9	-	-	1,660	100.0	
192,000	2,740	1.4	160	0.1	2580	94.2	Taxpayers earning more than \$184,000 but not exceeding \$264,000 will have reduced tax liabilities as a result of the increases in the married person's and the child allowances.
204,000	4,460	2.2	400	0.2	4,060	91.0	
216,000	6,500	3.0	1,480	0.7	5,020	77.2	
228,000	8,700	3.8	2,560	1.1	6,140	70.6	
# 240,000	11,700	4.9	4,120	1.7	7,580	64.8	
264,000	17,700	6.7	8,200	3.1	9,500	53.7	
288,000	23,700	8.2	13,000	4.5	10,700	45.1	Taxpayers earning more than \$264,000 but less than \$892,000 will have reduced tax liabilities as a result of the increases in the married person's and the child allowances and the reduction in the top marginal rate.
312,000	29,700	9.5	17,800	5.7	11,900	40.1	
336,000	35,700	10.6	22,600	6.7	13,100	36.7	
360,000	41,700	11.6	27,400	7.6	14,300	34.3	
384,000	47,700	12.4	32,200	8.4	15,500	32.5	
408,000	53,700	13.2	37,000	9.1	16,700	31.1	
432,000	59,700	13.8	41,800	9.7	17,900	30.0	
456,000	65,700	14.4	46,600	10.2	19,100	29.1	
480,000	71,700	14.9	51,400	10.7	20,300	28.3	
* 483,000	72,450	15.0	52,000	10.8	20,450	28.2	
504,000	75,600	15.0	56,200	11.2	19,400	25.7	
528,000	79,200	15.0	61,000	11.6	18,200	23.0	
552,000	82,800	15.0	65,800	11.9	17,000	20.5	
576,000	86,400	15.0	70,600	12.3	15,800	18.3	
600,000	90,000	15.0	75,400	12.6	14,600	16.2	
648,000	97,200	15.0	85,000	13.1	12,200	12.6	
696,000	104,400	15.0	94,600	13.6	9,800	9.4	
744,000	111,600	15.0	104,200	14.0	7,400	6.6	
792,000	118,800	15.0	113,800	14.4	5,000	4.2	
840,000	126,000	15.0	123,400	14.7	2,600	2.1	
† 892,000	133,800	15.0	133,800	15.0	-	-	Taxpayers earning \$892,000 or more will pay tax at the standard rate.
936,000	140,400	15.0	140,400	15.0	-	-	

* Income level at which salaries taxpayers enter the standard rate zone at present.
 † Income level at which salaries taxpayers will enter the standard rate zone after the 1994 Budget.
 @ Median income household
 # Sandwich class household

Effect of the increase in allowances and reduction in the top marginal rate

Married couple, with two children and two dependent parents

Annual Income	Present tax payable (Exemption level: \$180,000)		Proposed tax payable (Exemption level: \$224,000)		Tax Saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A)-(B)	(A)-(B)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
192,000	240	0.1	-	-	240	100.0	All taxpayers earning less than \$1,052,000 will benefit from the concessions. Taxpayers with incomes not exceeding \$224,000 will not be required to pay tax as a result of the increases in the married person's, the child and the dependent parent allowances.
204,000	760	0.4	-	-	760	100.0	
216,000	1,840	0.9	-	-	1,840	100.0	
228,000	2,920	1.3	80	<0.1	2,840	97.3	Taxpayers earning more than \$224,000 but not exceeding \$304,000 will have reduced tax liabilities as a result of the increases in the, married person's the child and the dependent parent allowances.
# 240,000	4,800	2.0	320	0.1	4,480	93.3	
264,000	9,200	3.5	2,200	0.8	7,000	76.1	
288,000	15,200	5.3	5,480	1.9	9,720	63.9	
312,000	21,200	6.8	9,800	3.1	11,400	53.8	
336,000	27,200	8.1	14,600	4.3	12,600	46.3	
360,000	33,200	9.2	19,400	5.4	13,800	41.6	
384,000	39,200	10.2	24,200	6.3	15,000	38.3	
408,000	45,200	11.1	29,000	7.1	16,200	35.8	
432,000	51,200	11.9	33,800	7.8	17,400	34.0	
456,000	57,200	12.5	38,600	8.5	18,600	32.5	Taxpayers earning more than \$304,000 but less than \$1,052,000 will have reduced tax liabilities as a result of the increases in the married person's, the child and the dependent parent allowances and the reduction in the top marginal rate
480,000	63,200	13.2	43,400	9.0	19,800	31.3	
504,000	69,200	13.7	48,200	9.6	21,000	30.3	
528,000	75,200	14.2	53,000	10.0	22,200	29.5	
552,000	81,200	14.7	57,800	10.5	23,400	28.8	
* 568,000	85,200	15.0	61,000	10.7	24,200	28.4	
576,000	86,400	15.0	62,600	10.9	23,800	27.5	
600,000	90,000	15.0	67,400	11.2	22,600	25.1	
648,000	97,200	15.0	77,000	11.9	20,200	20.8	
696,000	104,400	15.0	86,600	12.4	17,800	17.0	
744,000	111,600	15.0	96,200	12.9	15,400	13.8	
792,000	118,800	15.0	105,800	13.4	13,000	10.9	
840,000	126,000	15.0	115,400	13.7	10,600	8.4	
888,000	133,200	15.0	125,000	14.1	8,200	6.2	
936,000	140,400	15.0	134,600	14.4	5,800	4.1	
984,000	147,600	15.0	144,200	14.7	3,400	2.3	
1,032,000	154,800	15.0	153,800	14.9	1,000	0.6	
† 1,052,000	157,800	15.0	157,800	15.0	-	-	Taxpayers earning \$1,052,000 or more will pay tax at the standard rate.
1,080,000	162,000	15.0	162,000	15.0	-	-	

* Income level at which salaries taxpayers enter the standard rate zone at present.

† Income level at which salaries taxpayers will enter the standard rate zone after the 1994 Budget.

Sandwich class household

STAMP DUTY ON PROPERTY TRANSACTIONS**(i) Comparison of existing and proposed rates of stamp duty (Subject to marginal relief)**

<i>Property consideration</i>	<i>Existing</i>	<i>Proposed</i>
Up to \$ 250,000	\$20	\$100
\$250,001 to \$ 500,000	0.75%	\$100
\$500,001 to \$1,000,000	1.50%	0.75%
\$1,000,001 to \$1,500,000	2.00%	1.50%
\$1,500,001 to \$2,000,000	2.75%	1.50%
\$2,000,001 to \$3,000,000	2.75%	2.00%
Over \$3,000,000	2.75%	2.75%

(ii) Broad effect of the concession on property transactions

<i>Property consideration</i>	<i>Estimated number of properties which will be affected under the proposal</i>	<i>Average stamp duty saved/(increased) per transaction</i>
<i>(\$m)</i>		<i>(\$)</i>
Up to 0.25	20,000	(80)
0.25 to 0.5	15,000	2,800
0.5 to 1.0	39,000	5,100
1.0 to 2.0	40,000	9,500
<u>2.0 to 3.0</u>	<u>11,000</u>	15,800
<u>Total</u>	<u>125,000</u>	

(iii) Examples to show the effect of adjustments to the schedule of stamp duty rates

<i>Property Consideration \$</i>	<i>Duty payable</i>		<i>Duty saved</i>	
	<i>Existing \$</i>	<i>Proposed \$</i>	<i>Amount \$</i>	<i>Percentage</i>
300,000	2,250	100	2,150	96%
400,000	3,000	100	2,900	97%
500,000	3,750	100	3,650	97%
600,000	9,000	4,500	4,500	50%
750,000	11,250	5,625	5,625	50%
1,000,000	15,000	7,500	7,500	50%
1,250,000	25,000	18,750	6,250	25%
1,500,000	30,000	22,500	7,500	25%
1,750,000	48,125	26,250	21,875	45%
2,000,000	55,000	30,000	25,000	45%
2,250,000	61,875	45,000	16,875	27%
2,500,000	68,750	50,000	18,750	27%
2,750,000	75,625	55,000	20,625	27%
3,000,000	82,500	60,000	22,500	27%

