

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 27 February 1985****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 (*Acting*)
MR. DAVID AKERS-JONES, C.M.G., J.P.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

THE HONOURABLE MARIA TAM WAI-CHU, O.B.E., 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 CHAN NAI-KEONG, C.B.E., 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

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

THE HONOURABLE KEITH LAM HON-KEUNG, J.P.

THE HONOURABLE CARL TONG KA-WING

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

THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
DIRECTOR OF EDUCATION

THE HONOURABLE PETER TSAO KWANG-YUNG, C.P.M., J.P.
SECRETARY FOR HOME AFFAIRS

THE HONOURABLE DAVID ROBERT FORD, L.V.O., O.B.E., J.P.
SECRETARY FOR HOUSING

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

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR. LI WING

Papers

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

<i>Subject</i>	<i>L.N. No.</i>
Subsidiary Legislation:	
Kowloon-Canton Railway By-Laws.	
Kowloon-Canton Railway (Restricted Area) Notice 1985	25
Port Control (Cargo Working Areas) Ordinance.	
Port Control (Public Water-Front) Order 1985.....	26
Road Traffic Ordinance.	
Road Traffic (Parking) (Amendment) Regulations 1985.....	27
Shipping and Port Control Ordinance.	
Shipping and Port Control Ordinance (Exemption) Notice 1985.....	28
Shipping and Port Control Regulations.	
Shipping and Port Control Regulations (Amendment of Eighth Schedule) Notice 1985.....	29
Public Health and Urban Service Ordinance.	
Public Health and Urban Services (Public Markets) (Designation and Amendment of Tenth Schedule) Order 1985	30
Public Health and Urban Services Ordinance.	
Declaration of Markets in the Urban Areas	31
Sessional Papers 1984-85:	
No. 44—Draft Estimates for the year ending 31 March 1986— Volume 1 Expenditure.	
No. 45—Draft Estimates for the year ending 31 March 1986— Volume 2 Revenue, Funds and Statistical Appendices.	
No. 46—Report of the Public Works Sub-Committee of Finance Committee 1984-85.	
No. 47—Report of the Establishment Sub-Committee of Finance Committee for 1984- 85.	

Valedictory to MR. T. S. Lo

HIS EXCELLENCY THE PRESIDENT:—Honourable Members, since we last met, Mr. T. S. Lo has resigned from this Council, on which he served for more than ten years from 1974. These have been particularly busy years in the life of this

Council, especially during the past two years, and I would like to pay tribute to the valuable service he has rendered, not only in this Council but in a number of public bodies.

I am sure Members would wish to join me in wishing Mr. Lo well in the future.

SIR ROGER LOBO:—Sir, the Unofficial Members of this Council would wish to be associated with Your Excellency's tribute to Mr. T. S. Lo.

His distinguished record of public service on this Council and in the Executive Council has won him wide respect.

He will be remembered particularly for his work in the UMELCO Police Group which he joined in 1978 and became Chairman in 1980. Mr. Lo was also Chairman of the Transport Advisory Committee between 1980 and 1982 and served as Convener of the Legislative Council General Services Working Group between 1982 and 1984 and on the Legislation Scrutiny Group between 1978 and 1980.

Sir, we wish Mr. Lo every success in the future.

Government Business

First reading of bill

APPROPRIATION BILL 1985

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 1985

THE FINANCIAL SECRETARY moved the second reading of:—'A bill to apply a sum not exceeding \$38,361,602,000 to the service of the financial year ending on 31 March 1986'.

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He said:—Sir, I move that the Appropriation Bill 1985 be read the second time.

I am going to change the presentation of my speech this year by first setting out the overall picture. This will establish the background for my subsequent comments and proposals. I hope that Members and the public will find this helpful.

2. On General Revenue Account we last enjoyed a budget surplus in the financial year 1981-82.

3. In that year land sales revenue was \$8.9 billion—itself \$1.8 billion less than in the previous year.

4. Only four years later in 1985-86 revenue from this source is unlikely to exceed \$1.7 billion, which in my opinion may establish a trend for future years. This is of course a view, not a calculation; but we look ahead as far as possible in our budgetary processes.

5. In 1982 and early 1983 Hong Kong in addition suffered from the worst world recession since the 1930s. Employment and real wages fell. Property values slumped. Commerce and industry stagnated. There then followed the negotiations in Peking and their consequential effects on confidence and investment. Happily this issue has now been cleared by signature of the Joint Declaration.

6. It is thus not surprising that since 1981-82 major budgetary adjustment has been necessary. The Government has remained steadily and visibly on course towards a return to balanced budgets without resort to stop and go tactics. We have also maintained and even strengthened major programmes.

7. The broad outcome has been as follows. In 1982-83 the deficit was \$3.5 billion (and we were fortunate that it was not greater). In 1983-84 it was \$3 billion. For this financial year 1984-85 it will be about \$1.8 billion— conservatively excluding the successful \$1 billion bond issue. If my various proposals are accepted by this Council, the planned deficit for 1985-86 should be about \$1 billion. It could be less. Only a fool would make promises, but I hope to present to this Council in February 1986 a balanced budget for 1986-87. This is my present intention.

8. The linking of the Hong Kong dollar to the US dollar in October 1983 has resulted in currency stabilisation (including built-in control of the money supply) and a return of confidence in the Hong Kong dollar. Even better than forecast, there has also been a rapid drop from 12.4 per cent to 4.6 per cent in consumer price inflation⁽¹⁾. This is a most beneficial outcome and one of great importance for community well-being. People no longer fear alarming annual increases in the cost of living, particularly as real wages are again rising. They can absorb the slightly inflationary impact of further selective indirect taxation.

(1) See paragraph 25.

Moreover, large annual inflation-based pay increases are unnecessary. I forecast inflation of about 5.5 per cent for 1985 as compared with 8.1 per cent for 1984. This is still high but a significant improvement. The future will be strongly influenced by what happens in the USA.

9. As for the public finances, growth in recurrent expenditure in particular has been held down. Considerable new revenue has also been found in a manner which has clearly not stilted economic recovery. In fact real GDP growth in 1984 was a remarkable 9.6 per cent, while there has been effective full employment. I now forecast growth in GDP of about 7 per cent in 1985. This and many other allied estimates will necessarily be updated in September. Members may share my suspicions on the likely accuracy of such forecasts, although they must be made.

10. Your Government remains committed to support of the free market economy; to provision of the infrastructure within which enterprise can flourish without unnecessary government regulation; to the care of those who cannot care for themselves; and to low overall taxation. Hong Kong is not a tax haven, but we know not least from the experience of others that moderation in taxation is an essential spur to individual effort. Tax avoidance is not.

11. My revenue proposals for 1985-86 reintroduce two old measures of indirect taxation. I propose also increases in taxes, licences, duties, fees and charges in total designed to raise revenue by \$1.35 billion. The need to maintain yields in real terms against the serious inflation which we have experienced over the past two years will be generally appreciated. I expressly warned about this in my winding up speech on 25 April 1984⁽²⁾. In some sensitive areas, however, the proposed increases are much lower, reflecting a conscious acknowledgement of public concerns. In most cases, moreover, the additional indirect taxation proposed is designed to fall on expenditure on luxuries not on essentials.

12. For reasons which I will give later no increases in direct taxation are proposed. Indeed I shall put forward cuts in personal taxes for the more deserving. These will cost \$150 million next year and \$210 million in a full year.

13. The net additional revenue to be raised will thus be \$1.2 billion. The comparable figure last year in money terms was \$1.5 billion. In the previous year it was \$3 billion. The trend is clear.

14. So that Members and the public can see an alternative picture, I estimate that the addition of one percentage point to the present standard rate of 17 per cent would yield \$165 million in the first year and \$290 million in a full year.

15. Similarly an addition of one percentage point to the present corporate rate of 18.5 per cent would yield \$200 million in the first year and \$430 million in a full year.

(2) Paragraph 34. See also 1984 Budget Speech paragraph 86.

16. I believe that in our particular circumstances a planned deficit, that is to say a drawdown from the free fiscal reserves, of \$1 billion for 1985-86 is acceptable. This is of course a subjective view. Certainly I would prefer no deficit at all. Nevertheless the managed downward trend is pronounced and visible to all. If Members in the forthcoming debate seek a lower deficit or greater tax concessions or new programmes the simple mathematics of alternative direct taxation increases should at least be known.

17. Let no one doubt that the excellent civil service has played and is playing its full, painful part. Stabilisation of the establishment is clearly an essential component of control of expenditure. It is, however, particularly difficult when per capita GDP is rising and public aspirations demand more services, for which new staff has to be provided. Productivity has obviously increased and is still increasing.

18. If my expenditure proposals are accepted the relative size of the public sector will have dropped by no less than 3.1 percentage points, that is to say by 16 per cent, since 1982-83⁽³⁾. This is better than expected and of great importance. Value for money has become a tough criterion. I regard frugality as an essential component of good government as it is of good business. Moreover in a deficit situation taxpayers pressed for higher Government revenue have the right to expect parallel pressure on Government expenditure: there clearly has been.

19. I should not be accused of misleading optimism. The Administration remains fully aware of the dependence of the Hong Kong economy on exports and consequently of its exposure to external shocks. Often these will be outside our control or even anticipation. Thus a conservative approach to Hong Kong's finances remains the cornerstone of the Government's total policies. We must always bear in mind that Hong Kong's total external trade now represents 179 per cent of GDP and exports and re-exports alone 89 per cent.

1984 Economic Background

20. In 1984 the Hong Kong economy experienced the second consecutive year of export-led growth consequent on strong expansion in the United States and improvements elsewhere. Exports to China expanded rapidly, as its new economic policy has enhanced bilateral trading opportunities. In real terms our domestic exports increased overall by about 17 per cent, re-exports by about 30 per cent, and imports by about 15 per cent⁽⁴⁾. The visible trade gap narrowed to under 1 per cent, the smallest for more than 25 years—equivalent to less than two days' imports.

(3) See paragraph 45 below.

(4) 1984 Economic Background paragraphs 2.4, 2.13 and 2.20. Exports and re-exports together increased by about 22 per cent.

21. Private consumption expenditure grew by 5 per cent in real terms. The general increase in economic activity and the return of confidence helped to stimulate a recovery in private investment in plant and machinery throughout the year. This grew by 26 per cent, with most of the increase reflecting a catching up on two very poor years. Private expenditure on building and construction, however, fell by 9.5 per cent in real terms. Apart from a relatively high take-up of finished property the market remained soft, though there were signs of improvement towards the end of the year.

22. Public sector expenditure overall declined by 2 per cent in real terms in 1984⁽⁵⁾.

23. Overall the GDP thus grew by 9.6 per cent in real terms, representing a significant improvement over 5.1 per cent in 1983⁽⁶⁾.

24. Reflecting the continued rapid expansion in exports and the resulting accelerated growth rate of the economy, both the unemployment rate and the underemployment rate stayed at low levels and earnings in most sectors increased in real terms. In the fourth quarter the seasonally adjusted unemployment rate stood at 3.8 per cent and the underemployment rate at 0.8 per cent, which represent close to full employment in Hong Kong⁽⁷⁾. Output per employed person rose by 6.7 per cent.

25. The rate of inflation (as measured by the Consumer Price Index (A)) fell steadily from a year-on-year rate of 12.4 per cent in January to 4.6 per cent in December. The average for 1984 as a whole was 8.1 per cent⁽⁸⁾, compared with 9.9 per cent recorded in 1983. One of the major contributory factors was the stability of the Hong Kong dollar in terms of the US dollar under the linked exchange rate system, and a consequent strengthening against all other major currencies during the year⁽⁹⁾. Despite the background of uncertainty about Hong Kong's future and volatile conditions in world foreign exchange markets during a large part of 1984, the Hong Kong dollar in terms of the tradeweighted index strengthened by 11 per cent during the year. It has continued to strengthen so far this year.

26. The adoption of the linked exchange rate system has in effect accorded priority to a stable exchange rate against the US dollar, with adjustments to pressures on the Hong Kong dollar falling, at least initially, on interest rates and the money supply. These pressures were substantial on occasions during the year. There were therefore considerable short-term fluctuations in interest rates and, to a lesser extent, in the growth rate of the money supply. These changes probably had little, if any, adverse effect on the conduct of business.

(5) *In national account, not Consolidated Account, terms.*

(6) *The growth rate for 1984 is a preliminary estimate, while that for 1983 is provisional.*

(7) *Full employment here is effectively represented by an unemployment rate of about 3.5 per cent.*

(8) *1984 E.B. paragraph 6.1.*

(9) *1984 E.B. paragraph 6.2.*

27. In my view the present system provides a better environment for making individual and collective economic decisions than one which is characterised by instability in the value of the currency. Apart from short term fluctuations, the operation of the linked exchange rate system has caused the trend in local interest rates to follow broadly that of US dollar rates.

28. I do not intend to comment further on the arrangement linking the Hong Kong dollar to the US dollar beyond saying that it has served us well and will not lightly be changed. This is a firm statement of the Government's policy.

29. Thus 1984 was the year in which the Hong Kong economy very largely got back on track. Economic growth increased, inflation fell, unemployment was low, confidence returned and investment began to recover. All in all a welcome contrast to the gloom of 1982, which still persisted into much of 1983.

Monetary Issues

30. This time last year a team from the Bank of England was here to assist us in a review of our systems of prudential supervision of banks and DTCs. Their confidential report has made a most helpful contribution to our thinking, although we are not in agreement with all of its conclusions and recommendations.

31. Any new legislation that may be proposed (and I think that new legislation *will* be necessary) will reflect such experience of other supervisory systems as we can usefully draw upon, our own view of what would be appropriate in the particular circumstances of Hong Kong, and the feedback we obtain from local consultation.

32. I am attracted by the concept that supervision needs to be more flexible and discretionary, provided that government officials are not endowed with too much unfettered power.

33. We are therefore examining the various options in this field. There will be close consultation with the Banking and Deposit-taking Companies Advisory Committees.

34. In the meantime, we are making progress in our internal consideration of the more technical aspects of supervision, such as capital adequacy tests, the arithmetic of the liquidity requirement and unbalanced lending. We have already made progress towards the supervision on a worldwide consolidated basis of those locally-incorporated institutions which have overseas branches and subsidiaries.

35. Visible progress may seem slow, but these are complex issues and we must find the best answers. In any case I do not accept the presumption that, just because we have not introduced any new legislation since 1983, we have not achieved any improvements in our supervisory methods since then. Efficient supervision is just as dependent upon proper administrative procedures and upon informal exchanges. In these areas we continue to make quiet, useful progress.

36. Let me also make it quite clear that the Government is not advocating regulation for regulation's sake. Our aim is to promote sound business practice, to provide a measure of protection for depositors and investors, and hence to consolidate Hong Kong's reputation as a major financial centre. In this and other areas no government can stand still. There must be steady improvement without sudden shocks and with full consultation.

37. Under the Deposit-taking Companies Ordinance, which was enacted in 1976, DTCs are not allowed to accept deposits of less than HK\$50,000. The stated objective was to protect the small depositor by, in effect, deterring him from depositing with a DTC.

38. Clearly the effectiveness of this measure in achieving that objective has been eroded by the passage of time. Despite improvements in the supervision of these institutions, I consider the original objective is still appropriate.

39. The limit therefore needs to be increased. The choice of a new level is inevitably somewhat arbitrary. Were the figure to be adjusted to take account of inflation since 1976, it should now stand somewhat in excess of \$100,000. Alternatively, if it were judged in relation to average income a figure of over \$150,000 would be required. But I have no wish to create undue problems for registered DTCs, nor arbitrarily to drive them out of business. I have therefore decided to seek an increase to a round \$100,000. This proposal, and two others I will mention, have been unanimously supported by the Deposit-taking Companies Advisory Committee. I shall therefore in due course be approaching the Governor in Council with a recommendation that he should order the necessary amendment to the First Schedule of the Deposit-taking Companies Ordinance. To allow an adjustment period, I will propose that the new limit take effect on 1 March 1986. In other words, I am today giving 12 months' notice. For the avoidance of doubt let me also say that any deposits in the \$50,000 to \$100,000 bracket already in place with registered DTCs when the new limit takes effect would be permitted to run to maturity.

40. No change is proposed to the \$500,000 threshold for deposits with licensed DTCs, which dates only from 1981 and still adequately reflects a reasonable definition of wholesale business. This was the original intention.

41. The discretionary criteria for the granting of DTC licences, which were announced in this Council on 29 April 1981, have however been reviewed. Two have become open to challenge with the passage of time. One requires a company incorporated outside Hong Kong applying for a DTC licence to have been a registered DTC on or before 10 April 1981, the date on which the intention to create the licensed DTC category was gazetted. This criterion was considered necessary at the time to prevent a rush of registrations from overseas institutions, with a view to subsequent licence applications. Since then, however, the licensed sector has settled down and established its own identity. It does not

therefore seem that any harm would now be done by opening the door to overseas companies which have registered as DTCs more recently than 10 April 1981, given that the criterion of a minimum qualification period of three years as a registered DTC would continue to apply.

42. The other change which I propose concerns the present requirement that an applicant should be 'in good standing in the Hong Kong (and, if relevant, international) money markets'. This criterion has been interpreted to refer to standing as a principal in the money market, and hence to require the holding of sizeable positions in that market. But the true intention is that an applicant must enjoy a good general standing within the financial community. This will be the revised criterion⁽¹⁰⁾.

Public Sector

43. Sir, I have frequently emphasised the need for a calm, steady but above all planned approach towards reducing the deficit. This strategy continues with today's budget proposals. There can be growing confidence that the desired results are materialising. Close monitoring of our performance with the help of a financial model coupled with the latest information available indicates that we remain on course. It should thus be possible further to reduce the deficit this coming year before seeking a balanced budget in 1986-87.

44. This recovery is being achieved despite the dramatic fall in land revenue with which we are now learning to live⁽¹¹⁾. What has largely made this possible has been firm restraint on growth of public sector expenditure. We have again in 1984-85 successfully held its growth rate well below the rate of growth in GDP. This creates the necessary breathing space whilst we await the working through of economic growth to our recurrent revenue.

45. The budget presented today proposes total public sector expenditure on Consolidated Account of \$45.6 billion. The downward movement in the relative size of the public sector⁽¹²⁾ will be from 19.1 per cent in 1982-83 to 18.6 per cent in 1983-84 to my revised estimate of 16.4 per cent for 1984-85 and to an estimated 16 per cent in 1985-86. This is a considerable fall on a GDP of \$286 billion. It is far better than I indicated in the last budget speech⁽¹³⁾.

46. To complete the background to the budget proposals I will now bring you up to date on the present state of the Government accounts.

(10) *All the other criteria, which the Administration has carefully reviewed with the assistance of the DTC Advisory Committee, remain unchanged. It is important to note that these are essentially guiding criteria. They will continue to be applied intelligently. For easy reference, the revised list is given at Appendix C.*

(11) *1984 B.S., paragraph 75.*

(12) *defined as the ratio of Consolidated Account expenditure to the GDP at current prices.*

(13) *1984 B.S., paragraph 26. See also Table (1) in the statistical tables.*

Revised Estimates 1984-85

47. On General Revenue Account the budget for 1984-85 envisaged a deficit of \$2.1 billion⁽¹⁴⁾. In the event revenue is close to our target and expenditure lower than expected. The revised estimates of revenue (excluding the \$1 billion yield from the bond issue) and expenditure are respectively \$34.9 billion and \$36.7 billion. I therefore expect the outturn for this year to be a deficit of about \$1.8 billion⁽¹⁵⁾. Because of the bond issue the actual shortfall is \$1 billion less, but we must not be misled by this.

48. On recurrent account, revenue in 1984-85 is expected to be marginally lower than the original estimate by about \$200 million. The revised estimate of recurrent expenditure⁽¹⁶⁾ is expected to be \$674 million lower than the original estimate. This is the third year running in which recurrent expenditure has been held down below budget, reflecting tight financial control; and I thank all vote controllers for their efforts.

(14) *i.e.* \$2,139 million: the difference between estimated revenue of \$35,194 million and estimated expenditure of \$37,333 million.

(15)	Original (\$mn)	(\$mn)	Revised (\$mn)	(\$mn)
Recurrent Account:				
Revenue	30,464		30,262	
Expenditure	<u>26,933</u>	3,531	<u>26,259</u>	4,003
Capital Account:				
Revenue	4,730		4,666	
Expenditure	<u>10,400</u>	-5,670	<u>10,426</u>	-5,760
Deficit		<u>-2,139</u>		<u>-1,757</u>

The revised estimates are based on a maximum of nine months' performance.

(16)	Component	Approved Estimates 1984-85 (\$mn)	Revised Estimates 1984-85 (\$mn)
(1)	Personal Emoluments	8,913	9,640
(2)	Personnel Related Expenses		
	Pensions	984	1,050
	Other	1,166	1,121
(3)	Departmental Expenses	3,084	2,936
(4)	Other Charges		
	Additional Commitments	1,800	—
	Defence Costs Agreement	1,257	1,261
	Other	3,071	3,216
(5)	Subventions	<u>6,658</u>	<u>7,035</u>
	Total Recurrent Expenditure	<u>26,93</u>	<u>26,2</u>
		<u>3</u>	<u>59</u>

49. On capital account, revenue is expected to be slightly lower than the original estimate: expenditure is expected to be about the same as in the original estimate⁽¹⁷⁾.

50. The Hong Kong Government has no net debt. Indeed following the deduction of the 1984-85 deficit from the General Revenue Balances, our fiscal reserves will be \$15.3 billion. Most is lent to the Exchange Fund against interest bearing debt certificates. Because of our liabilities these reserves cannot be considered as fully and freely available for use. Apart from the liability arising from the bond issue, there are also contingents and other liabilities. The extent of cover for these contingent liabilities is obviously debatable, but we have prudently worked on a gearing of one to three. Our known contingent liabilities should be about \$26.2 billion by 1989—taking our usual four year view⁽¹⁸⁾. On that basis therefore we need to reserve of the order of \$8.7 billion, which means \$6.6 billion in 'free' reserves as at 1 April 1985. It is arguable that there is a considerable degree of over provision, for instance in the case of guarantees for Home Ownership Scheme mortgages and particularly gold coins. The principles will be reconsidered before the next budget.

(17)	<i>Approved Estimates 1984-85 (\$mn)</i>	<i>Revised Estimates 1984-85 (\$mn)</i>
<i>Component</i>		
(1) <i>Plant, Equipment and Works</i>		
<i>Defence Costs Agreement</i>	103	59
<i>Other</i>	568	448
(2) <i>Other Non-Recurrent</i>		
<i>Additional Commitments</i>	200	—
<i>Other</i>	111	225
(3) <i>Subventions</i>	718	689
(3) <i>Transfers to Funds</i>		
<i>Capital Works Reserve Fund</i>	7,300	7,257
<i>Development Loan Fund</i>	1,305	1,305
<i>Student Loan Fund</i>	60	35
<i>Mass Transit Fund</i>	35	408
<i>Total Capital Expenditure</i>	<u>10,400</u>	<u>10,426</u>

(18)	<i>At 31 March: 1985 (\$mn)</i>	<i>1989 (\$mn)</i>
<i>MTRC: guarantee of debt</i>	7,024	3,763
<i>Export Credit Insurance Corporation: guarantee of maximum liability</i>	3,600	7,000
<i>Home Ownership Scheme: guarantee of mortgages</i>	5,092	13,525
<i>Asian Development Bank: uncalled capital and unencashed promissory notes</i>	363	447
<i>H.K. Building and Loan Agency: guarantee of notes issued</i>	400	500
<i>H.K. Nuclear Investment Company: loan guarantee</i>	—	325
<i>City Polytechnic: guarantee of bank loan</i>	260	260
<i>Gold coins</i>	298	400
<i>Demonetised currency notes</i>	10	10
<i>Total</i>	<u>17,047</u>	<u>26,230</u>

51. An assessment of our performance over the past five years 1980-81 to 1984-85 on the basis of four principles which we apply to the management of Hong Kong's public finances is at Appendix A of the printed speech⁽¹⁹⁾.

