

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 25 February 1987****The Council met at half-past Two o'clock****PRESENT**HIS EXCELLENCY THE ACTING GOVERNOR (*PRESIDENT*)

SIR DAVID AKERS-JONES, K.B.E., C.M.G., J.P.

THE HONOURABLE THE CHIEF SECRETARY

MR. DAVID ROBERT FORD, L.V.O., O.B.E., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY

MR. PIERS JACOBS, O.B.E., J.P.

THE HONOURABLE THE ATTORNEY GENERAL

MR. MICHAEL DAVID THOMAS, C.M.G., Q.C.

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

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

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

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

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

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

SECRETARY FOR DISTRICT ADMINISTRATION

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

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

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

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

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

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

THE HONOURABLE CHAN YING-LUN, J.P.

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

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

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

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

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

THE HONOURABLE JOHN WALTER CHAMBERS, O.B.E., J.P.

SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE JACKIE CHAN CHAI-KEUNG

THE HONOURABLE CHENG HON-KWAN
THE HONOURABLE HILTON CHEONG-LEEN, C.B.E., J.P.
DR. THE HONOURABLE CHIU HIN-KWONG
THE HONOURABLE CHUNG PUI-LAM
THE HONOURABLE THOMAS CLYDESDALE
THE HONOURABLE HO SAI-CHU, M.B.E., J.P.
THE HONOURABLE HUI YIN-FAT
THE HONOURABLE RICHARD LAI SUNG-LUNG
DR. THE HONOURABLE CONRAD LAM KUI-SHING
THE HONOURABLE MARTIN LEE CHU-MING, Q.C., J.P.
THE HONOURABLE LEE YU-TAI
THE HONOURABLE DAVID LI KWOK-PO, J.P.
THE HONOURABLE LIU LIT-FOR, J.P.
THE HONOURABLE NGAI SHIU-KIT, O.B.E., J.P.
THE HONOURABLE PANG CHUN-HOI, M.B.E.
THE HONOURABLE POON CHI-FAI
PROF. THE HONOURABLE POON CHUNG-KWONG
THE HONOURABLE HELMUT SOHMEN
THE HONOURABLE SZETO WAH
THE HONOURABLE TAI CHIN-WAH
THE HONOURABLE MRS. ROSANNA TAM WONG YICK-MING
THE HONOURABLE TAM YIU-CHUNG
DR. THE HONOURABLE DANIEL TSE, O.B.E., J.P.
THE HONOURABLE ANDREW WONG WANG-FAT
THE HONOURABLE GRAHAM BARNES, J.P.
SECRETARY FOR LANDS AND WORKS
THE HONOURABLE RONALD GEORGE BLACKER BRIDGE, O.B.E., J.P.
SECRETARY FOR EDUCATION AND MANPOWER
THE HONOURABLE DAVID GREGORY JEAFFRESON, C.B.E., J.P.
SECRETARY FOR SECURITY
THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
SECRETARY FOR TRANSPORT

ABSENT

THE HONOURABLE JOHN JOSEPH SWAINE, O.B.E., Q.C., J.P.
THE HONOURABLE LAU WONG-FAT, M.B.E., J.P.

IN ATTENDANCE

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

Papers

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

<i>Subject</i>	<i>L.N. No.</i>
Subsidiary Legislation:	
Employees' Compensation Ordinance Employees' Compensation (Amendment) Regulations 1987.....	40/87
Consular Conventions Ordinance Consular Conventions (Arab Republic of Egypt) Order 1987.....	41/87
Consular Relations Ordinance Consular Relations (Privileges and Immunities)(Arab Republic of Egypt) Order 1987	42/87
Consular Relations Ordinance Consular Relations (Merchant Shipping and Civil Aviation) (Arab Republic of Egypt) Order 1987	43/87
Consular Relations Ordinance Consular Relations (Privileges and Immunities)(Commonwealth Countries and Republic of Ireland)(Amendment) Order 1987	44/87
Public Health and Municipal Services Ordinance Designation of Museums (Flagstaff House Museum of Tea Ware) Order 1987	45/87
Road Traffic (Driving Licences) Regulations Road Traffic (Driving Licences) Regulations (Amendment of Fourth Schedule) Order 1987	46/87
Dutiable Commodities (Marking and Colouring of Hydrocarbon Oils)(Amendment) Regulation 1987 Dutiable Commodities (Marking and Colouring of Hydrocarbon Oils)(Amendment) Regulations 1987 (Commencement) Notice 1987	47/87

Sessional Papers 1986-87:

- No. 42—Draft Estimates for the year ending 31 March 1988 Volume 1—
Expenditure
- No. 43—Draft Estimates for the year ending 31 March 1988 Volume 2—Revenue,
Funds, Capital Account Commitments, Staff Establishments and Pay
Scales
- No. 44—Report of the Establishment Sub-Committee of Finance Committee for
1986-87

No. 45—Report of the Public Works Sub-Committee of Finance Committee for 1986-87

Others:

White Paper on the Annual Report on Hong Kong 1985-86 to Parliament—21 February 1987

Government Business

First Reading of Bill

APPROPRIATION BILL 1987

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 1987

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

INDEX	<i>Paragraphs</i>
INTRODUCTION	1- 7
THE ECONOMY	8- 22
MONETARY ISSUES	23- 32
STRATEGY FOR PUBLIC FINANCES	33- 52
REVISED ESTIMATES 1986-87	53- 69
ESTIMATES 1987-88	70
General Revenue Account—Draft Estimates of Expenditure	71- 77
General Revenue Account—Draft Estimates of Revenue	78- 79
General Revenue Account—Summary of Draft Estimates	80- 83
Fund Accounts—Draft Estimates	84- 89

INDEX	<i>Paragraphs</i>
PROGRAMMES AND POLICIES	90- 99
REVENUE MEASURES	100-101
DUTIABLE COMMODITIES	102
Imported hydrocarbon oils	103-105
Intoxicating liquor and imported alcohol	106-109
Imported tobacco	110-115
FEES AND CHARGES	116-117
Business registration fee	118
Vehicle and driving licence fees	119
Visa and travel document fees	120
Other fees and charges	121
TAX CONCESSIONS	122
Personal taxation	123-127
Profits tax	128-130
Estate duty	131-132
‘Time Apportionment’ Basis of taxation	133-134
TAXATION OF MARRIED WOMEN	135
DOUBLE TAXATION	136
ANTI-AVOIDANCE LEGISLATION	137-138
IMPLEMENTATION	139
SUMMING UP	140-147
	<hr/>
Appendices	<i>Pages</i> 918-984

He said: Sir, I move that the Appropriation Bill 1987 be read the Second time. In rising to present this my first Budget, I wish to acknowledge the considerable debt that I owe my predecessor, Sir John BREMRIDGE. Through his efforts our public finances are now in a strong position and we can look forward with reasonable confidence to broadly balanced Budgets over the next few years. Our trading position is excellent and our currency stable. We had difficulties in the past, but we overcame them.

2. The early 1980s were not easy. Hong Kong went through political uncertainties with all the economic consequences. By taking the long-term view Sir John was able to achieve the adjustments required, avoiding both draconian revenue measures and any major disruption to services. Business went on, and that is what any Financial Secretary must seek to ensure.

3. Although we are now in a much sounder position, the lessons we have learned remain valid. Hong Kong is as vulnerable as ever to external forces. It is inevitable that we will experience volatility in our economic performance. Whilst the economy has improved in 1986, perhaps beyond our expectations, there are, as usual, some clouds on the horizon. Protectionism still remains a worrying threat. I have no doubt that in managing our public finances we should not take action that is likely to aggravate the volatility in our economy. We must at all times pay careful attention to the underlying trends, and ensure that our budgetary management is characterised by stability.

4. As far as possible I intend to adhere to the policies that we have successfully followed in the past. In particular, I see no place for deficit financing as a permanent feature of fiscal policy, although I recognise that on occasions it may be inevitable that deficits have to be faced. They will also have to be dealt with so that we return to balance without undue delay. It is much easier to slide into deficit than to recover from that unhappy state, and accordingly, a cautious approach is needed even when we appear to be riding on the crest.

5. Like my predecessors, I am firmly convinced that we should endeavour to maintain a low and predictable tax regime. Hong Kong's reputation as a place in which business can be conducted profitably depends to a large extent upon our keeping tax rates low. I can, nevertheless, see merit in at least considering different mixes of tax sources from time to time. I shall say more about this later.

6. I believe that as our wealth grows, it is entirely reasonable and natural that our community should expect improvements in public services. Nevertheless, if the objective of maintaining low taxation is to be achieved, the growth in expenditure on those services must stay within, rather than run ahead of, the expansion of our economy. Even in the improved situation that we are now experiencing, resources remain limited and choices must be made. We must not

allow the public sector to become a millstone around the neck of the economy, something that has happened in many other places.

7. I shall now outline the recent and expected performance of the economy⁽¹⁾. Having set the scene, I shall then go on to explain the strategy that I see for the public finances over the next few years and give estimates of Government's finances in the current year and for 1987-88.

THE ECONOMY: 1986 EXPERIENCE AND 1987 PROSPECTS

8. In 1986 we saw a general revival in economic activity. Domestic exports have picked up substantially since last March and achieved a growth rate of about 16 per cent in real terms for the year as a whole⁽²⁾. We have been helped, particularly in our European markets and in Japan, by the depreciation of the Hong Kong dollar in line with the US dollar. This strong export performance is in sharp contrast to the decline of 5 per cent recorded in 1985. Re-exports also picked up in the second quarter of 1986, with increased re-exports of goods coming from China. The growth rate of re-exports for 1986 was about 14 per cent and that of retained imports about 13 per cent. A virtual balance emerged on the visible trade account.

9. Private consumption expenditure firmed up in the latter part of 1986, resulting in a growth rate of 7 per cent for the year as a whole. Capital investment also showed a marked improvement, growing by 7 per cent in 1986⁽³⁾, after a decline of 2 per cent in 1985. Expenditure on plant and machinery recorded an increase of about 8 per cent. There was a particularly welcome increase in such expenditure by manufacturers, reflecting greater activity in the manufacturing sector, and confidence that this activity would continue.

(1) See '1986 Economic Background' and '1987 Economic Prospects' for further details.

(2) Unless otherwise indicated, all subsequent growth rate figures for both the economy and government expenditure are in real terms.