**ADJUSTMENTS TO DUTY SYSTEM FOR
ALCOHOLIC BEVERAGES AND ALCOHOL PRODUCTS**

Present system

	<i>Specific rate (\$per litre)</i>	<i>Ad valorem rate (%)</i>
Brandy, Liqueurs, Whisky, Gin, Rum, Vodka and other spirituous liquors	80	35
Champagne and other sparkling wines	49	35
Still wines	34	20
and in addition for every 1% by which the alcoholic strength by volume exceeds 45%	2.29	-
		<i>Specific rate (\$per hectolitre)</i>
Cider, Perry and other similar beverages		221
Beer		336
Non-European type wines		1,448
Others (including methyl alcohol)		747
and in addition for every 1% by which the alcoholic strength by volume exceeds 30%		25

Proposed system

<i>Type of alcoholic beverages and alcohol products</i>	<i>Ad valorem rate (%)</i>
Alcoholic beverages and ethyl alcohol products with alcoholic strength above 30% by volume	100
Wine made from grapes	90
Alcoholic beverages (excluding wine made from grapes) and ethyl alcohol products with alcoholic strength of not more than 30% by volume	30
	<i>Specific duty rate (\$per hectolitre)</i>
Methyl alcohol	747
and in addition for every 1% by which the alcoholic strength by volume exceeds 30%	25

ADJUSTMENTS TO DUTY RATES**Hydrocarbon oil**

	<i>Present rate</i> (\$per litre)	<i>Proposed rate</i> (\$per litre)
Aircraft spirit	4.53	4.92
Light diesel oil	2.26	2.45
Motor spirit (leaded petrol)	5.03	5.46
Motor spirit (unleaded petrol)	4.48	4.86

RATES PERCENTAGE CHARGES

	<i>Present percentage charge</i>	<i>Proposed percentage charge</i>
Urban Council area		
General Rates for Hong Kong and Kowloon (including New Kowloon)	2.50%	2.70%
Urban Council Rates	3.00%	2.80%
Overall:	5.50%	5.50%
Regional Council Area		
General Rates for the New Territories	1.75%	1.10%
Regional Council Rates	3.75%	4.40%
Overall:	5.50%	5.50%

ECONOMIC PERFORMANCE IN 1993

1. Estimated growth rates of the GDP and its expenditure components and rates of increase in the main price indicators in 1993:

- (i) Growth rates in real terms of:

	(%)	(%)
Private consumption expenditure		7.2
Government consumption expenditure		2.2
Gross domestic fixed capital formation		5.5
transfer costs of land and buildings	-2.4	
building and construction	14.3	
real estate developers' margin	-7.1	
machinery and equipment	6.1	
Total exports of goods		13.0
domestic exports	-5.1	
re-exports	19.8	
Imports of goods		12.8
Exports of services		8.1
Imports of services		7.0
Gross domestic product (GDP)		5.5
<i>Per capita GDP</i>		3.6
<i>Per capita GDP at current prices</i>	<i>HK\$143,200</i> <i>(US\$18,500)</i>	

- (ii) Rates of increase in:

Consumer Price Index (A)	8.5
GDP deflator	7.8

2. Performance of domestic exports and re-exports

- (i) Year-on-year growth rates in real terms of:

	<i>Domestic exports</i>	<i>Re-exports</i>
	(%)	(%)
1991	0	26
1992	0	28
1993	-5	20

(ii) Shares of domestic exports and re-exports in the value of total exports:

	<i>Domestic exports</i>	<i>Re-exports</i>
	(%)	(%)
1988	44	56
1989	39	61
1990	35	65
1991	30	70
1992	25	75
1993	21	79

3. Year-on-year growth rates in real terms of retained imports:

Retained imports				
	Total	Foodstuffs and	Raw materials and	Capital goods
	(%)	consumer goods	semi-manufactures	(%)
		(%)	(%)	(%)
1991	12	9	12	20
1992	17	24	8	22
1993	4	6	1	1

4. Hong Kong's visible and invisible trade balance in 1993:

	<i>\$Billion</i>
Domestic exports	223.0
Re-exports	823.2
Total exports	1,046.2
Imports*	1,075.7
Visible trade deficit	-29.5
Invisible trade surplus#	61.4
Surplus on visible and invisible trade combined	32.0

* Including an estimate of imports of gold for industrial and commercial use.

Preliminary estimate.

5. Unemployment and underemployment rates:

	<i>Seasonally adjusted unemployment rate</i>	<i>Underemployment rate</i>
	(%)	(%)
1991 H1	2.1	1.6
H2	2.0	1.6
1992 H1	2.4	2.2
H2	2.0	2.0
1993 H1	2.3	1.8
H2	2.0	1.4

6. Year-on-year rates of increase in the Consumer Price Indices:

	<i>CPI(A)</i>	<i>CPI(B)</i>	<i>Hang Seng CPI</i>	<i>Composite CPI</i>
	(%)	(%)	(%)	(%)
1991 H1	12.5	12.0	11.8	12.1
H2	11.6	11.3	10.5	11.1
1992 H1	9.6	9.6	9.8	9.7
H2	9.2	9.7	9.8	9.5
1993 H1	8.5	9.0	9.5	9.0
H2	8.5	8.5	9.4	8.7

ECONOMIC PROSPECTS FOR 1994

Forecast growth rates of the GDP and its expenditure components and rates of increase in the main price indicators in 1994:

(i) Growth rates in real terms of:

	(%)	(%)
Private consumption expenditure		7.0
Government consumption expenditure		3.5
Gross domestic fixed capital formation		5.2
transfer costs of land and buildings	0.0	
building and construction	8.7	
real estate developers' margin	-2.0	
machinery and equipment	5.9	
Total exports of goods		16.5
domestic exports	-2.0	
re-exports	22.0	
Imports of goods		16.7
Exports of services		9.0
Imports of services		8.0
Gross domestic product (GDP)		5.5
<i>Per capita GDP</i>		3.8
<i>Per capita GDP at current prices</i>	<i>HK\$160,600</i> <i>(US\$20,600)</i>	

(ii) Rates of increase in:

Consumer Price Index (A)	8.5
GDP deflator	8.0

APPENDICES

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Forecasting Government's expenditure and revenue in the period up to 1997-98 and setting these forecasts in a historical context.	
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Listing major capital projects to begin in 1994-95 or after.	
E. Previous format of Medium Range Forecast 1993-94 to 1997-98	2627
Showing the format of the Medium Range Forecast used in previous years and a cross-reference to the new version.	

Appendix A

MEDIUM RANGE FORECAST 1993-94 TO 1997-98**INTRODUCTION**

The Medium Range Forecast (MRF) is a projection of expenditure and revenue for the forecast period based on the forecasting assumptions and budgetary criteria outlined in Section I of this Appendix.

2 The MRF is presented in three sections:

- (I) Forecasting assumptions and budgetary criteria.
- (II) The MRF for 1993-94 to 1997-98.
- (III) Commentary on the MRF in relation to budgetary criteria.

SECTION I—FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

3 A number of computer based models are used to derive the MRF. These models reflect a wide range of assumptions about the factors determining each of the components of Government's revenue and expenditure. Some are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activity (the detailed assumptions). These are supported by studies of historical and anticipated trends.

