

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 29 February 1984****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
SIR JOHN HENRY BREMRIDGE, K.B.E., J.P.

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

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

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

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

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

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

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

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

THE HONOURABLE CHEN SHOU-LUM, C.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

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

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

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

THE HONOURABLE ANDREW SO KWOK-WING, O.B.E., 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 DONALD LIAO POON-HUAI, C.B.E., J.P.
SECRETARY FOR HOUSING

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 COLVYN HUGH HAYE, C.B.E., J.P.
DIRECTOR OF EDUCATION

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

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

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

THE HONOURABLE MARIA TAM WAI-CHU, 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 HENRY CHING, C.B.E., J.P.
SECRETARY FOR HEALTH AND WELFARE

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

THE HONOURABLE RONALD GEORGE BLACKER BRIDGE, J.P.
COMMISSIONER FOR LABOUR

THE HONOURABLE CHAN YING-LUN

THE HONOURABLE MRS. RITA FAN HSU LAI-TAI

THE HONOURABLE MRS. PAULINE NG CHOW MAY-LIN

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

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

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

ABSENT

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

IN ATTENDANCE

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

Papers

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

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| Subsidiary Legislation: | |
| Inland Revenue Ordinance. | |
| Inland Revenue (Interest Tax) (Exemption) (Amendment) (No. 3) Notice 1984..... | 43 |
| Electricity Supply Ordinance. | |
| Electricity Supply (Amendment) Regulations 1984 | 44 |
| Places of Public Entertainment Ordinance. | |
| Film Censorship (Amendment) Regulations 1984..... | 45 |
| Import and Export Ordinance. | |
| Import and Export (Registration) (Amendment) Regulations 1984..... | 46 |
| Public Health and Urban Services Ordinance. | |
| Public Health and Urban Services (Designation of Libraries) (No. 2) Order 1984..... | 47 |
| Public Health and Urban Services Ordinance. | |
| Public Health and Urban Services (Public Markets) (Designation and Amendment of Tenth Schedule) Order 1984..... | 48 |
| Public Health and Urban Services Ordinance. | |
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| Interpretation and General Clauses Ordinance. | |
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| Interpretation and General Clauses Ordinance. | |
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| Road Traffic Ordinance. | |
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| Deposit-Taking Companies Ordinance. | |
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| Deposit-Taking Companies Ordinance. | |
| Notice of Exemption from section | 54 |
| Hong Kong Sea Cadet Corps Ordinance 1983. | |
| Hong Kong Sea Cadet Corps Ordinance 1983 (Commencement) Notice 1984..... | 55 |

| <i>Subject</i> | <i>L.N. No.</i> |
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| Road Traffic (Parking and Waiting) Regulations. | |
| Road Traffic (Temporary Car Parks) Regulations. | |
| Revocation of Designation of Car Parks Notice 1984 | 56 |

Sessional Papers 1983-84:

- No. 42—Draft Estimates of Expenditure 1984-85, Vol. I.
 No. 43 — Draft Estimates 1984-85 Vol. II — Revenue, Funds and Statistical Appendices.
 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 1983.
 No. 45—Report of the Establishment Sub-Committee of Finance Committee for 1983-84.

Government Business

First reading of bill

APPROPRIATION BILL 1984

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 1984

THE FINANCIAL SECRETARY moved the second reading of:—‘A bill to apply a sum not exceeding \$37,332,633,000 to the service of the financial year ending on 31 March 1985’.

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He said:—Sir, I move the second reading of the Appropriation Bill 1984. In 1983 there was a resurgence in Hong Kong's export trade. The growth of 15% in real terms is impressive, particularly as the first quarter was relatively flat⁽¹⁾. A major thrust of our economic, monetary, financial and fiscal policies is directed towards the promotion of exports—goods and servies alike. This is arguably our most important objective, for without the earnings and employment provided by exports Hong Kong has little except a fine harbour

(1) '1983 Economic Background', paras. 1.6 and 2 (footnote 2).

and 5.3 million people. An outcome was a real growth in G.D.P. of 5.9%⁽²⁾. In difficult circumstances our policies have thus met with a degree of success.

2. It is generally useful for our actions or failures to act to be intelligently criticized by various pressure groups and the free press. One outcome is recognition of mistakes that may arguably have been made, thus providing a spur to progress. We all know that no community can stand still and that no government is free of error. Nevertheless the essential balancing of spending priorities against the need to control public sector growth and to limit taxation is regarded by some as a simple administrative task. When affairs go well there is also some reluctance to accept that sensible government policies have played their part. I emphasize part, for of course several factors are involved. Not least a competent and loyal civil service.

3. I believe this year that it is not necessary for me again to rehearse at length before this Council the general line of Government policies. They stand on the record⁽³⁾. We remain determined to build up our general infrastructure; to continue to spend steadily without arbitrary cutbacks and in a disciplined manner on all our long-term programmes for law and order, social, health and medical services, housing, education and transport; to fund new programmes; to introduce fresh legislation as we learn from experience; and to look after those who cannot look after themselves. I acknowledge, indeed I share the view that we should progress steadily in all these areas.

4. We must, however, face the fact that all this has to be paid for. Raising of revenue is a highly subjective matter. There are many ways of skinning a cat; and my proposals today remain open to debate. I believe firmly that economic growth must provide room for growth in wise public sector spending. The corollary is that only economic growth makes this possible, though a sensible government sets its sights on the long-term and is not sidetracked by short-term difficulties. We have certainly experienced temporary problems. For the world as a whole excluding the war years 1982-83 presented arguably the most difficult economic situation since 1930-31, and we are not out of the woods yet.

5. As has recently been announced we have on expert advice revised our estimates of Gross Domestic Product, which has had the effect of increasing them⁽⁴⁾. I must emphasize, however, that the G.D.P. growth rates are less affected; and it is the growth rate that is the important criterion. We can

(2) 1983 E.B. paragraph 1.2.

(3) Paragraph 6 in H.E.'s speech to Legislative Council on 5.10.83. The following extract from H.E.'s Lunar New Year speech of 2 February 1984 is equally specific: 'Although in the last few years our resources have been more limited, nothing will deter us from doing all we can to improve the environment in which our people live, the services available to them, our education system and other programmes which will shape the life-style of future generations.'

(4) 'Estimated G.D.P. growth 1966-83'. See also paragraph 162.

nevertheless palpably afford civilized programmes and policies⁽⁵⁾. While happiness is not ensured by prosperity, at least growing prosperity must result in fewer people facing inevitable unhappiness. At the same time the majority in Hong Kong have by now learned, I believe, the lessons that income must be earned before it is spent; that incentives must be offered; that taxation should be moderate, falling more heavily on the better off; that the proclivities of decent men and women to spend hugely on social and other measures can be restrained only by tough budgetary policies; and above all that growth of public sector expenditure must be related to growth in G.D.P. Hong Kong is no longer poor, but it is certainly not yet rich. Those who compare our programmes with those of presently far richer countries in the West do so at their—indeed our—peril. We must not in particular get locked in to over-generous recurrent expenditure with the inevitable outcome of really drastic increases in taxation.

6. I do not hide my concern at certain worrying trends in Government's revenue and expenditure—particularly recurrent expenditure. A rigorous approach must and will be maintained. This is particularly necessary in the light of the substantial fall in revenue from land sales, which has required major changes in budgetary strategy. The issue is clear. The budgetted revenue for 1982-83 from land sales specifically was \$9.2 billion: the actual revenue in 1983-84 will be about \$1.6 billion. Though naturally welcome, revenue from land sales at the time of the relatively short-lived property boom was of a windfall nature. Subsequently in only two years our annual revenue has suffered *prima facie* about a 25% drop. We thus moved in one year from a large surplus to a large deficit. Nor is rapid improvement in land prices likely. In addition the second payment of \$1.9 billion for Exchange Square due in 1984-85 will not be duplicated in 1985-86 land sales revenue.

7. A calm, steady, clearly understood and balanced approach towards moderating the unforeseen deficits now facing us is thus essential. Such a major adjustment requires time. My prime aim is to get budget deficits below 1% of G.D.P. A deficit of this order can be handled, provided that recurrent expenditure is amply covered. I started on this approach in autumn 1982 when faced with an expected deficit of \$3.8 billion for 1982-83 in place of the

(5) *If my revenue proposals for 1984-85 are accepted, our total tax revenue will be \$27.2 billion. Against an anticipated G.D.P. of \$240 billion this is a percentage of 11.3%. According to the 'Economist' of 3.12.83 (based on O.E.C.D. figures) comparative total tax revenues as a percentage of G.D.P. for certain industrialized countries were as follows:*

| | 1970 | 1982 |
|---------|------|------|
| Sweden | 40.7 | 50.3 |
| Holland | 39.9 | 45.4 |
| France | 35.6 | 43.7 |
| Britain | 37.5 | 40.0 |
| Germany | 32.8 | 37.0 |
| Italy | 27.9 | 33.7 |
| U.S.A. | 30.1 | 31.2 |
| Japan | 19.7 | 26.9 |

Even if we are not strictly comparing like with like, the margins in Hong Kong's favour are striking.

budgetted surplus of \$2.8 billion, and I must continue it in this budget—and again without doubt in next year's. What is required can only be a judicious mix of controlled expenditure and increased revenue. Government borrowing and use of fiscal reserves are then available. This approach may sound simple, but it is not. Much depends on assessment of increased yields from increased prosperity. And the necessary subjective judgments must be subject to constructive open debate. In particular I wish to avoid sudden shocks.

8. A major theme must also be policies that moderate inflation, with particular attention to the burden of increasing consumer prices on the less well off. A good budget is not just a string of figures. It is the stuff of people's lives. And the less well off have absorbed several blows in the last two years.

9. The problems of those countries whose appetites have exceeded their incomes fill the newspapers. Debt without discipline has savaged them. Hong Kong, with its hard-working and intelligent people, must continue to illustrate the benefits of commonsense, work and thrift. We are one of the few communities in the world where real earnings will soon again be rising. This is not fortuitous. It represents the outcome of the Government's steady and consistent policies, though our exports will always remain subject to the purchasing power and import policies of those who buy our products. Change is constantly biting at our heels. There is nothing wrong with change; but we must be careful not to cast experience aside.

10. Not all is good in our economy. Things have taken place that are clearly disgraceful. Further legislation may well be necessary. But greed cannot be cured only by new laws, and self regulation is preferable. Equally required is a proper sense of shame. I share in it.

11. I do not intend to touch on the course of the diplomatic discussions now under way in Peking. It is, however, clear that sentiment about them has had some influence on economic and monetary trends. Uncertainty is possibly a larger threat than lack of confidence. Fixed capital formation has remained low though there are recent indications of improvement⁽⁶⁾. Non-performing bank loans remain a source of concern. But even so many will envy us. Few other places in the world can offer virtually no central government debt, little unemployment, bustling industry, and significant real growth. All is accomplished in freedom. And there is good reason to believe in, and to invest in, the future prosperity and stability of Hong Kong.

1983 Economic Background

12. In 1983 the economy experienced an accelerating export-led recovery. This was particularly noticeable in the last three quarters of the year. For the year as a whole the real growth rate of domestic exports was 14%⁽⁷⁾. This largely reflected the strong economic recovery in the United States, which remains

(6) 1983 E.B. paragraph 2.2 and footnote 8.

(7) 1983 E.B. paragraph 2.

Hong Kong's major market; but it was helped by the depreciation in the exchange value of the Hong Kong dollar. The increase in real terms of 49% in domestic exports to China was also marked. Imports increased by 9% in real terms⁽⁸⁾. Our balance of trade improved accordingly.

13. There was also a recovery in private consumption expenditure in the second half of the year, which provided a growth rate for the year as a whole of 9%. Nevertheless the improvement in export demand was not matched by a recovery in private investment expenditure. This was generally depressed, especially for building and construction where a fall of 13% in real terms occurred. There were signs towards the end of the year that the slump in the property market might be bottoming out and that investment in plant and machinery had begun to recover in the fourth quarter⁽⁹⁾. However there was a fall of 8% in real terms in private investment expenditure for the year as a whole.

14. The growth rate of public sector expenditure on both consumption and capital account was lower than in earlier years. In real terms it was only 4% reflecting the accomplishment of budgetary restraint⁽¹⁰⁾. I thank all those involved.

15. In net terms the increases in the various components of the expenditure on the G.D.P. gave an overall growth rate of 5.9% in 1983, which represented a considerable improvement over the growth rate for 1982 of only 1.1% based on the revised G.D.P. estimates. The recent revisions or rather the updating of the method of estimating expenditure on the G.D.P. have had the effect of changing the estimated growth rates for 1982 and 1983. On the old basis they were 2.4% and would have been over 8% respectively⁽¹¹⁾. This optimistic last figure would have had a major (if misleading) impact.

16. The accelerated growth rate in the economy in 1983 resulted in marked improvements in both the unemployment and underemployment rates. In the fourth quarter the seasonally-adjusted unemployment rate was 4.0% and the underemployment rate was 1.4%. The improvement in the underemployment rate made a major contribution to a noticeable increase of 4.9% in output per employed person. Members well know the importance that I attach to employment figures. Full employment here is probably represented by an unemployment rate between 3% and 3½%.

17. Among the unsatisfactory aspects of the economy in 1983 was the rate of inflation. Although lower than in 1982, this in terms of the Consumer Price

(8) 1983 E.B. paragraph 2.8.

(9) 1983 E.B. paragraph 2.12.

(10) In national account terms, not consolidated account terms.

(11) Estimates of Gross Domestic Product, 1966-83.

Index at about 10% was 1% above my estimate⁽¹²⁾. It could easily have been worse. Many thought it was. Although most influences on the overall price level, such as pressure of demand within the economy, movements of prices and rentals for property, and lower inflation in Hong Kong's major trading partners, were helping to dampen down the rate of inflation, they were insufficient to offset the effect of the depreciation of the exchange rate. In particular, following the sharp depreciation in September, the rate of inflation increased in the fourth quarter to 11.9%, compared with 9.1% in the third quarter. Now that the exchange rate has successfully been stabilized this acceleration in the rate of inflation will soon reverse.

Monetary Issues

18. I turn now to monetary issues. It is not necessary to describe again the events leading to the adoption of the exchange rate stabilization scheme introduced in mid-October last year, or how the scheme works. The Hong Kong dollar 7.80 rate is now familiar and the low of \$9.60 to the U.S. dollar is history. The financial community has adapted quickly to the new exchange rate system and has thus contributed to its success. I thank all concerned. On the introduction of the scheme the exchange rate settled to within a band of ¼% on either side of \$7.80 to the U.S. dollar, where on average it has remained. The scheme has therefore achieved its immediate goal of stabilizing the exchange rate and restoring confidence in our currency. Meanwhile, the Hong Kong dollar deposit base has again increased although part of this increase reflects the re-denomination of foreign currency swap deposits into Hong Kong dollar deposits, following the removal of the 10% interest withholding tax. Statistics have been affected by recent events, but it is clear that funds have been flowing into Hong Kong on a large scale⁽¹³⁾.

19. Essentially the currency scheme transfers the pressure on the exchange rate arising from any shifts into or out of the Hong Kong dollar initially on to interest rates. Thus Hong Kong now has an automatic monetarist adjustment mechanism in which interest rates, the money supply and eventually the economy adjust to accommodate shifts in the balance of payments. Since the introduction of the scheme, interest rates have fluctuated considerably, but have clearly trended down; and the Hong Kong dollar money supply has again increased. The growth of HK\$ M3 was 13.1% in the fourth quarter compared with no increase during the first nine months of 1983. These trends underline a recovery of confidence in the currency and its basic stability. For this and other reasons I will not lightly alter the present link at \$7.80.

20. A question has been raised in connection with the new adjustment mechanism. Is the existing framework for determining interest rates on bank

(12) 1983 E.B. paragraph 6.1. Also see paragraph 161 of the 1983 Budget Speech.

(13) Total deposits in all deposit-taking institutions were \$167 billion at the end of February 1982 when the interest tax on foreign currency deposits was removed. By end December 1983 the total was \$292 billion.

deposits, that is to say the interest rate rules of the Hong Kong Association of Banks, capable of accommodating the flexibility demanded of interest rates? My view is that so long as H.K.A.B. is prepared to adjust rates whenever there is a need to do so— and it has demonstrated that it is—the existence of a system of cartelized rates need not impede the functioning of the adjustment mechanism within the new exchange rate regime. In any case there still remains the need to preserve an orderly banking system and to avoid excessive and imprudent competition for deposits, which is a major justification for the interest rate rules. While I accept that the banking system may be capable of remaining orderly without these rules, it would be unwise to rush into major structural changes to the system at this time. The financial sector has been faced with many unavoidable changes of late: the transition to the three-tier structure; the new exchange rate scheme; legislative amendments for prudential reasons. While coping with all this, the financial sector is still busy nursing a number of fragile customers. This is clearly not the moment for further structural changes, unless absolutely necessary.

21. After a difficult surgical period a healthier financial sector is emerging. The Hang Lung Bank is now under sound management, although it will be some time before it is ready to be returned to the private sector. Despite the various problems of 1983, Hong Kong's position as an international financial centre has strengthened. Although the number of registered d.t.c.'s has decreased, more bank and d.t.c. licences have been granted. A financial futures market is also being studied. Hong Kong's financial sector has evolved in much the same fundamental way as have other sectors of its economy; through market forces with no special stimulus from the Government. As has always been the case, the Government will intervene in the financial sector when clearly necessary, but will limit measures to the minimum required to ensure sound business practice and a measure of protection for depositors and investors. This approach will continue.

22. As has been announced, a team from the Bank of England is now here to assist us in a review of our systems of prudential supervision of banks and deposit-taking companies. The Banking Ordinance was introduced in 1964 with the assistance of the Bank of England. After 20 years it seems sensible to take an overall look at where we stand. If so indicated, further legislation can be introduced. This is an area where no government can ever be satisfied with the status quo.

The Public Sector

23. I said last year that I shared Members' belief that it was of maximum importance that public sector expenditure should be held in check. My intention remains to ensure that the growth rate in real terms in public sector expenditure on Consolidated Account does not over a period of years exceed the growth rate of G.D.P. Even this approach presents serious problems, for the base was high in the period of large budget surpluses.

24. On the basis of the budget presented today, total public sector expenditure in 1984-85 on Consolidated Account is proposed to be \$44 billion⁽¹⁴⁾. Compared with the revised estimate for 1983-84 of \$40.2 billion, this is an increase of 9.5% in money terms. In real terms this is below the expected growth rate of the G.D.P. to allow for sensible margins.

25. Once again I must draw attention to the fact that the expenditure figures for the revised estimates are necessarily based at best on only nine months performance. Significant changes can occur in the last three months of the financial year, which may render them inaccurate. Last year I said that I would examine the factors involved in deferring Budget Day to the last Wednesday in March in order to try to improve the accuracy of the forward planning process. I have abandoned this idea for a variety of reasons, but our new computerized system of updating the accounts has at least enabled me to base my revised estimates on nine months' instead of seven months' figures. To that extent I hope they will prove more precise than in the past, but they can never be wholly accurate.

26. As regards the public sector's share of the G.D.P., the position has been complicated this financial year by the amendments made to the G.D.P. estimates. A comparison using the old estimates (for the last time) is nevertheless illuminating. Consolidated Account expenditure in 1982-83 represented 22.4% of G.D.P. In 1983-84 it would have represented 22%⁽¹⁵⁾. On the new figures the comparison will be 19.4% in 1983-84 and only 18.3% in 1984-85. This continuing fall—the first for several years—illustrates my promises to keep public sector expenditure under tight control, while still proceeding steadily with major programmes. The task is not easy.

27. Let me paint a broad brush picture of my expenditure proposals. I will give more details later, while the actual figures can be studied in the footnotes and statistical appendices to the printed speech. The proposed growth in General Revenue Account expenditure excluding transfers to Funds will be about 15.5%

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

| <i>(15)</i> | <i>1982-83 Actual expenditure (\$ bn)</i> | <i>1983-84 Revised estimate (\$ bn)</i> | <i>1984-85 estimate (\$ bn)</i> |
|--|---|---|---|
| <i>Expenditure on Consolidated Account</i> | <i>35.7</i> | <i>40.2</i> | <i>44.0</i> |
| <i>Growth of Consolidated Account (current prices)</i> | <i>21.4%</i> | <i>12.6%</i> | <i>9.5%</i> |
| <i>G.D.P. (old series current prices)</i> | <i>159.0*</i> | <i>183.0†</i> | <i>—</i> |
| <i>Relative size of the public sector</i> | <i>22.4%</i> | <i>22.0%</i> | <i>—</i> |
| <i>G.D.P. (revised series current prices)</i> | <i>184.0*</i> | <i>207.0†</i> | <i>240.0</i> |
| <i>Relative size of the public sector</i> | <i>19.4%</i> | <i>19.4%</i> | <i>18.3%</i> |

* *Provisional 1982 estimates.*

† *Preliminary 1983 estimates. The one in the old series was produced for the purpose of this comparison only.*

in money terms⁽¹⁶⁾. This includes a provision of \$2 billion for additional commitments.

28. The lower growth of 9.5% in expenditure on Consolidated Account reflects the fact that total capital expenditure in 1984-85 is expected to be slightly less than in 1983-84. I must stress, however, that this reduction does not reflect any cut back in the programme of capital works, as I will demonstrate later.

29. The apparent slow down in capital expenditure in 1984-85 actually arises mainly for two reasons. The first is an inevitable flattening out of annual expenditure from the Capital Works Reserve Fund as a number of large projects approach completion. In particular the modernization of the Kowloon- Canton Railway is nearing its end. Capital expenditure on it has now fallen from \$650 million in 1982-83 to \$340 million in 1983-84 and is expected to be only \$220 million in 1984-85. The second was the need to make an unexpected payment in 1983-84 of \$388 million from the Home Ownership Fund for the Melody Garden project. This represented the difference between the guaranteed sale price to the developer and the actual sales revenue received.

30. To complete the picture, estimated expenditure from all the Funds and Asian Development Bank loans in 1984-85 is expected to be \$11.5 billion. This compares with a revised estimate of almost \$11.9 billion in 1983-84 and thus represents a decrease of \$376 million or 3.2%⁽¹⁷⁾.

| (16) | <i>Revised Estimates 1983-84 (\$ mn)</i> | <i>Draft Estimates 1984-85 (\$mn)</i> | <i>Increase (%)</i> |
|---|--|---|-------------------------|
| <i>Total expenditure on General Revenue Account</i> | 33,600 | 37,333 | 11.1 |
| less <i>Transfers to Funds</i> | <u>8,800</u> | <u>8,700</u> | |
| | 24,800 | 28,633 | 15.5 |
| plus <i>Expenditure from all Funds, Asian Development Bank loans and net expenditure by the Housing Authority and the Urban Council on their own accounts</i> | <u>15,378</u> | <u>15,343</u> | — 0.2 |
| <i>Total expenditure on Consolidated Account</i> | <u><u>40,178</u></u> | <u><u>43,976</u></u> | <u><u>9.5</u></u> |

| (17) | <i>Revised Estimates 1983-84 (\$ mn)</i> | <i>Draft Estimates 1984-85 (\$ mn)</i> |
|-----------------------------------|--|--|
| <i>Fund</i> | | |
| <i>Capital Works Reserve Fund</i> | 7,920 | 7,900 |
| <i>Development Loan Fund</i> | 2,077 | 2,145 |
| <i>Home Ownership Fund</i> | 1,590 | 1,194 |
| <i>Student Loan Fund</i> | 86 | 95 |
| <i>Lotteries Fund</i> | 89 | 98 |
| <i>Mass Transit Fund</i> | 40 | 60 |
| <i>Asian Development Bank</i> | <u>77</u> | <u>11</u> |
| <i>Total</i> | <u><u>11,879</u></u> | <u><u>11,503</u></u> |

Revised Estimates 1983-84

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

32. On General Revenue Account the budget for 1983-84 envisaged a deficit of \$3.2 billion⁽¹⁸⁾. In the event both revenue and expenditure will be appreciably lower than originally expected. The revised estimates of revenue and expenditure are respectively \$30.3 billion and \$33.6 billion. I therefore presently expect the outturn for this year to be a deficit of about \$3.3 billion⁽¹⁹⁾. Statistically speaking, this is very close to the estimate. It represents much hard work by all concerned. The basic budgetary dilemma emerges from the fact that total revenue in 1983-84 will actually be lower than in both the previous years.

