

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 23 February 1983****The Council met at half past two o'clock****PRESENT**

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

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

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

THE HONOURABLE THE ATTORNEY GENERAL (*Acting*)
MR. JEREMY FELL MATHEWS

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

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

THE HONOURABLE DAVID AKERS-JONES, C.M.G., J.P.
SECRETARY FOR DISTRICT ADMINISTRATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

THE HONOURABLE HU FA-KUANG, J.P.

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

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

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

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

THE HONOURABLE WILLIAM CHARLES LANGDON BROWN, O.B.E., J.P.

THE HONOURABLE CHAN KAM-CHUEN, J.P.

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

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

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

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

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

THE HONOURABLE MARIA TAM WAI-CHU, J.P.

DR. THE HONOURABLE HENRIETTA IP MAN-HING

THE HONOURABLE PIERS JACOBS, O.B.E., J.P.
SECRETARY FOR ECONOMIC SERVICES

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

THE HONOURABLE GEOFFREY THOMAS BARNES, J.P.
SECRETARY FOR HEALTH AND WELFARE

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

ABSENT

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

IN ATTENDANCE

CLERK OF COUNCILS
MR. ROBERT IAN WILLIAM UPTON

Papers

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

<i>Subject</i>	<i>L.N. No.</i>
Subsidiary Legislation:	
Pneumoconiosis (Compensation) Ordinance. Pneumoconiosis (Compensation) (Assessment of Levy) (Amendment) Regulations 1983	32
Public Health and Urban Services Ordinance. Public Health and Urban Services (Designation of Libraries) Order 1983 ...	33
Public Health and Urban Services Ordinance. Public Health and Urban Services (Public Pleasure Grounds) (Amendment of Fourth Schedule) Order 1983	34
Road Traffic Ordinance. Road Traffic (Parking and Waiting) (Amendment) Regulations 1983.....	36
Buildings Ordinance. Building (Oil Storage Installations) (Amendment) Regulations 1983	37
Fixed Penalty (Traffic Contraventions) Ordinance. Fixed Penalty (Traffic Contraventions) (Amendment) Regulations 1983.....	38
Public Health and Urban Services Ordinance. Museums (New Territories) Regulations 1983	39
Public Health and Urban Services Ordinance. Public Swimming Pool (Designation) Order 1983.....	40
Public Health and Urban Services Ordinance. Public Health and Urban Services (Public Pleasure Grounds) (Amendment of Fourth Schedule) (No. 2) Order 1983.....	41
Public Health and Urban Services Ordinance. Designation of Museums (Hong Kong Museum of History) Order 1983	42
Road Traffic (Public Service Vehicles) (Amendment) Regulations 1983. Road Traffic (Public Service Vehicles) (Amendment) Regulations 1983 (Commencement) Notice 1983	43

<i>Subject</i>	<i>L.N. No.</i>
Import and Export (General) Regulations. Import and Export (General) Regulations (Amendment of First Schedule) Order 1983.....	44
Public Health and Urban Services Ordinance. Public Health and Urban Services (Public Markets) (Designation and Amendment of Tenth Schedule) Order 1983	45
Public Health and Urban Services Ordinance. Public Health and Urban Services (Civic Centres) (Amendment of Thirteenth Schedule) Order 1983.....	46
Public Health and Urban Services Ordinance. Abattoirs (Amendment) By-laws 1983	47
Public Health and Urban Services Ordinance. Cremation and Gardens of Remembrance (Amendment) By-laws 1983	48
Public Health and Urban Services Ordinance. Cremation and Gardens of Remembrance (Amendment) (No. 2) By-laws 1983	49
Public Health and Urban Services Ordinance. Public Cemeteries (Amendment) By-laws 1983	50
Public Health and Urban Services Ordinance. Declaration of Markets in Urban Areas	51
 Sessional Papers 1982-83:	
No. 37—Hong Kong Examinations Authority—Balance Sheet as at 31 August 1981 and Statement of Income and Expenditure for the year ended 31 August 1981 together with Statement of Receipts and Payments for the year ended 31 August 1981 with Certificate of the Director of Audit.	
No. 38—Supplementary Provisions approved by Urban Council during the third quarter of the financial year 1982-83.	
No. 39—Li Po Chun Charitable Trust Fund—Annual Report for the period 1 September 1981 to 31 August 1982.	
No. 40—Television Advisory Board Hong Kong—9th Report.	
No. 41—Draft Estimates of Expenditure 1983-84.	
No. 42—Draft Revenue Estimates 1983-84.	
No. 43—Draft Supporting Financial Statements and Statistical Appendices from the Estimates of Revenue and draft Estimates of Expenditure 1983-84.	
No. 44—Estimates of Revenue and Expenditure for the year ending 31 March 1984 Report of the Public Works Sub-Committee of Finance Committee for 1982.	
No. 45—Report of the Establishment Sub-Committee of Finance Committee for 1982- 83.	

Government Business**First Reading of Bill****APPROPRIATION BILL 1983**

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 1983**

THE FINANCIAL SECRETARY moved the second reading of:—‘A bill to apply a sum not exceeding \$35,474,924,000 to the service of the financial year ending on 31 March 1984’.

He said:—

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Sir,

Background

As generally was the experience elsewhere, 1982 presented difficult economic problems for Hong Kong, with no sign of the improvement in the latter part of the year which was expected. Firstly we were battered by what I believe will prove to have been the tail winds of the worst global recession since the 1930s. World trade anyway has declined substantially. As Hong Kong depends upon exports, we have thus inevitably suffered from the prolonged inability of our overseas markets to absorb more of our excellent products due to their own economic troubles, which have also perniciously led to the spread of protectionism.

2 It is always frustrating for all of us to be unable confidently to foretell the likely course of our economy without access to reliable advice on the likely shape of other bigger economies. It is a truism that for Hong Kong much depends on the pattern of growth in the U.S.A. But as their own economists and bankers offer no consensus, our economic forecasting inevitably remains more intuitive than scientific. We are not alone.

3 Secondly we have simultaneously experienced the terminal phases of a boom and bust cycle in property. I shall say more about this later⁽¹⁾, but clearly the rise in prices was as excessive as the inevitable subsequent fall, the effects of which have spread in the financial sector. This unfortunate if not uncharacteristic episode may at least promote concentration again on the manufacturing and other export oriented sectors. Certainly it underlines the paramountcy of market forces and the need for prudent planning rather than careless speculation in business.

4 Thirdly we have suffered from political uncertainty. This may be inevitable while our long-term future is under discussion. But we have a clear commitment

(1) Paragraph 22.

by the British and Chinese Governments, endorsed at the highest level, to the stability and prosperity of this Territory. That does not seem to me to be depressing. The uncertainty and the spate of commentaries and rumours which we have experienced in the last few months have nevertheless had an unsettling effect. Internal and external confidence have suffered, and the consequences have been felt in all sectors of the economy.

5 These three circumstances have not made easier the task of those in Government who work on the budget and of the vote controlling officers, who have faced responsibly the need for tight discipline while continuing with agreed programmes. The margin as you will know is narrow. To them all I extend my thanks. The budget is my own, though naturally it reflects Government policy; but its production and implementation depend on a competent and loyal civil service. I hope that the latter's detractors will note my comment.

Preamble

6 It is scarcely surprising that 1982 having shown itself unhelpful to Hong Kong (a considerable understatement) there should be a groundswell of economic complaint—much directed at the Government. Some is fair. Some is not. The real estate problems and connected difficulties that face some financial institutions, some developers and I dare say many speculators, must, I believe, largely be left to their own timely management. Some profit from risk-taking. Others manifestly do not. I will not conveniently forget the outstanding contributions of good private sector development and the essential role that it will continue to play in our economy. But my overriding concern is with the interests of Hong Kong as a whole. Let me in this connection now formally thank many institutions headed by the note-issuing banks for their responsible approach to recent problems, however Hong Kong landed in them.

7 I wish to underline yet again the fortune of Hong Kong in facing by world standards relatively little unemployment and under-employment⁽²⁾. Please accept that I am well aware of the difficulties faced by those without full employment and the necessity of adequate provision for public assistance. Fortune is arguably the wrong word anyway, for this comparatively favourable situation is the outcome of sensible and steady policies followed over many years. In particular it reflects our refusal to be stampeded into new and untried social initiatives or excessive public sector expenditure for reasons which if kind-hearted are often extremely short sighted and sometimes clearly self interested⁽³⁾.

(2) *1982 Economic Background: Chapter 4. See also paragraph 25.*

(3) *'Everywhere politicians have been inclined to turn a blind eye to the long-term actuarial consequences of vote-winning social security gestures. The problems of supporting levels of public spending that looked acceptable in a period of economic growth begin to look daunting in a world of flat demand and financial upheaval.'*
Extract from Financial Times Leader of 28.9.82.

8 Nor can it be overlooked that further real increase in new Government programmes will inevitably require additional tax revenue. As for example only about 270 000 now pay salaries tax and every 1% increase in the present top limit of 15% would yield only about \$100 million per year, do those who protest against strictly controlled price increases in the public utilities realize that the alternative of subsidy means that they instead will be taxed? Or services will cease? Do they prefer this to payment by the actual users? I do not believe it.

9 Complaints about Government policies and criticisms of apparent meanness are plentiful in our free society, but as I have repeatedly said are rarely accompanied by any suggestions of how to get from the community the additional revenues usually involved. For there are no free lunches. Thus we have also had the usual calls from concerned men and women for higher spending by the Medical and Health Department, for more low cost housing, for social security and health insurance, for a replacement airport and an additional harbour crossing, for better roads and railways, for more schools and a third university, for cheaper water and transport and telephone services. Such grass roots stuff is valuable, indeed essential within commonsense limits. Government merits a degree of goading and no doubt does better as a result. My own prize for misplaced zeal goes to those who seek an end to what they call Government's high land price policy. Apart from the minor fact that there has never been such a policy, to suggest that it exists at this particular point in time when the budget is in serious deficit because of plummeting land revenue and when the prices of some land are barely above formation costs involves a degree of opacity worthy of inclusion in the Guinness Book of Records. Figures in the 1982 Economic Background speak for themselves⁽⁴⁾. It was the improved supply of Government land to the market resulting from deliberate planning that was a major factor in ending the escalation of property prices, the baleful effects of which were increasingly obvious. I am no supporter of high prices for anything—only fair prices as normally determined by the market and not arbitrarily by bureaucrats.

10 It must be repeated and repeated that while Hong Kong is no longer poor, it is not rich. We get no financial support or subsidy from outside. We can only have what we pay for: this applies both to private and public spending. Nearly all the protests which contain overtones of subsidy presuppose that someone else, for example the Government or the shareholders of public companies, should pay partly or wholly for the handouts. But Government funds are the people's funds, which demand prudent handling; and no law—and we fortunately live under the rule of law—can compel investment from shareholders. We must always have an eye on long-term planning for the needs of the future. Moreover it is a temporary and self-defeating opiate to propose soaking the rich. There are, alas, not enough of them. While also various partisan bodies seek increased aid to industry, they certainly do not simultaneously call for increased profits tax. But whence is the money to come?

(4) 1982 E.B. 5.5 to 5.10:5.14:6.7.

11 We cannot anyway be led into temporary support of industries in distress. And how is temporary to be determined? Totally dependent on trade as we are, quite apart from obvious budgetary considerations it is not possible to keep the less efficient in being either by restricting overseas access to our own markets or by propping up their faltering access to overseas markets. If direct Government subsidy were to be given, it should logically go to bolster the efficient sectors of our economy—not to featherbed those in trouble. It is of course difficult in the public eye to maintain tough policies while yet demonstrating care for the unsuccessful. I shall persevere, for both firmness and compassion are essential.

12 Insofar as claims for generalized assistance to industry are concerned, we will consequently also continue to rely mainly (though not entirely) on the disciplines of the market place. We do not need to look hard to see the result of other approaches elsewhere. Nevertheless I reiterate my commitment to pronounced and growing Government support for the basic infrastructure that is needed to support our changing economy⁽⁵⁾ and I will remain open to responsible suggestions for improvement. Increasing, well founded demands in these areas will continue to be a major concern of the Government. Nevertheless the maintenance and growth of such services still depend on the prior creation of wealth. Nothing is less calculated to promote Hong Kong's long-term growth and stability than over-spending or wrong priorities or a mixture of both, and while we will continue steadily with already agreed programmes we will have to be frugal with regard to new ones.

13 I would like to illustrate what I mean by reference to the case for a replacement airport. Certainly Kai Tak is now badly situated, and the single runway cannot be duplicated. Thus by 1990 or thereabouts (there is argument about this) it will be desirable, *if* we can afford it, to have available an alternative airport capable of growth. But at 1982 prices the total cost postulated by an airport at Chek Lap Kok will be roughly \$37 billion: this includes airport, roads and bridges, land resumption, and the inevitable construction of a nearby new town on Lantau. Clearly we cannot contemplate such expenditure in isolation until we can set overall priorities for the whole territory for the next ten years or so against the major sub-regional studies which are now reaching conclusion. This should be possible by the end of this year. And we shall then consider new programmes. But even so, monetary and budgetary factors will continue to be crucial. While we will certainly continue to invest heavily for the future, we obviously cannot do so for all conceivable projects and we must get the planning right. It is irresponsible to believe that expenditure without wisdom portrays confidence. It does not. It shows only folly. Nothing makes me less confident in any government than evidence of

(5) *e.g. vocational, technical and tertiary education; an intelligent approach to research funds; industrial investment promotion and training schemes; Government institutions designed to facilitate diversification; all the support that the Government can give in trade relations and trade facilitation; transport including road, rail, airport and harbour; land formation; telecommunications; production of public housing; oversight of markets; and not least promotion of wise monetary policies.*

public expenditure running out of control. This is a guaranteed recipe for inflation and eventual unemployment. In any case there are real issues of priority that confront us. It is my opinion that if we forthwith decided to build a replacement airport at Chek Lap Kok—and the need for an immediate decision is not evident—it might be necessary for budgetary reasons to move towards reducing annual Government capital expenditure on other items by about \$3 billion within about three years. As an example only, this could result in halving the low cost housing programme. We must now ask ourselves where the proper priorities lie, and what are the sensible alternatives.

14 The estimates have been laid before you. Let me draw your attention to the estimate of expenditure on Consolidated Account in 1983-84 of \$5.7 billion on education, including no less than \$1.3 billion on the two universities, the Baptist College and the Polytechnic. We are moving fast to establish a costly second polytechnic, and we have also just set up the new Vocational Training Council. The Public Works Programme excluding Housing Authority expenditure and land acquisition will require about \$7.6 billion. All this expenditure, the importance and relevance of which is obvious, is infrastructural investment. It is an immense effort.

15 I must also point to the total estimated expenditure on social services as a whole of \$16.6 billion. Expenditure of this size illustrates my earlier promise of no petty-minded meanness despite belt tightening. I am not insensitive to the gap that exists between the successful and the poor. My task is to narrow it by improving the lot of the poor, not by squeezing the rich.

16 This preamble outlines your Government's consistent and steady policies, which will continue. They are as sound in bad times as in good. In our position we have no sensible alternative but to promote actual export not theoretical equity; solvency not soft-heartedness; incentives not ideology—while still remaining compassionate and caring particularly in the case of individual inadequacies and suffering. This is no easy responsibility, and it would be foolish to pretend that the Government always gets the balance of priorities right. I do not. But I shall continue to do my best.

17 With this general background I now present my second budget, which I shall divide as before into three unequal main sections; what has been, the budget proper, and what 1983 might offer. The budgetary section itself will be sub-divided into the current state of the Government's accounts, the estimates, and finally the several tax changes which are required. In support will be the accompanying cross-referenced 1982 Economic Background, 1983 Economic Prospects, and footnotes and appendices bound with the printed version of this speech.

1982 Economic Background

18 The economic problems of 1982 and their effects on Hong Kong are the subject of the 1982 Economic Background, which I hope Members will read in full. I wish to highlight some important points only.

19 Against the background of an unexpectedly poor fourth quarter even the sharply revised G.D.P. growth rate of 4% for the calendar year was not achieved. In fact the growth was only 2.4%⁽⁶⁾. This thoroughly disappointing result illustrates yet again our dependence on exports and the parlous state of other economies whose performance is increasingly difficult to forecast. I apologize for giving earlier over-optimistic figures, but the difficulties of foretelling the economic future have never been so great. Deliberate pessimism is not generally a helpful alternative course.

20 The weak performance of our domestic exports is clear⁽⁷⁾. They declined by 3% in real terms in 1982, as consumer demand in Hong Kong's major export markets remained depressed with no sign of the long awaited turn-round. The delay in the recovery of the economies of these countries, in particular the United States, has become pronounced. For example G.N.P. for the O.E.C.D. countries as a whole declined by 0.5% in 1982, compared with a forecast growth rate of 1.8% made at the beginning of the year. Influenced by the world recession, our re-exports showed no growth in real terms⁽⁸⁾ though this has to be set against the background of a very substantial expansion of the entrepot trade base over the last few years. Re-exports on average grew by about 30% per year in real terms during the four years 1978-81.

21 Because of the decline in export demand, economic growth in 1982 came largely from domestic demand, whose growth rate has also been slowing down rapidly. Private consumption expenditure was less buoyant and grew by only 2% in real terms, probably due to our poor export performance affecting incomes and to the unfavourable influence on wealth of a depressed stock market. Overall investment showed no change in real terms. The decline of 6% in expenditure on plant and machinery was largely offset by an increase of 10% in expenditure on building and construction. There was a substantial increase in public sector expenditure on capital works⁽⁹⁾ as a result of the continuation of the Public Works Programme, the housing programme and the construction of the Island Line of the Mass Transit Railway.

22 Also significant was the continued depression of the property market⁽¹⁰⁾. Affected by the economic recession and abundant supply, the latter owing more to speculation than to prudent planning, prices and rentals of property followed a declining trend during the year, with sharper falls in the second half. The successive reductions in the mortgage rate to 12% in November, together with the declining sale prices, have revived some interest in the trading of residential property in the lower end of the market. The property market was also given some encouragement in November and December when a number of banks and other financial institutions offered new 20-year mortgage schemes to potential owners of property.

(6) 1982 E.B. 1.2.

(7) 1982 E.B. 2.4.

(8) 1982 E.B. 2.17-2.20.

(9) Defined in this context to include expenditure by the M.T.R.C.

(10) 1982 E.B. 5.5 to 5.14.

23 The growth rate of the value of total exports, at 4%, was slightly faster than the growth rate of the value of imports, at 3%. There was thus a small narrowing of the visible trade gap⁽¹¹⁾. This probably contributed to the relative firmness of the Hong Kong dollar in the first half of the year, in terms of the trade weighted exchange rate index, which appreciated by about 4.4%. However, by the end of the year, political and other events had intervened and for the year as a whole the trade weighted exchange rate index showed a net depreciation of 6.8% and the Hong Kong dollar weakened against the US dollar by 12.7%.

24 The overall strength of the Hong Kong dollar during the first part of the year, coupled with the easing of inflation rates elsewhere in the world, had favourable effects on the domestic price level. Moreover, since total final demand (excluding re-exports) showed no growth and the gross domestic product grew by only 2.4% in real terms, the growth of demand for output in the economy was not so rapid as to exceed the ability of the economy to produce that output. Furthermore the underlying growth rate of the money supply as probably slowing down. Thus the rate of inflation, in terms of consumer prices, declined from 12% in the first half to 9% in the second half. Taking the year as a whole, the increase was 10.6% which represents a significant improvement over the corresponding increases of 16% in 1980 and of 15% in 1981. We would have done even better if the Hong Kong dollar had not weakened in the second half. As the rate of increase in consumer prices slowed down, real wages of most employees showed some increase, except for those in the manufacturing sector.

25 Reflecting the weak domestic export performance, employment in the manufacturing sector declined⁽¹²⁾. It is important to note, however, that this decline was largely offset by an increase in employment in the tertiary services sectors with the result that the overall employment situation was fairly stable. The seasonally adjusted unemployment rate remained steady at about 3.5% in the first half of the year, and increased moderately to about 4% in the second half. Under-employment also increased to around 1.7% of the labour force. These figures are relatively low by both historical and international experience, though they are still clearly rising and I recognize that employees in the manufacturing sector have been more adversely affected than others. In addition to the relatively deflated internal cost/price structure, including wages and property prices, there are signs of the existence of some spare productive capacity. The growth rate of labour productivity has also slowed down to about 2%.

26 1982 was a year of adjustment for Hong Kong. The economy responded in various ways to the most severe world recession in fifty years. Moreover, domestic developments in recent years, such as the rapid expansion of credit, the sharp increases and subsequent even sharper falls in property prices, the fluctuations in interest and exchange rates and the growing importance of the

(11) From 11.7% in 1981 to 10.9% in 1982.

(12) 1982 E.B. 4.1.

tertiary services sectors, have brought about further adjustments. It should be borne in mind also that the 2.4% growth rate of the economy was achieved against the background of double-digit growth rates recorded successively for each year since 1976. We must not be unduly discouraged by one year's disappointing performance, a performance still better than that of most larger economies—for example U.S.A., U.K. and Germany.

Monetary Issues

27 I turn now to monetary issues, which were of particular significance in 1982. The fall in property and land prices created persistent unease in the financial sector. Towards the end of the year a few registered deposit-taking companies experienced liquidity problems. There have been claims that further adjustments in 1982 under the three-tier system requiring registered D.T.C.'s to run down all their short-term deposits in two stages by the end of June this year exacerbated these problems, but I do not believe that this factor was critical. Moreover I am sure that when the adjustment is over and the dust is settled we shall end up with a structure which provides both better protection for depositors and a sounder banking system.

28 Despite our known problems, Hong Kong's position as an international financial centre has remained strong. In fact foreign currency deposits increased by H.K. \$69 billion in 1982, helped of course by the exemption from interest tax on such deposits introduced this time last year⁽¹³⁾. Given the general background, this outcome is very satisfactory.

29 Part of the rapid increase in foreign currency deposits may be due to a proportion of Hong Kong's export earnings being retained in foreign currencies, if not permanently at least for a longer period than in the past. Nevertheless Hong Kong dollar deposits also increased marginally in 1982⁽¹⁴⁾. There are a number of reasons for this outcome. Anticipation of further adverse movements in the exchange rate is one, and the 10% interest tax on Hong Kong dollar deposits is another. I shall return to the subject of interest tax later.

30 It is arguable that the foreign exchange market has over-reacted to rumours about the future, notwithstanding sharp gyrations in exchange rates between major world currencies. The trade weighted exchange rate index for the Hong Kong dollar rose in line with the narrowing of the trade gap from 85.9 at the end of 1981 to 90.3 on 26 June, the highest level of the year. Subsequently it eased off as the prospects of an economic recovery in the United States in 1982 looked increasingly unlikely. It then fell sharply at the beginning of the fourth quarter of the year to 79.7 on 27 October, when the foreign exchange market was hit by anxieties about the political future of Hong Kong and when the U.S. dollar displayed general strength against other major currencies in world markets. Although the Hong Kong dollar has since the end of October recovered substantially against the U.S. dollar, the trade-weighted index has

(13) 1982 E.B. 3.5.

(14) From \$134.4 billion to \$135.4 billion.

remained low. With quite severe recession prevailing in our main export markets I accept that adjustments to maintain Hong Kong's competitiveness will have to work through, *inter alia*, the exchange rate. But even so the sharpness of the October movement was clearly of an emotional nature.