General Economic Assumptions*Growth in Gross Domestic Product (GDP)*

4 There is a clear link between many of Government's major revenue sources and economic growth. For planning purposes the medium range assumption as to annual GDP growth for the current MRF has been set at 5% in real terms.

Inflation

5 Over the forecast period the average year on year inflation is assumed to be 8 1/2%. It is emphasised that this is a *trend* assumption related to the GDP deflator.

Detailed Assumptions

6 A wide range of detailed assumptions relating to developing expenditure and revenue patterns over the forecast period are taken into account. These include:

- estimated cash flow on capital projects.
- forecast completion dates of these capital projects and their related recurrent consequences in terms of staffing and running costs.
- estimated cash flow arising from new commitments resulting from policy initiatives.
- the expected pattern of demand for individual services.
- the trend in yield from individual revenue sources.
- new revenue measures in 1994-95.

Budgetary Criteria

7 In addition to the above forecasting assumptions there are a number of criteria against which the results of forecasts are tested for overall acceptability in terms of budgetary policy. Any significant breach of these parameters results in a review of the underlying programmes and adjustments where necessary and appropriate.

8 The following are the more important budgetary criteria:

- *Total cash flow surplus/deficit*
The government aims to maintain adequate reserves in the long term.
- *Operating surplus*
A substantial element of capital expenditure must be financed from a surplus on operating account (recurrent revenue in relation to recurrent expenditure). A broad target of at least a 50% funding of expenditure on capital projects from the operating surplus is adopted.
- *Total expenditure growth*
It is intended that expenditure growth should not exceed the assumption as to the *trend* growth in GDP.
- *Capital expenditure growth*
By its nature some fluctuations in the level of capital expenditure are to be expected. However, over a period the aim is to contain capital expenditure growth within overall expenditure guidelines, i.e. within the assumption as to the *trend* GDP growth but allowance is made for unavoidable expenditure on exceptional projects. Allowance is also made for a number of major projects due to start in the forecast period. In planning the size of the capital programme regard is had to the recurrent consequences of capital works (staffing, maintenance, etc.).
- *Revenue policy*
The projections reflect the revenue measures introduced in this year's budget. Account is taken of the need to maintain the real yield from fees and charges, fixed duties etc. and to review periodically the various tax thresholds in the light of inflation.

SECTION II—THE MRF FOR 1993-94 TO 1997-98

9 The current MRF is summarised in the following three tables which indicate the forecast operating position, capital cash flow and consolidated reserves (*Note a*).

10 It is emphasised that the forecasts are based on *trends* and, therefore, the actual results of any individual year may vary from the *trend* assumption.

Operating Statement (General Revenue Account)

Table 1

	Revised Estimate	Forecast			
	1993-94	1994-95	1995-96	1996-97	1997-98
	\$m	\$m	\$m	\$m	\$m
Revenue (<i>Note b</i>)	141,970	147,890	157,210	177,400	205,160
Less: Expenditure (<i>Note c</i>)	(99,490)	(110,000)	(127,330)	(146,460)	(168,400)
Operating surplus for the year	42,480	37,890	29,880	30,940	36,760

Capital Financing Statement (The Funds)

Table 2

	Revised Estimate	Forecast			
	1993-94	1994-95	1995-96	1996-97	1997-98
	\$m	\$m	\$m	\$m	\$m
Opening balances of the Funds	40,330	35,450	32,320	17,960	18,370
Add: Revenue (<i>Note d</i>)	22,440	28,730	23,330	24,550	48,400
: Transfers from General Revenue Account (<i>Note e</i>)	22,500	27,100	31,400	39,100	20,400
Less: Expenditure on capital projects (<i>Note f</i>)	(34,300)	(32,950)	(44,850)	(52,460)	(60,790)
: Loans and investment (<i>Notes g and h</i>)	(14,120)	(23,610)	(24,240)	(10,780)	(3,410)
: Debt interest (<i>Note i</i>)	(200)	(100)	—	—	—
: Debt repayment (<i>Note j</i>)	(1,200)	(2,300)	—	—	—
Closing balances of the Funds	35,450	32,320	17,960	18,370	22,970

Consolidated Reserves

Table 3

	Revised Estimate	Forecast			
	1993-94	1994-95	1995-96	1996-97	1997-98
	\$m	\$m	\$m	\$m	\$m
General Revenue Account					
Opening balance	80,700	100,680	111,470	109,950	101,790
Operating surplus (per Table 1)	42,480	37,890	29,880	30,940	36,760
Transfers to the Funds (per Table 2) (<i>Note e</i>)	(22,500)	(27,100)	(31,400)	(39,100)	(20,400)
Closing balance	100,680	111,470	109,950	101,790	118,150
The Funds—Closing Balances (per Table 2)	35,450	32,320	17,960	18,370	22,970
Fiscal Reserves at 31 March (<i>Note k</i>)	136,130	143,790	127,910	120,160	141,120
SARG Land Fund—balance at 1.7.97 (<i>Note l</i>)					125,000
—interest from 1.7.97 to 31.3.98					2,810
Total					268,930

Notes on the Medium Range Forecast*(a) Accounting policies*

- (i) The Medium Range Forecast, like Government's Accounts, is prepared on a cash basis and reflects forecast receipts and payments, whether or not they relate to recurrent or capital transactions.
- (ii) The Medium Range Forecast includes the General Revenue Account and the Funds (the Capital Works Reserve Fund, the Loan Fund, the Capital Investment Fund and the Disaster Relief Fund).
- (iii) The Suspense Account of the Capital Works Reserve Fund is excluded from the Medium Range Forecast since the funds in this Account are not available to the Government until they have been distributed between the Hong Kong Government and the future Hong Kong Special Administrative Region Government (SARG) in accordance with the Joint Declaration.

(b) General Revenue Account—Revenue

This comprises all receipts to be credited to any of the eleven revenue heads, namely—

- Duties
- General Rates
- Internal Revenue
- Motor Vehicle Taxes
- Fines, Forfeitures and Penalties
- Royalties and Concessions
- Properties and Investments
- Land Transactions
- Loans, Reimbursements, Contributions and Other Receipts
- Utilities
- Fees and Charges

(c) General Revenue Account—Expenditure

This comprises all expenditure to be charged to the General Revenue Account in accordance with the Appropriation Ordinance, with the exception of the transfers to funds. It includes the day to day operational expenses of government departments together with minor capital purchases of a routine nature.

(d) Funds—Revenue

This comprises all revenue receivable by the Funds except the transfers from General Revenue Account. It includes—

- Hong Kong Government's share of land premia distributed in accordance with Annex III of the Joint Declaration
- Loan repayments received
- Interest and Dividends
- Donations towards capital projects

(e) Transfers from General Revenue Account to the Funds

- (i) The transfers from General Revenue Account to the Funds are assessed with regard to the commitments of the Funds and their forecast cash flow requirements. The breakdown of the transfers for 1993-94 and 1994-95 is:—

	1993-94	1994-95
	\$m	\$m
General Revenue Account	(22,500)	(27,100)
Capital Works Reserve Fund	13,650	15,500
Loan Fund	300	2,100
Capital Investment Fund	8,500	9,500
Disaster Relief Fund	50	—

- (ii) The forecast takes no account of the possible creation of a Civil Service Pension Fund. Any amount(s) subsequently approved to be transferred from General Revenue Account to such a fund will not affect the overall forecast reserves.

(f) Expenditure on capital projects

This comprises expenditure chargeable to the Capital Works Reserve Fund in respect of the Public Works Programme (including land acquisition), capital subventions, major systems and equipment and computerisation.

Appendix A—*Contd.***Notes on the Medium Range Forecast—*Contd.****(g) Loans*

These comprise loans made from the Loan Fund, including loans to schools, teachers, students and housing loans to civil servants.