(3)	<i>per cent</i>
<i>Building and construction</i>	0.1
<i>Plant and machinery</i>	7.7
<i>Real estate developers' margin</i>	11.6
<i>Transfer costs of land and buildings</i>	29.7
<i>Gross domestic fixed capital formation</i>	<u>6.7</u>

Retained imports of plant and machinery for use by manufacturers increased by about 26 per cent in 1986.

10. In national accounts terms, public sector expenditure recorded a growth of 1 per cent in 1986, with the decline in government capital expenditure offset by an increase in consumption expenditure⁽⁴⁾.

11. So, in 1986, we enjoyed buoyant private sector activity led by a strong growth in exports. This resulted in a highly satisfactory overall economic performance. The growth rate of the gross domestic product (GDP) in 1986 was slightly below 9 per cent, much higher than the growth rate in 1985 of around 1 per cent, and just below that achieved in 1984⁽⁵⁾. It is considerably better than my own mid-year forecast. What we have seen is the result of a particularly good second half.

12. With the revival in economic activity, both the unemployment rate and the underemployment rate declined, to 2.2 per cent and 2.2 per cent respectively in the fourth quarter. We normally regard any unemployment rate below 3.5 per cent as effective full employment. In practically all sectors, happily including manufacturing, employment rose. Earnings in most sectors increased significantly in real terms, as the rapid increase in nominal earnings was accompanied by only modest inflation.

13. At 2.8 per cent, the average rate of increase in the Consumer Price Index (A) was lower than the rate of 3.2 per cent recorded in 1985. Soft world commodity prices and, in particular, lower import prices of goods from China helped to bring this about. But as a result of the depreciation of the Hong Kong dollar, import prices of consumer goods have shown more rapid increases since the second quarter of 1986. This, coupled with firmer domestic demand, is likely to result in some increased inflation. We have already seen signs of this in the consumer price indices towards the end of 1986.

14. For 1987, I expect the growth rate of GDP to be lower than that in 1986, but still satisfactory⁽⁶⁾. The growth rate of domestic exports is likely to slow down, while that of domestic demand is expected to increase. Economic growth in our major overseas markets, including the United States, is expected to be slightly faster than last year. But the quota restraint limits particularly for the United States market will probably constrain export performance. Moreover, if the rate of depreciation of the US dollar moderates in 1987, as seems likely, the gain in the price competitiveness of our exports may be less than in 1986.

(4) *Government expenditure in national accounts terms differs from that in the Consolidated Account. The major difference is that public sector expenditure in national accounts terms includes capital expenditure by public corporations (which is not included in the Consolidated Account) but excludes recurrent expenditure by Government trading departments, expenditure on land acquisitions and property purchases, recurrent and capital subventions, and welfare payments (all of which are included in the Consolidated Account and, of which, land acquisitions and property purchases in 1986-87 were the major sources of growth in this account). Excluding capital expenditure by public corporations, public sector expenditure in national accounts terms increased by 3 per cent in real terms. Further details of the difference are given in Appendix C.*

(5) *The GDP growth rate for 1986 is a preliminary estimate, while that for 1985 is provisional.*

(6) *See '1987 Economic Prospects'.*

15. As regards China, our trade has been affected by measures adopted to restrict imports and to control the use of foreign exchange reserves. Whilst China will need to import in order to implement its modernisation programmes, some control measures seem likely to continue.
16. The prospects for our domestic exports this year will therefore continue as ever to be affected by events outside our control. From previous experience we have seen how difficult it is to assess with accuracy the combined effect of external influences, and my export forecasts should be interpreted against this caveat. In 1987, I expect domestic exports to grow by about 7 per cent, and re-exports by about 13 per cent. This would give a forecast growth rate of slightly less than 10 per cent for total exports, compared with a growth rate for 1986 of about 15 per cent.
17. Private consumption expenditure is forecast to grow by 7 per cent, and that of Government by 6 per cent.
18. Capital investment is expected to grow by just over 9 per cent, with roughly the same growth rates for both the private and public sectors⁽⁷⁾.
19. Consistent with these forecasts of domestic and external demand, the growth rate of imports for 1987 is likely to be 11 per cent. We are expecting a visible trade deficit of about \$8 billion.
20. Combining the forecast growth rates of the various components of expenditure gives a forecast growth rate of GDP for 1987 of just over 6 per cent.
21. I thus expect 1987 to be a year of more balanced growth between domestic and external demand. The employment situation should continue to be good. Demand in the economy is likely to remain strong relative to supply⁽⁸⁾. This, plus the lagged effect of increased import prices, may give rise to some additional inflationary pressures. The average rate of increase in consumer prices is forecast to be about 6 per cent, which is higher than the corresponding rate of 3.7 per cent in 1986⁽⁹⁾. These figures, Sir, refer to the deflator for private consumption expenditure, not to the Consumer Price Index (A). The forecast rate of increase in the GDP deflator is about 5.5 per cent.

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- (7) *The forecast growth rates for the components of capital investment vary. Expenditure on plant and machinery and expenditure on building and construction are forecast to increase by 10.5 per cent and 9.6 per cent respectively, representing an acceleration over their growth rates in 1986. Within the latter component, public sector expenditure on building and construction is forecast to increase by 8.2 per cent, as construction work on such major public works projects as the Route 5 Highway linking Sha Tin with Kwai Chung and the Tuen Mun light rail transit system continues. Private sector expenditure on building and construction is forecast to increase by 10.3 per cent, reflecting a higher level of private sector building activity generally and the intensification of works on the Eastern Harbour Crossing.*
- (8) *The forecast growth rate of total final demand (excluding re-exports), at 7.3 per cent, is higher than that of GDP at 6.2 per cent.*
- (9) *These increases refer to the private consumption expenditure deflator.*

22. The forecast growth rate of GDP in money terms is about 12 per cent in 1987, implying a current price GDP of about \$330 billion. At current prices, per capita GDP in 1987 should thus be about \$58,000, equivalent to US\$7,400.

MONETARY ISSUES

23. I turn now to monetary issues. The better than expected performance of the economy in 1986, and the lower and declining interest rates over the year have led to a general improvement in asset prices, most notably those of financial assets. The stock market, for example, has performed strongly, helped by the inflow of foreign investment funds into Hong Kong to take advantage of the potential returns available here.

24. I am happy to report that the exchange rate has continued to demonstrate remarkable stability, remaining for most of the time within a narrow range against the US dollar. There was, nevertheless, spasmodic speculation based on unfounded rumours of a possible change in the link.

25. Although such speculative activity was short lived, I reiterate that the Government has no intention of tampering with the link. The linked exchange rate system is a crucial element underlying the stability of our monetary system, and the stability and prosperity of Hong Kong itself. This and the fact that we believe in and practise free trade put us in a unique position.

26. The inflow of funds into the Hong Kong dollar resulted in an acceleration in the growth rate of the money supply during 1986. HK\$M3, for example, grew by 12 per cent in the second half of the year, compared with 4 per cent in the first half although the figure for the second half was inflated by subscriptions to a new share issue in December. The inflow has also resulted in a widening of the gap between Hong Kong dollar interest rates and those for the US dollar, making it expensive to keep idle funds in Hong Kong dollars and inducing the necessary offsetting outflow. In time, the acceleration in the money supply should work through the economy resulting in increased imports of goods and services, thus reducing or eliminating the net inflow of funds.

27. A higher growth rate of the money supply is often believed to have unwelcome implications for inflation. I have doubts, however, about the strength of this particular relationship in the context of our very open economy. Although in the last quarter of 1986, there has been a tendency for the cost of living of those in the higher income brackets to increase faster, I do not think that we need as yet be unduly concerned.

28. Sir, turning to banking and the securities market, the latest fashion is what is described as 'securitisation'. As with some other fashions, one is left with the feeling that the wearer may be in danger of being over-exposed. She needs adequate cover; otherwise she may catch a cold. Now that the banking sector

has been nursed back to health, it too must take care to maintain adequate capital cover; otherwise it too may catch a cold. Securitisation of debts exposes financial institutions to what is for them a new type of risk; a risk that is characterised in particular by the replacement of assets which are generally secured, by unsecured paper assets; and the price of those paper assets is very often highly sensitive to changes in interest rates. Furthermore, in Hong Kong interest rates do and will continue to change frequently under the linked exchange rate system.

29. I do not want to stifle financial innovation; our philosophy is to leave the market to develop on its own with only the minimum amount of regulation necessary to uphold its integrity. But the supervisor of authorised institutions must also have regard to the interests of depositors. The new Banking Ordinance has introduced provisions which require adequate capital to support risk assets on the books of authorised institutions. Although these provisions have not yet come into effect, because it was felt that a transitional period of around two years would be required for adjustment, I hope that these institutions are taking early action to capitalise themselves adequately.

30. The Banking Ordinance has now been in operation for six months. So far all has gone smoothly. But some amendments to clarify the meaning of certain provisions have been found necessary. These amendments are undergoing the usual consultative process and, subject to the advice of the Executive Council, I hope to introduce a Bill within this session. In the meantime, the Commissioner of Banking has been considering the issue of guidelines on particular matters such as the undertaking of securities and other business by authorised institutions and on exposure to a single party. After consultation, these guidelines will shortly be introduced by the commissioner under the appropriate sections of the Ordinance.

31. On the securities side, the two controversial subjects, disclosure of ownership of shares in public listed companies and insider dealing, are being pursued. Recent events in other financial centres have added a new dimension to our thinking. As to disclosure, the Standing Committee on Company Law Reform and the Securities Commission have both considered and endorsed a draft Bill. Subject to the advice of the Executive Council, it will be published for further consultation with the general public. This course of action is considered necessary in view of the complexity of the whole issue. On the subject of insider dealing, the Standing Committee on Company Law Reform has already done much useful work, and I expect to receive recommendations shortly. I am grateful to the committee for its efforts. Its task is not an easy one.

32. In 1986 we have seen rapid developments in financial markets worldwide. We have also seen significant changes in the field of regulation. Here in Hong Kong we must be able to respond quickly as the need arises. Otherwise, we will find ourselves losing out as a major financial centre. Furthermore, there is the vital question of reputation. We must not allow the integrity of our markets to

be tarnished by the imprudent activities of the greedy. But equally we must avoid the dangers of over-regulation. This is a difficult balance to strike, but we shall do our best.