31 The weakness of the Hong Kong dollar was also partly caused by understandable pressure to push interest rates down. Because of the differential between the rates of interest tax on Hong Kong dollar and foreign currency deposits, there is, at any given rate of interest, a 10% difference in net yield between Hong Kong dollar deposits and foreign currency deposits in favour of the latter. If there is also, as there has been from time to time, a gap of, say, two percentage points in the interest rate in favour of foreign currency deposits, there must be exchange rate implications. This is particularly so at a time when deposit rates are at relatively low levels. I fully appreciate that the lower cost of borrowing assists industry, but the need to contain inflation must also be weighed in the balance.

32 A related issue is whether there has been, as is often claimed, an outflow of money from Hong Kong. In fact statistics of the growth of total deposits (in all currencies) in Hong Kong in 1982 suggest that there was a substantial inflow of money *into* Hong Kong rather than an outflow, but of course investment by Hong Kong people abroad has continued—and possibly on a larger scale than before. I realize also that outflow could be taken to mean a shift out of Hong Kong dollars into foreign currencies, whether or not such foreign currencies remain in Hong Kong. However, for every seller of Hong Kong dollars there must be a buyer. Unless banks sell foreign currency from their own positions or enter into swap transactions, the size of the Hong Kong dollar pool cannot be materially reduced although its value can. But there is a limit on what banks will sell to their customers from their own positions; and they normally buy their customers' foreign currency requirements from the market. Swap transactions are getting more popular, some no doubt designed to avoid interest tax. However when these transactions are unwound, the pool of Hong Kong dollars will be reinstated. So where is the outflow? And if the pool of Hong Kong dollars can only decline as a result of movements across the exchanges when banks sell from their foreign currency position to their customers, how is the outflow to be measured? Clearly when demand for foreign currency exceeds supply, the price of foreign currency will increase, which is what has happened in Hong Kong to a limited extent. In other words, the foreign exchange value of the pool of Hong Kong dollars, or the purchasing power of that pool in terms of goods priced in foreign currencies, has decreased.

33 To sum up, given the very special circumstances we were facing, developments in the monetary sector have been encouraging. The monetary aggregates, although difficult to interpret in view of the structural changes that have taken place, also appear to be behaving well. There was a marked slowing down during the year in the growth rate of loans and advances for use in Hong

Kong⁽¹⁵⁾. Influenced by the inflow of foreign currency deposits, total M3 grew rapidly by 42%; but as Hong Kong dollar M3 grew by only 2%, I am generally satisfied that the money supply was behaving in a way helpful to the economy.

34 The budget speech cannot contain reference to every policy of Government with regard to economic, financial and monetary matters. It would yield the wrong impression, however, if I made no mention of my concern about the excesses that have come to light as a result of the collapse of the property market. The conduct of some directors or managers in control for example of a few deposit-taking institutions has clearly been open to severe criticism, and this criticism must extend also to some activities in other areas of the financial markets. While our economy depends mainly on market forces it is the Government's responsibility to see that there exist adequate ground rules—enshrined if necessary in the law—to ensure that market forces operate fairly. I am therefore engaging in discussions with the Secretary for Monetary Affairs, the Secretary for Economic Services, the Commissioner of Banking and the Commissioner for Securities amongst others to ensure that legislation in Hong Kong in their areas of responsibility continues to provide an appropriate degree of protection for depositors and investors—and indeed for the whole community. This task raises difficult and contentious issues, because I do not propose to replace free market management with that of civil servants. Nor is perfection possible. I think, however, that all honest men will agree that where inadequacies have become apparent then there must be improvement. But this must be a steady process without sudden shocks. We all know anyway that freedom cannot mean licence.

The Public Sector

35 I share what I believe to be a consensus with Members of this Council that it is of maximum importance that public sector expenditure should be held in check. The growth rate in recent years has been high encouraged by buoyant revenues. But the scene has changed. I repeat what I said last year that in general terms we must get the growth rate in real terms in public sector expenditure on Consolidated Account down to the growth rate in G.D.P.—and in some years below, if budgetary requirements indicate.

36 In preparing internal guidelines in November 1982 for the 1983-84 budget, I had regard to our known expenditure at that point in time. I asked as a first step that the growth rate in public sector expenditure should be limited to about 10% in money terms. I accepted that there would be some subsequent leakage around the edges.

37 Within this limit, I expected adequate provision to be made to continue our main on-going programmes with room being found for some real increases by reducing non-essential expenditure in other areas. As a new departure I also required provision to be made for any possible salary adjustment and indeed for

(15) 1982 E.B. 3.9 to 3.12.

any price increases. In fact in 1982-83, despite no such provisions having been made but reflecting excellent controls, the revised estimate of total public sector expenditure exceeds the approved estimate by less than 1% even including last April's salary adjustment. But the budgetary implications of a salary adjustment can be very significant, and in our present straightened situation I consider it necessary that the budgetted total expenditure should now formally impose a cash limit on total spending. I shall therefore expect the provision for any salary adjustment for 1983-84—if indeed any adjustment at all is agreed—to be found from within the additional commitments vote. This change in procedure will not weaken the absolute control of Executive Council and Finance Committee, nor will my own calculations be capable of external assessment. In brief I make no assumptions whatsoever, but I will insist on cash limits.

38 On the basis of the budget presented today, total public sector expenditure in 1983-84 is estimated at \$42.5 billion⁽¹⁶⁾, compared with the revised estimate for 1982-83 of \$38 billion, an increase of 11.7% in money terms. I consider that the growth rate in public sector expenditure in real terms in 1983-84 will be about 3%. This is below the expected growth rate of the G.D.P., and a sharp slowing down from the previous year. Moreover there should be no extras for which subsequent provision needs to be made.

39 It is essential to look forward and not back. Hindsight is such an exact science. Nevertheless a longstanding problem occurs each year with the preparation of the budget. Because Budget Day is scheduled for the last Wednesday in February, and because of the need to meet the Printer's reasonable deadline if the Draft Estimates of Expenditure and other supporting documents are to be printed in time, it is necessary for a cut-off date to be fixed in early December, after which it becomes increasingly difficult to make changes. Thus, the revised estimate is based on figures of expenditure largely determined after only seven months' performance up to the end of October. To the extent that significant changes occur in the subsequent months of the financial year which were not foreseen, the revised estimate will be inaccurate.

40 In order better to meet this problem (which cannot be avoided altogether) I propose to examine the factors involved in deferring Budget Day in future to the last Wednesday in March. This, coupled with improved facilities for the Printer, should allow a later cut-off date to be fixed, say at the end of December, and so improve the accuracy of the forward planning process. In brief a more reliable base will be available.

41 As an example of the difficulties that now arise as Government budgets grow with the growth of Hong Kong, you will recall that last year the budget for 1982-83 envisaged a significant slowing down in the growth rate of public sector expenditure. On the basis of the revised estimate taken in November 1981 of

(16) This figure and those used throughout this speech in respect of the Consolidated Account have been adjusted for analytical reasons; the differences are explained in the Statistical Tables.

Consolidated Account expenditure for 1981-82, the budget for 1982-83 provided for a slowing down of the growth rate in real terms to 10.7% (excluding any civil service pay adjustment).

42 In the event, actual Consolidated Account expenditure in 1981-82 has proved considerably lower than the revised estimate then used, largely because the Housing Authority spent much less than expected⁽¹⁷⁾. The actual growth rate of public sector expenditure in 1981-82 was therefore lower than our calculations were based on, and in consequence the 1982-83 budget made provision mathematically for a higher growth rate than intended, which I now expect to be about 17% in real terms (pay adjustment included). I find this outcome quite infuriating.

43 Being aware of the potential pitfall, in a footnote to last year's Budget Speech⁽¹⁸⁾ I did, however, stress that there must be problems if the base changed—that is to say, if the final outturn for 1981-82 was different from the revised estimate, which has turned out to be the case. We simply must improve on this for the future. Thus the idea of putting back budget day until the end of March, on which I shall be consulting Members. An alternative approach of zero based budgetting is attractive in theory but unattainable in practice.

Revised Estimates 1982-83

44 I will now bring you up to date on the present state of the Government's accounts.

45 On General Revenue Account the budget for 1982-83 envisaged a surplus of \$2.8 billion⁽¹⁹⁾. The revised estimates of revenue and expenditure are \$30.9 billion and \$34.7 billion respectively. On the basis of these figures the outturn for the year will be a deficit of \$3.8 billion⁽²⁰⁾.

(17) *Over \$1 billion.*

(18) *B.S., 1982, note 18.*

(19) *i.e. \$2,782 million: the difference between estimated revenue of \$38,305 million and estimated expenditure of \$35,523 million.*

(20)	\$ mn		\$ mn	
	<i>Original Approved</i>	<i>Revised</i>	<i>Original Approved</i>	<i>Revised</i>
<i>Recurrent Account:</i>				
<i>Revenue</i>	25,308	25,210	—	—
<i>Expenditure</i>	19,466	20,799	5,842	4,411
<i>Capital Account:</i>				
<i>Revenue</i>	12,997	5,690	—	—
<i>Expenditure</i>	<u>16,057</u>	<u>13,977</u>	<u>-3,060</u>	<u>-8,287</u>
<i>Overall surplus</i>	—	—	+2,782	-3,876
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The revised estimates take account of a maximum of eight months' performance. The final outcome may be somewhat different, and the final deficit could be rather higher.

46 The turn-round of \$6.6 billion is accounted for by a shortfall in revenue of \$7.4 billion and a reduction in expenditure of \$747 million. It is made up of \$1.4 billion on recurrent account and \$5.2 billion on capital account.

47 On recurrent account revenue is expected to be only \$98 million lower than the original estimate, but the revised estimate of expenditure⁽²¹⁾ is \$1.3 billion higher than the approved estimate entirely because of the unprovided 1982 civil service salary adjustment and its consequences for the salaries of staff in subvented organizations. Thus the surplus on recurrent account is expected to be \$4.4 billion, or \$1.4 billion lower than estimated.

48 On capital account revenue is expected to be \$7.3 billion lower than the original estimate. This results entirely from the effect on the yield from land sales of the sharp decline in the property market and in particular our failure to acquire the return expected from a few major sites in Central⁽²²⁾. Every effort has been made in consequence to reduce expenditure on capital account⁽²³⁾, and the revised estimate is \$2.1 billion lower than the approved estimate. The deficit

(21)	<i>Component</i>	<i>Approved Estimates 1982-83 (\$ mn)</i>	<i>Revised Estimates 1982-83 (\$ mn)</i>
(1)	<i>Personal Emoluments</i>	6,654	7,542
(2)	<i>Personnel Related Expenses</i>		
	<i>Pensions</i>	607	730
	<i>Other</i>	753	850
(3)	<i>Departmental Expenses</i>	2,832	2,810
(4)	<i>Other Charges</i>		
	<i>Additional Commitments</i>	600	—
	<i>Defence Costs Agreement</i>	1,306	973
	<i>Other</i>	2,114	2,525
(5)	<i>Subventions</i>	4,600	5,369
	<i>Total Recurrent Expenditure</i>	<u>19,466</u>	<u>20,799</u>

(22) B.S. 1982, note 42.

(23)	<i>Component</i>	<i>Approved Estimates 1982-83 (\$ mn)</i>	<i>Revised Estimates 1982-83 (\$ mn)</i>
(1)	<i>Plant, Equipment and Works</i>		
	<i>Defence Costs Agreement</i>	153	73
	<i>Other</i>	943	718
(2)	<i>Other Non-Recurrent</i>		
	<i>Additional Commitments</i>	700	—
	<i>Other</i>	83	338
(3)	<i>Subventions</i>	638	393
(4)	<i>Transfers to Funds</i>		
	<i>Capital Works Reserve Fund</i>	11,000	10,500
	<i>Development Loan Fund</i>	2,432	1,850
	<i>Emergency Relief Fund</i>	4	—
	<i>Student Loan Fund</i>	104	105
	<i>Total Capital Expenditure</i>	<u>16,057</u>	<u>13,977</u>

on capital account is consequently now expected to be \$8.3 billion or \$5.2 billion higher than estimated.

49 With the transfer of the 1982-83 deficit to the General Revenue Balance, out fiscal reserves at the beginning of the financial year 1983-84 will be about \$18.7 billion⁽²⁴⁾. They are lent to the Exchange Fund against interest bearing debt certificates. A description of the Exchange Fund is at Appendix E of the printed version of this speech. After allowing, on the basis of a gearing of three, \$7.2 billion as cover for our formal contingent liabilities (which will be about \$21.7 billion by 31 March 1987, the last year of the new forecast period)⁽²⁵⁾, we shall have at 1 April 1983 'free' fiscal reserves of about \$11.5 billion. This is clearly a conservative figure arrived at after equally conservative provision, which is unlikely to be required.

50 An assessment of our performance over the past five years 1978-79 to 1982-83 on the basis of four principles which we apply in the management of Hong Kong's public finances is at Appendix A of the printed speech.

51 Against that background, I present the Draft Estimates of Expenditure, the Revenue Estimates, and my revenue proposals for 1983-84.

Estimates 1983-84

Draft Estimates of Expenditure

52 I said earlier that in preparing internal guidelines for the budget I set a limit to the growth rate in public sector expenditure of about 10% in money terms. This involved a limit to total expenditure, taking the General Revenue Account and the Capital Works Reserve Fund together, of about \$36.5 billion.

53 The printed Draft Estimates provide for total expenditure of \$35.5 billion; but this figure includes a transfer of \$8 billion to the Capital Works Reserve Fund, whereas expenditure from the Fund is estimated at \$9.3 billion. Again taking the General Revenue Account and the Capital Works Reserve Fund

(24) *General Revenue Balance at 1 April 1982=\$22,571 million minus assumed actual deficit of \$3,876 million for 1982-83=\$18,695 million, say, \$18,700 million.*

(25)	<i>At 31 March:</i>	
	<i>1982</i>	<i>1987</i>
	<i>(\$ mn)</i>	<i>(\$ mn)</i>
<i>Guarantees of M.T.R.C. debt</i>	<i>5,256</i>	<i>5,913</i>
<i>Export Credit Insurance Corporation: outstanding accounts</i>	<i>2,600</i>	<i>4,900</i>
<i>Home Ownership Scheme: guarantees to banks and d.t.c.'s.</i>	<i>2,223</i>	<i>9,407</i>
<i>Asian Development Bank: uncalled capital</i>	<i>731</i>	<i>731</i>
<i>Gold coins</i>	<i>284</i>	<i>530</i>
<i>H.K. Building and Loan Agency</i>	<i>230</i>	<i>230</i>
<i>H.K. Arts Centre: guarantee of bank loan</i>	<i>12</i>	<i>—</i>
<i>Demonetized currency notes</i>	<i>10</i>	<i>10</i>
	<i>11,346</i>	<i>21,721</i>
<i>Total</i>	<i>11,346</i>	<i>21,721</i>

together, total expenditure is estimated at \$36.8 billion⁽²⁶⁾ or only very slightly in excess of the 10% limit I set.

54 On recurrent account, the provision sought of \$23.8 billion represents an increase of \$3 billion, or 14.5%, on the revised estimate for 1982-83⁽²⁷⁾.

55 Personal emoluments at \$8.2 billion account for just under 37% of recurrent expenditure, compared with an average of nearly 38% over the past five years. This provision does not make allowance for any salary adjustment. If required the funds will have to be found from the additional commitments vote. The provision sought for this vote is \$1.3 billion, which is for all unforeseen commitments not provided for in the Draft Estimates.

56 The approved establishment of civil service posts shown in the Draft Estimates is 144 503⁽²⁸⁾. This includes 6 665 new posts created during 1982-83, a substantial reduction on the 16 500 new posts for which provision was included in the 1982-83 Estimates. A conscious effort was made during the year to restrain the growth of the civil service establishment, and this restraint will continue in 1983-84. The Draft Estimates provide for an increase of 6 700 posts, or 4.6%. Our aim is to keep civil service growth overall to below 5%.

57 Personnel related expenses at \$1.9 billion account for 8.6% of recurrent expenditure compared with an average of 5.8% over the past five years. This increase is due principally to home purchase allowances payable to civil servants

(26)		<i>Revised Estimates 1982-8 (\$ mn)</i>	<i>Draft Estimates 1983-84 (\$ mn)</i>	<i>Increase</i>
	<i>General Revenue Account expenditure</i>	34,776	35,475	2.0
<i>less</i>	<i>Transfer to Capital Works Reserve Fund</i>	<u>10,500</u>	<u>8,000</u>	
		24,276	27,475	13.2
<i>plus</i>	<i>Capital Works Reserve Fund expenditure</i>	<u>8,940</u>	<u>9,295</u>	4.0
		<u><u>33,216</u></u>	<u><u>36,770</u></u>	<u><u>10.7</u></u>

(27)	<i>Component</i>	<i>Draft Estimates 1983-84 (\$ mn)</i>	<i>Historical ratio 1978-79 to 1982-83 (%)</i>
(1)	<i>Personal Emoluments</i>	8,220	37.8
(2)	<i>Personnel Related Expenses</i>	1,939	5.8
(3)	<i>Departmental Expenses</i>	3,017	30.5
(4)	<i>Other Charges</i>	3,669	
(5)	<i>Subventions</i>	<u>5,663</u>	<u>25.9</u>
		22,508	<u>100.0</u>
	<i>Additional Commitments</i>	<u>1,300</u>	<u>100.0</u>
	<i>Total Recurrent Expenditure</i>	<u><u>23,808</u></u>	

(28) Exclusive of 29 160 posts in the Urban Services and Housing Departments the personal emoluments of which are met by the Urban Council and the Housing Authority.

joining the home purchase scheme introduced in November 1981 and to an increase in the number of pensioners.

58 Departmental expenses and other charges at \$6.7 billion account for about 30% of recurrent expenditure, which is about the same as the average proportion over the past five years.

59 Provision of \$5.7 billion for subventions represents 25% of recurrent expenditure, compared with an average of 26% over the past five years.

60 On capital account, the provision sought is \$11.7 billion⁽²⁹⁾. This includes \$8 billion for transfer to the Capital Works Reserve Fund, but excludes expenditure of \$9.3 billion which will be a charge on the Fund. Total capital expenditure from the General Revenue Account and the Capital Works Reserve Fund taken together is \$13 billion, which represents an increase of \$545 million or 4.4% on the revised estimate for 1982-83.

61 Provision of \$1.8 billion is sought for transfer to the Development Loan Fund for on-lending to the Housing Authority. For all other components of the capital account provision of \$1.9 billion is sought, including \$200 million for additional commitments.

Capital Works Reserve Fund

62 The provision of \$8 billion sought for transfer to the Capital Works Reserve Fund⁽³⁰⁾, together with an estimated surplus of about \$1.6 billion in the Fund at the end of 1982-83, are sufficient to cover estimated expenditure of \$9.3 billion from the Fund during 1983-84 and to leave a small surplus at the end of the financial year.

(29)	<i>Component</i>	<i>Revised Estimates</i> 1982-83 (\$ mn)	<i>Draft Estimates</i> 1983-84 (\$ mn)
(1)	<i>Plant, Equipment and Works</i>		
	<i>Defence Costs Agreement</i>	73	114
	<i>Other</i>	718	793
(2)	<i>Other Non-Recurrent</i>	338	149
(3)	<i>Subventions</i>	393	544
(4)	<i>Transfers to Funds</i>		
	<i>Capital Works Reserve Fund</i>	10,500	8,000
	<i>Development Loan Fund</i>	1,850	1,750
	<i>Student Loan Fund</i>	105	117
		<u>13,977</u>	<u>11,467</u>
	<i>Additional commitments</i>		200
	<i>Total Capital Expenditure</i>		<u><u>11,667</u></u>

(30) This amount has not been calculated in accordance with the original guideline formula of 80% of estimated revenue from land sales (\$1.0 billion) and 15% of estimated recurrent revenue (\$3.9 billion) as this would not be sufficient to cover estimated expenditure from the Fund in 1983-84.

63 The estimated expenditure from the Fund in 1983-84 on the Public Works Programme is \$7.6 billion, an increase of \$355 million or 5% over the revised estimate for 1982-83. On land acquisition the estimated expenditure for 1983-84 is \$1.7 billion, the same as the revised estimate for 1982-83.

64 The outstanding commitment (or overhang) in respect of projects in hand on 1 April 1982 was about \$26 billion. This was increased by about \$3.3 billion as a result of the injection of new projects during 1982-83, but reduced by roughly \$8.9 billion in expenditure. During 1983-84 work is scheduled to start on new projects of a total value of about \$4.6 billion. The overhang on 1 April 1983 will be about \$25 billion. After allowing for the estimated expenditure during 1983-84 of \$9.3 billion, the outstanding commitment at 1 April 1984 will be no less than \$15.7 billion, but will certainly be much higher in fact as further new works are approved during the year.

65 Every effort has been made to accommodate in the programme of works for 1983-84 all land production and transport projects that are ready to proceed. The priority given to these and to public housing is reflected in the breakdown of expenditure on Consolidated Account. The estimated total expenditure on transport, roads, civil engineering, and land is \$7 billion, which is 16.3% of total Consolidated Account expenditure, compared with \$1.8 billion or 14.7% as recently as 1978-79.

66 The Special Committee on Land Supply continues to recommend targets for land production and to monitor the Administration in the achievement of those targets⁽³¹⁾.

67 Government gross land production in 1983-84 is estimated to be 669 hectares as compared with 676 hectares in 1982-83⁽³²⁾. Over the three years of

(31) In the light of the present economic climate, the Special Committee on Land Supply has been paying particular attention to:

- (a) setting targets for the supply of land for all categories of use (other than for public housing which has priority and for which the supply is geared to the Housing Authority's requirements) on the basis of estimates of demand rather than on estimates of production of new land;*
- (b) reviewing current planning standards and the various options which would allow a greater degree of flexibility in the land sales programme to take account of the prevailing market conditions;*
- (c) monitoring the implementation of a computerized land inventory system as a means to increase the operational efficiency in managing the territory's land resources; and*
- (d) monitoring a rolling programme for the release of formed Crown land sites which are currently used for temporary purposes for permanent development.*

(32) Excluding ten hectares and 53 hectares respectively for land formed by/for the Industrial Estates Corporation. The gross figures for land production are, of course, inclusive of large areas appropriated for public housing, Government, institutional use, other community purposes, open space and roads.

the new forecast period 1984-85 to 1986-87 it is estimated to total 2 336 hectares⁽³³⁾.

Public Housing

68 Within the total Consolidated Account expenditure on housing in 1983-84, \$3.7 billion will be spent on the actual construction of housing, including temporary housing areas. This is about the same as the revised estimate of expenditure for 1982-83, to some extent reflecting a lower Tender Price Index. These figures exclude the value of land used by the Housing Authority for rental housing and for flats built under the Home Ownership Scheme sold after early 1982⁽³⁴⁾.