(h) Investments

These comprise, in the main, advances and equity investments made from the Capital Investment Fund to trading funds and statutory bodies including the Mass Transit Railway Corporation and the Provisional Airport Authority.

(i) Debt interest

This is interest payable in respect of government bonds issued before 1 April 1993, the proceeds of which were credited to the Capital Works Reserve Fund (see also Note k).

(j) Debt repayment

This is the repayment of government bonds issued before 1 April 1993, the proceeds of which were credited to the Capital Works Reserve Fund (see also Note k).

(k) Fiscal reserves

The fiscal reserves represent the accumulated balances of the General Revenue Account and the Funds. In 1991-92 and 1992-93, the net proceeds from the issue of government bonds were credited to the Capital Works Reserve Fund. The balances of the Funds and thus the fiscal reserves at 31 March 1993 include total proceeds from bond issues of \$3,500m. Provision has been made in the Medium Range Forecast for the repayment of these bonds of \$1,200m in 1993-94 and \$2,300m in 1994-95. No further borrowing for the account of the Capital Works Reserve Fund is anticipated in the forecast period.

(l) SARG Land Fund

The balance of this fund at 1 July 1997 has been estimated after taking into account the known balance at 31 March 1993 together with the future SARG's share of land revenue to 30 June 1997.

Appendix A—Contd.

SECTION III—COMMENTARY ON THE MRF

Expenditure Growth

11 To demonstrate that expenditure growth does not exceed the trend growth rate in the economy, government's spending plans should be compared with the budgetary guidelines (Diagrams 1 and 2).

Diagram 1

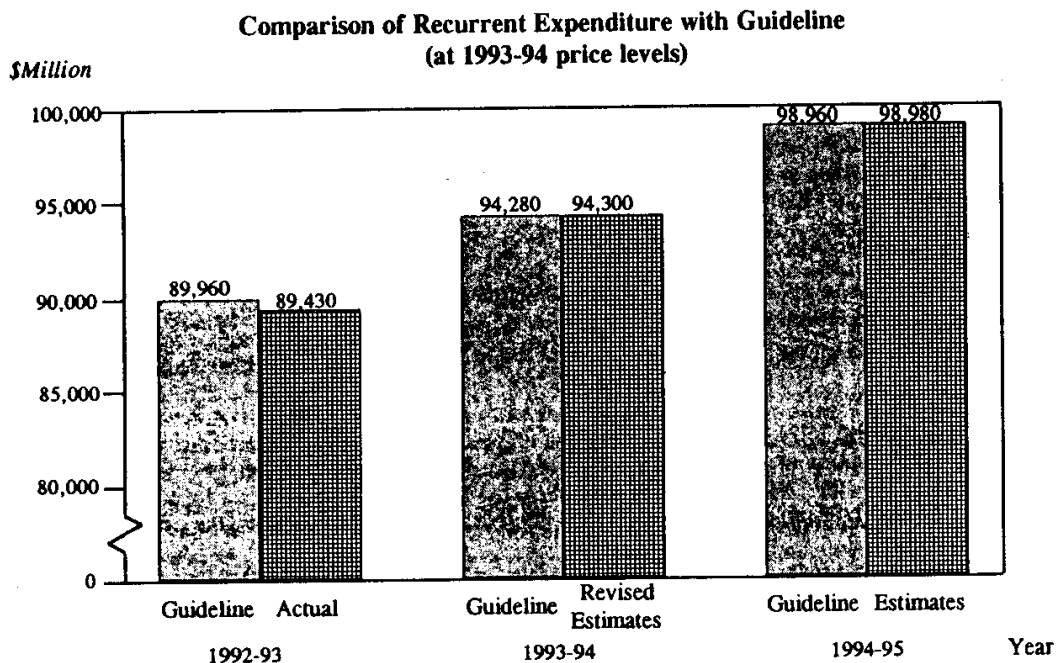
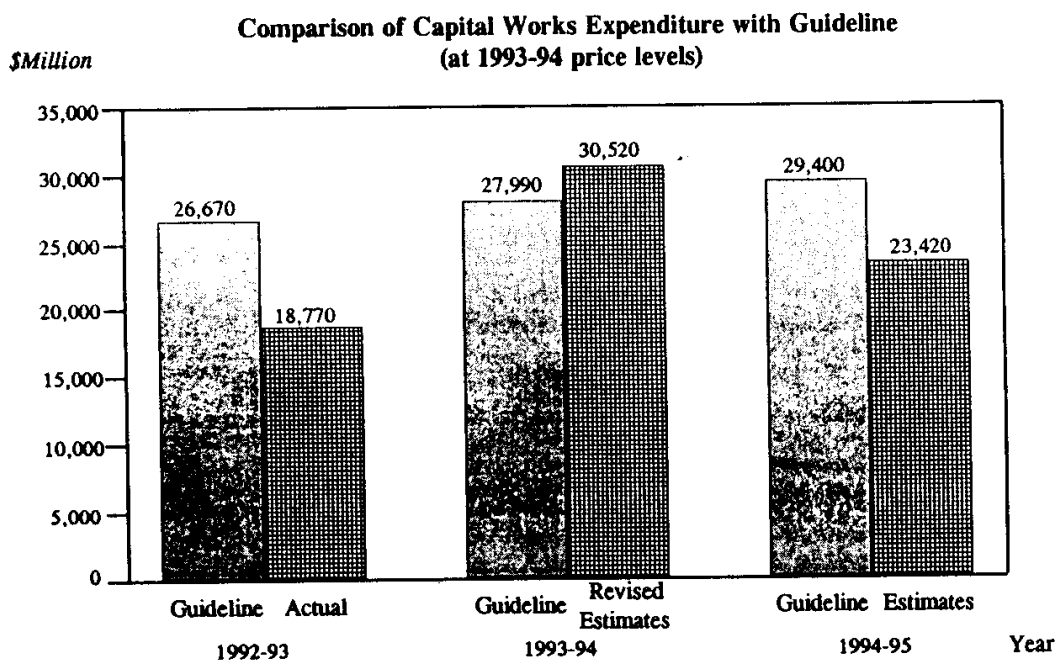


Diagram 2



The revised estimate for capital works expenditure in 1993-94 includes exceptional one-off payments made in the year for the extension to the Convention and Exhibition Centre (\$4,829 million) and for North District Hospital (\$1,690 million).

Public Expenditure in the Context of the Economy

12 For monitoring purposes, the Government's own expenditure is consolidated with the expenditure of some other public bodies such as the Urban Council in order to compare total public expenditure with the size of the economy.

13 The results of this comparison are set out in Table 4 and the historical and forecast relationship between GDP and public expenditure is illustrated in Diagram 3. A comparison of cumulative growth in public expenditure with cumulative growth in GDP since the introduction of the MRF in 1986-87 is shown in Diagram 4.

Public Expenditure in the Context of the Economy (Note 1)

Table 4

	Revised Estimate	Forecast			
	1993-94	1994-95	1995-96	1996-97	1997-98
	\$m	\$m	\$m	\$m	\$m
Operating expenditure	97,820	108,490	125,610	144,500	166,170
Capital expenditure	38,020	37,530	48,770	56,580	65,230
Total government expenditure	135,840	146,020	174,380	201,080	231,400
<i>Add:</i> Other public sector bodies	22,660	28,420	33,580	39,410	40,080
Total public expenditure	158,500	174,440	207,960	240,490	271,480
Gross Domestic Product (calendar year) (Note 2)	847,810	965,900	1,100,400	1,253,600	1,428,200
Growth in GDP					
Money terms	13.7%	13.9%	13.9%	13.9%	13.9%
Real terms	5.5%	5.0%	5.0%	5.0%	5.0%
Growth in public expenditure					
Money terms	28.4%	10.0%	19.2%	15.6%	12.9%
Real terms	17.7%	1.2%	8.7%	5.5%	3.0%
Public expenditure as a percentage of GDP (at current prices) (Note 3)	18.7%	18.1%	18.9%	19.2%	19.0%

Note 1 Public expenditure comprises expenditure by the trading funds, the Hong Kong Housing Authority, the Urban Council and the Regional Council, expenditure financed by the Government's statutory funds 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 payments of Government departments which are wholly or 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 statutory organisations, in which the Government has only an equity position, such as the Mass Transit Railway Corporation and the Kowloon-Canton Railway Corporation. Similarly, equity payments are excluded as they do not reflect the actual consumption of resources by the Government

Note 2 For years beyond the current year, the GDP figures are based on *trend* assumptions.