33. Indeed on recurrent account revenue in 1983-84 is expected to be \$1.56 billion lower than the original estimate. This shortfall arises largely from lower than expected yields from both duties and motor vehicle first registration tax where resistance to the new rates was higher than expected, from earnings and profits tax and from stamp duties. The revised estimate of recurrent expenditure⁽²⁰⁾ is, however, also expected to be \$528 million lower than the original

(18) *i.e.* \$3,205 million; the difference between estimated revenue of \$32,270 million and estimated expenditure of \$35,475 million.

| (19) | \$ mn | | \$ mn | |
|---------------------------|------------------------------|----------------|------------------------------|----------------|
| | <i>Original Approved</i> | <i>Revised</i> | <i>Original Approved</i> | <i>Revised</i> |
| <i>Recurrent Account:</i> | | | | |
| <i>Revenue</i> | 28,693 | 27,130 | | |
| <i>Expenditure</i> | 23,808 | 23,280 | 4,885 | 3,850 |
| <i>Capital Account:</i> | | | | |
| <i>Revenue</i> | 3,577 | 3,150 | | |
| <i>Expenditure</i> | <u>11,667</u> | <u>10,320</u> | <u>-8,090</u> | <u>-7,170</u> |
| <i>Deficit</i> | <u>—</u> | <u>—</u> | <u>-3,205</u> | <u>-3,320</u> |

The revised estimates take account of a maximum of nine months' performance.

| (20) | <i>Component</i> | <i>Approved</i> | <i>Revised</i> |
|------|------------------------------------|--|--|
| | | <i>Estimates 1983-84 (\$ mn)</i> | <i>Estimates 1983-84 (\$ mn)</i> |
| (1) | <i>Personal Emoluments</i> | 8,220 | 8,390 |
| (2) | <i>Personnel Related Expenses</i> | | |
| | <i>Pensions</i> | 871 | 920 |
| | <i>Other</i> | 1,068 | 1,040 |
| (3) | <i>Departmental Expenses</i> | 3,017 | 2,870 |
| (4) | <i>Other Charges</i> | | |
| | <i>Additional Commitments</i> | 1,300 | — |
| | <i>Defence Costs Agreement</i> | 1,059 | 1,170 |
| | <i>Other</i> | 2,610 | 2,800 |
| (5) | <i>Subventions</i> | <u>5,663</u> | <u>6,090</u> |
| | <i>Total Recurrent Expenditure</i> | <u>23,808</u> | <u>23,280</u> |

estimate reflecting the moderate level of the 1983 civil service salaries adjustment and tight financial control. This is the second year running in which recurrent expenditure has been held down below budget. I thank all vote controllers for their efforts.

34. On capital account, revenue is expected to be \$427 million lower than the original estimate because of less than expected revenue from land transactions partially offset by a transfer from the Exchange Fund of \$250 million to compensate for the loss of revenue resulting from the removal of the tax on interest earned on Hong Kong dollar deposits. Capital expenditure on the other hand is expected to be \$1.3 billion lower than the original estimate⁽²¹⁾. This is mainly as a result of slower than expected expenditure on Capital Works plus an increase in Development Loan Fund revenue, which has enabled reductions to be made in the transfers to Funds. The increase in revenue resulted from the purchase by the Exchange Fund of the Development Loan Fund's equity holdings⁽²²⁾. The deficit on capital account is consequently expected to be \$7.2 billion, that is to say \$900 million less than originally expected.

35. With the transfer of the 1983-84 deficit to the General Revenue Balance, our reassuring fiscal reserves will be about \$15.8 billion⁽²³⁾. Most is lent to the Exchange Fund against interest bearing debt certificates. After allowing, on the

| (21) | <i>Approved Estimates 1983-84 (\$ mn)</i> | <i>Revised Estimates 1983-84 (\$ mn)</i> |
|---|---|--|
| <i>Component</i> | | |
| (1) <i>Plant, Equipment and Works</i> | | |
| <i>Defence Costs Agreement</i> | 114 | 80 |
| <i>Other</i> | 793 | 650 |
| (2) <i>Other Non-Recurrent</i> | | |
| <i>Additional Commitments</i> | 200 | — |
| <i>Other</i> | 149 | 270 |
| (3) <i>Subventions</i> | 544 | 520 |
| (4) <i>Transfers to Funds</i> | | |
| <i>Capital Works Reserve Fund</i> | 8,000 | 7,500 |
| <i>Development Loan Fund</i> | 1,750 | 1,220 |
| <i>Student Loan Fund</i> | 117 | 40 |
| <i>Mass Transit Fund</i> | <u> </u> | <u>40</u> |
| <i>Total Capital Expenditure</i> | <u><u>11,667</u></u> | <u><u>10,320</u></u> |
| (22) | <i>Number of shares held</i> | <i>Valuation (\$ mn)</i> |
| <i>Cross Harbour Tunnel Company Limited</i> | 30,774,225 | 326.8 |
| <i>Hong Kong Building and Loan Agency Limited</i> | 1,724,976 | 14.9 |
| <i>Hong Kong Air Cargo Terminals Limited</i> | 35,000 | 16.8 |

(23) *General Revenue Balance at 1 April 1983 = \$19,070 million minus assumed actual deficit of \$3,320 million for 1983-84 = \$15,750 million.*

basis of the usual gearing of three, \$7.6 billion as cover for our formal contingent liabilities (which will be about \$22.7 billion by 31 March 1988, the last year of the new forecast period)⁽²⁴⁾, we should have at 1 April 1984 'free' fiscal reserves of about \$8.2 billion. These are available for use in a disciplined and intelligent manner. The limits are obvious. As we dip into the well we must remember that there is no inflow.

36. An assessment of our performance over the past five years 1979-80 to 1983-84 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.

37. Against that background, I now present the Draft Estimates of Expenditure, the Revenue Estimates and my revenue proposals for 1984-85.

Estimates 1984-85

Draft Estimates of Expenditure

38. Having regard to the continuing large deficit, which we face not only in 1984-85 but clearly also in 1985-86 as a result of the fall in land sales revenue, in November last I set a limit to General Revenue Account expenditure for 1984-85 of \$26.8 billion *excluding* additional commitments and transfers to the Funds. This represented an increase of no more than about 8% on the current year's outturn. As real growth in the tertiary education, medical and social welfare sectors had to be included, this meant virtually no prospect of growth for the majority of departments.

39. In the event after much hard bargaining and no little anguish the printed Draft Estimates that emerged provide just over \$26.6 billion, plus a contingency allowance of \$2 billion for all additional commitments plus \$8.7 billion for transfers to Funds. The total is \$37.3 billion.

| (24) | <i>At 31 March:</i> | |
|---|---------------------|----------------|
| | <i>1984</i> | <i>1988</i> |
| | <i>(\$ mn)</i> | <i>(\$ mn)</i> |
| <i>MTRC: guarantee of debt</i> | 6,277 | 4,761 |
| <i>Export Credit Insurance Corporation:</i> | | |
| <i>guarantee of maximum liability</i> | 2,900 | 4,900 |
| <i>Home Ownership Scheme: guarantee of mortgages</i> | 3,399 | 11,184 |
| <i>Asian Development Bank: uncalled capital</i> | 308 | 690 |
| <i>Gold coins</i> | 276 | 427 |
| <i>H.K. Building and Loan Agency: guarantee of notes issued</i> | 300 | 500 |
| <i>City Polytechnic: guarantee of bank loan</i> | 247 | 260 |
| <i>H.K. Arts Centre: guarantee of bank loan</i> | 12 | — |
| <i>Demonetized currency notes</i> | 10 | 10 |
| <i>Total</i> | <u>13,729</u> | <u>22,732</u> |

40. The necessary inclusion of \$2 billion for additional commitments has the effect of increasing the growth of General Revenue Account expenditure excluding transfers to the Funds from 7.4% to 15.5%. Nevertheless, as I have already mentioned, expenditure from the Funds in 1984-85 is expected to be slightly less than in 1983-84, so that total expenditure on Consolidated Account is expected to grow at only 9.5%.

41. On the vitally important recurrent account the provision sought of \$25.1 billion plus \$1.8 billion for additional recurrent commitments, represents an increase of \$3.7 billion, or 15.7%, on the revised estimate for 1983-84⁽²⁵⁾.

42. Personal emoluments at \$8.9 billion account for over 35% of recurrent expenditure, compared with an average of 37% over the past five years. This provision makes no allowance for any salary adjustment that may be agreed. *If* required any funds needed will have to be found from the additional commitments vote. I make no assumptions. The provision of \$1.8 billion sought for this vote is for all unforeseen recurrent commitments not provided for in the Draft Estimates. Cash limits will be strictly observed once again. They have been most successful.

43. The approved establishment of civil service posts shown in the Draft Estimates is 147 000⁽²⁶⁾. This includes 4 264 new posts created during 1983-84, a marked reduction of 2 436 on the 6 700 new posts for which provision was actually included in the 1983-84 Estimates. You will welcome the patently successful efforts thus made during the year to restrain the growth of the civil service establishment. They will certainly continue in 1984-85, for the Draft Estimates provide for an increase of only 4 000 posts, or 2.7%. A large number of these are required for the new Prince of Wales Hospital in Sha Tin and for the Police Force. Our aim now will be to keep annual civil service growth overall to below 2½% for the foreseeable future. While we must find staff for new facilities

| (25) | <i>Draft Estimates 1984-85 (\$ mn)</i> | <i>Historical ratio 1979-80 to 1983-84 (%)</i> |
|---------------------------------------|--|--|
| <i>Component</i> | <i>(%)</i> | <i>(%)</i> |
| (1) <i>Personal Emoluments</i> | 8,913 | 35.4 |
| (2) <i>Personnel Related Expenses</i> | 2,150 | 8.6 |
| (3) <i>Departmental Expenses</i> | 3,084 | 29.5 |
| (4) <i>Other Charges</i> | 4,328 | 29.5 |
| (5) <i>Subventions</i> | 6,658 | 26.5 |
| | <u>25,133</u> | <u>100.0</u> |
| <i>Additional Commitments</i> | <u>1,800</u> | |
| <i>Total Recurrent Expenditure</i> | <u>26,933</u> | |

(26) Exclusive of 29 864 posts in the Urban Services and Housing Departments the personal emoluments of which are met by the Urban Council and the Housing Authority.

as they come on stream, we shall seek to provide them so far as possible by increased productivity and redeployment. Value for money studies will continue to seek out means of achieving these aims. I attach great importance to measures designed to promote increases in productivity and value for money. So does the civil service as a whole.

44. Personnel related expenses at \$2.15 billion account for 8.6% of recurrent expenditure compared with an average of 7.2% over the past five years. This increase is due principally to home purchase allowances payable to civil servants joining the home purchase scheme introduced in November 1981 and, to a lesser extent, to increases in the number of pensioners and in the cost of education and passage allowances.

45. Departmental expenses and other charges at \$7.4 billion account for about 29.5% of recurrent expenditure, which is fractionally less than the average over the past five years.

46. Provision of \$6.66 billion for subventions represents 26.5% of recurrent expenditure, compared with an average of 26% over the past five years. This is largely due to substantial increases in expenditure on tertiary education, which I am sure that Members welcome.

47. On capital account, the provision sought is \$10.4 billion⁽²⁷⁾. This includes \$200 million in additional commitments and \$8.7 billion for transfers to four of the Funds, the largest portion going to the Capital Works Reserve Fund. There is no need this year for a transfer to the Home Ownership Fund, which has

| <i>(27)</i> | <i>Revised Estimates 1983-84</i> | <i>Draft Estimates 1984-85</i> |
|---------------------------------------|--|--|
| <i>Component</i> | <i>(\$ mn)</i> | <i>(\$ mn)</i> |
| <i>(1) Plant, Equipment and Works</i> | | |
| <i>Defence Costs Agreement</i> | 80 | 103 |
| <i>Other</i> | 650 | 568 |
| <i>(2) Other Non-Recurrent</i> | 270 | 111 |
| <i>(3) Subventions</i> | 520 | 718 |
| <i>(4) Transfers to Funds</i> | | |
| <i>Capital Works Reserve Fund</i> | 7,500 | 7,300 |
| <i>Development Loan Fund</i> | 1,220 | 1,305 |
| <i>Student Loan Fund</i> | 40 | 35 |
| <i>Mass Transit Fund</i> | 40 | 60 |
| | <u>10,320</u> | <u>10,200</u> |
| <i>Additional commitments</i> | | <u>200</u> |
| <i>Total Capital Expenditure</i> | | <u><u>10,400</u></u> |

sufficient reserves as a result of internal generation of income. The transfers to the Funds plus the estimated revenue earned by them is less by \$1.1 billion than the expected expenditure from the Funds. Thus the considerable surplus balances left in them at 31 March 1984 will be serving properly as a cushion in difficult times. But this use of reserves again is finite.

Capital Works Reserve Fund

48. The provision of \$7.3 billion sought for transfer to the Capital Works Reserve Fund⁽²⁸⁾, together with an estimated surplus of about \$2.8 billion in the Fund at the end of 1983-84, are sufficient to cover estimated expenditure of \$7.9 billion from the Fund during 1984-85 and to retain a prudent surplus at the end of the financial year. At least \$1.5 billion must anyway be retained in the Fund to offset the advance of \$1.45 billion to the consortium for the development of Tin Shui Wai⁽²⁹⁾.

49. The estimated expenditure from the Fund in 1984-85 on the Public Works Programme is \$6.8 billion or about the same as the revised estimate for 1983-84, but less of course in real terms. On land acquisition the estimated expenditure for 1984-85 is \$1.1 billion, also the same as the revised estimate for 1983-84.

50. The outstanding commitment (or overhang) in respect of projects in hand on 31 March 1983 was about \$21.4 billion. This was increased by about \$5.1 billion as a result of the injection of new projects during 1983-84, but reduced by roughly \$7.9 billion in expenditure. During 1984-85 work is scheduled to start on new projects having a total commitment value of about \$4.9 billion. The overhang on 1 April 1984 will be about \$23.5 billion. After allowing for the estimated expenditure during 1984-85 of \$7.9 billion, the outstanding commitment at 31 March 1985 cannot be less than \$15.6 billion, but in fact will certainly be much higher as further new works are approved during the year. This represents a major commitment for the future.

Capital Programmes

51. The programme of works for 1984-85 accommodates those agreed land production, transport and institutional projects that are ready to proceed. There have been no cut backs. While total capital expenditure on transport projects in the Consolidated Account has fallen from its peak of just over \$2.5 billion in 1982-83 to \$2.2 billion in 1983-84 and an estimated \$1.9 billion in

(28) *This amount has not been calculated in accordance with the original guideline formula of 80% of estimated revenue from land sales (\$2.1 billion) and 15% of estimated recurrent revenue (\$4.4 billion) as this would not be sufficient to cover estimated expenditure from the Fund in 1984-85.*

(29) *This liability will remain in the accounts for the next 12 years or so until the land has been formed and a portion handed back to the consortium. As soon as the consortium starts to spend on building works the advance can begin to be cleared progressively and charged to the Fund. Any underspending by the consortium on the development is recoverable under the agreement.*

1984-85, this is mainly due to the completion of many of the Kowloon-Canton Railway modernization projects. Additionally expenditure on some of the larger road projects has peaked. Nevertheless capital expenditure on projects in the land and civil engineering, water supply, public safety, recreation and culture and education sectors has increased; in some cases substantially⁽³⁰⁾.

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

53. Government gross land production in 1984-85 is estimated to be 523 hectares as compared with 390 hectares in 1983-84⁽³²⁾. The reduction in estimated land production in 1983-84 from the original forecast of 669 hectares followed a review of the works schedule for the New Towns Development

| (30) Function | Consolidated Account Capital Expenditure (\$ mn) | | | Growth in expenditure over 1982-83+ % |
|--------------------------|---|--------------------------------|---------------------|--|
| | 1982-83 Actual | 1983-84 revised estimate | 1984-85 Estimate | |
| Transport | 2,544 | 2,169 | 1,905 | -14.7 |
| Land & Civil Engineering | 2,097 | 2,470 | 2,526 | +20.5 |
| Water | 564 | 647 | 839 | +48.8 |
| Public safety | 140 | 179 | 250 | +78.6 |
| Recreation and Culture | 602 | 589 | 844 | +40.2 |
| Environmental Protection | 291 | 434 | 496 | +70.4 |
| Education* | 543 | 747 | 942 | +73.5 |
| Medical* | 469 | 510 | 512 | +9.2 |

* A large part of the capital expenditure is accounted for from capital subventions and is not funded from the Capital Works Reserve Fund.

† The final 1983-84 figures are not yet available.

(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 potential demand rather than on estimates of production of new land;
- (b) reviewing the alternative uses of industrial land in the light of possible substantial supply over requirements and the implications of industrial employment opportunities continuing to be concentrated in the main urban areas and examining ways in which decentralization could be achieved;
- (c) monitoring the possibilities of expanding the existing urban renewal programmes; and
- (d) monitoring the progress of the consultancy study on Land Development Corporations, which has now been completed.

(32) Excluding five hectares and 38 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.

Programme. Over the three years of the new forecast period 1985-86 to 1987-88, total production is estimated to total 1 990 hectares⁽³³⁾.

Public Housing

54. Of the total Consolidated Account expenditure on housing in 1984-85, \$3.7 billion will be spent on the actual construction of housing, including temporary housing areas, compared with a revised estimate of \$3.5 billion in 1983-84. 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) | Year | Production (Hectares) | |
|---|---------|--|--|
| | 1985-86 | 795 | |
| | 1986-87 | 578 | |
| | 1987-88 | 617 | |
| | | <u>1 990</u> | |
| (34) | | 1983-84 Revised Estimates (\$ mn) | 1984-85 Draft Estimates (\$ mn) |
| (1) Rental Housing Programme(*): | | | |
| Drawings from Development Loan Fund (†) | | 1,600 | 1,700 |
| Housing Authority's own resources(‡) | | 430 | 628 |
| New Territories Development Department (§) | | 8 | 8 |
| Asian Development Bank Loans () | | 77 | 11 |
| Total (1) | | <u>2,115</u> | <u>2,347</u> |
| (2) Home Ownership Scheme(•) | | 1,335 | 1,315 |
| Total (1) + (2) | | <u>3,450</u> | <u>3,662</u> |
| (3) Temporary Housing Areas | | 55 | 65 |
| Total (1) + (2) + (3) | | <u>3,505</u> | <u>3,727</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.

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

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

(•) These figures exclude \$388 million in 1983-84 for Melody Garden developed under the Middle Income Housing Programme. They also exclude expenditure on the Private Sector Participation Scheme. For the Home Ownership Scheme itself, the expenditure figures include \$136 million and \$125 million for 1983-84 and 1984-85 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.

55. 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 by the Private Sector Participation Scheme⁽³⁵⁾. The forecast of Housing Authority production in the four years 1984-85 to 1987-88 exceeds production in the previous four years by 6.5%. The total production in the next four years including Housing Society flats and Private Sector Participation Scheme flats is estimated at 176 000 flats, with an average completion rate of 44 000 a year. Detailed figures are given in a footnote to the printed speech⁽³⁶⁾. This will have a major impact on many now waiting patiently for decent housing. In the next four years we shall be providing new, high class subsidized housing for over 700 000 people. We should all be proud of this programme.

56. As regards the Home Ownership Scheme, 41 623 flats out of a total of about 47 010 flats in the first five phases will have been completed by the end of 1984-85. Work is in hand on the balance and on a further 13 610 flats in Phases VI, VII and VIII⁽³⁷⁾.

57. Following a review in March 1983, the Government decided that the Middle Income Housing Programme should be stopped as a result of the decline in property prices⁽³⁸⁾.

58. Because they are so important to Hong Kong and to people's aspirations, I propose specifically to draw to your attention our programmes for and forecast expenditure on education, medical and health and social welfare.

Education

59. The Consolidated Account expenditure on education⁽³⁹⁾ in 1984-85 will be \$7.06 billion. This is 16% of total Consolidated Account expenditure and a

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

(36)

| | <i>H.A. Rental</i> | <i>H.O.S. (incl. M.I.H.)</i> | <i>P.S.P.S.</i> | <i>H.S. (rental and U.I.S.)</i> | <i>Total</i> |
|---------|--------------------|------------------------------|-----------------|---------------------------------|--------------|
| 1980-81 | 26,769 | 8,674 | 1,506 | 787 | 37,736 |
| 1981-82 | 31,346 | 4,399 | — | 3,735 | 39,480 |
| 1982-83 | 27,879 | 7,508 | 760 | 442 | 36,589 |
| 1983-84 | 28,774 | 7,869 | 2,240 | 10 | 38,893 |
| 1984-85 | 26,285 | 10,752 | 1,408 | 637 | 39,082 |
| 1985-86 | 28,264 | 8,186 | 8,608 | 989 | 46,047 |
| 1986-87 | 30,452 | 8,616 | 5,324 | 480 | 44,872 |
| 1987-88 | 32,852 | 7,240 | 5,320 | 1,368 | 46,780 |

(37) 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 in order to keep them affordable by the target groups.

(38) One project was completed under the programme, Melody Garden, comprising 2 240 flats in Tuen Mun. The unsold balance of some 550 flats was taken over by the Government to meet a need for departmental quarters.

(39) The education programme comprises pre-primary, primary and secondary education, adult education, post-secondary, tertiary education and vocational training.

17.9% increase over 1983-84. Of this amount we will spend on the construction and equipping of new buildings \$719 million, which is 26% higher than the revised estimate for 1983-84⁽⁴⁰⁾.

60. The Government's policy is to provide primary schools within reasonable walking distance for all primary school age children, to provide a subsidized place for all Primary 6 leavers and to increase the number of senior secondary places in schools and places at technical institutes and adult education centres to meet the full demand from Form III leavers who are suitable for the courses provided. To meet these objectives 18 primary schools, providing 37 800 places mainly in the new towns, and 15 secondary schools providing initially 3 640 Form I and 2 320 Form IV places will be completed in 1984-85.

61. As regards vocational training, planning for two new technical institutes, one at Sha Tin and one at Tuen Mun, is at an advanced stage. These when completed will provide an extra 2 735 full-time and 13 875 part-time places. In addition the Vocational Training Council will complete two new training centre complexes at Kowloon Bay and Kwai Chung in 1984-85. These will provide 8 080 training places a year in nine industrial training centres. The total grants to the Vocational Training Council will increase from \$255 million in 1983-84 to \$388 million in 1984-85.

62. Expansion of tertiary education includes new buildings for the University of Hong Kong and the Chinese University of Hong Kong and also the commencement of courses at the City Polytechnic in temporary premises at the Argyle Centre. Planning for the City Polytechnic's permanent accommodation at Tat Chee Avenue is proceeding and site formation should start next year. Total expenditure on the Universities and Polytechnics will be a significant \$1.57 billion in 1984-85 compared with \$1.32 billion in 1983-84.

Medical and Health

63. Within the total Consolidated Account expenditure in 1984-85, it is estimated that \$3.55 billion will be spent on Government and subvented medical services. This represents an increase of almost 16% on the revised estimate of expenditure for 1983-84.

64. The \$645 million Prince of Wales Hospital will commence operations in May this year. It will have 1 488 beds and serve as the regional hospital for the Eastern New Territories as well as the teaching hospital for the medical faculty of The Chinese University of Hong Kong. Work will continue on the Tuen Mun Hospital and the Queen Mary Hospital extension, and a start will be made on site formation works for a new hospital in the Eastern District of Hong Kong Island. In the subvented sector, development programmes are under way in five subvented hospitals to expand and upgrade their facilities.

(40) Tender prices have increased slightly over the last year but are still lower than two years ago and so the increase in expenditure is lower than the increase in building activity.

Social Welfare

65. Social welfare services include social security, services for offenders, family welfare, services for the elderly, community building, personal social work among young people and rehabilitation. Consolidated Account expenditure in 1984-85 on these services, including subventions to voluntary agencies, will be about \$2.4 billion, representing an increase of almost 19% on the revised estimate of expenditure for 1983-84.

66. The basic rates for public assistance and the special needs allowances were increased by 13.3% in February 1984. The public assistance rate for a single person is now \$510 a month. The disability allowance is paid at the same rate and the old age allowance at half this rate. Provision of \$540 million is included in the draft Estimates for public assistance compared with the revised estimate of \$497.4 million for 1983-84. At the end of 1983, there were 54 700 households on public assistance. As regards the special needs allowances, the provision in the draft Estimates is \$845.5 million, compared with the revised estimate of \$713.8 million for 1983-84. This allows for an estimated monthly caseload of about 204 000 for old age allowance and 41 000 for disability allowance compared with 195 000 and 39 000 respectively at the end of 1983.

Revenue Estimates

67. The Revenue Estimates for 1984-85 *as printed* anticipate total collections of \$33.7 billion; \$29 billion in recurrent revenue and \$4.7 billion in capital revenue. This depressingly low if realistic forecast reflects the lagged effects of the recent recession. The background is as follows.