(33)	<i>Production excluding I.E.C. (Hectares)</i>	<i>Production by/for I.E.C. (Hectares)</i>	<i>Total (Hectares)</i>
<i>Year</i>			
1984-85	719	5	724
1985-86	943	—	943
1986-87	674	—	674
	<u>2 336</u>	<u>5</u>	<u>2 341</u>

(34)	<i>1982-83 Revised Estimates (\$ mn)</i>	<i>1983-84 Draft Estimates (\$ mn)</i>
(1) <i>Rental Housing Programme(*):</i>		
<i>Drawings from Development Loan Fund(**)</i>	2,170	2,000
<i>Housing Authority's own resources(***)</i>	404	402
<i>Public Works Department</i>	7	9
<i>Asian Development Bank Loans(****)</i>	28	42
<i>Total (1)</i>	<u>2,609</u>	<u>2,453</u>
(2) <i>Home Ownership Scheme(*****)</i>	<u>1,005</u>	<u>1,155</u>
<i>Total (1) + (2)</i>	<u>3,614</u>	<u>3,608</u>
(3) <i>Temporary Housing Areas</i>	<u>105</u>	<u>65</u>
<i>Total (1) + (2) + (3)</i>	<u>3,719</u>	<u>3,673</u>

Notes:

(*) *Not including the Housing Society.*

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

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

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

(*****) *Not including the Private Sector Participation Scheme and the Middle Income Housing Scheme. For the Home Ownership Scheme itself, the expenditure figures include \$140 million and \$157 million for 1982-83 and 1983-84 respectively being drawings by the Housing Authority from the Development Loan Fund for commercial facilities, but exclude the value of land in respect of domestic elements.*

69 The Government's policy is that the public housing programme should achieve a level of production of at least 35 000 flats a year for both rental and sale by the Housing Authority, with a substantial addition by the Housing Society (through the development of rental housing and the Urban Improvement Scheme) and the Private Sector Participation Scheme⁽³⁵⁾. The forecast of production in the four years 1983-84 to 1986-87 of 143 800 flats exceeds production in the previous four years by 4 314 flats. These production figures do *not* include 2 602 Housing Society flats and 17 826 Private Sector Participation Scheme and Middle Income Housing Programme flats expected to come on stream during the same four-year period, thus achieving an average completion rate of 41 000 a year or 164 228 flats in the next four years⁽³⁶⁾.

70 As regards the Home Ownership Scheme, 30 100 flats out of a total of about 42 100 flats in the first five phases will have been completed by the end of 1983-84. Work will be in hand on the balance and on a further 16 800 flats in Phases VI and VII.

71 The value of land is excluded from the calculation of the selling price of flats produced under the Home Ownership and Private Sector Participation Schemes and the Middle Income Housing Programme to keep them affordable by the target groups. However, the decline in property prices in recent months has cast doubts on the continuing need for a Middle Income Housing Programme as presently constituted, and the Government is reviewing the situation.

Revenue Estimates

72 The Revenue Estimates *as printed* anticipate total collections of \$29.3 billion, comprising \$25.7 billion in recurrent revenue and \$3.6 billion in capital revenue.

73 Recurrent revenue at \$25.7 billion is only \$507 million higher than the revised estimate for 1982-83. I expect earnings and profits tax to yield \$12

(35) See Appendix B, which gives details of expenditure in the main programme areas.

(36)	<i>Production of Flats</i>				
	<i>H.A. Rental</i>	<i>H.O.S.</i>	<i>P.S.P.S. (incl. M.I.H.)</i>	<i>H.S. (rental and U.I.S.)</i>	<i>Total</i>
1979-80	29 759	2 439	—	947	33 145
1980-81	26 769	8 674	1 506	787	37 736
1981-82	31 346	4 399	—	3 735	39 480
1982-83	27 900	8 200	760	447	37 307
} 147 668					
1983-84	30 200	6 400	2 240	123	38 963
1984-85	29 600	6 500	1 086	737	37 923
1985-86	28 000	8 100	7 500	662	44 262
1986-87	30 000	5 000	7 000	1 080	43 080
} 164 228					

billion, the same amount as the revised estimate for 1982-83⁽³⁷⁾. I am expecting small increases from indirect taxes, mainly from the yield from the General Rate, from duties and from motor vehicle taxes. At \$5.6 billion, indirect taxes are estimated to be \$306 million higher than the revised estimate. For all other recurrent revenue I am anticipating a yield of \$8.1 billion, or only \$236 million higher than the revised estimate. I expect revenue from our properties and investments to be \$437 million lower than the revised estimate because of the decrease in the General Revenue Balance, but I expect all other components to yield \$673 million more than the revised estimate, of which \$304 million will come from fees and charges.

74 As regards fees and charges for the services provided by the Government, and in particular the public utility-type undertakings which it is intended should operate on a quasi commercial basis, it remains important to observe the non-subsidy principle, unless a positive policy decision is taken to subsidize. We have an on-going exercise to keep fees and charges up to date, which will continue during 1983-84. Where justified by rising costs, proposals for increases in fees and charges will be made during the year—the estimate of total recurrent revenue does not anticipate these increases.

75 The estimate of capital revenue at \$3.6 billion reflects the current depressed state of the property market. For land transactions in 1983-84 I estimate revenue of \$3 billion, compared with the revised estimate for 1982-83 of \$4.6 billion and the actual revenue for 1981-82 of \$9.7 billion.

76 The yield from land transactions has always been difficult to estimate with any degree of accuracy. In the present state of the property market it requires a crystal ball. My estimate of \$3 billion is based upon an assessment of the prices likely to be realized from the individual lots making up the land sales programme for 1983-84⁽³⁸⁾. That is to say, a view has been taken of the premia likely to be realized. This view is of necessity highly subjective, and I bear in

(37)	<i>Actual</i> 1981-82 (\$ mn)	<i>Revised</i> 1982-83 (\$ mn)	<i>Estimates</i> 1983-84 (\$ mn)
<i>Profits tax</i>	6,896	8,000	7,700
<i>Salaries tax</i>	1,688	2,225	2,535
<i>Personal assessment</i>	99	135	150
<i>Interest tax</i>	1,118	725	620
<i>Property tax</i>	766	935	980
<i>Total</i>	<u>10,567</u>	<u>12,020</u>	<u>11,985</u>
<i>Profits tax:</i>			
<i>Corporations</i>	5,971	7,100	6,800
<i>Other Businesses</i>	925	900	900

(38) *The estimate also includes instalments of premia payable to the Treasury in respect of commercial/residential and industrial lots sold in previous years. For sales in the New Territories, a provisional assessment has been made of the number of lots to be sold by auction and by Letters A/B tender, the revenue from the latter being particularly difficult to assess as it depends on the age of the Letters A/B offered by successful tenderers, and indeed on the future of the Letters A/B scheme.*

mind that I was wrong last year. The 1983-84 land sales programme⁽³⁹⁾ comprises 96.7 hectares of land, on which the revenue from premia is estimated at \$1.7 billion. The programme includes fourteen relatively large sites, the revenue from which is likely to be more than \$550 million, *provided* that these sites are sold as scheduled *and* that the view taken of the premia likely to be realized turns out to be correct. In brief the margins of error are great.

77 The land sales programme does not, however, include five well-known, large and valuable sites. Some believe that the market may not be able to absorb them at acceptable prices in one year. It will, however, be a matter of judgment when each might best be offered for sale, remembering that our overall policy is to secure a fair market price. I am personally anxious to put them up for auction or tender as soon as it is sensible, for two reasons. Firstly it will demonstrate that Government does not have a high land price policy, although we regard land as a community birthright. Secondly those who wish to buy land now should be given every encouragement.

78 It remains important, however, that sensible starting prices are maintained in public auctions and that tenders at prices significantly lower than the run of the market as we see it should not be accepted. Land prices seem now to be stabilizing and will improve as confidence returns to the market. But it is a fact that poor planning by speculators has led to considerable oversupply of all types of property.

79 I expect revenue of \$1 billion from private treaty grants and \$270 million from modifications and re-grants. Much depends, however, on premia anticipated from sites to be granted to the Mass Transit Railway Corporation for joint development.

Revenue Proposals

80 I turn now to my revenue proposals. The difference between the estimates of revenue and expenditure on General Revenue Account for 1983-84, *as printed*, is \$6.2 billion.

81 Failing new Government measures a large deficit thus confronts us. There can also be no certainty about when our economy will recover and thus bolster Government revenue. It is essential, therefore, to maintain a conservative approach. Some believe that demand and employment should be encouraged in

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

	<i>Industrial</i>		<i>Non-industrial</i>		<i>Total</i>	
	<i>1982-83</i>	<i>1983-84</i>	<i>1982-82</i>	<i>1983-84</i>	<i>1982-83</i>	<i>1983-84</i>
	<i>(Hectares)</i>		<i>(Hectares)</i>		<i>(Hectares)</i>	
<i>Urban areas</i>	<i>9.8</i>	<i>6.1</i>	<i>30.9</i>	<i>43.4</i>	<i>40.7</i>	<i>49.5</i>
<i>New Territories</i>	<i>8.6</i>	<i>13.2</i>	<i>71.0</i>	<i>34.0</i>	<i>79.6</i>	<i>47.2</i>
	<u><i>18.4</i></u>	<u><i>19.3</i></u>	<u><i>101.9</i></u>	<u><i>77.4</i></u>	<u><i>120.3</i></u>	<u><i>96.7</i></u>

recessions by counter cyclical increases in public sector expenditure. Others hold the more austere view that it is essential to ensure that expenditure more closely reflects revenue and to control growth of the money supply so as to avoid the dangers of inflation. All know that there is no consensus anywhere in the world. For my part I tend strongly towards the latter approach, though control of the growth of the money supply presents formidable difficulties in Hong Kong.

82 It seems certain that we shall face deficits for two years, i.e. 1982-83 and 1983-84. I cannot now forecast beyond this time span. If we look like continuing thereafter with deficits of a size which prudent use of the reserves plus a further slowdown in expenditure and increases in taxation cannot reasonably eliminate, I may later consider a moderate degree of Government borrowing. But it would have to be accompanied by a considerable excess of recurrent revenue over recurrent expenditure, and be justifiable as earmarked for profitable capital investment—and not just a general wet loosening of purse strings. In no circumstances can such a policy however creative be other than rigorously controlled.

83 It may be opportune this time next year to consider such an approach to prudent borrowing. I do not consider that it is yet necessary, for we can at this juncture balance two bad years with the fruits of the past good years. It is still not appreciated how recent has been the growth of Government capital revenue reflecting largely land sales at auction or by tender. Capital revenue from land premia did not exceed \$2 billion until as recently as 1978-79. Thereafter there was rapid increase as the Government ensured that a proper share of the unprecedented escalation in land values was transferred to the public purse. Such returns have clearly been of a windfall nature. As a result of just a few unusual years, which seem unlikely to be repeated, our fiscal surpluses or reserves rose to \$22 billion and our free reserves to \$16 billion. Only a fool would risk running these down too low as a result of soft budgetary policies; but clearly before we need to consider outside borrowing, for which anyway present timing is inappropriate, it is possible and indeed sensible to make use of part of our windfall savings for two years anyway.

84 I emphasize the word part, for caution is essential. This approach also presupposes that we shall still resort to intelligent cost cutting and revenue raising, and that we always bear in mind that we cannot continue drawing down our surpluses. But in the short term only I intend to confront budgetary deficits by a balanced combination of use of fiscal reserves, increased taxation and more tightly restrained public sector expenditure. Clearly if the world economic scene does not improve in 1983 we shall need to restrain further our expenditure in 1984-85, but I do not believe that at present it is possible to foretell what will happen with any accuracy. For 1983-84 I have taken what seems to me a reasonably parsimonious approach to expenditure, while still maintaining existing programmes and admitting some new ones.

85 Given this background a potential deficit of \$6.2 billion for 1983-84 is clearly intolerable. If repeated in one subsequent year our free fiscal reserves

would be gone. It is one thing to borrow when you still have money in the bank. It is another when you do not. Consequently there must be a division of the deficit between increased taxation and use of reserves; and I have decided this year to tap both sources approximately equally. We must be seen to help ourselves.

New Taxation

86 The question arises of how this additional taxation can best be raised. Even if unpopular it must be accepted as fair by the reasonable majority, who can see that there are no easy options. It has been exceptionally difficult to devise a balanced approach which will produce the required yield.

87 As employment and exports depend on the maintenance of investment and reinvestment, it is in my opinion inopportune now to increase the tax on the profitability of businesses. I believe that this view is widely accepted and I do not indeed propose any increase in profits tax.

88 Insofar as salaries tax is concerned, an obvious way substantially to increase the yield is to reduce the allowances, which would also bring into the salaries tax net many of those who now pay nothing. But I am aware of the problems of the lower paid. Further, I believe strongly that the economic success of Hong Kong owes much to low direct taxation; I suspect that a change in this approach, even if necessary, might result in unforeseen effects; and finally I consider that while all benefit from low taxation, the fact that most workers can pocket their wages plus possible overtime without needing to pay any direct tax is one of Hong Kong's most important spurs to productivity.

89 There is yet another factor. The ratio between direct and indirect taxation moved from 57:43 in 1977-78 to 64:36 in 1981-82 and to 69:31 in 1982-83. The drift indicates⁽⁴⁰⁾ that the balance between direct and indirect taxation has shifted against indirect taxation. This arises for clear reasons i.e. higher productivity of direct taxation plus the large surpluses accrued in recent years, which have made raising taxes unnecessary⁽⁴¹⁾. In brief our tax system has become unbalanced, and there is a case on these grounds alone for increasing the level of indirect taxation.

90 This brings with it one other advantage. I believe that there are attractions in systems of taxation based on expenditure rather than income, and it seems to me as a generalization that those who choose to spend on such pursuits as drinking, smoking or owning motor cars can reasonably expect to be taxed more highly than those who do not. These taxes can be avoided. If you do not wish to pay them you do not need to (*laughter*). Admittedly not all my proposals carry this justification. Some are the creatures of necessity as we cast around for increased revenue without unacceptable side-effects or obvious drawbacks. But

(40) 1982 B.S., note 6 Appendix A.

(41) In the light of our policy of raising taxes normally for fiscal purposes only.

I propose to raise \$3 billion in additional taxation almost entirely from indirect taxes.

91 I have eleven proposals for increasing revenue, which I estimate in 1983-84 will bring the necessary \$3 billion. Four of the proposals come into effect today under Revenue Protection Orders which Your Excellency signed this morning, and are detailed in Appendix D to the printed version of my speech. The remaining seven will come into effect on 1 April 1983, or as soon as the necessary legislation has been enacted.

Dutiable Commodities

Liquor

92 My first proposal increases the duty rates on dutiable commodities. The duty rates on liquor were last revised in 1975, and since then the incidence of duty in retail prices has fallen to a point where, in many instances, it is half what it was at the last revision. I propose to restore the incidence by roughly doubling the duty rates, effective from this afternoon.

93 It is for the trade to determine their selling prices, but assuming that the increased duties are passed on to consumers in full, the increase in the retail price of a bottle of brandy may be \$30, of whisky about \$20, of table wine about \$7 and of a can of beer 15 to 20 cents, all depending of course on the brand. The main duty rates should bring in an additional \$300 million in 1983-84.

94 The present basis of levying duty on liquor per measure is open to criticism even though simple to enforce. There seems no reason in logic why purchasers of cheaper brands in a class of drinks should pay exactly the same duty per bottle as required for an expensive brand. I will therefore consider submitting new legislation later, which will propose changing the basis of levying duty on alcohol to an *ad valorem* rather than the present unitary system. It must be understood that at present this represents no commitment—except to a study.

Tobacco

95 The incidence of duty in retail prices for cigarettes has similarly declined since they were last revised in 1978. The price of cigarettes, cigars, alas (*laughter*) and tobacco in Hong Kong is still very low by world standards, and we clearly now need to raise additional revenue. I therefore propose not only to restore the incidence, but to look for even further revenue by increasing the current duty rates on tobacco by four times, effective from this afternoon.

96 Assuming that these increases are passed on to the consumer in full, the increase in the price of an average packet of 20 cigarettes may be about \$1.50 for Hong Kong made brands and \$2 to \$2.50 for imported brands. I estimate that an additional \$900 million in revenue should be obtained in 1983-84 as a result of these increases, even after allowing for reduced demand—no bad thing in itself (*laughter*).

Hydrocarbon Oils

97 The Dutiable Commodities Ordinance also provides for duties on hydrocarbon oils. The duty rates were revised only last May for transport policy reasons, whereas the last revision for fiscal reasons was made as long ago as 1976. Since 1976, and ignoring the increases of last May, the incidence of the duty in retail prices has declined. I propose to restore the incidence and then to add back the May increases. This means increasing the duty rate on motor spirit from \$1.20 to \$2 a litre.

98 The duty rate on diesel oil for road vehicles was not altered last May. To restore the original incidence, I propose to increase the duty rate from 35¢ to \$1 a litre. These two increases are again effective from this afternoon.

99 In order to avoid imposing an additional burden on public transport users who tend to be the less well off, the increased duty rate will not apply to diesel oil used by enfranchised public buses. This will be achieved by introducing an arrangement whereby the increase of 65¢ a litre on diesel oil used on enfranchised public buses will be refunded. I estimate the net additional revenue yield in 1983-84 will be about \$530 million.

Driving Licences

100 My second proposal increases with immediate effect the fees for provisional driving licences, annual driving licences and driving tests which were last revised as long ago as 1973. Costs have increased by at least three times since then, and I therefore propose that the fee for a provisional driving licence should be increased from \$100 to \$300 and that for an annual driving licence from \$50 to \$150. For a driving test I propose to double the fee, from \$150 to \$300, because failures at the first attempt are fairly common and tripling would fairly be regarded as excessive (*laughter*). The new fees should yield an additional \$90 million in 1983-84.

Vehicle Licences

101 My third proposal increases, again from this afternoon, the licence fees for the annual registration of motor vehicles. These are tax-loaded, and the last revision of the tax-loading was carried out in 1979. But last May the licence fees for private cars and motor cycles were increased for transport policy reasons.

102 I propose that the 1979 fees should be adjusted upwards, ignoring the selective loading introduced last May, to restore the tax value, and that the May loading should then be added back to obtain the new fees. I calculate the 1979 fees need to be increased by about 80% which means, for example, that the licence fee for a small car of up to 1 500 c.c. will be increased from \$1,800 to \$2,300.

103 No loading was added last May to the fees for goods vehicles, taxis and private light buses. Their fees will thus be increased by roughly 80%.

104 The additional revenue yield from the increased fees for 1983-84 is estimated at \$220 million.

Buoy Fees

105 My fourth proposal increases the fees levied on ships mooring at Government buoys, which were last revised in 1979 when they were set to recover costs and provide tax revenue. The ratio of cost recovery to tax loading was 25:75. To restore this ratio in the light of increased costs since 1979, I propose to increase the fee for a Class A buoy from \$700 to \$1,500 a day, and for a Class B buoy from \$450 to \$1,000 a day. These new fees will take effect from 1 April 1983 and should bring in an additional \$20 million in 1983-84.

Business Registration Fee

106 My fifth proposal concerns business registration fees. An annual registration fee of \$175 is presently payable by all persons carrying on business and by all companies registered under the Companies Ordinance. There are exemptions for small businesses whose monthly turnover does not exceed certain prescribed limits. The present fee of \$175 was fixed in April 1979. Having regard to the fact that it is a tax loaded charge, there is clearly a case for an increase simply to take account of increased costs. Additionally, however, I have been influenced by the fact that for a variety of reasons many people who carry on business here make little or no other contribution to the exchequer⁽⁴²⁾. I believe, therefore, that there is a good case for a substantial percentage increase in business registration fees, or by any standards the charge is modest. Accordingly, I propose to double the rate of the annual business registration fee from its present level of \$175 to \$350 per annum. The increased fee will be effective from 1 April 1983 and is estimated to produce an additional \$60 million a year.

Company Registration Fee

107 My sixth proposal increases the company registration fee charged under the Companies Ordinance. The fee is at present \$300. As I am proposing that the business registration fee should be doubled to \$350, I also propose that the company registration fee should be doubled to \$600. The additional *ad valorem* charge of \$4 for every \$1,000 of share capital would also be increased, but only to \$6.

108 The new fees will be effective from midnight tonight and should bring in additional revenue of about \$90 million.

Hotel Accommodation Tax

109 My seventh proposal concerns the Hotel Accommodation Tax, which was introduced in 1966 and is levied on room charges. The present rate of tax is 4%, and the yield is for all practical purposes earmarked for payment of the majority of the annual subvention to the Hong Kong Tourist Association.

(42) *There are those, for example, who pay little because our limited territorial source criterion excludes a substantial part of their profits from charge to tax; there are others who pay little because our generous personal allowances minimize their liability under the personal assessment arrangements. Others are able to reduce their basic liabilities via tax loss companies, and so on.*

110 The hard working Hong Kong Tourist Association receives an annual grant from the Government calculated on the basis of the yield from the tax plus an additional amount made up from General Revenue equivalent to a tax yield of 2%. I am anxious that the tax should cover the total grant. I therefore propose to increase the rate of tax to 5%, thereby reducing the contribution from General Revenue to the equivalent of a tax yield of 1%, and further to eliminate this contribution over four years by a one-quarter percentage point reduction each year. Thus for 1983-84 the Association's subvention will be equivalent to the tax at 5¾%, the tax itself producing 5% and General Revenue contributing ¾%. The total subvention should still provide the Association with an increase in money terms in 1983-84 in line with the guidelines I adopted for public sector expenditure.

111 The increased rate of tax of 5% will come into effect on 1 April 1983, and is estimated to yield an additional \$15 million in 1983-84. I do not believe that this modest increase of say \$4 per night will discourage the growing number of tourists who come to Hong Kong.

Betting Duty

112 An obvious source of increased revenue is the betting duty. In the current year, 1982-83, Hong Kong's punters are expected to hazard about \$13 billion on horse race bets on the Jockey Club tote and on Mark VI lotteries, yielding to the exchequer in betting duty about \$1.2 billion. The yield from this source, however, is in my opinion a relatively small contribution in the light of present circumstances⁽⁴³⁾. My eighth proposal therefore is to increase the betting duty from 1 April. In doing so, however, I have been conscious of the need not to drive punters into the arms of illegal bookmakers, avoidance of which is a major purpose of our policy on betting. My proposals are consequently structured so as to avoid this possibility.

113 The present rates of betting duty are 7½% of the amount of each 'standard' bet and 11% of the amount of each so-called 'exotic' bet made on the Jockey Club tote⁽⁴⁴⁾. The balance of the tote pool after deduction of betting duty is allocated as to 90% to punters by way of prize money and the remainder to the Jockey Club as commission. The proceeds of Mark VI lotteries are divided as to 25% duty, 15% to the Lotteries Fund and to the Jockey Club, of which a minimum of 5.75% goes to the Fund, and the balance of 60% to prize winners.

114 In setting new rates of duty, therefore, I have been at pains to ensure that the pool available for prizes is not diminished unduly. Accordingly, I propose—

firstly that the duty on standard bets be increased from 7½% to 8½%, but with a corresponding reduction in the level of commission to the Jockey Club—that is to say *no* reduction in the size of the prize money pool.

(43) *Even though the Jockey Club itself makes considerable grants to community projects.*

(44) *"Standard" bets are win, place, double and quinella bets: "exotic" bets are all other forms of bets.*

secondly that the duty on exotic bets be increased from 11% to 13½%, with a reduction of 1% in the level of commission to the Jockey Club and a reduction of 1½% from the punters' share. This will mean, in effect, that the pool of prize money will be diminished to a minor extent, from 80.1% of total bets placed to 78.6%⁽⁴⁵⁾.

thirdly that the duty on lotteries be increased by 2% from 25% to 27%, with a corresponding reduction of 2% in the level of the Jockey Club and Lotteries Fund share. The pool available to prize winners thus remains unchanged.

115 These proposed increases in betting duty are estimated to produce an additional \$220 million in 1983-84, of which some \$26 million will come from punters on exotic bets, \$6.25 million from the reduced contribution to the Lotteries Fund and the considerable remainder by way of reducing the Jockey Club's share.