Note 3 Caution should be exercised in interpreting these percentages as the public expenditure is estimated on a fiscal year basis while the GDP is estimated on a calendar year basis.

Appendix A—Contd.

Diagram 3

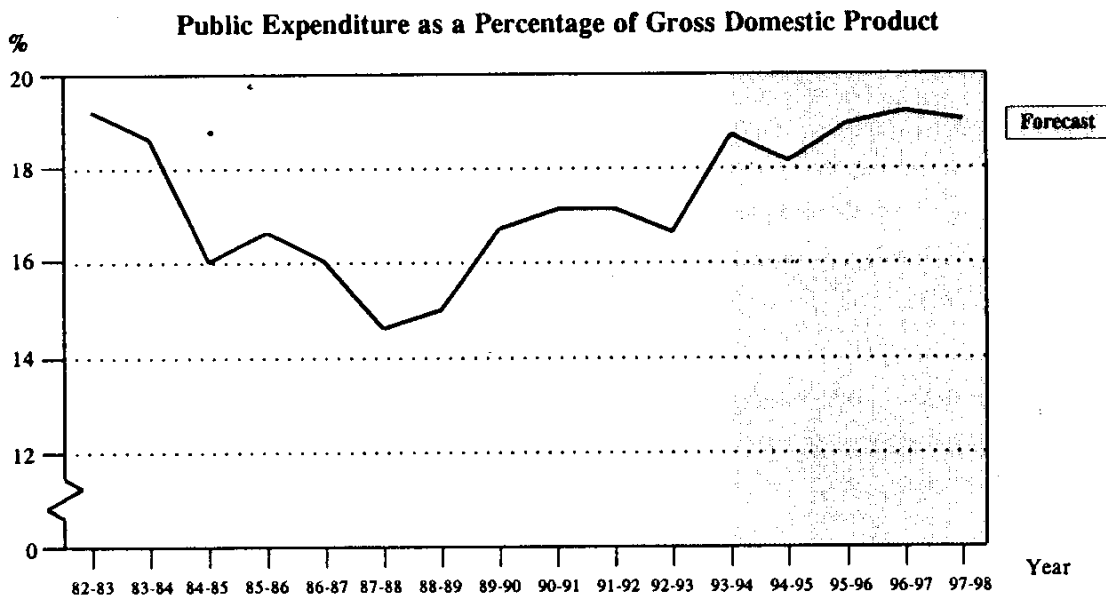
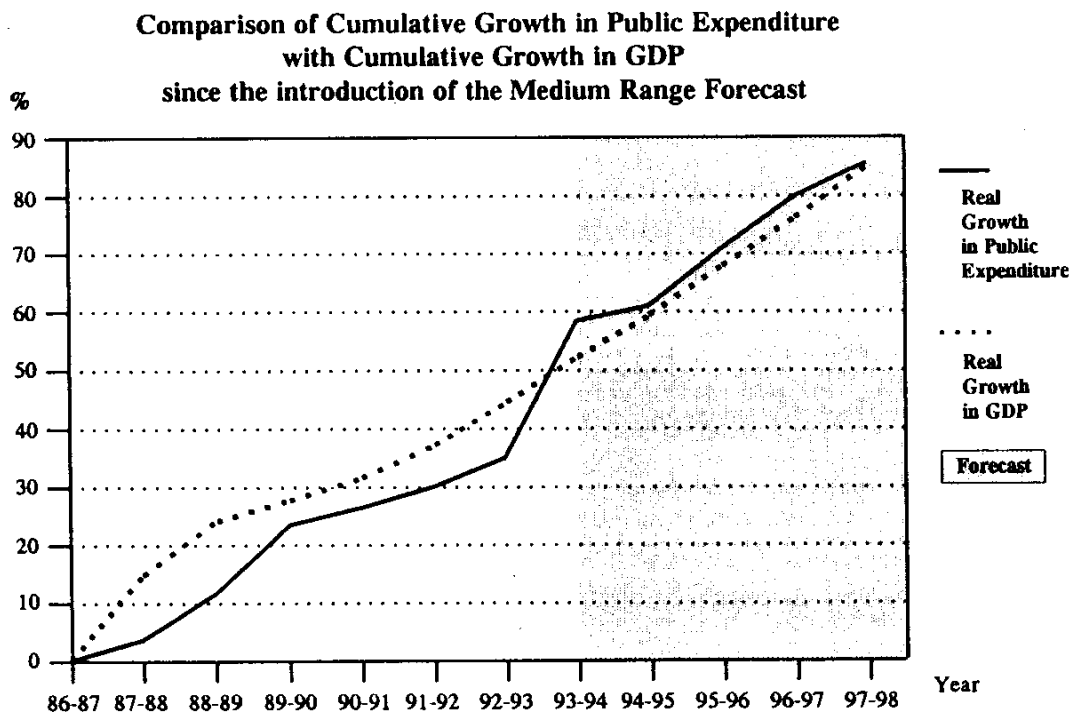


Diagram 4



Appendix A—Contd.

14 Table 5 shows the sum to be appropriated in the 1994-95 Budget analysed between operating and capital expenditure and, after including expenditure from the various funds and by other public sector bodies, shows the derivation of public expenditure for 1994-95 given in Table 4.

15 The table also illustrates the effect of the budget revenue measures on the operating surplus, capital deficit and overall deficit/surplus position for 1994-95.

16 The table can be read with Tables 1-4.

**Relationship Between Government Expenditure
and Public Expenditure in 1994-95**

Table 5

Components of expenditure and revenue	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
	\$m	\$m	\$m	\$m	\$m
Expenditure					
General Revenue Account:					
Recurrent account	107,750	107,750	—	107,750	107,750
Capital account					
Plant, equipment and works	735	—	735	735	735
Other non-recurrent	740	740	—	740	740
Subventions	775	—	775	775	775
	110,000	108,490	1,510	110,000	110,000
Transfers to funds	27,100	—	—	—	—
Capital Works Reserve Fund:					
Works account and Reserve account	—	—	33,050	33,050	33,050
Loan Fund	—	—	2,970	2,970	2,970
Lotteries Fund	—	—	—	—	930
Housing Authority	—	—	—	—	17,485
Urban Council	—	—	—	—	5,265
Regional Council	—	—	—	—	3,245
Trading funds	—	—	—	—	1,495
	137,100	108,490	37,530	146,020	174,440
Revenue					
General Revenue Account:					
Taxation		122,470	1,410	123,880	
Other revenue		28,870	1,760	30,630	
		151,340	3,170	154,510	
Capital Works Reserve Fund		—	25,080	25,080	
Capital Investment Fund		—	2,660	2,660	
Loan Fund		—	990	990	
		151,340	31,900	183,240	
Cash surplus/(deficit) before budget revenue measures		42,850	(5,630)	37,220	
<i>Less: Effect of budget revenue measures</i>		(6,535)	(85)	(6,620)	
Cash surplus/(deficit) after budget revenue measures		36,315	(5,715)	30,600	
<i>Less: Capital Investment Fund (Equity investments)</i>		—	(20,640)	(20,640)	
Cash surplus/(deficit) before debt repayment		36,315	(26,355)	9,960	
<i>Less: Repayment of Government bonds</i>		—	(2,300)	(2,300)	
Consolidated cash surplus/(deficit)		36,315	(28,655)	7,660	

Appendix B

TRENDS IN PUBLIC EXPENDITURE**1989-90 TO 1994-95****INTRODUCTION**

The purpose of this appendix is to present trends in public expenditure over the period 1989-90 to 1994-95. This analysis is expressed in public expenditure terms as defined in Table 4 of Appendix A and includes expenditure by the trading funds, the Hong Kong Housing Authority, the Urban Council, the Regional Council and the Lotteries Fund. It shows the actual and estimated recurrent and capital expenditure during this period and expresses this in terms of nine main policy area groups:

- Economic
- Security
- Social Services
- Education
- Environment
- Community and External Affairs
- Infrastructure
- Support
- Housing

Where appropriate, policy area groups are further analysed by policy areas.