52. Having completed the background, I now present the Draft Estimates of Expenditure, the Revenue Estimates and my revenue proposals for 1985-86.

Estimates 1985-86

Draft estimates of expenditure

53. Having regard to the continuing deficit and the need steadily to reduce it, in November last I set a limit to General Revenue Account expenditure for 1985-86 of \$29.8 billion *excluding* additional commitments and transfers to the Funds. This represented an increase of no more than about 7.7 per cent on the current year's outturn. As real growth in the education, medical and social welfare sectors had to be included, and as additional resources had to be provided for the disciplined services, this meant virtually no prospect of growth for the majority of departments. Indeed in some cases there had to be reductions.

54. In the event after much hard bargaining the printed Draft Estimates that emerged provide just over \$29.4 billion, an increase of 6.3 per cent. This and some later percentage comparisons with expenditure in 1984-85 do not include the effects of any civil service salary increase that may be agreed for 1985-86.

55. There must be added a contingency allowance of \$1.8 billion for all additional commitments plus \$7.2 billion for transfers to Funds. The total is \$38.4 billion⁽²⁰⁾. Of this, the major provision sought is \$28 billion in respect of recurrent expenditure⁽²¹⁾.

(19) *The changes in the past few years arising from reductions in capital revenue and from increases in recurrent revenue have been reflected in performance against our guidelines and have highlighted the need to alter some of them. They are now being examined with this in mind.*

(20)	<i>Draft Estimates 1985-86</i> (\$ billion)
	Recurrent Expenditure 28.0
	Capital Expenditure 1.4
	Additional Commitments 1.8
	Transfers to Funds 7.2
	<u>38.4</u>

(21)	<i>Draft</i> <i>Estimates</i> 1985-86	<i>Historical ratio</i> 1980-81 to 1984-85
	(\$mn) (%)	(%)
(1) Personal Emoluments	10,066	36.0
(2) Personnel Related Expenses	2,353	8.4
(3) Departmental Expenses	3,247	28.5
(4) Other Charges	4,717	28.5
(5) Subventions	<u>7,602</u>	<u>27.1</u>
	Recurrent Expenditure 27,985	<u>100.0</u>
	Additional Commitments <u>1,700</u>	
	<u>Total Recurrent Expenditure</u> <u>29,685</u>	<u>100.0</u>

56. Personal emoluments at \$10.1 billion account for 36 per cent of recurrent expenditure. As before this provision makes no allowance for any salary adjustment that may be agreed. *If* required any funds needed will have to be found from within the \$1.7 billion additional recurrent commitments vote.

57. You, Sir, announced in October 1984 at the opening of this session of Legislative Council that it was necessary to stabilise the size of the public service and that the provision of additional resources to man essential new services would have to be offset by reductions elsewhere. The approved establishment of civil service posts shown in the Draft Estimates is 150 430⁽²²⁾ which includes 4 390 posts created during 1984-85. The policy of stabilising the size of the civil service during 1985-86 is being pursued. A total of 2 419 new posts has been agreed for essential new services mainly in the Medical and Health Department and the Police. All or most of this total will be offset during the coming year by the deletion of vacant posts in some departments and through our value for money programmes. The aim of the Administration is that the total establishment by the end of 1985 will be no greater than that at the end of 1984. There is still also scope for improving productivity in some areas. Consequently while we must recognise the need to expand some services and thus to provide additional resources, our aim for the future will be to find these without exceeding our current total establishment. This can only be achieved by cutting out waste, by increasing productivity and by eliminating unnecessary work even if it means rethinking policies. In this task the continuing co-operation of controlling officers is vital. I do not imagine that this policy will change much (if at all) in 1986-87.

58. Personnel related expenses at \$2.35 billion account for 8.4 per cent of recurrent expenditure compared with an average of 7.3 per cent 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.

59. Departmental expenses and other charges at \$8 billion account for about 28.5 per cent of recurrent expenditure, which is less than the average over the past five years.

60. Provision of \$7.6 billion for subventions represents 27.1 per cent of recurrent expenditure, compared with an average of 26 per cent over the past five year. This increase reflects continuing expansion in education and health. I hope that it will be noted.

(22) *Exclusive of 31 289 posts in the Housing and the General Expenses of the Civil Service heads, the personal emoluments of which are met by the Housing Authority, the UMELCO Office, the Senior Staff Course Centre, the Kowloon-Canton Railway Corporation, the Vocational Training Council, the Hong Kong Export Credit Insurance Corporation and the Urban Council.*

61. On capital account, the provision sought is \$8.6 billion. This includes \$7.2 billion for transfers to three of the Funds, with as usual the lion's share going to the Capital Works Reserve Fund. Last year I mentioned that there was no need to transfer funds to the Home Ownership Fund, because it had sufficient reserves as a result of internal generation of revenue. Again this year it will not be necessary to transfer any funds to the Home Ownership Fund. In fact it is our intention during the year ahead to move some \$400 million from this fund to General Revenue.

Capital Works Reserve Fund

62. The provision of \$5.8 billion sought for transfer to the Capital Works Reserve Fund together with an estimated \$4.4 billion surplus in the Fund at the end of 1984-85 are sufficient to cover the estimated expenditure of \$6.8 billion from the Fund during 1985-86 and to retain a prudent surplus at the end of the financial year⁽²³⁾.

63. The estimated expenditure from the Fund in 1985-86 on the Public Works Programme is \$6.8 billion. This exceeds the revised estimate for 1984-85 by about \$0.7 billion. On land acquisition the estimated expenditure for 1985-86 is \$0.9 billion, which is about \$0.2 billion more than the revised estimate for 1984-85⁽²⁴⁾.

Capital programme

64. The programme of works for 1985-86 takes account of agreed institutional, transport and land production projects which are ready to proceed and are within our total work capacity. There have been no cut backs. Total capital expenditure on transport and land and civil engineering projects in the Consolidated Account has moved respectively from \$2.2 billion and \$2.4 billion in 1983-84 to \$1.6 billion and \$1.8 billion in 1984-85 and an estimated \$1.7 billion and \$2.2 billion in 1985-86. Capital expenditure on projects in the water supply, public safety, recreation and culture, environmental protection,

(23) *The advance of \$1.45 billion to the consortium for the development of Tin Shui Wai needs to be recognised by the retention of at least \$1.5 billion in the Fund.*

(24) *The outstanding commitment (or overhang) in respect of projects in hand on 31 March 1984 was about \$18.8 billion. This was increased by about \$5.2 billion as a result of the injection of new projects during 1984-85, but reduced by roughly \$6.1 billion in expenditure. During 1985-86 work is scheduled to start on new projects having a total commitment value of about \$4.9 billion. The overhang on 1 April 1985 will be about \$22.8 billion. After allowing for the estimated expenditure during 1985-86 of \$6.8 billion, the outstanding commitment at 31 March 1986 cannot be less than \$16 billion, but in fact will certainly be much higher as further new works are approved during the year. This again represents a major commitment for the future.*

education and medical sectors has increased; in some cases substantially⁽²⁵⁾. All work in hand this year will proceed without interruption from the point of view of financial resources. In addition, new works will be injected having a total commitment value of \$4.9 billion.

65. The Special Committee on Land Supply has continued to recommend targets for land production and to monitor the achievement of those targets⁽²⁶⁾.

66. Government gross land production in 1985-86 is estimated to be 652 hectares as compared with 313 hectares in 1984-85⁽²⁷⁾. The reduction in estimated land production in 1984-85 from the original forecast of 523 hectares followed a review of the works schedule for the New Towns Development

(25) *Function*

Consolidated Account Capital Expenditure

	1983-84 <i>Actual</i> (\$mn)	1984-85		1985-86 <i>Estimate</i> (\$mn)	<i>Growth in expenditure over 1983-84†</i> (%)
		<i>revised estimate</i> (\$mn)			
<i>Transport</i>	2,151	1,602		1,683	-21.8
<i>Land & Civil Engineering</i>	2,424	1,838		2,230	-8.0
<i>Water</i>	586	507		648	+10.6
<i>Public Safety</i>	144	166		271	+88.2
<i>Recreation and Culture</i>	593	726		846	+42.7
<i>Environmental Protection</i>	399	445		507	+27.1
<i>Education*</i>	632	942		911	+44.1
<i>Medical*</i>	419	289		498	+18.9

* *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 1984-85 figures are not yet available.*

(26) *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) assessing the implications of achieving balanced industrial development at the sub-regional level and examining the prospect of commercial office decentralisation in the context of current plans and proposals;*
- (c) monitoring the progress of further studies on implementing the Land Development Corporation concept; and*
- (d) monitoring the temporary use of vacant Crown land sites and considering the possibility of rezoning undeveloped Government, Institutional and Community (GIC) sites in the urban area for private development.*

(27) *Excluding 10.5 hectares and 11.2 hectares respectively for land formed by the Hong Kong 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 1986-87 to 1988-89, total production is estimated to be 1 683 hectares⁽²⁸⁾.

Public housing

67. Of the total Consolidated Account capital expenditure in 1985-86, \$3.9 billion will be spent on the construction of housing, including temporary housing areas, compared with the revised estimate of \$3.5 billion for 1984-85. 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⁽²⁹⁾.

(28)	Year	Production (Hectares)
	1986-87	597
	1987-88	730
	1988-89	356
		<u>1 683</u>

(29)		1984-85 Revised estimates (\$mn)	1985-86 Draft estimates (\$mn)
(1)	Rental Housing Programme (*):		
	Drawings from Development Loan Fund (†)	1,650	1,800
	Housing Authority's own resources (‡)	600	1,000
	New Territories Development Department (§)	7	1
	Asian Development Bank Loans ()	25	21
	Total (1)	2,282	2,822
(2)	Home Ownership Scheme(¶)	1,193	987
	Total (1) + (2)	3,475	3,809
(3)	Temporary Housing Areas	56	97
	Total (1) + (2) + (3)	<u>3,531</u>	<u>3,906</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 expenditure on the Middle Income Housing Programme and the Private Sector Participation Scheme. For the Home Ownership Scheme itself, the expenditure figures include \$99 million and \$107 million for 1984-85 and 1985-86 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.

68. The Government's policy is that the public housing programme should achieve a level of production of over 40 000 flats a year for rental and sale. This will comprise the Housing Authority's rental flats and flats for sale under the Home Ownership Scheme, flats sold under the Private Sector Participation Scheme, and the Housing Society's production through the development of rental housing and the Urban Improvement Scheme⁽³⁰⁾. The forecast of Housing Authority production in the four years 1985-86 to 1988-89 exceeds production in the previous four years by 2.8 per cent. The total production in the next four years including P.S.P.S. flats and Housing Society flats is estimated at 178 000 flats, with an average completion rate of 44 000 a year⁽³¹⁾. This will have major impact on many now waiting patiently for decent housing. In the next four years we shall be providing new, good quality subsidised housing for over 712 000 people. We should be proud of this.

69. As regards the Home Ownership Scheme, 49 810 flats out of a total of about 56 190 flats in the first six phases will have been completed by the end of 1985-86. Work is in hand on the balance and on a further 20 830 flats in Phases VII, VIII and IX⁽³²⁾.

Education

70. Sir, the Consolidated Account expenditure on education⁽³³⁾ in 1985-86 will be \$7.81 billion. This is 17 per cent of total Consolidated Account expenditure and a 10.7 per cent increase over 1984-85. Of this amount we will spend \$725 million on constructing and equipping new buildings, which is similar to that in 1984-85. A major footnote to the printed speech illustrates the financing of our policies with regard to primary and secondary education

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

(31)

	Production of Flats				Total
	HA Rental	HOS	PSPS (incl. MIH)	HS (rental and UIS)	
1981-82	31 346	4 399	—	3 735	39 480
1982-83	27 879	7 508	760	442	36 589
1983-84	28 564	7 877	2 240	10	38 691
1984-85	26 342	10 168	1 408	443	38 361
1985-86	28 273	8 746	11 902	225	49 146
1986-87	30 264	6 460	3 708	1 892	42 324
1987-88	30 418	5 930	3 800	1 684	41 832
1988-89	32 281	5 698	3 830	3 269	45 078

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

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

including the phasing out of the JSEA, to vocational training, and to tertiary education⁽³⁴⁾. I do hope that those who clamour for even faster advances will study the huge sums of money involved, and ponder how more could be found.

Medical and health

71. Within the total Consolidated Account expenditure in 1985-86, it is estimated that \$4 billion will be spent on government and subvented medical services. This represents a substantial increase of 20 per cent on the revised estimate of expenditure for 1984-85. Again there is a footnote in the printed speech giving details of various hospital programmes⁽³⁵⁾.

Social welfare

72. Consolidated Account expenditure in 1985-86 on social welfare services⁽³⁶⁾, including subventions to voluntary agencies, will be about \$2.53

(34) *The Government's policy is to provide primary schools within a reasonable walking distance for all primary school age children; to provide a subsidised place for all Primary 6 leavers; 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; and to phase out the Junior Secondary Education Assessment by 1991. To help meet these objectives, ten primary schools, providing 19 200 places mainly in the new towns, and five secondary schools providing initially 1 280 Form I and 640 Form IV places will be completed in 1985-86.*

As regards vocational training, work has started on the building of two new technical institutes, one at Sha Tin and the other at Tuen Mun, and work on a third new institute at Chai Wan will start this year. When completed, the three new institutes will provide an extra 5 000 full-time and 21 000 part-time places. A training centre complex at Kowloon Bay has been completed and another at Kwai Chung will be completed in mid 1985. The complexes will provide 8 000 training places a year in nine industrial training centres. In addition, the Vocational Training Council will complete a Gas Industry Training Centre at Kwai Chung, a Precision Tooling Training Centre at Kowloon Bay, and an Insurance Training Centre in Wan Chai in 1985-86. These three training centres will provide about 1 300 training places a year. The total grants to the Vocational Training Council will increase from \$404 million in 1984-85 to \$433 million in 1985-86.

Expansion of tertiary education includes new buildings for the University of Hong Kong and the Chinese University of Hong Kong and the development of courses at the City Polytechnic in its 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 in 1985-86. Total expenditure on the universities, the polytechnics and the Baptist College will be \$1.71 billion in 1985-86 compared with \$1.54 billion in 1984-85.

(35) *The \$645 million Prince of Wales Hospital commenced operations in May last year and is expected to be fully operational by April next year. It will have 1 446 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 in November last year site formation works started for a major new hospital in the Eastern District of Hong Kong Island. In the subvented sector, development programmes are under way in subvented hospitals to expand and upgrade their facilities. Approval has been obtained for a major extension of 760 beds to the United Christian Hospital.*

(36) *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.*

billion, representing an increase of over 11 per cent on the revised estimate of expenditure for 1984-85⁽³⁷⁾.

Revenue estimates

73. We come now to the revenue estimates which for 1985-86 *as printed* anticipate total collections of \$36.2 billion; that is to say \$33.7 billion in recurrent revenue and \$2.5 billion in capital revenue. The ostensible deficit is therefore \$2.2 billion⁽³⁸⁾. New revenue measures are clearly inevitable.

74. Recurrent revenue at \$33.7 billion is estimated to increase by \$3.4 billion or 11.3 per cent over the revised estimate for 1984-85. Earnings and profits taxes are expected to yield \$14.8 billion⁽³⁹⁾, which is an increase of over 14 per cent on 1984-85 reflecting the full year impact of the increases in tax rates introduced in last year's Budget aided by an improving economy. Indirect taxes are estimated to grow by 15 per cent to a total of \$9.7 billion due mainly to higher yields from betting taxes and from stamp duty. From all other recurrent revenue, I anticipate a yield of \$9.2 billion, an increase of only 4 per cent. A substantial improvement in yield from fees and charges is partly offset by lower interest receipts on the Government's financial assets.

(37) *The basic rates for public assistance and the special needs allowances were increased by 13.3 per cent 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 \$576.6 million is included in the draft Estimates for public assistance compared with the revised estimate of \$575.5 million for 1984-85 representing the fruits of an improving economy. At the end of 1984, there were 59 100 households on public assistance. As regards the special needs allowances, the provision in the draft Estimates is \$906.6 million, compared with the revised estimate of \$838.7 million for 1983-84. This allows for an estimated average monthly caseload of about 217 800 for old age allowance and 46 600 for disability allowance compared with 211 600 and 43 900 respectively at the end of 1984*

(38)	\$mn	\$mn
<i>Revenue:</i>		
<i>Recurrent</i>	33,671	
<i>Capital</i>	<u>2,530</u>	<u>36,201</u>
<i>Expenditure:</i>		
<i>Recurrent</i>	29,685	
<i>Capital</i>	<u>8,677</u>	<u>38,362</u>
<i>Surplus on recurrent account</i>		3,986
<i>Deficit on capital account</i>		-6,147
<i>Overall deficit</i>		<u>-2,161</u>

(39)	<i>Actual</i> 1983-84 (\$mn)	<i>Revised</i> 1984-85 (\$mn)	<i>Estimate</i> 1985-86 (\$mn)
<i>Profits tax</i>	6,939	7,800	8,630
<i>Salaries tax</i>	3,399	4,110	5,000
<i>Personal assessment</i>	182	200	230
<i>Interest tax</i>	301	65	65
<i>Property tax</i>	<u>602</u>	<u>810</u>	<u>900</u>
	<u><u>11,423</u></u>	<u><u>12,985</u></u>	<u><u>14,825</u></u>
<i>Profits tax:</i>			
<i>Corporations</i>	6,124	6,830	7,550
<i>Other businesses</i>	815	970	1,080

75. The estimate of capital revenue for 1985-86 is \$2.5 billion. This includes the transfer of \$400 million from the Home Ownership Fund. The major element is still land revenue but this may have to be differently accounted for in the near future. Arrangements are being made for the premium income from land transactions to be paid directly into the Capital Works Reserve Fund instead of passing it through the general revenue account. This change is necessary in order to satisfy the requirements of Annex III to the Joint Declaration.

76. Land revenue is always difficult to estimate and is rendered more so in 1985-86 by the need to estimate that portion of the revenue which has to be ascribed to the future SAR Government. I estimate that the gross land revenue in 1985-86 will be \$2 billion, of which about \$300 million will be set aside for the future SAR Government leaving net land revenue of \$1.7 billion. Much remains, however, to be settled as regards the detailed way in which the sharing of gross land revenue is to be carried out, which may well affect the net estimate.

77. The gross estimate of \$2 billion for land revenue compares with a revised estimate of \$4.2 billion in 1984-85 and actual revenue of \$2.3 billion in 1983-84. As I warned before⁽⁴⁰⁾ the land revenue in 1984-85 was considerably distorted by the final instalment of \$1.9 billion in respect of the Exchange Square. There was also a number of fairly large private treaty grants to the MTRC, although I have assumed that the largest of these, amounting to about \$450 million for Pak Chai Wan, will in fact now fall in 1985-86. A continuing factor depressing the 1985-86 estimate by about \$700 million is the extent to which the so-called monetised Letters 'B' are being used for land purchases. Currently the proportion of Letters 'B' to premium is about 90 per cent but it is estimated that this proportion will reduce during 1985-86 as the supply of these land entitlements diminishes. Consequently for 1985-86 we have assumed a factor of 75 per cent for all but two large sites in the urban area where we have assumed a 90 per cent payment by Letters 'B'. Other details relating to land sales and revenue in 1984-85 are footnoted in the printed speech⁽⁴¹⁾.

(40) 1984 B.S. paragraphs 75 and 78.

(41) *The programme for the sale of land in 1984-85 by auction and tender was the largest component of land revenue from which we anticipated \$0.73 billion excluding instalments. It consisted of 33 hectares together with a reserve list of 32 hectares. As usual the programme has undergone some changes during the year and the latest programme consists of 22 hectares, with a revised estimate, excluding instalment payments, of \$0.7 billion. Major sales during the year included a site on Canton Road for development to include a terminal for China ferry services, two sites on Science Museum Road and two sites for Private Sector Participation Scheme projects in Tai Po and Sha Tin. Because of the \$1.9 billion instalment payment for Exchange Square, total revenue in 1984-85 from sales by auction and tender including instalments is expected to be \$2.91 billion.*

The revised estimate for revenue from private treaty grants in 1984-85 is \$0.68 billion. Major grants expected to be completed include two sites in Shau Kei Wan and Fortress Hill for development by MTRC and a site in Tai Po for the development of a second gas plant by the Hong Kong and China Gas Co. Ltd. In addition, \$390 million has been received under modifications for the redevelopment of the Whampoa Dockyard bringing total revenue in 1984-85 for modifications and regrants to \$0.61 billion.

78. The land sales programme for 1985-86 consists of 34 hectares. In addition there is a reserve list of sites, totalling 46 hectares, which will only be put on sale if a developer indicates a firm interest⁽⁴²⁾. I expect, after sharing, net revenue of \$415 million from auction and tender, \$780 million from private treaty grants and \$80 million from modifications and regrants. Of the total net estimated revenue from land transactions in 1985-86 of \$1.7 billion, \$425 million is in respect of instalment payments on previous sales.

Revenue measures

79. Sir, I turn now to new revenue measures. The intention is to finance the ostensible deficit of \$2.2 billion by drawing \$1 billion from free fiscal reserves and by finding the balance from increased revenue. I need now to explain the rationale underlying the various measures which I shall propose in order to raise the necessary net \$1.2 billion. No taxpayer likes additional tax burdens, unless they are placed on others while he derives the benefit. I believe, however, that there is general support for a steady return to balanced budgets. We are therefore discussing means not ends.

80. Firstly, it is important that the community as a whole understands that equity and efficiency are guiding principles. Budgets are not just a string of figures.

81. Secondly, manufacturers, exporters, traders, bankers, the work force— indeed all who create wealth for Hong Kong—must not be discouraged.

82. Thirdly and consequently, as direct tax rates were raised only a year ago it is imprudent to consider another increase now. It seems to me to be important yet again to acknowledge that enterprise and hard work are stimulated by low direct taxation and by confidence that it will remain low.

83. Fourthly, it is clear that Hong Kong is not alone in recognising the trend towards, though not of course total dedication to, indirect taxation. This offers a persuasive alternative to increased direct taxation.

84. Fifthly, taxation of non-essentials fits in with this trend, though subjectivity is obviously a problem. There are also pragmatic issues to be considered.

(42) *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>1984-85</i>	<i>1985-86</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1984-85</i>	<i>1985-86</i>
	<i>(Hectares)</i>		<i>(Hectares)</i>		<i>(Hectares)</i>	
<i>Urban areas</i>	<i>3.0</i>	<i>3.2</i>	<i>11.9</i>	<i>12.7</i>	<i>14.9</i>	<i>15.9</i>
<i>New Territories</i>	<i>14.6</i>	<i>15.1</i>	<i>31.8</i>	<i>48.9</i>	<i>46.4</i>	<i>64.0</i>
	<i>17.6</i>	<i>18.3</i>	<i>43.7</i>	<i>61.6</i>	<i>61.3</i>	<i>79.9</i>

85. This is neither the place nor the time for a contentious, philosophical discourse on taxation. I ask Members only to believe that the Administration has sought a reasoned and balanced approach to the budgetary deficit that confronts us. Obviously there will be scope for debate. But I trust at least that our motivation is patent.

Personal Taxation

86. When I presented my last budget I undertook to reconsider this year the salaries tax thresholds⁽⁴³⁾. Having done so I have four concessions to offer in the area of personal taxation.