Bank Licences

116 My ninth proposal is to increase the licence fees for banks. These were last revised in 1975 when they were given a royalty loading of four times the amount strictly required for cost recovery. The cost of supervision has doubled since then. However, I propose to increase the licence fees by 50% only. This means the annual fee for a licence will increase from \$200,000 to \$300,000, and for each local branch from \$10,000 to \$15,000.

117 There are equally compelling arguments for revising the fees for deposit-taking companies, but for obvious reasons I do not propose to do so at the present time. Increases will, however, be necessary sooner or later.

118 The new bank licence fees will take effect from 1 April 1983, and I estimate the additional revenue for 1983-84 at about \$25 million.

Rates

119 My tenth proposal concerns the controversial subject of rates. The maintenance of a fair base on which to assess rates (and also property tax) has long presented difficult problems. Members will all understand that the base itself does not set the return, which depends on the rate of tax or poundage. Thus the course of the Inland Revenue (Amendment) Bill 1983⁽⁴⁶⁾ through this Council does not reflect any intention on my part to increase the yield from property tax, but only to make sure that it is assessed on a more obviously fair actual rental basis.

120 Similarly the Government's announced intention to conduct an exercise to determine new rateable values for 1984-85 is not designed to increase the

(45) *Because of the extremely high odds paid out on exotic bets by the Jockey Club there is little chance of a swing to illegal bookmakers.*

(46) *The Inland Revenue (Amendment) Bill 1983 will change the basis for property tax from an assessed valuation basis to an actual rental basis.*

return from rates, but to ensure that the burden of the charge is equitably spread between different classes of ratepayers.

121 The existing General Rate percentages are 3½% in the urban areas and 11% in the New Territories. The Urban Council Rate in the urban areas is 8%. The present rateable values, to which these percentages are applied to determine the charge in rates, were established as long ago as 1976 and are now hopelessly out of date. As I have said, a revaluation exercise is being carried out, and new values will apply from 1 April 1984.

122 When these new rateable values have been determined the poundage will have to be adjusted. The estimate for 1983-84 of \$777 million is less in money terms than it has been in each year since 1978-79.

123 I propose, therefore, with effect from 1 April 1983 to increase the General Rate percentage for the urban areas from 3½% to 5½%, making a total including the Urban Council Rate of 13½%. I propose to increase the General Rate for the New Territories from 11% to 13½% to bring it into line with the total for the urban areas.

124 For the urban areas this will mean a 17.4% increase in the rates payable by a ratepayer. The increase on average for a typical small tenement will be about \$10 a month, and for a large flat about \$100 a month. Even so, and however necessary I appreciate that this increase will affect many people at a difficult time.

125 I would nevertheless remind Members that in public housing estates the initial burden will be borne by the Housing Authority. I would also ask Members to note that rates payments are deemed to be part of rent for public assistance.

126 In certain areas of the New Territories rating is being phased in over a five year period. For these areas the percentage for 1983-84 would have been 9%. My proposal will bring this to 11%.

127 I estimate that the additional yield from the General Rate for 1983-84 will be about \$300 million.

Airport Tax

128 I come to my eleventh and last proposal. A passenger services charge is levied on airlines at the rate of \$20 for each adult passenger. I propose to abolish this charge, which the airlines in any case pass on to their passengers, and to introduce in its place a specific tax on departing passengers. I propose to set the tax initially at \$100 for each passenger—children will continue to enjoy a concessionary rate.

129 New legislation will be required, and administrative arrangements with the airlines will have to be made for the collection of the tax. My intention is to introduce the necessary bill to this Council as soon as possible, so that the new tax will take effect as early as possible in the next financial year. Assuming ten

months' yield from the tax, additional revenue for 1983-84 should be about \$230 million.

130 Although the main thrust of my revenue proposals this year must necessarily be to increase taxes, they include two concessions and one reform.

Business Taxation

131 Last year I introduced measures which gave improved capital allowances in respect of expenditure incurred on the provision of plant and machinery and on the acquisition of industrial buildings⁽⁴⁷⁾. It has been represented that a further appropriate incentive could be provided by permitting deductions for profits tax purposes in respect of royalty payments for patents acquired with a view to upgrading existing technology⁽⁴⁸⁾. I agree.

132 My *first* tax concession is consequently that once and for all payments for the acquisition of patent rights for use in the production of profits chargeable to profits tax should become deductible expenditures. This treatment is not inconsistent with that already accorded to expenditure on scientific research, with which the acquisition of patents might be said to be similar.

133 A deduction will therefore be granted in the year in which the expenditure on acquisition is incurred. The new deduction will apply to both final profits tax assessments for 1982-83 and provisional profits tax assessments for 1983-84. The cost to the revenue of this proposal will be about \$8 million in 1983-84 and \$5 million in a 'full' year.

Personal Taxation

134 *Dependent Parents*. Last year, when introducing a proposal to increase the dependent parent allowance from \$7,000 to \$8,000 I undertook to give further thought to the important social question of persuading tax paying children to look after their ageing parents⁽⁴⁹⁾. I now propose to introduce a new additional dependent parent allowance of \$2,000 in respect of each dependent parent actually living with the taxpayer throughout the year. Floating grannies will not be accepted (*laughter*). Thus the dependent parent allowances will total \$10,000 for each qualified dependant.

135 The new additional allowance will apply to both final salaries tax assessments (and to personal assessments also) for 1982-83 and provisional salaries tax for 1983-84. The cost to the revenue in 1983-84, after allowing for

(47) 1982 B.S. paras. 81-83.

(48) *In regard to patents generally, the present position under the law is that royalty payments for the use in Hong Kong of patent designs are deductible if, firstly, the patent is used in the course of producing profits chargeable to profits tax and, secondly, the royalty payments are calculated having regard to the extent of use of the patent; for example by reference to the quantum of production or sales of the product being manufactured under patent. Where, however, patent rights are acquired by way of a once and for all lump sum payment, such a payment is, on general principles, of a capital nature and nondeductible. Furthermore, because of the capital nature of these payments they, at present, enjoy no relief whatsoever; they are not deductible as expenses for profits tax purposes and they do not qualify for depreciation allowances under the capital allowances provisions.*

(49) 1982 B.S., paragraph 94.

the two instalment system for the payment of provisional salaries tax, will be \$16 million and \$9.5 million in a full year at present levels of chargeable income. In estimate that some 20 000 taxpayers or approximately 70% of those who currently claim dependent parent allowances will benefit from the new additional allowance.

Separate Taxation for Married Women

136 I turn now to a reform measure involving the contentious question of separate taxation for married women. Last year I felt unable to recommend any fiscal changes relating to married women. I did, however undertake to look into the matter further⁽⁵⁰⁾. Since that time the subject of separate taxation has received considerable airing in the media; and I have received a number of representations. Some have been persuasive.

137 The question of how best to charge to tax income accruing to the family unit—and in particular whether the income of married women should receive special treatment—has been widely debated. Various methods have been adopted in other tax administrations, but none has received universal approval. A number of options and indeed a wide variety of permutations of those options are to be found elsewhere. All have their merits in the context of their own particular environments. None is necessarily right for Hong Kong⁽⁵¹⁾.

(50) 1982 B.S., paras. 105-109.

(51) *There are four basic routes that we might in theory take—*

- (a) *Firstly, we might mandatorily adopt a system of separate taxation; that is to say a system which abandons the concept of the family as a unit of taxation and proceeds on the basis that each party to the marriage is to be treated as a single person, chargeable and accountable for the payment of his or her taxes without reference to marital status. Such a system would however—*
 - (i) *lead to inequity as between similar families with similar total incomes (unless, of course, the tax structure was radically changed to remove the tax advantages of separate taxation);*
 - (ii) *call in question the validity of continuing to grant child allowances and dependent parent allowances to persons whom the system would for all practical purposes otherwise regard as individuals rather than as members of a family unit;*
 - (iii) *give rise to an increased liability to tax for very many families—notably where the taxable income of one of the parties to a marriage is nil, or insufficient to absorb his or her personal allowances.*
- (b) *Secondly, we might adopt a system of separate taxation by voluntary election. However, that would be to give some taxpayers the best of all worlds. The system is not unknown elsewhere, but is generally to be found in territories where marginal tax rates are very high indeed, bordering on the confiscatory. Furthermore, most of the inequities inherent in a mandatory system would also be present in an elective system; the more so, in the sense that only those who would gain a tax saving advantage would elect.*
- (c) *Thirdly, we might adopt a system of separate assessment, that is to say a system whereby either one of the parties to a marriage, or each separately, or the parties jointly made returns of taxable income, from which is computed liability to tax based on their aggregate income. Thereafter, payment of tax is effected either in one sum on the joint incomes or, usually by election, by each party separately in the proportion that their respective income bears to their aggregate total income.*
- (d) *Fourthly, we might stay with our present system, which for the purposes of salaries tax and personal assessment deems the income of a wife to be that of her husband; and for the purposes of the profits tax deems the wife to be one and the same person as her husband. These deeming provisions in the Inland Revenue Ordinance seem archaic and offensive to women, implying that they are second-class citizens, subservient to their spouses.*

138 I cannot regard separate taxation as suitable for this community. Whether mandatory or by way of election, it would be expensive. Updated estimates suggest that in the year of implementation the cost could be as much as \$285 million in lost salaries tax and personal tax and perhaps \$180 million in a full year. On grounds of cost alone, therefore, separate taxation is simply not possible. The burden would have to be transferred to others. Furthermore, though I am sympathetic to the women's cause, my sympathy must not be allowed to overshadow wider considerations. The adoption of a system of completely separate taxation for husbands and wives would represent a radical departure from our traditional concept of the family unit as the fiscal unit of charge. Hong Kong remains essentially a Chinese community where filial piety and family unity are an integral part of our existence. It would be unfortunate indeed if, in our endeavours to remove an alleged affront to one arguably small sector of our society, we succeeded in giving greater offence to the community at large.

139 Nonetheless I do believe that we can and should meet fair criticisms. This can be achieved by, on the one hand, removing the offensive deeming provisions in the Ordinance, and on the other by going some way down the alternative route of separate elected assessment.

140 Accordingly, I propose that later this year amending legislation should be introduced, which will—

firstly replace those provisions which deem the income of a wife to be that of her husband for the purposes of salaries tax and personal assessment, with new provisions which will require the aggregation of their incomes for the purposes of calculating total liability to tax;

secondly remove the provision which deems a wife to be one and the same person as her husband for the purposes of the profits tax (this will in fact do no more than regularize departmental practice, since profits tax returns submitted by wives who are proprietors of businesses are already accepted); and

thirdly continue to require the husband to render returns and to be primarily responsible for payment of salaries tax and personal tax, but provide that, following *an election* jointly made, husband and wife may render joint returns, each certifying the accuracy of their respective statements of income and the claims for allowances and expenses and each being responsible for the payment of his or her share of the total tax bill; each share being calculated by reference to their respective shares of the total income.

141 It will be apparent that these measures, if enacted, will meet the complaints that the present legislation is insulting to women in that it renders them second class citizens. This not surprisingly creates discord (*laughter*). They will therefore be accorded the legal personality which they seek. I am told that this has been a main preoccupation in seeking amendments to the Inland

Revenue Ordinance. I hope that this is the case, because it will also be apparent that these proposals will not give rate to any tax savings in individual cases; and will thus happily involve no loss to revenue (*laughter*).

142 Nevertheless I believe that the changes proposed are not merely cosmetic. It will take time to prepare the necessary amending legislation and to devise new forms, procedures and computer programmes to deal with those who decide to make the election. I propose accordingly that the amending legislation shall take effect from 1 April 1984. If that seems some way off to those who have been pressing for change, I would ask them to exercise further patience in the knowledge that I have today conceded the principle. And I must sound one caveat. One of my trusted Chinese women advisers has warned me that the proposal to permit an election for joint returns and separate payment may not find favour in Chinese families. I therefore intend to observe the course of the subsequent debate, and only if there is a clear consensus in favour with no major objections will I introduce amending legislation with regard to election.

Marginal Tax Rates

143 Before leaving the subject of personal taxation I should like to mention the structure of the tax bands, which are applied to salaries and personal assessment. This issue was raised by Dr. Rayson HUANG during last year's budget debate⁽⁵²⁾.

144 It has been suggested that because the width of the bands themselves has not been changed for some considerable time, middle and lower income taxpayers are being pushed into higher tax brackets through the effects of inflation. Thus they suffer a reduction in after-tax take home pay and a loss of real purchasing power. I am satisfied, however, that this has not generally been the case. I do not want to prolong this speech on technical taxation matters. A full explanation is thus annexed to the printed version⁽⁵³⁾.

Interest Tax

145 I have been carefully monitoring the effects of the interest tax reliefs introduced in the last budget and about which Dr. Henry HU has spoken. The exemption of foreign currency deposits from interest tax has clearly been successful in enhancing Hong Kong's position as an international financial centre, but not without side effects. The value of Hong Kong dollar

(52) *These tax bands, which are contained in the Second Schedule to the Inland Revenue Ordinance, are set at \$10,000 each and tax is charged on the first \$40,000 of net chargeable income at rates of 5%, 10%, 15% and 20% for each \$10,000 slice; thereafter, any balance of net chargeable income bears tax at the maximum rate of 25%. There is, however, an overriding provision that in no case is tax to be charged at more than the standard rate of 15% on total assessable income (less deductible outgoings and expenses, but without benefit of personal allowances). The Schedule was last amended with effect from the year of assessment 1978-79 when the previous maximum rate of 30% was removed.*

(53) *Appendix C.*

denominated time, call and notice deposits with banks and etc.'s has declined from about \$73 billion at the end of February 1982 to \$59 billion at the end of December 1982, but savings deposits, which are not subject to tax, have increased from \$48.3 billion to \$61.9 billion. Over the same period total Hong Kong dollar deposits increased marginally from \$134.4 billion to \$135.4 billion. These figures can be read as indicating that the retention of an interest tax charge, albeit lower than before, has restrained and growth of Hong Kong dollar deposits. But I am not yet persuaded that the benefits which would arise from a total removal of this tax would offset the loss of revenue that would be involved. The actual figure is \$725 million in 1982-83, which may surprise you. For 1983-84 it is estimated that the abolition of this tax would result in a loss of revenue of about \$620 million. This is clearly not a sum which can be foregone in present budgetary circumstances. I do not therefore intend to introduce any further changes for the time being.

Outcome

146 The net additional revenue which these proposals will bring in for 1983-84 is therefore about \$3 billion. My estimate of total revenue for the General Revenue Account thus becomes \$32.3 billion, and the deficit for the year is estimated at \$3.2 billion⁽⁵⁴⁾.

147 As far as the balance of the fiscal system is concerned, the ratio of direct to indirect taxation will be 60:40, a significant improvement on the ratio of 69:31 in 1982-83⁽⁵⁵⁾.

148 As far as the budgetary guidelines are concerned, the results are satisfactory as the increased recurrent revenue will cover 78% of total

(54)	\$ mn	\$ mn
<i>Revenue:</i>		
<i>Recurrent</i>	28,693	
<i>Capital</i>	<u>3,577</u>	<u>32,270</u>
 <i>Expenditure:</i>		
<i>Recurrent</i>	23,808	
<i>Capital</i>	<u>11,667</u>	<u>35,475</u>
 <i>Surplus on recurrent account</i>	—	4,885
<i>Deficit on capital account</i>	—	—8,090
<i>Overall surplus</i>	—	—3,205

(55) *Ratio between direct and indirect taxes—60:40 Ratio between direct and indirect taxes taken together and all other recurrent revenue—70:30. (See Appendix A: these ratios are calculated on figures adjusted for analytical reasons; the differences are explained in the Statistical Tables).*

expenditure, and the surplus on recurrent account will cover 38% of capital expenditure⁽⁵⁶⁾.

149 I said earlier that total public sector expenditure on Consolidated Account in 1983-84 is estimated at \$42.5 billion. This is an increase in money terms of \$4.4 billion, or 11.7%, over the revised estimate for 1982-83. In real terms, it represents an increase of about 3%, which I trust will be less than the growth rate of G.D.P.

150 Consequently the relative size of the public sector will remain just over 24% of G.D.P.

151 While we clearly must not relax in our efforts to ensure that the growth rate of public expenditure has due regard to the growth rate of the economy, and while we must not allow ourselves to be complacent regarding the size of the deficits for this year and next year, it is of interest to note that the estimated deficit on Consolidated Account next financial year is only 2.6% of the G.D.P.

The Economy in 1983

152 I turn now to my forecast of the economy for 1983. Details can be read in the '1983 Economic Prospects' tabled today, which complements the '1982 Economic Background'. I propose to emphasize only a few important features.

153 I start by underlining again the difficulties of forecasting the economy of Hong Kong⁽⁵⁷⁾ given its small and exposed nature. There are current economic and political uncertainties which make 1983 an even more difficult year to forecast than usual.

154 In 1982 the Hong Kong economy generally adjusted well to the world recession. The rate of inflation slowed down, land and property prices fell—though arguably too far and too fast—and the unemployment rate rose only moderately. With a relatively deflated internal cost/price structure and some spare productive capacity⁽⁵⁸⁾, the economy is well placed to benefit from the

(56)	<i>Guideline</i>	<i>Ratio</i>	<i>1983-84</i>
	<u><i>Recurrent revenue</i></u>		
	<i>Total expenditure</i>	<i>At least 77%</i>	<i>78%</i>
	<u><i>Recurrent expenditure</i></u>		
	<i>Recurrent revenue</i>	<i>No more than 85%</i>	<i>83%</i>
	<u><i>Surplus on recurrent account</i></u>		
	<i>Capital expenditure</i>	<i>At least 33%</i>	<i>38%</i>
	<u><i>Recurrent expenditure</i></u>		
	<i>Total expenditure</i>	<i>No more than 65%</i>	<i>65%</i>
	<u><i>Capital revenue</i></u>		
	<i>Capital expenditure</i>	<i>At least 20%</i>	<i>28%</i>

(See Appendix A: these ratios are calculated on figures derived by combining the General Revenue Account with the Capital Works Reserve Fund and adjusted for analytical reasons; the differences are explained in the Statistical Tables).

(57) Paragraph 2.

(58) Paragraph 25.

revival in export demand as an economic recovery in Hong Kong's main markets gets underway. There may however be a further rise in unemployment and underemployment before recovery sets in.

155 As was the case for 1982, views about economic prospects in 1983 for Hong Kong's main export markets have been kaleidoscopic. There is as yet no consensus on the timing and the magnitude of the long-awaited recovery of the United States economy. Nevertheless a mild but growing recovery is generally expected to begin in 1983, with most of the growth occurring in the second half. For the year as a whole, I consider that the growth rate is likely to be 2.5%, although the poor last fourth quarter makes such predictions even more hazardous than usual. The economies of the United Kingdom and Germany are also expected to improve modestly. Further the O.E.C.D. expects that overall world trade of manufactured products will grow by about 2% in real terms in 1983 compared with a decline of 0.5% in 1982⁽⁵⁹⁾. These developments, if indeed they occur, will lead to a recovery in the growth rate of Hong Kong's domestic exports.

156 But there are still potential bear traps around. For example, world economic recovery is not yet certain and the unprecedentedly high unemployment levels in Hong Kong's main markets may lead them to adopt more protectionist policies, which could adversely affect Hong Kong's ability to satisfy their demand for imports. Nor can allowance be made for possible disasters.

157 As regards the timing of the recovery in the demand for Hong Kong's exports, because orders-on-hand and retained imports of raw materials and semi-manufactures have not yet shown clear signs of picking up, most seems likely to occur in the second half of the year.

158 Against this background, I expect the demand for Hong Kong's domestic exports and re-exports to grow by 5% and 12% respectively in 1983, giving a forecast of 7% for total exports, all figures in real terms. Net exports of services I expect to grow at 2%. Commensurate with the gradual recovery in the growth rate of exports, I forecast private consumption expenditure to grow by 3% as a lagged reaction. I also forecast that gross domestic fixed capital formation and Government consumption expenditure will both grow by about 6%. These growth rates in the components of final demand imply a forecast growth rate of imports of goods of 7%.

159 Combining all these forecasts gives a growth rate of G.D.P. in 1983 of about 4% in real terms. This represents my best estimate for our economy on the basis of the evidence presently available. It may be regarded as disappointing; but my response is that should the world economy, and particularly the U.S. economy, pick up faster than I have assumed, 4% could well turn out to be conservative. The right time for optimism, however, is not now but at the mid-year review.

(59) 1983 E.P. 3.16.

160 Assuming that my forecasts are correct, we will have shifted back to export-led growth⁽⁶⁰⁾. Moreover, the growth rate of imports will be in line with the growth rate of total exports, so the visible trade gap will be much the same as in 1982. More importantly, because total final demand excluding re-exports will grow at the same rate as G.D.P., this should not create any pressure on the internal cost/price structure, particularly as there exists at present a margin of spare capacity. The public sector will command a slightly increased share of the economy's resources (in national accounts terms), but the extent of the increase will be less than in 1982. The growth rate of overall investment (including building and construction as well as plant and machinery) will start to pick up again.

161 In terms of prices, the gradual recovery forecast for the world economy, the probable further decline in the price of oil and the relatively slow growth rate of the Hong Kong economy should combine to bring inflation down further in 1983. I expect the rate of increase of the consumer price index to fall from over 10% in 1982 to around 9% in 1983, even after allowing for my proposed increases in indirect taxation⁽⁶¹⁾, and the G.D.P. deflator to increase by about 8%, after increasing by 12% in 1982.

162 Although a forecast growth rate of 4% in real terms for the G.D.P. is low by historical experience, it certainly represents an improvement over the growth rate achieved in 1982. With a forecast growth rate of 2% in the population, it implies a growth rate of per capita G.D.P. of just over 1% in real terms and 10% in money terms. Thus, per capita G.D.P. at current prices should be about \$33,000.

163 The financial and related services sector provided an important source of economic growth in 1982. I expect this to continue in 1983. It is therefore necessary for the Government to ensure that the administrative framework within which this sector operates keeps pace with the developments in the sector itself.

Certificates of Deposit

164 One of the recommendations of the Advisory Committee on Diversification in 1979 concerned the development of the market for Hong Kong dollar certificates of deposit, it being implied that I might at some stage use my authority under the Banking Ordinance and the Deposit-taking Companies Ordinance to add these instruments to the list of specified liquid assets. The Government has now carried out a thorough review of this question. During the course of the review in which locally issued foreign currency C.D.s were also considered, many banks and dtc.'s involved in the C.D. market were consulted. I do not intend today to deal at length with the details of this subject, but I should like to mention just three points.

(60) 1983 E.P. 4.3.

(61) *The proposed increases in indirect taxation can be expected to increase the various measures of consumer prices by about 1%.*

165 Firstly, the value of local C.D.s in issue has been growing significantly since the Advisory Committee on Diversification reported. The secondary market has also been increasingly active, but it still lacks the maturity of its equivalent in major C.D. centres. Secondly, the Government welcomes the development of both the primary and the secondary markets, believing that C.D.s are a useful form of term funding for the issuers and that the development of this market is generally beneficial to Hong Kong's financial sector. Thirdly, however, the paramount consideration when deciding whether to extend the list of specified liquid assets must be the prudential one. The events of recent months have underlined the importance of liquidity within the financial sector. They have also highlighted the need, if credibility and confidence in our regulation of this sector is to be sustained, to ensure that liquidity status be conferred only on assets of the highest liquidity quality.