68. Recurrent revenue at \$29 billion is only \$1.9 billion higher than the revised estimate for 1983-84. Earnings and profits tax should yield just over \$12.4 billion, or only \$840 million more than the revised estimate for 1983-84⁽⁴¹⁾. I expect a moderate increase in the yield from indirect taxes, mainly from import

| (41) | <i>Actual</i> 1982-83 (\$ mn) | <i>Revised</i> 1983-84 (\$ mn) | <i>Estimate</i> 1984-85 (\$ mn) |
|-----------------------------|-------------------------------------|--------------------------------------|---------------------------------------|
| <i>Profits tax</i> | 7,806 | 7,190 | 7,630 |
| <i>Salaries tax</i> | 2,365 | 3,225 | 3,800 |
| <i>*Personal assessment</i> | -20 | 200 | 180 |
| <i>Interest tax</i> | 756 | 285 | 90 |
| <i>Property tax</i> | 942 | 700 | 740 |
| <i>Total</i> | <u>11,849</u> | <u>11,600</u> | <u>12,440</u> |
| <i>Profits tax:</i> | | | |
| <i>Corporations</i> | 6,968 | 6,350 | 6,700 |
| <i>Other Businesses</i> | 838 | 840 | 930 |

* In the year 1982-83, total tax refunds made under this item exceeded total tax collections. Where an unincorporated business or individual taxpayer opted for personal assessment the resulting refund was charged to this item, notwithstanding the fact that taxes already paid had been credited to other items (profits tax, salaries tax, interest tax and property tax). Refunds were also made where final assessments showed that provisional tax payments exceeded the actual tax payable.

duties, betting duty and rates. At \$8.2 billion, indirect taxes are estimated to be \$858 million higher. For all other recurrent revenue I anticipate a yield of \$8.4 billion, or only \$182 million higher than the revised estimate. While all other components should yield \$342 million more than the revised estimate, I expect revenue from properties and investments to be \$160 million lower reflecting the decrease in the General Revenue Balance.

69. We have an on-going exercise to keep fees and charges up to date, which will continue during 1984-85. Where justified by rising costs, proposals for increases in fees and charges will be made during the year. I have singled out some for special mention in my revenue proposals. The printed estimates of total recurrent revenue do not however anticipate any of these increases.

70. The estimate of capital revenue for 1984-85 is \$4.73 billion. The major element continues to be land revenue, estimated at \$4.23 billion, as compared to actual revenue of \$5.05 billion in 1982-83 and a revised estimate for 1983-84 of \$2.27 billion⁽⁴²⁾.

71. Land revenue remains particularly difficult to estimate. The revenue in 1982-83 reflected to some extent lingering effects of the property boom of 1980 and 1981. I thus estimated that 1983-84 would produce \$3 billion. As I explained in my Budget Speech last year, this figure depended primarily on the successful sale of a number of relatively large sites, and I warned then that the margins for error were considerable. The revised estimate is indeed \$730 million less.

72. The programme for the sale of land in 1983-84 by auction and tender constituted the single largest prospective component of land revenue. It originally comprised 96.7 hectares of land, from which I expected revenue of \$1.7 billion. In the course of the year the programme was considerably revised. It took the form of two lists, one comprising those sites which seemed likely to attract general bidder interest and should therefore be put on the market, and the other comprising those sites which should remain available for sale when ready but would only be offered on application by developers ready to meet minimum price criteria. The reshaped programme consisted of 53.4 hectares, with a revised estimate of \$1.2 billion excluding Admiralty II⁽⁴³⁾.

(42) *But see paragraph 78.*

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

| | <i>Industrial</i> | | <i>Non-industrial</i> | | <i>Total</i> | |
|------------------------|--------------------|--------------------|-----------------------|--------------------|--------------------|--------------------|
| | <i>1983-84</i> | <i>1984-85</i> | <i>1983-84</i> | <i>1984-85</i> | <i>1983-84</i> | <i>1984-85</i> |
| | <i>(Hectares)</i> | | <i>(Hectares)</i> | | <i>(Hectares)</i> | |
| <i>Urban areas</i> | <i>1.9</i> | <i>2.1</i> | <i>20.0</i> | <i>9.5</i> | <i>21.9</i> | <i>11.6</i> |
| <i>New Territories</i> | <i>10.3</i> | <i>15.4</i> | <i>21.2</i> | <i>38.1</i> | <i>31.5</i> | <i>53.5</i> |
| | <u><i>12.2</i></u> | <u><i>17.5</i></u> | <u><i>41.2</i></u> | <u><i>47.6</i></u> | <u><i>53.4</i></u> | <u><i>65.1</i></u> |

73. I mentioned last year that there were five well-known, large and valuable sites which had not been included in the original programme. Of these, Admiralty II was the only one in which specific interest was shown. As Members now know, the auction actually realized \$380 million. Over \$1 billion more will be spent on the superstructure thus demonstrating a major renewal of development interest.

74. Revenue from private treaty grants fell markedly below expectations in 1983-84, principally as a result of the rescheduling of the dates on which sites on the Island Line were to be granted to the M.T.R.C.

75. It is essential to appreciate that for 1984-85 the estimated total land revenue of \$4.2 billion is considerably distorted by the final instalment payment due of \$1.9 billion in respect of Exchange Square. Otherwise the total land revenue (which does not represent only land sales) should be over \$2 billion, much the same as I now expect to receive in respect of 1983-84.

76. The land sales programme for 1984-85 maintains the distinction between sites which it is intended to put on sale during the year (33 hectares) and sites which will be put on sale only if a developer indicates a firm interest (32.1 hectares). I anticipate revenue of \$730 million from sales by auction or tender, of \$1 billion from private treaty grants, and \$570 million from modifications and regrants. P.T.G. revenue depends heavily on the timely payment of premia by the M.T.R.C. for sites along the Island Line, which have been rescheduled for 1984-85, and on two other major developments materializing; that from modifications depends primarily on one particular development.

77. The Government decided in 1983 that, with effect from 1 April 1984, Letters 'B' would be monetized and their use extended to pay for land purchases at auctions and in tenders, for private treaty grants, for modifications and exchanges and for other land-related transactions in the New Territories. It was agreed at the same time that, exceptionally, consideration would be given to offering certain major sites in the urban area where payment by monetized Letters 'B' would be acceptable. Two of these have been included in the 1984-85 programme. It is estimated that Letters 'B' to the value of roughly \$400 million might be redeemed in the coming year as a result of monetization. The estimate of revenue receivable has been reduced accordingly.

78. The total estimated land revenue of \$4.2 billion in 1984-85 is unlikely to be repeated in the following year. Bearing in mind that this estimate includes the extraordinary instalment payment of \$1.9 billion and the payments of private treaty grant premia for the Island Line, land revenue in 1985-86 cannot be expected to be above \$2 billion. This considerable reduction in probable revenue for 1985-86 has obvious implications for next year's budget.

Revenue Proposals

79. With this general background we are now confronted *prima facie* by a deficit of \$3.6 billion for the 1984-85 financial year⁽⁴⁴⁾. While this shows a marked improvement from the \$6.2 billion deficit comparatively indicated at this stage last year, it is still far too high at 1.5% of estimated G.D.P. It must be reduced as we proceed steadily with the re-adjustment process—the need for which I have already emphasized. In particular recurrent revenue must stay well ahead of recurrent expenditure⁽⁴⁵⁾. I must also keep an eye on the likely outturn for 1985-86.

80. The means available are limited. I have also already underlined a major theme of this budget: the moderation of inflation with particular attention to the effect of increases in consumer prices on the less well off.

81. Having last year restored the proper balance between indirect and direct taxation, it is clearly necessary to bear this relationship in mind when considering how to raise additional revenue.

82. As a generalization direct taxation does not adversely affect inflation to the extent that indirect taxation does. While therefore both must be involved in the need to increase recurrent Government revenues, insofar as indirect taxation is concerned I must also seek to ensure that any additional burden is skewed away from the less well off.

83. My general intention with regard to the potential deficit of \$3.6 billion is to increase recurrent revenue by \$1.5 billion (only half of what was necessary last year), to raise \$1 billion by selling Government bonds (to which I shall revert later) and to make up the balance of \$1.1 billion by reducing our free fiscal reserves to about \$7.1 billion by end March 1985.

84. Consequently I am budgetting for a true deficit of \$2.1 billion. This will represent under 0.9% of estimated current price G.D.P. Assuming \$1 billion from the bond issue the shortfall will be \$1.1 billion. The trend from \$3.5 billion in 1982-83 and \$3.3 billion in 1983-84 to \$2.1 billion next year is clear and will be reassuring. I hope it will continue in 1985-86 thus again hitting my target of below 1% of G.D.P. But the trend is more important than the impact of particular years.

| (44) | \$ mn | \$ mn |
|-------------------------------------|--------|--------|
| <i>Revenue:</i> | | |
| <i>Recurrent</i> | 29,010 | |
| <i>Capital</i> | 4,730 | 33,740 |
| <hr/> | | |
| <i>Expenditure:</i> | | |
| <i>Recurrent</i> | 26,933 | |
| <i>Capital</i> | 10,400 | 37,333 |
| <hr/> | | |
| <i>Surplus on recurrent account</i> | | 2,077 |
| <i>Deficit on capital account</i> | | -5,670 |
| <i>Overall deficit</i> | | -3,593 |

(45) See paragraph 147.

New Taxation

85. Faced with the highly unpopular need to raise \$1.5 billion, I have decided in the light of the factors I have mentioned broadly to seek \$900 million from direct taxation and \$600 million from indirect taxation. Furthermore I intend that the indirect tax measures will have the minimum effect on consumer prices and in particular on the less well off.

86. I am well aware of the unpleasant shock that resulted from my efforts to increase revenue last year by \$3 billion through indirect taxes. The move was essential because of the need for budgetary stringency and balance. I shall need next year for the 1985-86 Budget at least to restore the yields in real terms in most areas, though we must not underestimate consumer resistance.

87. But today as far as indirect taxation is concerned I propose practically no increases on the motorist and user of transport. There will be no change in taxation of tobacco, hydrocarbon oils (including both petrol and diesel), driving licences, vehicle licences, company registration fees, entertainment, hotel accommodation and air passenger departures. For the road user I propose only increases for two tunnels for reasons which I shall explain later.

88. Other increases in indirect taxation will arise on betting duty, rates, duties on imported wines and spirits and selected fees and charges including fees for deposit-taking institutions.

89. My detailed proposals are as follows.

*Indirect Taxation**Betting Duty*

90. Last year, when introducing increases in the betting duty, I said that this levy was an obvious candidate for increased revenue. The increases then agreed were structured to ensure that punters would not be driven into the arms of illegal bookmakers. That that objective was achieved is evidenced by the fact that the Jockey Club totalisator turnover has continued to increase so that by 31 March 1984 the approved estimated yield from betting duty in the fiscal year 1983-84, of \$1.58 billion, is likely to be exceeded by \$50 million. This estimate carries the proviso that the vagaries of the weather or other considerations do not upset the racing programme. (*laughter*)

91. Encouraged by this outcome, I have come to the view that there is scope for further increases in the betting duty, (*laughter*) provided, once again, that they do not impinge too heavily on the pool available for prize monies and thus on the return to the punter. Accordingly, I propose:

firstly that the duty on standard bets be increased from the present rate of 8½% to 9%, this increase to be borne entirely by the Jockey Club—that is to say, there will be no reduction in the size of the prize money pool;

secondly that the duty on exotic bets be increased from the present rate of 13½% to 15%, this increase to be borne as to 0.5% by the Jockey Club and 1% by the punter. This will mean that the pool of prize money will be reduced marginally, from 78.6% to 77.6% of total exotic bets placed. I am advised, however, that having regard to the generally high odds paid out on winning exotic bets, this level of retention of monies in the prize pool is still within acceptable limits; and

thirdly that the duty on lotteries be increased by 3% from the present rate of 27% to 30%, with 1% coming from the prize pool share and 2% coming from the Jockey Club and Lotteries Fund share. Again, having regard to the magnitude of the individual prizes paid out on a modest \$2 stake in Mark VI lotteries, it is not considered that this minor imposition on those who bet will represent any real disincentive. Indeed, purchases of lottery tickets in the fiscal year 1984-85 are likely to increase by rather more than 10% compared with the current year.

92. These proposed increases in betting duty should produce an additional \$151 million in 1984-85. This is the second successive year in which the Jockey Club has been required to shoulder the major portion of betting duty increases. They have done so responsibly. This is as it should be, but it must be acknowledged that these additional imposts will have the effect of diminishing the Club's ability to provide financial support to those who look to it for funds for projects which cannot be supported by a government intent on controlling public sector expenditure.

Rates

93. I said in my Budget Speech last year and have repeated since that a revaluation exercise would be carried out to determine new rateable values for 1984-85, in order to ensure that the burden of rates is fairly re-distributed between ratepayers according to the current market rental values of the premises they occupy. The present rateable values were established as long ago as 1976 and are out of date. This exercise has now been completed.

94. Given the considerable increase in property values over the last seven years, it is not surprising that the new rateable values have proved to be substantially higher than those shown in the current valuation lists. The total of the new rateable values is \$55 billion as compared to \$15 billion in 1983-84. The increase in rateable values varies between different classes of property: the average being about three times for non-domestic premises, and about four times for domestic premises. Within these averages, however, there are wide fluctuations because of locational, environmental and other factors influencing the values of individual properties.

95. These increases in rateable values do not, of course, directly determine what the ratepayer must pay. This depends on the percentage rate charge to be

applied and, in many cases, on the effect of the level of rate relief to be afforded. The rates actually payable in respect of some tenements may also be affected by the allowances to be made for the lack of a potable water supply.

96. In other words there are certain relief measures to be brought into play in order to soften the impact of these increased rateable values. Revised mechanisms for this purpose were introduced by the Rating (Amendment) Ordinance, 1984 which was enacted earlier this month. The Ordinance also provides that the limits of these relief measures should be determined by Resolution of this Council.

97. I now propose the following measures:

firstly that the General Rate percentage for the urban areas be reduced from 5½% to 3½%, and the Urban Council Rate percentage be reduced from 8% to 2½%, making a total of 5½% instead of the 13½% applied in 1983-84. This represents a reduction of about 2 times. The General Rate for the New Territories should similarly be reduced from 13½% to 5½%. In those areas of the New Territories where rating is being phased in over a five year period, the percentage for 1984-85 will be reduced from 12% to 5%;

secondly that the rate relief percentage point be set at 20%. This means that the maximum increase in annual rate payments will be limited to 20% of that payable the year before. In 1983-84, rate relief was limited to pre-war rent-controlled tenements only, and the maximum permitted percentage increase was much greater at 33⅓%;

thirdly that the minimum rateable value be set at \$1,000. Tenements having an estimated rateable value below \$1,000 will then be exempt from assessment to rates. In 1983-84, the minimum rateable value was \$200; and

fourthly that the value of the current concessions accorded to ratepayers in 1983-84 for inadequate water supplies should effectively be preserved, even though the concessions are a historical relic which might reasonably have been removed. I thus propose that the concession for the few tenements without fresh water be effected by a 15% reduction in the rates payable; and for tenements with an unfiltered supply only, by a 7.5% reduction.

98. This means that in 1984-85 the increase in rates for a typical small domestic flat will be about \$18 a month,—from \$90 to \$108—and for a large flat about \$80 a month,—from \$400 to \$480. Most ratepayers will have an increased rates bill, but a small percentage will pay less than before. A number of tenements which have hitherto been assessable to rates will be exempt.

99. I must again make the point that tenants of flats in public housing estates, who now represent some 43% of the total population of Hong Kong, will not be affected immediately by the new rateable values. The burden will initially be borne by the Housing Authority. Its rents, which include an element for rates,

are only reviewed every two years and take into account income levels. Moreover rate payments are regarded as part of the rent for the purpose of calculating public assistance.

100. Demand notes notifying ratepayers of their new rateable values and the amount of rates payable for the second quarter of 1984 are being issued today to meet the requirement under section 17 of the Rating Ordinance for notice to be given of new rateable values.

101. The revised estimated General Rate yield for 1983-84 is \$1.05 billion. Allowing for natural growth, the estimated yield for 1984-85 would have been \$1.18 billion. In the light of the revaluation of properties, the reduction in poundage and the various relief measures I have proposed today, the estimated yield for 1984-85 will be \$1.35 billion, an increase of \$175 million.

Urban Council

102. The revised estimated yield for the Urban Council for 1983-84 on the old basis is \$1.01 billion; allowing for natural growth, the estimated yield for 1984-85 would have been \$1.06 billion. As now proposed, the estimated yield for 1984-85 will be \$1.19 billion, an increase of \$135 million. This provides for the Urban Council a growth in yield of 18%. I believe that Members appreciate the performance of the Urban Council and acknowledge its budgetary problems. In brief the Council will receive generous treatment.

Wines and Spirits

103. In last year's Budget Speech when proposing increases in the duty rates on liquor, I said that I would consider changing the basis of levying duty from a specific to an *ad valorem* system. There seemed to be no reason in logic or equity why purchasers of cheaper brands in a class of drinks should pay exactly the same duty per bottle as that imposed on a more expensive brand⁽⁴⁶⁾.

104. A study has since been carried out on how *ad valorem* duties could be applied to wines and spirits. A sound system should provide for the preservation and, if required, the enhancement of the revenue; the removal of the need to adjust duties from time to time to keep up with inflation; reinforcement of the general principle that those who can afford to pay more should do so, while those who cannot should be able to move down market; simplicity—meaning administrative ease and no excessive additional resources; and finally modifications which would not bear too heavily on the consumers as a whole.

105. Three main options were put forward: the conversion of the existing system to pure *ad valorem*; conversion to *ad valorem* rates while retaining a minimum specific duty; or the combination of a specific rate with an *ad valorem* rate.

(46) Paragraph 94 of B.S. 1983.

106. There has been a drop in releases ex bond and a general increase in c.i.f. values since last year. The revenue figures for 1983-84 indicate that the yield from liquor duties will be some \$100 million less than the approved estimate of \$492 million. I have assumed some recovery in 1984-85 and my estimate of revenue from imported liquor at current rates is \$436 million.

107. Convincing arguments can be made for all the options put forward and their variations. After full consideration, I propose a modification of the existing system by applying a uniform reduction of approximately 10% to the current specific rates, coupled with the imposition of a uniform *ad valorem* rate of 20%. This will result in a reduction in duty at the cheaper end of the market with increases applying progressively to the more expensive types of liquor. These changes will not apply to non-European type wines and spirits, industrial type alcohol, cider or beer. Duty on these categories will continue to be charged at the existing rate, as the price ranges are not great and the inherent problems of applying *ad valorem* duties in these cases appear to outweigh any advantages to be gained.

108. The proposal will result in the more expensive brands of wines and spirits being charged a higher duty than their less expensive counterparts⁽⁴⁷⁾. Retail prices will, of course, depend on the pricing policy adopted by the retailers and the trade.

109. These proposals should bring in increased revenue of the order of \$50 million next year so that the overall yield from duty will at least remain stable in real terms.

Fees and Charges

110. I turn now to fees and charges for the services provided by the Government and in particular by the public utility type undertakings which it is intended should operate on a quasi-commercial basis. It is more important than ever in our low tax economy to observe the no subsidy principle, unless a positive policy decision is taken to subsidize. I would therefore like to re-state the policy referred to in the 1981 Budget Speech of restoring the loadings on royalty loaded fees⁽⁴⁸⁾ and tax loaded fees and charges⁽⁴⁹⁾ to the extent that they have been eroded by inflation and of updating cost related charges

(47) *The effect of the proposed system on the various selected liquors will very broadly be: expensive wine—increase in duty by about \$8.80 per bottle; cheap wine—decrease by about \$0.50 per bottle; expensive whisky—increase by about \$2.30 per bottle; cheap whisky—decrease by about \$0.60 per bottle; X.O. brandy—increase by about \$29 per bottle; V.S.O.P. brandy—increase by about \$3.70 per bottle; ‘three star’ brandy—decrease by about \$2.90 per bottle.*

(48) *Royalty-loaded fees are payments for permission to engage in certain activities and trades, viz: licences required for various regulated activities and trades (e.g. bank licences). The level of fees imposed is not directly related to any costs which may be incurred in their regulation.*

(49) *Tax-loaded fees and charges are levied for services rendered or permissions given. They are set above the level necessary to recover full costs specifically for the purpose of raising revenue.*

including those raised by our public utility type undertakings⁽⁵⁰⁾. My 1983 Budget Proposals introduced some fairly substantial increases to certain fees and charges as a move towards gradually effecting this policy. In addition, a number of fees and charges were increased in 1983 as part of a regular review programme of individual departments.

111. A computerized fees and charges review system now established provides the information necessary to continue this process and thus enables the innumerable fees and charges to be regularly reviewed. Each year departments will be provided with information in respect of fees and charges, which are their responsibility. This system is designed not only to maintain an updated record of all fees and charges and the associated data but to assist Controlling Officers in the discharge of their responsibilities to keep the fees and charges under regular review. Where justified by rising costs, which cannot be offset totally or in part by increased productivity, proposals for increases for fees and charges will be made during the coming year—the estimate of total recurrent revenue does not anticipate these increases.

112. This process will take a few years in some instances, but I must emphasize that once proper levels are achieved any subsequent changes will be on a regular basis. The need for imposing substantial and thus shocking increases as a result of one long delayed review should then be eliminated. Our current policy of regular small increases to reflect changes in price levels will be firmly established. Last year I budgetted to raise \$1.95 billion from utilities and \$2.53 billion from fees and charges. Our latest outturn forecast suggests we shall just about achieve this target of around \$4.5 billion.

113. For 1984-85 apart from normal updating as I have mentioned, I intend to raise about \$35 million additional revenue from increases in:—

- (a) buoys and anchorage fees;
- (b) fees for deposit-taking institutions;
- (c) tolls for one Government operated tunnel.

The review of other fees and charges will continue during the year. Two major areas currently under consideration are Immigration Department fees and water charges.

(50) *Cost-related charges fall into three groups—*

- (a) *those which do not cover the full cost (including the cost of capital) of the services provided, because there is a case on policy grounds for part of the cost of the services concerned being borne by General Revenue;*
- (b) *those which are designed to cover the full cost (including the cost of capital) of the services provided. These charges may, from time to time, be set at a level above that necessary to recover full cost to deter usage for policy reasons; and*
- (c) *those which are set for the public utility-type undertakings operated by the Government and which are designed to cover the full costs of operation and to earn a required return on capital employed.*

Buoys and Anchorage Fees

114. Last year after a lapse of four years I increased fees for buoys and anchorage. To bring these fees more up-to-date, I now propose that the fee for Class 'A' buoys be increased from \$1,500 to \$2,100 a day, Class 'B' buoys from \$1,000 to \$1,400 a day, in-harbour anchorage fees from \$14 to \$28 a day and other anchorage charges from \$4 to \$8 a day, all with effect from 1 April 1984. I estimate that this will yield \$14 million. We will still be subsidizing harbour users.

Banks and Deposit-taking Companies

115. In 1983 the licence fees for banks were increased by 50%, although a higher increase could have been justified on the basis of the established royalty loading of four times the amount strictly required for cost recovery. I did not make any proposals in respect of deposit-taking companies: I felt the time was not opportune because of the problems they were facing. Nevertheless there were equally compelling arguments for at least a similar increase. The fees for registered deposit-taking companies have not been increased since 1978 and those for licensed deposit-taking companies not for two years. I believe that the situation has now improved sufficiently for a review of those fees. As was agreed for banks and their local branch licences last year, I propose a flat 50% increase for annual fees for registered deposit-taking companies from \$30,000 to \$45,000 with proportionate increases for local and overseas branches. For licensed deposit-taking companies, the increase will be from \$100,000 to \$150,000, with proportionate increases for local branch, overseas branch and overseas representative offices. I propose that licence fees for an overseas branch or representative office of a bank incorporated in Hong Kong, and for a local representative office of a bank incorporated outside Hong Kong should also be increased by 50% as they were not covered last year. These increases will take effect from 1 April 1984. I wish to stress, however, that these proposals only partly recover the erosion that has taken place since the last revisions and the increasing cost of the office of the Commissioner of Banking and Commissioner of D.T.C.'s. If the full indicated increases had been applied, it would have been necessary for example to increase the fees for registered deposit-taking companies from \$30,000 to \$110,000. I recognize of course that such increases would be too great at one step. The proposed increases in fees in 1984-85 will yield an additional \$7 million.

Lion Rock Tunnel

116. The Lion Rock Tunnel has been operating for many years while the present charges have not been revised since 1975. Charges for such undertakings are cost related and are designed to earn a required return on capital employed. The present revenue from our tunnels does not, however, even cover their operating costs. I propose therefore that the charges for all vehicles using Lion

Rock Tunnel should be \$2 with effect from 1 April 1984. This will mean that charges for small lorries, light buses and single-decker buses will be increased from \$1.50 to \$2, for private cars from \$1 to \$2 with no increase for double-decker public omnibuses and large lorries. The Aberdeen Tunnel is not utilized to full capacity and any increase at this time might possibly create an unacceptable resistance factor. I therefore propose that the charges for this tunnel should remain unchanged. When the operational pattern has been fully established, I shall reconsider whether the existing charges are still appropriate. These proposals will yield an additional \$14 million.

Cross Harbour Tunnel

117. After Members have spoken in the forthcoming debate a bill will be introduced into this Council proposing a new tax on some users of the Cross Harbour Tunnel. This measure strictly speaking is of a transport nature because its primary function is to alleviate congestion. Because, however, it also has significant budgetary implications it is appropriate that it be considered first as part of my budgetary proposals.

118. A full explanation will be given when the bill is introduced. There will then be opportunity for further debate. But in brief there is clearly now a persuasive argument for using fiscal means to deter non-essential usage of the tunnel on traffic management grounds.

119. The real cost of using the tunnel today is approximately one third of the levels charged in 1972 and unchanged since then. If new rates were to be set to offset inflation only, they would require to be three times higher than they are now.