87. I propose—

firstly that the additional married allowance be increased from \$15,000 to 17,000, thus increasing the total personal allowances for a married couple to \$58,000;

secondly that the child allowances be increased, for a first child from \$8,000 to \$9,000 and for a second child from \$5,500 to \$6,000;

thirdly that the additional allowance for a dependent parent residing with the taxpayer be increased from \$2,000 to \$3,000, thereby increasing the total allowance for each dependent parent in such cases to \$11,000;

fourthly that the fourth band in the Second Schedule of the Ordinance, that is to say the band to which the 20 per cent rate of tax presently applies, be widened from \$10,000 to \$20,000. This will defer the point at which the 25 per cent rate comes into play by \$10,000 of income and, incidentally, increase the income levels at which taxpayers enter the standard rate zone.

88. Examples of the effects which these concessions will have for various categories of taxpayers are set out in Appendices D, E and F to the printed version of the Budget speech⁽⁴⁴⁾.

89. I believe that Members and, indeed, the public at large will welcome these measures which are designed to benefit some of the less well-off salaries taxpayers including some of the middle income group—the so-called ‘sandwich society’. There will no doubt be those who will argue that these concessions are inadequate. To them I can only say that, given the prospect of another deficit in the coming year, *any* tax concessions at this time should be regarded as generous.

(43) 1984 B.S. paragraph 126. See also paragraph 18 of the winding up speech.

(44) A typical family comprising a married couple and two children with a monthly income of, say, \$10,000 will in future pay tax of \$6,400 annually, compared with a present liability of \$7,625. A similar family will not now enter the standard rate zone until total annual income reaches \$296,875 compared with the present level of \$279,687. A married couple on a monthly income of, say, \$20,000 with two children and two dependent parents resident with them will pay \$30,750 salaries tax per annum rather than the present annual bill of \$32,625.

90. I propose to introduce these new concessions with effect from the year of assessment commencing on 1 April 1985. They will thus apply for the first time to Provisional Salaries Tax assessments for the fiscal year 1985-86 as well as Final Tax assessments for that year; and to 1985-86 Personal Assessments also. This represents a departure from precedent. In the past, adjustments to tax thresholds have invariably been applied not only to the forthcoming fiscal year, but to final tax liabilities for the current year also. Given our present budgetary situation I believe that Members will agree that my proposals are sufficiently generous. Their cost will be \$150 million in 1985-86 and \$210 million in a full year⁽⁴⁵⁾.

91. I have no further proposals on direct taxation. All other measures relate to indirect taxes of one sort or another—mainly consumer based.

Indirect Taxation

Betting duty

92. I turn first to the betting duty; and I acknowledge that this will be the third successive year in which for budgetary reasons this duty needs to be increased.

93. I propose—

firstly that the duty on standard bets be increased from 9 per cent to 9.5 per cent; and

secondly that the duty on exotic bets be increased from 15 per cent to 16 per cent.

94. On the two previous occasions when the betting duty was increased, the Jockey Club, which has always been understanding, bore the whole of the increases on standard bets: the increases on exotics were shared between it and the punters. This meant that the larger share of the increase was borne by the Jockey Club. It is not reasonable to expect it again to bear the main burden of the further increases proposed this year. Accordingly, it is my intention that the 0.5 per cent increase on standard bets should be shared equally between the Club and the punter and the 1 per cent increase on exotic bets as to 0.4 per cent by the Club and 0.6 per cent by the punter. I am, of course, aware of the need to ensure that the betting public is not encouraged to abandon the Jockey Club tote (*laughter*) in favour of the illegal bookmakers, but this is not a likely consequence of these proposals⁽⁴⁶⁾.

(45) *If the proposed concessions are brought into law no less than 77 000 persons will benefit, i.e. — 17 000 taxpayers who were previously liable to Salaries Tax will now be exempt, and 20 000 persons who would have become liable to Salaries Tax will be kept out of the tax net. 40 000 persons who elect to be personally assessed will also benefit through reduced liability.*

(46) *So far as standard bets are concerned—the reduction in the prize pool will be only 25 cents for every \$100 wagered and for exotics (where the dividend yields are generally much higher) the reduction in the prize pool will be only 60 cents for each \$100 wagered.*

95. I propose to introduce these changes with effect from 1 April 1985. They are estimated to produce an additional \$120 million in 1985-86⁽⁴⁷⁾.

Air passenger departure tax

96. In my 1983 Budget I introduced a new tax on passengers departing from Hong Kong by air. After two years the time has come to adjust the level of this fruitful tax in order to restore the per capita revenue yield in real terms. I propose to increase the current rate of \$100 for an adult and \$50 for a child to round figures of \$120 and \$60 respectively as from 1 April. I expect \$90 million in additional revenue in 1985-86 from this measure.

Business registration fee

97. My next proposal concerns the business registration fee. The annual charge is currently \$350, though small businesses whose turnover does not exceed a certain limit are exempted. By any standard this fee represents only a fractional percentage of normal business cost and, as I have mentioned before⁽⁴⁸⁾, for a variety of reasons many businesses in Hong Kong make little or no other contribution to the exchequer. I thus propose to raise the business registration fee to \$500. This increase will take effect from 1 April 1985 and will generate an additional \$55 million in 1985-86. I must add that the \$100 levy to establish a Protection of Wages on Insolvency Fund is wholly unrelated to revenue issues.

Fees and charges

98. I mentioned in last year's Budget speech⁽⁴⁹⁾ that a computerised system had been established to provide assistance in the regular updating of all Government fees and charges. It has worked well and most fees and charges have now been reviewed and duly updated. It is essential to maintain the yield in real terms if we are to continue with low rates of direct taxation.

99. In 1981-82 revenue from Government utilities and fees and charges represented 9 per cent of the total revenue. This year the percentage has increased to 14 per cent and I expect it to increase further to 17 per cent by 1987-88 as we progressively update. Given the growing importance that revenue from this source is assuming in the overall budget strategy, we will endeavour to maintain or improve the real yield through more frequent but smaller increases. Sudden shocking increases are rightly unpopular. We are also moving from reviews of isolated items towards major departmental reviews whereby controlling officers are encouraged to consider value for money and to take the initiative in proposing rationalised packages for establishing their fees

(47) *Having regard to the present ratio of standard to exotic bets invested on the totalisator, it is anticipated that this will be contributed in approximately equal proportions by the punters and the Jockey Club.*

(48) *1983 B.S., paragraph 106.*

(49) *1984 B.S., paragraph 111.*

and charges in the context of overall Government policy. Services should be paid for by those who use them.

100. Last year the estimates showed revenue of \$4.78 billion from utilities and fees and charges. Our latest outturn forecast suggests that we will exceed this target by some \$260 million.

101. Now, for 1985-86 I propose to raise an estimated \$5.8 billion from utilities and fees and charges. Most of this will be forthcoming without any adjustment to existing fee and charge levels. In addition, however, to the proposed increase in business registration fees, approximately \$415 million must be found elsewhere. I expect to raise \$220 million through departmental reviews currently under consideration, including Water Supplies, Marine, Customs and Excise and the Registrar General's Department. The remaining \$195 million will be derived from relatively small increases in the following:

postal and telecommunication fees and charges;

tolls for Government-operated tunnels;

vehicle and driving licences; and

passenger embarkation fees and berthing fees for Macau ferry services.

At Appendix G to the printed speech there are full details.

Postal and telecommunication fees and charges

102. The majority of postal charges have not been reviewed for two or more years. Since the real values of these charges should not further be eroded, I shall be proposing a package of moderate increases that is estimated to yield an additional \$70 million in revenue to take effect as from 2 September 1985 ⁽⁵⁰⁾. This includes a tidying up of telecommunication licence fees.

Transport increases

Tolls for Government-operated tunnels

103. My second proposal concerns tolls for Government-operated tunnels. Last year, by aligning and rationalising the Lion Rock Tunnel tolls with those at the Aberdeen Tunnel, it was possible to improve the return on assets employed, even though at 2.8 per cent it is still too small. Further to improve this situation (and accepting that the operational pattern should not be materially affected), I now propose that the current flat rate of \$2 should be increased to \$3 for all types of vehicles using the Lion Rock and Aberdeen Tunnels with effect from 1 April 1985. The Aberdeen Tunnel rate of \$2 has not been revised since it was opened.

(50) Included are increases to inland mail rates from 40 cents to 50 cents for the 30 gram category, registration fees from \$4 to \$5 and airmail rates by some 30 per cent. The Zone 2 airmail rate to areas other than the Far East has not been revised since 1953.

104. This proposal should yield an additional \$28 million. The increase in toll as it affects buses represents a tiny percentage of their operating costs; thus there should be no effect on passengers.

Vehicle and driving licences

105. My third proposal is to increase with immediate effect the fees for the annual registration of motor vehicles, provisional and full driving licences and driving tests. This does not include licence fees for taxis, which were only increased in January this year.

106. I am well aware of the burden laid on private motorists in recent years and of the concern that has been loudly expressed on their behalf. I thus propose an approximate increase of 10 per cent requiring much rounding off. This is considerably less than the rate of inflation since the last review in 1983. For example, in the case of a small car of up to 1 500 cc the effect will be an increase from \$2,300 to \$2,500.

107. The additional revenue yield for 1985-86 is estimated to be \$67 million.

Passenger embarkation fees and berthing fees for Macau ferry services

108. My fourth and last specific proposal concerns the passenger embarkation and berthing fees for Macau ferry services.

109. During recent years the Government has invested considerable additional resources in order to cope with the growth in passenger movements at the Macau ferry terminals. The revenue derived from passenger embarkation and berthing fees, which have not been revised since 1975, is insufficient to recover operating costs let alone provide any return on our investment. It is not fair that the general taxpayer should subsidise those who visit Macau. If we sought to redress the situation in one step, the increases would need to be very steep indeed. This is a fine illustration of the need for more frequent adjustments. As a first measure, therefore, I propose to increase passenger embarkation fees from \$8 to \$15 and the main berthing fees from \$1 to \$2 a ton, both taking effect to coincide with the opening of the new Macau ferry terminal in about June 1985. Assuming ten months' yield, additional revenue for 1985-86 should amount to \$30 million.

110. There are, of course, other land and sea terminals where operating costs are not being recovered. We intend to have a detailed look at them in the near future, but I am reluctant to raise further revenue from those using patently inadequate facilities. The time for change will come when decent buildings are available.

Dutiable commodities

111. I turn now to duties.

Imported hydrocarbon oils

112. The duty rates on hydrocarbon oils were last revised in 1983⁽⁵¹⁾. I propose to increase the duty rate on motor spirit from \$2 to \$2.20 a litre and on diesel oil for road vehicles from \$1 to \$1.10 a litre. These increase of 10 per cent each are again much less than required to maintain the revenue yield in real terms in the light of inflation since 1983. Falling international oil prices could lessen the burden.

113. I do not intend to revise the current refund on diesel oil to the bus companies. It will remain at 65¢ a litre. The increased duty will cost the franchised bus companies about \$11.1 million in a full year. Since the effect will be to increase costs by an average of about one half of 1¢ a passenger, it should have little or no effect on fares. These two increases are effective from this afternoon. I estimate that the additional yield in 1985-86 will be about \$110 million.

Intoxicating liquor

114. In 1984 a new basis of levying duty on European type wines and spirits was introduced by lowering the specific rates and imposing a uniform ad valorem rate of 20 per cent⁽⁵²⁾. No change is proposed this year. There have been far greater reductions in sales of brandy and whisky than expected. This duty is levied purely for fiscal reasons. There is no point in raising taxation if lower revenue results.

115. I have however four new proposals. The first concerns beer. I propose to increase the basic rate for both local and imported beer from \$66 and \$81.40 a hectolitre respectively to a unified basic rate of \$120. The existing differential in the duty rate of 23.3 per cent between locally manufactured and imported beer will therefore be eliminated. Increases in the duty will range from 47 per cent to 82 per cent⁽⁵³⁾ thus theoretically adding 23¢ to 31¢ to the retail price of a can of

(51) The duty on motor spirit was increased by 70¢ a litre from 50¢ a litre to \$1.20 in May 1982 for transport policy reasons. In the 1983 Budget it was increased again by a further 80¢ to \$2.00. The duty rate on diesel oil for road vehicles was not altered in May 1982. In the 1983 Budget it was increased from 35¢ to \$1 a litre but the 65¢ increase was refunded to the franchised bus companies.

(52) 1984 B.S. paragraph 107.

(53) The increases in the duty rate per hectolitre will be—

	Present dutyrate \$/hL	Proposed duty rate \$/hL	% increase in basic rate
Imported beer original gravity not exceeding 1030°	81.40	120	47
in addition for every degree over 1030°	2.20	4	82
local beer original gravity not exceeding 1030°	66.00	120	82
in addition for every degree over 1030°	2.20	4	82

beer⁽⁵⁴⁾. These increases are effective this afternoon. I estimate the additional revenue yield in 1985-86 to be \$125 million.

116. My second proposal is to increase the duties levied on non-European type wines and spirits. The basic rates for these were last raised in 1983⁽⁵⁵⁾. They were excluded in 1984 when an ad valorem system of duty was introduced. I propose to raise the basic duty rates from \$317 and \$292 a hectolitre for imported and local spirits respectively to a unified basic rate of \$400. In respect of non-European type wines, I propose to raise the basic duty rates from \$628 and \$584, imported and local respectively, to \$780⁽⁵⁶⁾. These increases are again effective from this afternoon. I estimate that the net additional revenue yield in 1985-86 will be \$13 million⁽⁵⁷⁾. The amount is small. This is a tidying up operation.

(54) *Local beer is produced for sale at 1048° OG and the duty was \$1.056 per litre or \$0.369 per can. Duty on imported beer at 1048° OG was \$1.21 per litre or \$0.423 per can. The differential rate in favour of local beer was about \$0.054 per can whereas the difference in retail price was much greater. Recent statistics indicate a trend of increasing consumption of locally produced beer. Assuming that this increase in duty is passed on in full to the consumer, the effect on arbitrarily selected brands of beer would be—*

	<i>Approximate retail price per can (\$)</i>	<i>Duty increase (\$)</i>	<i>% increase</i>
<i>Local</i>			
<i>Carlsberg</i>	2.10	0.31	14.8
<i>San Miguel</i>	1.80	0.30	16.8
<i>Imported</i>			
<i>Tsingtao</i>	2.20	0.26	11.8
<i>Heineken</i>	2.90	0.26	9.0
<i>Pabst Blue Ribbon</i>	2.50	0.25	10.0
<i>Kirin</i>	2.20	0.23	10.5

(55) *1983 B.S. paragraph 92 and Appendix D.*

(56) *The detailed increases will be—*

	<i>Old rate \$/hL</i>	<i>New rate \$/hL</i>	<i>% increase in basic rate</i>
<i>Non-European type spirits* of Hong Kong origin</i>	292	400	37
<i>Non-European type spirits* of other origin</i>	317	400	26
<i>Non-European type wines of Hong Kong origin</i>	584	780	34
<i>Non-European type wines of other origin</i>	628	780	24
<i>Non-European type wines or spirits of Hong Kong origin where the alcoholic strength by volume exceeds 30 per cent, for every 1 per cent in excess an additional</i>	12	13.30†	11
<i>Non-European type wines or spirits of other origin where the alcoholic strength by volume exceeds 30 per cent, for every 1 per cent in excess an additional</i>	13	13.30†	2

* *includes Chinese type spirits, Sake and Arrack.*

† *The proposed increase takes account of an historical anomaly in the rate and will ensure that the alcoholic content, whatever it may be, of these wines or spirits will attract, proportionally, the same element of duty.*

(57) *Assuming that these increases are passed on in full to the consumer, a \$9 bottle of imported Chinese type spirits would increase by 45¢ ; an \$8.70 bottle of local spirits would increase by 65¢ .*

117. My third and fourth proposals in respect of intoxicating liquor and methyl alcohol are further minor tidying-up exercises to introduce a consistency between the rates applied to different types of liquor. They are to raise the basic duty rates for ethyl and methyl alcohol respectively to a unified basic rate of \$400 a hectolitre effective this afternoon⁽⁵⁸⁾. I assume no consumer resistance and estimate the net additional revenue yield in 1985-86 to be \$2 million.

Imported tobacco

118. For fiscal reasons alone the duty rates on imported tobacco were increased fourfold in 1983⁽⁵⁹⁾. This resulted in an increased cash differential between unmanufactured raw tobacco and imported manufactured cigarettes. During 1984 and indeed recently numerous representations have been made to the Government by and on behalf of some importers of US cigarettes concerning this differential. Allegations of protectionism which have been levelled against the Hong Kong Government in this regard must be taken seriously—but against the background that in 1984 imported cigarettes commanded a 66 per cent share of the market. After careful consideration I propose this year to increase the duty on imported cigarettes and imported raw tobacco from \$178 and \$131.40 a kilogram respectively to \$210 and \$170. The increase in the duty rate applied to imported cigarettes covers inflation since the last increase. The actual retail price to the consumer should increase much less

(58) *Duty shall be payable on the following types of liquor at the following rates per hectolitre measured at a temperature of 20 degrees Celsius—*

	Present duty rate		Proposed duty rate	% increase in basic rate	
	H.K. origin	Other origin		H.K. origin	Other origin
	\$/hL	\$/hL	\$/hL		
<i>Ethyl alcohol, and admixtures containing ethyl alcohol</i>	292	317	400	37	26
<i>and in addition for every 1 per cent by which the alcoholic strength by volume exceeds 30 per cent</i>	12	13	13.30	11	2

The Commissioner of Customs and Excise may assess duty on any quantity of liquor of less than 12 litres imported at any time in one consignment at \$85.00 a litre.

	Present duty rate	Proposed duty rate	% increase in basic rate	
	\$/hL	\$/hL		
<i>Methyl alcohol, and admixtures containing methyl alcohol and in addition for every 1 per cent by which the alcoholic strength by volume exceeds 30 per cent</i>		324	400	24
		13	13.30	2

(59) 1983 B.S., paragraph 95.

than the duty rate. Examples are provided in a footnote to the printed speech⁽⁶⁰⁾. The proposed higher increase of 29 per cent for imported raw tobacco will reduce the differential to an all time low of 23.5 per cent since its introduction in 1949⁽⁶¹⁾. However, I must warn the tobacco trade that during 1985 I will review the merits of imposing a pure ad valorem duty on tobacco, following a similar implementation in respect of liquor in 1984. The same considerations, namely logic and equity, could be applied.

119. In respect of other tobacco products I propose to increase the basic duty rate on cigars from \$175 a kilogram to \$210, on Chinese prepared tobacco from \$33 a kilogram to \$40 and on smoking tobacco from \$140 a kilogram to \$170. All these tobacco increases are effective from this afternoon. Taking consumer resistance into account I estimate an additional \$110 million in revenue yield in 1985-86 as a result of these proposals.

Cosmetics

120. Sir, next I propose to reintroduce, effective this afternoon, a 25 per cent ad valorem duty on the CIF price for imported, or wholesale price for locally produced, cosmetics. This duty, which was first introduced in 1947, was abolished in 1959 as a result of smuggling, under-declaration of FOB values and

(60) *The effect on arbitrarily selected brands will be—*

<i>Description</i>	<i>Packing</i>	<i>Approximate retail price</i>		<i>Duty increase (\$)</i>	<i>% increase</i>			
		<i>(\$)</i>	<i>(\$)</i>					
<i>Imported Cigarettes</i>								
<i>Kent</i>	<i>20s</i>	<i>7.00</i>	<i>0.50</i>	<i>0.50</i>	<i>7.1</i>			
<i>Marlboro</i>	<i>20s</i>	<i>7.00</i>	<i>0.50</i>	<i>0.50</i>	<i>7.1</i>			
<i>Viceroy</i>	<i>20s</i>	<i>6.50</i>	<i>0.50</i>	<i>0.50</i>	<i>7.7</i>			
<i>Winston</i>	<i>20s</i>	<i>6.50</i>	<i>0.50</i>	<i>0.50</i>	<i>7.7</i>			
<i>Locally Manufactured Cigarettes</i>								
<i>Double Happiness</i>	<i>20s</i>	<i>4.50</i>	<i>0.70</i>	<i>0.70</i>	<i>15.6</i>			
<i>Good Companion</i>	<i>20s</i>	<i>4.50</i>	<i>0.60</i>	<i>0.60</i>	<i>13.3</i>			
<i>Hilton</i>	<i>20s</i>	<i>4.50</i>	<i>0.55</i>	<i>0.55</i>	<i>12.2</i>			
<i>Cigars</i>								
<i>Alhambra Coronas</i>	<i>25s</i>	<i>98.00</i>	<i>6.60</i>	<i>6.60</i>	<i>6.7</i>			
<i>Chinese Prepared Tobacco</i>								
<i>Double Swallow</i>	<i>1 tael</i>	<i>3.00</i>	<i>0.22</i>	<i>0.22</i>	<i>7.3</i>			
<i>Other Manufactured Tobacco</i>								
<i>Mixture No. 79</i>	<i>7 oz</i>	<i>64.00</i>	<i>6.00</i>	<i>6.00</i>	<i>9.4</i>			
<i>Copenhagen Snuff</i>	<i>1.20 oz</i>	<i>14.00</i>	<i>1.00</i>	<i>1.00</i>	<i>7.1</i>			
(61) <i>Year</i>	<i>1949</i>	<i>1960</i>	<i>1964</i>	<i>1966</i>	<i>1974</i>	<i>1975</i>	<i>1978</i>	<i>1983</i>
<i>per cent difference between the rates imposed on imported cigarettes and imported raw tobacco</i>	<i>60.0</i>	<i>40.9</i>	<i>48.3</i>	<i>36.3</i>	<i>36.0</i>	<i>24.2</i>	<i>35.2</i>	<i>35.5</i>

false returns by local manufacturers. I am now persuaded that these problems no longer obtain in present day circumstances. The cosmetics industry is widely spread with rapidly changing products. Most are imported. Some are manufactured here. It has not been easy to draft a definition of cosmetics which is wholly unambiguous and watertight. We have done our best. To have conducted consultations in advance would not have resolved all problems; and rather obviously would have enabled the trade to stock up. Thus bringing this duty into effect today must be viewed as a revenue protection measure. Customs and Excise has prepared for this implementation carefully and will assist the trade in the inevitable problems which will arise. The Service has, during 1984, gained invaluable experience on the application of ad valorem duties to liquor which will now stand it in good stead.

121. A large number of cosmetic products have a huge mark-up in the retail price. Should the full effects of this reintroduced duty be passed on to the consumer, which is by no means inevitable in view of competition, retail prices could increase by between 2 per cent and 13 per cent⁽⁶²⁾. I estimate the yield in 1985-86 to be \$100 million.

Non-alcoholic beverages

122. Prior to 1973 a duty was imposed on table waters. It was removed mainly because the then yield of \$10 million was considered insignificant, but also because of increasing enforcement and definition difficulties as a result of a wider range of soft drinks becoming available in the market.

123. There are three reasons why I now propose to reintroduce the duty. *Firstly*, many soft drinks are now retailing at prices similar to those for beer. I consider that those who can afford soft drinks can arguably afford to pay duty as for beer. Soft drinks are a pleasing indulgence not a necessity. The duties on beer which come into effect today range between 20 per cent and 30 per cent of the retail price. In respect to soft drinks, the rate which I will propose will average half this incidence. *Secondly*, it is obviously important that the revenue-producing base should be broadened whenever possible and the potential yield is now large. *Thirdly*, the legislative definition now proposed for non-alcoholic beverages is wider than that applicable to the table water duty

(62) The effect on arbitrarily selected products will be—

<i>Item</i>	<i>Approximate cost per unit (CIF/ wholesale) (\$)</i>	<i>Approximate retail price without duty (\$)</i>	<i>Proposed duty (\$)</i>	<i>% increase</i>
<i>Masque blue tube</i>	5.40	80.00	1.40	1.8
<i>Lipstick</i>	7.90	49.00	2.00	4.1
<i>Perfume spray</i>	61.90	195.00	15.50	7.9
<i>Face powder</i>	10.80	75.00	2.70	3.6
<i>Moisture cream</i>	169.60	320.00	42.40	13.3
<i>Hairspray</i>	8.70	26.50	2.20	8.3
<i>After shave lotion</i>	10.80	52.00	2.70	5.2

repealed in 1973. It takes into account the growing sophistication of the trade and information obtained through research into relevant legislation and practice overseas.