166 Having considered the matter carefully, I have decided commencing on 1 April to make a very limited specification of local C.D.s as liquid assets. This move recognizes the growing maturity of the market without, I believe, threatening any significant diminution in the overall quality of the liquidity held by banks and dtc.'s. I do not, however, propose to give C.D.s super liquidity status⁽⁶²⁾. I intend to specify as liquid assets negotiable certificates of deposit issued in Hong Kong by licensed banks and licensed (but not registered) dtc.'s, denominated in Hong Kong dollars or in a foreign currency which is freely convertible into Hong Kong dollars, being within three years of final maturity, and being marketable in a manner satisfactory to the Commissioner of Banking and the Commissioner of Deposit-taking Companies. I also propose to provide that no individual bank or dtc. may count such assets within its statutory liquidity requirement to an extent greater than 2% of its deposit liabilities as defined for the calculation of the statutory ratio. The precise specification will shortly be gazetted.

167 I acknowledge that this decision will allow net liquidity to be created within the monetary sector, which is not possible at present. I am prepared to accept this on the moderate scale envisaged, but, by stating that the Commissioner has to be satisfied as to the marketability of the paper, I intend to ensure that no C.D.s deliberately issued for the purpose of creating statutory liquidity are successful in so doing. The Commissioner will usually be satisfied if an issue has, in the generally accepted manner, been marketed by a third party. In other circumstances he will require convincing as to the motive for the issue.

Summing Up

168 Sir, I will now briefly sum up what I have said this afternoon in language for all to understand. Hong Kong has faced last year and continues to face economic and financial problems of which most could not have been avoided and some possibly could. Nevertheless the Government will carry on calmly and

(62) *They will, therefore, only be specified under section 18(6) (ec) and not under section 18(6) (db) of the Banking Ordinance. There will be associated implications for dtc.'s under section 24A(7) (ha) of the D.T.C. Ordinance.*

steadily with its long-term policies. These are designed simply to improve the standards of life of Hong Kong; and I emphasize that standards do not reflect materialistic values only. While dependent on the disciplines dictated by free market forces we will remain always sympathetic to the reasonable requirements of the disadvantaged and the poor. The Government cannot change the laws of economics, and it is prudent in hard times to tighten our belts. We can do so and still continue on our course because we have ensured that a fair part of the windfall revenues arising from the extraordinary escalation of real estate prices in the past five years has been saved up in public funds. The community thus has in hand fiscal reserves which are available for prudent use for a time to cover budget deficits. Such use of reserves must be counter balanced by additional indirect taxation designed to minimize the impact on the poor. Soon the economies of our trading partners should improve. So then will that of Hong Kong, and we shall return to more conservative budgeting. Nevertheless I do not see any renewed prospect of huge returns from land sales, though land prices will eventually rise when the present situation of gross oversupply in the property market eases. The scenario has in fact completely changed, and so must the budgetary pattern. Whether this change can be accommodated without resort to Government borrowing is presently an open question, to which I may be able to respond in my budget speech next year. In the meantime deficits for two years can clearly be afforded⁽⁶³⁾. With this background let us now show the world the mettle of the people of Hong Kong.

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

(63) *i.e.* 1982-83 and 1983-84.

STATISTICAL TABLES

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Table (1)

GROWTH RATES OF CONSOLIDATED ACCOUNT EXPENDITURE AND THE
RELATIVE SIZE OF THE PUBLIC SECTOR 1972-73 TO 1983-84

(Adjusted for analytical purposes)

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
Consolidated Account						
Expenditure, at						
Current Prices (\$ mn):						
Recurrent	2,718.7	3,547.2	4,647.4	4,934.1	5,786.4	6,993.8
Capital	1,156.1	1,513.8	2,044.9	1,642.3	1,568.7	2,234.4
Total	3,874.8	5,061.0	6,692.3	6,576.4	7,355.1	9,168.2
Gross Domestic Product, at						
Current Prices (\$ mn) (*)						
	25,854.0	33,964.0	38,786.0	40,574.0	51,973.0	59,615.0
Relative Size of the						
Public Sector (%)						
	15.0	15.0	17.3	16.2	14.2	15.4
Consolidated Account						
Expenditure, at Constant						
(1973) Prices (\$ mn):						
Recurrent	3,053.2	3,547.2	4,024.5	4,155.2	4,569.8	5,071.1
Capital	1,329.3	1,513.8	1,742.0	1,490.6	1,368.1	1,789.6
Total	4,364.5	5,061.0	5,766.5	5,645.8	5,937.9	6,860.7
Growth Rates of						
Consolidated Account						
Expenditure (%):						
In money terms:						
Recurrent	25.7	30.5	31.0	6.2	17.3	19.8
Capital	46.6	30.9	35.1	-19.7	-4.5	42.4
Total	31.3	30.6	32.2	-1.7	11.8	24.7
In real terms:						
Recurrent	9.9	16.2	13.5	3.2	10.0	11.0
Capital	30.5	13.9	15.1	-14.4	-8.2	31.8
Total	14.9	16.0	13.9	-2.1	5.2	15.5

Table (1) *Contd.*

GROWTH RATES OF CONSOLIDATED ACCOUNT EXPENDITURE AND THE
RELATIVE SIZE OF THE PUBLIC SECTOR 1972-73 TO 1983-84
(Adjusted for analytical purposes)

	1978-79	1979-80	1980-81	1981-82	<i>Revised</i> Estimate 1982-83	<i>Estimate</i> 1983-84
Consolidated Account						
Expenditure, at						
Current Prices (\$ mn):						
Recurrent	8,183.7	9,969.9	13,404.4	17,969.2	23,167.4	26,669.0
Capital	3,937.9	5,649.2	8,652.0	11,413.8	14,889.7	15,835.1
Total	12,121.6	15,619.1	22,056.4	29,383.0	38,057.1	42,504.1
Gross Domestic Product, at						
Current Prices (\$ mn) (*)	69,557.0	89,473.0	112,981.0	137,377.0	157,302.0	176,600.0
Relative Size of the						
Public Sector (%)	17.4	17.5	19.5	21.4	24.2	24.1
Consolidated Account						
Expenditure, at Constant						
(1973) Prices (\$ mn):						
Recurrent	5,532.3	5,930.5	6,575.8	7,575.4	8,483.6	8,946.3
Capital	2,768.3	2,955.2	3,894.9	4,369.2	5,541.3	5,503.4
Total	8,300.6	8,885.7	10,470.7	11,944.6	14,024.9	14,449.7
Growth Rates of						
Consolidated Account						
Expenditure (%):						
In money terms:						
Recurrent	18.0	21.8	34.4	34.1	28.9	15.1
Capital	76.2	43.5	53.2	31.9	30.5	6.3
Total	32.2	28.9	41.2	33.2	29.5	11.7
In real terms:						
Recurrent	9.1	7.2	10.9	15.2	12.0	5.5
Capital	54.7	6.8	31.8	12.2	26.8	—0.7
Total	21.0	7.0	17.8	14.1	17.4	3.0

Notes: (*) Calendar year figures. The figure for 1981 is provisional, that for 1982 is preliminary and that for 1983 is a forecast.

Table (2)

GENERAL REVENUE ACCOUNT 1973-74 TO 1983-84

(Adjusted for analytical purposes)

	1973-74	1974-75	1975-76	1976-77	1977-78
	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)
<i>Revenue:</i>					
Recurrent	4,550	5,156	5,843	6,850	8,151
Capital	<u>466</u>	<u>437</u>	<u>412</u>	<u>644</u>	<u>1,232</u>
Total	5,016	5,593	6,255	7,494	9,383
<i>Expenditure:</i>					
Recurrent	3,231	4,175	4,450	5,224	6,219
Capital	<u>1,411</u>	<u>1,796</u>	<u>1,573</u>	1,353	1,939
Total	4,642	5,971	6,023	6,577	8,158
Surplus on recurrent account	1,319	981	1,393	1,626	1,932
Deficit on capital account	945	1,359	1,161	709	707
Overall surplus/deficit	<u><u>374</u></u>	<u><u>—378</u></u>	<u><u>232</u></u>	<u><u>917</u></u>	<u><u>1,225</u></u>

Table (2) *Contd.*

GENERAL REVENUE ACCOUNT 1973-74 TO 1983-84

(Adjusted for analytical purposes)

	1978-79	1979-80	1980-81	1981-82	1982-83 (Estimates)	1982-83 (Revised Estimates)	1983-84 (Draft Estimates)	1983-84 (After revenue proposals)
	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)	\$ mn)
Revenue:								
Recurrent	10,146	13,473	18,951	24,014	25,308	25,210	25,717	28,693
Capital	<u>2,296</u>	<u>3,323</u>	<u>11,236</u>	<u>9,480</u>	<u>12,518</u>	<u>5,608</u>	<u>3,577</u>	<u>3,577</u>
Total	12,442	16,796	30,187	33,494	37,826	30,818	29,294	32,270
Expenditure:								
Recurrent	7,308	8,865	11,919	16,295	19,466	20,799	23,808	23,808
Capital	<u>3,648</u>	<u>4,956</u>	<u>7,756</u>	<u>10,500</u>	<u>16,034</u>	<u>13,954</u>	<u>11,629</u>	<u>11,629</u>
Total	10,956	13,821	19,675	26,795	35,500	34,753	35,437	35,437
Surplus on recurrent account	2,838	4,608	7,032	7,719	5,842	4,411	1,909	4,885
Deficit on capital account	1,352	1,633	+3,480	1,020	3,516	8,346	8,052	8,052
Overall surplus/deficit	<u>1,486</u>	<u>2,975</u>	<u>10,512</u>	<u>6,699</u>	<u>2,326</u>	<u>-3,935</u>	<u>-6,143</u>	<u>-3,167</u>

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

- (1) The Urban Council and Housing Authority were established on 1 April 1973. Between 1 April 1973 and 31 March 1975 the Government continued to be responsible for certain expenditure (e.g. personal emoluments), reimbursements from the Urban Council and the Housing Authority being credited to General Revenue. These transactions were taken below-the-line with effect from 1 April 1975 and so the figures for 1973-74 and 1974-75 have been adjusted to exclude them. Since 1 April 1975, Urban Council and Housing Authority revenue and expenditure have not appeared in the Government's accounts and so no adjustments are necessary for 1975-76 onwards.
- (2) Adjustments have been made in respect of three types of transactions, namely:
- (a) transactions, which *could* have been dealt with below-the-line, but which, *in fact* have been passed through the General Revenue Account in accordance with the Government's accounting principles or for some other reason (e.g. purchase of equity in the Mass Transit Railway Corporation);
 - (b) drawdowns of loans and repayments of principal. These transactions have to be passed through the General Revenue Account in accordance with the Government's accounting principles, but they affect the General Revenue *Balance* rather than the Account;
 - (c) debits and credits in respect of transactions within the same financial year which it was decided to pass through the General Revenue Account not so much for accounting reasons but in order to define the Government's total commitment (e.g. land grants to the Mass Transit Railway Corporation paid for by contra-transfers to the Mass Transit Fund and land grants to the Home Ownership Scheme paid for from the Home Ownership Fund using funds transferred from General Revenue).

(b) *Detailed Notes on the Adjustments*

<i>Year</i>	<i>Recurrent Revenue</i>	<i>Capital Revenue</i>	<i>Recurrent Expenditure</i>	<i>Capital Expenditure</i>
1973-74	— 225(U.C. & H.A.)		— 225(U.C. & H.A.)	— 300(M.T.F.) — 2(D.R.)
1974-75	— 282(U.C. & H.A.)		— 282 (U.C. & H.A.)	— 2(D.R.)
1975-76		— 264(Loans)		— 9(D.R.)
1976-77				— 14(D.R.)
1977-78	— 335(L.P., M.T.R.)	— 488(L.P., H.O.S.) — 27(Loans)	— 335(M.T.F.)	— 488(H.O.F.) — 16(D.R.)

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

<i>Year</i>	<i>Recurrent Revenue</i>	<i>Capital Revenue</i>	<i>Recurrent Expenditure</i>	<i>Capital Expenditure</i>
1978-79		— 115(L.P., H.O.S.)		— 5(M.T.F.) — 115(H.O.F.) — 14(D.R.)
1979-80				— 2(M.T.F.) — 49(D.R.)
1980-81		— 80(L.P., H.O.S.) — 23(S.C.S.A.)		— 3,540(M.T.F.) — 80(H.O.F.) — 277(D.R.) — 22(J.S.C.)
1981-82		— 437(L.P., M.T.R.) -18(C. & W.) -332(L.P., H.O.S.) -32(S.C.S.A.)		— 437(M.T.R.) — 332(H.O.F.) — 82(D.R.) — 32(J.S.C.) — 100 (C. & W.) — 23(D.R.)
1982-83 (Estimates)		— 397(L.P., M.T.R.) — 82(C. & W.)		
1982-83 (Revised Estimates)		— 0(L.P., M.T.R.) — 82(C. & W.)		— 23(D.R.)
1983-84 (Draft Estimates)				— 38(D.R.)

Legend: U.C. & H.A. = Urban Council & Housing Authority
D.R. = Debt repayment
M.T.F. = Mass Transit Fund
H.O.F. = Home Ownership Fund for land premia
C. & W. = Cable and Wireless (Hong Kong Subsidiary)

L.P., M.T.R. = Land premia, Mass Transit Railway
L.P., H.O.S. = Land premia, Home Ownership Scheme
J.S.C. = Jubilee Sports Centre
S.C.S.A. = Special Coin Suspense Account

Table (3)

CONSOLIDATED ACCOUNT EXPENDITURE BY MAIN FUNCTIONS 1973-74 TO 1983-84

(Adjusted for analytical purposes)

	1973-74		1974-75		1975-76		1976-77		1977-78	
	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)
(A) <i>General Services</i>	<u>660</u>	<u>13.1</u>	<u>885</u>	<u>13.2</u>	<u>858</u>	<u>13.0</u>	<u>980</u>	<u>13.3</u>	<u>1,236</u>	<u>13.5</u>
(B) <i>Security Services</i>										
(1) Defence	97	1.9	106	1.6	105	1.6	241	3.3	381	4.2
(2) Immigration	27	0.5	31	0.5	33	0.5	38	0.5	46	0.5
(3) Law and Order	<u>416</u>	<u>8.2</u>	<u>564</u>	<u>8.4</u>	<u>596</u>	<u>9.1</u>	<u>717</u>	<u>9.7</u>	<u>843</u>	<u>9.2</u>
	<u>540</u>	<u>10.6</u>	<u>701</u>	<u>10.5</u>	<u>734</u>	<u>11.2</u>	<u>996</u>	<u>13.5</u>	<u>1,270</u>	<u>13.9</u>
(C) <i>Economic Services</i>	<u>368</u>	<u>7.3</u>	<u>395</u>	<u>5.9</u>	<u>428</u>	<u>6.5</u>	<u>484</u>	<u>6.6</u>	<u>535</u>	<u>5.8</u>
(D) <i>Community Services</i>										
(1) Transport	595	11.8	717	10.8	640	9.7	739	10.1	1,102	12.0
(2) Land and Civil Engineering }										
(3) Water	498	9.8	711	10.6	491	7.5	472	6.4	462	5.0
(4) Other	<u>435</u>	<u>8.6</u>	<u>618</u>	<u>9.2</u>	<u>551</u>	<u>8.4</u>	<u>624</u>	<u>8.5</u>	<u>733</u>	<u>8.0</u>
	<u>1,528</u>	<u>30.2</u>	<u>2,046</u>	<u>30.6</u>	<u>1,682</u>	<u>25.6</u>	<u>1,835</u>	<u>25.0</u>	<u>2,297</u>	<u>25.0</u>
(E) <i>Social Services</i>										
(1) Education	1,001	19.8	1,136	17.0	1,263	19.2	1,406	19.1	1,624	17.7
(2) Medical	456	9.0	560	8.3	565	8.6	647	8.8	754	8.2
(3) Housing	338	6.7	674	10.1	666	10.1	618	8.4	1,022	11.2
(4) Social Welfare	154	3.0	275	4.1	359	5.5	365	5.0	401	4.4
(5) Labour	<u>16</u>	<u>0.3</u>	<u>20</u>	<u>0.3</u>	<u>21</u>	<u>0.3</u>	<u>24</u>	<u>0.3</u>	<u>29</u>	<u>0.3</u>
	<u>1,965</u>	<u>38.8</u>	<u>2,665</u>	<u>39.8</u>	<u>2,874</u>	<u>43.7</u>	<u>3,060</u>	<u>41.6</u>	<u>3,830</u>	<u>41.8</u>
Total Expenditure	<u><u>5,061</u></u>		<u><u>6,692</u></u>		<u><u>6,576</u></u>		<u><u>7,355</u></u>		<u><u>9,168</u></u>	

Table (3) *Contd.*

CONSOLIDATED ACCOUNT EXPENDITURE BY MAIN FUNCTIONS 1973-74 TO 1983-84
(Adjusted for analytical purposes)

	1978-79		1979-80		1980-81		1981-82		1982-83 (Revised Estimates)		1983-84 (Draft Estimates)	
	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)	(\$ mn)	(%)
(A) <i>General Services</i>	<u>1,490</u>	<u>12.3</u>	<u>2,186</u>	<u>14.0</u>	<u>2,446</u>	<u>11.1</u>	<u>3,274</u>	<u>11.1</u>	<u>4,888</u>	<u>12.8</u>	<u>7,013</u>	<u>16.5</u>
(B) <i>Security Services</i>												
(1) Defence	587	4.8	642	4.1	1,591	7.2	1,498	5.1	1,427	3.8	1,557	3.7
(2) Immigration	53	0.4	78	0.5	114	0.5	152	0.5	238	0.6	270	0.6
(3) Law and Order	<u>978</u>	<u>8.1</u>	<u>1,234</u>	<u>7.9</u>	<u>1,620</u>	<u>7.4</u>	<u>2,153</u>	<u>7.3</u>	<u>3,171</u>	<u>8.3</u>	<u>3,267</u>	<u>7.7</u>
	<u>1,618</u>	<u>13.3</u>	<u>1,954</u>	<u>12.5</u>	<u>3,325</u>	<u>15.1</u>	<u>3,803</u>	<u>12.9</u>	<u>4,836</u>	<u>12.7</u>	<u>5,094</u>	<u>12.0</u>
(C) <i>Economic Services</i>	<u>740</u>	<u>6.1</u>	<u>811</u>	<u>5.2</u>	<u>966</u>	<u>4.4</u>	<u>1,396</u>	<u>4.8</u>	<u>1,492</u>	<u>3.9</u>	<u>1,580</u>	<u>3.7</u>
(D) <i>Community Services</i>												
(1) Transport							2,554	8.7	3,563	9.4	3,055	7.1
(2) Land and Civil Engineering	1,784	14.7	2,155	13.8	2,902	13.2	3,183	10.8	3,397	8.9	3,905	9.2
(3) Water	394	3.3	464	3.0	708	3.2	1,263	4.3	1,523	4.0	1,572	3.7
(4) Other	<u>909</u>	<u>7.5</u>	<u>1,193</u>	<u>7.6</u>	<u>1,883</u>	<u>8.5</u>	<u>2,366</u>	<u>8.1</u>	<u>3,077</u>	<u>8.1</u>	<u>3,682</u>	<u>8.7</u>
	<u>3,087</u>	<u>25.5</u>	<u>3,812</u>	<u>24.4</u>	<u>5,493</u>	<u>24.9</u>	<u>9,366</u>	<u>31.9</u>	<u>11,560</u>	<u>30.4</u>	<u>12,214</u>	<u>28.7</u>
(E) <i>Social Services</i>												
(1) Education	1,949	16.1	2,439	15.6	3,339	15.1	4,172	14.2	5,317	14.0	5,724	13.5
(2) Medical	948	7.8	1,230	7.9	1,665	7.5	2,159	7.3	2,636	6.9	3,069	7.2
(3) Housing	1,704	14.1	2,423	15.5	3,855	17.5	3,895	13.3	5,419	14.2	5,837	13.7
(4) Social Welfare	551	4.5	719	4.6	882	4.0	1,220	4.2	1,812	4.8	1,869	4.4
(5) Labour	<u>35</u>	<u>0.3</u>	<u>45</u>	<u>0.3</u>	<u>86</u>	<u>0.4</u>	<u>98</u>	<u>0.3</u>	<u>97</u>	<u>0.3</u>	<u>104</u>	<u>0.3</u>
	<u>5,187</u>	<u>42.8</u>	<u>6,856</u>	<u>43.9</u>	<u>9,827</u>	<u>44.5</u>	<u>11,544</u>	<u>39.3</u>	<u>15,281</u>	<u>40.2</u>	<u>16,603</u>	<u>39.1</u>
Total Expenditure	<u>12,122</u>		<u>15,619</u>		<u>22,057</u>		<u>29,383</u>		<u>38,057</u>		<u>42,504</u>	

Table (4)

GENERAL REVENUE BY MAIN SOURCES 1973-74 TO 1983-84
(Adjusted for analytical purposes)

	1973-74 (\$ mn)	1974-75 (\$ mn)	1975-76 (\$ mn)	1976-77 (\$ mn)	1977-78 (\$ mn)
<i>Recurrent Account:</i>					
DIRECT TAXES					
Earnings and profits tax	1,680	2,144	2,234	2,699	3,357
INDIRECT TAXES					
Duties	442	473	558	681	734
General rates	369	408	534	618	723
Internal revenue:					
Bets and sweeps tax	62	96	161	265	336
Entertainment tax	4	4	19	23	27
Hotel accommodation tax	6	6	9	15	20
Stamp duties	463	303	382	428	490
Motor vehicle taxes	46	32	49	102	148
Royalties and concessions	39	47	65	60	67
OTHER REVENUE	<u>1,439</u>	<u>1,643</u>	<u>1,832</u>	<u>1,959</u>	<u>2,249</u>
Total Recurrent	4,550	5,156	5,843	6,850	8,151
<i>Capital Account:</i>					
DIRECT TAXES					
Estate duty	50	42	64	85	110
INDIRECT TAXES					
Taxi concessions	85	—	—	—	112
OTHER REVENUE					
Land Sales	318	287	346	557	1,008
Others	<u>13</u>	<u>108</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total Capital	<u>466</u>	<u>437</u>	<u>412</u>	<u>644</u>	<u>1,232</u>
Total Revenue	<u><u>5,016</u></u>	<u><u>5,593</u></u>	<u><u>6,255</u></u>	<u><u>7,494</u></u>	<u><u>9,383</u></u>

Table (4) *Contd.*

GENERAL REVENUE BY MAIN SOURCES 1973-74 TO 1983-84

(Adjusted for analytical purposes)