120. It would obviously be improper if these increased charges were taken by the Cross Harbour Tunnel Company in order to increase their profits. The increase should be taken by the revenue and used in the interests of the community as a whole. It is, however, reasonable if these new measures reduce cross-harbour traffic, which indeed is their specific purpose, that the company should receive equitable compensation for revenue lost. Be that as it may, a separate application for an increase in the toll charges has been received within the last fortnight from the Cross-Harbour Tunnel Company. This will be carefully examined, but until this has been done it is not possible for me to say whether any increases that may be approved as a result of this application will be additional to the proposed Cross-Harbour Tunnel Tax.

121. Apart from traffic management reasons I have also to consider my major theme: that is to counter inflation and C.P.I. increases on the less well off.

122. It has therefore been agreed that the new tax should be lower than is *prima facie* indicated and should not fall at all on omnibuses and public light buses.

123. The proposed taxes are \$2 for a motorcycle, and \$5 for private cars, taxis, private light buses, and all goods vehicles⁽⁵¹⁾. Taxis will be entitled to impose a maximum additional charge of \$20 instead of \$10 as at present.

124. The additional annual revenue is expected to amount to about \$140 million after taking account of possible reduction in usage—which indeed we hope to see.

125. In all the circumstances it is appropriate, however, that I should make it clear that I shall regard this increased revenue as especially available for transport purposes. It would be improper to accept any strict hypothecation, but I confirm again—if further confirmation is needed—that it is Government's policy to proceed with all agreed programmes and policies and on a judicious basis to introduce new ones. These include improvements in all traffic fields. For this the community must pay. In particular we all accept that a new fixed harbour crossing is needed. This will clearly involve considerable Government expenditure.

Direct Taxation

Business and Personal Taxation

126. After what I have said it will be no surprise that concessions this year in the field of earnings and profits taxes cannot be contemplated, though in all fairness I shall wish to reconsider salaries tax thresholds carefully in my next budget in the interests of the less well off. As soon as it can be afforded I also intend again to have a look at initial allowances.

127. Having regard to our present budgetary situation, which is clear, I must look now to increase the yield from direct taxation. For many years we have been committed with considerable success to a fiscal policy in relation to direct taxes which dictates that our system should be as productive of revenue as possible, but at the same time be simple and inexpensive to administer with rates set at comparatively low levels. These objectives we have achieved⁽⁵²⁾. Hong

| (51) | <i>Rates of tax</i> | \$ |
|-------------------|---|------------|
| <i>Category 1</i> | <i>Motorcycles, Motor tricycles</i> | 2 |
| <i>Category 2</i> | <i>Private cars, Taxis</i> | 5 |
| <i>Category 3</i> | <i>(a) Public light buses</i> | <i>nil</i> |
| | <i>(b) Private light buses, dual purpose vehicles</i> | 5 |
| <i>Category 4</i> | <i>Goods vehicles of an unladen weight not exceeding 40 cwt.</i> | 5 |
| <i>Category 5</i> | <i>Goods vehicles of an unladen weight not exceeding 100 cwt.</i> | 5 |
| <i>Category 6</i> | <i>Goods vehicles of an unladen weight exceeding 100 cwt.</i> | 5 |
| <i>Category 7</i> | <i>Public and private single-decker omnibuses</i> | <i>nil</i> |
| <i>Category 8</i> | <i>Public and private double-decker omnibuses</i> | <i>nil</i> |
| <i>Category 9</i> | <i>Each additional axle</i> | <i>nil</i> |

(52) *Although it is a matter of some doubt whether we shall be able to continue to avoid complexity in our legislation for much longer, given the growing band of those who go to considerable lengths to avoid our modest rates of tax.*

Kong is fairly unique in having no unified income tax. We have by all normal standards kept our earnings and profits taxes low. Moreover I believe firmly that we should continue to do so. No change in general policy is contemplated.

128. Nonetheless some increases are now inevitable in the light of budget demands. Indeed most Members will agree that modest increases now must be preferable to sharper increases later, and I need to look more than one year ahead. The standard rate of tax of 15% has been in force since 1966-67 and the corporate rate of 16½% since 1975-76 (excepting in the years 1976-77 to 1979-80 when it stood at 17%). That is to say, our standard rate has remained unchanged for 18 years and the corporate surcharge has been at low levels for eight years. Lapse of time is no argument for increased taxes, but our present circumstances require that increases there must be. No one regrets this more than I, though in two earlier budget speeches I carefully left the option open. Last year several Members criticized me for this forbearance.

129. I therefore now propose:

firstly that the standard rate of tax be raised from 15% to 17%; and

secondly that the profits tax rate applicable to corporations similarly be raised from 16½% to 18½%, thus maintaining the present differential of 1 percentage points above the standard rate.

130. I hope that even my severest critics will agree that in the circumstances these increases are modest and that the proposed new tax rates still compare extremely favourably with most tax rates in Asia and, indeed, internationally. So they should. I am no protagonist of high taxation⁽⁵³⁾. Low taxes have long been and will continue to be a major contributor to Hong Kong's growth.

131. The new standard rate of 17½% will apply to provisional (and of course final) assessments for 1984-85 in respect of profits tax on unincorporated businesses, salaries tax and property tax; and to final personal and interest tax assessments for that year also. The new corporate rate of 18½% will also apply to corporations' provisional (and final) assessments for 1984-85.

132. These proposed increases are estimated to produce in 1984-85 an additional \$903 million from earnings and profits tax after taking into account the two instalments system⁽⁵⁴⁾. More importantly in a full year, at present levels of chargeable income and profits, the increment to the revenue should be of the order of \$1.32 billion⁽⁵⁵⁾. I hope very much that this second wind plus higher

(53) See footnote (5). See also Appendix 'D', which shows the tax payable and the effective tax rate of taxpayers of similar circumstances and income levels in Hong Kong and in five other tax administrations.

(54) Made up as to \$567 million from corporations, \$47 million from unincorporated businesses, \$162 million from salaries tax and personal assessment, \$115 million from property tax and, perhaps, \$12 million from the (now very restricted) interest tax.

(55) Made up as to \$892 million from corporations, \$80 million from unincorporated businesses, \$216 million from salaries tax and personal assessment, \$118 million from property tax and \$12 million from interest tax.

yields as the economy improves will enable us to face 1985-86 without further direct tax increases. Certainly this is my present intention.

133. In the area of personal taxation I estimate that the new standard rate will affect some 30 000 salaries taxpayers who are arguably best placed to afford it. About 18 500 will continue to pay at the standard rate but at the new level, and about 11 500 will pay more tax at the marginal rates but nonetheless at an effective rate of tax (on gross income) below the new standard rate. A typical family of husband, wife and two children will not enter the 17% threshold until salaries exceed \$23,300 per month. I submit that this is not a fair definition of a family in the so-called sandwich society; though no one more dislikes paying higher tax more than I do⁽⁵⁶⁾.

Protection of Profits Tax Yields

134. In October last, as a part of the package of proposals to stabilize the currency, the decision was taken to restrict severely the ambit of the interest tax. Accordingly, with effect from 17 October 1983 interest paid or payable on deposits made in Hong Kong currency with a financial institution carrying on business in Hong Kong became exempt from interest tax. It will also be recalled that, effective 25 February 1982, a similar exemption had been accorded to foreign currency deposits with local financial institutions as a part of the 1982 Budget proposals.

135. I have referred frequently to the possible effects which the removal of the interest tax might have on the profits tax and thus the further serious consequences for Government revenue. And in announcing the measures to protect the Hong Kong dollar in October last I referred again to these dangers and gave due notice that I would have to address this issue in this Budget. I do not need to spell out in precise terms the details of the tax avoidance devices which are now available to business enterprises by virtue of the repeal of interest tax on deposits. In essence they involve a reduction of the liability to profits tax through the use of high debt to equity capitalization arrangements, whilst at the same time the business proprietors can enjoy tax-free interest income outside the business through the placing of deposits with financial institutions. There is already evidence that bankers and tax avoidance specialists have set about advising customers and clients of the opportunities for tax diminution under the present law. The longer term prospects are that huge profits tax revenue could be lost. In all prudence immediate steps must be taken to minimize these losses, while remaining themselves neutral in effect.

136. Accordingly I propose that, for profits tax purposes, with effect from 1 April 1984:

firstly the deduction of interest and related expenses in respect of borrowings from financial institutions (other than borrowings by other financial institutions) will be prohibited where the moneys borrowed are secured or

(56) See Appendix E.

guaranteed, in whole or in part, against a deposit made with a financial institution (whether the lending institution or any other such institution) by a closely connected person;

secondly the deduction of interest and related expenses in respect of borrowings (other than borrowings from financial institutions) will be prohibited where the moneys borrowed, in respect of which the interest and related expenses are paid, are made available outside Hong Kong;

thirdly closely connected persons will be defined to include the proprietors of unincorporated businesses and their close relatives and associated corporations of limited liability enterprises; and

fourthly for the purposes of the prohibitions outlined above the present definition of 'financial institution', which is limited to institutions carrying on business in Hong Kong, will be enlarged to include similar institutions operating overseas rather than in Hong Kong.

137. I much hope that these new provisions, the full details of which will be published shortly in Bill form, will not meet with general opposition from responsible people in the business sector. I believe that the proposals are essential for the protection of revenue and should deter tax avoiders. At the same time they are carefully designed to leave ample scope for the genuine business borrower to obtain full deductions for interest expenses incurred. There are more draconian measures that could have been introduced, which I trust will not be necessary.

Interest Received Chargeable To Profits Tax

138. I come now to a matter which has been exercising the Commissioner of Inland Revenue for some time, namely the manner in which interest received or receivable by business enterprises is dealt with for the purposes of the charge to profits tax. It is, of course commonplace for business proprietors with surplus funds temporarily available in their businesses to put them to work by placing them with financial institutions and others to earn interest. For many years now the Inland Revenue Department, in determining whether or not such interest income is exigible to profits tax, has applied the same test of liability as is applied in determining the liability of non-business lenders to interest tax. In revenue jargon that test is known as the 'provision of credit' test: in layman's terms liability to Hong Kong tax has arisen only where the money loaned is made available to the borrower in Hong Kong. That approach may be all very well in determining the liability of private depositors to interest tax, but it really does beg the question where the monies are loaned as part and parcel of the operations of a business carried on in Hong Kong. As long ago as 1976 the Third Inland Revenue Ordinance Review Committee expressed doubts as to the validity of this approach, pointing out the opportunities for manipulation which it presents; and the present Commissioner of Inland Revenue—and his predecessor—have long held the view that the provision of credit test is both artificial and inappropriate in determining the true territorial source of interest

income accruing to businesses. I share their view, particularly as in the technological age in which we live the placing of a deposit in a bank account in London or New York is only a quick telephone call or a telex message away. All in all, I believe that a more realistic approach is to look at the locality of the business carried on, rather than the physical location of the moneys loaned, in order to determine the source of the resultant interest income.

139. Accordingly I propose that, with effect from 1 April 1984, sums received or accruing by way of interest to businesses carried on in Hong Kong shall be chargeable to profits tax, irrespective of the currency in which the transaction is denominated and notwithstanding that the moneys in respect of which the interest is received or accrues are made available to the borrower outside Hong Kong.

140. As it is intended that this proposal shall apply only to interest accruing on or after 1 April 1984 it will have effect for the first time in respect of final assessments for 1984-85, which of course are generally not due for payment until after 31 March 1985. There will, therefore, be no immediate addition to revenue. I estimate, however, that in 1985-86 the exchequer will benefit to the extent of some \$350 million if this proposal is enacted. I would add that, quite apart from the additional revenue yields which will accrue from this proposal, I see it as a minor but useful support measure for the Hong Kong dollar, since there will no longer be a tax incentive for businesses to hold deposits offshore.

Revenue Protection Orders

141. As my proposals for increased betting duty and for increased taxes under the Inland Revenue Ordinance are designed to come into effect on 1 April 1984 I shall, before that date, be seeking Your Excellency's authority for the issue of appropriate Revenue Protection Orders. In the case of my proposals for a different approach to duties imposed on imported wines and spirits Your Excellency signed two Revenue Protection Orders this morning. The new rate percentages also require immediate effect and another Revenue Protection Order was accordingly signed. There will be full opportunity for debate after the necessary new legislation is introduced into this Council.

Government Bonds

142. When I mentioned last year the possibility of Government borrowing, I said specifically that 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⁽⁵⁷⁾. Without taking account of the revenue proposals I have just outlined, recurrent expenditure next year would represent 93% of recurrent revenue compared with 86% in 1983-84 and a notional guideline of no more than 85%. To borrow against this background could be considered typical of the worst practices prevalent elsewhere. I would so regard it. It is quite irresponsible to borrow as an alternative to exerting proper discipline. But given

(57) 1983 B.S. paragraph 82.

agreement to my revenue proposals and acceptance of our determination to continue tight control on recurrent expenditure, the ratio should come down from 93% to 88%. Although this latter figure is still higher than I like, to reduce it further would involve either cuts in expenditure or even higher taxation or an element of both. I do not consider that it would be appropriate at this point in time so to burden the community, especially as I am concerned with trends and not just one year. Consequently under the circumstances a moderate degree of Government borrowing of, say, \$1 billion appears prudent.

143. I propose, therefore, next month to move a resolution to provide the Government with the authority to raise, in Hong Kong, in our currency and for the purpose of the general revenue, a loan of up to \$1 billion by the issue of bonds under the Loans (Government Bonds) Ordinance. The proceeds of the bond issue will be transferred to the Capital Works Reserve Fund. The nature of the issue will probably be identical to the previous issue in 1975, that is in the form of fixed rate Hong Kong dollar denominated bearer bonds with a term of five years, which will be sold by tender. Other forms of borrowing have been carefully considered, but this system, of which we have some experience, seems well suited to our needs at this time. We shall keep our options open as long as possible. I am nevertheless advised that the Hong Kong dollar market can easily absorb a bond issue of the size we envisage, particularly as the bonds will qualify as liquid assets under the Banking and Deposit-taking Companies Ordinances. Development of the money market will be an additional bonus.

144. The Government has received a considerable number of offers of assistance in raising large loans in various currencies on various terms from banks and other financial institutions. We are appreciative of these demonstrations of confidence in Hong Kong from our friends, but there is every reason not to choose debt as a solution to all budgetary problems. Nor do all banks necessarily consider only the best interests of their customers. I approach borrowing with considerable circumspection. I hope that Members will agree, bearing in mind what has so evidently been forgotten elsewhere that loans carry interest and have to be funded or repaid.

Outcome

145. The net additional revenue which these proposals will bring in for 1984-85 is about \$1.5 billion⁽⁵⁸⁾, with a further \$1 billion from Government bonds.

| <i>(58) Budget proposals</i> | <i>Additional revenue</i> <i>(\$ mn)</i> |
|---|---|
| <i>Earnings and profits tax</i> | 903 |
| <i>Duties on liquor</i> | 50 |
| <i>Adjustments to the General Rate</i> | 175 |
| <i>Betting duties</i> | 151 |
| <i>Cross Harbour Tunnel tax</i> | 140 |
| <i>Fees and charges</i> | 35 |
| | <u>1,454</u> |
| <i>Proceeds from the issue of bonds</i> | <u>1,000</u> |

My estimate of total revenue for the General Revenue Account thus becomes \$36.2 billion, and the shortfall for the year is estimated at \$1.1 billion⁽⁵⁹⁾.

146. As far as the balance of the fiscal system is concerned, the ratio of direct to indirect taxation will be 61:39, or the same as expected in 1983-84⁽⁶⁰⁾.

147. As far as the notional budgetary guidelines are concerned, recurrent revenue will cover 80% of total expenditure against a minimum of 77% and the surplus on recurrent account will cover 32% of capital expenditure against 33%⁽⁶¹⁾.

| (59) | \$ mn | \$ mn |
|---|---------------|---------------|
| <i>Revenue</i> | | |
| <i>Recurrent</i> | 30,464 | |
| <i>Capital</i> | <u>4,730</u> | <u>35,194</u> |
| <i>Expenditure</i> | | |
| <i>Recurrent</i> | 26,933 | |
| <i>Capital</i> | <u>10,400</u> | <u>37,333</u> |
| <i>Surplus on recurrent account</i> | | 3,531 |
| <i>Deficit on capital account</i> | | -5,670 |
| <i>Overall deficit</i> | | <u>-2,139</u> |
| <i>Proceeds from the issue of bonds</i> | | 1,000 |
| <i>Shortfall to be financed from the reserves</i> | | <u>1,139</u> |

(60) *Ratio between direct and indirect taxes—61:39 Ratio between direct and indirect taxes taken together and all other recurrent revenue—72:28 (See Appendix A: these ratios are calculated on figures adjusted for analytical reasons; the differences are explained in the Statistical Tables).*

| (61) | Guideline | Ratio | 1984-85 |
|-------|--|------------------|---------|
| (i) | $\frac{\text{Recurrent revenue}}{\text{Total expenditure}}$ | At least 77% | 80% |
| (ii) | $\frac{\text{Recurrent expenditure}}{\text{Recurrent revenue}}$ | No more than 85% | 88% |
| (iii) | $\frac{\text{Surplus on recurrent account}}{\text{Capital expenditure}}$ | At least 33% | 32% |
| (iv) | $\frac{\text{Recurrent expenditure}}{\text{Total expenditure}}$ | No more than 65% | 71% |
| (v) | $\frac{\text{Capital revenue}}{\text{Capital expenditure}}$ | At least 20% | 52% |

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

1984 Economic Prospects

148. I turn now to my forecast of the economy for 1984⁽⁶²⁾. As always this exercise is fraught with difficulties, especially in the context of Hong Kong where so much of the economy's performance is determined by external influences outside our control.

149. 1983 ended with the economy enjoying the benefits of strong export growth and with the first signs of the consequent revival of domestic demand apparent. Unemployment and underemployment had settled back to tolerable levels, after rising in the earlier part of the year. Apart from property prices and rents, inflation was higher than desirable, boosted by the depreciation of the Hong Kong dollar up to September. This inflationary situation is likely to continue until the full effects of the currency depreciation have worked their way through the economy—say late spring.

150. It is likely that the economy's performance in 1984 will again primarily be determined by the growth rate of exports. The U.S. economy, having performed better than generally expected in 1983 with a growth rate of 3.5%, is expected to grow even faster in 1984, with a rate of growth of about 5% being forecast by O.E.C.D. But a number of factors suggest that Hong Kong would be unlikely to benefit in proportion to such an increase in growth. The emphasis seems likely to move away from the re-stocking of consumer goods, which was a factor in the 26% growth rate in real terms of exports from Hong Kong to the U.S. in 1983. The exhaustion of clothing and textiles quotas in 1983 leaves little room for further growth for these items in 1984. Finally, in 1983 the surge in exports to the U.S. was undoubtedly helped by the depreciation of the Hong Kong dollar against the U.S. dollar.

151. Nevertheless some recovery is likely in the economies of Hong Kong's other major markets. This recovery, plus a further substantial growth in exports to the U.S., gives a forecast for domestic exports in 1984 of 10% in real terms, compared with the 14% achieved in 1983. This, combined with a forecast growth rate of re-exports of 16%, gives a growth forecast for total exports of 12%, compared with 15% in 1983.

152. Given the strong export performance achieved in 1983 and expected for 1984, earnings including wages should rise in real terms. The forecast growth rate for private consumption expenditure in 1984 is 7%.

153. Government consumption expenditure is forecast to increase by 5%, compared with 4% in 1983.

154. Private investment expenditure, which fell by 8% in 1983, is particularly difficult to forecast. The economic recovery, which began in 1983 and is expected to continue in 1984, should indicate a strong recovery in private sector investment expenditure, which, however, the continued uncertainty and the overhang of vacant premises in the property sector tend to offset.

(62) See '1984 Economic Prospects.'

155. In particular private sector building intentions, which declined by 24% in 1982, fell by a further 30% in 1983, indicating little scope for positive growth in private building and construction expenditure. On the other hand there were welcome signs of a revival in private investment in plant and machinery towards the end of 1983.

156. Private investment in building and construction is thus forecast to decline by 2% in 1984, compared with a decline of 13% in 1983. Taking the private and public sectors together, overall investment in plant and machinery is forecast to increase by 6%, compared with -1% in 1983. These forecasts, when combined with a forecast of 9% for public sector expenditure on building and construction (with growth coming principally from the M.T.R.C.) and forecasts of some other, smaller components, gives a forecast growth rate for gross domestic fixed capital formation for 1984 of 3%, compared with -7% for 1983.

157. The forecast growth rate of imports associated with these forecasts of final demand is 11%, only slightly higher than the outcome for 1983 of 10%. Net exports of services are forecast to increase at 2%, compared with a decline of 8% in 1983.

158. Combination of these forecasts for the individual components of expenditure gives a growth forecast for gross domestic product of slightly above 6%. As some of the forecasts of the components may turn out to be conservative, this overall growth rate may also so turn out. I shall address the issue again in my usual mid-year review.

159. If these forecasts are borne out, economic growth in 1984 will continue to be export-led, but with an increasing contribution from domestic demand. Investment in new plant and machinery will be less than I would like but will be increasing, while the property market should be showing signs of slow improvement.

160. The growth rate of total final demand, excluding re-exports, is expected, at 7%, to exceed that of Gross Domestic Product, at 6%, but not sufficiently to generate significant internal inflationary pressures. The economy is adjusting under the new exchange rate system to the residual inflationary pressures arising from last year's depreciation of the Hong Kong dollar.

161. Inflation is expected to remain at over 10% for the early part of the year, but to fall steadily in the later months under the influence of a stable exchange rate and low inflation rates elsewhere. The rate of fall will be largely a function of the level of this year's wage awards. The forecast rate of increase of both the G.D.P. deflator and the Consumer Price Indices is 9%. Again this may be conservative, but we shall take stock in six months' time. It reflects an estimated average for 1984 as a whole: in the opening months inflation has been running at about 12% but is expected to trend down to about 7% at the end. Once again the trend is all important. Consequently the prognosis for 1985 is good. As I have said earlier, policy must be long-term and not concentrated just on one year.

162. The forecast growth rate for G.D.P. in 1984 in money terms is thus 16%. At current prices, per capita G.D.P. in 1984 should thus be about \$44,700 or just over US\$5,700. The G.D.P. itself should be about \$240 billion.

163. A forecast growth rate of G.D.P. of 6% may seem somewhat disappointing in historical terms for the second year of an economic recovery. Nevertheless if achieved it will represent an excellent performance given the present overall situation.

164. To sum up briefly, if the budget forecasts for 1984-85 work out on the lines indicated, we may expect to continue to move forward with many major programmes; the deficit will be under control; employment will remain stabilized with rising real incomes; inflation will fall; exports will continue to rise; and G.D.P. should grow by over 6%. All this must, however, be subject to no presently unforeseen shocks. With trade now representing 163% of G.D.P. Hong Kong will always be vulnerable to external events quite beyond its control. I am also well aware of the dangers of excessive optimism. All in all, however, the budget presented today indicates clearer skies ahead.