STRATEGY FOR PUBLIC FINANCES

33. Before I present my Budget proposals for 1987-88, I shall describe the context in which they have been framed. My proposals should not be looked at in isolation. They must be related to what has happened in the past and what is foreseen for the future. A strategy for the medium term is essential to the stability of Government's finances and the steady development of the economy.

34. I shall give details later to show the strength of our underlying position. Briefly, however, our expenditure remains firmly under control and is in line with forecast. On the other hand, revenue yields have increased substantially in response to an improvement in economic performance. As a result, we can now expect in the current financial year a surplus on General Revenue Account of some \$3 billion. Furthermore, although partly due to revenue of a windfall nature, the balances in our capital funds have gained by some \$1.9 billion.

35. Most of the improvement in revenue comes from tax sources that are recurrent in nature. I am able, therefore, to plan on the basis that this represents a genuine gain to our revenue base, which will be sustained into 1987-88 and beyond. With the present improved outlook for the public finances, we have a range of options: further growth in facilities and services; a reduction in the burden on taxpayers; the accumulation of fiscal reserves; or a prudent mixture of all of them. The last option is, in my view, the right way forward. The proposals I shall detail later include a controlled increase in public spending together with a modest lowering of the burden on taxpayers.

36. Last year, for the first time, we included in the Budget a medium range forecast. Such a forecast should not be regarded as detailing a plan of action, but merely as providing a benchmark against which progress can be measured.

37. The medium range forecast is put together on the basis of a number of important underlying assumptions⁽¹⁰⁾. I shall now comment upon some of these assumptions, and draw attention to any changes that have taken place since the last medium range forecast was published.

38. First, let me stress the importance of the economic growth rate assumption in the forecast and, accordingly, in our planning. The previous medium range assumption of an average annual growth in GDP of 4.5 per cent was arrived at when preparing the 1986-87 Budget after taking into account past trends and

(10) *The assumptions are described in Appendix C.*

prospects at that time. The trend growth rate of the economy had clearly been falling⁽¹¹⁾. The average annual growth rate over the five-year period ending 1980 was 12.3 per cent. This five-year trend growth rate fell steadily every year thereafter and was expected to be around 4.8 per cent for the five-year period ending 1986. But in the light of the higher than expected growth rate achieved in 1986 and what we now foresee for 1987, I consider that a limited upward revision of the growth rate assumption is needed. I have therefore adopted a medium range planning assumption of 5.5 per cent. Inevitably, in some years the actual growth rate will be higher, and in others it will be lower. It is the overall trend that is important.

39. Any public sector has a tendency to grow. As an American journalist once said, 'Government expands to absorb revenues and then some.'. In Hong Kong, however, we have sought to contain the relative size of the public sector by limiting expenditure growth to within the trend growth rate of the economy. This remains our guiding principle. In 1985-86 the actual growth rate in consolidated account expenditure was 2.7 per cent and is forecast to be 4.1 per cent in 1986-87. Taking these two years together, the real growth in expenditure is within the growth rate of GDP.

40. The impact of this policy is clear. The relationship between expenditure on consolidated account and GDP rose to over 19 per cent in 1982-83 before falling back to just over 16 per cent by 1984-85. To stabilise the growth rate of public expenditure has meant containing its share at around 16 per cent to 17 per cent of GDP. In relation to GDP the share of public expenditure is an estimated 16.5 per cent for both the years 1985-86 and 1986-87. The share is forecast to move up slightly over the next two years, to just under 17 per cent by 1988-89, in the light of some significant new commitments, but should begin to fall back thereafter on the assumption that our control over recurrent spending remains firm.

41. There is every reason for continued vigilance in the task of containing the relative size of the public sector. It is so easy for expenditure to get out of hand.

<i>(11)</i>		<i>Average annual growth rate in real terms of the GDP (per cent)</i>
<i>Five years ending—</i>		
<i>1980</i>		<i>12.3</i>
<i>1981</i>		<i>10.8</i>
<i>1982</i>		<i>8.8</i>
<i>1983</i>		<i>8.2</i>
<i>1984</i>		<i>7.8</i>
<i>1985</i>		<i>5.7</i>
<i>1986</i>	<i>(based on the 1986 GDP forecast made in the 1986-87 Budget speech)</i>	<i>4.8</i>
<i>1986</i>	<i>(based on the preliminary estimate of GDP for 1986)</i>	<i>5.6</i>
<i>1987</i>	<i>(based on the present 1987 GDP forecast)</i>	<i>6.3</i>

But given the inevitable volatility of Hong Kong's economy, externally oriented as it is, it is nevertheless neither possible nor desirable to lay down a precise year by year relationship between the growth rate of public expenditure and the growth rate of GDP. What we have been achieving so far seems about right.

42. For the future, there is room for some further improvement in facilities and services given the higher growth limit implied by the revised medium-term projection of economic growth. Against this background, I am proposing that total expenditure growth be held to an average of around 5 per cent over the forecast period. Recurrent expenditure is already growing at an annual rate of just over 5 per cent and I would be reluctant to see it grow much faster having regard to the implicit long-term commitment. Whilst, therefore, I have allowed for some increase in provision for new or improved services, my main emphasis is on a resuscitation of capital spending and an increase in the pace at which we are tackling the list of outstanding projects. Capital expenditure has fallen by about 20 per cent over the last three years.

43. So much for expenditure. On the revenue side, I would like to begin by saying a few words about the relationship between direct and indirect taxes. In 1982-83 we saw direct taxes contributing 69 per cent of the total tax yield. This fell to 60 per cent in 1983-84, but has now started to edge upwards again⁽¹²⁾. There is no immutable or clearly correct ratio between the yields from direct and indirect taxes; but for the longer term I do not believe that a higher relative contribution from direct taxation is desirable for Hong Kong. If our revenue is overly dependent on narrowly based direct taxes, then it is all too easy in difficult times to be forced into a position where one has to increase those taxes significantly in order to provide for committed recurrent expenditure.

44. As both the economy and government services grow, the stability of public finances can best be assured by endeavouring to develop a broadly based tax system, because such a system is more resilient. I am not suggesting a case for higher overall taxation: simply a way of spreading the tax burden more widely across our community.

45. We must be practical in our approach. We do not want complex new taxes. Neither do we want taxes that are costly to administer or damage incentive. We have done very well without them.

46. But one way of achieving a broader tax base is through widening the scope of indirect taxes, which we currently limit to a relatively small number of specific items. Members of this Council may recollect that my predecessor said last year that a broadly based indirect tax was a theoretical possibility⁽¹³⁾. Of course, there are other options for broadening the tax base; for example, an eventual widening of the salaries tax net.

(12) See Appendix A (2).

(13) 1986 Budget speech, paragraph 18.

47. If we were to move in the direction of a more broadly based indirect tax, possibly in place of some of our existing taxes, we would have to think the package through with meticulous attention to the consequences that might follow. A package that had a markedly adverse effect on the cost of living and was moreover expensive and difficult to administer would not be right for Hong Kong.

48. Sir, I do no more this afternoon than raise this matter for debate. I have as yet taken no hard and fast stand. I hope that I shall hear Members' views on the principles, if not the mechanics. It does seem to me that a modest contribution from as broadly based a sector of the community as possible is not without its attractions if the prize to be gained is a stable fiscal regime with lower direct taxes.

49. For the moment, however, I propose to limit the renewed upward drift of direct taxes as a proportion of the total tax revenue by making adjustments within the existing system.

50. When direct tax rates were increased in 1984, this step was taken in the light of the budgetary situation then prevailing⁽¹⁴⁾. There is now room to review the position. But I emphasise that caution should be our guiding principle.

51. A number of existing indirect taxes and charges are fixed in cash terms. These require regular review if their yields in real terms are to be maintained. It is tempting in the face of a surplus to leave well alone. But I believe this would be a serious mistake because in due course we would need large increases to recover lost ground.

52. The outcome of our present budgetary strategy is shown in the medium range forecast⁽¹⁵⁾. The forecast indicates an average annual surplus over the remainder of the forecast period of consolidated revenue over expenditure of some \$1.5 billion per annum⁽¹⁶⁾. I regard this as no more than a reasonable cushion, which must be seen in the light of an aggregate of consolidated revenue and expenditure exceeding \$100 billion in each year. Clearly, relatively small percentage changes in either revenue or expenditure could have a major impact on the residual surplus.

REVISED ESTIMATES 1986-87

53. Before introducing the estimates for 1987-88, I shall describe the revised estimates of Government's expenditure and revenue for the current fiscal year.

(14) *1984 Budget speech, paragraph 128.*

(15) *Appendix C.*

(16) *Although the year 1989-90 shows a small forecast deficit this is after allowing for a further equity injection into MTRC. On current projections this further equity may not be needed but is retained on the grounds of prudence.*

54. Total expenditure on General Revenue Account before transfers to funds is now expected to be \$33.9 billion, which is in line with Budget. We are seeing the results of another year of tight budgetary performance. All controlling officers have played their part and I am grateful to them. Our system of cash limits is clearly effective.

55. In practice, the combined effect of the two pay awards to staff granted during 1986 was slightly more than had been anticipated in framing the Budget. But this was offset by some under-spending on non-staff departmental running costs and an adjustment to payments under the Defence Costs Agreement.

56. The size of the Civil Service remains the major determinant of Government's spending, and the December on December growth rate of 2 per cent is within the planning target and reflects both firm control and further implementation of our successful programme of value for money studies.

57. As to revenue, there was, last year, some cause for pessimism over revenue prospects given the less than satisfactory economic performance in 1985 and its expected lagged effect on tax receipts. I am pleased to be able to record, however, that the rapid recovery in 1986 exceeded our expectations and, as I have said, this has generated considerable improvements in those revenue areas most closely linked to economic performance.

58. The most significant gains have come from profits tax, salaries tax and stamp duty which, together, are estimated to yield a total of \$2.8 billion more than budgeted. Profits and salaries tax yields have grown ahead of even the preliminary estimate of GDP growth for 1986, reflecting both a major resurgence in the profits of property and export oriented businesses, and substantial salary increases. As to stamp duty, the turnover on the stock market has been running well ahead of the level of the previous few years.

59. Of less long-term significance, there have been some early repayments of debts due to Government amounting to a total of \$0.9 billion. About half of this is due to repayment of the remaining KCR debt, which was referred to as a possibility in last year's Budget⁽¹⁷⁾.

60. Variance from estimates in other revenue areas is relatively minor, and the items largely offset each other. Overall, revenue is now forecast to be some \$4 billion higher than previously expected representing a gain of 8 per cent excluding the early debt repayments, or 10 per cent if they are taken into account.