	1978-79 (\$ mn)	1979-80 (\$ mn)	1980-81 (\$ mn)	1981-82 (\$ mn)	1982-83 (Revised Estimates) (\$ mn)	1983-84 (Draft Estimates) (\$ mn)	1983-84 (After revenue Proposals) (\$ mn)
<i>Recurrent Account:</i>							
DIRECT TAXES							
Earnings and profits tax	4,115	5,724	7,965	10,567	12,020	11,985	11,961
INDIRECT TAXES							
Duties	830	883	917	937	1,195	1,270	3,000
General rates	807	890	986	1,051	700	777	1,077
Internal revenue:							
Bets and sweeps tax	509	658	823	998	1,180	1,360	1,580
Entertainment tax	29	37	45	57	65	83	83
Hotel accommodation tax	24	33	42	52	60	72	87
Stamp duties	762	934	2,052	2,168	1,365	1,200	1,200
Motor vehicle taxes	259	360	423	484	470	550	550
Royalties and concessions	88	101	131	200	245	274	504
OTHER REVENUE	2,723	3,853	5,567	7,500	7,910	8,146	8,651
Total Recurrent	<u>10,146</u>	<u>13,473</u>	<u>18,951</u>	<u>24,014</u>	<u>25,210</u>	<u>25,717</u>	<u>28,693</u>
<i>Capital Account:</i>							
DIRECT TAXES							
Estate duty	128	200	251	316	280	220	220
INDIRECT TAXES							
Taxi concessions	250	266	288	208	280	250	250
OTHER REVENUE							
Land Sales	1,893	2,845	10,690	8,908	4,550	3,000	3,000
Others	<u>25</u>	<u>12</u>	<u>7</u>	<u>48</u>	<u>498</u>	<u>107</u>	<u>107</u>
Total Capital	<u>2,296</u>	<u>3,323</u>	<u>11,236</u>	<u>9,480</u>	<u>5,608</u>	<u>3,577</u>	<u>3,577</u>
Total Revenue	<u><u>12,442</u></u>	<u><u>16,796</u></u>	<u><u>30,187</u></u>	<u><u>33,494</u></u>	<u><u>30,818</u></u>	<u><u>29,294</u></u>	<u><u>32,270</u></u>

Table (5)

GENERAL REVENUE ACCOUNT EXPENDITURE BY MAIN COMPONENTS 1973-74 TO 1983-84

(Adjusted for analytical purposes)

	1973-74	1974-75	1975-76	1976-97	1977-78
	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)
<i>Recurrent Account:</i>					
Personal Emoluments	1,336	1,674	1,782	2,135	2,475
Personnel Related Expenses	155	190	224	257	320
Departmental Expenses } Other Charges }	839	1,243	1,277	1,455	1,790
Subventions:					
Education	557	627	681	813	944
Medical	115	159	163	186	226
U.P.G.C.	159	187	217	255	307
Other	70	95	106	123	157
Additional Commitments	—	—	—	—	—
Total Recurrent	3,231	4,175	4,450	5,224	6,219
<i>Capital Account:</i>					
Plant, Equipment and Works } Other Non-Recurrent }	163	153	164	153	225
Subventions:					
Education	55	58	40	30	39
Medical	19	10	4	2	13
U.P.G.C.	26	37	93	40	25
Other	—	—	—	—	1
Transfers to Funds:					
C.W.R.F./P.W.N.R.	1,148	1,518	1,147	1,128	1,437
D.L.F.	—	20	125	—	100
H.O.F.	—	—	—	—	99
Other	—	—	—	—	—
Additional Commitments	—	—	—	—	—
Total Capital	1,411	1,796	1,573	1,353	1,939
Total Expenditure	4,642	5,971	6,023	6,577	8,158

Table (5) *Contd.*GENERAL REVENUE ACCOUNT EXPENDITURE BY MAIN COMPONENTS 1973-74 TO 1983-84
(Adjusted for analytical purposes)

	1978-79	1979-80	1980-81	1981-82	1982-83 (Revised Estimates)	1983-84 (Draft Estimates)
	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)
<i>Recurrent Account:</i>						
Personal Emoluments	2,892	3,517	4,671	6,026	7,542	8,220
Personnel Related Expenses	361	446	591	818	1,580	1,939
Departmental Expenses } Other Charges }	2,125	2,547	3,444	2,428	2,810	3,017
Subventions:						
Education	1,125	1,391	1,872	2,254	2,990	3,104
Medical	273	320	447	584	720	789
U.P.G.C.	348	411	580	724	914	961
Other	184	233	314	420	745	809
Additional Commitments	—	—	—	—	—	1,300
Total Recurrent	7,308	8,865	11,919	16,295	20,799	23,808
<i>Capital Account:</i>						
Plant, Equipment and Works } Other Non-Recurrent }	357	453	1,336	549	791	907
Subventions:						
Education	36	71	90	126	135	185
Medical	11	22	30	46	60	126
U.P.G.C.	65	135	237	149	180	211
Other	1	1	3	35	18	22
Transfers to Funds:						
C.W.R.F./P.W.N.R.*	2,274	3,092	3,792	6,938	10,500	8,000
D.L.F.	620	1,000	2,231	2,114	1,850	1,750
H.O.F.	284	—	—	—	—	—
Other	—	182	37	65	105	117
Additional Commitments	—	—	—	—	—	200
Total Capital	3,648	4,956	7,756	10,500	13,954	11,629
Total Expenditure	10,956	13,821	19,675	26,795	34,753	35,437

* Up to 1981-82 Public Works Non-Recurrent Expenditure was charged to the G.R.A. From 1982-83 onwards Public Works Non-Recurrent expenditure is charged to the C.W.R.F. The figures from 1982-83 onwards therefore show transfers to the C.W.R.F. and *not* Public Works Non-Recurrent expenditure.

Table (6)

BUDGETARY GUIDELINES 1973-74 TO 1983-84 (\$ MILLION AND %)
(Adjusted for analytical purposes)

	<i>1973-74</i>	<i>1974-75</i>	<i>1975-76</i>	<i>1976-77</i>	<i>1977-78</i>
(1) $\frac{\text{Recurrent Revenue}}{\text{Total Expenditure}}$	$\frac{4,550}{4,642}=98$	$\frac{5,156}{5,971}=86$	$\frac{5,843}{6,023}=97$	$\frac{6,850}{6,577}=104$	$\frac{8,151}{8,158}=100$
(2) $\frac{\text{Recurrent Expenditure}}{\text{Recurrent Revenue}}$	$\frac{3,231}{4,550}=71$	$\frac{4,175}{5,156}=81$	$\frac{4,450}{5,843}=76$	$\frac{5,224}{6,850}=76$	$\frac{6,219}{8,151}=76$
(3) Surplus on $\frac{\text{Recurrent Account}}{\text{Capital Expenditure}}$	$\frac{1,319}{1,411}=93$	$\frac{981}{1,796}=55$	$\frac{1,393}{1,573}=89$	$\frac{1,626}{1,353}=120$	$\frac{1,932}{1,939}=100$
(4) $\frac{\text{Recurrent Expenditure}}{\text{Total Expenditure}}$	$\frac{3,231}{4,642}=70$	$\frac{4,175}{5,971}=70$	$\frac{4,450}{6,023}=74$	$\frac{5,224}{6,577}=79$	$\frac{6,219}{8,158}=76$
(5) $\frac{\text{Capital Revenue}}{\text{Capital Expenditure}}$	$\frac{466}{1,411}=33$	$\frac{437}{1,796}=24$	$\frac{412}{1,573}=26$	$\frac{644}{1,353}=48$	$\frac{1,232}{1,939}=64$

Table (6) *Contd.*

BUDGETARY GUIDELINES 1973-74 TO 1983-84 (\$ MILLION AND %)

(Adjusted for analytical purposes)

	1978-79	1979-80	1980-81	1981-82	1982-83* (Revised Estimates)	1983-84 (After revenue proposals)
(1) <u>Recurrent Revenue</u>	$\frac{10,146}{10,956} = 93$	$\frac{13,473}{13,821} = 97$	$\frac{18,951}{19,675} = 96$	$\frac{24,014}{26,795} = 90$	$\frac{25,210}{33,193} = 76$	$\frac{28,693}{36,732} = 78$
Total Expenditure						
(2) <u>Recurrent Expenditure</u>	$\frac{7,308}{10,146} = 72$	$\frac{8,865}{13,473} = 66$	$\frac{11,919}{18,951} = 63$	$\frac{16,295}{24,014} = 68$	$\frac{20,799}{25,210} = 83$	$\frac{23,808}{28,693} = 83$
Recurrent Revenue						
Surplus on						
(3) <u>Recurrent Account</u>	$\frac{2,838}{3,648} = 78$	$\frac{4,608}{4,956} = 93$	$\frac{7,032}{7,756} = 91$	$\frac{7,719}{10,500} = 74$	$\frac{4,411}{12,394} = 36$	$\frac{4,885}{12,924} = 38$
Capital Expenditure						
(4) <u>Recurrent Expenditure</u>	$\frac{7,308}{10,956} = 67$	$\frac{8,865}{13,821} = 64$	$\frac{11,919}{19,675} = 64$	$\frac{16,295}{26,795} = 61$	$\frac{20,799}{33,193} = 63$	$\frac{23,808}{36,732} = 65$
Total Expenditure						
(5) <u>Capital Revenue</u>	$\frac{2,296}{3,648} = 63$	$\frac{3,323}{4,956} = 67$	$\frac{11,236}{7,756} = 145$	$\frac{9,480}{10,500} = 90$	$\frac{5,608}{12,394} = 45$	$\frac{3,577}{12,924} = 28$
Capital Expenditure						

* Combining General Revenue Account and Capital Works Reserve Fund expenditure after 1981-82.

APPENDIX A

ASSESSMENT OF PERFORMANCE

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

2 The average annual growth rate of expenditure on *Consolidated Account* in real terms for the five years 1978-79 to 1982-83 was 15.4%, and of G.D.P. it was 9.5%⁽²⁾. The growth rate of expenditure on Consolidated Account fell from 21% in 1978-79 to 7% in 1979-80, but accelerated again to 17.8% the subsequent year. The 1982-83 Budget envisaged a growth rate of 10.7% but, because the growth rate in 1981-82 turned out to be considerably lower than had been expected (14.1% instead of 21.8%), the revised growth rate for 1982-83 is higher, at 17.4%. However the revised growth rate for the two years 1980-81 to 1982-83 of 34%, or an average annual growth rate of 15.7%, is still slightly less than anticipated in the 1982-83 budget (34.8%, or an average annual growth rate of 16.1%).

3 This tendency for the growth rate of expenditure on Consolidated Account in real terms to exceed the growth rate of G.D.P. is a matter for continued concern. The relative size of the public sector increased steadily from 17.4% in 1978-79 to 24.2% in 1982-83.

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

(2)

Year	Growth rates in real terms:	
	C.A. expenditure (%)	G.D.P. (%)
1978-79/1978	21.0	10.3
1979-80/1979	7.0	12.8
1980-81/1980	17.8	11.7
1981-82/1981	14.1	10.9
1982-83/1982	17.4	2.4
average rate p.a.	15.4	9.5

4 The second principle is that the pattern of public sector expenditure should reflect the Government's conscious view as to priorities. Between 1978-79 and 1982-83 the pattern changed accordingly, with the proportion of total expenditure absorbed by community services⁽³⁾ increasing from 25.5% to 30.4% as greater emphasis was placed on such services as transport, civil engineering and land production. Though the social services group⁽⁴⁾ decreased slightly from 42.8% to 40.2%, within it expenditure on housing increased slightly from 14.1% in 1978-79 to 14.2% in 1982-83. The proportion of total expenditure absorbed by all other services⁽⁵⁾ decreased as a result from 31.7% to 29.4%, but these percentages illustrate only the share of total expenditure—in absolute cash terms, expenditure on all services increased substantially.

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

6 The ratio between direct and indirect taxes moved from 55:45 in 1978-79 to 69:31 in 1982-83. There will always be a tendency for earnings and profits taxes to increase in relative importance, as they are related to the growth rate of the economy in *money* terms while yields from indirect taxes are more closely related to the growth rate of the economy in *real* terms. This reflects fiscal drag and fiscal boost. But these ratios indicate very clearly that there is now considerable room for a relative shift to higher yields from indirect taxes.

7 The ratio between direct and indirect taxes taken together and all other recurrent revenue moved from 73:27 in 1978-79 to 69:31 in 1982-83 as steps were taken to ensure that fees and charges were generally kept up to date.

(3) *Transport, land and civil engineering, environmental protection, water, public safety, recreation, culture and amenities.*

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

(5) General services

Administration, support, public relations, revenue collection and financial control and unallocable expenses.

Security services

Defence, immigration, law and order.

Economic services

Food supply, aviation and shipping, trade and industry and posts and telecommunications.

(6) *The requirements are—*

(a) *to help generate sufficient recurrent revenue to finance a major proportion of a given level of total expenditure and to maintain fiscal reserves at a satisfactory level;*

(b) *that the tax system is as neutral as possible as regards the internal cost/price structure, the supply of human effort and private investment decisions;*

(c) *that the laws governing the tax system are adapted from time to time to make them compatible with changing commercial practices;*

(d) *that each and every levy is simple and easy (and therefore inexpensive) to administer for both the Government and the taxpayer, and does not encourage evasion;*

(e) *that the tax system is equitable as between different classes of taxpayers or potential taxpayers and between different income groups; and*

(f) *that, exceptionally, the tax system is capable of being used to achieve non-fiscal objectives when necessary.*

8 The fourth principle is that certain guidelines⁽⁷⁾ should be borne in mind in preparing the annual estimates of revenue and expenditure so as to ensure the financing of the capital account. In 1978-79 recurrent expenditure absorbed 72% of recurrent revenue, leaving a sufficient surplus to meet 78% of capital expenditure in that year. The surplus on recurrent account improved until 1981-82 when recurrent expenditure only absorbed 68% of recurrent revenue. This satisfactory trend was, however, reversed sharply in 1982-83 and the revised estimates indicate that recurrent expenditure will absorb as much as 83% of recurrent revenue. Despite the improving trend between 1978-79 and 1981-82, the share of capital expenditure met from the surplus on recurrent account fell from 78% in 1978-79 to 74% in 1981-82. This was because capital expenditure increased by 2.9 times over the same period. Fortunately capital revenue continued to produce high yields up until 1981-82 which more than covered the excess. The relative failure of capital revenue in 1982-83 coupled with further growth in capital expenditure and a reversal in the trend towards larger recurrent account surpluses have combined to produce a large budget deficit. This fact further underlines the importance of the guidelines and in particular guideline (1) which has been breached in 1982-83.

(7) *The guidelines are—*

<i>Guideline</i>	<i>Ratio</i>	<i>1982-83</i>
$\frac{\textit{Recurrent revenue}}{\textit{Total expenditure}}$	<i>At least 77%</i>	<i>76%</i>
$\frac{\textit{Recurrent expenditure}}{\textit{Recurrent revenue}}$	<i>No more than 85%</i>	<i>83%</i>
$\frac{\textit{Surplus on recurrent account}}{\textit{Capital expenditure}}$	<i>At least 33%</i>	<i>36%</i>
$\frac{\textit{Recurrent expenditure}}{\textit{Total expenditure}}$	<i>No more than 65%</i>	<i>63%</i>
$\frac{\textit{Capital revenue}}{\textit{Capital expenditure}}$	<i>At least 20%</i>	<i>45%</i>

APPENDIX B

EXPENDITURE IN THE MAIN PROGRAMME AREAS

A. PUBLIC HOUSING

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

Objectives of the public housing programme

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

Production of flats

3 By the end of 1982-83, the Housing Authority's stock of domestic accommodation will amount to 492 000 flats, with almost 28 000 flats having been completed in 1982-83. By the same date, about 23 700 flats will have been constructed under the Home Ownership Scheme. In order to meet future demand, the Government's aim is to sustain a level of production of at least 35 000 flats a year (made up of flats for renting by the Housing Authority and flats for sale under the Home Ownership Scheme) under a five year programme which is rolled forward annually. The following table shows production for the four years ending 1982-83, and a forecast for the four years commencing 1983-84:

<i>Year</i>	<i>Housing Authority's rental housing programme (flats)</i>	<i>Home Ownership Scheme (flats)</i>	<i>Total (flats)</i>
1979-80 (actual)	29 759	2 439	32 198
1980-81 (actual)	26 769	8 674	35 443
1981-82 (actual)	31 346	4 399	35 745
1982-83 (estimated)	27 900 (*)	8 200	36 100
1983-84 (estimated)	30 200	6 400	36 600
1984-85 (estimated)	29 600	6 500	36 100
1985-86 (estimated)	28 000	8 100	36 100
1986-87 (estimated)	30 000	5 000	35 000

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

Financing of the rental housing programme

4 The Housing Authority's rental housing programme is financed largely by interest-free loans to the Authority from the Development Loan Fund which are repayable over 40 years. However, within the Housing Authority's accounts, a notional interest of 5% per annum on the reducing balance of the loans is shown in order to demonstrate more accurately Government's contribution towards the provision of public housing. Land is provided free of charge, but its value is shown in the Housing Authority's accounts as a Government contribution. The Housing Authority's rental housing programme is also financed by loans from the Asian Development Bank to the Government. In 1982-83, total expenditure incurred by the Housing Authority on the construction of flats is estimated to amount to \$2,845 million, of which \$2,170 million is financed by loans from the Development Loan Fund. In 1983-84, the Housing Authority's budget provides for capital expenditure amounting to \$3,005 million, of which \$2,000 million will be drawn from the Development Loan Fund. Forecast drawings from the Development Loan Fund for the four years 1983-84 to 1986-87 are estimated to be as follows:

	1983-84	1984-85	1985-86	1986-87	Total 1983-84 to 1986-87
	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)
Estimated drawings from the Development Loan Fund(*)	2,000	2,060	1,830	1,600	7,490

Note: (*) *These estimates include provision for expenditure on contracts relating to production post 1986-87.*

Financing of the Home Ownership Scheme

5 The construction of flats under the Home Ownership Scheme is financed through the Home Ownership Fund which derives its income from appropriations from General Revenue and from proceeds from the sale of flats. No land premium is payable in respect of flats to be sold from early 1982 onwards. In 1982-83, total expenditure on the construction of flats and transfers from the rental programme is estimated to amount to \$865 million and proceeds from the sale of flats are estimated to be \$1,105 million. For 1983-84, total estimated expenditure amounts to \$998 million and proceeds from the sale of flats are estimated to be \$1,601 million.

6 Commercial and car-parking facilities associated with the Home Ownership Scheme are constructed by the Housing Authority by means of loans from the Development Loan Fund. Loans are repayable over 20 years (with a grace period up to three years) at an interest rate of 8% per annum on the reducing loan balance. Land premium is payable in respect of commercial facilities. Loans to the Housing Authority for this purpose in 1982-83 amount to \$140 million, and in 1983-84 they are estimated to amount to \$157 million.

Flatted factory programme

7 The aim of the Government's flatted factory programme, which is undertaken by the Housing Authority, is to provide small factory units for eligible industrial undertakings cleared from land required for development. The construction costs are financed by means of loans to the Housing Authority from the Development Loan Fund. Loans are repayable over 20 years (with a grace period up to three years) at an interest rate of 8% per annum on the reducing loan balance. No land premium is payable in respect of flatted factories. By the end of 1982-83, the Housing Authority's stock of flatted factory accommodation will amount to 17 000 units. Loans to the Housing Authority to meet expenditure on this programme in 1982-83 amount to \$70 million. In 1983-84, the Housing Authority estimates its requirements from the Development Loan Fund will amount to \$107 million.

Summary of estimated expenditure, 1982-83 and 1983-84

8 The revised estimate for 1982-83 and the estimate for 1983-84 of expenditure on public housing and related facilities, excluding the Housing Authority's own resources, is \$3,272 million and \$3,315 million respectively:

	<i>1982-83 (Revised Estimates) (\$ mn)</i>	<i>1983-84 (Draft Estimates) (\$ mn)</i>
<i>(a) Housing Authority's rental housing programme (excluding land costs)</i>		
(i) Flats produced by the Housing Department and financed by loans from the Development Loan Fund	2,170	2,000
(ii) Flats produced by the Housing Department and financed by loans from the Asian Development Bank	28	42
(iii) Flats produced by the Public Works Department and financed from General Revenue	7	9
<i>(b) Government's Home Ownership Scheme</i>		
(i) Flats produced by the Housing Department and financed by the Home Ownership Fund (excluding land costs in respect of flats to be sold from early 1982 onwards)	865	998
(ii) Commercial and car parking facilities constructed by the Housing Department for the Housing Authority and financed by loans from the Development Loan Fund (including land costs)	140	157

	<i>1982-83</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$ mn)</i>	<i>1983-84</i> <i>(Draft</i> <i>Estimates)</i> <i>(\$ mn)</i>
<i>(c) Government's flatted factory programme (excluding land costs)</i>		
Flatted factory units produced by the Housing Department and financed by loans from the Development Loan Fund	<u>70</u>	<u>107</u>
	<u>3,280</u>	<u>3,313</u>

B. NEW TOWNS AND RURAL NEW TERRITORIES DEVELOPMENT

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

Ultimate aim, target dates and achievements

10 Since the purpose is basically to provide housing, the best yardsticks for the measurement of progress are population growth and serviced land production. The following tables indicate achievements to date, together with expected achievements in 1983-84 in relation to the latest final design populations and serviced land areas:

<i>New Town/ development area</i>	(1)		<i>Expected Increase in 1983-84</i>	<i>Expected population at 31 March 1984 as a percentage of full development (%)</i>
	<i>Population on full development</i>	<i>Expected population at 31 March 1983</i>		
Tsuen Wan, Kwai Chung and				
Tsing Yi	959 000	681 000	12 000	(693 000) 72
Sha Tin	833 000	240 000	91 000	(331 000) 40
Tuen Mun	512 000	190 000	61 000	(251 000) 49
Tai Po	237 000	91 000	6 000	(97 000) 41
Fanling/Shek Wu Hui	223 000	67 000	19 000	(86 000) 39
Yuen Long	142 000	54 000	1 000	(55 000) 39
Junk Bay	333 000	9 000	—	(9 000) 3
Sai Kung	14 000	9 000	—	(9 000) 64
Other rural townships	<u>91 000</u>	<u>47 000</u>	<u>6 000</u>	<u>(53 000)</u> <u>58</u>
Total	<u>3 344 000</u>	<u>1 388 000</u>	<u>196 000</u>	<u>(1 584 000)</u> <u>47</u>

<i>New Town development area</i>	(2)				
	<i>Hectares on full development</i>	<i>Estimated hectares produced at 31 March 1983</i>	<i>Expected Production in 1983-84</i>	<i>Expected hectares produced at 31 March 1984 as a percentage of full development (%)</i>	
Tsuen Wan, Kwai Chung and Tsing Yi	1 665	1 143	100	(1 243)	75
Sha Tin	1 221	620	147	(767)	63
Tuen Mun	991	638	39	(677)	68
Tai Po	699	223	5	(228)	33
Fanling/Shek Wu Hui	378	109	25	(134)	35
Yuen Long	85	39	19	(58)	68
Junk Bay	313	18	10	(28)	9
Sai Kung	49	30	3	(33)	67
Other rural townships	137	27	7	(34)	25
Total	5 538	2 847	355	(3 202)	58

Allocation in 1983-84

11 Expenditure envisaged for 1983-84 from the Capital Works Reserve Fund includes \$5,638 million for the continuing development of the new towns and rural New Territories, of which \$1,577 million is for land acquisition.