2 Details of the individual heads of expenditure contributing to a particular policy area are provided in an index on pages 545-552 in Volume I of the 1994-95 Estimates. This index further provides details by head of expenditure of individual programmes which contribute to a policy area.

3 The analysis provided in this appendix shows how resources have been and will, in 1994-95, be allocated to different policy area groups.

Appendix B—Contd.

HISTORICAL PERSPECTIVE: THE MAJOR FEATURES

4 The changing share of expenditure on policy area groups from 1989-90 to 1994-95 is illustrated in Tables 1 and 2. Table 1 relates to recurrent public expenditure and Table 2 to total public expenditure.

Recurrent Public Expenditure by Policy Area Group 1989-90 to 1994-95*Table 1*

Policy Area Groups	Actual				Revised Estimate	Draft Estimate
	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
	%	%	%	%	%	%
(A) Economic	6.4	6.1	6.0	5.9	5.7	5.4
(B) Security						
(1) Internal Security	15.4	14.9	13.8	13.6	12.9	12.0
(2) Immigration	1.4	1.4	1.3	1.3	1.2	1.2
(3) Other	1.4	1.4	1.4	1.7	1.6	1.5
	18.2	17.7	16.5	16.6	15.7	14.7
(C) Social Services						
(1) Social Welfare	7.9	7.8	8.3	8.3	8.9	9.1
(2) Health	10.9	11.3	11.8	13.5	13.7	13.9
	18.8	19.1	20.1	21.8	22.6	23.0
(D) Education	20.4	21.1	20.3	20.7	20.8	20.9
(E) Environment	1.0	1.0	0.8	0.9	1.2	1.3
(F) Community and External Affairs						
(1) Recreation, Culture and Amenities	5.6	5.7	5.5	5.3	5.3	5.5
(2) District and Community Relations	1.0	0.9	0.9	0.8	0.8	0.7
(3) Other	0.5	0.4	0.3	0.3	0.3	0.3
	7.1	7.0	6.7	6.4	6.4	6.5
(G) Infrastructure						
(1) Transport	1.6	1.6	1.6	1.5	1.5	1.3
(2) Buildings, Lands and Planning	1.9	2.0	2.3	2.3	2.3	2.3
(3) Water Supply	3.7	3.3	2.9	2.8	2.7	2.5
	7.2	6.9	6.8	6.6	6.5	6.1
(H) Support	14.2	15.2	16.4	15.5	14.9	15.2
(I) Housing	6.7	5.9	6.4	5.6	6.2	6.9
	100.0	100.0	100.0	100.0	100.0	100.0
	\$m	\$m	\$m	\$m	\$m	\$m
Total Recurrent Expenditure	55,261	67,650	79,577	91,260	106,670	123,395

Appendix B—Contd.

Total Public Expenditure by Policy Area Group 1989-90 to 1994-95

Table 2

Policy Area Groups	Actual				Revised Estimate	Draft Estimate
	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
	%	%	%	%	%	%
(A) Economic	5.0	5.5	5.4	6.1	7.9	4.8
(B) Security						
(1) Internal Security	11.7	12.1	11.4	10.9	9.0	9.0
(2) Immigration	1.0	1.1	1.0	1.0	0.9	0.9
(3) Other	1.1	1.1	1.1	1.3	1.1	1.1
	13.8	14.3	13.5	13.2	11.0	11.0
(C) Social Services						
(1) Social Welfare	5.8	6.1	6.4	6.4	6.3	6.8
(2) Health	8.9	9.8	10.0	11.0	11.7	11.2
	14.7	15.9	16.4	17.4	18.0	18.0
(D) Education	15.9	16.9	17.4	17.5	15.9	16.5
(E) Environment	1.5	2.1	2.5	2.5	2.0	3.0
(F) Community and External Affairs						
(1) Recreation, Culture and Amenities	5.5	5.9	5.3	4.8	4.9	5.2
(2) District and Community Relations	0.7	0.7	0.7	0.6	0.5	0.6
(3) Other	0.4	0.3	0.3	0.3	0.3	0.2
	6.6	6.9	6.3	5.7	5.7	6.0
(G) Infrastructure						
(1) Transport	5.1	4.7	3.5	4.8	5.8	6.1
(2) Buildings, Lands and Planning	8.4	4.6	6.6	6.4	6.5	8.4
(3) Water Supply	3.5	3.2	3.2	2.9	2.6	2.9
	17.0	12.5	13.3	14.1	14.9	17.4
(H) Support	11.4	12.9	13.6	13.0	14.0	13.2
(I) Housing	14.1	13.0	11.6	10.5	10.6	10.1
	100.0	100.0	100.0	100.0	100.0	100.0
	\$m	\$m	\$m	\$m	\$m	\$m
Total Public Expenditure	81,945	95,198	108,012	123,490	158,500	174,440

Appendix B—Contd.

5 Recurrent public expenditure and total public expenditure in 1993-94 and 1994-95, analysed by policy area groups, are shown in Tables 3 and 4 respectively together with details of the real growths in expenditure between the two years.

Analysis of Recurrent Public Expenditure by Policy Area Group

Table 3

Policy Area Groups	Revised Estimate	Draft Estimate	Increase In Real Terms
	1993-94	1994-95	
	\$m	\$m	%
(A) Economic	6,025	6,675	+2.9
(B) Security			
(1) Internal Security	13,700	14,800	-1.3
(2) Immigration	1,320	1,430	-1.0
(3) Other	1,740	1,920	+1.4
	16,760	18,150	-1.0
(C) Social Services			
(1) Social Welfare	9,535	11,260	+8.4
(2) Health	14,585	17,070	+6.9
	24,120	28,330	+7.5
(D) Education	22,190	25,825	+6.5
(E) Environment	1,315	1,640	+15.3
(F) Community and External Affairs			
(1) Recreation, Culture and Amenities	5,695	6,725	+7.7
(2) District and Community Relations	815	920	+3.9
(3) Other	355	395	+3.0
	6,865	8,040	+7.0
(G) Infrastructure			
(1) Transport	1,585	1,605	-7.2
(2) Buildings, Lands and Planning	2,470	2,825	+4.7
(3) Water Supply	2,845	3,125	+1.4
	6,900	7,555	+0.6
(H) Support	15,930	18,685	+7.9
(I) Housing	6,565	8,495	+18.9
Total Recurrent Expenditure	106,670	123,395	+6.1

Appendix B—Contd.