165. Sir, I move that the debate be now adjourned.

STATISTICAL TABLES

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Table (1)

GROWTH RATES OF CONSOLIDATED ACCOUNT EXPENDITURE (ADJUSTED)
AND THE RELATIVE SIZE OF THE PUBLIC SECTOR 1973-74 TO 1984-85

| | 1973-74 | 1974-75 | 1975-76 | 1976-77 | 1977-78 | 1978-79 |
|---------------------------------|----------|----------|----------|----------|----------|----------|
| Consolidated Account | | | | | | |
| Expenditure (Adjusted), at | | | | | | |
| Current Prices (\$ mn): | | | | | | |
| Recurrent | 3,547.2 | 4,647.4 | 4,934.1 | 5,786.4 | 6,933.8 | 8,183.7 |
| Capital | 1,513.8 | 2,044.9 | 1,642.3 | 1,568.7 | 2,234.4 | 3,937.9 |
| Total | 5,061.0 | 6,692.3 | 6,576.4 | 7,355.1 | 9,168.2 | 12,121.6 |
| Gross Domestic Product at | | | | | | |
| Current Prices (\$ mn) (*) | | | | | | |
| | 39,101.0 | 44,578.0 | 46,464.0 | 59,339.0 | 68,905.0 | 81,163.0 |
| Relative Size of the Public | | | | | | |
| Sector (%) | | | | | | |
| | 12.9 | 15.0 | 14.2 | 12.4 | 13.3 | 14.9 |
| Consolidated Account | | | | | | |
| Expenditure (Adjusted), at | | | | | | |
| Constant (1980) Prices (\$ mn): | | | | | | |
| Recurrent | 7,340.7 | 8,321.1 | 8,618.3 | 9,506.4 | 10,488.5 | 11,352.2 |
| Capital | 3,333.0 | 3,836.3 | 3,283.8 | 3,014.6 | 3,973.2 | 6,146.5 |
| Total | 10,673.7 | 12,157.4 | 11,902.1 | 12,521.0 | 14,461.7 | 17,498.7 |
| Growth rates of Consolidated | | | | | | |
| Account Expenditure | | | | | | |
| (Adjusted) (%): | | | | | | |
| In money terms: | | | | | | |
| Recurrent | 30.5 | 31.0 | 6.2 | 17.3 | 19.8 | 18.0 |
| Capital | 30.9 | 35.1 | -19.7 | -4.5 | 42.4 | 76.2 |
| Total | 30.6 | 32.2 | -1.7 | 11.8 | 24.7 | 32.2 |
| In real terms: | | | | | | |
| Recurrent | 17.0 | 13.4 | 3.6 | 10.3 | 10.3 | 8.2 |
| Capital | 13.9 | 15.1 | -14.4 | -8.2 | 31.8 | 54.7 |
| Total | 16.0 | 13.9 | -2.1 | 5.2 | 15.5 | 21.0 |

Table (1) *Contd.*GROWTH RATES OF CONSOLIDATED ACCOUNT EXPENDITURE (ADJUSTED)
AND THE RELATIVE SIZE OF THE PUBLIC SECTOR 1973-74 TO 1984-85

| | 1979-80 | 1980-81 | 1981-82 | 1982-83 | <i>Revised</i> | |
|---------------------------------|-----------|-----------|-----------|-----------|-----------------|-----------------|
| | | | | | <i>Estimate</i> | <i>Estimate</i> |
| | | | | | 1983-84 | 1984-85 |
| Consolidated Account | | | | | | |
| Expenditure (Adjusted), at | | | | | | |
| Current Prices (\$ mn): | | | | | | |
| Recurrent | 9,969.9 | 13,404.4 | 17,969.2 | 22,739.1 | 26,143.5 | 29,922.6 |
| Capital | 5,649.2 | 8,652.0 | 11,413.8 | 12,944.5 | 14,034.3 | 14,053.3 |
| Total | 15,619.1 | 22,056.4 | 29,383.0 | 35,683.6 | 40,177.8 | 43,975.9 |
| Gross Domestic Product at | | | | | | |
| Current Prices (\$ mn) (*) | | | | | | |
| | 107,047.0 | 137,209.0 | 165,346.0 | 184,351.0 | 206,890.0 | 239,890.0 |
| Relative Size of the Public | | | | | | |
| Sector (%) | | | | | | |
| | 14.6 | 16.1 | 17.8 | 19.4 | 19.4 | 18.3 |
| Consolidated Account | | | | | | |
| Expenditure (Adjusted), at | | | | | | |
| Constant (1980) Prices (\$ mn): | | | | | | |
| Recurrent | 12,159.1 | 13,404.4 | 15,435.5 | 16,942.8 | 18,116.7 | 18,995.4 |
| Capital | 6,564.5 | 8,652.0 | 9,931.2 | 11,068.3 | 12,191.3 | 11,910.9 |
| Total | 18,723.6 | 22,056.4 | 25,366.7 | 28,011.1 | 30,308.0 | 30,906.3 |
| Growth rates of Consolidated | | | | | | |
| Account Expenditure | | | | | | |
| (Adjusted) (%): | | | | | | |
| In money terms: | | | | | | |
| Recurrent | 21.8 | 34.4 | 34.1 | 26.5 | 15.0 | 14.5 |
| Capital | 43.5 | 53.2 | 31.9 | 13.4 | 8.4 | 0.1 |
| Total | 28.9 | 41.2 | 33.2 | 21.4 | 12.6 | 9.5 |
| In real terms: | | | | | | |
| Recurrent | 7.1 | 10.2 | 15.2 | 9.8 | 6.9 | 4.9 |
| Capital | 6.8 | 31.8 | 14.8 | 11.4 | 10.1 | -2.3 |
| Total | 7.0 | 17.8 | 15.0 | 10.4 | 8.2 | 2.0 |

Notes: (*) Revised series. Calendar year figures. The figure for 1982 is provisional, that for 1983 is preliminary and that for 1984 is a forecast.

Table (2)

GENERAL REVENUE ACCOUNT 1974-75 TO 1984-85
(Adjusted for analytical purposes)

| | 1974-75 | 1975-76 | 1976-77 | 1977-78 | 1978-79 |
|------------------------------|--------------------|-------------------|-------------------|---------------------|---------------------|
| | (\$ mn) | (\$ mn) | (\$ mn) | (\$ mn) | (\$ mn) |
| <i>Revenue:</i> | | | | | |
| Recurrent | 5,156 | 5,843 | 6,850 | 8,151 | 10,146 |
| Capital | <u>437</u> | <u>412</u> | <u>644</u> | <u>1,232</u> | <u>2,296</u> |
| Total | 5,593 | 6,255 | 7,494 | 9,383 | 12,442 |
| <i>Expenditure:</i> | | | | | |
| Recurrent | 4,175 | 4,450 | 5,224 | 6,219 | 7,308 |
| Capital | <u>1,796</u> | <u>1,573</u> | <u>1,353</u> | 1,939 | <u>3,648</u> |
| Total | 5,971 | 6,023 | 6,577 | 8,158 | 10,956 |
| Surplus on recurrent account | 981 | 1,393 | 1,626 | 1,932 | 2,838 |
| Deficit on capital account | -1,359 | -1,161 | -709 | -707 | -1,352 |
| Overall surplus/deficit | <u><u>-378</u></u> | <u><u>232</u></u> | <u><u>917</u></u> | <u><u>1,225</u></u> | <u><u>1,486</u></u> |

Table (2) *Contd.*

GENERAL REVENUE ACCOUNT 1974-75 TO 1984-85

(Adjusted for analytical purposes)

| | 1979-80 | 1980-81 | 1981-82 | 1982-83 | 1983-84 (Estimates) | 1983-84 (Revised Estimates) | 1984-85 (Draft Estimates) | 1984-85 (After revenue proposals) |
|-----------------------------------|--------------|---------------|---------------|---------------|------------------------|-----------------------------------|---------------------------------|---|
| | (\$ mn) | (\$ mn) | (\$ mn) | (\$ mn) | (\$ mn) | (\$ mn) | (\$ mn) | (\$ mn) |
| <i>Revenue:</i> | | | | | | | | |
| Recurrent | 13,473 | 18,951 | 24,014 | 24,882 | 28,693 | 27,130 | 29,010 | 30,464 |
| Capital | <u>3,323</u> | <u>11,236</u> | <u>9,480</u> | <u>6,134</u> | <u>3,577</u> | <u>3,150</u> | <u>4,730</u> | <u>4,730</u> |
| Total | 16,796 | 30,187 | 33,494 | 31,016 | 32,270 | 30,280 | 33,740 | 35,194 |
| <i>Expenditure:</i> | | | | | | | | |
| Recurrent | 8,865 | 11,919 | 16,295 | 20,498 | 23,808 | 23,280 | 26,933 | 26,933 |
| Capital | <u>4,956</u> | <u>7,756</u> | <u>10,500</u> | <u>14,076</u> | 11,629 | <u>10,280</u> | <u>10,352</u> | <u>10,352</u> |
| Total | 13,821 | 19,675 | 26,795 | 34,574 | 35,437 | 33,560 | 37,285 | 37,285 |
| Surplus on recurrent account | 4,608 | 7,032 | 7,719 | 4,384 | 4,885 | 3,850 | 2,077 | 3,531 |
| Deficit on capital account | -1,633 | +3,480 | -1,020 | -7,942 | -8,052 | -7,130 | -5,622 | -5,622 |
| Surplus/deficit | 2,975 | 10,512 | 6,699 | -3,558 | -3,167 | -3,280 | -3,545 | -2,091 |
| Proceeds from the issue of | | | | | | | | |
| Government Bonds | — | — | — | — | — | — | — | 1,000 |
| Shortfall to be financed from the | | | | | | | | |
| reserves | <u>—</u> | <u>—</u> | <u>—</u> | <u>3,558</u> | <u>—</u> | <u>3,280</u> | <u>—</u> | <u>1,091</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 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) transaction, 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</i> | <i>Capital Revenue</i> | <i>Recurrent Expenditure</i> | <i>Capital Expenditure</i> |
|-------------|--------------------|------------------------|------------------------------|----------------------------|
| 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.) | | - 335 (M.T.F.) |
| | | -488 (L.P., H.O.S.) | | - 488 (H.O.F.) |
| | | - 27 (Loans) | | - 16 (D.R.) |

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

| <i>Year</i> | <i>Recurrent</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.) |
| 1982-83 | | - 82 (C. & W.) | | - 23 (D.R.) |
| 1983-84 (Estimates) | | — | | - 38 (D.R.) |
| 1983-84 (Revised Estimates) | | — | | - 40 (D.R.) |
| 1984-85 (Draft Estimates) | | — | | - 48 (D.R.) |

| | | | | | | |
|----------------|-------------|---|---|--------------|---|------------------------------------|
| <i>Legend:</i> | U.C. & H.A. | = | Urban Council & Housing Authority | L.P., M.T.R. | = | Land premia, Mass Transit Railway |
| | D.R. | = | Debt repayment | L.P., H.O.S. | = | Land premia, Home Ownership Scheme |
| | M.T.F. | = | Mass Transit Fund | J.S.C. | = | Jubilee Sports Centre |
| | H.O.F. | = | Home Ownership Fund for land premia | S.C.S.A. | = | Special Coin Suspense Account |
| | C. & W. | = | Cable and Wireless (Hong Kong Subsidiary) | | | |

Table (3)

CONSOLIDATED ACCOUNT EXPENDITURE BY MAIN FUNCTIONS 1974-75 TO 1984-85

(Adjusted for analytical purposes)

| | 1974-75 | | 1975-76 | | 1976-77 | | 1977-78 | | 1978-79 | |
|-----------------------------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|----------------------|-------------|
| | (\$ mn) | (%) | (\$ mn) | (%) | (\$ mn) | (%) | (\$ mn) | (%) | (\$ mn) | (%) |
| (A) <i>General Services</i> | <u>894</u> | <u>13.3</u> | <u>848</u> | <u>12.9</u> | <u>972</u> | <u>13.2</u> | <u>1,227</u> | <u>13.4</u> | <u>1,478</u> | <u>12.2</u> |
| (B) <i>Security Services</i> | | | | | | | | | | |
| (1) Defence | 106 | 1.6 | 105 | 1.6 | 241 | 3.3 | 381 | 4.1 | 587 | 4.8 |
| (2) Immigration | 31 | 0.5 | 32 | 0.5 | 38 | 0.5 | 46 | 0.5 | 53 | 0.4 |
| (3) Law and Order | <u>564</u> | <u>8.4</u> | <u>597</u> | <u>9.1</u> | <u>717</u> | <u>9.7</u> | <u>843</u> | <u>9.2</u> | <u>978</u> | <u>8.1</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>13.8</u> | <u>1,618</u> | <u>13.3</u> |
| (C) <i>Economic Services</i> | <u>355</u> | <u>5.3</u> | <u>411</u> | <u>6.2</u> | <u>439</u> | <u>6.0</u> | <u>476</u> | <u>5.2</u> | <u>631</u> | <u>5.2</u> |
| (D) <i>Community Services</i> | | | | | | | | | | |
| (1) Transport | 537 | 8.0 | 487 | 7.4 | 447 | 6.1 | 593 | 6.5 | 841 | 6.9 |
| (2) Land and Civil Engineering | 333 | 5.0 | 231 | 3.5 | 318 | 4.3 | 503 | 5.5 | 882 | 7.3 |
| (3) Water | 708 | 10.6 | 485 | 7.4 | 466 | 6.3 | 454 | 4.9 | 386 | 3.2 |
| (4) Other | <u>502</u> | <u>7.5</u> | <u>507</u> | <u>7.7</u> | <u>658</u> | <u>9.0</u> | <u>816</u> | <u>8.9</u> | <u>1,099</u> | <u>9.1</u> |
| | <u>2,080</u> | <u>31.1</u> | <u>1,710</u> | <u>26.0</u> | <u>1,889</u> | <u>25.7</u> | <u>2,366</u> | <u>25.8</u> | <u>3,208</u> | <u>26.5</u> |
| (D) <i>Social Services</i> | | | | | | | | | | |
| (1) Education | 1,137 | 17.0 | 1,263 | 19.2 | 1,405 | 19.1 | 1,624 | 17.7 | 1,949 | 16.1 |
| (2) Medical | 560 | 8.4 | 565 | 8.6 | 647 | 8.8 | 754 | 8.2 | 947 | 7.8 |
| (3) Housing | 670 | 10.0 | 665 | 10.1 | 618 | 8.4 | 1,022 | 11.2 | 1,705 | 14.1 |
| (4) Social Welfare | 275 | 4.1 | 359 | 5.5 | 365 | 5.0 | 400 | 4.4 | 551 | 4.5 |
| (5) Labour | <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>35</u> | <u>0.3</u> |
| | <u>2,662</u> | <u>39.8</u> | <u>2,873</u> | <u>43.7</u> | <u>3,059</u> | <u>41.6</u> | <u>3,829</u> | <u>41.8</u> | <u>5,187</u> | <u>42.8</u> |
| Total Expenditure | <u><u>6,692</u></u> | | <u><u>6,576</u></u> | | <u><u>7,355</u></u> | | <u><u>9,168</u></u> | | <u><u>12,122</u></u> | |

Table (3) *Contd.*

CONSOLIDATED ACCOUNT EXPENDITURE BY MAIN FUNCTIONS 1974-75 TO 1984-85

(Adjusted for analytical purposes)

| | 1979-80 | | 1980-81 | | 1981-82 | | 1982-83 | | 1983-84 (Revised Estimates) | | 1984-85* (Draft Estimates) | |
|-----------------------------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|-----------------------------------|-------------|----------------------------------|-------------|
| | (\$ mn) | (%) | (\$ mn) | (%) | (\$ mn) | (%) | (\$ mn) | (%) | (\$ mn) | (%) | (\$ mn) | (%) |
| (A) <i>General Services</i> | <u>2,088</u> | <u>13.4</u> | <u>2,424</u> | <u>11.0</u> | <u>3,274</u> | <u>11.1</u> | <u>4,800</u> | <u>13.4</u> | <u>5,672</u> | <u>14.1</u> | <u>6,071</u> | <u>13.8</u> |
| (B) <i>Security Services</i> | | | | | | | | | | | | |
| (1) Defence | 642 | 4.1 | 1,590 | 7.2 | 1,498 | 5.1 | 1,471 | 4.1 | 1,597 | 4.0 | 1,650 | 3.7 |
| (2) Immigration | 78 | 0.5 | 114 | 0.5 | 152 | 0.5 | 246 | 0.7 | 278 | 0.7 | 298 | 0.7 |
| (3) Law and Order | <u>1,269</u> | <u>8.1</u> | <u>1,627</u> | <u>7.4</u> | <u>2,153</u> | <u>7.3</u> | <u>3,091</u> | <u>8.7</u> | <u>3,278</u> | <u>8.1</u> | <u>3,553</u> | <u>8.1</u> |
| | <u>1,989</u> | <u>12.7</u> | <u>3,331</u> | <u>15.1</u> | <u>3,803</u> | <u>12.9</u> | <u>4,808</u> | <u>13.5</u> | <u>5,153</u> | <u>12.8</u> | <u>5,501</u> | <u>12.5</u> |
| (C) <i>Economic Services</i> | <u>804</u> | <u>5.1</u> | <u>1,007</u> | <u>4.5</u> | <u>1,396</u> | <u>4.8</u> | <u>1,357</u> | <u>3.8</u> | <u>1,443</u> | <u>3.6</u> | <u>1,571</u> | <u>3.6</u> |
| (D) <i>Community Services</i> | | | | | | | | | | | | |
| (1) Transport | 1,187 | 7.6 | 1,636 | 7.4 | 2,554 | 8.7 | 3,375 | 9.5 | 2,947 | 7.3 | 2,774 | 6.3 |
| (2) Land and Civil Engineering | 936 | 6.0 | 1,479 | 6.7 | 3,183 | 10.8 | 2,491 | 7.0 | 2,923 | 7.3 | 3,037 | 6.9 |
| (3) Water | 470 | 3.0 | 697 | 3.2 | 1,263 | 4.3 | 1,413 | 4.0 | 1,414 | 3.5 | 1,734 | 3.9 |
| (4) Other | <u>1,338</u> | <u>8.6</u> | <u>1,762</u> | <u>8.0</u> | <u>2,366</u> | <u>8.1</u> | <u>2,946</u> | <u>8.2</u> | <u>3,450</u> | <u>8.6</u> | <u>4,176</u> | <u>9.5</u> |
| | <u>3,931</u> | <u>25.2</u> | <u>5,574</u> | <u>25.3</u> | <u>9,366</u> | <u>31.9</u> | <u>10,225</u> | <u>28.7</u> | <u>10,734</u> | <u>26.7</u> | <u>11,721</u> | <u>26.6</u> |
| (E) <i>Social Services</i> | | | | | | | | | | | | |
| (1) Education | 2,438 | 15.6 | 3,382 | 15.3 | 4,172 | 14.2 | 5,105 | 14.3 | 5,988 | 14.9 | 7,061 | 16.0 |
| (2) Medical | 1,229 | 7.9 | 1,664 | 7.6 | 2,159 | 7.3 | 2,665 | 7.4 | 3,073 | 7.7 | 3,549 | 8.1 |
| (3) Housing | 2,376 | 15.2 | 3,708 | 16.8 | 3,895 | 13.3 | 4,919 | 13.8 | 5,979 | 14.9 | 5,972 | 13.6 |
| (4) Social Welfare | 719 | 4.6 | 881 | 4.0 | 1,220 | 4.2 | 1,710 | 4.8 | 2,027 | 5.0 | 2,409 | 5.5 |
| (5) Labour | 45 | 0.3 | 86 | 0.4 | 98 | 0.3 | 95 | 0.3 | 109 | 0.3 | 121 | 0.3 |
| | <u>6,807</u> | <u>43.6</u> | <u>9,721</u> | <u>44.1</u> | <u>11,544</u> | <u>39.3</u> | <u>14,494</u> | <u>40.6</u> | <u>17,176</u> | <u>42.8</u> | <u>19,112</u> | <u>43.5</u> |
| Total Expenditure | <u>15,619</u> | | <u>22,057</u> | | <u>29,383</u> | | <u>35,684</u> | | <u>40,178</u> | | <u>43,976</u> | |

* The figures for 1984-85 are derived from Appendix VI to the printed Draft Estimates.

Table (4)

GENERAL REVENUE BY MAIN SOURCES 1974-75 TO 1984-85
(Adjusted for analytical purposes)

| | 1974-75 (\$ mn) | 1975-76 (\$ mn) | 1976-77 (\$ mn) | 1977-78 (\$ mn) | 1978-79 (\$ mn) |
|---------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| <i>Recurrent Account:</i> | | | | | |
| DIRECT TAXES | | | | | |
| Earnings and profits tax | 2,144 | 2,234 | 2,699 | 3,357 | 4,115 |
| INDIRECT TAXES | | | | | |
| Duties | 473 | 558 | 681 | 734 | 830 |
| General rates | 408 | 534 | 618 | 723 | 807 |
| Internal revenue: | | | | | |
| Bets and sweeps tax | 96 | 161 | 265 | 336 | 509 |
| Entertainment tax | 4 | 19 | 23 | 27 | 29 |
| Hotel accommodation tax | 6 | 9 | 15 | 20 | 24 |
| Stamp duties | 303 | 382 | 428 | 490 | 762 |
| Motor vehicle tax | 32 | 49 | 102 | 148 | 259 |
| Royalties and concessions | 47 | 65 | 60 | 67 | 88 |
| OTHER REVENUE | <u>1,643</u> | <u>1,832</u> | <u>1,959</u> | <u>2,249</u> | <u>2,723</u> |
| Total Recurrent | 5,156 | 5,843 | 6,850 | 8,151 | 10,146 |
| <i>Capital Account:</i> | | | | | |
| DIRECT TAXES | | | | | |
| Estate duty | 42 | 64 | 85 | 110 | 128 |
| INDIRECT TAXES | | | | | |
| Taxi concessions | — | — | — | 112 | 250 |
| OTHER REVENUE | | | | | |
| Land Sales | 287 | 346 | 557 | 1,008 | 1,893 |
| Others | <u>108</u> | <u>2</u> | <u>2</u> | <u>2</u> | <u>25</u> |
| Total Capital | <u>437</u> | <u>412</u> | <u>644</u> | <u>1,232</u> | <u>2,296</u> |
| Total Revenue | <u><u>5,593</u></u> | <u><u>6,255</u></u> | <u><u>7,494</u></u> | <u><u>9,383</u></u> | <u><u>12,422</u></u> |

Table (4) *Contd.*GENERAL REVENUE BY MAIN SOURCES 1974-75 TO 1984-85
(Adjusted for analytical purposes)

| | 1978-79 (\$ mn) | 1980-81 (\$ mn) | 1981-82 (\$ mn) | 1982-83 (\$ mn) | 1979-80 (Revised Estimates) (\$ mn) | 1984-85 (Draft Estimates) (\$ mn) | 1984-85 (After revenue proposals) (\$ mn) |
|---------------------------|--------------------|--------------------|--------------------|--------------------|--|--|--|
| <i>Recurrent Account:</i> | | | | | | | |
| DIRECT TAXES | | | | | | | |
| Earnings and profits tax | 5,724 | 7,965 | 10,567 | 11,849 | 11,600 | 12,440 | 13,343 |
| INDIRECT TAXES | | | | | | | |
| Duties | 883 | 917 | 937 | 1,246 | 2,500 | 2,750 | 2,800 |
| General rates | 890 | 986 | 1,051 | 697 | 1,050 | 1,180 | 1,355 |
| Internal revenue: | | | | | | | |
| Bets and sweeps tax | 658 | 823 | 998 | 1,111 | 1,675 | 1,880 | 2,031 |
| Entertainment tax | 37 | 45 | 57 | 68 | 80 | 85 | 85 |
| Hotel accommodation tax | 33 | 42 | 52 | 59 | 80 | 90 | 90 |
| Stamp duties | 934 | 2,052 | 2,168 | 1,391 | 1,010 | 1,060 | 1,060 |
| Airport departure tax | — | — | — | — | 310 | 425 | 425 |
| Cross harbour tunnel tax | — | — | — | — | — | — | 140 |
| Motor vehicle taxes | 360 | 423 | 484 | 384 | 350 | 380 | 380 |
| Royalties and concessions | 101 | 131 | 200 | 257 | 277 | 340 | 340 |
| OTHER REVENUE | <u>3,853</u> | <u>5,567</u> | <u>7,500</u> | <u>7,820</u> | <u>8,198</u> | <u>8,380</u> | <u>8,415</u> |
| Total Recurrent | 13,473 | 18,951 | 24,014 | 24,882 | 27,130 | 29,010 | 30,464 |
| <i>Capital Account:</i> | | | | | | | |
| DIRECT TAXES | | | | | | | |
| Estate duty | 200 | 251 | 316 | 313 | 320 | 320 | 320 |
| INDIRECT TAXES | | | | | | | |
| Taxi concessions | 266 | 288 | 208 | 268 | 190 | 80 | 80 |
| OTHER REVENUE | | | | | | | |
| Land Sales | 2,845 | 10,690 | 8,908 | 5,048 | 2,270 | 4,230 | 4,230 |
| Others | <u>12</u> | <u>7</u> | <u>48</u> | <u>505</u> | <u>370</u> | <u>100</u> | <u>1,100*</u> |
| Total Capital | <u>3,323</u> | <u>11,236</u> | <u>9,480</u> | <u>6,134</u> | <u>3,150</u> | <u>4,730</u> | <u>5,730</u> |
| Total Revenue | <u>16,796</u> | <u>30,187</u> | <u>33,494</u> | <u>31,016</u> | <u>30,280</u> | <u>33,740</u> | <u>36,194</u> |

* Includes \$1,000 million from the issue of Bonds.