124. For the purposes of the duty, non-alcoholic beverages will *include* any liquid which is placed in a sealed container for sale as a beverage such as carbonated or non-carbonated syrup, fruit or milk-based drink, soda, mineral and tonic water, herbal or botanical beverages. (*laughter*) There will be *excluded* from the ambit of the duty concentrate, distilled water, milk, pure fruit or vegetable juices and soup. (*laughter*) The Customs and Excise Service will assist the trade in clarifying application of the duty.

125. the basic rate of duty on non-alcoholic beverages will be 60¢ a litre, which comes into effect this afternoon. Assuming that the duty is passed on in full to the consumer, about 20¢ will be added to the retail price of a can of Coca Cola or Seven-Up and 90¢ to a 1.5 litre bottle of Evian Mineral Water⁽⁶³⁾. I estimate the revenue yield from the reintroduction of this duty to be \$210 million in 1985-86.

Duty-free concession

126. Sir, the duty free allowance provided by the Commissioner of Customs and Excise to each adult traveller coming to or returning to Hong Kong at present includes 200 cigarettes and a litre of wine or spirits⁽⁶⁴⁾. Whilst no firm statistics are available on the extent to which returning travellers are availing themselves of this duty free allowance, there appears to have been a considerable increase consequent on the increases in the rates applied to dutiable commodities in the 1983 and 1984 Budgets. Consumer resistance to price increases resulting from higher duty on tobacco and liquor has certainly accounted for some fall in revenue yields, but there can be little doubt that a significant contributory factor is the very large increase in the number of returning passengers availing themselves of the full duty free concession. Indeed in good Hong Kong fashion some travellers are reportedly so engaged full time.

(63) *The estimated effects on representative retail prices of arbitrarily selected brands of non-alcoholic beverages are—*

<i>Brand</i>	<i>Approximate retail price without duty</i> (\$)	<i>Proposed duty</i> (\$)	<i>% increase</i>
<i>Coca Cola</i>	1.70	0.20	11.8
<i>Schweppes Cream Soda</i>	2.20	0.20	9.1
<i>Seven-Up</i>	1.80	0.20	11.1
<i>Evian Mineral Water</i>	5.90	0.90	15.3
<i>Laoshan Natural Mineral Water</i>	1.30	0.16	12.3
<i>Hi-C Chrysanthemum tea</i>	1.30	0.15	11.5
<i>Vitasoy</i>	1.40	0.15	10.7

(64) *The detailed concession provided under regulation 12(e) of the Dutiable Commodities Regulations (Cap. 109) is—*

<i>Liquor</i>	—one litre of wine or spirits
<i>Tobacco</i>	—200 cigarettes or 50 cigars or 250 grams of smokers' tobacco
<i>Perfume</i>	—60 millilitres
<i>Toilet water</i>	—250 millilitres

(laughter) For example, the duty paid on tobacco in 1983-84 decreased 26 per cent on the previous year. In the first six months of this financial year the duty paid declined a further 51 per cent on the same period in the previous year. For brandy the figures are decreases of 27 per cent and 70 per cent respectively. In neither case is a drop in consumption the full answer. The situation is deteriorating rapidly. The trade is fully aware of these facts which have been well aired in the press. My proper concern is the revenue loss in respect of duty paid on tobacco and liquor in particular. Finance Branch estimates that this loss could be up to \$450 million in 1984-85. Whatever the actual figure, it is very large indeed and I cannot accept a situation which is depriving Hong Kong of revenue estimated to be up to 30 per cent of the originally estimated yield from these two duties in 1984-85. For this reason I reject the option of doing nothing.

127. One of the attractive perks of overseas travel is a duty free concession— an exemption provided by most governments. I acknowledge the benefits to Hong Kong when tourists buy goods here to take back to their home countries and enjoy duty free concessions thereby. I also do not want to upset incoming tourists. The argument has swings and roundabouts. Thus I have dismissed the option that the Commissioner of Customs and Excise should remove the concession altogether.

128. We have examined two further options: *either* to introduce a minimum period of absence abroad (say seven days) before the concession applies *or* to introduce separate concessions for residents and visitors. I initially found the former option attractive given the increasing number of day-trips out of Hong Kong. I should add some day-trips out of Hong Kong are taking place at a frequency of four per day. (laughter) However, this option must be rejected. Immigration and Customs control points are already under considerable pressure and the additional time that would be taken for Customs Officers to verify the period of absence would aggravate the congestion to an unbearable extent. Travellers would be increasingly irritated by the double checking required.

129. The introduction of separate concessions for residents and visitors has clear attractions. Such a scheme is already in operation in other countries⁽⁶⁵⁾. It

(65)	Liquor	Selected Examples Tobacco			Other manufactured tobacco	Perfumel Toilet Water	Applicability of concessions
		Spirits Wine	Cigarettes	Cigars			
Switzerland Visitors	1L or 1L	400	or	100	or	500g 100 SwFr	Persons aged 17 and above
Residents Japan Visitors	1L or 1L	200	or	50	or	250g 200 SwFr	Persons aged 20 and above
Residents Republic of Korea Visitors	3 bottles	400	or	100	or	50g 2oz	Persons aged 20 and above
Residents United Kingdom Visitors	3 bottles	200	or	50	or	25g 2 oz	Persons aged 20 and above
Residents United Kingdom Visitors	1 bottle	200	or	25	or	100g 2 oz	Persons aged 20 and above
Residents	1L or 4L	400	or	100	or	500g N/A	Persons aged 17 and above
Residents	1L or 4L	200	or	50	or	250g	Persons aged 17 and above

should be easy to operate administratively without additional staffing resources. It will also be recalled that between 1960 and 1982 all adult passengers returning from Macau were limited to a duty free concession of only 100 cigarettes and a litre of wine. The measure proposed will not be popular but in due course we will, no doubt, all become accustomed to it. Accordingly with effect from 1 April the Commissioner of Customs and Excise proposes that the duty free concession for local residents returning to Hong Kong will be limited to 100 cigarettes and one litre of wine. The concession given to overseas visitors will remain as 200 cigarettes and one litre of wine or spirits⁽⁶⁶⁾.

Anti-avoidance Legislation

130. In my winding up speech last year⁽⁶⁷⁾ I referred to my determination to combat tax avoidance and I gave notice that the anti-avoidance provisions contained in the Ordinance were under study with a view to making them more effective and relevant to our needs. Nothing that has since transpired has persuaded me that we should not now proceed with more effective legislation. Avoidance of our still low taxes is a major preoccupation with an increasing number of taxpayers. It is also clear that the existing legislation does not provide the Revenue with a totally effective defence against those determined to avoid. This simply means increasing the tax burdens on others. I therefore give notice of my intention to introduce appropriate remedial measures. An amendment Bill is now being drafted. Subject to the approval of Executive Council, I anticipate that it will be tabled in this Council before the conclusion of the 1984-85 Session. Specifically, the objectives of the Bill will be—

firstly to replace the existing general anti-avoidance provisions contained in section 61 of the Ordinance with legislation which will provide the Commissioner with more effective anti-avoidance powers;

secondly to limit the opportunities for tax deferral through leveraged leasing arrangements for equipment used offshore and so-called ‘sale and lease-back’ devices in general, and

thirdly to narrow the scope for manipulation of our profits tax expense deductions provisions following a 1983 Privy Council decision.

131. The opportunity will also be taken to introduce some relatively minor technical changes to the principal Ordinance.

(66) *The details will be—*

Visitors

Liquor —one litre of wine or spirits

Tobacco —200 cigarettes or 50 cigars or 250 grams of tobacco

Perfume —60 millilitres

Toilet water —250 millilitres

Residents

Liquor —one litre of still wine

Tobacco —100 cigarettes, 25 cigars or 125 grams of tobacco

Perfume —60 millilitres

Toilet water —250 millilitres

(67) *Paragraphs 21-25.*

132. Members will recall that I have always underlined the Government's continuing willingness to pay heed to constructive criticism. After enactment of the 1984 Amendment Ordinance relating to interest, a number of further representations were received which, over the past months, have been carefully studied by the Administration and by the Legislative Council Ad Hoc Group and UMELCO. Some of the representations certainly have merit and may well require further amendments to the law. These can be embodied in the proposed Bill by way of refinements to the basic legislation.

133. The proposed anti-avoidance legislation will clearly require the most careful drafting, and will be the subject of equally careful scrutiny by the Legislature. It is with this in mind that I propose to proceed by way of a separate Bill. Thus Members will be able separately to approve the personal tax reductions before turning to consideration of the anti-avoidance proposals.

Implementation

134. My proposals for dutiable commodities and transport licence fees were the subject of Revenue Protection Orders signed by Your Excellency this morning. My proposals for increases in business registration fees, betting duty and air passenger departure tax will be the subject of resolutions to be moved in this Council on 28 March and, subject to approval, will take effect from 1 April. My other revenue proposals will be put to the Governor in Council for the necessary authorisations. In due course a Bill will be introduced into this Council to give effect to my proposals for concessions on personal taxes.

Outcome

135. Now, these proposals are designed to yield about \$1.2 billion in net additional revenue for 1985-86⁽⁶⁸⁾. The estimate of total revenue for the

	<i>Additional revenue</i>
	<i>(\$mn)</i>
(68) <i>Budget proposals</i>	
<i>Betting duty</i>	120
<i>Air passenger departure tax</i>	90
<i>Business registration fee</i>	55
<i>Utility and general fees and charges</i>	415
<i>Dutiable commodities</i>	
— <i>hydrocarbon oils</i>	110
— <i>intoxicating liquor</i>	140
— <i>tobacco</i>	110
— <i>cosmetics</i>	100
— <i>non-alcoholic drinks</i>	<u>210</u>
	1,350
<i>Less cost of tax concessions</i>	<u>150</u>
<i>Net yield</i>	<u><u>1,200</u></u>

General Revenue Account thus becomes \$37.4 billion and the deficit for the year is estimated at \$1 billion⁽⁶⁹⁾.

Government Bonds

136. In April 1984 the Government sold bonds with a face value of \$1 billion by public tender. The effect of this was to avoid an equivalent reduction in the fiscal reserves. It was a measure designed to fit last year's budgetary strategy.

137. The fact that the Government can borrow large sums of money must be set against the costs involved, the possibility that repayment may fall due at a time when external problems are affecting our exports and thus our GDP and government revenue, the need to restrain public sector expenditure, and the general debility created by unnecessary but easy borrowing.

138. From a strictly budgetary point of view there is presently no reason again to contemplate a bond issue. Nevertheless, should any particular specific capital requirement arise, I would be prepared to consider borrowing by means of an appropriate bond issue. If for example it proves necessary to increase the equity of the MTR, a government bond issue might be part of an overall package.

1985 Economic Prospects

139. I turn now to my forecast of the economy for 1985⁽⁷⁰⁾. While we should continue to benefit from the expected growth in the world economy, Hong Kong remains as always vulnerable to external events. The United States' economy is expected to expand less rapidly: 3.5 per cent growth has been assumed for 1985, compared with the 6.8 per cent recorded for 1984. Thus some slowing down in the growth rate of domestic exports to the United States in 1985 is likely. Protectionism everywhere is a constant threat. For example the change in the country-of-origin rules for textile and clothing imports into the United States last year introduced an additional element of uncertainty, and Hong Kong industries will need time to make adjustments.

(69)	<i>\$mn</i>	<i>\$mn</i>
<i>Revenue</i>		
<i>Recurrent</i>	34,871	
<i>Capital</i>	<u>2,530</u>	37,401
<i>Expenditure</i>		
<i>Recurrent</i>	29,685	
<i>Capital</i>	<u>8,677</u>	<u>38,362</u>
<i>Surplus on recurrent account</i>		5,186
<i>Deficit on capital account</i>		-6,147
<i>Overall deficit</i>		<u>- 961</u>

(70) See '1985 Economic Prospects'.

140. China is now Hong Kong's second largest domestic export market, though still well behind the United States. The prospect is that all aspects of trade between Hong Kong and China will continue to grow rapidly. Exports to the European markets, on the other hand, are largely dependent on the economic performance of these countries and on the extent to which the competitiveness of Hong Kong products is maintained. During the second half of 1984 because of the global strength of the US dollar, the Hong Kong dollar strengthened by 11 per cent against the Deutschmark and 14 per cent against the pound sterling. With this happening at a time when Hong Kong's inflation rate was higher than that of West Germany or the United Kingdom, Hong Kong products became relatively more expensive in these markets. This difficulty continues.

141. Taking the above factors into consideration, the forecast of the growth rate of domestic exports in 1985 is 11 per cent in real terms, rather less than the 17 per cent achieved in 1984. This, combined with a forecast growth rate of re-exports of 30 per cent, gives a growth forecast for total exports of 18 per cent, compared with 22 per cent in 1984. If achieved, this will still be very satisfactory.

142. Reflecting the real increase in earnings and incomes in 1984, private consumption expenditure is forecast to show an increased but still moderate growth rate of 7 per cent in 1985.

143. Government consumption expenditure is forecast to increase by 5 per cent, compared with 3 per cent in 1984.

144. Private investment expenditure is particularly difficult to estimate. The Joint Declaration on the future of Hong Kong has, however, removed the uncertainty that hung over the economy in the last couple of years. Private investment in plant and machinery is forecast to increase by 16 per cent in 1985⁽⁷¹⁾. Private investment in building and construction is expected to increase by 2 per cent, compared with a decline of 9.5 per cent in 1984. Largely due to a reduction in MTRC capital expenditure, public sector expenditure on building and construction is, however, forecast to decline by 8 per cent, compared with a decline of 4 per cent in 1984. These forecasts, when combined with the forecasts of some other, smaller, components, give a forecast growth rate for gross domestic fixed capital formation for 1985 of 5 per cent, representing a significant improvement compared with the increase of under 1 per cent that was recorded in 1984.

145. The forecast growth rate of imports associated with these forecasts of final demand is 18 per cent, compared with 15 per cent recorded for 1984. Net exports of services are forecast to increase by 15 per cent, compared with 21 per cent.

(71) Although the forecast growth rate for 1985 is less than that recorded in 1984, at 26 per cent, much of the growth that occurred in 1984 represented the recovery of the backlog from 1982 and 1983.

146. These forecasts for the individual components of expenditure, when combined, give a forecast growth rate of the gross domestic product of 7 per cent.

147. If they are borne out, economic growth in 1985 will continue to be export-led, but with an increasing contribution from domestic demand. The growth rate of total final demand (excluding re-exports), at 8.5 per cent, is expected to exceed that of the GDP, at 7 per cent, but not sufficiently to generate significant internal inflationary pressures.

148. Under the linked exchange rate system, inflation in Hong Kong is expected to continue to fall in 1985 to a level closer to that in the United States. The average rate of inflation in 1985 is thus expected to be about 5.5 per cent, significantly less than the 8.1 per cent in 1984. The forecast rate of increase in the GDP deflator is rather higher than that for the CPI at about 7 per cent.

149. The forecast growth rate of the GDP in 1985 in money terms is therefore 15 per cent, implying a current price GDP of \$286 billion. At current prices, per capita GDP in 1985 should thus be over \$52,000, or about US\$6,700.

150. Sir, there is reason to trust the innate wit and intelligence of our citizens. The majority can see that over a cycle of years a balanced budget for Hong Kong is as essential as it is in their own households. This is being achieved by continual downward pressure by the Administration on public sector expenditure and by continual upward pressure on revenue. There are now many, and there will be many more, decent minded people who advocate increased government spending in sectors in which they have a special interest. It is, however, a fact of life that literally no limit can be put on expenditure representing various social aspirations unless tight controls are maintained on the taxpayers' money and on the levying of new taxes. Further increases in direct taxation in particular are at least undesirable. Wise spending there must be; and indeed more as the community gets richer. But every new proposition must be subject to test by two simple questions. What are the priorities? Where is the money coming from? Deficit finance is a profligate's refuge—particularly in the light of Hong Kong's exposure to external shocks. I conclude therefore by quoting Dickens, whose words will, I believe, strike a general note of approval in Hong Kong: 'Annual income twenty pounds, annual expenditure nineteen nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery.'

Sir, I beg to move.

STATISTICAL TABLES

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Table(1)

**GROWTH RATES OF CONSOLIDATED ACCOUNT EXPENDITURE (ADJUSTED)
AND THE RELATIVE SIZE OF THE PUBLIC SECTOR 1974-75 TO 1985-86**

	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
Consolidated Account Expenditure(Adjusted), at Current Prices (\$mn):						
Recurrent	4,647.4	4,934.1	5,786.4	6,933.8	8,183.7	9,969.9
Capital	2,044.9	1,642.3	1,568.7	2,234.4	3,937.9	5,649.2
Total	6,692.3	6,576.4	7,355.1	9,168.2	12,121.6	15,619.1
Gross Domestic Product at Current Prices (\$mn)(*)	44,578.0	46,464.0	59,339.0	68,905.0	81,163.0	107,047.0
Relative Size of the Public Sector(%)	15.0	14.2	12.4	13.3	14.9	14.6
Consolidated Account Expenditure (Adjusted), at Constant (1980) Prices(\$mn):						
Recurrent	8,321.1	8,618.3	9,506.4	10,488.5	11,352.2	12,159.1
Capital	3,836.3	3,283.8	3,014.6	3,973.2	6,146.5	6,564.5
Total	12,157.4	11,902.1	12,521.0	14,461.7	17,498.7	18,723.6
Growth rates of Consolidated Account Expenditure (Adjusted)(%): In money terms:						
Recurrent	31.0	6.2	17.3	19.8	18.0	21.8
Capital	35.1	-19.7	-4.5	42.4	76.2	43.5
Total	32.2	-1.7	11.8	24.7	32.2	28.9
In real terms:						
Recurrent	13.4	3.6	10.3	10.3	8.2	7.1
Capital	15.1	-14.4	-8.2	31.8	54.7	6.8
Total	13.9	-2.1	5.2	15.5	21.0	7.0

Table(1) *Contd.*

**GROWTH RATES OF CONSOLIDATED ACCOUNT EXPENDITURE (ADJUSTED)
AND THE RELATIVE SIZE OF THE PUBLIC SECTOR 1974-75 TO 1985-86**

	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>	<i>1983-84</i>	<i>Revised Estimate 1984-85</i>	<i>Estimate 1985-86</i>
Consolidated Account Expenditure (Adjusted), at Current Prices (\$mn):						
Recurrent	13,404.4	17,969.2	22,739.1	25,604.4	29,251.6	32,846.1
Capital	8,652.0	11,413.8	12,944.5	12,991.3	11,692.2	12,801.2
Total	22,056.4	29,383.0	35,683.6	38,595.7	40,943.8	45,647.3
Gross Domestic Product at Current Prices (\$mn)(*)	137,209.0	165,346.0	186,868.0	207,948.0	248,984.0	285,550.0
Relative Size of the Public Sector (%)	16.1	17.8	19.1	18.6	16.4	16.0
Consolidated Account Expenditure (Adjusted), at Constant (1980) Prices (\$mn):						
Recurrent	13,404.4	15,435.5	16,946.6	17,736.5	18,941.8	19,835.6
Capital	8,652.0	9,931.2	11,067.8	11,280.4	10,103.4	10,537.8
Total	22,056.4	25,366.7	28,014.4	29,016.9	29,045.2	30,373.4
Growth rates of Consolidated Account Expenditure (Adjusted)(%): In money terms:						
Recurrent	34.4	34.1	26.5	12.6	14.2	12.3
Capital	53.2	31.9	13.4	0.4	-10.0	9.5
Total	41.2	33.2	21.4	8.2	6.1	11.5
In real terms:						
Recurrent	10.2	15.2	9.8	4.7	6.8	4.7
Capital	31.8	14.8	11.4	1.9	-10.4	4.3
Total	17.8	15.0	10.4	3.6	0.1	4.6

Notes: ()* Calendar year figures. The figure for 1983 is provisional, that for 1984 is preliminary and that for 1985 is a forecast.

Table (2)

GENERAL REVENUE ACCOUNT 1975-76 TO 1985-86

(Adjusted for analytical purposes)

	1975-76	1976-77	1977-78	1978-79	1979-80
	(\$mn)	(\$mn)	(\$mn)	(\$mn)	(\$mn)
<i>Revenue:</i>					
Recurrent	5,843	6,850	8,151	10,146	13,473
Capital	<u>412</u>	<u>644</u>	<u>1,232</u>	<u>2,296</u>	<u>3,323</u>
Total	6,255	7,494	9,383	12,442	16,796
<i>Expenditure:</i>					
Recurrent	4,450	5,224	6,219	7,308	8,865
Capital	<u>1,573</u>	<u>1,353</u>	<u>1,939</u>	<u>3,648</u>	<u>4,956</u>
Total	6,023	6,577	8,158	10,956	13,821
Surplus on recurrent account	1,393	1,626	1,932	2,838	4,608
Deficit on capital account	-1,161	-709	-707	-1,352	-1,633
Overall surplus/deficit	232	917	1,225	1,486	2,975

Table (2) *Contd.***GENERAL REVENUE ACCOUNT 1975-76 TO 1985-86**

(Adjusted for analytical purposes)

	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>	<i>1983-84</i>	<i>1984-85</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1985-86</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(Estimates)</i>	<i>(Revised</i>	<i>Draft</i>	<i>(After revenue</i>
					<i>(\$mn)</i>	<i>Estimates)</i>	<i>Estimates)</i>	<i>proposals)</i>
						<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>
<i>Revenue:</i>								
Recurrent	18,951	24,014	24,882	27,251	30,464	30,263	33,671	34,871
Capital	11,236	9,480	6,134	3,149	4,730	4,655	2,282	2,282
Total	<u>30,187</u>	<u>33,494</u>	<u>31,016</u>	<u>30,400</u>	<u>35,194</u>	<u>34,918</u>	<u>35,953</u>	<u>37,153</u>
<i>Expenditure:</i>								
Recurrent	11,919	16,295	20,498	22,876	26,933	26,259	29,685	29,685
Capital	<u>7,756</u>	<u>10,500</u>	<u>14,076</u>	<u>10,478</u>	<u>10,352</u>	<u>10,122</u>	<u>8,623</u>	<u>8,623</u>
Total	19,675	26,795	34,574	33,354	37,285	36,381	38,308	38,308
Surplus on recurrent account	7,032	7,719	4,384	4,375	3,531	4,004	3,986	5,186
Deficit on capital account	+3,480	-1,020	-7,942	-7,329	-5,622	-5,467	-6,341	-6,341
Surplus/deficit	10,512	6,699	-3,558	-2,954	-2,091	-1,463	-2,355	-1,155
Proceeds from the issue of								
Government Bonds	—	—	—	—	1,000	1,005	—	—
Shortfall to be financed from								
the reserves	—	—	3,558	2,954	—	458	—	1,155

Table (2) *Contd.*

(a) *General Notes on the Adjustments*

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

- (a) transactions, which *could* have been dealt with below-the-line, but which, *in fact* have been passed through the General Revenue Account in accordance with the Government's accounting principles or for some other reason (e.g. purchase of equity in the Mass Transit Railway corporation);
- (b) drawdowns of loans and repayments of 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 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 of the Adjustments*

<i>Year</i>	<i>Capital Revenue</i>	<i>Capital Expenditure</i>
1975-76	—264(Loans)	— 9(D.R.)
1976-77		— 14(D.R.)
1977-78	—335(L.P., M.T.R.) —488(L.P., H.O.S.) — 27(Loans)	— 335(M.T.F.) — 488(H.O.F.) — 16(D.R.)
1978-79	—115(L.P., H.O.S.)	— 5(M.T.F.) —115(H.O.F.) — 14(D.R.)