Analysis of Total Public Expenditure by Policy Area Group

Table 4

Policy Area Groups	Revised Estimate Adjusted*	Draft Estimate	Increase In Real Terms
	1993-94	1994-95	
	\$m	\$m	%
(A) Economic	7,260	8,385	+7.8
(B) Security			
(1) Internal Security	14,320	15,680	+0.3
(2) Immigration	1,360	1,490	+0.3
(3) Other	1,760	1,940	+1.4
	17,440	19,110	+0.4
(C) Social Services			
(1) Social Welfare	10,015	11,885	+9.0
(2) Health	16,475	19,475	+8.3
	26,490	31,360	+8.6
(D) Education	25,005	28,930	+6.1
(E) Environment	3,230	5,235	+48.2
(F) Community and External Affairs			
(1) Recreation, Culture and Amenities	7,640	9,075	+8.5
(2) District and Community Relations	835	945	+4.0
(3) Other	370	400	0.0
	8,845	10,420	+7.7
(G) Infrastructure			
(1) Transport	9,160	10,710	+6.6
(2) Buildings, Lands and Planning	10,325	14,650	+31.1
(3) Water Supply	4,125	5,000	+10.9
	23,610	30,360	+18.0
(H) Support	22,235	23,050	-4.1
(I) Housing	14,765	17,590	+9.2
Total Public Expenditure	148,880	174,440	+7.6

* The adjusted revised estimate for 1993-94 excludes the following exceptional one-off payments made in the year following the significant capital underspendings in 1991-92 and 1992-93.

	<i>\$ million</i>
—Sandwich Class Housing Purchase Loan Scheme	2,000
—Extension to the Convention and Exhibition Centre	4,829
—North District Hospital	1,690
—AIDS Trust Fund	350
—Hong Kong Tourist Association	245
—Hong Kong Sports Development Board	100
—Health Services Research	50
—New Technology Training Scheme	50
—Opening Learning Institute	100
—Grant to Sir David Trench Fund	30
—Pneumoconiosis Ex Gratia Fund	175
	9,619

Appendix C

**RECURRENT EXPENDITURE GROWTH
IN KEY POLICY AREAS IN 1994-95**

Additional funds have been provided to finance the following major improvements in services in 1994-95—

*\$ million
(at 1993-94 prices)*

Social Services**Health** **1,020**

- 950 additional hospital beds
- A new pneumoconiosis clinic
- A new skin clinic
- A new social hygiene clinic
- A new health centre for the elderly
- Expansion of 2 existing clinics and a Maternal and Child Health Centre
- Expansion of the renal dialysis programme for an additional 135 patients, provision of rehabilitation services for 3 900 chronically ill patients and hospice care for an additional 500 patients
- 9 medical specialist teams for the elderly, the handicapped and the mentally ill
- More post-basic training for nurses
- Continuing implementation of the programme of management reform in individual hospitals

Social Welfare**810**

- For the elderly, 1 660 places in care and attention homes, 6 day care centres, 14 social centres, 4 multi-service centres and the issue of Senior Citizen Cards *(including \$190 million funded from the Lotteries Fund)*
- For children, 1 400 day nursery places, 250 day creche places, 80 foster care places, 12 small group homes
- For the handicapped, 650 residential places, 400 places in sheltered workshops, 410 places in day activity centres
- For the family, 19 family activity and resource centres, 124 caseworkers and 11 clinical psychologists for casework and counselling
- 59 school social worker units and 35 medical social workers
- \$100 increase per month in the standard rate for children under the Comprehensive Social Security Assistance Scheme

Education**1,450**

- 980 additional graduate teachers for primary and secondary schools
- Upgrading 370 graduate teachers to senior graduate teachers
- Further reduction in the ratio of pupils to teachers
- 15 more primary schools operating on a whole day basis
- Support services for Band 5 students
- 1 980 additional first year first degree places
- Further enhancement of the Kindergarten Fee Remission Scheme

Environment**210**

- Additional operating costs of—
 - Chemical waste treatment centre
 - Kowloon Bay, Island East and Shatin refuse transfer stations
 - West New Territories, South East New Territories and North East New Territories landfills

**MAJOR CAPITAL PROJECTS
TO BEGIN IN 1994-95 OR AFTER**

Funds allocated for capital projects to start in 1994-95 or after include—

	<i>\$ million (at 1993-94 prices)</i>
Economic	7,050
—Improvements to the Ma Wan Channel	
—Reclamation and servicing of Tuen Mun area 38	
—Lantau Port Development phase 1	
Education	2,400
—Hong Kong Institute of Education—campus development	
—Improvements to 110 primary and secondary schools, Education Commission Report No. 5	
Environment (in addition to \$6,800 million for the High Priority Sewerage Scheme)	5,060
—Disposal of contaminated mud	
—Construction Waste Recycling Facility	
—Refuse transfer facilities—Island West, Outlying Islands, NWNT, West Kowloon	
—Sewerage improvement schemes in Central, Wanchai West and Western, Aberdeen, Ap Lei Chau and Pokfulam, Wanchai East and North Point, Tolo Harbour, Yuen Long and Kam Tin and North District	
Social Services	920
—Hospital Improvement Programme phase II	
—Reprovision and expansion of specialist out patient clinics at Queen Elizabeth Hospital and Prince of Wales Hospital	
—Care and Attention Homes in Sha Tin, Lo Wai, Shum Shui Po, Tsz Wan Shan, Kwai Chung	
Infrastructure	2,820
—Smithfield extension—elevated road to Kennedy Town	
—Reconstruction of major roads	
—Lung Cheung Road and Ching Cheung Road Improvements	
—New explosive complex at Kau Shat Wan	
—Village flood protection NWNT	

Appendix E

PREVIOUS FORMAT OF MEDIUM RANGE FORECAST 1993-94 TO 1997-98

INTRODUCTION

This section shows the format of Medium Range Forecast 1993-94 to 1997-98 used previously and a cross-reference between the two formats.

THE PREVIOUS FORMAT OF MRF FOR 1993-94 TO 1997-98

Operating Statement (before budget revenue measures)

Table 1

	Revised Estimate	Forecast			
	1993-94	1994-95	1995-96	1996-97	1997-98
	\$m	\$m	\$m	\$m	\$m
Recurrent expenditure	94,300	107,750	124,770	143,540	165,080
Other non-recurrent	3,520	740	840	960	1,090
Total operating expenditure	97,820	108,490	125,610	144,500	166,170
Recurrent revenue before interest	134,750	147,550	160,100	180,790	209,970
Operating surplus before interest	36,930	39,060	34,490	36,290	43,800
Interest on balances	3,280	3,790	3,970	3,910	4,160
Operating surplus after interest	40,210	42,850	38,460	40,200	47,960

Capital Expenditure and Financing Statement (before budget revenue measures)

Table 2

	Revised Estimate	Forecast			
	1993-94	1994-95	1995-96	1996-97	1997-98
	\$m	\$m	\$m	\$m	\$m
Capital Expenditure					
General Revenue Account	1,670	1,510	1,720	1,960	2,230
Capital Works Reserve Fund	34,500	33,050	44,850	52,460	60,790
Loan Fund	1,850	2,970	2,200	2,160	2,210
Total capital expenditure	38,020	37,530	48,770	56,580	65,230
Capital revenue					
General Revenue Account	3,940	3,170	2,300	3,130	3,090
Capital Works Reserve Fund	19,070	25,080	19,510	20,410	43,880
Capital Investment Fund	2,580	2,660	2,520	2,620	2,700
Loan Fund	790	990	1,300	1,520	1,820
Total capital revenue	26,380	31,900	25,630	27,680	51,490
Capital financing (deficit)	(11,640)	(5,630)	(23,140)	(28,900)	(13,740)

Appendix E—Contd.