Table (5)

GENERAL REVENUE ACCOUNT EXPENDITURE BY MAIN COMPONENTS 1974-75 TO 1984-85
(Adjusted for analytical purposes)

| | 1974-75 (\$ mn) | 1975-76 (\$ mn) | 1976-77 (\$ mn) | 1977-78 (\$ mn) | 1978-79 (\$ mn) |
|----------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| <i>Recurrent Account:</i> | | | | | |
| Personal Emoluments | 1,660 | 1,766 | 2,118 | 2,455 | 2,868 |
| Personnel Related Expenses | 239 | 279 | 314 | 395 | 454 |
| Departmental Expenses | 1,208 | 1,238 | 1,415 | 1,735 | 2,056 |
| Other Charges | | | | | |
| Subventions: | | | | | |
| Education | 627 | 681 | 813 | 944 | 1,125 |
| Medical | 159 | 163 | 186 | 226 | 273 |
| U.P.G.C. | 187 | 217 | 255 | 307 | 348 |
| Other | 95 | 106 | 123 | 157 | 184 |
| Additional Commitments | — | — | — | — | — |
| Total Recurrent | <u>4,175</u> | <u>4,450</u> | <u>5,224</u> | <u>6,219</u> | <u>7,308</u> |
| <i>Capital Account:</i> | | | | | |
| Plant, Equipment and Works | 153 | 164 | 153 | 225 | 357 |
| Other Non-Recurrent | | | | | |
| Subventions: | | | | | |
| Education | 58 | 40 | 30 | 39 | 36 |
| Medical | 10 | 4 | 2 | 13 | 11 |
| U.P.G.C. | 37 | 93 | 40 | 25 | 65 |
| Other | — | — | — | 1 | 1 |
| Transfers to Funds: | | | | | |
| C.W.R.F./P.W.N.R. | 1,518 | 1,147 | 1,128 | 1,437 | 2,274 |
| D.L.F. | 20 | 125 | — | 100 | 620 |
| H.O.F. | — | — | — | 99 | 284 |
| Other | — | — | — | — | — |
| Additional Commitments | — | — | — | — | — |
| Total Capital | <u>1,796</u> | <u>1,573</u> | <u>1,353</u> | <u>1,939</u> | <u>3,648</u> |
| Total Expenditure | <u><u>5,971</u></u> | <u><u>6,023</u></u> | <u><u>6,577</u></u> | <u><u>8,158</u></u> | <u><u>10,956</u></u> |

Table (5) *Contd.*GENERAL REVENUE ACCOUNT EXPENDITURE BY MAIN COMPONENTS 1974-75 TO 1984-85
(Adjusted for analytical purposes)

| | 1979-80 (\$ mn) | 1980-81 (\$ mn) | 1981-82 (\$ mn) | 1982-83 (\$ mn) | 1983-84 (Revised Estimates) (\$ mn) | 1984-85 (Draft Estimates) (\$ mn) |
|----------------------------|--------------------|--------------------|--------------------|--------------------|--|--|
| <i>Recurrent Account:</i> | | | | | | |
| Personal Emoluments | 3,488 | 4,633 | 5,977 | 7,479 | 8,390 | 8,913 |
| Personnel Related Expenses | 545 | 731 | 1,022 | 1,551 | 1,960 | 2,150 |
| Departmental Expenses | } 2,477 | 3,342 | 5,314 | 2,564 | 2,870 | 3,084 |
| Other Charges | | | | | | |
| | | | | 3,606 | 3,970 | 4,328 |
| Subventions: | | | | | | |
| Education | 1,391 | 1,872 | 2,254 | 2,989 | 3,310 | 3,505 |
| Medical | 320 | 447 | 584 | 725 | 820 | 878 |
| Vocational Training | | — | | 125 | 180 | 235 |
| U.P.G.C. | 411 | 580 | 724 | 898 | 1,070 | 1,274 |
| Other | 233 | 314 | 420 | 561 | 710 | 766 |
| Additional Commitments | | | | | | 1,800 |
| Total Recurrent | 8,865 | 11,919 | 16,295 | 20,498 | 23,280 | 26,933 |
| <i>Capital Account:</i> | | | | | | |
| Plant, Equipment and Works | } 453 | 1,336 | 549 | 663 | 730 | 671 |
| Other Non-Recurrent | | | | | | |
| | | | 478 | 331 | 230 | 63 |
| Subventions: | | | | | | |
| Education | 71 | 90 | 126 | 101 | 120 | 166 |
| Medical | 22 | 30 | 46 | 68 | 120 | 131 |
| Vocational Training | | | | 9 | 66 | 154 |
| U.P.G.C. | 135 | 237 | 149 | 133 | 190 | 212 |
| Other | 1 | 3 | 35 | 17 | 24 | 55 |
| Transfers to Funds: | | | | | | |
| C.W.R.F./P.W.N.R.* | 3,092 | 3,792 | 6,938 | 10,800 | 7,500 | 7,300 |
| D.L.F. | 1,000 | 2,231 | 2,114 | 1,850 | 1,220 | 1,305 |
| H.O.F. | | | | | | |
| Other | 182 | 37 | 65 | 104 | 80 | 95 |
| Additional Commitments | | | | | | 200 |
| Total Capital | 4,956 | 7,756 | 10,500 | 14,076 | 10,280 | 10,352 |
| Total Expenditure | 13,821 | 19,675 | 26,795 | 34,574 | 33,560 | 37,285 |

* 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 1974-75 TO 1984-85 (\$ MILLION AND %)
 (Adjusted for analytical purposes)

| | | 1974-75 | 1975-76 | 1976-77 | 1977-78 | 1978-79 |
|-----|---|----------------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|
| (1) | $\frac{\text{Recurrent Revenue}}{\text{Total Expenditure}}$ | $\frac{5,156}{5,971} = 86$ | $\frac{5,843}{6,023} = 97$ | $\frac{6,850}{6,577} = 104$ | $\frac{8,151}{8,158} = 100$ | $\frac{10,146}{10,956} = 93$ |
| (2) | $\frac{\text{Recurrent Expenditure}}{\text{Recurrent Revenue}}$ | $\frac{4,175}{5,156} = 81$ | $\frac{4,450}{5,843} = 76$ | $\frac{5,224}{6,850} = 76$ | $\frac{6,219}{8,151} = 76$ | $\frac{7,308}{10,146} = 72$ |
| (3) | Surplus on $\frac{\text{Recurrent Account}}{\text{Capital Expenditure}}$ | $\frac{981}{1,796} = 70$ | $\frac{1,393}{1,537} = 89$ | $\frac{1,626}{1,353} = 120$ | $\frac{1,932}{1,939} = 100$ | $\frac{2,838}{3,648} = 78$ |
| (4) | $\frac{\text{Recurrent Expenditure}}{\text{Total Expenditure}}$ | $\frac{4,175}{5,971} = 70$ | $\frac{4,450}{6,023} = 74$ | $\frac{5,224}{6,577} = 76$ | $\frac{6,219}{8,158} = 76$ | $\frac{7,308}{10,956} = 67$ |
| (5) | $\frac{\text{Capital Revenue}}{\text{Capital Expenditure}}$ | $\frac{437}{1,796} = 24$ | $\frac{412}{1,537} = 26$ | $\frac{644}{1,353} = 48$ | $\frac{1,232}{1,939} = 64$ | $\frac{2,296}{3,648} = 63$ |

Table (6) *Contd.*BUDGETARY GUIDELINES 1974-75 TO 1984-85 (\$ MILLION AND %)
(Adjusted for analytical purposes)

| | | 1979-80 | 1980-81 | 1981-82 | 1982-83(*) | 1983-84 (Revised Estimates) | 1984-85 (After revenue proposals) |
|-----|---|------------------------------|------------------------------|------------------------------|------------------------------|-----------------------------------|---|
| (1) | <u>Recurrent Revenue</u> Total Expenditure | $\frac{13,473}{13,821} = 97$ | $\frac{18,951}{19,675} = 96$ | $\frac{24,014}{26,795} = 90$ | $\frac{24,882}{31,377} = 79$ | $\frac{27,130}{33,980} = 80$ | $\frac{30,464}{37,885} = 80$ |
| (2) | <u>Recurrent Expenditure</u> Total Expenditure | $\frac{8,865}{13,473} = 66$ | $\frac{11,919}{18,951} = 63$ | $\frac{16,295}{20,014} = 68$ | $\frac{20,498}{24,882} = 82$ | $\frac{23,280}{27,130} = 86$ | $\frac{26,933}{30,464} = 88$ |
| | surplus on | | | | | | |
| (3) | <u>Recurrent Account</u> Capital Expenditure | $\frac{4,608}{4,956} = 93$ | $\frac{7,032}{7,756} = 91$ | $\frac{7,719}{10,500} = 61$ | $\frac{4,384}{10,879} = 40$ | $\frac{3,850}{10,700} = 36$ | $\frac{3,531}{10,952} = 32$ |
| (4) | <u>Recurrent Expenditure</u> Total Expenditure | $\frac{8,865}{13,821} = 64$ | $\frac{11,919}{19,675} = 61$ | $\frac{16,295}{26,795} = 65$ | $\frac{20,498}{31,377} = 65$ | $\frac{23,280}{33,980} = 69$ | $\frac{26,933}{37,885} = 71$ |
| (5) | <u>Capital Revenue</u> Capital Expenditure | $\frac{3,323}{4,956} = 67$ | $\frac{11,236}{7,756} = 145$ | $\frac{9,480}{10,500} = 90$ | $\frac{6,134}{10,879} = 56$ | $\frac{3,150}{10,700} = 29$ | $\frac{5,730}{10,952} = 52$ |

* Combining General Revenue Account and Capital Works Reserve Fund expenditure from 1982-83 onwards. Capital Works Reserve Fund expenditure in 1982-83 was \$7,603 million, in 1983-84 it is expected to be \$7,920 million and in 1984-85, \$7,900 million.

Table (7)

BALANCE OF THE FISCAL SYSTEM 1974-75 TO 1984-85

| | <i>1974-75</i> | <i>1975-76</i> | <i>1976-77</i> | <i>1977-78</i> | <i>1978-79</i> | | |
|----------------------------------|----------------|----------------|----------------|----------------|--|--|--|
| <u>Direct taxes</u> | 61:39 | 56:44 | 55:45 | 57:43 | 55:45 | | |
| Indirect taxes | | | | | | | |
| <u>Direct and indirect taxes</u> | 68:32 | 68:32 | 71:29 | 72:28 | 73:27 | | |
| All other recurrent revenue | | | | | | | |
| | <i>1979-80</i> | <i>1980-81</i> | <i>1981-82</i> | <i>1982-83</i> | <i>1983-84</i> <i>(Revised</i> <i>Estimates)</i> | <i>1984-85</i> <i>(After revenue</i> <i>proposals)</i> | |
| <u>Direct taxes</u> | 60:40 | 60:40 | 64:36 | 69:31 | 61:39 | 61:39 | |
| Indirect taxes | | | | | | | |
| <u>Direct and indirect taxes</u> | 71:29 | 71:29 | 69:31 | 69:31 | 70:30 | 72:28 | |
| All other recurrent revenue | | | | | | | |

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 1979-80 to 1983-84 was 11.4%, and of G.D.P. it was 7.7%⁽²⁾. The growth rate of expenditure on Consolidated Account rose sharply from 7% in 1979-80 to 17.8% in 1980-81. Thereafter it fell gradually to 10.4% in 1982-83. The 1983-84 budget envisaged a growth rate of only 3% but the lower than expected growth rate in 1982-83 (10.4% instead of 17.4%) together with the moderate salaries adjustment in 1983 of only 5%, have resulted in a revised growth rate for 1983-84 of 8.2%. However, the revised growth rate for the two years 1981-82 to 1983-84 of 19.5%, or 9.3% per annum, is still less than anticipated in the 1983-84 budget (20.9%, or 10% per annum).

3 The tendency for the growth rate of expenditure on Consolidated Account in real terms to exceed that of the G.D.P. has been a matter for considerable concern. As a result of it, the relative size of the public sector has increased steadily from 14.6% in 1979-80 to 19.4% in 1982-83⁽³⁾. For the first time in five years, however, the relative size of the public sector in 1983-84 is not expected to increase further.

(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 and, post 1982-83, the Kowloon- Canton Railway Corporation.*

| (2) Year | Growth rates in real terms | |
|-------------------|----------------------------|--------|
| | C.A. expenditure | G.D.P. |
| | (%) | (%) |
| 1979-80/1979 | 7.0 | 11.7 |
| 1980-81/1980 | 17.8 | 11.0 |
| 1981-82/1981 | 14.1 | 9.4 |
| 1982-83/1982 | 10.4 | 1.1 |
| 1983-84/1983 | 8.2 | 5.9 |
| average rate p.a. | 11.4 | 7.7 |

(3) *These figures are derived from the revised series of G.D.P. figures.*

4 The second principle is that the pattern of public sector expenditure should reflect the Government's conscious view as to priorities. Between 1979-80 and 1981-82 the pattern changed accordingly, with the proportion of total expenditure absorbed by community services⁽⁴⁾ increasing from 25.2% to 31.9% as greater emphasis was placed on such services as transport, civil engineering and land production. From 1981-82 to 1983-84 the proportion fell back to 26.7% as K.C.R. modernization works neared completion and expenditure on some of the larger road projects levelled off. In the Social Services group⁽⁵⁾ the proportion fell slightly from 43.6% in 1979-80 to 39.3% in 1981-82 but increased again to 42.8% in 1983-84 as expenditure on all functions in the group increased. The proportion of total expenditure absorbed by all other services⁽⁶⁾ decreased slightly as a result from 31.2% in 1979-80 to 30.5% in 1983-84, 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⁽⁷⁾.

6 The ratio between direct and indirect taxes moved from 60:40 in 1979-80 to 69:31 in 1982-83 as earnings and profits taxes increased in relative importance reflecting the effects of fiscal drag. Major adjustments to indirect taxes in the 1983 budget brought the ratio between direct and indirect taxes back to 61:39 or the same ratio as existed in 1974-75.

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

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

(6) 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.

(7) *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.*

7 The ratio between direct and indirect taxes taken together and all other recurrent revenue moved from 71:29 in 1979-80 to 69:31 in 1982-83 but moved back to 70:30 in 1983-84. The ability of all other revenue to keep pace with direct and indirect taxes indicates that regular steps have been taken to ensure that fees and charges are generally kept up to date.

8 The fourth principle is that certain guidelines⁽⁸⁾ 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 1979-80 recurrent expenditure absorbed 66% of recurrent revenue, leaving a sufficient surplus to meet 93% of capital expenditure in that year. The surplus on recurrent account remained steady until 1981-82 when recurrent expenditure absorbed 68% of recurrent revenue. This satisfactory situation was, however, reversed sharply in 1982-83 and the revised estimates for 1983-84 indicate that recurrent expenditure will absorb as much as 86% of recurrent revenue. The share of capital expenditure met from the surplus on recurrent account fell steadily from 93% in 1979-80 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 after 1981-82 coupled with reduced recurrent account surpluses have combined to produce budget deficits. This further underlines the importance of the guidelines and in particular guideline two which has been breached in 1983-84.

(8) *The guidelines are—*

| | <i>Guideline</i> | <i>Ratio</i> | <i>1983-84</i> |
|-------|--|-------------------------|----------------|
| (i) | $\frac{\text{Recurrent revenue}}{\text{Total expenditure}}$ | <i>At least 77%</i> | 80% |
| (ii) | $\frac{\text{Recurrent expenditure}}{\text{Recurrent revenue}}$ | <i>No more than 85%</i> | 86% |
| (iii) | $\frac{\text{Surplus on recurrent account}}{\text{Capital expenditure}}$ | <i>At least 33%</i> | 36% |
| (iv) | $\frac{\text{Recurrent expenditure}}{\text{Total expenditure}}$ | <i>No more than 65%</i> | 69% |
| (v) | $\frac{\text{Capital revenue}}{\text{Capital expenditure}}$ | <i>At least 20%</i> | 29% |

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.

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 and to encourage tenants in public rental estates to purchase homes of their own.

Production of flats

3 By the end of 1983-84, the Housing Authority's stock of domestic accommodation will amount to 521 000 flats, with almost 29 000 flats having been completed in 1983-84. By the same date, about 30 900 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 1983-84, and a forecast for the four years commencing 1984-85:

| <i>Year</i> | <i>Housing Authority's rental housing programme (flats)</i> | <i>Home Ownership Scheme (flats)</i> | <i>Total (flats)</i> |
|---------------------|---|--|--------------------------|
| 1980-81 (actual) | 26 769 | 8 674 | 35 443 |
| 1981-82 (actual) | 31 346 | 4 399 | 35 745 |
| 1982-83 (actual) | 27 879(*) | 7 508 | 35 387 |
| 1983-84 (estimated) | 28 774 | 7 869 | 36 643 |
| 1984-85 (estimated) | 26 285 | 10 752 | 37 037 |
| 1985-86 (estimated) | 28 264 | 8 186 | 36 450 |
| 1986-87 (estimated) | 30 452 | 8 616 | 39 068 |
| 1987-88 (estimated) | 32 852 | 7 240 | 40 092 |

Note: (*) Including 622 flats produced by the Building Development 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 1983-84, total expenditure incurred by the Housing Authority on the construction of flats (including flats to be transferred to the Home Ownership Scheme) is estimated to amount to \$2,686 million, of which \$1,600 million is financed by loans from the Development Loan Fund. For 1984-85, it is estimated that the capital expenditure would amount to \$2,791 million, of which \$1,700 million will be drawn from the Development Loan Fund. Forecast drawings from the Development Loan Fund for the four years 1984-85 to 1987-88 are estimated to be as follows:

| | 1984-85 | 1985-86 | 1986-87 | 1987-88 | Total 1984- 85 1987-88 |
|---|---------|---------|---------|------------|---------------------------|
| | (\$ mn) | (\$ mn) | (\$ mn) | (\$ mn) to | (\$ mn) |
| Estimated drawings from the Development Loan Fund (*) | 1,700 | 1,883 | 1,816 | 1,602 | 6,101 |

Note: (*) These estimates include provision for expenditure on contracts relating to production post 1987-88.

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 sold since early 1982. In 1983-84, total expenditure on the construction of flats and transfers from the rental programme is estimated to amount to \$1,199 million and proceeds from the sale of flats are estimated to be \$1,662 million. For 1984-85, total estimated expenditure amounts to \$1,190 million and proceeds from the sale of flats are estimated to be \$1,277 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 1983-84 amount to \$136 million, and in 1984-85 they are estimated to amount to \$125 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 mainly 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 1983-84, 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 1983-84 amount to \$41 million. In 1984-85, the Housing Authority estimates its requirements from the Development Loans Fund will amount to \$38 million. In view of the significant drop in demand for flatted factory accommodation, it has been decided that the programme should be halted after the blocks under construction have been completed.

Summary of estimated expenditure, 1983-84 and 1984-85

8 The revised estimate for 1983-84 and the estimate for 1984-85 of expenditure on public housing and related facilities, excluding the Housing Authority's own resources, is \$3,061 million and \$3,072 million respectively:

| | <i>1983-84</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$ mn)</i> | <i>1984-85</i> <i>(Draft</i> <i>Estimates)</i> <i>(\$ 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 | 1,600 | 1,700 |
| (ii) Flats produced by the Housing Department and financed by loans from the Asian Development Bank | 77 | 11 |
| (iii) Flats produced by the Building Development Department and financed from General Revenue | 8 | 8 |
| <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) | 1,199 | 1,190 |

| | <i>1983-84</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$ mn)</i> | <i>1984-85</i> <i>(Draft</i> <i>Estimates)</i> <i>(\$ mn)</i> |
|--|--|--|
| (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) | 136 | 125 |
| (c) <i>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>41</u> | <u>38</u> |
| | <u>3,061</u> | <u>3,072</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, Junk Bay and the development at Tin Shui Wai 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 primary purpose is to provide housing, the best criteria for the assessment of progress are population growth and production of serviced land. The following tables indicate achievements to date, together with expected achievements in 1984-85 compared with the current targetted populations and serviced land areas:

| <i>New Town/ development area</i> | (1) | | | | |
|---------------------------------------|---|---|---|---|----|
| | <i>Population on full development</i> | <i>Expected population at 31 March 1984</i> | <i>Expected increase in 1984-85</i> | <i>Expected population at 31 March 1985 as a percentage of full development (%)</i> | |
| Tsuen Wan, Kwai Chung and | | | | | |
| Tsing Yi | 911 000 | 688 000 | 12 000 | (700 000) | 77 |
| Sha Tin | 794 000 | 289 000 | 54 000 | (343 000) | 43 |
| Tuen Mun | 482 000 | 255 000 | 9 000 | (264 000) | 55 |
| Tai Po | 185 000 | 101 000 | 2 000 | (103 000) | 56 |

| <i>New Town/ development area</i> | <i>Population on full development</i> | <i>Expected population at 31 March 1984</i> | <i>Expected increase in 1984-85</i> | <i>Expected population at 31 March 1985 as a percentage of full development (%)</i> | |
|---------------------------------------|---|---|---|---|-----------|
| Fanling/Shek Wu Hui | 195 000 | 89 000 | 13 000 | (102 000) | 52 |
| Yuen Long | 154 000 | 72 000 | 3 000 | (75 000) | 49 |
| Junk Bay (Phases 1 and 2) | 373 000 | 7 000 | — | (7 000) | 2 |
| Sai Kung | 22 000 | 13 000 | 7 000 | (20 000) | 91 |
| Tin Shui Wai | 142 000 | — | — | (—) | — |
| Other rural townships | 198 000 | 53 000 | 7 000 | (60 000) | 30 |
| Total | 3 456 000 | 1 567 000 | 107 000 | (1 674 000) | 48 |

(2)

| <i>New Town/ development area</i> | <i>Hectares on full development</i> | <i>Expected hectares produced at 31 March 1984</i> | <i>Expected production in 1984-85</i> | <i>Expected hectares produced at 31 March 1985 as a percentage of full development (%)</i> | |
|---------------------------------------|---|--|---|--|-----------|
| Tsuen Wan, Kwai Chung and Tsing Yi | 1 683 | 1 160 | 112 | (1 272) | 76 |
| Sha Tin | 1 247 | 771 | 15 | (786) | 63 |
| Tuen Mun | 1 061 | 726 | 86 | (812) | 77 |
| Tai po | 658 | 280 | 15 | (295) | 45 |
| Fanling/Shek Wu Hui | 389 | 127 | 37 | (164) | 42 |
| Yuen Long | 83 | 56 | 9 | (65) | 78 |
| Junk Bay (Phases 1 and 2) | 462 | 17 | 11 | (28) | 6 |
| Sai Kung | 66 | 30 | 14 | (44) | 67 |
| Tin Shui Wai | 168 | — | — | — | — |
| Other rural townships | 125 | 33 | 6 | (39) | 31 |
| Total | 5 942 | 3 200 | 305 | (3 505) | 59 |

Allocation in 1984-85

11 Expenditure envisaged for 1984-85 from the Capital Works Reserve Fund includes \$4,726 million for the continuing development of the new towns and rural New Territories, of which \$1,039 million is for land acquisition.

12 While the main thrust continues to be in the direction of land production for housing, emphasis will continue to be placed on the balanced provision of community facilities to cater for the needs of the growing populations of the new towns. The following tables show how the allocation in 1984-85 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 clinics (\$ mn)</i> | <i>and Recreational facilities (\$ mn)</i> | <i>Other public buildings (\$ mn)</i> | <i>Total (\$ mn)</i> |
|--|---------------------------------------|--|----------------------------|--|--|---|--------------------------|
| Tsuen Wan, Kwai Chung and Tsing Yi | 5.7 | | 58.0 | | 50.1 | 59.9 | 173.7 |
| Sha Tin | (1.0) | | (52.1) | | (43.4) | (57.0) | (153.5) |
| | | | 67.1 | 43.0 | 92.8 | 61.0 | 263.9 |
| | | | (51.5) | (115.6) | (45.5) | (60.7) | (273.3) |

| | <i>Public housing (\$ mn)</i> | <i>Temporary housing areas (\$ mn)</i> | <i>Schools (\$ mn)</i> | <i>Hospitals and clinics (\$ mn)</i> | <i>Recreational facilities (\$ mn)</i> | <i>Other public buildings (\$ mn)</i> | <i>Total (\$ mn)</i> |
|-------------------------------|-------------------------------|--|------------------------|--------------------------------------|--|---------------------------------------|----------------------|
| Tuen Mun | 0.1 (1.5) | | 33.9 (44.7) | 150.8 (60.4) | 63.1 (36.9) | 66.3 (38.1) | 314.2 (181.6) |
| Tai Po/ Fanling | | 1.5 (—) | 61.5 (55.3) | 3.7 (3.1) | 4.2 (1.2) | 25.1 (18.1) | 96.0 (77.7) |
| Yuen Long/ Rural Townships | | | 26.7 (14.3) | 1.1 (0.6) | 6.9 (5.5) | 27.2 (28.9) | 61.9 (49.3) |
| Junk Bay/ Sai Kung | | | 7.4 (1.8) | 0.5 (—) | 0.5 (1.6) | 20.1 (26.7) | 28.5 (30.1) |
| Miscellaneous | 38.9(*) (29.6) | 64.6(+) (55.4) | | | | | 103.5 (85.0) |
| Total | 44.7 (32.1) | 66.1 (55.4) | 254.6 (219.7) | 199.1 (179.7) | 217.6 (134.1) | 259.6 (229.5) | 1,041.7 (850.5) |

Note: Revised estimates for 1983-84 shown in brackets. There will be no expenditure on housing or community facilities in Tin Shui Wai in 1984-85.

(*) Urban housing and improvements to squatter areas.