1979-80		— 2(M.T.F.)
		— 49(D.R.)
1980-81	— 80(L.P., H.O.S.)	—3,540(M.T.F.)
	— 23(S.C.S.A.)	— 80(H.O.F.)
		— 277(D.R.)
		— 22(J.S.C.)
1981-82	—437(L.P., M.T.R.)	— 437(M.T.R.)
	— 18(C.& W.)	— 332(H.O.F.)
	—332(L.P., H.O.S.)	— 82(D.R.)
	— 32(S.C.S.A.)	— 32(J.S.C.)
		— 100(C.& W.)
1982-83	— 82(C.& W.)	— 23(D.R.)
1983-84		— 39(D.R.)
1984-85(Estimates)		— 48(D.R.)
1984-85(Revised Estimates)	— 10(L.P., M.T.R.)	— 46(D.R.)
		— 258(L.P., M.T.R.)*\$=n
1985-86(Draft Estimates)	—248(L.P., M.T.R.)	— 54(D.R.)

Legend: D.R. = Debt repayment
M.T.F. = Mass Transit Fund
H.O.F. = Home Ownership Fund for land premia
C.& W. = Cable & Wireless (HK) Limited
L.P., M.T.R. = Land premia, Mass Transit Railway
L.P., H.O.S. = Land premia, Home Ownership Scheme
J.S.C. = Jubilee Sports Centre
S.C.S.A. = Special Coin Suspense Account

* \$248 million of this adjustment affects consolidated account in 1985-86.

Table (3)

CONSOLIDATED ACCOUNT EXPENDITURE BY MAIN FUNCTIONS 1975-76 TO 1985-86

(Adjusted for analytical purposes)

	1975-76)		1976-77		1977-78)		1978-79		1979-80	
	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)
(A) <i>General Services</i>	848	12.9	972	13.2	1,227	13.4	1,478	12.2	2,088	13.4
(B) <i>Security Services</i>										
(1) Internal Security	105	1.6	241	3.3	381	4.1	587	4.8	642	4.1
(2) Immigration	32	0.5	38	0.5	46	0.5	53	0.4	78	0.5
(3) Law and Order	597	9.1	717	9.7	843	9.2	978	8.1	1,269	8.1
	734	11.2	996	13.5	1,270	13.8	1,618	13.3	1,989	12.7
(C) <i>Economic Services</i>	411	6.2	439	6.0	476	5.2	631	5.2	804	5.1
(D) <i>Community Services</i>										
(1) Transport	487	7.4	447	6.1	593	6.5	841	6.9	1,187	7.6
(2) Land and Civil Engineering	231	3.5	318	4.3	503	5.5	882	7.3	936	6.0
(3) Water	485	7.4	466	6.3	454	4.9	386	3.2	470	3.0
(4) Other	507	7.7	658	9.0	816	8.9	1,099	9.1	1,338	8.6
	1,710	26.0	1,889	25.7	2,366	25.8	3,208	26.5	3,931	25.2
(E) <i>Social Services</i>										
(1) Education	1,263	19.2	1,405	19.1	1,624	17.7	1,949	16.1	2,438	15.6
(2) Medical	565	8.6	647	8.8	754	8.2	947	7.8	1,229	7.9
(3) Housing	665	10.1	618	8.4	1,022	11.2	1,705	14.1	2,376	15.2
(4) Social Welfare	359	5.5	365	5.0	400	4.4	551	4.5	719	4.6
(5) Labour	21	0.3	24	0.3	29	0.3	35	0.3	45	0.3
	2,873	43.7	3,059	41.6	3,829	41.8	5,187	42.8	6,807	43.6
Total Expenditure	6,576		7,355		9,168		12,122		15,619	

Table (3) *Contd.***CONSOLIDATED ACCOUNT EXPENDITURE BY MAIN FUNCTIONS 1975-76 TO 1985-86**

(Adjusted for analytical purposes)

	1980-81		1981-82		1982-83		1983-84		1984-85 (Revised Estimates)		1985-86* (Draft Estimates)	
	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)	(\$mn)	(%)
(A) <i>General Services</i>	<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>5,438</u>	<u>14.1</u>	<u>5,993</u>	<u>14.6</u>	<u>6,513</u>	<u>14.3</u>
(B) <i>Security Services</i>												
(1) Internal Security	1,590	7.2	1,498	5.1	1,471	4.1	1,559	4.0	1,511	3.7	1,681	3.7
(2) Immigration	114	0.5	152	0.5	246	0.7	273	0.7	299	0.7	335	0.7
(3) Law and Order	<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>3,189</u>	<u>8.3</u>	<u>3,368</u>	<u>8.3</u>	<u>3,756</u>	<u>8.2</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>5,021</u>	<u>13.0</u>	<u>5,178</u>	<u>12.7</u>	<u>5,772</u>	<u>12.6</u>
(C) <i>Economic Services</i>	<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>1,268</u>	<u>3.3</u>	<u>1,410</u>	<u>3.4</u>	<u>1,590</u>	<u>3.5</u>
(D) <i>Community Services</i>												
(1) Transport	1,636	7.4	2,554	8.7	3,375	9.5	2,912	7.6	2,427	5.9	2,338	5.1
(2) Land and Civil Engineering	1,479	6.7	3,183	10.8	2,491	7.0	2,873	7.4	2,344	5.8	2,783	6.1
(3) Water	697	3.2	1,263	4.3	1,413	4.0	1,342	3.5	1,298	3.2	1,560	3.4
(4) Other	<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>3,371</u>	<u>8.7</u>	<u>3,862</u>	<u>9.4</u>	<u>4,392</u>	<u>9.7</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>10,498</u>	<u>27.2</u>	<u>9,931</u>	<u>24.3</u>	<u>11,073</u>	<u>24.3</u>
(E) <i>Social Services</i>												
(1) Education	3,382	15.3	4,172	14.2	5,105	14.3	5,758	14.9	7,050	17.2	7,807	17.1
(2) Medical	1,664	7.6	2,159	7.3	2,665	7.4	2,956	7.7	3,335	8.1	4,002	8.7
(3) Housing	3,708	16.8	3,895	13.3	4,919	13.8	5,609	14.5	5,645	13.8	6,221	13.6
(4) Social Welfare	881	4.0	1,220	4.2	1,710	4.8	1,938	5.0	2,276	5.6	2,534	5.6
(5) Labour	<u>86</u>	<u>0.4</u>	<u>98</u>	<u>0.3</u>	<u>95</u>	<u>0.3</u>	<u>110</u>	<u>0.3</u>	<u>126</u>	<u>0.3</u>	<u>135</u>	<u>0.3</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>16,371</u>	<u>42.4</u>	<u>18,432</u>	<u>45.0</u>	<u>20,699</u>	<u>45.3</u>
Total Expenditure	<u>22,057</u>		<u>29,383</u>		<u>35,684</u>		<u>38,596</u>		<u>40,944</u>		<u>45,647</u>	

* The figures for 1985-86 are derived from Appendix VI to the printed Draft Estimates.

Table (4)

GENERAL REVENUE BY MAIN SOURCES 1975-76 TO 1985-86

(Adjusted for analytical purposes)

	1975-76 (\$mn)	1976-77 (\$mn)	1977-78 (\$mn)	1978-79 (\$mn)	1979-80 (\$mn)
<i>Recurrent Account:</i>					
DIRECT TAXES					
Earnings and profits tax	2,234	2,699	3,357	4,115	5,724
INDIRECT TAXES					
Duties	558	681	734	830	883
General rates	534	618	723	807	890
Internal revenue:					
Bets and sweeps tax	161	265	336	509	658
Entertainments tax	19	23	27	29	37
Hotel accomodation tax	9	15	20	24	33
Stamp duties	382	428	490	762	934
Motor vehicle taxes	49	102	148	259	360
Royalties and concessions	65	60	67	88	101
OTHER REVENUE	<u>1,832</u>	<u>1,959</u>	<u>2,249</u>	<u>2,723</u>	<u>3,853</u>
Total Recurrent	5,843	6,850	8,151	10,146	13,473
<i>Capital Account:</i>					
DIRECT TAXES					
Estate duty	64	85	110	128	200
INDIRECT TAXES					
Taxi concessions	—	—	112	250	266
OTHER REVENUE					
Land transactions	346	557	1,008	1,893	2,845
Others	<u>2</u>	<u>2</u>	<u>2</u>	<u>25</u>	<u>12</u>
Total Capital	412	644	1,232	2,296	3,323
Total Revenue	<u><u>6,255</u></u>	<u><u>7,494</u></u>	<u><u>9,383</u></u>	<u><u>12,442</u></u>	<u><u>16,796</u></u>

Table (4) *Contd.***GENERAL REVENUE BY MAIN SOURCES 1975-76 TO 1985-86**

(Adjusted for analytical purposes)

	1980-81 (\$mn)	1981-82 (\$mn)	1982-83 (\$mn)	1983-84 (\$mn)	1984-85 (Revised Estimates) (\$mn)	1985-86 (Draft Estimates) (\$mn)	1985-86 (After revenue proposals) (\$mn)
<i>Recurrent Account:</i>							
DIRECT TAXES							
Earnings and profits tax	7,965	10,567	11,849	11,423	12,985	14,825	14,675
INDIRECT TAXES							
Duties	917	937	1,246	2,584	2,399	2,479	3,149
General rates	986	1,051	697	1,156	1,230	1,760	1,760
Internal revenue:							
Bets and sweeps tax	823	998	1,111	1,643	2,270	2,600	2,720
Entertainments tax	45	57	68	78	91	102	102
Hotel accommodation tax	42	52	59	83	113	130	130
Stamp duties	2,052	2,168	1,391	1,094	1,150	1,300	1,300
Air passenger departure tax	—	—	—	286	400	433	523
Cross harbour tunnel passage tax	—	—	—	—	118	167	167
Motor vehicle taxes	423	484	384	316	350	400	400
Royalties and concessions	131	200	257	270	352	355	355
OTHER REVENUE	<u>5,567</u>	<u>7,500</u>	<u>7,820</u>	<u>8,318</u>	<u>8,805</u>	<u>9,120</u>	<u>9,590</u>
Total Recurrent	18,951	24,014	24,882	27,251	30,263	33,671	34,871
<i>Capital Account:</i>							
DIRECT TAXES							
Estate duty	251	316	313	316	270	300	300
INDIRECT TAXES							
Taxi concessions	288	208	268	192	120	40	40
OTHER REVENUE							
Land transactions	10,690	8,908	5,048	2,267	4,190	1,452	1,452
Others	<u>7</u>	<u>48</u>	<u>505</u>	<u>374</u>	<u>1,080*</u>	<u>490</u>	<u>490</u>
Total Capital	11,236	9,480	6,134	3,149	5,660	2,282	2,282
Total Revenue	<u><u>30,187</u></u>	<u><u>33,494</u></u>	<u><u>31,016</u></u>	<u><u>30,400</u></u>	<u><u>35,923</u></u>	<u><u>35,953</u></u>	<u><u>37,153</u></u>

* Includes \$1,005 million from the issue of Bonds.

Table (5)

GENERAL REVENUE ACCOUNT EXPENDITURE BY MAIN COMPONENTS 1975—76 TO 1985—86

(Adjusted for analytical purposes)

	1975—76 (\$mn)	1976—77 (\$mn)	1977—78 (\$mn)	1978—79 (\$mn)	1979—80 (\$mn)
<i>Recurrent Account:</i>					
Personal Emoluments	1,766	2,118	2,455	2,868	3,488
Personnel Related Expenses	279	314	395	454	545
Departmental Expenses	1,238	1,415	1,735	2,056	2,477
Other Charges					
Subventions:					
Education	681	813	944	1,125	1,391
Medical	163	186	226	273	320
U.P.G.C.	217	255	307	348	411
Other	106	123	157	184	233
Additional Commitments	—	—	—	—	—
Total Recurrent	4,450	5,224	6,219	7,308	8,865
<i>Capital Account:</i>					
Plant, Equipment and Works	164	153	225	357	453
Other Non—Recurrent					
Subventions:					
Education	40	30	39	36	71
Medical	4	2	13	11	22
U.P.G.C.	93	40	25	65	135
Other	—	—	1	1	1
Transfers to Funds:					
C.W.R.F./P.W.N.R.	1,147	1,128	1,437	2,274	3,092
D.L.F.	125	—	100	620	1,000
H.O.F.	—	—	99	284	—
Other	—	—	—	—	182
Additional Commitments	—	—	—	—	—
Total Capital	1,573	1,353	1,939	3,648	4,956
Total Expenditure	6,023	6,577	8,158	10,956	13,821

Table (5) *Contd.***GENERAL REVENUE ACCOUNT EXPENDITURE BY MAIN COMPONENTS 1975—76 TO 1985—86**

(Adjusted for analytical purposes)

	1980—81	1981—82	1982—83	1983—84	1984—85	1985—86
	(\$mn)	(\$mn)	(\$mn)	(\$mn)	(Revised Estimates) (\$mn)	(Draft Estimates) (\$mn)
<i>Recurrent Account:</i>						
Personal Emoluments	4,633	5,977	7,479	8,335	9,640	10,066
Personnel Related Expenses	731	1,022	1,551	1,881	2,170	2,353
Departmental Expenses	3,342	5,314	2,564	2,742	2,936	3,247
Other Charges			3,606	3,997	4,477	4,717
Subventions:						
Education	1,872	2,254	2,989	3,270	3,772	3,985
Medical	447	584	725	814	946	987
Vocational Training	—	—	125	181	235	260
U.P.G.C.	580	724	898	1,009	1,332	1,477
Other	314	420	561	647	751	893
Additional Commitments	—	—	—	—	—	1,700
Total Recurrent	11,919	16,295	20,498	22,876	26,259	29,685
<i>Capital Account:</i>						
Plant, Equipment and Works	1,336	549	663	627	507	584
Other Non—Recurrent		478	331	210	179	63
Subventions:						
Education	90	126	101	115	157	191
Medical	30	46	68	99	71	143
Vocational Training	—	—	9	71	169	173
U.P.G.C.	237	149	133	150	210	222
Other	3	35	17	27	81	17
Transfers to Funds:						
C.W.R.F./P.W.N.R.*\$=n	3,792	6,938	10,800	7,700	7,257	5,800
D.L.F.	2,231	2,114	1,850	1,400	1,305	1,300
H.O.F.	—	—	—	—	—	—
Other	37	65	104	80	186	30
Additional Commitments	—	—	—	—	—	100
Total Capital	7,756	10,500	14,076	10,478	10,122	8,623
Total Expenditure	19,675	26,795	34,574	33,354	36,381	38,308

* 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 1975-76 TO 1985-86 (\$ MILLION AND %)
(Adjusted for analytical purposes)

	1975-76	1976-77	1977-78	1978-79	1979-80
(1) $\frac{\text{Recurrent Revenue}}{\text{Total Expenditure}}$	$\frac{5,843}{6,023} = 97$	$\frac{6,850}{6,577} = 104$	$\frac{8,151}{8,158} = 100$	$\frac{10,146}{10,956} = 93$	$\frac{13,473}{13,821} = 97$
(2) $\frac{\text{Recurrent Expenditure}}{\text{Recurrent Revenue}}$	$\frac{4,450}{5,843} = 76$	$\frac{5,224}{6,850} = 76$	$\frac{6,219}{8,151} = 76$	$\frac{7,308}{10,146} = 72$	$\frac{8,865}{13,473} = 66$
(3) $\frac{\text{Surplus on Recurrent Account}}{\text{Capital Expenditure}}$	$\frac{1,393}{1,573} = 89$	$\frac{1,626}{1,353} = 120$	$\frac{1,932}{1,939} = 100$	$\frac{2,838}{3,648} = 45$	$\frac{4,608}{4,956} = 93$
(4) $\frac{\text{Recurrent Expenditure}}{\text{Total Expenditure}}$	$\frac{4,450}{6,023} = 74$	$\frac{5,224}{6,577} = 79$	$\frac{6,219}{8,158} = 76$	$\frac{7,308}{10,956} = 67$	$\frac{8,856}{13,821} = 64$
(5) $\frac{\text{Capital Revenue}}{\text{Capital Expenditure}}$	$\frac{412}{1,573} = 26$	$\frac{644}{1,353} = 48$	$\frac{1,232}{1,939} = 64$	$\frac{2,296}{3,648} = 63$	$\frac{3,323}{4,956} = 67$

Table (6) *Contd.*

BUDGETARY GUIDELINES 1975-76 TO 1985-86 (\$ MILLION AND %)

(Adjusted for analytical purposes)

		1980-81	1981-82	1982-83*	1983-84	1984-85 (Revised Estimates)	1985-86 (After revenue proposals)
(1)	$\frac{\text{Recurrent Revenue}}{\text{Total Expenditure}}$	$\frac{18,951}{19,675} = 96$	$\frac{24,014}{26,795} = 90$	$\frac{24,882}{31,377} = 79$	$\frac{27,251}{33,229} = 82$	$\frac{30,263}{35,275} = 86$	$\frac{34,871}{39,292} = 89$
(2)	$\frac{\text{Recurrent Expenditure}}{\text{Recurrent Revenue}}$	$\frac{11,919}{18,951} = 63$	$\frac{16,295}{24,014} = 68$	$\frac{20,498}{24,014} = 82$	$\frac{22,876}{27,251} = 84$	$\frac{26,259}{30,263} = 87$	$\frac{29,685}{34,871} = 85$
(3)	$\frac{\text{Recurrent Account}}{\text{Capital Expenditure}}$	$\frac{7,032}{7,756} = 91$	$\frac{7,719}{10,500} = 74$	$\frac{4,382}{10,879} = 40$	$\frac{4,375}{10,353} = 42$	$\frac{4,004}{9,016} = 44$	$\frac{5,186}{9,607} = 54$
(4)	$\frac{\text{Recurrent Expenditure}}{\text{Total Expenditure}}$	$\frac{11,919}{19,675} = 61$	$\frac{16,295}{26,795} = 61$	$\frac{20,498}{31,377} = 65$	$\frac{22,876}{33,229} = 69$	$\frac{26,259}{35,275} = 74$	$\frac{29,685}{39,292} = 76$
(5)	$\frac{\text{Capital Revenue}}{\text{Capital Expenditure}}$	$\frac{11,236}{7,756} = 145$	$\frac{9,480}{10,500} = 90$	$\frac{6,134}{10,879} = 56$	$\frac{3,149}{10,353} = 30$	$\frac{5,660}{10,353} = 63^\dagger$	$\frac{2,282}{9,607} = 24$

* Combining General Revenue Account and Capital Works Reserve Fund expenditure from 1982-83 onwards. Capital Works Reserve Fund expenditure in 1983-84 was \$7,575 million, in 1984-85 it is expected to be \$6,151 million and in 1985-86, \$6,784 million.

† Includes \$1,005 million from the issue of Government Bonds.

Table (7)

BALANCE OF THE FISCAL SYSTEM 1975-76 TO 1985-86

	<i>1975-76</i>	<i>1976-77</i>	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>	
<u>Direct taxes</u>	56:44	55:45	57:43	55:45	60:40	
Indirect taxes						
<u>Direct and indirect taxes</u>	68:32	71:29	72:28	73:27	71:29	
All other recurrent revenue						
	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>	<i>1983-84</i>	<i>1984-85 (Revised Estimates)</i>	<i>1985-86 (After revenue proposals)</i>
<u>Direct taxes</u>	60:40	64:36	69:31	60:40	61:39	58:42
Indirect taxes						
<u>Direct and indirect taxes</u>	71:29	69:31	69:31	70:30	71:29	73:27
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 finance 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 1980-81 to 1984-85 was 9.2 per cent, and of G.D.P. it was 7.6 per cent⁽²⁾. The growth rate of expenditure on Consolidated Account has fallen each year since 1980-81 from a high of 17.8 per cent to 10.4 per cent in 1982-83 and two further sharp falls to 3.6 per cent in 1983-84 and to 0.1 per cent in 1984-85.

3. In the first few years of the decade the growth rate of expenditure on Consolidated Account exceeded that of G.D.P. and as a result the relative size of the public sector increased from 16.1 per cent of G.D.P. in 1980-81 to 19.1 per cent in 1982-83. This trend has now been reversed as a result of containment of growth in the recurrent expenditure, and the relative size of the public sector has declined to 16.4 per cent in 1984-85.

(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. Expenditure by institutions in the private or quasi-private sector is included to the extent of their subventions. The activities of government departments which are partly financed by charges raised on a commercial basis are also included (e.g. Airport, Waterworks). But not included is expenditure by those organisations, including even statutory organisations, in which the Government has only an equity position, such as the Mass Transit Railway Corporation and, post 1982-83, the Kowloon-Canton Railway Corporation.*

(2) Year	Growth rates in real terms	
	C.A. expenditure (%)	G.D.P. (%)
1980-81/1980	17.8	11.0
1981-82/1981	15.0	9.4
1982-83/1982	10.4	2.9
1983-84/1983	3.6	5.1#
1984-85/1984	0.1	9.6*
average rate p.a.	9.2	7.6

provisional estimate
* preliminary estimate

4. The second principle is that the pattern of public sector expenditure should reflect the Government's conscious view as to priorities. Between 1980-81 and 1982-83 the pattern changed accordingly, with the proportion of total expenditure absorbed by community services⁽³⁾ increasing from 25.3 per cent to 28.7 per cent as greater emphasis was placed on such services as transport, civil engineering and land production. From 1982-83 to 1984-85 the proportion fell back to 24.3 per cent as KCR modernisation works neared completion and expenditure on some of the larger road projects levelled off. In the social services group⁽⁴⁾ the proportion fell slightly from 43.6 per cent in 1979-80 to 39.3 per cent in 1981-82 but increased again to 45.0 per cent in 1984-85 as expenditure on all functions in the group increased. The proportion of total expenditure absorbed by all other services⁽⁵⁾ decreased slightly as a result from 31.2 per cent in 1979-80 to 30.7 per cent in 1984-85, but these percentages illustrate only the share of total expenditure—in absolute cash terms, expenditure on all services increased substantially.

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

6. The ratio between direct and indirect taxes moved from 60:40 in 1979-80 to 69:31 in 1982-83 as earnings and profits taxes increased in relative importance whilst indirect taxes remained relatively unchanged. Major adjustments in the 1983 budget brought the ratio between direct and indirect taxes back to 60:40 and this ratio has increased slightly to 61:39 in 1984-85.

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

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

(5) General services

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

Security services

Internal security, immigration, law and order.

Economic services

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

(6) *The requirements are—*

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

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

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

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

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

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

7. The ratio between direct and indirect taxes taken together and all other recurrent revenue moved from 71:29 in 1980-81 to 70:30 in 1983-84 but moved back to 71:29 in 1984-85. 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⁽⁷⁾ should be borne in mind in preparing the annual estimates of revenue and expenditure so as to ensure the financing of the capital account. In 1980-81 recurrent expenditure absorbed 63 per cent of recurrent revenue, leaving a sufficient surplus to meet 91 per cent of capital expenditure in that year. The ability of the surplus on recurrent account to finance capital expenditure declined to 74 per cent in 1981-82 and continued to decline in 1982-83 to 40 per cent. The trend has now been reversed rising to 44 per cent in 1984-85 and is expected to increase to 54 per cent in 1985-86.

9. The guidelines were set in 1980 and are useful comparisons. They do not however adequately reflect or recognise the structural changes to the make up of revenue in the last five years particularly the significant reductions in capital revenue and the need to increase recurrent revenue to fund a greater share of total expenditure. The guidelines will be reviewed during the coming year.