61. Net transfers to funds have increased by \$1.3 billion due partly to the transfer to the Mass Transit Fund of that exceptional loan repayment made by KCR, to which I have already referred. Furthermore, in the light of the

(17) 1986 Budget speech, paragraph 76.

improving overall situation, it has not been necessary to transfer surplus funds back to General Revenue Account from the Home Ownership Fund as originally intended.

62. To sum up, the result of the changes I have described for 1986-87 is to turn the modest estimated surplus of \$0.35 billion on General Revenue Account⁽¹⁸⁾ at the start of the year into a much stronger expected outturn of just over \$3 billion⁽¹⁹⁾.

63. As to capital expenditure financed from the funds outside the General Revenue Account, there has been a downward trend in recent years. This reflects more the phasing of major commitments than any deliberate policy. Thus, there has been less of a drawdown of the funds through which Government finances capital expenditure and loans than might have been expected. Although the latest forecast for the current year indicates some under-spending, there are signs that the decline is bottoming out. In total, capital expenditure from the funds was below Budget by some \$0.4 billion or 4 per cent.

64. A significant new factor is the increasing ability of the Housing Authority to finance a higher proportion of its capital spending from its own resources. The effect has been to reduce the Housing Authority's need to draw on the Development Loan Fund in 1986-87. This trend towards lower requirements from the Development Loan Fund is on present indications likely to continue.

65. In respect of revenue accruing directly to the funds, the Home Ownership Fund's revenue was boosted by a major sale of flats delayed from 1985-86.

(18) 1986-87 Budget

	<i>Recurrent</i>	<i>Capital</i>	<i>Total</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>
<i>Revenue</i>	38,199	893	39,092
<i>Expenditure (excluding transfers to funds)</i>	32,363	1,581	33,944
<i>Surplus/(deficit)</i>	<u>5,836</u>	<u>(688)</u>	<u>5,148</u>
<i>Less net transfers to funds</i>			4,800
<i>Surplus</i>			<u>348</u>

(19) 1986-87 Revised Estimates

	<i>Recurrent</i>	<i>Capital</i>	<i>Total</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>
<i>Revenue</i>	41,179	1,929	43,108
<i>Expenditure (excluding transfers to funds)</i>	32,397	1,534	33,931
<i>Surplus</i>	<u>8,782</u>	<u>395</u>	<u>9,177</u>
<i>Less transfers to funds</i>			6,100
<i>Surplus</i>			<u>3,077</u>

66. After making the transfers to them from General Revenue Account to which I have already referred, we have continued to see an increase in the balances of the funds. The total amount available shows a net increase of \$1.9 billion⁽²⁰⁾.

67. Taking the General Revenue Account surplus together with this increase in fund balances gives an overall surplus for the year of \$4.9 billion.

68. In the light of the improvements in 1986-87 I now expect our general reserves to stand at around \$20 billion at the end of this year plus balances of a further \$12 billion carried in our various funds. We have a number of contingent liabilities and these must be allowed for⁽²¹⁾. There is no absolute rule as to the correct level of reserves. It should be recognised, however, that although our reserves are increasing again, they remain in real terms slightly below their level at the start of this decade before we fell into deficit. And the average annual surplus of \$1.5 billion that we have projected over the forecast period is no more than sufficient to maintain the real value of our reserves.

69. The bulk of the Government's accumulated fiscal reserves is invested by the Treasury with the Exchange Fund against the issue by the fund of interest-bearing debt certificates. The Exchange Fund Ordinance currently limits the amount which the fund may borrow from any source at HK\$30 billion, but the limit may be altered by resolution of the Legislative Council with the approval of the Secretary of State. Given the prudent build up which we forecast for our fiscal reserves, it will now be necessary to raise this limit⁽²²⁾, and it is my intention to move a resolution in this Council for this purpose.

(20) 1986-87 Revised Estimates

	<i>Expenditure</i>	<i>Revenue</i>	<i>Net Expenditure</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>
<i>Capital Works Reserve Fund</i> <i>(excluding Suspense Account)</i>	6,500	2,239	4,261
<i>Development Loan Fund</i>	1,557	638	919
<i>Home Ownership Fund</i>	811	1,878	(1,067)
<i>Student Loan Fund</i>	95	68	27
<i>Mass Transit Fund</i>	56	—	56
	<u>9,019</u>	<u>4,823</u>	<u>4,196</u>
<i>Transfer from General Revenue Account</i>			6,100
<i>Net increase in balances</i>			<u>1,904</u>

(21) Listed in Appendix F.

(22) The limit was last successively raised from HK\$7 billion to HK\$30 billion during 1980 and 1981 to accommodate the build up of fiscal reserves then.

ESTIMATES 1987-88

70. Against this background, I now present the draft estimates of expenditure, the revenue estimates and my revenue proposals for 1987-88.

General Revenue Account—Draft Estimates of Expenditure

71. We have achieved our present position through a cautious approach to expenditure growth. If we are to maintain a satisfactory budgetary position, we must contain expenditure growth to within the planning assumption of a 5.5 per cent average annual growth rate in the economy. I aim to hold public expenditure a little below this figure in order to allow room for unforeseen events, and thus my estimates for 1987-88 accommodate an overall expenditure growth rate of 4.9 per cent in real terms. This growth rate is just under 1 per cent more than that for 1986-87.

72. I recognise that in setting the limits to public expenditure I must have regard to a pent up demand for services following a period of restraint. But I do not believe that expenditure should be allowed to rise automatically. It remains vital that all new expenditure proposals be judged on their merits. Furthermore, I consider it essential that any growth should be related to clear and established policy objectives rather than being brought about by a general slackening of control. We constantly improve our procedures in this area.

73. Turning to the total expenditure on General Revenue Account, I have provided for a figure of \$44.4 billion⁽²³⁾. With the need for control firmly in mind, I set guidelines for departments last autumn following a critical examination of their existing activities. I also took into account the need for servicing new facilities and for a response to natural growth. In some cases, often as a result of value for money studies, less money was needed to achieve objectives.

74. In addition, I have accommodated a provision of \$180 million (equivalent to \$270 million in a full year) to finance the recurrent cost of new or improved services⁽²⁴⁾. Whilst this is more than double the amount for 1986-87 it remains well below the total of proposals made by departments, which amounted to \$500 million in a full year. Much pruning was needed.

(23)	<i>Draft Estimates</i> 1987-88 (\$mn)
<i>Recurrent expenditure</i>	34,338
<i>Capital expenditure</i>	<u>1,871</u>
	36,209
<i>Additional commitments</i>	1,600
<i>Transfers to funds</i>	<u>6,600</u>
	<u>44,409</u>

(24) The more significant proposals accommodated are commented upon in Appendix D.

75. As our community develops, there is inevitably pressure for growth in services. We must provide staff for new hospitals, schools, fire stations, immigration posts, police stations and so on. In terms of staffing, medical services alone account for about a quarter of the increase required in 1987-88, and this is due to major new facilities being completed. Social welfare services account for another 8 per cent of the staff increase, reflecting both new facilities and additional manning required at existing establishments. Overall, civil service growth is expected to be just over 3 per cent in 1987-88. This is higher than both the 2 per cent arising in 1986-87 and the medium term planning assumption of around 2.5 per cent but is necessitated by the timing of facilities coming on stream.

76. Within the total expenditure figure, a sum of \$1.6 billion has been allowed for additional commitments and contingencies. Without making any assumptions or promises, this figure allows for possible salaries adjustments, and for the usual range of new and unforeseen items that arise each year.

77. Provision is made for transferring a total of \$6.6 billion to our various funds to finance capital expenditure.

General Revenue Account—Draft Estimates of Revenue

78. Sir, turning now to the draft estimates of revenue, before allowing for any new budgetary measures, total revenue on General Revenue Account is estimated to be \$46.5 billion⁽²⁵⁾. This estimate reflects the good economic performance we have enjoyed in the current year, which will still be feeding through into tax receipts in 1987-88.

79. As in 1986-87, profits tax receipts are again expected to run ahead of economic growth. But I must be cautious in estimating the yield in some other areas where the level of activity in 1986 might not be fully sustained.

(25)

	<i>Draft Estimates</i>
	<i>1987-88</i>
	<i>(\$mn)</i>
<i>Recurrent revenue</i>	45,624
<i>Capital revenue</i>	<u>878</u>
	<u>46,502</u>

General Revenue Account—Summary of Draft Estimates

80. Taken together, therefore, the draft estimates of revenue and expenditure on General Revenue Account show a surplus of \$2.1 billion before taking into account any revenue proposals ⁽²⁶⁾.

81. After a period of difficult restructuring, we now have a budgetary position of some strength. As I have already mentioned, there exists a little room for easing the additional burden on taxpayers that was necessary in the period of adjustment. At the same time in order to maintain yields in real terms, I intend to review some taxes and charges which are fixed in cash terms.

82. I propose a package of revenue measures that will reduce revenue by a net \$325 million in 1987-88 and \$690 million in a full year.

83. As a result of these measures, the estimated surplus on General Revenue Account falls from \$2.1 billion to \$1.8 billion ⁽²⁶⁾.

Fund Accounts—Draft Estimates

84. For the various funds from which expenditure of a capital nature is financed, I propose total expenditure of \$10.7 billion ⁽²⁷⁾. This compares with a revised estimate for the current year of \$9 billion.