12 Whilst the main thrust continues to be in the direction of land production for housing, increased emphasis will continue to be placed on the production of community facilities to cater for the needs of the growing populations of the new towns. The following tables illustrate how the allocation in 1983-84 for the development of the new towns and rural New Territories is broken down:

	(1)						
	<i>Public housing (\$ mn)</i>	<i>Temporary housing areas (\$ mn)</i>	<i>Schools (\$ mn)</i>	<i>Hospitals And clinics (\$ mn)</i>	<i>Recrea- tional facilities (\$ mn)</i>	<i>Other public buildings (\$ mn)</i>	<i>Total (\$ mn)</i>
Tsuen Wan, Kwai Chung and Tsing Yi	5.7 (0.1)		69.6 (37.5)	0.2 (0.3)	58.8 (22.7)	59.8 (46.9)	194.1 (107.5)
Sha Tin	—		52.6 (58.9)	156.0 (116.1)	97.9 (38.0)	79.2 (50.0)	385.7 (263.0)
Tuen Mun	0.1 (3.2)		57.2 (52.8)	54.9 (39.3)	72.5 (32.9)	49.4 (36.4)	234.1 (164.6)
Tai Po/ Fanling	—		61.3 (31.7)	5.2 (1.6)	2.6 (1.9)	23.8 (15.8)	92.9 (51.0)
Yuen Long Rural Townships	—		15.1 (14.6)	1.0 (0.1)	7.0 (20.4)	28.3 (7.0)	51.4 (42.1)
Junk Bay Sai Kung	—		1.5 (—)	— (—)	1.5 (2.8)	29.8 (9.4)	32.8 (12.2)
Miscel- laneous	3.6 (*) (3.9)	65.0 (**) (105.0)					68.6 (108.9)
Total	9.4 (7.2)	65.0 (105.0)	257.3 (195.5)	217.3 (157.4)	240.3 (118.7)	270.3 (165.5)	1,059.6 (749.3)

Note: *Revised estimates for 1982-83 shown in brackets.*

(*) *Urban housing.*

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

(2)

	<i>Sewage Disposal</i> (\$ mn)	<i>Site Formatio, Drainage & other engineer- ing works</i> (\$ mn)	<i>Rubbish disposal</i> (\$ mn)	<i>Roads & highways</i> (\$ mn)	<i>Water- works</i> (\$ mn)	<i>Miscel- laneous</i> (\$ mn)	<i>Total</i> (\$ mn)
Tsuen Wan, Kwai Chung and Tsing Yi	1.6 (1.4)	322.9 (210.6)	23.0 (16.4)	311.0 (261.8)	22.5 (19.8)		681.0 (510.0)
Sha Tin	139.3 (108.3)	241.1 (241.5)	6.8 (4.6)	132.8 (213.1)	39.2 (34.9)		559.2 (602.4)
Tuen Mun	12.8 (6.0)	443.4 (320.5)	13.1 (5.0)	11.7 (66.5)	23.0 (16.5)		504.4 (414.5)
Tai Po/ Fanling	78.0 (91.0)	291.4 (202.6)	4.6 (2.1)	337.4 (296.6)	57.8 (20.8)		769.2 (613.1)
Yuen Long/ Rural New Territories	14.0 (34.0)	119.2 (149.3)	7.5 (2.9)	109.7 (79.5)	3.1 (9.4)		253.5 (275.1)
Junk Bay/ Sai Kung	2.2 (—)	225.9 (62.8)	— (0.4)	15.5 (46.0)	2.2 (0.2)		245.8 (109.4)
Miscel- laneous						8.4 (*) (7.2)	8.4 (*) (7.2)
Total	<u>247.9</u> <u>(240.7)</u>	<u>1,643.9</u> <u>(1,187.3)</u>	<u>55.0</u> <u>(31.4)</u>	<u>918.1</u> <u>(963.5)</u>	<u>147.8</u> <u>(101.6)</u>	<u>8.4</u> <u>(7.2)</u>	<u>3,021.1</u> <u>(2,531.7)</u>

Note: Revised estimates for 1982-83 shown in brackets.

(*) Miscellaneous allocation of \$8.4 million (\$7.2 million) is for investigations and minor works.

C. MAIN INFRASTRUCTURE FACILITIES

(a) Highways

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

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

Route 1: from Aberdeen through the new Aberdeen Tunnel and via the Canal Road flyover to the Cross Harbour Tunnel, and then to Wo Hop Shek via Princess Margaret Road, Waterloo Road, the Lion Rock Tunnel, Road T1 through Sha Tin and the Sha Tin to North Tai Po coastal road. The total estimated cost of improvements to this route is \$2,751 million. Expenditure to 31 March 1983 is expected to amount to \$1,311 million, mainly on the Aberdeen Tunnel (\$481 million), the Sha Tin to North Tai Po coastal trunk road (\$363 million), N.T. trunk road improvements— Lam Kam Road to Wo Hop Shek (\$72 million) and the Wong Nei Chung

Gap Road/Stubbs Road flyover (\$97 million) which, although not strictly part of Route 1, nevertheless has an effect on it. Allocation of \$408 million in 1983-84 is mainly for the Sha Tin to North Tai Po coastal trunk road (\$214 million), Sha Tin Area 14 and Trunk Road T1 (\$62 million) and N.T. trunk road improvements—Lam Kam Road to Wo Hop Shek (\$36 million). Allocation of \$6 million for the Aberdeen Tunnel is for the finishing stages of the project, which is nearly completed.

Route 2: from the Cross Harbour Tunnel westwards via Tsuen Wan and Tuen Mun to Yuen Long and Fanling. The route follows Gascoigne Road and Tong Mi Road initially, and then proceeds along the coast through Yau Ma Tei, Sham Shui Po and Lai Chi Kok (the West Kowloon Corridor) to join the Tsuen Wan by-pass. It then continues via the by-pass, the Tuen Mun Highway and the Castle Peak Road to Tuen Mun and Yuen Long. From Yuen Long, Route 2 continues via Au Tau and Mai Po to join Route 1 at the southern end of the Fanling by-pass. The total estimated cost of improvements to this route is \$2,902 million. Expenditure to 31 March 1983 is expected to amount to \$1,145 million, mainly on the Tuen Mun Highway (\$509 million), the West Kowloon Corridor (\$188 million), the Tsuen Wan by-pass (\$387 million) and the Yuen Long to Au Tau dual carriageway (\$38 million). Allocation of \$362 million in 1983-84 is mainly for Fanling development package 3, engineering works (\$40 million), the Tsuen Wan by-pass (\$201 million), Yuen Long to Au Tau dual carriageway (\$9 million), N.T. circular road improvements, Au Tau to Fan Kam (\$35 million) and the West Kowloon Corridor (\$51 million). Allocation of \$12 million is for completion of the Tuen Mun Highway.

Route 3: from the Cross Harbour Tunnel via Wuhu interchange and Chatham Road to the Airport Tunnel and then across Kowloon Bay reclamation to Lei Yue Mun via the Kwun Tong Road. The total estimated cost of improvements to this route is \$575 million. Expenditure to 31 March 1983 is expected to amount to \$499 million, mainly for the Airport Tunnel and its approaches (\$429 million). The tunnel is already completed. Allocation of \$39 million in 1983-84 is mainly for the Airport Tunnel Road and its approaches (\$27 million).

Route 4: from Lai Chi Kok via Ching Cheung and Lung Cheung Roads, past the southern entrance to the Lion Rock Tunnel to join the Kwun Tong Road at Ping Shek and then to join Route 3 at Ngau Tau Kok. The total estimated cost of improvements to this route is \$247 million. Expenditure to 31 March 1983 is expected to amount to \$113 million. Allocation of \$49 million in 1983-84 is mainly for the elevated road from Ngau Tau Kok Road to Kowloon Bay (\$46 million).

Route 5: this is a proposed route from Sha Tin to Tsuen Wan for which a feasibility study has just been completed. Detailed planning is due to start in 1983-84 with expenditure during the year of about \$10 million.

Route 6: from the interchange north of Mei Foo Sun Chuen via the Castle Peak Road through Tsuen Wan to join Route 2 at the eastern end of the Tuen Mun highway. The total estimated cost of improvements to this route is \$234 million. Expenditure to 31 March 1983 is expected to amount to \$117 million, mainly in respect of the Tai Wo Tsuen interchange on Castle Peak Road (\$35 million) and the Castle Peak Road/Texaco Road grade separated intersection (\$39 million), both of which have now been completed. Expenditure of Route 6 projects in 1983-84 is estimated at \$46 million.

Route 7: from Aberdeen westwards on reclamation via Kellett Bay, Telegraph Bay and Sandy Bay to join Connaught Road at the western reclamation, and then via Connaught Road, Harcourt Road and Gloucester Road to Victoria Park. The total estimated cost of improvements to this route is \$2,077 million. Expenditure to 31 March 1983 in respect of this route is expected to amount to \$51 million, almost entirely for the widening of Connaught Road Central which has now been completed. Allocation of \$6 million in 1983-84 is mainly for the investigation and detailed design of the elevated road along Connaught Road (\$5 million).

Route 8: from Victoria Park to Chai Wan via the Hong Kong Island Eastern Corridor which is at present under construction. The total estimated cost of improvements to this route is \$1,686 million. Expenditure to 31 March 1983 is expected to amount to \$628 million, almost entirely in respect of the Hong Kong Island Eastern Corridor. Allocation of \$427 million in 1983-84 is mainly for the Hong Kong Island Eastern Corridor.

15 In addition to improvements to the main routes, expenditure is envisaged in 1983-84 of \$451 million for secondary routes, miscellaneous minor roadworks and roads within new town layouts. The area traffic control system which is designed to increase the capacity of existing roads by improving traffic flow is already operating successfully in West Kowloon and is being extended to cover East Kowloon and the northern part of Hong Kong Island.

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

	<i>1978-79</i>	<i>1979-80</i>	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>	<i>1983-84</i>
	<i>(\$ mn)</i>	<i>(\$ mn)</i>	<i>(\$ mn)</i>	<i>(\$ mn)</i>	<i>(Revised Estimates)</i>	<i>(Draft Estimates)</i>
					<i>(\$ mn)</i>	<i>(\$ mn)</i>
Hong Kong	149	206	328	327	571	587
Kowloon	91	127	128	175	221	256
New Territories	<u>265</u>	<u>263</u>	<u>352</u>	<u>689</u>	<u>964</u>	<u>918</u>
Total	<u>505</u>	<u>596</u>	<u>808</u>	<u>1,191</u>	<u>1,756</u>	<u>1,761</u>

(b) *Kowloon-Canton Railway*

17 The programme for the modernization and electrification of the Kowloon-Canton Railway which began in October 1975 is expected to cost \$3,100 million. The programme includes double tracking, electrification, electronic signalling, refurbishment and modernization of existing stations, the provision of new stations and of interchange facilities with the Mass Transit Railway at Kowloon Tong Station and with buses and other public transport services at other stations.

18 The electrified service to Sha Tin commenced operation in May 1982. Work on double tracking is substantially complete and reballasting is still in progress. Installation of the signalling system will follow the completion of reballasting works.

19 When all the works have been completed, the railway will be dual tracked and fully fenced from Hung Hom to Lo Wu. Passenger services will be provided by air-conditioned electric trains travelling at between 80 and 100 kilometres per hour providing a 4 minute service during peak hours between Sha Tin and Hung Hom and a 15 minute service beyond Sha Tin. Freight traffic and through train services to Guangzhou are also expected to increase significantly.

20 Nearly all the main contracts for the modernization and electrification programme have now been awarded. Total expenditure incurred up to the end of 1982-83 is expected to amount to \$2,312 million, of which \$732 million is expected to be spent in 1982-83. The estimate of expenditure in 1983-84 is \$412 million.

21 Electrified services will be operated up to the new Tai Po Market Station in May 1983 and will be extended to Lo Wu by July of the same year.

22 Railway operations were taken over by the recently incorporated Kowloon-Canton Railway Corporation on 1 February 1983, and with effect from the same date all the existing assets of the railway were vested in the Corporation. The modernization and electrification programme will be completed at Government expense, and the completed works will then also be handed over to the Corporation.

(c) *Mass Transit Railway*

23 The M.T.R. Tsuen Wan Extension was opened in May 1982, approximately six months ahead of the original programme. The final construction cost is estimated to be \$3,900 million which is well within the original budget of \$4,085 million. Together with the Modified Initial System, the railway is now carrying about 1.2 million passengers per day.

24 In December 1982, the Government agreed to the construction of the Island Line by the Mass Transit Railway Corporation. The length of this extension of the railway will be 25 kilometres compared with the length of the Modified Initial System and Tsuen Wan Extension of 15.6 kilometres and 10.5

kilometres respectively. The Island Line will run from Sheung Wan in the west to Chai Wan in the east. There will be a total of 14 stations of which 12 will be underground. The section from Admiralty to Chai Wan is scheduled to open in mid 1985 with the remaining section opening in 1986.

25 At the end of December 1982, nearly all the major civil engineering and most of the electrical and mechanical engineering contracts on the Island Line had been let. The total construction cost of the project was estimated to be \$7,700 million at 1980 prices and the budget cost for completion, i.e. including cost escalation, is estimated at \$10,500 million.

(d) *Waterworks*

26 Design for the reception and distribution system to handle the increased supply of water from China is well in hand and construction of part of the system is in progress. This is a very large project which will ultimately cost in the order of \$1,600 million, and allocation for works on Stages I and II accounts for a major portion of expenditure on waterworks in 1983-84.

27 The remaining work for receiving additional water from the East River is nearing completion.

28 Work on improvements to urban water supply systems, including those for Ap Lei Chau, Chai Wan and Shouson Hill on Hong Kong Island, and Beacon Hill, Ho Man Tin, Lam Tin and Kowloon Bay in Kowloon, is progressing well. In the New Territories, new water supply systems are being constructed for various rural townships including Yuen Long, Sai Kung, Cheung Chau, Tai Po, Sheung Shui and Fanling. Work on provision of a water supply for Lamma Island will be substantially completed in 1983 and that for South Lantau is in hand.

29 Expenditure in 1983-84 on waterworks is estimated at \$807 million from the Capital Works Reserve Fund. The following table gives the breakdown of this allocation, the total cost of the projects involved and estimated expenditure to 31 March 1983:

<i>Description of projects</i>	<i>Total estimated cost of projects (\$ mn)</i>	<i>Estimated expenditure to 31 March 1983 (\$ mn)</i>	<i>Allocation In 1983-84 (\$ mn)</i>	<i>Percentage Complete as at 31 March 1983 (%)</i>
<i>On-going projects</i>				
(i) Projects of a territory-wide nature	4,410	3,276	467.7	74
(ii) Urban improvements—				
Hong Kong	304	135	95.8	44
Kowloon	179	108	45.6	61
(iii) New Territories projects	884	519	167.0	59
<i>New projects to start in 1983-84</i>	<u>320</u>	<u>—</u>	<u>31.1</u>	<u>—</u>
Total	<u>6,097</u>	<u>4,038</u>	<u>807.2</u>	<u>66</u>

D. SOCIAL SERVICES

(a) Education

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

Primary

31 The Draft Estimates include provision of \$1,587 million for Government and aided primary schools compared with the revised estimate for 1982-83 of \$1,537 million.

32 Free and universal primary schooling has been available since 1971 and there is a surplus of places in some primary schools in older parts of the urban area. Notwithstanding this surplus, it is the Government's policy that no child should have to travel an unreasonable distance to attend primary school and 11 new primary schools are expected to be completed in 1983-84 in conjunction with the development of public housing estates in the new towns, and other developing areas.

Secondary

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

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

35 It is the Government's aim to increase during the 1980s the number of places in schools, technical institutes and adult education centres to meet the full demand from Form III leavers who are suitable for the kind of courses provided. In pursuit of this objective, expenditure is envisaged in 1983-84 of \$1,889 million on secondary schools and technical institutes compared with the revised estimate for 1982-83 of \$1,742 million.

36 In September 1982, there were 56 460 subsidized Form IV places in secondary schools. By September 1983, the number of such places will increase to 58 050. At the five technical institutes, the number of full-time places on craft and diploma courses will increase from just under 3 800 in October 1982 to 4 700 in September 1983 and the number of part-time day courses are planned to increase from just under 10 600 to 13 800. Some Ordinary Diploma and Ordinary Certificate courses were transferred from the Polytechnic to the institutes in 1981 and 1982. This process of transfer, which will continue in 1983-84 is in line with a recommendation in the 1978 White Paper to enable the Polytechnic to concentrate a greater proportion of its work at the Higher Diploma and Higher Certificate levels.

Qualificative improvements

37 A number of major improvements in standards of education and child care recommended by the White Paper on Primary Education and Pre-primary Services were introduced in September 1982 including—

- (a) a scheme of fee assistance for needy children attending kindergartens and child-care centres; and
- (b) additional teachers in primary schools to alter the teacher to class ratio from 1.1 to one to 1.2 to one and increase the number of senior teachers.

38 A system of controlling Primary One admission will be introduced with effect from September 1983, under which the permitted age of entry into Primary One will be lowered to five years and eight months and the maximum class size reduced from 45 to 40 pupils, and to 35 pupils for schools adopting the activity approach.

39 The Draft Estimates include provision of \$18 million in capital subventions for building and equipping new primary school buildings, and a further \$120 million will be spent under the Public Works Programme for the construction of 32 primary schools.

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

41 The Government is also engaged in a major secondary school building programme which will produce some 39 new schools over the next three to four years. The Draft Estimates include provision of \$133 million under the Public Works Programme expenditure for the construction of 22 secondary schools. In addition provision of \$98 million in capital subventions to sponsoring organizations is included for building and equipping new school buildings.

42 In order to allow schools to concentrate more staff resources in the areas of remedial teaching of English and Chinese, two additional graduate teachers were provided in September 1982. It is planned that one further graduate teacher will be provided in September 1983 and two further non-graduate teachers as and when trained non-graduate teachers are available. The estimated expenditure on these developments in 1983-84 is \$68 million.

43 To train sufficient non-graduate teachers for the various approved developments two annexes were opened in the teacher training colleges in September 1982 and the enrolment of students will be increased from 2 480 to 3 073 full time equivalents in September 1983. A new Institute of Language in Education started operation in September 1982 and provided refresher courses for some 200 language teachers in the first year of operation. The number of teachers attending courses will rise annually by 200 until 1986-87 when places for 1 000 teachers will be provided.

Post-secondary and tertiary level

44 During 1982-83 assistance to the Baptist College continued to be provided under the scheme of assistance for post-secondary colleges recommended by the 1978 White Paper. It has however been agreed in principle that advising on the development and funding of the Baptist College should in future be undertaken by the University and Polytechnic Grants Committee (U.P.G.C.) and this is planned to commence from the 1983-84 academic year. The estimate of expenditure of \$27 million on the post-secondary colleges in 1983-84 does not provide for any grant recommendation from the U.P.G.C. for the Baptist College for the 1983-84 academic year. Since September 1982 grants and loans to students of the Baptist College on Post-Form VI courses have been brought into the student finance scheme administered by the secretariat of the U.P.G.C.

45 The Draft Estimates provide \$1,225 million for expenditure in connection with university and Polytechnic education. This compares with the revised estimate for 1982-83 of \$1,142 million. The U.P.G.C.'s recommendations for grants in the triennium which commenced in mid-1981 take account of an increase in the annual student growth rate at the universities from 3% to 4%. They also provide for the commencement in September 1983 of degree course at the Polytechnic in Social Work, Electronic Engineering, Computing Studies, Applied Science and Mathematics and Mechanical Engineering, and for the enrolment of some 480 part-time students for degree courses at the Chinese University.

46 These grant levels include expenses in connection with the development of a medical school at The Chinese University of Hong Kong and the dental school at the University of Hong Kong, for which earmarked grants of \$71 million and \$57 million have been provided respectively. In September 1982 the medical school had its second intake of 80 students, while the dental school's fourth intake of students in September 1983 will bring the student numbers to planned capacity.

47 \$211 million has been provided in capital expenditure for the universities and Polytechnic in 1983-84 to enable completion of major building projects, and development of new projects.

48 Schemes of financial assistance for students at the post-secondary and tertiary level provide for grants and loans to students at the universities, Polytechnic and post-advanced level students at the Baptist College, and loans to students at the Colleges of Education, Lingnan and Shue Yan Colleges. In addition a scheme of assistance provides loans for full time students on first degree or Higher National Diploma courses in the United Kingdom. The estimated gross expenditure on grants and loans in 1983-84 is \$205 million compared with the revised estimate for 1982-83 or \$185 million.

49 A new Technical Education and Industrial Training Department was formed on 1 April 1982. It administers grants to the Vocational Training Council (V.T.C.) which advises the Government on technical education and

industrial training and is responsible for operating technical institutes and industrial training centres. \$12 million is provided for the expansion of two technical institutes in the Capital Works Reserve Fund. On completion these will be transferred to the V.T.C. The department is also responsible for promoting apprenticeship training and vocational training for the disabled.

50 The total estimate for the education programme in 1983-84, compared with the revised estimate for 1982-83 is as follows:

	<i>1982-83</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$ mn)</i>	<i>1983-84</i> <i>(Draft</i> <i>Estimates)</i> <i>(\$ mn)</i>
Education Department	517.0	611.5
Education Subventions	3,125.0	3,289.6
Technical education and industrial training	146.0	146.2
U.P.G.C.	1,142.0	1,225.2
Capital works (Public Works Programme)	<u>231.5</u>	<u>279.6</u>
	<u>5,161.5</u>	<u>5,552.1</u>

(b) Medical and Health

51 The main objectives of the Government's medical policy are the prevention and control of communicable diseases, the promotion of personal health and the treatment of the sick and injured (including, where necessary, their rehabilitation). Responsibility for the medical social service was transferred from Medical and Health Department to the Social Welfare Department.

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

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

The process of regionalization has been continued by the provision of additional staff to strengthen the regional offices for Hong Kong, Kowloon and the New Territories. In 1983 the existing New Territories region will be split into two regions with the existing New Territories regional office serving East New Territories and a new regional office for the West New Territories. To develop further the integration of government and subvented medical services by enabling subvented hospitals to assume a greater role in the treatment of acute hospital cases, development programmes are under way in the Caritas, Pok Oi and Yan Chai Hospitals and the Ruttonjee Sanatorium, for which capital subventions of \$54 million in 1983-84 have been provided.

- (b) *Each region to be served with the appropriate general and specialist facilities* In addition to the construction of general and specialist hospitals, sixteen new clinics and polyclinics are presently included in the Public Works Programme. The following projects are due for completion in 1983-84—

	<i>Target completion date</i>
Kowloon East Polyclinic	Mid-1983
Sai Ying Pun Jockey Club Clinic—improvements to building services installations	Mid-1983
To Kwa Wan Clinic	September 1983

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

The formula for determining the need for hospital beds is constantly being refined by the M.D.A.C. in terms of the actual number of beds required, rather than a crude bed: population ratio. By the end of 1982-83, there will be some 22 100 beds in government, subvented and private hospitals. The Draft Estimates provide for the establishment of some 1 500 additional beds which, together with the existing supply, will meet approximately 80% of the estimated requirement. In addition to \$150 million for the completion of the Prince of Wales Hospital with its related polyclinic and staff quarters, a further \$40 million will be spent in 1983-84 for a new hospital project in Tuen Mun.

- (d) *School dental service*

This aim of this service is to provide dental health education and conservation treatment to primary school children. Two school dental clinics are currently in operation at the MacLehose Dental Centre and at Argyle Street providing treatment for children in Primary 1 to 3. Six other clinics are planned to extend the service progressively to cover all primary school children.

53 The Draft Estimates provide for expenditure by the Medical and Health Department in 1983-84 of \$1,771.6 million compared with the revised estimate for 1982-83 of \$1,613 million, and for expenditure on medical subventions of \$915.2 million compared with the revised estimate for 1982-83 of \$780 million.