(7) *Budget guidelines*

Guideline	Ratio	Actual		Performance		Revised	Budget
		80-81	81-82	82-83	83-84	Estimates	Estimates
		%	%	%	%	84-85	85-86
(1) <u>Recurrent Revenue</u>	<i>At least</i>	96	90	79	82	86	89
<u>Total Expenditure</u>	77%						
(2) <u>Recurrent Expenditure</u>	<i>No more than 85%</i>	63	68	82	84	87	85
<u>Recurrent Revenue</u>							
(3) <u>Surplus on Recurrent Account</u>	<i>At least</i>	91	74	40	42	44	54
<u>Capital Expenditure</u>	33%						
(4) <u>Recurrent Expenditure</u>	<i>No more than 65%</i>	61	61	65	69	74	76
<u>Total Expenditure</u>							
(5) <u>Capital Revenue</u>	<i>At least</i>	145	90	56	30	63	24
<u>Capital Expenditure</u>	20%						

*APPENDIX B**EXPENDITURE IN THE MAIN PROGRAMME AREAS**A. PUBLIC HOUSING*

Public housing is defined as domestic flats built for renting under the Housing Authority's housing programme and for sale under the Government's Home Ownership Scheme (including ancillary commercial facilities) and the Private Sector Participation Scheme, and temporary accommodation in temporary housing areas. Normally Government does not incur capital expenditure on projects in the Private Sector Participation Scheme because they are funded by private developers.

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 displaced by clearances. The aim of both the Home Ownership Scheme and the Private Sector Participation Scheme is to enable families whose income is below a specified limit to purchase their own accommodation at a price they can reasonably be expected to afford and to encourage tenants in public rental estates to purchase homes of their own.

Production of flats

3. By the end of 1984-85, the Housing Authority's stock of domestic accommodation will amount to more than 557 000 flats, with over 26 000 flats having been completed in 1984-85. By the same date, about 41 000 flats will have been constructed under the Home Ownership Scheme. In order to meet future demand, the Government's aim is to sustain a level of production of at least 40 000 flats a year (made up of flats for renting (30 000) by the Housing Authority and flats for sale (5 000 each) under the Home Ownership Scheme and the Private Sector Participation Scheme) under a five year programme which is rolled forward annually. The following table shows production for the four years ending 1984-85, and a forecast for the four years commencing 1985-86:

<i>Year</i>	<i>Housing Authority's rental housing programme (Flats)</i>	<i>Home Ownership Scheme (Flats)</i>	<i>Private Sector Participation Scheme (Flats)</i>	<i>Total (Flats)</i>
1981-82 (actual)	31 346	4 399	—	35 745
1982-83 (actual)	27 879(*)	7 508	760	36 147
1983-84 (actual)	28 564	7 877	2 240(†)	38 681
1984-85 (estimated)	26 342	10 168	1 408	37 918
1985-86 (estimated)	28 273	8 746	11 902	48 921

<i>Year</i>	<i>Housing Authority's rental housing programme (Flats)</i>	<i>Home Ownership Scheme (Flats)</i>	<i>Private Sector Participation Scheme (Flats)</i>	<i>Total (Flats)</i>
1986-87 (estimated)	30 264	6 460	3 640	40 364
1987-88 (estimated)	30 418	5 930	3 800	40 148
1988-89 (estimated)	32 281	5 698	3 830	41 809

Note: (*) Including 622 flats produced by Building Development Department.
(+) Built under the now defunct Middle Income Housing Programme.

Financing of the rental housing programme

4. The Housing Authority's rental housing programme is financed largely by loans to the Authority from the Development Loan Fund which are repayable over 40 years at an interest rate of 5 per cent per annum on the reducing balance of the loans. Although the interest is not payable in cash, the Authority is required to include the amount of interest in its accounts in order to demonstrate more accurately Government's contribution towards the provision of public housing. Land is provided free of charge, but its value is shown in the Housing Authority's accounts as a government contribution. The Housing Authority's rental housing programme is also financed by loans from the Asian Development Bank to the Government. In 1984-85, 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 \$2,731 million, of which \$1,650 million is financed by loans from the Development Loan Fund. For 1985-86, it is estimated that the capital expenditure would amount to \$2,922 million, of which \$1,800 million will be drawn from the Development Loan Fund. Forecast drawings from the Development Loan Fund for the four years 1985-86 to 1988-89 are estimated to be as follows:

	<i>195-86 (\$mn)</i>	<i>1987 (\$mn)</i>	<i>1987-88 (\$mn)</i>	<i>1988-89 (\$mn)</i>	<i>Total 1985-86 to 1988-89 (\$mn)</i>
Estimated drawings from the Development Loan Fund (*)	1,800	1,691	1,407	1,154	6,052

Note: (*) These estimates include provision for expenditure on contracts relating to production post 1988-89.

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 1984-85, total expenditure on the construction of flats and transfers from the rental programme is estimated to amount to \$1,094 million and proceeds from the sale of flats are estimated to be \$1,582 million. For 1985-86, total estimated expenditure amounts to \$880 million and proceeds from the sale of flats are estimated to be \$1,448 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 cent per annum on the reducing loan balance. Land premium is payable in respect of commercial facilities. Loans to the Housing Authority for this purpose in 1984-85 amount to \$99 million, and in 1985-86 are estimated to amount to \$107 million.

Financing of the development of Temporary Housing Areas

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

Financing of the Private Sector Participation Scheme

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

Summary of estimated expenditure, 1984-85 and 1985-86

9. The revised estimate of total Consolidated Account capital expenditure on the actual construction of housing for 1984-85 and the estimate for 1985-86 are \$3,531 million and \$3,906 million respectively:

	<i>1984-85</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$mn)</i>	<i>1985-86</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	1,650	1,800
(ii) Housing Authority's own resources	600	1,000
(iii) Flats produced by the Housing Department and financed by loans from the Asian Development Bank	25	21
(iv) Flats produced by the Building Development Department and financed from General Revenue	7	1

	<i>1984-85</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$mn)</i>	<i>1985-86</i> <i>(Draft</i> <i>Estimates)</i> <i>(\$mn)</i>
<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 sold after early 1982)	1,094	880
(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)	99	107
<i>(c) Temporary Housing Areas</i>	<u>56</u>	<u>97</u>
	<u>3,531</u>	<u>3,906</u>

B. NEW TERRITORIES DEVELOPMENT: NEW TOWNS AND RURAL TOWNSHIPS

10. 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

11. 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 1985-86 compared with the current targetted populations and serviced land areas:

(1)

<i>New Town/ development area</i>	<i>Population on full development</i>	<i>Expected population at 31 March 1985</i>	<i>Expected increase in 1985-86</i>	<i>Expected population at 31 March 1986 as a percentage of full development%</i>
Tsuen Wan; Kwai Chung and Tsing Yi	883 000	698 000	10 000	(708 000) 80
Sha Tin	792 000	323 000	32 000	(355 000) 45
Tuen Mun	489 000	256 000	16 000	(272 000) 56
Tai Po	312 000	118 000	27 000	(145 000) 46
Fanling/Shek Wu Hui	226 000	95 000	5 000	(100 000) 44
Yuen Long	137 000	73 000	—	(73 000) 53

Junk Bay (Phases 1 and 2)	416 000	9 000	—	(9 000)	2
<i>New Town/ development area</i>	<i>Population on full development</i>	<i>Expected population at 31 March 1985</i>	<i>Expected increase in 1985-86</i>	<i>Expected population at 31 March 1986 as a percentage of full development</i>	<i>%</i>
Sai Kung	19 000	16 000	—	(16 000)	84
Tin Shui Wai	132 000	—	—	—	—
Other rural townships	64 000	55 000	1 000	(56 000)	88
Total	<u>3 470 000</u>	<u>1 643 000</u>	<u>91 000</u>	<u>(1 734 000)</u>	<u>50</u>

(2)

<i>New Town/ development area</i>	<i>Hectares on full development</i>	<i>Estimated hectares produced at 31 March 1985</i>	<i>Expected production in 1985-86</i>	<i>Expected hectares produced at 31 March 1986 as a percentage of full development</i>	<i>(%)</i>
Tsuen Wan, Kwai Chung and Tsing Yi	1 740	1 194	61	(1 255)	72
Sha Tin	1 472	920	108	(1 028)	70
Tuen Mun	1 228	710	53	(763)	62
Tai Po	1 121	523	45	(568)	51
Fanling/Shek Wu Hui	496	204	41	(245)	49
Yuen Long	87	66	16	(82)	94
Junk Bay (Phases 1 and 2)	560	31	21	(52)	9
Sai Kung	100	71	2	(73)	73
Tin Shui Wai	138	—	—	—	—
Other rural townships	405	65	1	(66)	16
Total	<u>7347</u>	<u>3784</u>	<u>348</u>	<u>(4132)</u>	<u>56</u>

Allocation in 1985-86

12. Expenditure envisaged for 1985-86 from the Capital Works Reserve Fund includes \$4,460 million for the continuing development of the new towns and rural townships, of which \$887 million is for land acquisition.

13. The main thrust continues to be in the direction of land production for housing, together with essential community facilities to cater for the needs of the growing populations of the new towns. The following tables show how the allocation in 1985-86 for the development of the new towns and rural townships is broken down:

(1)

	<i>Temporary Public housing areas housing (\$mn)</i>	<i>Schools (\$mn)</i>	<i>Hospitals and clinics (\$mn)</i>	<i>Recreation facilities (\$mn)</i>	<i>Other public buildings (\$mn)</i>	<i>Total (\$mn)</i>
Tsuen Wan, Kwai Chung and Tsing Yi	0.1 (5.7)	24.6 (67.4) 47.9 (54.4)		67.3 (36.9)	43.2 (34.1)	135.2 (144.1)
Sha Tin		30.7 (38.8)	4.5	107.4	(22.2)	194.2
Tuen Mun			(54.2)	(104.7)	(64.6)	(235.5)
			113.2	82.9		287.1
			(37.3)	(50.8)		(191.5)

	Public housing (\$mn)	Temporary housing areas (\$mn)	Schools (\$mn)	Hospitals and clinics (\$mn)	Recreational facilities (\$mn)	Other public buildings (\$mn)	Total (\$mn)
Tai Po/Fanling	3.0 (4.0)	43.1 (51.7)	0.2 (2.4)	17.6 (7.8)	22.2 (17.3)	86.1 (83.2)	
Yuen Long/Rural Townships		27.8 (10.8)	0.4 (0.8)	21.5 (9.2)	8.1 (11.2)	57.8 (32.0)	
Junk Bay/Sai Kung		3.8 (4.8)	4.4 (0.4)	5.3 (2.3)	2.3 (19.5)	15.8 (27.0)	
Miscellaneous	43.3(*) (29.9)	94.2 (51.7)				137.5 (81.6)	
Total	<u>43.4</u> <u>(35.6)</u>	<u>97.2</u> <u>(55.7)</u>	<u>177.9</u> <u>(227.9)</u>	<u>122.7</u> <u>(95.1)</u>	<u>302.0</u> <u>(211.7)</u>	<u>170.5</u> <u>(168.9)</u>	<u>913.7</u> <u>(794.9)</u>

Note: Revised estimates for 1984-85 shown in brackets. There will be no expenditure on housing or community facilities in Tin Shui Wai in 1985-86.

(*) Residual payments for urban housing developments not funded by the Housing Authority (\$1 million) and improvements to squatter areas for which there are no immediate clearance plans (\$42.3 million).

(2)

	Sewage disposal (\$mn)	Site formation, drainage and other engineering works (\$mn)	Refuse disposal (\$mn)	Roads and highways (\$mn)	Water-works (\$mn)	Miscellaneous (\$mn)	Total (\$mn)
Tsuen Wan, Kwai Chung and Tsing Yi Sha Tin	13.0 (0.2)	222.8 (200.1)	4.0 (0.8)	196.4 (190.3)	65.1 (78.1)		501.3 (469.5)
Tuen Mun	98.6 (144.3)	201.8 (154.2)	9.9 (8.4)	58.6 (97.2)	32.1 (22.2)		391.1 (417.9)
Tai Po/Fanling	1.1 (0.5)	177.5 (221.4)	6.5 (5.8)	15.7 (26.3)	48.7 (31.1)		252.9 (287.7)
Yuen Long/Rural Townships	64.7 (143.3)	210.1 (209.7)	4.7 (0.1)	270.8 (338.9)	47.7 (63.4)		599.8 (761.1)
Junk Bay/Sai Kung	1.5 (9.3)	186.2(*) (119.1)	27.0 (32.0)	125.8 (58.5)	31.4 (15.2)		349.6 (202.2)
Miscellaneous	147.8 (8.8)	231.5 (142.8)		19.9 (9.8)	76.4 (15.1)	61.9(+) (24.9)	502.6 (208.5)
Total	<u>326.7</u> <u>(306.4)</u>	<u>1,229.9</u> <u>(1,047.3)</u>	<u>52.1</u> <u>(47.1)</u>	<u>687.2</u> <u>(721.0)</u>	<u>301.4</u> <u>(225.1)</u>	<u>61.9</u> <u>(24.9)</u>	<u>2,659.2</u> <u>(2,371.8)</u>

Note: Revised estimates for 1984-85 shown in brackets.

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

(†) Miscellaneous allocations of \$61.9 million (\$24.9 million) are made for investigations, minor works and the employment of consultants to carry out design.

C. MAIN INFRASTRUCTURE FACILITIES

(a) Highways

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

15. 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 \$2,973 million. Expenditure to 31 March 1985 is expected to amount to \$2,319 million, mainly on the Aberdeen Tunnel (\$489 million), the Sha Tin to North Tai Po coastal trunk road (\$928 million), N.T. trunk road improvements— Lam Kam Road to Wo Hop Shek (\$119 million) the Cornwall Street/Waterloo Road grade-separated intersection (\$67 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 \$259 million in 1985-86 is mainly for the Sha Tin to North Tai Po coastal trunk road (\$162 million), N.T. trunk road improvements— Lam Kam Road to Wo Hop Shek (\$20 million) and North Tai Po to Lam Kam Road (\$39 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 \$3,374 million. Expenditure to 31 March 1985 is expected to amount to \$1,654 million, mainly on the Tuen Mun Road (\$519 million), the West Kowloon Corridor (\$192 million), the Tsuen Wan by-pass (\$743 million) and the Yuen Long to Au Tau dual carriageway (\$49 million). Allocation of \$250 million in 1985-86 is mainly for Fanling development package 3, engineering works (\$18 million), the Tsuen Wan by-pass (\$83 million), N.T. circular road improvements, Mai Po to Fan Kam (\$73 million) and the West Kowloon Corridor (\$66 million).

Route 3: from the Cross-Harbour Tunnel via Wuhu interchange and Chatham Road to the Airport Tunnel and then across Kowloon Bay reclamation to Lei Yue Mun via the Kwun Tong Road. The total estimated cost of improvements to this route is \$579 million. Expenditure to 31 March 1985 is expected to amount to \$527 million, mainly for the Airport Tunnel and its approaches (\$452 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 \$6 million in 1985-86 is for the completion of the Airport Tunnel Road and its approaches. 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 \$245 million. Expenditure to 31 March 1985 is expected to amount to \$173 million. The southern elevated road from Ngau Tau Kok Road to Kowloon Bay was opened to traffic in October 1984.

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 \$791 million. Allocation of \$17 million in 1985-86 is mainly for starting the construction of the main link between the two new towns of Sha Tin and Tsuen Wan (\$15 million). Allocations totalling \$5.9 million are made in 1985-86 for consultants' fees and investigations 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 \$243 million. Expenditure to 31 March 1985 is expected to amount to \$176 million, mainly in respect of the Tsuen Wan North development, stage V: Tai Ho Road/Castle Peak Road grade separated intersection (\$78 million), Tai Wo Tsuen interchange on Castle Peak Road (\$36 million) and the Castle Peak Road/Texaco Road grade separated intersection (\$43 million); the latter two projects have now been completed. Expenditure on Route 6 projects in 1985-86 is estimated at \$5 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 \$549 million. Expenditure to 31 March 1985 in respect of this route is expected to amount to \$56 million, mainly for the widening of Connaught Road Central which has now been completed (\$39 million) and the consultants' fees and site investigation of the elevated road along Connaught Road and

ancillary works (\$10 million). Allocation of \$25 million in 1985-86 is for the investigation and detailed design of the upgraded Connaught Road (\$10 million) and carrying out of advance works and traffic management measures in connection with upgrading and dualling of Connaught Road (\$15 million). Additional proposals for improvements with a total order of costs of \$1,326 million are under consideration.

Route 8: from Victoria Park to Chai Wan via the Hong Kong Island Eastern Corridor. Stage I and phase I of stage II of the Island Eastern Corridor from Causeway Bay to Tai Koo Shing were opened to traffic in June 1984. The remaining stages (except for the section between Shau Kei Wan and Pak Chai Wan) are still under construction. The total estimated cost of improvements to this route is \$1,895 million. Expenditure to 31 March 1985 is expected to be \$1,422 million, almost all of which is for the Hong Kong Island Eastern Corridor. Of the allocation of \$125 million in 1985-86 for Route 8 projects, \$120 million is for the Hong Kong Island Eastern Corridor.

16. In addition to improvements to the main routes, expenditure of \$479 million is envisaged in 1985-86 for secondary routes, miscellaneous minor roadworks and roads within new town layouts. The area traffic control system which is designed to increase the capacity of existing roads by improving traffic flow is already operating successfully in West Kowloon and is being extended to cover East Kowloon and the northern part of Hong Kong Island.

17. Annual expenditure on roadworks is shown in the following table:

	<i>1980-81</i>	<i>1981-82</i>	<i>1982-83</i>	<i>1983-84</i>	<i>1984-85</i> <i>(Revised</i>	<i>1985-86</i> <i>(Draft</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>Estimates)</i>	<i>Estimates)</i>
					<i>(\$mn)</i>	<i>(\$mn)</i>
Hong Kong	328	327	536	639	397	283
Kowloon	128	175	182	130	112	174
New Territories	352	689	682	956	732	713
Total	<u>808</u>	<u>1,191</u>	<u>1,400</u>	<u>1,725</u>	<u>1,241</u>	<u>1,170</u>

(b) Kowloon-Canton Railway

18. The programme for the electrification and modernisation of the Railway is now largely complete. A new permanent way depot at Fo Tan was handed over to the Kowloon-Canton Railway Corporation in August 1984 and the new station at Fo Tan will be handed over to the Corporation in February 1985. Delivery of rolling stock is expected to be completed in March 1985.

19. Contracts for the remaining civil engineering works between Hung Hom and Lo Wu, the transport interchange at Mong Kok Station and the new permanent station at Tai Wai continued during 1984, with completion expected in May 1985, June 1985 and May 1986 respectively.

20. Contracts for construction of a pedestrian subway under Chatham Road to facilitate construction of a shunt neck at Hung Hom and an extension of the existing transport interchange by decking over the Hung Hom goods yard started in 1984 with a view to completing the works in June 1985 and 1987 respectively. Works on a new passenger footbridge over the Shenzhen River at Lo Wu also started in 1984 and will be completed in May 1985.

21. Construction of the new Lo Wu terminal complex is expected to start in May 1985 and be completed in 1987. A contract for the provision of a goods yard and shunt neck at Mong Kok Station will be awarded in mid-1985 for completion in late 1986.

22. Total capital expenditure incurred on Kowloon-Canton Railway improvement projects up to the end of 1984-85 is expected to amount to \$2,330 million, of which \$214 million is expected to be spent in 1984-85. The estimate of expenditure in 1985-86 is \$165 million.

(c) Mass Transit Railway

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

24. 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 10 will be underground. The section from Admiralty to Chai Wan is scheduled to open by the end of May 1985 with the remaining section opening in 1986.

25. At the end of December 1984, 85 per cent 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 \$10,900 million.

(d) Waterworks

26. Construction of the stage I works for the reception and distribution of the increased supply of water from China has continued to progress well. Construction of the stage II works has also started. The major components covered by stages I and II of the system under implementation and the estimated costs, are as shown below:

	<i>Estimated cost</i> <i>(\$ million)</i>
<i>(a)</i> reception facilities at Muk Wu	84
<i>(b)</i> Muk Wu to Tai Lam Chung transfer system via Au Tau, including Fanling pumping station and Tsing Tam to Yau Kom Tau transfer system	460

	<i>Estimated cost</i> <i>(\$ million)</i>
(c) Muk Wu to Tai Po Tau transfer system	178
(d) new Lower Shing Mun transfer system	42
(e) Tai Mei Tuk 'B' pumping station and Harbour Island to Pak Kong transfer system	449
(f) Tai Po Tau to Ngau Tam Mei transfer system	71
(g) Associated works and miscellaneous	<u>66</u>
Total	<u><u>1,350</u></u>

These large projects will continue to account for the major portion of waterworks expenditure in 1985-86.

27. Construction of the new treatment works at Sheung Shui and Yau Kom Tau is nearing completion and construction of a new treatment works at Pak Kong, including the water transfer systems to Junk Bay New Town and Kowloon East area will start shortly.

28. Design and construction of new installations to meet anticipated increases in demand for Hong Kong Island, the Kowloon urban area, rural market towns and new towns continue. Works for distribution of additional water from the mainland to Hong Kong Island, for supplying Kowloon Bay reclamation, Sai Kung and Clear Water Bay Peninsula and Chai Wan are substantially complete.

29. Capital Works Reserve Fund expenditure in 1985-86 on waterworks is estimated at \$628 million. The following table gives the breakdown of this allocation, the total cost of the projects involved and the estimated expenditure to 31 March 1985:

<i>Description of projects</i>	<i>Total estimated cost of projects (\$mn)</i>	<i>Estimated expenditure to 31 March 1985 (\$mn)</i>	<i>Allocation in 1985-86 (\$mn)</i>	<i>Percentage complete as at 31 March 1985 (%)</i>
<i>On-going projects</i>				
(i) Projects of a territory-wide nature	4,393	3,360	287.2	76
(ii) Urban improvements—				
Hong Kong	324	232	27.8	72
Kowloon	234	177	46.7	76
(ii) New Territories Projects	1,028	544	142.8	53
<i>New projects to start in 1985-86</i>	<u>1,132</u>	<u>—</u>	<u>123.7</u>	<u>—</u>
Total	<u><u>7,111</u></u>	<u><u>4,313</u></u>	<u><u>628.2</u></u>	<u><u>61</u></u>

D. SOCIAL SERVICES

(a) Education

30. The education programme comprises not only pre-primary, primary and secondary education, including provision in ordinary schools for handicapped children and slow learners, but also adult education, technical education and industrial training, teacher training and retraining, the universities, the polytechnics, the Baptist College and certain courses at two post-secondary colleges.

Primary

31. The draft Estimates include recurrent and capital account provision of \$2,155 million for government and aided primary schools compared with the revised estimate for 1984-85 of \$2,116 million.

32. Free and universal primary education has been available since 1971 and there are surplus places in some primary schools, mainly in the 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 ten new primary schools are expected to be completed in 1985-86 in conjunction with the development of public housing estates in the new towns and other developing areas.

33. The draft Estimates include provision of \$6 million in capital subventions for constructing and equipping new primary school buildings, and \$130 million will be spent from the Capital Works Reserve Fund on the construction of 55 primary schools.

34. A system of controlling Primary 1 admission was introduced in September 1983, under which the permitted age of entry into Primary 1 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

35. 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 and on 8 January 1985 Government accepted the recommendations in the Education Commission's first report.

36. From September 1980, subsidised 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.

37. It is the Government's aim to increase during the 1980s the number of places in schools, technical institutes and adult education centres to meet the full demand from Form III leavers who are suitable for the kind of courses provided and to phase out the Junior Secondary Education Assessment by 1991. In pursuit of these objectives, expenditure on secondary schools and grants to the Vocational Training Council is envisaged to be \$2,650 million in 1985-86, compared with the revised estimate of \$2,487 million for 1984-85.