(26) 1987-88 General Revenue Account—Draft Estimates

	<i>Recurrent</i>	<i>Capital</i>	<i>Total</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>(\$mn)</i>
<i>Revenue</i>	45,624	878	46,502
<i>Expenditure (excluding transfers to funds)</i>	35,788	2,021	37,809
<i>Surplus</i>	<u>9,836</u>	<u>(1,143)</u>	<u>8,693</u>
<i>Less transfers to funds</i>			6,600
<i>Surplus before revenue proposals</i>			2,093
<i>Less cost of revenue proposals</i>			<u>325</u>
<i>Surplus</i>			<u><u>1,768</u></u>

(27) 1987-88 Fund Accounts—Draft Estimates

	<i>Expenditure</i>	<i>Revenue</i>	<i>Net</i>
	<i>(\$mn)</i>	<i>(\$mn)</i>	<i>Expenditure</i>
			<i>(\$mn)</i>
<i>Capital Works Reserve Fund</i>	7,050	2,220	4,830
<i>(excluding Suspense Account)</i>			
<i>Development Loan Fund</i>	1,690	635	1,055
<i>Home Ownership Fund</i>	752	1,797	(1,045)
<i>Student Loan Fund</i>	103	76	27
<i>Mass Transit Fund</i>	<u>1,102</u>	<u>—</u>	<u>1,102</u>
	<u>10,697</u>	<u>4,728</u>	<u>5,969</u>
<i>Transfer from General Revenue Account</i>			6,600
<i>Net increase in balances</i>			<u><u>631</u></u>

85. The growth in expenditure is partly accounted for by the further equity injection of \$1 billion into the MTRC, which the Government is committed to make in 1987-88. It also reflects provision for higher capital expenditure. As I mentioned earlier, capital spending has fallen substantially in recent years. There is now some scope for tackling the list of outstanding projects. Whilst I have had regard to the recurrent consequences of projects once completed, I propose to allocate \$6 billion for new projects starting in 1987-88, which is \$1.2 billion more than for the current year.

86. Allowing for inevitable lead times, it will take a while for this boost in capital spending to be reflected in cash flows. For 1987-88 there is room for more immediate expenditure, which will have a positive impact on Government's longer-term position both financially and in terms of efficiency. I have in mind some rationalisation of Government's accommodation, and a variety of measures involving, for example, computerisation and equipment renewal.

87. Revenue accruing directly to the funds comprises receipts from a combination of land sales, loan repayments, interest payments and sales of flats under the Home Ownership Scheme. The estimated revenue for 1987-88 is \$4.7 billion compared with a revised estimate for the current year of \$4.8 billion.

88. The overall situation of the funds after making the transfers from General Revenue Account is an estimated small increase in their balances of \$0.6 billion or about 5 per cent of their current levels. This will maintain the real value of these balances. We need sufficient in the funds bearing in mind the boost that I am proposing in capital spending and its longer-term impact on cash flow.

89. Taking the General Revenue Account surplus and growth in fund balances together gives an estimated overall surplus for the year of \$2.4 billion.

PROGRAMMES AND POLICIES

90. Having outlined the total budgetary position, I shall now comment on some of the major programmes and policies on which expenditure estimates are founded. The consolidated account expenditure in 1987-88, which includes the expenditure of the Housing Authority and Urban and Regional Councils, is forecast to be \$53.4 billion⁽²⁸⁾. I shall refer specifically to our land production, housing, education, medical and social welfare programmes because they are so important and, together, make up more than half of consolidated account expenditure.

(28) Reference to all programmes can be found in Appendix D.

Land production

91. Gross land production in 1987-88 is expected to be 357 hectares compared with a revised estimate for 1986-87 of 356 hectares. Over the three years of the new forecast period 1988-89 to 1990-91, total production is expected to be 1 572 hectares⁽²⁹⁾.

Public housing

92. Of the total consolidated account capital expenditure in 1987-88, \$3.4 billion will be allocated for the construction of housing, including temporary housing areas, compared with the revised estimate of \$3.2 billion for 1986-87. Notwithstanding the high level of this expenditure, the figures exclude the value of land used by the Housing Authority for rental housing and for flats built under the Home Ownership Scheme⁽³⁰⁾.

(29) *The gross figures for land production include land for public housing, government, institutional and community purposes, open space and roads in both the urban areas and the New Territories. They exclude 9.95 hectares and 1.78 hectares which the Hong Kong Industrial Estates Corporation plans to form during 1987-88 and 1989-90 respectively. The corporation did not complete the formation of any new land during 1986-87.*

<i>Year</i>	<i>Production (hectares)</i>
1988-89	411
1989-90	719
1990-91	442
<i>Total</i>	<u>1572</u>

	<i>1986-87 Revised Estimates (\$mn)</i>	<i>1987-88 Draft Estimates (\$mn)</i>
(1) <i>Rental Housing Programme (i):</i>		
<i>Drawings from Development Loan Fund (ii)</i>	1,200	1,200
<i>Housing Authority's own resources (iii)</i>	1,150	1,269
<i>Asian Development Bank Loans</i>	1	—
<i>Total (1)</i>	<u>2,351</u>	<u>2,469</u>
(2) <i>Home Ownership Scheme (iv)</i>	790	800
<i>Total (1) + (2)</i>	<u>3,141</u>	<u>3,269</u>
(3) <i>Temporary housing areas</i>	87	85
<i>Total (1) + (2) + (3)</i>	<u>3,228</u>	<u>3,354</u>

Notes

- (i) *Not including the Housing Society.*
- (ii) *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 into the authority's accounts as a government contribution.*
- (iii) *Difference between rent income and running expenses plus premia from commercial lettings.*
- (iv) *These figures exclude expenditure on the Middle Income Housing Programme (now closed) and the Private Sector Participation Scheme. For the Home Ownership Scheme itself, the expenditure figures include \$66 million and \$57 million for 1986-87 and 1987-88 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.*

93. It is the Government's policy that the public housing programme should achieve a level of production of at least 40 000 flats a year for rental and sale. This target comprises the Housing Authority's rental flats and flats for sale under the Home Ownership Scheme, flats sold under the Private Sector Participation Scheme, and the Housing Society's production through the development of rental housing and the Urban Improvement Scheme.

94. The forecast of Housing Authority production in the four years 1987-88 to 1990-91 exceeds production in the previous four years by 14 per cent. This includes a total of 7 200 flats to be produced under the extended redevelopment programme, that is to say the redevelopment of the 26 sub-standard blocks: these 7 200 flats are additional to the annual production target of 30 000 rental flats. The total production in the next four years including Private Sector Participation Scheme flats and Housing Society flats is estimated at 197 000 with an average completion rate of 49 000 a year, comfortably exceeding our target⁽³¹⁾. Thus, in the next four years we will provide additional good quality, subsidised housing for nearly 800 000 people.

95. As regards the Home Ownership Scheme, some 62 000 flats out of 68 000 flats in the first eight phases will have been completed by the end of 1987-88. Work is in hand on the balance and on a further 20 000 flats in later phases⁽³²⁾. More will follow.

Education

96. Expenditure on education in 1987-88 will be \$9.8 billion. This represents 18.3 per cent of consolidated account expenditure compared with 14.3 per cent five years before. It is a wise investment in our future⁽³³⁾. The medium range forecast takes account of likely continued growth in this area and the financial impact of the Education Commission's proposals where they have been accepted.

Medical and health

97. Total expenditure on medical services in 1987-88 will be \$5.2 billion: this will be 9.6 per cent of consolidated account expenditure as compared with 7.4 per cent five years ago. In addition to the total estimated project cost of

(31)	<i>HA rental</i>	<i>HOS</i>	<i>PSPS (incl.MIH)</i>	<i>HS(rental and UIS)</i>	<i>Total</i>
1983-84	28,564	7,877	2,240	10	38,691
1984-85	26,354	10,168	1,408	419	38,349
1985-86	29,386	6,688	11,902	213	48,189
1986-87	30,237	6,838	4,866	1,391	43,332
1987-88	31,887	7,610	2,716	780	42,993
1988-89	40,885	5,810	5,020	3,840	55,555
1989-90	35,863	6,492	7,064	3,470	52,889
1990-91	32,684	5,250	4,880	3,158	45,972

(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) *Details of policies and some major new facilities are in Appendix D.*

\$1.2 billion for the new government hospital in Tuen Mun, \$1 billion will be spent over the next few years on improvements and extensions to Queen Mary, Queen Elizabeth and Tang Shiu Kin Hospitals. A further \$120 million will be spent on site formation works and consultants fees for the new Eastern District Hospital. Development programmes at an estimated total cost of \$1.4 billion are also under way at a number of subvented hospitals.

Social welfare

98. Expenditure on social welfare will be \$3.1 billion in 1987-88 or 5.8 per cent of consolidated expenditure as compared with 4.8 per cent five years ago. Expectations in this area are always rising—understandably so, but as with any area of expenditure resources are not unlimited.

Other services

99. Other than those programme areas I have specifically mentioned, I draw attention to a major capital project due to start in 1987-88. This is phase IV of the New Territories Circular Road, between Fairview Park and Au Tau. Also, spending on environmental protection will receive a boost with the implementation of control measures in connection with agricultural waste and air quality.

REVENUE MEASURES

100. Sir, I have described the context within which the revenue measures for 1987-88 have been considered. I shall now give details. In some cases, my proposals will have a greater effect beyond 1987-88 and I shall indicate this where appropriate.

101. Overall, the package is made up of a number of revenue raising measures designed to yield \$365 million in 1987-88 rising to \$405 million thereafter. But this additional revenue is more than offset by tax concessions estimated to cost \$690 million in 1987-88 and \$1.1 billion in a full year⁽³⁴⁾.

DUTIABLE COMMODITIES

102. I shall deal first with duties. In general, the principle underlying my proposals is that duty rates should be maintained in real terms. My objective is to secure regular small changes broadly in line with inflation rather than less frequent, but inevitably larger, increases. There are some minor exceptions to this principle but, by and large, I have followed it closely.

(34) Details can be found in Appendix E.

Imported hydrocarbon oil

103. I turn first to imported hydrocarbon oil. I am aware that crude oil prices have increased with consequential upward adjustments in fuel prices. I am reluctant to add to the burden of consumers, but nevertheless there is a need to maintain the real value of the yield from this particular tax source. The duty rates on hydrocarbon oil were revised last year⁽³⁵⁾. I propose to increase the duty rate on motor spirit from \$2.30 to \$2.40 a litre and on diesel oil for road vehicles from \$1.15 to \$1.20 a litre⁽³⁶⁾.

104. The refund on diesel oil to the franchised bus companies will remain at 65¢ a litre. The cost of the duty increases to all these companies taken together will be \$6 million. The effect, if any, on bus fares should be minimal.

105. The two increases come into effect this afternoon. I estimate the additional revenue yield to be \$60 million in 1987-88.

Intoxicating liquor and imported alcohol

106. I make two proposals relating to intoxicating liquor. First, I propose increases varying from 6 per cent to 13 per cent in specific duty elements with a view to restoring their real values since they were last revised⁽³⁷⁾. A number of them have not been revised since 1984. The *ad valorem* rates will remain unchanged.

107. Second, I propose a minor structural adjustment to reduce the number of duty rates. Duties on cider and perry will be increased by rather less than the rate of inflation to bring them into line with the basic rate of duty on beer. Both categories will now attract a duty rate of \$1.28 per litre.