54 The total estimate for the medical and health programme in 1983-84 compared with the revised estimate for 1982-83 is as follows—

	<i>1982-83 (Revised Estimates) (\$ mn)</i>	<i>1983-84 (Draft Estimates) (\$ mn)</i>
Medical and Health Department	1,613.0	1,771.6
Medical subventions	780.0	915.2
Capital works	201.5	357.0
	<u>2,594.5</u>	<u>3,043.8</u>

(c) Social Welfare

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

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

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

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

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

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

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

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

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

Progress

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

<i>Activity area</i>	<i>Service</i>	<i>1977-78</i>	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>	<i>1983-84</i>
Social security	Public assistance (caseload)	48 157	47 000	46 200	48 300	48 500
	Special needs allowances (caseload)	152 884	175 300	185 300	213 200	218 000
Services for offenders	Correctional institutions (number of places)	550	586	586	586	586

<i>Activity area</i>	<i>Service</i>	<i>1977-78</i>	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>	<i>1983-84</i>
Family welfare services	Counselling (caseload)	15 050	22 526	25 000	26 000	26 900
	Day care centres (number of places)	9 550	11 006	11 296	13 766	16 500
Services for the elderly	Homes for the aged (number of places)	2 750	3 235	3 730	4 235	4 630
	Hostels (number of places)	650	930	1 140	1 350	2 150
	Care and attention homes (number of places)	233	375	375	500	1 280
Community building	Community and youth offices	15	17	19	19	19
	Community centres, estate community centres and community halls	33	41	45	53	58
Personal social work among young people	School social work (number of student guidance officers)	—	96	218	215	215
	Outreaching social work (number of teams)	—	18	18	18	18
Rehabilitation	Special child care centres (number of places)	149	347	420	500	660
	Residential care for the disabled (number of places)	1 659	2 127	2 308	2 525	3 475

58 The public assistance scheme is designed to bring the income of a family, or of a single person in certain circumstances, up to a level where essential needs such as food and clothing can be met. The cost of accommodation is covered separately by a rental allowance, the maximum rates of which were increased in June 1981 to 200% and 150% of the highest public housing rent for singleton- households and families respectively. The public assistance caseload, which fell steadily from around 55 500 in 1976 to around 44 700 in 1980, rose by the end of 1982 to around 50 100. Only some 4.8% of the present caseload is in respect of persons unemployed or earning a low income.

59 The basic rates for public assistance and the special needs allowances (disability and old age) were increased by 29% in June 1982. The Draft Estimates include provision of \$403 million for public assistance (compared with \$309 million in 1982-83) and \$658.8 million for special needs allowances (compared with \$468 million in 1982-83). Included in this latter figure is \$8.8 million for a non-means-tested death grant which will be introduced in 1983-84. This will be payable to the dependent survivors of persons who die in employment if the deceased are not covered by the terms of the Employment Ordinance or if the survivors are not in receipt of any other form of compensation or *ex-gratia* assistance.

60 A large proportion of recurrent expenditure will continue to be channelled through social welfare subventions to voluntary agencies. In October 1981 a revised subvention system was approved under which the social services and facilities provided by organizations and trusts will be classified as Category I or Category II depending on their nature. Services in Category I receive

subvention at 100% of the standard cost and services in Category II part only of the standard cost or a lump sum if standard costs cannot be established. Standard costs have been determined for eight services and subject to the advice of the Social Welfare Advisory Committee and consultation with the voluntary sector, the subventions in 1983-84 for these eight services will be determined in accordance with the standard cost. Prior to full implementation of the new subvention system in 1984-85, subventions for other services, in the interim, will continue to be granted for Category I services at 100% of existing recognized expenditure, adjusted for price increases, and for Category II services at a fixed percentage based on the average level of financial support for that service (adjusted for price increases) or an appropriate lump sum. In calculating subventions to social welfare agencies all income other than fee income received by agencies is disregarded.

61 After taking into account the requirements for maintaining existing services, including the full year's cost of new services introduced in 1982-83, and for expanding and improving services in 1983-84, provision of \$352 million for recurrent subventions of social welfare services is included in the Draft Estimates (including \$53.8 million for rehabilitation services). This compares with \$312 million in 1982-83 (of which \$38 million was for rehabilitation services).

62 The total estimate for the social welfare programme in 1983-84 compared with the revised estimate for 1982-83, is as follows—

	<i>1982-83</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$ mn)</i>	<i>1983-84</i> <i>(Draft</i> <i>Estimates)</i> <i>(\$ mn)</i>
Social Welfare Department	1,280.0	1,319.2
Social welfare subventions	312.0	363.0
Capital works	<u>50.1</u>	<u>29.1</u>
	<u>1,642.1</u>	<u>1,711.3</u>

(d) Rehabilitation

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

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

64 As part of a concerted programme to prevent serious disability by the detection of abnormalities as early as possible, the Medical and Health Department operates a comprehensive observation scheme for the development testing of children from birth to five years old. The Draft Estimates provide funds for 22 full-time and 20 part-time centres for such tests.

65 When children enter primary school they are screened for possible vision or hearing impairment and, in due course, for difficulties in learning and possible retardation. Children identified as needing further assessment or remedial treatment are referred to specialists either in the Medical and Health or Education Department and, subsequently, placed in the type of school or class not appropriate to their capabilities. Vocational training centres for the disabled are also operated to provide training for employment.

66 During 1982-83 the major changes introduced in the educational field have been improvements in manning scales and headship allowances in special schools, and a pilot scheme in government and aided primary schools to improve special education provision by operating revised resource classes with the aim of furthering integration. This will be reviewed in 1983-84, but provision has been made in the Draft Estimates for an additional 834 places in aided special schools, and special and resource classes in ordinary aided schools. The approved capital programme to build new special schools and to convert ordinary school buildings for use as special schools will continue in 1983-84 and \$15 million is included in the Draft Estimates.

67 In the field of medical rehabilitation, priorities are the improvement of services for the mentally ill, more hospital beds for the mentally retarded and the setting up of medical rehabilitation centres specifically designed to provide intensive in-patient services. The first of three government medical rehabilitation centres will be located in the Prince of Wales Hospital. In the subvented sector, the Hong Kong Society for Rehabilitation is building a centre at Sandy Bay for which capital expenditure of \$26 million will be required in 1983-84.

68 Rehabilitation services in the social welfare field continue to be expanded and improved through the Government and subvented voluntary agencies. Funds are provided for 45 additional places in day child care centres for moderately disabled children, an additional special child care centre for 60 disabled children, and four additional social/recreational centres for the disabled in the subvented sector. During 1983-84, the Social Welfare Department plans to open additional facilities consisting of a composite club for the disabled, two sheltered workshops and two work activity centres for the disabled.

69 In the technical education and industrial training field, responsibility for the allocation of funds to aided vocational training centres for the disabled was transferred from the Social Welfare Department to the Technical Education and Industrial Training Department in 1982-83. 120 additional vocational training places in both government and subvented sectors will be provided in 1983-84, bringing the total to 600. It is expected that by 1983 the vocational assessment service will be able to process about 450 cases per year.

70 The primary responsibility for providing rehabilitation services is shared by three departments, Education, Medical and Health and Social Welfare. In the Draft Estimates for 1983-84 a total of \$622.91 million is separately identified in these departments for rehabilitation services—

	<i>Recurrent</i> <i>(\$ mn)</i>	<i>Non-recurrent</i> <i>(\$ mn)</i>	<i>Total</i> <i>(\$ mn)</i>
Education	244.88	17.81	262.69
Medical and Health	231.70	26.80	258.50
Social Welfare	72.78	28.94	101.72
	<u>549.36</u>	<u>73.55</u>	<u>622.91</u>

71 However, the real cost of rehabilitation services including staff on-costs, central administration and support, and capital expenditure on the basis of the provision included in the 1983-84 Draft Estimates as compared to the 1982-83 revised estimates is—

	<i>1982-83</i> <i>(\$ mn)</i>			<i>1983-84</i> <i>(\$ mn)</i>		
	<i>Recurrent</i>	<i>Non- recurrent</i>	<i>Total</i>	<i>Recurrent</i>	<i>Non- recurrent</i>	<i>Total</i>
Medical and Health						
Department	240.77	7.79	248.56	310.59	—	310.59
Medical subvention	40.06	13.34	53.40	48.07	27.99	46.06
Education						
Department	57.44	—	57.44	64.52	0.01	64.53
Education subvention	208.17	11.58	219.75	222.00	17.80	239.80
Social Welfare						
Department	23.87	0.01	23.88	26.90	3.95	30.85
Social welfare subvention	37.53	34.76	72.29	53.80	24.99	78.79
Technical Education and Industrial Training						
Department	7.25	2.04	9.29	12.79	15.62	28.41
Labour Department	5.44	1.08	6.52	7.40	0.46	7.86
Social Services						
Branch	4.30	—	4.30	4.62	—	4.62
	<u>624.83</u>	<u>70.60</u>	<u>695.43</u>	<u>750.69</u>	<u>90.82</u>	<u>841.51</u>

E. SECURITY SERVICES

(a) Immigration

72 In 1982, the Immigration Department recorded a 5% increase in passenger traffic entering and leaving Hong Kong to 25 million. Legal immigration from China was 53 847. The number of illegal immigrants and overstayers repatriated totalled 14 798.

73 The Draft Estimates provide for total expenditure of \$270 million on immigration in 1983-84, compared with the revised estimate of \$238 million for 1982-83.

74 Preparations for the production of a new and more secure identity card, the introduction of a modern computer-based records system for identity cards, and the replacement of 4.5 million cards now in circulation over a four-year period have been completed, and the project will begin in 1983-84. Further improvements in immigration controls and facilities for travellers between Hong Kong and China and Macau are planned for 1983-84. Arrangements are being completed to deal with the additional work resulting from the implementation of the British Nationality Act 1981 and consequential changes to Hong Kong immigration law.

(b) Law and order

75 Expenditure on law and order covers the costs of Hong Kong's police and correctional services, together with allied services related to the enforcement of the law in Hong Kong and including services necessary for the detention of Vietnamese refugees.

76 Total provision in the Draft Estimates for law and order is \$2,752 million, compared with a revised estimate of \$2,411 million in 1982-83. The largest area of spending in 1983-84 is the Royal Hong Kong Police Force, for which \$2,011 million is required, including the Auxiliary Police Force. Expansion of the Police Force in 1983-84 will be limited and the number of disciplined personnel in the regular force will increase from 23 476 at the end of 1982 to about 24 420 at the end of 1983.

77 The Force was again required to deploy considerable resources on land and at sea—in the effort to prevent illegal immigration and to capture illegal immigrants. The phased programme for the expansion of the Marine Police fleet (from 1980 to 1990) continued. Tenders for 15 additional vessels were invited in 1982-83 and tenders for two more will be invited in 1983-84. By the end of that year 12 of the vessels in the programme will have been delivered (at a total cost of \$12 million) and 15 will have been ordered.

78 Installation of the comprehensive communication system for the Mass Transit Railway's Modified Initial System and Tsuen Wan extension was completed in 1982-83. Plans for enhancing the Police communications system will continue in 1983-84. A total commitment of \$14.8 million for the supply, installation and commissioning of a closed circuit television system for policing the Mass Transit Railway Island Line has been approved and expenditure will be spread over a period of three years commencing in 1983-84. Development of the ultra high frequency personal beat radio scheme will proceed in 1983-84 to cover Airport, Sha Tin and Tuen Mun Divisions. Implementation of the joint maritime communications project and the updating of Marine Police radar are proceeding, and most of the expenditure will be incurred in 1983-84.

79 It is estimated that \$105 million will be spent on new police buildings in 1983-84, compared with \$466 million in 1982-83. A further 21 neighbourhood police units and report centres are planned to open in 1983-84 to encourage more reporting of crime and better communication between the police and the public.

80 There was an increase of 10.8% in overall crime in 1982. Violent crime, which registered a significant drop in 1981, increased by 11%; robberies increased by 5% and burglaries increased by 11.2%. The prison muster of convicted criminals and persons held on remand by the Correctional Services Department rose from 7 018 in January to 7 975 in December 1982, a rise of 13.6% over the period.

81 An estimated total of \$114 million is required in 1983-84 for capital expenditure on Correctional Services buildings and installations, including the expansion of Hei Ling Chau, a new workshop at Pik Uk Prison, additional departmental staff quarters and a new maximum security prison at Shek Pik. This compares with \$135 million in 1982-83.

82 The expansion of Correctional Services industries continued in 1982-83. The Draft Estimates provide for gross expenditure on raw materials for this purpose to increase to \$17.5 million in 1983-84. The total commercial value of goods and services in 1982-83 amounted to about \$57 million.

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

84 A computer-aided transcription system to improve court reporting services was purchased and installed in 1982-83.

85 It is estimated that \$280 million, compared with \$142 million in 1982-83, will be spent on the Judiciary's buildings and installations, notably the new Supreme Court Building and the District Court and Magistracy Building on the Wan Chai Reclamation.

(c) Defence

86 Expenditure on defence covers the cost of maintaining a garrison of Her Majesty's Forces in Hong Kong, capital works related to accommodation for the garrison and defence installations, and the auxiliary services which are available to assist the armed forces and the civil power in times of emergency: the Royal Hong Kong Auxiliary Air Force and the Royal Hong Kong Regiment (The Volunteers).

87 The Draft Estimates provide for total expenditure of \$1,557 million on defence in 1983-84, compared with the revised estimate of \$1,408 million for 1982-83. The main item in defence spending is the Defence Costs Agreement, effective for seven years from 1 April 1981, under which the United Kingdom Government provides contingents from the Royal Navy, the Army and the Royal Air Force under the unified command of the Headquarters British Forces to preserve the integrity of Hong Kong's borders and to support the civil Power in preserving stability within Hong Kong.

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

89 The Agreement also provides for a programme of capital works and maintenance designed to ensure that the garrison is adequately, efficiently and rationally housed and that the value of property occupied by the Ministry of Defence is maintained. Expenditure on these works services for 1983-84 will total \$186 million. This sum includes about \$66 million for work on new barracks for the additional battalion. In addition to works services under the Agreement there is a reprovisioning programme for military facilities at 100% cost to the Hong Kong Government in order to release military land required for public purposes. The main reprovisioning item is the replacement of the facilities at Lyemun Barracks and Sham Shui Po Camp. The release of Lyemun Barracks will be delayed to provide temporary accommodation for the new infantry battalion until its new barracks are completed (scheduled for 1986). Expenditure on the Lyemun and Sham Shui Po reprovisioning programme in 1983-84 is estimated at \$110 million.

90 The capital costs of the replacement of five patrol craft, which form the Royal Navy Squadron in Hong Kong, are subject to separate arrangements outside the terms of the Defence Costs Agreement. The new vessels are scheduled for phased delivery between April 1983 and September 1984. \$207 million is required in 1983-84 for the Hong Kong Government's 75% contribution to the capital cost in the year.

APPENDIX C

TAX BANDS

A comparison of the position in 1982-83 with that of five years ago (1977-78, the year before the removal of the 30% maximum tax rates) shows—

firstly that the single personal allowance (plus additional personal allowance) has increased from \$12,500 to the present level of \$28,000, and the personal allowance for married couples has increased from \$25,000 to \$56,000—that is to say, increases in basic allowances of 124%;

secondly that the allowance for the first child has increased from \$4,000 to \$8,000, and the allowance for the second child has increased from \$3,000 to \$5,500—that is to say, increases of 100% and 83% respectively; and allowances for the third to ninth children have also increased significantly; and

thirdly that the dependent parent allowance, reintroduced in 1978-79 at \$4,000 per dependent parent (no such allowance was available in 1977-78) has been successively increased to \$8,000 for each such dependent parent.

2 All this means that tax thresholds have been raised by a very considerable extent. For example, a married couple who would have entered the tax net on a joint income of \$25,001 in 1977-78 do not now enter the tax net until their joint income exceeds \$56,000; a married couple with two children who would have become liable to tax in 1977-78 on an income in excess of \$32,000 are now exempt until the total income is in excess of \$69,500; and a married couple with two children and two dependent parents who became liable in 1977-78 on income in excess of \$32,000 are today exempt unless their income exceeds \$85,500—an increase in the tax threshold of no less than 167%.

3 Given these very significant increases in the levels at which persons become liable to pay tax, levels which in themselves are far in excess of the year on year rate of increase in consumer prices over the past five years, it can be seen that not only have the tax exempt been more fully protected from the effect of inflation on their liability to tax but, at the same time, the great majority of those within the tax net have also been protected in that these increased allowances have had the effect of deferring entry into the higher tax brackets.

4 The effects of inflationary fiscal drag have thus generally been negated and across the entire income spectrum, even those whose increments to taxable income have done no more than keep pace with inflation are in general no worse off today than they were five years ago in terms of net (after tax) take home pay and real purchasing power. In fact, Inland Revenue Department statistics of those liable to salaries tax show that the average per capita increase in taxable incomes during the same five-year period has been of the order of 20% per annum.

APPENDIX D

DETAILS OF REVENUE PROPOSALS EFFECTIVE FROM BUDGET DAY

(a) *Dutiable commodities*

	<i>Old rate</i>	<i>New rate</i>
	\$	\$
<i>Liquor:</i>		
<i>Wines and spirits</i>		<i>per litre</i>
Brandy	27.05	67.00
Liqueurs, Whisky, Gin, Rum, Vodka and other spirituous liquors	21.00	48.00
Champagne and other sparkling wines	15.60	30.00
Still wines above 15% alcohol by volume	8.60	20.00
Still wines not more than 15% alcohol by volume	7.15	17.00
Still wines above 15% alcohol by volume imported in casks	4.95	12.00
Still wines not more than 15% alcohol by volume imported in casks	4.30	10.00
Intoxicating liquors in this part above the strength of 45% alcohol by volume, for every 1% above such strength in addition to the duties specified above	0.55	1.30
<i>Cider and Beer</i>		<i>per hectolitre</i>
Cider and Perry and other similar beverages	88.00	124.00
Beer of Hong Kong origin not exceeding 1030° original gravity	37.20	66.00
Beer of other origin not exceeding 1030° original gravity	52.60	81.40
Beer of any origin for every degree by which the original gravity exceeds 1030 an additional	1.24	2.20
<i>Non-European-type Wines and Spirits</i>		<i>per hectolitre</i>
Non-European-type wines of Hong Kong origin	384.95	584.00
Non-European-type wines of other origin	428.95	628.00
Non-European-type spirits including Chinese type spirits, Sake, Arrack, of Hong Kong origin	192.50	292.00
Non-European-type spirits including Chinese type spirits, Sake, Arrack, of other origin	217.80	317.00
Non-European-type wines or spirits of Hong Kong origin where the alcoholic strength by volume exceeds 30%, for every 1% in excess an additional	7.90	12.00
Non-European-type wines or spirits of other origin where the alcoholic strength by volume exceeds 30%, for every 1% in excess an additional	8.80	13.00
<i>Industrial type</i>		<i>per litre</i>
Ethyl alcohol, and admixtures containing ethyl alcohol of Hong Kong origin	1.90	2.92
Ethyl alcohol, and admixtures containing ethyl alcohol of other origin	2.15	3.17
Ethyl alcohol of Hong Kong origin where the alcoholic strength by volume exceeds 30%, for every 1% in excess an additional	0.08	0.12
Ethyl alcohol of other origin where the alcoholic strength by volume exceeds 30%, for every 1% in excess an additional	0.09	0.13
Methyl alcohol and admixtures containing methyl alcohol	2.20	3.24
Methyl alcohol where the alcoholic strength by volume exceeds 25%, for every 1% in excess an additional	0.09	0.13

	<i>Old rate</i>	<i>New rate</i>
	\$	\$
<i>Tobacco:</i>	<i>per kilogram</i>	
Imported cigars	43.65	175.00
Imported cigarettes.....	44.45	178.00
Chinese prepared tobacco.....	8.15	33.00
Other imported manufactured tobacco	35.05	140.00
Unmanufactured tobacco of Malawi origin.....	32.20	130.75
Other unmanufactured tobacco.....	32.85	131.40

<i>Hydrocarbon oils:</i>	<i>per litre</i>	
Motor spirit and aircraft spirit.....	1.20	2.00
Diesel oil for road vehicles.....	0.35	1.00

(b) Vehicle licence fees

	<i>1979 fees (a)</i>	<i>May 1982 loading (b)</i>	<i>Present fee (c)=(a)+(b)</i>	<i>1979 fees × 1.8 (d)=(a) × 1.80</i>	<i>New fees (e)=(b)+(d) rounded</i>
<i>Private cars</i>					
Up to 1 500 c.c.	600	1 200	1 800	1 080	2 300
Up to 2 500 c.c.	900	1 800	2 700	1 620	3 400
Up to 3 500 c.c.	1 200	2 400	3 600	2 160	4 500
Up to 4 500 c.c.	1 500	3 000	4 500	2 700	5 600
Over 4 500 c.c.	1 800	3 600	5 400	3 240	6 700
<i>Goods vehicles</i>					
Up to 20 cwt.	400	—	400	720	700
Up to 45 cwt.	800	—	800	1 400	1 400
Up to 75 cwt.	1 200	—	1 200	2 160	2 100
Over 15 cwt.	1 600	—	1 600	2 880	2 800
<i>Motor cycles</i>	200	400	600	360	750
<i>Taxis</i>	900	—	900	1 620	1 600
<i>Private light buses</i>	900	—	900	1 620	1 600

(c) Driving licence fees

	<i>Old fee</i>	<i>New fee</i>
Provisional licence	\$100	\$300
Driving test	\$150	\$300
Driving licence (1 year)	\$50	\$150
Driving licence (3 year)	\$150	\$450

APPENDIX E

THE EXCHANGE FUND

Origin and purpose

The Fund was constituted by the Currency Ordinance of 1935 (later renamed the Exchange Fund Ordinance) with the stated purpose of regulating the exchange value of the currency of Hong Kong. Under the present floating rate regime the Fund only intervenes in the foreign exchange market in an effort to smooth out erratic movements in the exchange rate. Since 1981 borrowing powers of the Fund have been used to influence the level of money market interest rates in Hong Kong, and also indirectly the exchange rate.

Source of funds

2 The financial resources come from four principal sources: firstly, the proceeds of all bank notes issued by the note issuing banks; secondly, the proceeds of the issue by the Government of coins; thirdly, money representing the major part of the Government fiscal surpluses and fourthly, the Fund's net earnings.

Outgoings

3 The principal outgoings of the Fund are in respect of interest on Debt Certificates issued to the Treasury in exchange for that part of the Government's fiscal surpluses transferred to the Fund, the costs of maintaining the circulation of bank notes and coins, which are a liability of the Fund, and part of the cost of administering the Fund.

Investment and management of the Fund

4 The Fund is entirely managed from Hong Kong. It is under the control of the Financial Secretary in consultation with the Exchange Fund Advisory Committee. This Committee, which comprises the Financial Secretary as Chairman, the chief executives of the two note issuing banks and the Secretary for Monetary Affairs, prescribes the investment policy and objectives of the Fund, which change.

5 The day to day management of the Fund is delegated to the Secretary for Monetary Affairs. The bulk of the Fund is held in assets denominated in foreign currencies: U.S. dollars, Canadian dollars, Deutchemarks, Swiss francs, Guilders, Yen and sterling. The Fund also holds some Hong Kong dollars. Part of the Fund is placed on interest bearing deposit with first class banks in Hong Kong and overseas, and part is invested almost entirely in a variety of financial instruments, including bonds, notes and treasury bills. Instruments are only acquired which have good marketability and which are issued by borrowers with high credit standing.

6 Part of the Fund is directly managed by the Monetary Affairs Branch and part by appointed managers. Managers are grouped according to the type of asset held in the portfolios entrusted to them. The performance of the managers in each group is regularly compared with each other, and with the performance of the Monetary Affairs Branch.

Debate adjourned pursuant to Standing Order 54(2).

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT:—In accordance with Standing Orders I now adjourn the Council until 2.30 p.m. on Wednesday, 9 March 1983.

Adjourned accordingly at forty minutes past four o'clock.