38. In September 1984, there were 54 430 subsidised Form IV places. At the five fully developed technical institutes, the number of places on craft courses in September 1985 for post-Form III trainees will be 2 200 on full-time courses and 10 400 on part-time day courses.

39. The general expansion in the number of secondary school places is combined with developments to improve the overall standard of secondary education by a progressive increase in the number of places in fully aided schools. The number of aided secondary schools has increased from 253 in September 1983 to 276 in September 1984.

40. The Government is also engaged in a secondary school building programme which will produce some 28 new schools by 1988-89. The draft Estimates include \$59 million in Capital Works Reserve Fund expenditure for the construction of 14 secondary schools and \$2 million for the conversion of a surplus government primary school into a practical education centre. In addition provision of \$88 million in capital subventions is included for building and equipping new school buildings.

41. In order to allow schools to concentrate more staff resources in counselling and guidance, remedial teaching and extra-curricular activities, two additional graduate teachers were provided in each standard-sized government and aided secondary school in September 1982 and one in September 1983 and two additional non-graduate teachers were to be provided when sufficient trained non-graduate teachers were available. It is now planned to provide these additional non-graduate teachers one in 1986 and the other in 1987.

42. To train sufficient non-graduate teachers for the various approved developments, two annexes were opened in the Colleges of Education in September 1982 and additional accommodation was leased in 1984. As the enrolment of students is expected to rise from 3 390 full-time equivalents in September 1984 to 3 802 in September 1985, further conversion works to provide additional teaching space in the Northcote College of Education and the Sir Robert Black College of Education will be effected in 1985-86.

Post-secondary and tertiary level

43. The draft Estimates provide \$1,983 million for expenditure in connection with post-secondary and tertiary education. This compares with the revised estimate for 1984-85 of \$1,808 million.

44. These grant levels include \$31 million for interest payment on a loan obtained by the City Polytechnic to finance the purchase of temporary premises and earmarked grants of \$116 million for the City Polytechnic, \$64 million for the Baptist College and \$90 million for the development of a medical school at The Chinese University of Hong Kong. In September 1984, the medical school had its fourth intake of 120 students.

45. \$222 million has been provided for capital expenditure for building programmes at the universities, polytechnics and the Baptist College in 1985-86.

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 1985-86 is \$192 million compared with the revised estimate for 1984-85 of \$179 million.

47. The Technical Education and Industrial Training Department administers grants to the Vocational Training Council (VTC) 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 transfer of Diploma and Certificate Courses from the Hong Kong Polytechnic to the technical institutes, which began in 1981, will continue in 1985-86. The process of transfer 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. In September 1985, the number of places on technician and Diploma courses at the five technical institutes will be 3 500 on full-time courses and 4 100 on part-time day courses.

49. Grant to the Vocational Training Council will increase from \$404 million in 1984-85 to \$433 million in 1985-86.

50. The total estimate for the education programme in 1985-86, compared with the revised estimate for 1984-85 is as follows—

	<i>1984-85</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$mn)</i>	<i>1985-86</i> <i>(Draft</i> <i>Estimates)</i> <i>(\$mn)</i>
<i>Education Department</i>	684.3	725.7
<i>Education Subventions</i>	3,781.2	4,010.3
<i>Technical Education and Industrial Training</i> <i>Department</i>	404.4	433.2

	<i>1984-85</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$mn)</i>	<i>1985-86</i> <i>(Draft</i> <i>Estimates)</i> <i>(\$mn)</i>
Universities and Polytechnics	1,718.4	1,884.2
Capital works (Public Works Programme)	<u>239.8</u>	<u>188.8</u>
	<u>6,828.1</u>	<u>7,242.2</u>

(b) Medical and Health

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

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

(a) Regional approach

The process of regionalisation has been continued by the provision of additional staff to strengthen the regional offices for Hong Kong, Kowloon and the New Territories. In January 1984, the New Territories region was split into two regions with the existing New Territories regional office serving the 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, for which capital subventions of \$96,954,000 have been provided in 1985-86.

(b) Hospital service

The formula for determining the need for hospital beds is constantly being refined by the MDAC in terms of the actual number of beds required, rather than a crude bed: population ratio of 5.5 per 1 000 population. By the end of 1985-86, there will be some 24 200 beds in government, subvented and private hospitals. These will meet approximately 80 per cent of the estimated requirement. Essential services of the \$645 million Prince of Wales Hospital will be fully operational by the middle of this year. In addition to \$112.3 million for the government hospital project in Tuen Mun, \$87.8 million will be spent in 1985-86 on improvements and extensions to Queen Mary Hospital and Tang Shiu Kin Hospital. A further \$17.1 million will be spent on site formation works and consultants' fees 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, thirteen new clinics and polyclinics are at present included in the Public Works Programme.

(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. Work on a third school dental clinic will be completed by mid-1985 and dental treatment will then be provided for children in Primary 1 to 5. In the meantime, work will continue on the fourth clinic in Lam Tin. Four other clinics are planned and when completed the service will cover all primary school children.

(e) Community nursing service

The community nursing scheme has been recognised as an integral part of medical and health services in Hong Kong. The Government has participated directly in the scheme since 1979 and participating voluntary organisations are subvented on a deficiency grant basis. In 1983, the service handled a total of 12 846 patients involving 206 200 home visits. At present, there are 19 government centres and 27 centres run by seven voluntary agencies. An additional 12 centres are being planned in the next five years.

53. The Draft Estimates provide for expenditure by the Medical and Health Department in 1985-86 of \$2,347.3 million compared with the revised estimate for 1984-85 of \$2,116.0 million, and for expenditure on medical subventions of \$1,129.9 million compared with the revised estimate for 1984-85 of \$1,017.2 million.

54. The total estimate for the medical and health programme in 1985-86 compared with the revised estimate for 1984-85 is as follows:

	<i>1984-85</i> <i>(Revised</i> <i>Estimates)</i> <i>(\$mn)</i>	<i>1985-86</i> <i>(Draft</i> <i>Estimates)</i> <i>(\$mn)</i>
Medical and Health Department	2,116.0	2,347.3
Medical Subventions	1,017.2	1,129.9
Capital Works	174.4	315.5
	<u>3,307.6</u>	<u>3,792.7</u>

(c) Social Welfare

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

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

Social security—to meet the basic needs of vulnerable groups in the community through a system of measures which provide financial or other assistance.

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

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

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

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

Personal social work among young people—to guide and counsel young people from anti-social and delinquent behaviour.

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

Progress

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

<i>Activity area</i>	<i>Service</i>	1981-82	1982-83	1983-84	1984-85	1985-86
Social security	Public assistance (caseload)	45 752	51 267	56 090	58 300	58 600
	Special needs allowances (caseload)	203 517	221 953	240 311	257 000	273 000
Services for offenders	Correctional institutions (number of places)	586	586	586	646	706
	Probation (supervision caseload)	3 245	3 036	3 389	3 468	3 600
	(Number of social enquiry reports)	8 310	8 092	8 610	8 788	9 050
	Aftercare (caseload)	236	277	259	260	260

<i>Activity area</i>	<i>Service</i>	<i>1981-82</i>	<i>1982-83</i>	<i>1983-84</i>	<i>1984-85</i>	<i>1985-86</i>
Family welfare services	Counselling (caseload)	25 000	27 137	27 821	27 952	28 447
	Child Care Centres (number of places)	11 296	13 766	14 302	15 174	16 824
Services for the elderly	Homes for the aged (number of places)	3 730	3 960	4 116	4 301	4 577
	Hostels (number of places)	1 140	1 295	1 247	1 307	1 451
	Care and attention homes (number of places)	375	490	920	1 060	1 348
	Housing for the elderly (number of places)	—	—	474	589	589
Community building	Youth and Community offices	19	19	19	19	19
	Community centres, estate community centres and community halls	45	53	57	65	66
Personal social work among young people	School social work (number of student guidance officers)	218	215	215	215	215
	School social workers	112	120	122	125	129
	Outreaching social work (number of teams)	18	18	18	18	18
	Family life education (number of workers)	49	54	56	56	56
Rehabilitation	Special child care centres (number of places)	420	500	834	960	1 140
	Residential care for the disabled (number of places)	2 308	2 525	2 595	3 510	4 310

58. The public assistance scheme is designed to bring the income of a family, or of a single person in certain circumstances, up to a level where essential needs such as food and clothing can be met. The cost of accommodation is covered separately by a rental allowance, the maximum rates of which were increased in June 1981 to 200 per cent and 150 per cent of the highest public housing rent for singleton-households and families respectively. The public assistance caseload, which fell steadily from around 49 900 in 1976 to around 45 700 in 1980, rose by the end of 1984 to around 59 100. Only some 6 per cent of the present caseload is in respect of persons unemployed or earning a low income.

59. The basic rates for public assistance and the special needs allowances (disability and old age) were increased by 13.3 per cent in February 1984. The Draft Estimates include provision of \$576.6 million for public assistance (compared with the revised estimate of \$575.5 million for 1984-85) and \$906.6 million for special needs allowances (compared with the revised estimate of \$838.7 million in 1984-85). A non-means-tested death grant will be introduced in 1985-86. This will be payable to the dependent survivors of persons who die

in employment if the deceased are not covered by the terms of the Employment Ordinance or if the survivors are not in receipt of any other form of compensation or *ex-gratia* assistance.

60. A large proportion of recurrent expenditure will continue to be channelled through social welfare subventions to voluntary agencies. In October 1981 a revised subvention system was approved under which the social services and facilities provided by organisations and trusts will be classified as Category I or Category II depending on their nature. Services in Category I receive subvention at 100 per cent of the standard cost and services in Category II part only of the standard cost or a lump sum if standard costs cannot be established. In 1983-84 standard costs were introduced and at present apply to seven services, namely neighbourhood level community development projects, family life education, family casework, small group homes, foster care, school social work and pool buses for elderly. However, a review of the standard cost system showed that the application of mid-point salary in the calculation of personal emoluments has resulted in large surpluses in agencies' accounts. This is clearly undesirable and, pending a review of the current arrangements, the Director of Social Welfare does not recommend any extension of the standard cost system in 1985-86. Subventions for other services, in the interim, will continue to be granted for Category I services at 100 per cent of existing recognised expenditure, adjusted for price increases, and for Category II services at a fixed percentage based on the average level of financial support for that service (adjusted for price increases) or an appropriate lump sum. In calculating subventions to social welfare agencies only fee income received by agencies and interest accrued from subvention monies not immediately spent will be taken into account.

61. The total estimate for the social welfare programme in 1985-86 compared with the revised estimate for 1984-85, is as follows:

	<i>1984-85</i>	<i>1985-86</i>
	<i>(Revised</i>	<i>(Draft</i>
<i>Social Welfare Departmen</i>	<i>Estimates)</i>	<i>Estimates)</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>
Social Welfare Subventions	1,716.3	1,800.1
Capital works (Public Works Programme)	386.3	421.2
	34.1	15.6
	<u>2,135.6</u>	<u>2,236.9</u>

(d) Rehabilitation

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

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

63. As part of a concerted programme to prevent serious disability by the detection of abnormalities as early as possible, the Medical and Health Department operates a comprehensive observation scheme for the development testing of children from birth to five years old. The draft Estimates provide funds for 33 full-time centres for such tests.

64. When children enter primary school they are screened for possible speech defects, vision or hearing impairment, and for difficulties in learning and possible retardation. Children identified as needing further assessment or remedial treatment are referred to specialists in either the Medical and Health Department or the Education Department and 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. Specialised placement services are offered to the disabled in their search for jobs.

65. A unified Code of Aid for Special Schools was introduced in April 1984 and a review of boarding care service in special schools was made in September 1984. As a result, considerable staffing and resource improvements are now available in special schools. During 1984-85, the range of intensive remedial services for children with learning difficulties in ordinary schools has further expanded to meet the special educational needs of more pupils in ordinary schools. In 1985-86, the approved capital programme to build new special schools and to convert ordinary school buildings for use as special schools will continue and \$7.8 million is included in the draft Estimates.

66. In the field of medical rehabilitation, priority is given to the improvement of services for the mentally ill, provision of 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 to be established by 1988 will be located in the Prince of Wales Hospital. In the subvented sector, the medical rehabilitation centre at Sandy Bay was completed in December 1984.

67. 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 one special child care day centre, two halfway houses, one social and recreation centre, and one home and work activity centre for the mentally handicapped in the subvented sector. During 1985-86, the Social Welfare Department plans to provide additional medical social services for ex-mental patients.

68. In the technical education and industrial training field, the total provision of training places in Government and subvented vocational training centres will be increased from 616 to about 640 in 1985-86. It is expected that the demand for vocational assessment service will continue to be strong and the facilities available will be able to meet the demand.

69. In the field of vocational rehabilitation, the Labour Department continues to provide specialised employment assistance to physically handicapped people, including the blind, deaf and the physically disabled. Since the second half of 1984, the service has been extended to cover the mentally handicapped and exmentally ill. In providing such service, employment opportunities are matched with the vocational abilities and aspirations of individual disabled people.

70. The primary responsibility for providing rehabilitation services is shared by three departments, Education, Medical and Health and Social Welfare. In the draft Estimates for 1985-86 a total of \$646.41 million is separately identified in these departments' budgets for rehabilitation services:

	<i>Recurrent</i> <i>(\$mn)</i>	<i>Non-Recurrent</i> <i>(\$mn)</i>	<i>Total</i> <i>(\$mn)</i>
Education	184.05	13.00	197.05
Medical and Health	319.42	36.77	356.19
Social Welfare	<u>92.87</u>	<u>0.30</u>	<u>93.17</u>
	<u>596.34</u>	<u>50.07</u>	<u>646.41</u>

71. However, the real cost of rehabilitation services including staff on-costs, central administration and support, and capital expenditure on the basis of the provision included in 1985-86 draft Estimates as compared to the 1984-85 revised estimates is:

	<i>1984-85</i> <i>(\$mn)</i>			<i>1985-86</i> <i>(\$mn)</i>		
	<i>Recurrent</i>	<i>Non- Recurrent</i>	<i>Total</i>	<i>Recurrent</i>	<i>Non- Recurrent</i>	<i>Total</i>
Medical and Health Department	378.19	6.97	385.16	419.53	18.34	437.87
Medical Subventions	62.17	15.65	77.82	71.88	18.43	90.31
Education Department	49.44	0.20	49.64	51.70	0.30	52.00
Education Subventions	140.45	6.80	147.25	153.01	12.70	165.71
Social Welfare Department	32.38	0.40	32.78	35.68	0.30	35.98
Social Welfare Subventions	59.73	—	59.73	68.80	—	68.80
Technical Education and Industrial Training Department	11.97	0.26	12.23	14.66	0.15	14.81
Labour Department Education and Manpower Branch, Rehabilitation Division	7.80	0.01	7.81	7.90	0.02	7.92
	<u>3.05</u>	<u>0.06</u>	<u>3.11</u>	<u>3.36</u>	<u>—</u>	<u>3.36</u>
	<u>745.18</u>	<u>30.35</u>	<u>775.53</u>	<u>826.52</u>	<u>50.24</u>	<u>876.76</u>

E. SECURITY SERVICES

(a) Immigration

72. In 1984, the Immigration Department recorded a 22.1 per cent increase in passenger traffic bringing the total number of people entering and leaving Hong Kong to 33.7 million. Legal immigration from China was 27 755. The number of illegal immigrants and overstayers repatriated totalled 14 227.

73. Consolidated Account expenditure on immigration is estimated at \$317.5 million in 1985-86, compared with the revised estimate of \$298.6 million for 1984-85.

74. The identity card replacement scheme which commenced in March 1983 continued to make good progress in the past year. The first cycle dealing with young men below the age of 36 was completed slightly ahead of schedule in April 1984 and the women's cycle started immediately afterwards. Meanwhile the study of the feasibility of introducing a computer system to assist in immigration control work has been completed and the recommendations are being considered by the Government.

(b) Law and order

75. Estimated Consolidated Account expenditure in 1985-86 for law and order is \$3,587.7 million, compared with a revised estimate of \$3,368.2 million in 1984-85. The largest area of spending in 1985-86 is the Royal Hong Kong Police Force, including the Auxiliary Police Force, for which \$2,375 million is shown in the Draft Estimates. The establishment of the regular force will increase from 30 310 at the end of 1984 to about 31 084 at the end of 1985. The average daily turnout of members of the Auxiliary Police will remain at 700 in 1985-86.

76. 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. Contracts for the construction of 15 new vessels were signed in November 1983 at a total cost of \$123 million and the delivery of these new launches, five in 1984-85, is on schedule. The remaining ten vessels will be delivered in 1985-86. Tender has been called for the replacement of three water jet boats at an estimated cost of \$5.9 million per boat and the phased expenditure for 1985-86 will be \$8 million. Contract for the construction of two divisional command launches will be let in November 1985 at an estimated cost of \$80 million. The two vessels will be delivered in 12 months' time and the phased expenditure for 1985-86 will be \$30 million.

77. The Joint Maritime Communications Project and the updating of Marine Police radar were completed in 1984. The installation of the comprehensive communications system for the Mass Transit Railway's Island and Tsuen Wan Extension lines estimated at \$13.6 million will be completed in 1985. A closed circuit television system for the Island Line costing around \$14.8 million will

78. also be installed. Development of the ultra high frequency personal beat radio scheme will proceed in 1985-86, to cover the Airport Division, at a cost of \$17.25 million. An interim beat radio scheme will also be provided for five formations in the New Territories in 1985-86 at a cost of \$4 million. During 1985, the Force's teleprinter system will be replaced at a cost of \$7.12 million; and the computer assisted command and control system will be refurbished at about \$1.68 million.

78. It is estimated that \$207.3 million will be spent on the Police building programme in 1985-86 compared with \$148.8 million in 1984-85. A further four Police community facilities are planned for development in 1985-86 to encourage more reporting of crime and better communication between the Police and the public.

79. There was a decrease of 2.9 per cent in overall crime in 1984. Violent crime, which registered an increase in 1983, decreased by 2.2 per cent this year. Robberies decreased by 12.8 per cent. However, burglaries increased by 12.0 per cent. The muster of convicted prisoners and persons held on remand by the Correctional Services Department levelled off in 1984 after a steady trend of increase over the preceding years. It remained at the 1983 level of just under 7 900. One of the contributing factors was the effort made in 1984 by the department to further reduce the average length of stay in its Drug Addiction Treatment Centre, Training Centre and Detention Centre programmes. This was achieved without affecting the overall success of the programmes. The number of Vietnamese refugees in Government-run centres rose from 5 761 on 1 January 1984 to 6 005 on 31 December 1984: an increase of 4 per cent over the year.

80. An estimated total of \$28.3 million is required in 1985-86 for capital expenditure on Correctional Services buildings and installations, including the further expansion of Hei Ling Chau, the expansion of detention facilities at Siu Lam Psychiatric Centre, a new workshop at Pik Uk Prison, additional departmental staff quarters, a security wall for Tai Lam Centre for Women, and a pier for the maximum security prison at Shek Pik. This compares with \$22 million in 1984-85.

81. The expansion and diversification of Correctional Services Industries continued in 1984-85 in order to reduce Government expenditure, keep prisoners gainfully employed and enable them to learn work skills. To enable the Commissioner of Correctional Services to cope effectively with the growing demand, to maintain workable stock levels and to ensure the continued employment of prisoners, the gross expenditure on raw materials increased from \$17.5 million to \$25 million in 1984-85, and this provision has been included in the Draft Estimates. This is a direct result of an increase in the level of production. The total commercial value of goods and services produced in 1984-85 amounted to \$99.7 million, an increase of \$29.3 million or 40 per cent over 1983-84.

82. 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.

83. It is estimated that \$105 million, compared with \$129.4 million in 1984-85, will be spent on the Judiciary's buildings and installations, notably the new District Court and Magistracy Building on the Wan Chai reclamation.

(c) Internal Security

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

85. The Draft Estimates provide for total expenditure of \$1,603 million on internal security in 1985-86, compared with the revised estimate of \$1,511 million for 1984-85. The main item in internal security 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.

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

87. 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 and maintenance for 1985-86 will total \$193 million. In addition to works services under the Agreement there is a reprovisioning programme for military facilities at 100 per cent 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 1988).

Expenditure in 1985-86 on the Lyemun and Sham Shui Po reprovisioning programme and on the new training camp to be built at Lantau are estimated at \$40 million and \$1 million respectively.

88. 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 arrived in Hong Kong in November 1984. \$11 million is required in 1985-86 for the Hong Kong Government's 75 per cent contribution to the capital cost in the year.

APPENDIX C**CRITERIA FOR GRANTING DEPOSIT-TAKING COMPANY LICENCES**

There are statutory provisions in Part IVA of the Deposit-taking Companies Ordinance governing the licensing of registered deposit-taking companies. In addition to these, the Financial Secretary, when exercising his discretion to grant or refuse a licence, will have regard to the following discretionary criteria.

- (a) The applicant company
 - either (i) is incorporated in Hong Kong
 - or (ii) if incorporated elsewhere is subject to adequate prudential supervision by the recognised banking authorities of its country of incorporation.
- (b) The company has actively traded as a DTC for at least three years before the date of application.
- (c) The company is in reputable ownership and the beneficial owner of any holding of 10 per cent or more of the voting share capital is identifiable and reputable.
- (d) The management of the company is in fit and proper hands (applying equally to the head office of the company if it is outside Hong Kong).
- (e) The company is in good general standing within the financial community.
- (f) The company has substantial assets (net of contra items) on its books in Hong Kong, with a record of steady growth and prudent trading for at least three years.
- (g) If the company is a subsidiary or associate of a licensed bank in Hong Kong, it is widely recognised as an entity in its own right, and has a separate management structure at executive levels.