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

(2)

| | <i>Sewage disposal (\$ mn)</i> | <i>Site formation, drainage and other engineering works (\$ mn)</i> | <i>Rubbish disposal (\$ mn)</i> | <i>Roads & highways (\$ mn)</i> | <i>Waterworks (\$ mn)</i> | <i>Miscellaneous (\$ mn)</i> | <i>Total (\$ mn)</i> |
|--|--------------------------------|---|---------------------------------|-------------------------------------|---------------------------|------------------------------|----------------------|
| Tsuen Wan, Kwai Chung and Tsing Yi | 8.3 (0.7) | 323.2 (206.6) | 18.5 (22.4) | 286.8 (306.5) | 28.1 (13.8) | | 664.9 (550.0) |
| Sha Tin | 151.6 (152.1) | 171.4 (146.4) | 8.7 (8.3) | 70.9 (127.7) | 39.4 (28.8) | | 442.0 (463.3) |
| Tuen Mun | 2.3 (6.4) | 196.6 (300.8) | 5.6 (8.3) | 7.4 (33.4) | 19.2 (20.7) | | 231.1 (369.6) |
| Tai Po/ Fanling | 79.5 (79.8) | 290.1 (258.6) | 6.0 (6.8) | 356.2 (335.3) | 54.6 (44.2) | | 786.4 (724.7) |
| Yuen Long/ Rural Townships | 4.7 (18.0) | 181.2(*) (127.6) | 1.6 (3.2) | 87.6 (45.6) | 29.8 (25.2) | | 304.9 (219.6) |
| Junk Bay/ Sai Kung | 14.2 (0.7) | 142.3 (88.3) | — (—) | 13.3 (11.8) | 14.4 (7.9) | | 184.2 (108.7) |
| Miscellaneous | | | | | | 32.4(+) (7.6) | 32.4 (7.6) |
| Total | 260.6 (257.7) | 1,304.8 (1,128.3) | 40.4 (49.0) | 822.2 (860.3) | 185.5 (140.6) | 32.4 (7.6) | 2,654.9 (2,443.5) |

Note: Revised estimates for 1983-84 shown in brackets.

(*) Includes expenditure on construction of traffic access, initial drainage and design fees for Tin Shui Wai development.

(+) Miscellaneous allocations of \$32.4 million (\$7.6 million) are made for investigations, minor works and the employment of consultants to carry out design.

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 improved 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 \$2,836 million. Expenditure to 31 March 1984 is expected to amount to \$1,798 million, mainly on the Aberdeen Tunnel (\$489 million), the Sha Tin to North Tai Po coastal trunk road (\$631 million), N.T. trunk road improvements—Lam Kam Road to Wo Hop Shek (\$92 million) and the Wong Nei Chung Gap Road/Stubbs Road flyover (\$101 million) which, although not strictly part of Route 1, nevertheless has an effect on it. Allocation of \$363 million in 1984-85 is mainly for the Sha Tin to North Tai Po coastal trunk road (\$189 million), Sha Tin Area 14 and Trunk Road T1 (\$30 million), N.T. trunk road improvements—Lam Kam Road to Wo Hop Shek (\$45 million) and North Tai Po to Lam Kam Road (\$43 million).

Route 2: from the Cross Harbour Tunnel westwards via Tsuen Wan and Tuen Mun to Yuen Long and Fanling. The route follows Gascoigne Road and Tong Mi Road initially, and then proceeds along the coast through Yau Ma Tei, Sham Shui Po and Lai Chi Kok (the West Kowloon Corridor) to join the Tsuen Wan by-pass. It then continues via the by-pass, the Tuen Mun Road and the Castle Peak Road to Tuen Mun and Yuen Long. From Yuen Long, Route 2 continues via Au Tau and Mai Po to Join Route 1 at the southern end of the Fanling by-pass. The total estimated cost of improvements to this route is \$3,342 million. Expenditure to 31 March 1984 is expected to amount to \$1,454 million, mainly on the Tuen Mun Road (\$508 million), the West Kowloon Corridor (\$188 million), the Tsuen Wan by-pass (\$635 million) and the Yuen Long to Au Tau dual carriageway (\$48 million). Allocation of \$336 million in 1984-85 is mainly for Fanling development package 3, engineering works (\$50 million), the Tsuen Wan by-pass (\$195 million), N.T. circular road improvements, Au Tau to Fan Kam (\$54 million) and the West Kowloon Corridor (\$15 million). Allocation of \$7 million is for completion of the Tuen Mun Road which was opened to full dual-carriageway operation in May 1983.

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 \$579 million. Expenditure to 31 March 1984 is expected to amount to \$523 million, mainly for the Airport Tunnel and its approaches (\$448 million). The tunnel is already completed. One of its tubes was opened to traffic in June 1982 and the other in October 1982. Allocation of \$13 million in 1984-85 is mainly for the Airport Tunnel Road and its approaches (\$12 million). The Kwun Tong Road/Lai Yip Street flyover, stage II, was opened to traffic in April 1983.

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 \$249 million. Expenditure to 31 March 1984 is expected to amount to \$154 million. Allocation of \$23 million in 1984-85 is mainly for the elevated road from Ngau Tau Kok Road to Kowloon Bay (\$20 million).

Route 5: from Cheung Pei Shan Road in Tsuen Wan via a tunnel through Smugglers Ridge at Needle Hill to Roads T2 and T3 junction in Sha Tin. The total estimated cost of constructing this route is \$646 million. Allocation of \$10 million in 1984-85 is for the investigation and detailed design of the tunnel section. Allocations totalling \$6 million are made in 1984-85 for projects for roads within the new towns connecting with Route 5.

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 Road. The total estimated cost of improvements to this route is \$239 million. Expenditure to 31 March 1984 is expected to amount to \$163 million, mainly in respect of the Tsuen Wan North development, stage V: Tai Ho Road/Castle Peak Road grade separated intersection (\$66 million), Tai Wo Tsuen interchange on Castle Peak Road (\$35 million) and the Castle Peak Road/Texaco Road grade separated intersection (\$42 million); the latter two projects have now been completed. Expenditure on Route 6 projects in 1984-85 is estimated at \$17 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 estimated cost of improvements to this route is \$551 million. Expenditure to 31 March 1984 in respect of this route is expected to amount to \$52 million, almost entirely for the widening of Connaught Road Central which has now been completed. Allocation of \$8 million in 1984-85 is mainly for the investigation and detailed design of the upgraded Connaught Road (\$8 million). Additional proposals for improvements to Routs 7 with a total order of costs of \$1,326 million are now under consideration.

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 \$1,895 million. Expenditure to 31 March 1984 is expected to amount to \$1,124 million, almost entirely in respect of the Hong Kong Island Eastern Corridor. Of the allocation of \$362 million in 1984-85 for Route 8 projects, \$347 million is for the Hong Kong Island Eastern Corridor.

15 In addition to improvements to the main routes, expenditure of \$373 million is envisaged in 1984-85 for secondary routes, miscellaneous minor roadworks and road 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>1979-80</i> | <i>1980-81</i> | <i>1981-82</i> | <i>1982-83</i> | <i>1983-84</i> <i>(Revised</i> <i>Estimates)</i> | <i>1984-85</i> <i>(Draft</i> <i>Estimates)</i> |
|-----------------|----------------|----------------|----------------|----------------|--|--|
| | <i>(\$ mn)</i> | <i>(\$ mn)</i> | <i>(\$ mn)</i> | <i>(\$ mn)</i> | <i>(\$ mn)</i> | <i>(\$ mn)</i> |
| Hong Kong | 206 | 328 | 327 | 536 | 635 | 488 |
| Kowloon | 127 | 128 | 175 | 182 | 152 | 169 |
| New Territories | 263 | 352 | 689 | 682 | 872 | 849 |
| Total | <u>596</u> | <u>808</u> | <u>1,191</u> | <u>1,400</u> | <u>1,659</u> | <u>1,506</u> |

(b) Kowloon-Canton Railway

17 The programme for the electrification and modernization of the Railway is now largely complete, following the extension of electrified train services to Tai Po Market in May 1983 and to Lo Wu in July 1983. Trains now leave Kowloon Station every three minutes during peak hours terminating at different destinations and each destination is served at least once every 15 minutes. Journey times to Sha Tin, Tai Po and Lo Wu are now 13, 24 and 36 minutes respectively.

18 New and reconstructed stations at University, Tai Po Market, Fanling, Sheung Shui and a temporary station at Tai Wai were handed over to the Kowloon-Canton Railway Corporation during 1983. Delivery of rolling stock continues and the final units will arrive in early 1985.

19 Contracts for remaining civil engineering works between Hung Hom and Lo Wu, new permanent stations at Fo Tan and Tai Wai, and a transport interchange at Mongkok Station were awarded during 1983, with completion expected in 1985 and 1986.

20 Contracts for construction of a pedestrian subway under Chatham Road to provide a shunt neck at Hung Hom, and an extension of the existing transport interchange by decking over the Kowloon goods yard will be awarded this year with completion expected in 1986 and 1987 respectively. Work will also start later this year on a new passenger footbridge over the Shen Zhen River at Lo Wu. Construction of the new Lo Wu terminal complex will start in early 1985 and be completed by Spring 1987.

21 Total capital expenditure incurred on Kowloon-Canton Railway improvement projects up to the end of 1983-84 is expected to amount to \$2,457 million, of which \$341 million is expected to be spent in 1983-84. The estimate of expenditure in 1984-85 is \$221 million.

(c) *Mass Transit Railway*

22 The Modified Initial System and the Tsuen Wan Extension of the Mass Transit Railway are now carrying over 1.2 million passengers per day.

23 In December 1982, the Government approved construction of the Island Line by the Mass Transit Railway Corporation. The length of this extension of the railway will be 12.5 kilometres compared with 15.6 kilometres for the Modified Initial System and 10.5 kilometres for the Tsuen Wan Extension. The Island Line will run from Sheung Wan in the west to Chai Wan in the east. There will be a total of 12 new stations of which ten will be underground. The section from Admiralty to Chai Wan is scheduled to open in July 1985 with the remaining section opening in 1986.

24 At the end of December 1983, 55% of the civil engineering and electrical and mechanical works for the Island Line had been completed. The total construction cost of the project is estimated to be \$10,500 million.

(d) *Waterworks*

25 Construction of the stage I works for the reception and distribution of the increased supply of water from China is progressing well. Design of the stage II works is also in hand. The major components covered by stages I and II of the system, which are being implemented under projects in Category A, together with the latest estimated costs, are as shown below:

| | <i>Estimated cost</i> <i>(\$ million)</i> |
|---|--|
| (a) reception facilities at Muk Wu | 98 |
| (b) Muk Wu to Tai Lam Chung Reservoir and Western New Territories | 372 |
| (c) Muk Wu to Tai Po Tau | 211 |
| (d) Tai Mei Tuk via Tai Po Tau to San Tin treatment works | 238 |
| (e) Tai Po Tau to the proposed Au Tau treatment works | 89 |
| (f) Harbour Island to the proposed Pak Kong treatment works | 384 |
| (g) Associated works and miscellaneous | 95 |
| Total | <u>1,487</u> |

These large projects will continue to account for the major portion of waterworks expenditure in 1984-85.

26 Construction of the new treatment works at Sheung Shui and Yau Kom Tau is in progress and the design of a new treatment works at Pak Kong including the water transfer systems to Junk Bay New Town and Kowloon East area is in hand.

27 Design and construction of new installations to meet anticipated increases in demand for Hong Kong Island, the Kowloon urban area, rural market towns and new towns continues. Works for receiving additional water from the East River, for supplying Lamma Island, Wong Chuk Hang, Shouson Hill, Beacon Hill and Lam Tin are substantially complete.

28 Expenditure in 1984-85 on waterworks is estimated at \$828 million from the Capital Works Reserve Fund. The following table gives the breakdown of this allocation, the total cost of the projects involved and the estimated expenditure to 31 March 1984:

| <i>Description of projects</i> | <i>Estimated</i> | | <i>Percentage</i> | |
|---|---|---|--------------------------------------|---|
| | <i>Total estimated cost of projects (\$ mn)</i> | <i>expenditure to 31 March 1984 (\$ mn)</i> | <i>Allocation in 1984-85 (\$ mn)</i> | <i>complete as at 31 March 1984 (%)</i> |
| <i>On-going projects</i> | | | | |
| (i) Projects of a territory-wide nature | 4,525 | 3,625 | 430.0 | 80 |
| (ii) Urban improvements— | | | | |
| Hong Kong | 318 | 218 | 44.3 | 69 |
| Kowloon | 237 | 146 | 53.4 | 62 |
| (iii) New Territories projects | 997 | 636 | 162.4 | 64 |
| <i>New projects to start in 1984-85</i> | <u>1,185</u> | <u>—</u> | <u>137.4</u> | <u>—</u> |
| Total | <u>7,262</u> | <u>4,625</u> | <u>827.5</u> | <u>64</u> |

D. SOCIAL SERVICES

(a) Education

29 The education programme comprises pre-primary, primary and secondary education, including special schools and classes for handicapped children, adult education, the technical institutes, the Colleges of Education, the Institute of Language in Education, the two universities, the Hong Kong Polytechnic, the City Polytechnic, the Baptist College and certain courses at two post-secondary colleges.

Primary

30 The Draft Estimates include provision of \$1,768 million, excluding Capital Works Reserve Fund expenditure, for Government and aided primary schools compared with the revised estimate for 1983-84 of \$1,682 million.

31 Free and universal primary education 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 18

new primary schools are expected to be completed in 1984-85 in conjunction with the development of public housing estates in the new towns, and other developing areas.

32 The draft Estimates include provision of \$7 million in capital subventions for building and equipping new primary school buildings, and a further \$136 million will be spent under the Public Works Programme for the construction of 41 primary schools.

33 A system of controlling Primary One admission was introduced in September 1983, under which the permitted age of entry into Primary One was 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.

Secondary

34 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.

35 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.

36 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 of Form III leavers who are suitable for the kind of courses provided. In pursuit of this objective, expenditure is envisaged in 1984-85 of \$2,366 million, excluding Capital Works Reserve Fund expenditure, on secondary schools and grants to the Vocational Training Council compared with the revised estimated for 1983-84 of \$2,074.2 million.

37 In September 1983, there were 54 335 subsidized Form IV places in secondary schools. At the five technical institutes, the number of full-time places on craft and diploma courses will increase from 5 000 in October 1983 to 5 700 in September 1984 and the number of part-time day courses are planned to increase from 10 900 to 16 000. Some Ordinary Diploma and Ordinary Certificate courses were transferred from the Hong Kong Polytechnic to the institutes in 1981, 1982 and 1983. This process of transfer, which will continue in 1984-85, 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.

38 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. In September 1983, two additional private non-profit-making schools were converted to fully aided status making a total of 253 secondary schools operating under the Code of Aid.

39 The Government is also engaged in a major secondary school building programme which will produce some 32 new schools over the next two to three years. The Draft Estimates include allocation of \$113 million in Capital Works Reserve Fund expenditure for the construction of 15 secondary schools. In addition provision of \$67 million in capital subventions to sponsoring organizations is included for building and equipping new school buildings.

40 In order to allow schools to concentrate more staff resources in counselling and guidance, remedial teaching and extra-curricular activities, an additional graduate teacher was provided in each standard-sized Government and aided secondary school in September 1983. This was in addition to the two graduate teachers provided in September 1982 for remedial language teaching. It is planned that a further two non-graduate teachers will be provided as and when sufficient trained non-graduate teachers are available. The estimated expenditure on these developments in 1984-85 is \$106 million.

41 To train sufficient non-graduate teachers for the various approved developments, two annexes were opened in the Colleges of Education in September 1982 and the enrolment of students is expected to rise from 3 073 full-time equivalents in September 1983 to 3 639 in September 1984. 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 by 200 each year until 1986-87 when places for 1 000 teachers will be provided.

Post-secondary and tertiary level

42 The funding of the Baptist College through the University and Polytechnic Grants Committee (U.P.G.C.) commenced in November 1983. 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.

43 The Draft Estimates provide \$1,570.6 million for expenditure in connection with university and polytechnic education. This compares with the revised estimate for 1983-84 of \$1,321.4 million.

44 These grant levels include \$35 million for interest payment on a loan obtained by the City Polytechnic to finance the purchase of temporary premises and earmarked grants of \$76 million for the City Polytechnic, \$48 million for the Baptist College, \$87 million for the development of a medical school at the Chinese University of Hong Kong and \$69 million for the dental school at the University of Hong Kong. In September 1983 the medical school had its third intake of 80 students, while the dental school is now at its planned capacity.

45 \$213 million has been provided for capital expenditure for the universities, polytechnics and Baptist College in 1984-85 to enable completion of major building projects and development of new projects.

46 Schemes of financial assistance for students at the post-secondary and tertiary level provide for grants and loans to students at the universities, polytechnics and Colleges of Education, to post-advanced level students at the Baptist College and Lingnan College and for loans to students at Shue Yan College. In addition a scheme of assistance jointly financed by the United Kingdom and Hong Kong Governments provides grants for full-time students on first degree and Higher National Diploma courses in the United Kingdom. The estimated gross expenditure on grants and loans in 1984-85 is \$181 million compared with the revised estimate for 1983-84 of \$142 million.

47 The Technical Education and Industrial Training Department 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. The department is also responsible for promoting apprenticeship training and vocational training for the disabled.

48 The total estimate for the education programme in 1984-85, compared with the revised estimate for 1983-84 is as follows:

| | <i>1983-84</i> <i>(Revised Estimates)</i> <i>(\$ mn)</i> | <i>1984-85</i> <i>(Draft Estimates)</i> <i>(\$ mn)</i> |
|---|--|--|
| Education Department | 585.7 | 617.6 |
| Education Subventions | 3,219.9 | 3,448.1 |
| Technical Education and industrial training | 255.2 | 388.4 |
| Universities and Polytechnics | 1,321.4 | 1,570.6 |
| Capital works (Public Works Programme) | 252.6 | 287.3 |
| | <u>5,634.8</u> | <u>6,312.0</u> |

(b) Medical and Health

49 A White Paper on 'The Further Development of Medical and Health Services in Hong Kong' was published in 1974. The two main principles underlying the White Paper are the need to safeguard and promote the general public health of the community as a whole and the need to ensure the adequate provision of medical and personal health facilities for the people of Hong Kong, including particularly that large section of the community which relies on subsidized medical attention.

50 The expansion and phased implementation of medical and health services in accordance with the aims set out in the 1974 White Paper are kept under continuous review by the Medical Development Advisory Committee (M.D.A.C.). Progress in implementing the White Paper's main proposals are summarized as follows:

(a) *Regional approach*

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 January 1984, the New Territories region was split into two regions with the existing New Territories regional office serving East New Territories and a new regional office being provided 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 patients, development programmes are under way in the Caritas, Pok Oi and Yan Chai Hospitals and the Ruttonjee Sanatorium and MacLehose Rehabilitation Centre at Sandy Bay, for which capital subventions of \$92,290,000 in 1984-85 have been provided.

(b) *Hospital services*

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 of 5.5 per 1 000 population. By the end of 1983-84, there will be some 22 800 beds in Government, subvented and private hospitals.

The Draft Estimates provide for the establishment of some 1 740 additional beds which, together with the existing supply, will meet approximately 80% of the estimated requirement. The \$644.8 million Prince of Wales Hospital will be operational by May this year. In addition to \$148.3 million for the hospital project in Tuen Mun, a further \$7.5 million will be spent in 1984-85 on site formation works for a new hospital to serve the Eastern District of Hong Kong Island.

(c) *Clinic services*

In addition to the construction of general and specialist hospitals, fourteen new clinics and polyclinics are presently included in the Public Works Programme. The following projects are due for completion in 1984-85:

| | <i>Target completion date</i> |
|--------------------------------|-------------------------------|
| Tuen Mun Polyclinic Phase II | Mid-1984 |
| Yung Fung Shee Memorial Centre | Mid-1984 |
| Wong Siu Ching Clinic | End-1984 |

(d) *School dental service*

The aim of the school dental 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 4. Work will start in 1984-85 on two new clinics, one on top of the existing Argyle Street Clinic and the other at Lam Tin. Four other clinics are planned to cover all primary school children.

(e) Community nursing service

The community nursing scheme has been recognized as an integral part of the medical and health services in Hong Kong. The Government has participated directly in the scheme since 1979 and the other participating voluntary organizations are subvented on a deficiency grant basis. In 1982, the service handled a total of 13 097 patients and paid 202 300 home visits. At present, there are 18 Government centres and 27 centres provided by seven voluntary agencies. An additional 16 centres are being planned in the next five years.

51 The Draft Estimates provide for expenditure by the Medical and Health Department in 1984-85 of \$1,995.9 million compared with the revised estimate for 1983-84 of \$1,823 million, and for expenditure on medical subventions of \$1,009 million compared with the revised estimate for 1983-84 of \$940 million.

52 The total estimate for the medical and health programme in 1984-85 compared with the revised estimate for 1983-84 is as follows:

| | <i>1983-84</i> <i>(Revised) Estimates</i> <i>(\$ mn)</i> | <i>1984-85</i> <i>(Draft Estimates)</i> <i>(\$ mn)</i> |
|-------------------------------|--|--|
| Medical and Health Department | 1,823.0 | 1,995.9 |
| Medical subventions | 940.0 | 1,009.0 |
| Capital works | 282.3 | 328.9 |
| | <u>3,045.3</u> | <u>3,333.8</u> |

(c) Social Welfare

53 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.

54 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 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 for 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

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

| <i>Activity area</i> | <i>Service</i> | <i>1980-81</i> | <i>1981-82</i> | <i>1982-83</i> | <i>1983-84</i> | <i>1984-85</i> |
|---|---|----------------|----------------|----------------|----------------|----------------|
| Social security | Public assistance (caseload) | 47 000 | 46 200 | 48 300 | 53 800 | 53 000 |
| | Special needs allowances (caseload) | 175 300 | 185 300 | 213 200 | 230 100 | 245 000 |
| Services for offenders | Correctional institutions (number of places) | 586 | 586 | 586 | 586 | 646 |
| Family welfare services | Counselling (caseload) | 22 526 | 25 000 | 27 137 | 27 524 | 29 286 |
| Services for the elderly | Day care centres (number of places) | 11 006 | 11 296 | 13 766 | 14 402 | 16 752 |
| | Homes for the aged (number of places) | 3 235 | 3 730 | 3 960 | 4 065 | 4 941 |
| | Hostels (number of places) | 930 | 1 140 | 1 295 | 1 305 | 1 792 |
| | Care and attention homes (number of places) | 375 | 375 | 490 | 880 | 1 076 |
| | Housing for the elderly (number of places) | — | — | — | 470 | 585 |
| Community building | Youth and Community offices | 17 | 19 | 19 | 19 | 19 |
| | Community centres, estate community centres and community halls | 41 | 45 | 53 | 57 | 65 |
| Personal social work among young people | School social work (number of student guidance officers) | 96 | 218 | 215 | 215 | 215 |
| | School social workers | 91 | 112 | 120 | 122 | 125 |
| | Outreaching social work (number of teams) | 18 | 18 | 18 | 18 | 18 |

| <i>Activity area</i> | <i>Service</i> | <i>1980-81</i> | <i>1981-82</i> | <i>1982-83</i> | <i>1983-84</i> | <i>1984-85</i> |
|----------------------|---|----------------|----------------|----------------|----------------|----------------|
| Rehabilitation | Special child care centres (number of places) | 347 | 420 | 500 | 646 | 916 |
| | Residential care for the disabled (number of places) | 2 127 | 2 308 | 2 525 | 2 595 | 3 510 |

56 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 49 900 in 1976 to around 45 700 in 1980, rose by the end of 1983 to around 54 700. Only some 6% of the present caseload is in respect of persons unemployed or earning a low income.

57 The basic rates for public assistance and the special needs allowances (disability and old age) were increased by 13.3% in February 1984. The Draft Estimates include provision of \$540 million for public assistance (compared with the revised estimate of \$497.4 million for 1983-84) and \$845.5 million for special needs allowances (compared with the revised estimate of \$713.8 million for 1983-84). Included in this latter figure is \$8 million for a non-means-tested death grant which will be introduced in 1984-85. 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.

58 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. In 1983-84 standard costs were introduced for eight services. While the aim was to achieve full implementation of the new subvention system in 1984-85, this will now be carried out over a longer period. Prior to full implementation of the new subvention system, 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.

59 The total estimate for the social welfare programme in 1984-85 compared with the revised estimate for 1983-84, is as follows:

| | <i>1983-84</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$ mn)</i> | <i>1984-85</i> <i>(Draft</i> <i>Estimates)</i> <i>(\$ mn)</i> |
|----------------------------|--|--|
| Social Welfare Department | 1,452.3 | 1,677.2 |
| Social welfare subventions | 368.0 | 400.9 |
| Capital works | <u>41.4</u> | <u>23.2</u> |
| | <u>1,861.7</u> | <u>2,101.3</u> |

(d) *Rehabilitation*

60 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.’

61 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 25 full-time and 20 part-time centres for such tests.

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

63 During 1983-84 improvements have been approved in the staffing ratios for teachers and other specialist staff in special schools. Another notable development has been the reorganization of special and resource classes for children with learning difficulties and maladjusted children in ordinary schools. The pilot scheme launched in 1982-83 to improve special education provision by operating revised resource classes in Government and aided primary schools, adjustment units and a resource teaching centre with the aim of furthering integration has been well received by parents, heads of schools, teachers and pupils and has proved to be successful. As a result, the range of intensive remedial services has been broadened since September 1983 to include the following:

(a) intensive remedial teaching in revised resource classes in ordinary schools;

(b) peripatetic teaching service in ordinary schools during school hours;

(c) remedial support outside school hours in Resource Teaching Centres and Adjustment Units run by the Special Education Section; and

(d) advisory service to schools.