Consolidated Cash Flow

Table 3

	Revised Estimate	Forecast			
	1993-94	1994-95	1995-96	1996-97	1997-98
	\$m	\$m	\$m	\$m	\$m
Operating surplus before budget revenue measures (Table 1)	40,210	42,850	38,460	40,200	47,960
<i>Less:</i> Capital financing (deficit) (Table 2)	(11,640)	(5,630)	(23,140)	(28,900)	(13,740)
Cash surplus before budget revenue measures	28,570	37,220	15,320	11,300	34,220
<i>Less:</i> Effect of budget revenue measures*	—	(6,620)	(9,160)	(10,430)	(12,060)
Cash surplus before equity investments	28,570	30,600	6,160	870	22,160
<i>Less:</i> Capital Investment Fund (Equity investments)	(12,270)	(20,640)	(22,040)	(8,620)	(1,200)
Consolidated cash surplus/(deficit) before debt repayment	16,300	9,960	(15,880)	(7,750)	20,960
<i>Less:</i> Repayment of Government bonds	(1,200)	(2,300)	—	—	—
Consolidated cash surplus/(deficit) after debt repayment #	15,100	7,660	(15,880)	(7,750)	20,960
Reserve balances at 1 April	121,030	136,130	143,790	127,910	120,160
Reserve balances at 31 March	136,130	143,790	127,910	120,160	141,120
SARG Land Fund—balance at 1.7.97>					125,000
—interest from 1.7.97 to 31.3.98					2,810
Total					268,930

* Including impact of interest balances.

The forecast takes no account of any revenue measures to be taken after 1994-95.

Appendix E—Contd.

Reconciliation of figures used in Tables 1 and 2 of the New Format with the Previous Format

New Format

All figures in \$ million

	Revised	Forecast			
	Estimate	1994-95	1995-96	1996-97	1997-98
	1993-94				
<i>Table 1</i>					
General Revenue Account—revenue	141,970	147,890	157,210	177,400	205,160
General Revenue Account—expenditure	99,490	110,000	127,330	146,460	168,400
<i>Table 2</i>					
Opening balances of the Funds	40,330	35,450	32,320	17,960	18,370
Funds—revenue	22,440	28,730	23,330	24,550	48,400
Transfers from General Revenue Account	22,500	27,100	31,400	39,100	20,400
Expenditure on capital projects	34,300	32,950	44,850	52,460	60,790
Debt interest	200	100	—	—	—
	34,500	33,050	44,850	52,460	60,790
Loans and investments	14,120	23,610	24,240	10,780	3,410
Debt repayment	1,200	2,300	—	—	—

Appendix E—Contd.

Reconciliation of figures used in Tables 1 and 2 of the New Format with the Previous Format

Previous Format

All figures in \$ million

	Table	Revised Estimate		Forecast		
		1993-94	1994-95	1995-96	1996-97	1997-98
Recurrent revenue before interest	(1)	134,750	147,550	160,100	180,790	209,970
Interest on balances	(1)	3,280	3,790	3,970	3,910	4,160
Capital revenue—General Revenue Account	(2)	3,940	3,170	2,300	3,130	3,090
Effect of budget revenue measures	(3)	—	(6,620)	(9,160)	(10,430)	(12,060)
		<u>141,970</u>	<u>147,890</u>	<u>157,210</u>	<u>177,400</u>	<u>205,160</u>
Recurrent expenditure	(1)	94,300	107,750	124,770	143,540	165,080
Other non-recurrent	(1)	3,520	740	840	960	1,090
Capital expenditure—General Revenue Account	(2)	1,670	1,510	1,720	1,960	2,230
		<u>99,490</u>	<u>110,000</u>	<u>127,330</u>	<u>146,460</u>	<u>168,400</u>

No comparable figure was previously provided

Capital revenue—Capital Works Reserve Fund	(2)	19,070	25,080	19,510	20,410	43,880
—Capital Investment Fund	(2)	2,580	2,660	2,520	2,620	2,700
—Loan Fund	(2)	790	990	1,300	1,520	1,820
		<u>22,440</u>	<u>28,730</u>	<u>23,330</u>	<u>24,550</u>	<u>48,400</u>

No comparable figure was previously provided

Capital expenditure—Capital Works Reserve Fund	(2)	<u>34,500</u>	<u>33,050</u>	<u>44,850</u>	<u>52,460</u>	<u>60,790</u>
Capital expenditure—Loan Fund	(2)	1,850	2,970	2,200	2,160	2,210
Capital Investment Fund—Equity investments	(3)	<u>12,270</u>	<u>20,640</u>	<u>22,040</u>	<u>8,620</u>	<u>1,200</u>
		<u>14,120</u>	<u>23,610</u>	<u>24,240</u>	<u>10,780</u>	<u>3,410</u>
Debt repayment—Government bonds	(3)	<u>1,200</u>	<u>2,300</u>	—	—	—

GLOSSARY OF TERMS

Note: Terms shown in ***bold italic*** are defined elsewhere in the glossary.

Capital expenditure. All expenditure charged to the Loan Fund, the Disaster Relief Fund and the Works Account and Reserve Account of the Capital Works Reserve Fund (except debt repayment) plus expenditure from General Revenue Account on Plant, Equipment and Works.

Capital financing deficit. The difference between *capital expenditure* and *capital revenue*.

Capital revenue. All revenue credited to the Funds except proceeds from borrowings plus the exceptions listed under *recurrent revenue*.

Cash surplus/deficit. The difference between the *operating surplus* and the *capital financing deficit*.

Consolidated cash surplus/deficit. *Cash surplus/deficit* after equity investments (payments from the Capital Investment Fund) and net borrowings.

Fiscal reserves. The accumulation of *consolidated cash surpluses*. They are also known as government reserves.

Funds expenditure. Expenditure charged to the Capital Works Reserve Fund (Works Account or Reserve Account), the Loan Fund, the Disaster Relief Fund and the Capital Investment Fund. Transfers to or from the funds are not relevant to the level of expenditure.

Funds revenue. All receipt, except transfers from General Revenue Account, which are credited directly to the funds. These comprise:—

Capital Works Reserve Fund (Works Account)

donations for projects
share of land premium
interest on balances

Capital Works Reserve Fund (Reserve Account)

net borrowings

Loan Fund

Loan repayments received
interest on loans
interest on balances

Capital Investment Fund

dividends
interest
interest on balances
net borrowings

Disaster Relief Fund

interest on balances

General Revenue Account expenditure. All expenditure charged to General Revenue Account in accordance with the Appropriation Ordinance, including transfers to funds.

General Revenue Account revenue. All receipts credited to any of the eleven revenue heads.

Government expenditure. The aggregate of *operating expenditure* and *capital expenditure*. It is also referred to as consolidated account expenditure. It is not the same as *public expenditure*.

Government revenue. The aggregate of *Funds revenue* and *General Revenue Account revenue*.

Appendix E—*Contd.*

Operating expenditure. All expenditure from General Revenue Account charged to any of the subheads listed in the estimates under 'Recurrent Account', *plus* Other Non-Recurrent expenditure.

Operating surplus. The difference between *operating expenditure* and *recurrent revenue*.

Public expenditure. *Government expenditure plus*:—

gross expenditure (recurrent and capital) by the trading funds, the Hong Kong Housing Authority and the Urban and Regional Councils; and

payments from the Lotteries Fund.

It is also referred to as Consolidated Public Sector expenditure.

Recurrent revenue. All revenue credited to General Revenue Account (including interest on balances) *except* for:—

estate duty

taxi concessions

land transactions

recovery from Housing Authority under current financial arrangement

donations

which are treated as *capital revenue*.

Taxation

earnings and profits tax

estate duty

duties

general rates

bets and sweeps tax

entertainments tax

hotel accommodation tax

stamp duties

air passenger departure tax

Cross-Harbour Tunnel passage tax

motor vehicle taxes

royalties and concessions