	<i>Single</i>	<i>Single</i>	<i>Single</i>	<i>Married</i>	<i>Married</i>	<i>Married</i>	<i>Married</i>
	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Less: Personal allowance	<u>28,000</u>	<u>28,000</u>	<u>28,000</u>	<u>58,000</u>	<u>58,000</u>	<u>58,000</u>	<u>58,000</u>
	92,000	92,000	92,000	62,000	62,000	62,000	62,000
Less: Child allowance	—	—	—	—	15,000	15,000	15,000
Dependent parent allowance	<u>—</u>	<u>16,000</u>	<u>22,000</u>	<u>—</u>	<u>—</u>	<u>16,000</u>	<u>22,000</u>
Net chargeable income	92,000	76,000	70,000	62,000	47,000	31,000	25,000
Tax thereon	17,500	13,500	12,000	10,000	6,400	3,200	2,250
Effective rate	14.6%	11.3%	10.0%	8.3%	5.3%	2.7%	1.9%

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

	<i>Single</i>	<i>Single</i>	<i>Single</i>	<i>Married</i>	<i>Married</i>	<i>Married</i>	<i>Married</i>
	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Salary per annum	180,000	180,000	180,000	180,000	180,000	180,000	180,000
Less: Personal allowance	<u>28,000</u>	<u>28,000</u>	<u>28,000</u>	<u>58,000</u>	<u>58,000</u>	<u>58,000</u>	<u>58,000</u>
	152,000	152,000	152,000	122,000	122,000	122,000	122,000
Less: Child allowance	—	—	—	—	15,000	15,000	15,000
Dependent parent allowance	<u>—</u>	<u>16,000</u>	<u>22,000</u>	<u>—</u>	<u>—</u>	<u>16,000</u>	<u>22,000</u>
Net chargeable income	152,000	136,000	130,000	122,000	107,000	91,000	85,000
Tax thereon	30,600	28,500	27,000	25,000	21,250	17,250	15,750
Effective rate	17.0%	15.8%	15.0%	13.9%	11.8%	9.6%	8.8%

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

	Single (\$)	Single with two dependent parents (\$)	Single with two dependent parents with additional allowance (\$)	Married with no children (\$)	Married with two children (\$)	Married with two children and two dependent parents (\$)	Married with two children and two dependent parents with additional allowance (\$)
Salary per annum	216,000	216,000	216,000	216,000	216,000	216,000	216,000
Less: Personal allowance	<u>28,000</u>	<u>28,000</u>	<u>28,000</u>	<u>58,000</u>	<u>58,000</u>	<u>58,000</u>	<u>58,000</u>
	188,000	188,000	188,000	158,000	158,000	158,000	158,000
Less: Child allowance	—	—	—	—	15,000	15,000	15,000
Dependent parent allowance	—	<u>16,000</u>	<u>22,000</u>	—	—	<u>16,000</u>	<u>22,000</u>
Net chargeable income	188,000	172,000	166,000	158,000	143,000	127,000	121,000
Tax thereon	36,720	36,720	36,000	34,000	30,250	26,250	24,750
Effective rate	17.0%	17.0%	16.7%	15.7%	14.0%	12.2%	11.5%

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

	Single (\$)	Single with two dependent parents (\$)	Single with two dependent parents with additional allowance (\$)	Married with no children (\$)	Married with two children (\$)	Married with two children and two dependent parents (\$)	Married with two children and two dependent parents with additional allowance (\$)
Salary per annum	288,000	288,000	288,000	288,000	288,000	288,000	288,000
Less: Personal allowance	<u>28,000</u>	<u>28,000</u>	<u>28,000</u>	<u>58,000</u>	<u>58,000</u>	<u>58,000</u>	<u>58,000</u>
	260,000	260,000	260,000	230,000	230,000	230,000	230,000
Less: Child allowance	—	—	—	—	15,000	15,000	15,000
Dependent parent allowance	—	<u>16,000</u>	<u>22,000</u>	—	—	<u>16,000</u>	<u>22,000</u>
Net chargeable income	260,000	244,000	238,000	230,000	215,000	199,000	193,000
Tax thereon	48,960	48,960	48,960	48,960	48,250	44,250	42,750
Effective rate	17.0%	17.0%	17.0%	17.0%	16.8%	15.4%	14.8%

APPENDIX E**(1) EFFECT ON SALARIES TAX OF PROPOSED INCREASES IN ADDITIONAL MARRIED ALLOWANCE AND CHANGE IN THE MARGINAL TAX RATES SPECIFIED IN THE SECOND SCHEDULE***Single person*

<i>Annual income</i> (<i>\$</i>)	<i>Present</i> (<i>exempt up to \$28,000</i>)		<i>Proposed(exempt up to \$28,000)</i>		<i>Tax saving</i> (<i>\$</i>) (<i>%</i>)	
	<i>Tax payable</i> (<i>\$</i>)	<i>Effective rate</i> (<i>%</i>)	<i>Tax payable</i> (<i>\$</i>)	<i>Effective rate</i> (<i>%</i>)		
72,000	6,000	8.3	5,800	8.1	200	3.3
84,000	9,000	10.7	8,500	10.1	500	5.6
96,000	12,000	12.5	11,500	12.0	500	4.2
108,000	15,000	13.9	14,500	13.4	500	3.3
120,000	18,000	15.0	17,500	14.6	500	2.8
132,000	21,000	15.9	20,500	15.5	500	2.4
144,000	24,000	16.7	23,500	16.3	500	2.1
(150,000)	25,500	17.0	25,000	16.7	500	2.0
(156,250)	26,562	17.0	26,562	17.0	NIL	—

Married person, with no children

	<i>(exempt up to \$56,000)</i>		<i>(exempt up to \$58,000)</i>		<i>Tax saving</i> (<i>\$</i>) (<i>%</i>)	
	<i>Tax payable</i> (<i>\$</i>)	<i>Effective rate</i> (<i>%</i>)	<i>Tax payable</i> (<i>\$</i>)	<i>Effective rate</i> (<i>%</i>)		
59,000	150	0.3	50	0.1	100	66.7
72,000	1,100	1.5	900	1.3	200	18.2
84,000	2,700	3.2	2,400	2.9	300	11.1
96,000	5,000	5.2	4,600	4.8	400	8.0
108,000	8,000	7.4	7,000	6.5	1,000	12.5
120,000	11,000	9.2	10,000	8.3	1,000	9.1
132,000	14,000	10.6	13,000	9.8	1,000	7.1
144,000	17,000	11.8	16,000	11.1	1,000	5.9
180,000	26,000	14.4	25,000	13.9	1,000	3.8
216,000	35,000	16.2	34,000	15.7	1,000	2.9
(237,500)	40,375	17.0	39,375	16.6	1,000	2.5
(250,000)	42,500	17.0	42,500	17.0	NIL	—

(2) EFFECT ON SALARIES TAX OF PROPOSED INCREASES IN ADDITIONAL MARRIED ALLOWANCE AND CHILD ALLOWANCE AND CHANGE IN THE MARGINAL TAX RATES SPECIFIED IN THE SECOND SCHEDULE

Single person, with two children

<i>Annual income</i> (\$)	<i>Present</i> (exempt up to \$41,500)		<i>Proposed</i> (exempt up to \$43,000)		<i>Tax saving</i> (\$)		<i>(%)</i>
	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)			
44,000	125	0.3	50	0.1	75		60.0
60,000	1,350	2.3	1,200	2.0	150		11.1
72,000	3,100	4.3	2,850	4.0	250		8.1
84,000	5,625	6.7	5,200	6.2	425		7.6
96,000	8,625	9.0	7,750	8.1	875		10.1
108,000	11,625	10.8	10,750	10.0	875		7.5
120,000	14,625	12.2	13,750	11.5	875		6.0
144,000	20,625	14.3	19,750	13.7	875		4.2
180,000	29,625	16.5	28,750	16.0	875		3.0
(192,187)	32,671	17.0	31,796	16.5	875		2.7
(203,125)	34,531	17.0	34,531	17.0	NIL		—

Married person, with two children

	<i>(exempt up to \$69,500)</i>		<i>(exempt up to \$73,000)</i>		<i>Tax saving</i> (\$)		<i>(%)</i>
	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)			
74,000	225	0.3	50	0.1	175		77.8
84,000	950	1.1	600	0.7	350		36.8
96,000	2,475	2.6	1,950	2.0	525		21.2
108,000	4,700	4.4	4,000	3.7	700		14.9
120,000	7,625	6.4	6,400	5.3	1,225		16.1
144,000	13,625	9.5	12,250	8.5	1,375		10.1
180,000	22,625	12.6	21,250	11.8	1,375		6.1
216,000	31,625	14.6	30,250	14.0	1,375		4.3
252,000	40,625	16.1	39,250	15.6	1,375		3.4
(279,687)	47,546	17.0	46,171	16.5	1,375		2.9
(296,875)	50,468	17.0	50,468	17.0	NIL		—

(3) EFFECT ON SALARIES TAX OF PROPOSED INCREASES IN ADDITIONAL MARRIED ALLOWANCE, CHILD ALLOWANCE AND ADDITIONAL DEPENDENT PARENT ALLOWANCE AND CHANGE IN THE MARGINAL TAX RATES SPECIFIED IN THE SECOND SCHEDULE

Single person, with two children and two dependent parents

Annual income (\$)	Present (exempt up to \$61,500)		Proposed (exempt up to \$65,000)		Tax saving	
	Tax payable (\$)	Effective rate (%)	Tax payable (\$)	Effective rate (%)	(\$)	(%)
66,000	225	0.3	50	0.1	175	77.8
72,000	550	0.8	350	0.5	200	36.4
84,000	1,875	2.2	1,400	1.7	475	25.3
96,000	3,900	4.1	3,200	3.3	700	17.9
108,000	6,625	6.1	5,600	5.2	1,025	15.5
120,000	9,625	8.0	8,250	6.9	1,375	14.3
144,000	15,625	10.9	14,250	9.9	1,375	8.8
180,000	24,625	13.7	23,250	12.9	1,375	5.6
216,000	33,625	15.6	32,250	14.9	1,375	4.1
(254,687)	43,296	17.0	41,921	16.5	1,375	3.2
(271,875)	46,218	17.0	46,218	17.0	NIL	—

Married person, with two children and two dependent parents

	(exempt up to \$89,500)		(exempt up to \$95,000)			
	Tax payable (\$)	Effective rate (%)	Tax payable (\$)	Effective rate (%)	(\$)	(%)
96,000	325	0.3	50	0.1	275	84.6
108,000	1,350	1.3	800	0.7	550	40.7
120,000	3,100	2.6	2,250	1.9	850	27.4
144,000	8,625	6.0	6,800	4.7	1,825	21.2
180,000	17,625	9.8	15,750	8.8	1,875	10.6
216,000	26,625	12.3	24,750	11.5	1,875	7.0
252,000	35,625	14.1	33,750	13.4	1,875	5.3
288,000	44,625	15.5	42,750	14.8	1,875	4.2
324,000	53,625	16.6	51,750	16.0	1,875	3.5
(342,187)	58,171	17.0	56,296	16.5	1,875	3.2
(365,625)	62,156	17.0	62,156	17.0	NIL	—

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

	<i>Present</i> (\$)	<i>Proposed</i> (\$)
<i>No dependent parent</i>		
Single	150,000	156,250
Married	237,500	250,000
Married + 1 child	262,500	278,125
Married + 2 children	279,687	296,875
Married + 3 children	289,062	306,250
<i>Including two dependent parents</i>		
Single	200,000	206,250
Married	287,500	300,000
Married + 1 child	312,500	328,125
Married + 2 children	329,687	346,875
Married + 3 children	339,062	356,250
<i>Including two dependent parents with additional allowance</i>		
Single	212,500	225,000
Married	300,000	318,750
Married + 1 child	325,000	346,875
Married + 2 children	342,187	365,625
Married + 3 children	351,562	375,000

APPENDIX G**DETAILS OF REVENUE PROPOSALS FOR UTILITIES AND FEES AND CHARGES***(a) POSTAGE RATES, POSTAL FEES AND CHARGES AND
TELECOMMUNICATION LICENCE FEES*

	<i>Existing rate</i>	<i>Proposed rate</i>
	\$	\$
A. Inland Mail		
1. <i>Letter Post</i>		
(a) Letters and postcards		
(i) not exceeding 30 g	0.40	0.50
(ii) exceeding 30 g but not exceeding 50 g	0.70	0.90
(iii) exceeding 50 g but not exceeding 100 g	1.00	1.20
(iv) exceeding 100 g but not exceeding 250 g	1.60	2.00
(v) exceeding 250 g but not exceeding 500 g	3.00	3.80
(vi) exceeding 500 g but not exceeding 1 kg	6.00	7.50
(vii) exceeding 1 kg but not exceeding 2 kg	9.00	11.00
(b) Printed papers		
(i) not exceeding 30 g	0.30	0.40
(ii) exceeding 30 g but not exceeding 50 g	0.40	0.50
(iii) exceeding 50 g but not exceeding 100 g	0.60	0.80
(iv) exceeding 100 g but not exceeding 250 g	1.00	1.20
(v) exceeding 250 g but not exceeding 500 g	1.60	2.00
(vi) exceeding 500 g but not exceeding 1 kg	2.40	3.00
2. <i>Parcel Post</i>		
(a) not exceeding 1 kg	6.00	10.00
(b) exceeding 1 kg but not exceeding 2 kg	12.00	15.00
(c) exceeding 2 kg but not exceeding 3 kg	18.00	20.00
(d) exceeding 3 kg but not exceeding 4 kg	24.00	25.00
(e) exceeding 4 kg but not exceeding 5 kg	30.00	30.00
(f) exceeding 5 kg but not exceeding 6 kg	36.00	35.00
(g) exceeding 6 kg but not exceeding 7 kg	42.00	40.00
(h) exceeding 7 kg but not exceeding 8 kg	48.00	45.00
(i) exceeding 8 kg but not exceeding 9 kg	54.00	50.00
(j) exceeding 9 kg but not exceeding 10 kg	60.00	55.00
B. Overseas Surface Mail		
1. <i>To China, Macau & Taiwan</i>		
(a) Letters and postcards		
(i) not exceeding 20 g	0.50	0.60
(ii) exceeding 20 g but not exceeding 50 g	1.00	1.20
(iii) exceeding 50 g but not exceeding 100 g	1.90	2.30
(iv) exceeding 100 g but not exceeding 250 g	4.30	5.20
(v) exceeding 250 g but not exceeding 500 g	8.40	10.00
(vi) exceeding 500 g but not exceeding 1 kg	14.40	17.00
(vii) exceeding 1 kg but not exceeding 2 kg	20.40	24.00
(b) Printed papers		
(i) not exceeding 20 g	0.40	0.50
(ii) exceeding 20 g but not exceeding 50 g	0.60	0.70
(iii) exceeding 50 g but not exceeding 100 g	1.00	1.20
(iv) exceeding 100 g but not exceeding 250 g	1.80	2.20
(v) exceeding 250 g but not exceeding 500 g	3.00	3.60
(vi) exceeding 500 g but not exceeding 1 kg	5.40	6.50
(vii) exceeding 1 kg but not exceeding 2 kg	7.20	8.60
(viii) Each additional 1 kg	3.60	4.30

	<i>Existing rate \$</i>	<i>Proposed rate \$</i>
2. <i>To All Other Countries</i>		
(a) Letters and postcards		
(i) not exceeding 20 g	1.00	1.20
(ii) exceeding 20 g but not exceeding 50 g	1.50	1.80
(iii) exceeding 50 g but not exceeding 100 g	2.40	2.90
(iv) exceeding 100 g but not exceeding 250 g	4.80	6.00
(v) exceeding 250 g but not exceeding 500 g	9.20	11.00
(vi) exceeding 500 g but not exceeding 1 kg	16.00	19.00
(vii) exceeding 1 kg but not exceeding 2 kg	26.00	31.00
(b) Printed papers		
(i) not exceeding 20 g	0.90	1.10
(ii) exceeding 20 g but not exceeding 50 g	1.30	1.60
(iii) exceeding 50 g but not exceeding 100 g	2.00	2.40
(iv) exceeding 100 g but not exceeding 250 g	3.60	4.50
(v) exceeding 250 g but not exceeding 500 g	6.50	8.00
(vi) exceeding 500 g but not exceeding 1 kg	10.80	13.00
(vii) exceeding 1 kg but not exceeding 2 kg	15.00	18.00
(viii) Each additional 1 kg	7.50	9.00
3. <i>Small Packets</i>		
(a) not exceeding 100 g	2.00	2.40
(b) exceeding 100 g but not exceeding 250 g	4.00	4.80
(c) exceeding 250 g but not exceeding 500 g	7.00	8.40
(d) exceeding 500 g but not exceeding 1 kg	12.00	14.40
4. <i>Bulk Posted Bags/Direct Agents Bags</i>	7.50 per kg	9.00 per kg
C. <i>Air Mail</i>		
1. <i>Letter Mail</i>		
(a) Letters and postcards		
(i) Zone 1		
not exceeding 10 g	1.00	1.30
(ii) Zone 1		
Each additional 10 g or part thereof	0.60	0.80
(iii) Zone 2		
not exceeding 10 g	1.30	1.70
(iv) Zone 2		
Each additional 10 g or part thereof	0.70	0.90
(b) Small packets and printed papers`		
(i) Zone 1		
not exceeding 10 g	0.60	0.80
(ii) Zone 1		
Each additional 10 g or part thereof	0.40	0.50
(iii) Zone 2		
not exceeding 10 g	0.90	1.20
(iv) Zone 2		
Each additional 10 g or part thereof	0.50	0.70
(c) Aerogramme	1.00	1.30
2. <i>Airlifted Surface Post</i>	20.00 per kg	26.00 per kg
D. <i>Registration Fees</i>	4.00	5.00
E. <i>Express Fee</i>	3.00	4.00
F. <i>Redirection of Postal Packets</i>		
1. For a period not exceeding 3 months	Free	Free
2. For each 12 months thereafter		
(a) Private user	60	100
(b) Business user		300

	<i>Existing rate</i>	<i>Proposed rate</i>
	\$	\$
<i>G. Other Fees</i>		
1. Insurance Fee for Parcels	2.00 for each \$400 or part thereof	2.50 for each \$500 or part thereof
2. Insurance Fee for a Registered Postal Packet	2.00 for each \$400 or part thereof	2.50 for each \$500 or part thereof
3. Parcel Storage Fee	0.50 per day after 7 days (Minimum charge \$2)	1.00 per day after 7 days (Minimum charge \$5)
4. Advice of delivery of a Registered Postal Packet	4.00	5.00
5. Compulsory Registration	8.00	10.00
6. Surcharge on Unpaid or Underpaid Postal Packets from Overseas	2.00 in addition to the postage or the deficiency	2.50 in addition to the postage or the deficiency
7. International Reply Coupon	3.00	6.00
8. Business Reply Service Surcharge	0.10 for each article delivered	0.20 for each article delivered
9. Permit Fee for Business Reply Service	30.00p.a.	50.00p.a.
10. Certificate of Authority for reception of mail	20.00p.a.	50.00p.a.
11. Enquiry in respect of Disposal of a Postal Item	4.00	5.00
12. GPO, TST Large Box	240.00p.a.	280.00p.a.
13. GPO, TST Small Box	180.00p.a.	220.00p.a.
14. Kowloon Central Small Box	120.00p.a.	150.00p.a.
15. Other Offices, Large Box	120.00p.a.	150.00p.a.
16. Other Offices, Small Box	90.00p.a.	120.00p.a.
17. Private Locked Bag	90.00p.a.	120.00p.a.
18. Fee for Old Box Key not Returned when Lock Changed	5.00	10.00
19. Advice of Payment for Money Order	5.00	10.00
20. Poundage on Inland Money Order	5.00	10.00
21. Poundage on International Money Order	5.00	10.00
22. Issue Telegraphic Money Order	5.00	10.00
23. Stoppage of Payment of Money Order	5.00	10.00
24. Issue of Duplicate Money Order	5.00	10.00
25. Renewal of Void Inland Money Order	5.00	10.00
26. Repayment of Inland Money Order	5.00	10.00
27. Enquiry in respect of Payment of a Money Order	5.00	10.00
28. Repayment of Overseas Money Order	5.00	10.00

	<i>Existing rate</i> \$	<i>Proposed rate</i> \$
H. <i>Telecommunication Licence Fees</i>		
1. Ship Station	100	130
2. Aircraft Station	100	130
3. Press Reception (Direct)	1,000	1,300
4. General Communication Radio Receiving Station	50	70
5. Experimental Station	200	270
6. Mobile Radio System		
(a) Fixed Station	500	680
(b) Mobile Station	200	270
7. Aeronautical VHF Fixed Station	1,000	1,300
8. Radiophone Communication		
(a) Fixed Station	500	680
(b) Mobile Station	250	330
9. Induction Communication Station	100	130
10. Radio Dealers		
(a) Restricted	500	680
(b) Pawnbroker	50	70
(c) Unrestricted	1,000	1,300
11. Demonstration (unrestricted)	200	270
12. Radio Communication School	200	270
13. Amateur Station	100	130
14. Model Control	20	50
15. Industrial, Scientific & Medical Electronic Machine	50	70
16. Radio Paging System		
(a) Fixed Transmitting Station	500	680
(b) Receiving Station	50	70
17. Wide Band Link & Relay Station	100 per MHz	130
18. Broadcast Relay Station	240 for 100 outlet points Provided that, if during the period of 12 months after the payment of any such fee: (a) the number of outlet points increases, there shall be payable at the end of that period, in respect of each additional outlet point,	310 for 100 outlet points

	<i>Existing rate</i> \$	<i>Proposed rate</i> \$
	unit, a further fee of \$4 for each whole month during which the reception unit was in operation;	6
	(b) less than the number of reception units speci- fied in the licence is in operation, the Author-ity shall at the end of such period, refund to the licensee in respect of each recep- tion unit below that number a sum of \$4 for each whole month during which the reception unit was discon- tinued.	6
20. Broadcast Radio Relay Station	500	680
21. Public Non Exclusive Telecom. Licence	500	680
	Additional	
	(a) \$500 for every based or fixed station	680
	(b) \$10,000 for the first 200 mobile stations & \$5,000 for every 100 mobile stations	13,000 6,500

	<i>Existing rate \$</i>	<i>Proposed rate \$</i>
22. Duplicate Licence/Certificate	20	50
23. Import/Export Permit	100	130
24. Examination		
(a) For special class cert. of competency in radio-telegraph	350	460
(b) For general cert. of competency in radio-telephony	100	130
(c) For restricted cert. of competency in radio-telephony	100	130
(d) For maritime radio communication general cert. Part I	150 per paper	200 per paper
(e) For maritime radio communication general cert. Part II	350	460
(f) For conversion of valid 1st & 2nd class cert. of competency—Part I	150 per paper	200 per paper
(g) For conversion of valid 1st & 2nd class cert. of competency—Part II	300	390
25. Test		
(a) Amateur Morse Test	50	70
(b) Revalidation test of holder of 1st, 2nd or special class cert. of competency in radio telegraphy	350	460
(c) Re-examination on the subject 'Watchkeeping & Communication' for maritime radio-communication general certificate	150	200
<i>(b) TOLLS FOR GOVERNMENT-OPERATED TUNNELS</i>		
	<i>Existing rate \$</i>	<i>Proposed rate \$</i>
Aberdeen Tunnel	2	3
Lion Rock Tunnel	2	3
<i>(c) VEHICLE AND DRIVING LICENCE FEES</i>		
	<i>Existing rate \$</i>	<i>Proposed rate \$</i>
1. <i>Driving Licences</i>		
New issue	150p.a.	160p.a.
Renewal	150p.a.	160p.a.
Temporary	150	160
Learner's	300	330
Driving test	300	330
2. <i>Vehicle Licences Goods Vehicle</i>		
not exceeding 1.9 tonnes	700	750
exceeding 1.9 tonnes but not exceeding 5.5 tonnes	1,400	1,500
exceeding 5.5 tonnes	2,800	3,000
<i>Public Omnibus</i>		
For the driver	10	15
Additional fee for each seat	30	35

	<i>Existing rate</i>	<i>Proposed rate</i>
	\$	\$
<i>Private Omnibus</i>		
For the driver	10	15
Additional fee for each seat	25	30
<i>Private Car</i>		
not exceeding 1 500 cc	2,300	2,500
exceeding 1 500 cc but not exceeding 2 500 cc	3,400	3,750
exceeding 2 500 cc but not exceeding 3 500 cc	4,500	5,000
exceeding 3 500 cc but not exceeding 4 500 cc	5,600	6,200
exceeding 4 500 cc	6,700	7,400
<i>Motor Cycle</i>	750	800
<i>Public Light Bus</i>	5,000	5,500
<i>Private Light Bus</i>	1,600	1,750

(d) *PASSENGER EMBARKATION FEES AND BERTHING FEES FOR MACAU FERRY SERVICES*

	<i>Existing rate</i>	<i>Proposed rate</i>
	\$	\$
1. <i>Berthing Fees</i>		
(a) For a ferry vessel, per ton for each berthing in the case of—		
(i) a hydrofoil, jetfoil or jetcat	1	2
(ii) a ferry vessel, other than a hydrofoil, jetfoil or jetcat	0.5	1
(b) For a vessel, not being a ferry vessel, per ton for each berthing	1	2
2. <i>Embarkation Fees</i>		
(a) For each passenger paying an amount exceeding \$12 for single journey	8	15
(b) For each passenger travelling free of charge on a complimentary ticket	8	15
(c) For each passenger not falling within (a) or (b)	3.2	6

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 13 March.

Adjourned accordingly at eleven minutes past four o'clock.