108. I propose also to increase the basic rates for imported ethyl alcohol and methyl alcohol from \$4 per litre to \$4.30 per litre⁽³⁸⁾. This will maintain the rates in real terms and keep them in line with the rates for non-European type spirits.

109. All these changes in rates are effective this afternoon. I estimate the additional revenue yield in 1987-88 to be \$50 million, assuming no consumer resistance.

Imported tobacco

110. Duty rates on imported tobacco were revised last year⁽³⁹⁾. Further revisions are in order this year to maintain duty yields in real terms.

(35) 1986 Budget speech, paragraph 99.

(36) If the full increase is passed on to consumers, petrol prices will rise by about 2 per cent and diesel prices by about 1.5 per cent.

(37) Appendix E.

(38) Appendix E.

(39) 1986 Budget speech, paragraph 105.

111. I propose, therefore, to increase the duty on imported unmanufactured tobacco from \$190 to \$200 a kilogram, and that on imported cigarettes from \$210 to \$220 a kilogram⁽⁴⁰⁾. I estimate an additional revenue yield of \$47 million in 1987-88. On the basis proposed, the duty differential between imported unmanufactured tobacco and imported cigarettes will remain at about 10 per cent.

112. I also propose to increase the duty rate on cigars from \$210 to \$220 a kilogram, and that on manufactured tobacco (other varieties) from \$190 to \$200 a kilogram. This will keep them in line respectively with those on imported manufactured cigarettes and imported unmanufactured tobacco. Finally, I propose to revalue the duty on Chinese prepared tobacco in line with inflation since 1985 when it was last revised, by increasing it from \$40 to \$43 a kilogram. I estimate the additional revenue yield from the two proposals to be \$8 million in 1987-88.

113. All the duty proposals on imported tobacco come into effect this afternoon and should generate a total additional revenue yield of \$55 million in 1987-88.

114. In 1985, my predecessor mentioned the option of imposing an *ad valorem* duty on tobacco⁽⁴¹⁾. The trade was subsequently consulted and their response was far from unanimous⁽⁴²⁾. The existing duty structure with its consequent payment and drawback requirements is, however, less than ideal, particularly in relation to cigarettes. It is cumbersome and costly to administer. It also imposes costs on local manufacturers, who have to tie up working capital in pre-paid duty that can only be reclaimed on the export of finished products. The differential in duty rates for imported and locally manufactured products is open to charges of protectionism although the present differential of around 10 per cent is fully within our rights and obligations under the General Agreement on Tariffs and Trade.

115. In the light of these factors it is my present intention to move in due course to a simpler duty structure in which duties would be levied on numbers of cigarettes rather than on weight of tobacco. This would entail the levying of duty only on manufactured cigarettes destined for the local market, whether locally made or imported. It would remove the need for local manufacturers to pay duty on imported tobacco, the vast bulk of which is subsequently exported in the form of finished products. Under these circumstances there would be no justification for maintaining a differential. I shall be giving further thought to this in the coming months.

(40) *If the full duty increase is passed on to consumers, the average price per packet of cigarettes will increase by about 15 cents. Further details can be found in Appendix E.*

(41) *1985 Budget speech, paragraph 118.*

(42) *1986 Budget speech, paragraph 102.*

FEES AND CHARGES

116. I turn now to fees and charges. Our policy remains that services should generally be paid for by those who use them, unless a positive decision has been taken to deviate from this policy. It is of great importance in our low tax economy that we do all we can to observe the principle that services should not in general be subsidised. In this regard, controlling officers are constantly encouraged to take the initiative in proposing new fees and charges to ensure that those services that are not a fair charge on the general taxpayer are paid for by those who benefit from them.

117. For 1987-88, I intend to increase the following fees and charges—first, business registration fees; second, vehicle and driving licence fees; and last, certain visa and travel document fees⁽⁴³⁾. These specific increases will be in addition to those departmental fees and charges coming up for their normal regular review in 1987. The increases will yield \$200 million in 1987-88 and \$240 million in a full year.

Business registration fee

118. The business registration fee was increased in the 1985 Budget⁽⁴⁴⁾. At present the annual charge is \$500. I propose to increase the fee by 10 per cent to \$550. The fee will apply to all registered businesses, but small businesses whose monthly turnover does not exceed certain prescribed limits will continue to be granted exemption. The increase will be effective from 1 April 1987 and the additional yield will be \$20 million in 1987-88. The levy for the Protection of Wages on Insolvency Fund, currently at a rate of \$100, is separate and is not affected by this proposal.

Vehicle and driving licence fees

119. My second proposal is to increase with immediate effect vehicle and driving licence fees from the level set last year. I share my predecessor's view that this is a sensitive area to which the 'little and often' principle particularly applies⁽⁴⁵⁾. I therefore propose increases of around 5 per cent. I estimate that the additional revenue accruing from these increases in 1987-88 will be \$45 million.

Visa and travel document fees

120. My last proposal on fees and charges concerns certain visa and travel document fees. Most of these fees were last increased in 1984⁽⁴⁶⁾. I therefore propose immediate increases averaging 12 per cent for those fees affected. The additional revenue in 1987-88 will be around \$20 million.

(43) Details are in Appendix E.

(44) 1985 Budget speech, paragraph 97.

(45) 1986 Budget speech, paragraph 106.

(46) The fees payable for an ordinary visa for Hong Kong and for a change of conditions of stay or an extension of a limit of stay in Hong Kong were further increased in 1985.

Other fees and charges

121. A number of other fees and charges, including those in relation to services provided by the Water Supplies Department, the Marine Department and the Registrar General's Department, are scheduled for their normal regular reviews in 1987. I expect from these sources additional revenue of about \$115 million in 1987-88 giving rise to \$155 million in a full year.

TAX CONCESSIONS

122. Turning now to tax concessions, I propose a modest reduction in the standard rate of tax, a reduction in the rate of profits tax applicable to corporations, increases in personal and child allowances, a revision in the rates of estate duty, and an increase in the exemption limit for gifts under the Estate Duty Ordinance. In addition, I propose to introduce amendments to the Inland Revenue Ordinance both to simplify the assessment to salaries tax of those employees who, in any year, render services both within and outside Hong Kong, and to combat specific tax avoidance arrangements.

Personal Taxation

123. For personal taxation, I propose—

First, to reduce the standard rate from 17 per cent to 16.5 per cent.

Second, to combine the existing basic and additional personal allowances to form the new basic allowance, and to set the additional personal allowance at \$5,000 for single persons, and \$10,000 for married persons. Taken together, the new basic allowance plus the additional personal allowance will total \$34,000 for single persons and \$70,000 for married couples; below these income levels there will be no liability to tax. The new allowances at their maximum levels will be nearly 17 per cent higher than the present combined basic and additional personal allowances⁽⁴⁷⁾.

Third, that the child allowance be increased, for a first child from \$9,000 to \$11,000, and for a second child from \$6,000 to \$8,000. The new allowances will be respectively some 22 per cent and 33 per cent higher than the present allowances which were set in 1985.

(47) *Under the provisions of section 42B(1) of the Ordinance, the present basic and additional allowances are—*

	<i>Basic Allowance</i>	<i>Additional Allowance</i>	<i>Total</i>
<i>Single</i>	\$20,500	\$8,500	\$29,000
<i>Married</i>	\$41,000	\$19,000	\$60,000

Lastly, I propose that the third band in the Second Schedule of the Ordinance, that is to say the band to which the 15 per cent marginal rate of tax presently applies, be widened from \$10,000 to \$20,000. This will defer by \$10,000 of income the point at which the 20 per cent rate takes effect and, at the same time, will increase the income levels at which taxpayers enter the standard rate zone.

124. Because an across the board increase in all allowances would be extremely expensive, I further propose that the new additional personal allowances of \$5,000 for a single person and \$10,000 for a married couple be subject to a 10 per cent clawback⁽⁴⁸⁾. By reintroducing the clawback, I am able to focus the proposed allowances more fully on the less affluent of those who pay salaries tax or elect for personal assessment. The clawback will operate to reduce the allowance by 10 per cent of the amount by which a taxpayer's income exceeds \$34,000 in the case of a single person and \$70,000 for a married couple. Thus, when a single person's income reaches \$84,000 and a married couple's \$170,000, the additional personal allowance will have been exhausted by the clawback⁽⁴⁹⁾.

125. Sir, I believe that Members, and the public at large, will welcome these concessions. They will also save the Inland Revenue Department the considerable task of processing a large number of tax returns for a relatively low yield, and will exclude from the tax net some 100 000 persons who would otherwise have become liable to salaries tax next year⁽⁵⁰⁾. Examples of the effects of these concessions upon various categories of taxpayers are set out in an appendix to the printed version of this speech⁽⁵¹⁾.

126. In proposing these concessions, I am aware that there is some lack of consistency with my desire to see taxes more broadly based. I have, however, taken into account the present structure of direct taxes and the relationship between direct and indirect taxes to which I referred earlier. I believe that, in the

(48) *Under the provisions of section 42B(1)(aa) and (bb) of the Ordinance.*

(49) *In other words, for every dollar of income in excess of \$34,000 for a single person and \$70,000 for a married couple, 10 cents of the additional allowance will be recovered, or clawed back, until the allowance is eliminated and at that level of income the taxpayer only enjoys the basic personal allowance.*

(50) *Excluding the cut in the standard rate which benefits some 43 000 standard-rate taxpayers, if the proposed concessions are brought into law, no less than a total of 710 000 persons (or 94 per cent of the estimated salaries tax-paying population) will benefit in 1987-88, that is.:*

—135 500 taxpayers previously liable to salaries tax will now be exempt;

—100 000 persons who would have become liable to salaries tax will be kept out of the tax net; and

—474 500 taxpayers will benefit by way of reduced tax liability.

Furthermore, some 52 000 persons who elect to be assessed under personal assessment will also benefit through reduced liability in 1988-89.

(51) *Appendix E.*

context of the present tax structure, what I am proposing is both equitable and cost effective. The concessions will enable the commissioner to concentrate staff resources on more revenue productive work.

127. I propose to introduce these new concessions with effect from the year of assessment commencing 1 April 1987. The first occasion on which they will apply, therefore, will be to the provisional and final salaries tax assessments for the fiscal year 1987-88, and also to 1987-88 personal assessments. I estimate that the cost to the revenue in 1987-88 will be about \$470 million, and for a full year, \$650 million.