These special services, together with the ordinary remedial teaching scheme introduced in 1982, now form a continuous spectrum of services geared to meeting the varying special educational needs in the ordinary school setting. The approved capital programme to build new special schools and to convert ordinary school buildings for use as special schools will continue in 1984-85 and \$3 million is included in the Draft Estimates.

64 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 \$24 million will be required in 1984-85.

65 Rehabilitation services in the social welfare field continue to be expanded and improved through the Government and subvented voluntary agencies. Funds are provided for establishing four special child care centres with 240 places, one work activity centre with 50 places, one hostel-cum-work activity centre with 40 and 80 places respectively, two half-way houses with 60 places, two social and recreation centres, a sheltered workshop and a toy library in the subvented sector. During 1984-85, the Social Welfare Department plans to open additional facilities consisting of a hostel for moderately handicapped adults, two sheltered workshops, and three work activity centres for the disabled.

66 In the technical education and industrial training field, 48 additional vocational training places will be provided in government centres and 48 additional places will be provided in the subvented sector in 1984-85 bringing the total provision in both the government and subvented sectors to 712. It is expected that the vocational assessment service will continue to be in demand and that the target throughput of 450 cases will be pursued in 1984.

67 The primary responsibility for providing rehabilitation services is shared by three departments, Education, Medical and health and Social Welfare. In the Draft Estimates for 1984-85 a total of \$637.33 million is separately identified in these departments for rehabilitation services:

| | <i>Recurrent</i> (\$ mn) | <i>Non-recurrent</i> (\$ mn) | <i>Total</i> (\$ mn) |
|--------------------|-----------------------------|---------------------------------|-------------------------|
| Education | 243.15 | 6.38 | 249.53 |
| Medical and Health | 267.00 | 35.30 | 302.30 |
| Social Welfare | 84.43 | 1.07 | 85.50 |
| | <u>594.58</u> | <u>42.75</u> | <u>637.33</u> |

68 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 1984-85 Draft Estimates as compared to the 1983-84 revised estimates is:

| | 1983-84 (\$ mn) | | | 1984-85 (\$ mn) | | |
|-------------------------|--------------------|-------------------|---------------|--------------------|-------------------|---------------|
| | Recurrent | Non- recurrent | Total | Recurrent | Non- recurrent | Total |
| Medical and Health | | | | | | |
| Department | 319.12 | 2.62 | 321.74 | 350.65 | 10.55 | 361.20 |
| Medical Subventions | 49.94 | 27.99 | 77.93 | 60.12 | 24.75 | 84.87 |
| Education | | | | | | |
| Department | 43.46 | 0.05 | 43.51 | 44.69 | 0.28 | 44.97 |
| Education | | | | | | |
| Subventions | 183.37 | 7.29 | 190.66 | 216.52 | 6.10 | 222.62 |
| Social Welfare | | | | | | |
| Department | 28.00 | 2.00 | 30.00 | 31.82 | 1.07 | 32.89 |
| Social welfare | | | | | | |
| subventions | 53.50 | — | 53.50 | 62.30 | — | 62.30 |
| Technical Education and | | | | | | |
| Industrial Training | | | | | | |
| Department | 10.61 | 0.30 | 10.91 | 12.65 | 0.38 | 13.03 |
| Labour Department | 7.37 | 0.26 | 7.63 | 7.67 | 0.02 | 7.69 |
| Education and Manpower | | | | | | |
| Branch Rehabilitation | | | | | | |
| Division | 2.08 | — | 2.08 | 1.71 | — | 1.71 |
| | <u>697.45</u> | <u>40.51</u> | <u>737.96</u> | <u>788.13</u> | <u>43.15</u> | <u>831.28</u> |

E. SECURITY SERVICES

(a) Immigration

69 In 1983, the Immigration Department recorded a 10.4% increase in passenger traffic entering and leaving Hong Kong to 27.6 million. Legal immigration from China was 26 692. The number of illegal immigrants and overstayers repatriated totalled 9 928.

70 Consolidated Account Expenditure on immigration is estimated at \$298 million in 1984-85, compared with the revised estimated of \$296 million for 1983-84.

71 The production of the new and more secure identity card, and the introduction of a modern computer-based records system for identity cards commenced on schedule in March 1983, and the replacement of 4.5 million cards now in circulation over a four-year period began in May 1983. Good progress is being made and the scheme is now slightly ahead of schedule. Further improvements in immigration controls and facilities for travellers

between Hong Kong and China are planned for 1984-85. A study of the feasibility of introducing a computer system to assist in immigration control work will continue.

(b) *Law and order*

72 Estimated Consolidated Account expenditure in 1984-85 for law and order is \$3,552.7 million, compared with a revised estimate of \$3,278.1 million in 1983-84. The largest area of spending in 1984-85 is the Royal Hong Kong Police Force, including the Auxiliary Police Force, for which \$2,128.1 million is shown in the Draft Estimates. The establishment of disciplined personnel in the regular force will increase from 24 214 at the end of 1983 to about 25 114 at the end of 1984. The average daily turnout of members of the Auxiliary Police will be reduced from 1 000 in 1983-84 to 700 in 1984-85.

73 The Force was again required to deploy considerable resources on land and at sea in the effort to counter the continued threat of illegal immigration. The phased programme for the expansion of the Marine Police fleet continued. By the end of the financial year 1983-84, 12 vessels had been delivered. Contracts for the construction of 15 new vessels were signed in November 1983, at a total cost of \$123 million and seven of the vessels are expected to be delivered in 1984-85. In order to increase the efficiency of the policing of Deep Bay, it has been decided to advance the replacement programme of the three water jet boats at present patrolling the area to 1984-85 at an estimated cost of \$5.3 million per boat and the phased expenditure for 1984-85 will be \$4 million.

74 The installation of the comprehensive communications system for the Mass Transit Railway's Island Line has been funded at \$2.8 million and will be completed in 1985 in conjunction with the installation of a closed circuit television system. Development of the ultra high frequency personal beat radio scheme will proceed in 1984-85 to cover the Airport District at a cost of \$17.25 million. The Joint Maritime Communications Project and the updating of Marine Police radar will be completed in 1984-85.

75 It is estimated that \$170.1 million will be spent on the police building programme in 1984-85, compared with \$187 million in 1983-84. A further 16 community police facilities are planned to open in 1984-85 to encourage more reporting of crime and better communication between the police and the public.

76 There was an increase of 2.1% in overall crime in 1983. Violent crime, which registered a significant increase in 1982, increased by a further 6.2% this year. Robberies decreased by 2.8% and burglaries decreased by 1.9%. The prison muster of convicted criminals and persons held on remand by the Correctional Services Department rose from 7 875 in January to 7 979 in December 1983, a rise of 1.3% over the period. This slight increase is mainly attributable to the concentrated efforts made by the Department to shorten the average length of stay in its Drug Addiction Treatment Centre and Detention Centre programmes, which have resulted in a reduction in the overall penal population of over 500 during the year. The number of Vietnamese refugees in

Government-run centres rose from 3 747 on 1 January 1983 to 5 761 on 31 December 1983, an increase of 54% over the year.

77 An estimated total of \$41.5 million is required in 1984-85 for capital expenditure on Correctional Services buildings and installations including the continued expansion of Hei Ling Chau, the expansion of Siu Lam Psychiatric Centre, additional departmental staff quarters and a pier for the new maximum security prison at Shek Pik. This compares with \$91.6 million in 1983-84.

78 The expansion of Correctional Services Industries continued in 1983-84 and the Draft Estimates provide for gross expenditure of \$17.5 million on raw materials in 1984-85. The total commercial value of goods and services in 1983-84 amounted to about \$67 million.

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

80 It is estimated that \$223.6 million, compared with \$264.9 million in 1983-84, 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*

81 Expenditure on defence covers the cost of maintaining a garrison of Her Majesty's Forces in Hong Kong, capital works related to accommodation for the garrison and defence installations, and the 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).

82 The Draft Estimates provide for total expenditure of \$1,564 million on defence in 1984-85, compared with the revised estimate of \$1,597 million for 1983-84. 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.

83 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.

84 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 1984-85 will total \$171 million. This sum includes about \$79 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 items are the replacement of the facilities at Lyemun Barracks and Sham Shui Po Camp and the relocation of the Erskine Training Camp to Lantau. 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 in 1984-85 on the Lyemun and Sham Shui Po reprovisioning programme and on the new training camp to be built at Lantau are estimated at \$57 million and \$3 million respectively.

85 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 first two new vessels are scheduled for arrival in Hong Kong in August 1984. \$84 million is required in 1984-85 for the Hong Kong Government's 75% contribution to the capital cost in the year.

APPENDIX C

DETAILS OF REVENUE PROPOSALS FOR DUTIES ON WINES AND SPIRITS AND INCREASES IN FEES AND CHARGES

(a) *Duties on Wines and spirits*

| | Old rate | New rate | |
|---|-------------------------------|-------------------------------|----------------------------|
| | \$ Specific (per litre) | \$ Specific (per litre) | + Ad valorem (of value) |
| Brandy..... | 67.00 | 60.00 | 20% |
| Liqueurs, Whisky, Gin, Rum, Vodka and other spirituous liquors..... | 48.00 | 43.00 | 20% |
| Champagne and other sparkling wines..... | 30.00 | 27.00 | 20% |
| Still wines above 15% alcohol by volume..... | 20.00 | 18.00 | 20% |
| Still wines not more than 15% alcohol by volume..... | 17.00 | 15.00 | 20% |
| Still wines above 15% alcohol by volume imported in casks..... | 12.00 | 18.00 | 20% |
| Still wines not more than 15% alcohol by volume imported in casks..... | 10.00 | 15.00 | 20% |
| 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..... | 1.30 | 1.20 | — |

(b) *Proposals in respect of amendments to the Shipping and Port Control Ordinance (Chapter 313) Regulations 50 and 51*

| <i>Fees</i> | <i>Current fees</i> \$ | <i>Proposed fees</i> \$ |
|--|---------------------------|----------------------------|
| 1. Anchorage dues— For a ship lying at anchor, per 100 tons or part thereof, per day or part of a day— | | |
| (a) whilst lying in the limits of Victoria Port | 14 | 28 |
| (b) whilst lying elsewhere in the waters of Hong Kong | 4 | 8 |
| 2. Buoy dues— For each day or part of a day that a buoy is occupied or reserved— | | |
| (a) A Class A buoy | 1,500 | 2,100 |
| (b) A Class B buoy | 1,000 | 1,400 |

(c) *Proposals in respect of amendments to the Deposit-taking Companies Ordinance (Chapter 328) Banking Ordinance (Chapter 155)*

| <i>Fees</i> | <i>Current fees</i> \$ | <i>Proposed fees</i> \$ |
|---|---------------------------|----------------------------|
| 1. Registration fees (section 11(1)) | 30,000 | 45,000 |
| 2. Renewal of registration fee (section 11(2)) | 30,000 | 45,000 |
| 2A. Licence fee (section 16C(1)) | 100,000 | 150,000 |
| 2B. Renewal of licence fee (section 16C(2)) | 100,000 | 150,000 |
| 2C. Fee for the establishment of a local branch (section 16I(1)) | 5,000 | 7,500 |
| 2D. Annual fee for maintaining a local branch (section 16I(1) and (2)) | 5,000 | 7,500 |

Deposit-taking Companies

| <i>Fees</i> | <i>Current fees</i> \$ | <i>Proposed fees</i> \$ |
|---|---------------------------|----------------------------|
| 2E. Fee for the establishment of an overseas branch (section 16L(1) and (2)) | 10,000 | 15,000 |
| 2F. Annual fee for maintaining an overseas branch (section 16L(1) and (2)) | 10,000 | 15,000 |
| 2G. Fee for the establishment of an overseas representative office (section 16L(1)) | 5,000 | 7,500 |
| 2H. Annual fee for maintaining an overseas representative office (section 16L(1) and (2)) | 5,000 | 7,500 |

Banks

| <i>Fees</i> | <i>Current fees</i> \$ | <i>Proposed fees</i> \$ |
|--|---------------------------|----------------------------|
| 1. Fee for the establishment of a local representative office (section 12E(1) and (3)) | 10,000 | 15,000 |
| 2. Annual fee for maintaining a local representative office (section 12E(2) and (3)) | 10,000 | 15,000 |
| 3. Fee for the establishment of an overseas branch (section 12H(1) and (3)) | 20,000 | 30,000 |
| 4. Fee for the establishment of an overseas representative office (section 12H(1) and (3)) | 5,000 | 7,500 |
| 5. Annual fee for maintaining an overseas branch (section 12H(2) and (3)) | 20,000 | 30,000 |
| 6. Annual fee for maintaining an overseas representative office (section 12H(2) and (3)) | 5,000 | 7,500 |

(d) Proposals in respect of amendments to the Road Tunnels (Government) Ordinance (Chapter 368) Regulation 12

| <i>Fees</i> | <i>Current fees</i> \$ | <i>Proposed fees</i> \$ |
|---|---------------------------|----------------------------|
| Class I Private cars, public cars, taxis and motor cycles | 1.0 | 2.0 |
| Class II Public and private light buses, public and private single-decker buses and goods vehicles of an unladen weight not exceeding 45 cwt. | 1.5 | 2.0 |
| Class III Public and private double-decker buses and goods vehicles of an unladen weight exceeding 45 cwt. | 2.0 | 2.0 |

APPENDIX D

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

Tax payable in:

| Status Income | Hong Kong | | Singapore | | Malaysia | | Japan | | U.K. | | Australia | |
|---|-----------|---------|-----------------|---------|---------------|---------|-----------------|---------|-----------------|---------|-----------------|---------|
| | (†) | | (HK\$3.63=S\$1) | | (HK\$3.31=R1) | | (HK\$3.30=¥100) | | (HK\$10.89=£ 1) | | (HK\$7.10=A\$1) | |
| | \$ | | \$ | | \$ | | \$ | | \$ | | \$ | |
| <i>Single person (annual income)</i> | | | | | | | | | | | | |
| | \$ | | | | | | | | | | | |
| 36,000 | 400 | (1.1%) | 1,212 | (3.4%) | 1,589 | (4.4%) | 2,776 | (7.7%) | 4,966 | (13.8%) | 1,321 | (3.7%) |
| 60,000 | 3,400 | (5.7%) | 3,713 | (6.2%) | 5,544 | (9.2%) | 5,872 | (9.8%) | 12,164 | (20.3%) | 8,683 | (14.5%) |
| 100,000 | 13,000 | (13.0%) | 9,702 | (9.7%) | 16,130 | (16.1%) | 12,317 | (12.3%) | 24,165 | (24.2%) | 20,952 | (20.9%) |
| 150,000 | 25,500 | (17.0%) | 20,618 | (13.7%) | 34,510 | (23.0%) | 22,814 | (15.2%) | 39,160 | (26.1%) | 38,589 | (25.7%) |
| 180,000 | 30,600 | (17.0%) | 28,118 | (15.6%) | 46,512 | (25.8%) | 30,176 | (16.8%) | 48,319 | (16.8%) | 52,391 | (29.1%) |
| 210,000 | 35,700 | (17.0%) | 36,500 | (17.4%) | 59,911 | (28.5%) | 38,349 | (18.3%) | 60,494 | (28.8%) | 66,186 | (31.5%) |
| 250,000 | 42,500 | (17.0%) | 48,500 | (19.4%) | 77,911 | (31.2%) | 50,726 | (20.3%) | 78,484 | (31.4%) | 84,589 | (33.8%) |
| 300,000 | 51,000 | (17.0%) | 63,837 | (21.2%) | 102,170 | (34.1%) | 68,783 | (22.9%) | 103,150 | (34.4%) | 114,019 | (38.0%) |
| <i>Married person, with no children (annual income)</i> | | | | | | | | | | | | |
| | \$ | | | | | | | | | | | |
| 60,000 | 200 | (0.3%) | 3,278 | (5.5%) | 4,220 | (7.0%) | 4,532 | (7.6%) | 8,864 | (14.8%) | 6,880 | (11.5%) |
| 100,000 | 6,000 | (6.0%) | 9,086 | (9.1%) | 14,111 | (14.1%) | 10,595 | (10.6%) | 20,865 | (20.9%) | 19,149 | (19.1%) |
| 150,000 | 18,500 | (12.3%) | 19,711 | (13.1%) | 31,862 | (21.2%) | 20,551 | (13.7%) | 35,861 | (23.9%) | 35,883 | (23.9%) |
| 237,500 | 40,375 | (17.0%) | 43,662 | (18.4%) | 69,305 | (29.2%) | 43,728 | (18.4%) | 67,910 | (28.6%) | 76,133 | (32.1%) |
| 250,000 | 42,500 | (17.0%) | 47,411 | (19.0%) | 74,932 | (30.0%) | 47,478 | (19.0%) | 73,529 | (29.4%) | 81,877 | (32.8%) |
| 300,000 | 51,000 | (17.0%) | 62,676 | (20.9%) | 98,860 | (33.0%) | 65,147 | (21.7%) | 97,640 | (32.5%) | 110,483 | (36.8%) |

Married person, with two children
(annual income)

| \$ | | | | | | | | | | | |
|---------|--------|---------|--------|---------|---------|---------|--------|---------|---------|---------|-----------------|
| 80,000 | 550 | (0.7%) | 5,264 | (6.6%) | 7,338 | (9.2%) | 4,653 | (5.8%) | 14,865 | (18.6%) | 13,014 (16.3%) |
| 100,000 | 3,100 | (3.1%) | 8,316 | (8.3%) | 12,621 | (12.6%) | 7,499 | (7.5%) | 20,865 | (20.9%) | 19,149 (19.1%) |
| 150,000 | 15,125 | (10.1%) | 18,578 | (12.4%) | 29,879 | (19.9%) | 16,531 | (11.0%) | 35,861 | (23.9%) | 35,883 (23.9%) |
| 210,000 | 30,125 | (14.3%) | 34,049 | (16.2%) | 54,698 | (26.0%) | 30,524 | (14.5%) | 56,116 | (26.7%) | 63,481 (30.2%) |
| 279,687 | 47,547 | (17.0%) | 54,958 | (19.6%) | 86,222 | (30.8%) | 51,058 | (18.3%) | 87,490 | (31.3%) | 98,292 (35.1%) |
| 300,000 | 51,000 | (17.0%) | 61,224 | (20.4%) | 96,377 | (32.1%) | 57,965 | (19.3%) | 97,640 | (32.5%) | 110,483 (36.8%) |
| 350,000 | 59,500 | (17.0%) | 77,225 | (22.1%) | 121,378 | (34.7%) | 76,874 | (22.0%) | 122,883 | (35.1%) | 140,481 (40.1%) |
| 400,000 | 68,000 | (17.0%) | 93,763 | (23.4%) | 148,420 | (37.1%) | 97,142 | (24.3%) | 150,391 | (37.6%) | 170,478 (42.6%) |

- Note:* (*) *Not* including such other compulsory levies as the U.K. national insurance contribution. Australia health insurance levy, payroll tax and provident fund contribution in Singapore, and capital gains taxes in the U.K., Malaysia and Japan.
- (†) After proposed increase in standard rate. Percentage figures in brackets are the effective rates of tax.

APPENDIX E

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

| | <i>Present</i> \$ | <i>Proposed</i> \$ |
|--|----------------------|-----------------------|
| <i>No dependent parent</i> | | |
| Single | 120,000 | 150,000 |
| Married | 190,000 | 237,500 |
| Married+1 child | 210,000 | 262,500 |
| Married+2 children | 223,750 | 279,687.5 |
| Married+3 children | 231,250 | 289,062.5 |
| <i>Including two dependent parents</i> | | |
| Single | 160,000 | 200,000 |
| Married | 230,000 | 287,500 |
| Married+1 child | 250,000 | 312,500 |
| Married+2 children | 263,750 | 329,687.5 |
| Married+3 children | 271,250 | 339,062.5 |

EFFECT ON SALARIES TAX OF PROPOSED INCREASE IN THE STANDARD RATE

Example 1—Single person

| <i>Annual income</i> (\$) | <i>Present</i> | | <i>Proposed</i> | | <i>Increase in</i> | |
|------------------------------|----------------------------|------------------------------|----------------------------|------------------------------|--------------------|------------|
| | <i>Tax payable</i> (\$) | <i>Effective rate</i> (%) | <i>Tax payable</i> (\$) | <i>Effective rate</i> (%) | <i>tax</i> (\$) | <i>(%)</i> |
| 110,000 | 15,500 | 14.1 | 15,500 | 14.1 | NIL | — |
| 120,000* | 18,000 | 15.0 | 18,000 | 15.0 | NIL | — |
| 125,000 | 18,750 | 15.0 | 19,250 | 15.4 | 500 | 2.7 |
| 130,000 | 19,500 | 15.0 | 20,500 | 15.8 | 1,000 | 5.1 |
| 135,000 | 20,250 | 15.0 | 21,750 | 16.1 | 1,500 | 7.4 |
| 140,000 | 21,000 | 15.0 | 23,000 | 16.4 | 2,000 | 9.5 |
| 145,000 | 21,750 | 15.0 | 24,250 | 16.7 | 2,500 | 11.5 |
| 150,000 † | 22,500 | 15.0 | 25,500 | 17.0 | 3,000 | 13.3 |
| 160,000 | 24,000 | 15.0 | 27,200 | 17.0 | 3,200 | 13.3 |

Example 2—Married person, with no children

| | | | | | | |
|-----------|--------|------|--------|------|-------|------|
| 180,000 | 26,000 | 14.4 | 26,000 | 14.4 | NIL | — |
| 190,000* | 28,500 | 15.0 | 28,500 | 15.0 | NIL | — |
| 200,000 | 30,000 | 15.0 | 31,000 | 15.5 | 1,000 | 3.3 |
| 210,000 | 31,500 | 15.0 | 33,500 | 15.9 | 2,000 | 6.3 |
| 220,000 | 33,000 | 15.0 | 36,000 | 16.4 | 3,000 | 9.1 |
| 230,000 | 34,500 | 15.0 | 38,500 | 16.7 | 4,000 | 11.6 |
| 237,500 † | 35,625 | 15.0 | 40,375 | 17.0 | 4,750 | 13.3 |
| 250,000 | 37,500 | 15.0 | 42,500 | 17.0 | 5,000 | 13.3 |

* Income level at which taxpayers enter standard rate under present law.

† Income level at which taxpayers enter standard rate under proposed law.

Example 3—Married person, with two children

| <i>Annual income</i> | <i>Present</i> | | <i>Proposed</i> | | | <i>Increase in (%)</i> |
|----------------------|--------------------|-----------------------|--------------------|-----------------------|-------------|------------------------|
| | <i>Tax payable</i> | <i>Effective rate</i> | <i>Tax payable</i> | <i>Effective rate</i> | <i>tax</i> | |
| <i>(\$)</i> | <i>(\$)</i> | <i>(%)</i> | <i>(\$)</i> | <i>(%)</i> | <i>(\$)</i> | |
| 210,000 | 30,125 | 14.3 | 30,125 | 14.3 | NIL | — |
| 223,750* | 33,562 | 15.0 | 33,562 | 15.0 | NIL | — |
| 230,000 | 34,500 | 15.0 | 35,125 | 15.3 | 625 | 1.8 |
| 240,000 | 36,000 | 15.0 | 37,625 | 15.7 | 1,625 | 4.5 |
| 250,000 | 37,500 | 15.0 | 40,125 | 16.1 | 2,625 | 7.0 |
| 260,000 | 39,000 | 15.0 | 42,625 | 16.4 | 3,625 | 9.3 |
| 270,000 | 40,500 | 15.0 | 45,125 | 16.7 | 4,625 | 11.4 |
| 279,687 ‡ | 41,953 | 15.0 | 47,547 | 17.0 | 5,594 | 13.3 |
| 290,000 | 43,500 | 15.0 | 49,300 | 17.0 | 5,800 | 13.3 |

Example 4—Married person, with two children and two dependent parents

| | | | | | | |
|-----------|--------|------|--------|------|-------|------|
| 250,000 | 36,125 | 14.5 | 36,125 | 14.5 | NIL | — |
| 263,750* | 39,562 | 15.0 | 39,562 | 15.0 | NIL | — |
| 270,000 | 40,500 | 15.0 | 41,125 | 15.2 | 625 | 1.5 |
| 280,000 | 42,000 | 15.0 | 43,625 | 15.6 | 1,625 | 3.9 |
| 290,000 | 43,500 | 15.0 | 46,125 | 15.9 | 2,625 | 6.0 |
| 300,000 | 45,000 | 15.0 | 48,625 | 16.2 | 3,625 | 8.1 |
| 310,000 | 46,500 | 15.0 | 51,125 | 16.5 | 4,625 | 9.9 |
| 320,000 | 48,000 | 15.0 | 53,625 | 16.7 | 5,625 | 11.7 |
| 329,687 † | 49,453 | 15.0 | 56,046 | 17.0 | 6,593 | 13.3 |
| 340,000 | 51,000 | 15.0 | 57,800 | 17.0 | 6,800 | 13.3 |

* Income level at which taxpayers enter standard rate under present law.

† Income level at which taxpayers enter standard rate under proposed law.

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, 14 March 1984.

Adjourned accordingly at twenty-one minutes to five o'clock.