Profits tax

128. As to profits tax, I propose a reduction in the rate of tax on corporate profits from 18.5 per cent to 18 per cent. The cost of the reduction proposed is \$135 million in 1987-88 and, for a full year, \$310 million. The new corporate rate of 18 per cent will apply to provisional and final assessments for 1987-88.

129. I am aware that some have argued for a more substantial cut in the rate of corporate profits tax on the ground that this would provide a stimulus to the business sector. I do not consider that we should move too sharply at this stage. But I hope that this clear indication of the direction in which I would like to move will provide, if not a stimulus to the corporate sector, then at least sound reason for confidence that we remain determined to maintain a low tax regime in which business can flourish. Gentle progress will serve us best.

Reduction in standard rate

130. The reduction proposed in the standard rate will affect the amount of profits tax to be paid by unincorporated businesses, and reduce yields from property tax and interest tax. Taken together, I estimate this will cost a further \$35 million in 1987-88 and \$75 million in a full year. The new standard rate will apply to provisional and final assessments for 1987-88 on unincorporated businesses, to provisional and final assessments for 1987-88 in respect of property tax, and also to final interest tax assessments for that year.

Estate duty

131. I have two concessions relating to estate duty. Members will recall that in 1982, in recognition of rising asset values, the estate duty exemption limit was raised to \$2 million, and the rate of duty scaled from 10 per cent to 18 per cent on estates between \$2 million and over \$4 million. To reduce the inflationary element inherent in the rise in values in recent years, I propose to replace the present schedule of rates with a new schedule scaled from 6 per cent on estates

between \$2 million and \$2.5 million to 18 per cent on estates over \$5 million⁽⁵²⁾. Additionally, I propose that the duty free limit on gifts be increased from \$50,000 to \$100,000 to take account of inflation⁽⁵³⁾.

132. The cost to the revenue of these two proposals will be approximately \$25 million both in 1987-88 and in subsequent years.

'Time apportionment' basis of taxation

133. In the area of tax legislation there is always some tidying up to be done either on grounds of equity or to improve the administration of the system. In recent years, the assessment to salaries tax of employees who render services both within and outside Hong Kong has been a growing area of dispute between the Inland Revenue Department and taxpayers. These disputes, which are commonly referred to as 'time apportionment' cases, involve claims that certain income from employment should be excluded from assessment. As the law now stands, the question to be considered in each claim for time apportionment is essentially one of fact, involving examination of all the circumstances surrounding the employment of, and the duties performed by, the employee.

134. Because a considerable amount of time is spent by the Inland Revenue Department, the Inland Revenue Board of Review and indeed by taxpayers themselves in seeking to resolve disputed cases, I propose, subject to the advice of the Executive Council, to amend the Inland Revenue Ordinance to provide for the automatic granting of time apportionment where, in a year of assessment, an employee renders services outside Hong Kong for a period of more than 60 days in total. At the same time I propose that, where services are rendered outside Hong Kong for 60 days or less, the whole of the income from that employment shall be regarded as arising from services rendered in Hong Kong and no time apportionment will be permitted. I estimate the cost to the revenue of these amendments which I propose will take effect from the year of assessment 1987-88 to be about \$25 million in the year of implementation and \$35 million in a full year.

TAXATION OF MARRIED WOMEN

135. I turn now to the difficult and sensitive subject of separate taxation for married women. It is complicated, as my predecessor explained in his 1983 Budget speech⁽⁵⁴⁾. Members of this Council and various interested groups have

(52)	<i>On estates between—</i>	
	\$2,000,001 and \$2,500,000	6 per cent
	\$2,500,001 and \$3,000,000	8 per cent
	\$3,000,001 and \$3,500,000	10 per cent
	\$3,500,001 and \$4,000,000	12 per cent
	\$4,000,001 and \$4,500,000	14 per cent
	\$4,500,001 and \$5,000,000	16 per cent
	\$5,000,001 and above	18 per cent

(53) *Under the first proviso to section 6(1)(c) of the Estate Duty Ordinance.*

(54) *1983 Budget speech, paragraph 137.*

made a number of proposals in recent weeks, and the media have also taken an active interest. I believe, however, that my proposed personal tax concessions, which benefit all rather than any particular group of salaries taxpayers, rate a higher priority and will be more widely acceptable. Members will recall that the cost of introducing separate taxation for married women would be some \$400 million per annum at 1986-87 levels of income. And the cost of administering the system could amount to \$17 million⁽⁵⁵⁾. It seems to me that even if the revenue were able to forgo a further sum of this magnitude, it would be preferable that the benefit should be spread amongst personal taxpayers generally rather than be enjoyed by any particular group. I have no doubt that I shall hear more on this subject and look forward to Members' views with interest. I suggest that the 1983 Budget speech should be the starting point for any further debate.

DOUBLE TAXATION

136. As regards double taxation, Members will recall that last year the Commissioner of Inland Revenue was asked to look into this matter and obtain the views of a number of professional organisations. Whilst all are agreed that double taxation presently occurs to some extent, particularly in relation to employees who make frequent trips to the People's Republic of China, the extent of the problem, and the cost to the revenue of possible remedies, has proven difficult to quantify. The question of double taxation is currently being examined against this background and I am hopeful that some progress can be made in the not too distant future. But in the meantime, my proposal to amend the law in relation to time apportionment cases will provide a measure of relief to some taxpayers.

ANTI-AVOIDANCE LEGISLATION

137. Finally, I come to a matter which, if left unchecked, could result in a substantial drain on profits tax yield. I am aware that a growing number of taxpayers are entering into asset refinancing arrangements which are variations on 'Myer' schemes, so named after an Australian case which has been given wide publicity in professional circles. Briefly, these arrangements seek to convert an income flow, such as interest on a loan which is assessable to profits tax, into a non-taxable capital receipt by assigning the income flow to another person without assigning the underlying asset. The arrangements may also involve efforts to give income an off-shore source.

(55) *Written reply by the Financial Secretary to a question asked by the hon. Mrs. Rita FAN at the sitting of Legislative Council on 14 January 1987.*

138. It is possible that the general anti-avoidance provisions introduced last year may be effective in negating the tax benefit sought from these arrangements. Certainly, the Commissioner of Inland Revenue will challenge cases where he considers that the purpose of any arrangement falls within the terms of the general anti-avoidance provisions. However, because the amount of revenue capable of being put at risk is so large and since it has always been the Government's policy to implement specific legislation to counter specific tax-avoidance schemes, I propose, subject to the advice of the Executive Council, to introduce legislation aimed specifically at these asset refinancing arrangements. I further propose that such legislation should apply to arrangements entered into after today.

IMPLEMENTATION

139. My proposals for dutiable commodities, visa and travel documents and vehicle and driving licence fees were the subject of Public Revenue Protection Orders signed by Your Excellency this morning. The increase in the business registration fee will, subject to the approval of this Council, take effect on 1 April 1987. Other increases in fees and charges will be brought forward during the year as the relevant reviews are completed. During the current session, Bills will be introduced into this Council to give effect to my proposals on estate duty and tax concessions.

SUMMING UP

140. That, Sir, concludes my revenue proposals, and I shall now end with some general observations.

141. We enjoyed a remarkable year in 1986. I shall say no more beyond adding that the results owe much to the hard work and imagination of the community as a whole. Hong Kong has a justifiable reputation for getting on with the job in hand. Our business community is vigorous in its pursuit of new markets and opportunities, and our labour force is known for its skill and energy. These are the traditional qualities of Hong Kong, and we will continue to prosper if we hold true to them.

142. In shaping Hong Kong's public finances, I wish to preserve and foster an environment in which business can flourish, not simply because I want to see businesses more profitable, but also because it is only in a favourable business environment that we can expect that investment will grow and well paid jobs will continue to be created. This is the way to maintain stability.

143. In touching upon monetary issues and in particular the financial sector, I mentioned earlier the importance of reputation. I make no apologies for repeating that a sound reputation is vital to our continuing growth in this area.

Problems are not unique to any particular financial centre; we have seen what has happened elsewhere in the world. All those involved with financial services, whether in business or in regulatory or supervisory activities, have a common interest. We must all play our part in maintaining the integrity of the system because if the activities of a few are allowed to damage that system or mar its reputation, then all will suffer. Let us not imagine that we are dealing with victimless crimes.

144. As far as the management of public finances is concerned, I have stressed the need for continuity of policies. We have enjoyed remarkable economic growth and from this we have gained the resources to finance the many developments and public services that our community has rightly come to expect. But we must remember that the efficient provision of those services requires stable funding and steady rather than erratic development. The management of our public finances, given the cyclical nature of our economy, depends to a great extent on our continuing to pay close attention to trends and on the taking of early action where necessary to avoid more extreme measures at a later date.

145. The underlying trends now seem favourable, and it is for this reason that I have felt able to propose a Budget that represents both further improvements in public services, and a lowering of the burden on the taxpayer. But we must be cautious. Again, as I said at the outset, our economy remains subject to external factors, including the threat of protectionism. We must therefore be careful not to move too quickly in terms of committing ourselves to greater expenditure or foregoing revenue.

146. Sir, let me finally conclude with this thought. Hong Kong will in the years ahead face many problems; but with courage, honesty and strength of purpose it will overcome them. In framing my proposals I have kept this simple truth in the forefront of my mind.

147. Sir, I beg to move.

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 pm on Wednesday, 11 March 1987.

Adjourned accordingly at seven minutes to Four o'clock.

Note: The short title of the bill listed in the Hansard Report has been translated into Chinese for information and guidance only; it does not have authoritative effect in Chinese.

Appendices

The purpose of these appendices is to summarize the budget proposals for 1987-88 and to set them in the context of both historic performance and forecasts for the medium term (5 years). The style of presentation is a little different from earlier years and draws together aspects of the budget proposals which have previously appeared in separate publications.

2. The appendices are arranged in six sections:—

	<i>Page</i>
<p><i>A — Summary of estimates and allocations to funds</i> Showing the total budgetted position and the way in which transactions will be undertaken through the different funds operated by Government.</p>	919-932
<p><i>B — Establishment of the Civil Service</i> Showing the size and relative make-up of the Civil Service.</p>	933-936
<p><i>C — Medium range forecast</i> Taking the consolidated position set out in Appendix A and extending it to project Government's financial position for the next 5 years.</p>	937-946
<p><i>D — Programmes and policies</i> Explaining the main policies underlying the budget proposals.</p>	947-968
<p><i>E — Budget revenue proposals</i> Containing further details of the revenue proposals made.</p>	969-985
<p><i>F — Contingent liabilities</i> Setting out the more significant contingent liabilities of Government.</p>	984

3. In the case of Appendices A and B, each summary is cross-referenced to the appropriate detail appearing in the Estimates—Volumes 1 and 2.

Appendix A(1)

SUMMARY OF ESTIMATES**Background**

For control and funding purposes, Government's financial activity is undertaken through a variety of accounts and funds. General Revenue Account acts as the main funding device with resources being transferred to or from the other funds as necessary. The tables below indicate the consolidated position. The following accounts are omitted from the consolidation:

- (i) Lotteries Fund—which is subject to separate statutory provisions preventing the use of the fund revenue on general Government purposes.
- (ii) The Suspense Account of the Capital Works Reserve Fund—the net revenue of which is subject to sharing with the future Hong Kong Special Administrative Region Government.

Subsequent appendices will analyse each fund in turn.

Summary of Estimated Financial Position

	1986-87 Revised Estimate					
	Opening Balance	Expenditure	Revenue	Transfer between funds	Surplus/ (Deficit) after transfer	Closing Balance
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
General Revenue Account	16,961	33,931	43,108	(6,100)	3,077	20,038
Capital Works Reserve Fund	5,952	6,500	2,239	4,390	129	6,081
Development Loan Fund	1,843	1,557	638	1,100	181	2,024
Home Ownership Fund	1,700	811	1,878	—	1,067	2,767
Mass Transit Fund	525	56	—	585	529	1,054
Student Loan Fund	65	95	68	25	(2)	63
Total	27,046	42,950	47,931	—	4,981	32,027

	1987-88 Estimate					
	Opening Balance	Expenditure	Revenue	Transfer between funds	Surplus/ (Deficit) after transfer	Closing Balance
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
General Revenue Account	20,038	37,809	46,177*	(6,600)	1,768	21,806
Capital Works Reserve Fund	6,081	7,050	2,220	5,080	250	6,331
Development Loan Fund	2,024	1,690	635	1,000	(55)	1,969
Home Ownership Fund	2,767	752	1,797	—	1,045	3,812
Mass Transit Fund	1,054	1,102	—	500	(602)	452
Student Loan Fund	63	103	76	20	(7)	56
Total	32,027	48,506	50,905	—	2,399	34,426

* After revenue proposals

GENERAL REVENUE ACCOUNT**Background**

The General Revenue Account (GRA) is the main operating account through which the Government's finances are controlled. The following tables summarize the estimates for 1987-88 making due allowance for revenue measures proposed in this budget and set these estimates in their historic context.

Summary

	Actual				Revised Estimate	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
OPENING BALANCE	22,570	19,070	16,077	15,518	16,961	20,038
Expenditure	21,844	24,213	27,396	30,745	33,931	37,809
Revenue	30,698	30,150	36,343	41,241	43,108	46,177 *
Surplus before Fund Transfers	8,854	5,937	8,947	10,496	9,177	8,368
Transfers to Funds	12,754	9,180	9,506	9,053	6,100	6,600
Transfers from Funds	400	250	—	—	—	—
Surplus/(Deficit) after Fund Transfers	(3,500)	(2,993)	(559)	1,443	3,077	1,768
CLOSING BALANCE	19,070	16,077	15,518	16,961	20,038	21,806

* After revenue proposals

Statistical Analysis (Revenue)

	Actual				Revised Estimate	Estimate (After Revenue Proposals)
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Direct Tax as % of Direct + Indirect Taxes	69%	60%	62%	60%	61%	62%
Direct Tax as % of Total Revenue	39%	39%	38%	41%	45%	48%
Recurrent Revenue as % of Total Revenue	80%	90%	84%	88%	96%	98%
Capital Revenue as % of Total Revenue	20%	10%	16%	12%	4%	2%

Appendix A(2)—Contd.

GENERAL REVENUE ACCOUNT**Expenditure Analysis**

	Actual								Revised Estimate		Estimate	
	1982-83		1983-84		1984-85		1985-86		1986-87		1987-88	
	\$mn	%	\$mn	%	\$mn	%	\$mn	%	\$mn	%	\$mn	%
Recurrent Expenditure												
Personal Emoluments	7,479	36	8,335	36	9,603	37	10,963	37	12,195	37	12,675	37
Personnel Related Expenses	1,551	7	1,881	8	2,149	8	2,409	8	2,681	8	2,908	8
Departmental Expenses	2,564	13	2,742	12	2,829	11	2,906	10	3,187	10	3,619	11
Other Charges	3,606	18	3,997	18	4,407	17	4,838	17	5,110	16	5,364	16
Subventions	5,299	26	5,921	26	7,004	27	8,049	28	9,224	29	9,772	28
Sub-total	20,499	100	22,876	100	25,992	100	29,165	100	32,397	100	34,338	100
Additional Commitments	—	—	—	—	—	—	—	—	—	—	1,450	—
Total Recurrent Expenditure	20,499	—	22,876	—	25,992	—	29,165	—	32,397	—	35,788	—
Capital Expenditure												
Plant, Equipment and Works	599	45	546	41	443	32	371	24	410	27	688	37
Defence Costs Agreement	64	5	81	6	75	5	35	2	27	2	55	3
Subventions	328	24	461	34	675	48	507	32	676	44	895	48
Other	354	26	249	19	211	15	667	42	421	27	233	12
Sub-total	1,345	100	1,337	100	1,404	100	1,580	100	1,534	100	1,871	100
Additional Commitments	—	—	—	—	—	—	—	—	—	—	150	—
Total Capital Expenditure	1,345	—	1,337	—	1,404	—	1,580	—	1,534	—	2,021	—
Recurrent + Capital Expenditure	21,844	—	24,213	—	27,396	—	30,745	—	33,931	—	37,809	—
Transfers to Funds	12,754	—	9,180	—	9,506	—	9,053	—	6,100	—	6,600	—
Total Expenditure	34,598	—	33,393	—	36,902	—	39,798	—	40,031	—	44,409	—

Note: Details supporting these estimates can be found in the **Estimates—Volume 1** (pages 9 to 485)

GENERAL REVENUE ACCOUNT

Revenue Analysis

	Actual								Revised Estimate		Estimate (After Revenue Proposals)	
	1982-83		1983-84		1984-85		1985-86		1986-87		1987-88	
	\$mn	%	\$mn	%	\$mn	%	\$mn	%	\$mn	%	\$mn	%
Recurrent Revenue												
Direct Taxes												
Earnings and Profits Tax	11,849	48	11,423	42	13,515	44	16,602	46	18,975	46	21,605	48
Indirect Taxes												
Duties	1,245	5	2,584	10	2,344	8	3,092	8	3,388	8	3,723	8
General Rates	697	3	1,156	4	1,222	4	1,769	5	1,190	3	1,290	3
Internal Revenue	2,630	11	3,184	12	4,049	13	5,183	14	6,438	16	6,680	15
Motor Vehicle Taxes	384	1	316	1	350	1	634	2	920	2	1,080	2
Royalties and Concessions	257	1	270	1	359	1	377	1	438	1	447	1
Sub-total	5,213	21	7,510	28	8,324	27	11,055	30	12,374	30	13,220	29
Other Revenue												
Fines, Forfeitures and Penalties	292	1	343	1	366	1	364	1	397	1	405	1
Revenue from Properties and Investments	2,957	12	2,638	9	2,395	8	1,632	4	1,695	4	1,937	4
Reimbursements and Contributions	825	3	831	3	1,021	3	1,073	3	1,463	4	1,389	3
Utilities	1,918	8	2,093	8	2,321	8	2,633	7	2,927	7	3,092	7
Fees and Charges	1,828	7	2,413	9	2,640	9	3,101	9	3,348	8	3,676	8
Sub-total	7,820	31	8,318	30	8,743	29	8,803	24	9,830	24	10,499	23
Total Recurrent Revenue	24,882	100	27,251	100	30,582	100	36,460	100	41,179	100	45,324	100
Capital Revenue												
Direct Taxes												
Estate Duty	313	5	316	11	300	5	391	8	490	25	415	49
Indirect Taxes												
Taxi Concessions	268	5	191	7	120	2	52	1	76	4	84	10
Other Revenue												
Land Transactions	5,048	87	2,267	78	4,267	74	3,895	82	739	38	333	39
Donations and Grants	65	1	112	4	51	1	16	—	16	1	17	2
Repayments of Loans and Advances	122	2	13	—	18	—	427	9	608	32	4	—
Proceeds from the Issue of Bonds	—	—	—	—	1,005	18	—	—	—	—	—	—
Sub-total	5,235	90	2,392	82	5,341	93	4,338	91	1,363	71	354	41
Total Capital Revenue	5,816	100	2,899	100	5,761	100	4,781	100	1,929	100	853	100
Recurrent+ Capital Revenue	30,698	—	30,150	—	36,343	—	41,241	—	43,108	—	46,177	—
Transfers from Funds	400	—	250	—	—	—	—	—	—	—	—	—
Total Revenue	31,098	—	30,400	—	36,343	—	41,241	—	43,108	—	46,177	—

Note: Details supporting these estimates can be found in the Estimates—Volume 2 (pages 7 to 24)

Appendix A(3)

CAPITAL WORKS RESERVE FUND**Background**

The Capital Works Reserve Fund was established on 20 January 1982 by Resolution of the Legislative Council for the purpose of financing the Public Works Programme and acquisitions of land. The first Resolution was subsequently replaced by a second on 27 July 1983. For the purpose of giving effect to arrangements for implementing paragraph 6 of Annex III to the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China signed in Peking on 19 December 1984, the 1983 Resolution was replaced by a third Resolution, passed by the Legislative Council on 15 May 1985.

2 In accordance with the Resolution, all revenue from land transactions, other than those transactions decided upon before the coming into force of the Joint Declaration and those not conferring a benefit after 1997, is paid into the Suspense Account of the fund. Sharing and calculation of the cost of land production is carried out by the Sino-British Land Commission at the end of each quarter. The interest accruing to the Suspense Account is shared once a year at the beginning of the financial year.

3 Expenditure on public works and land acquisition is charged to the Works Account. Net expenditure incurred is mainly financed by a combination of the transfers from the Suspense Account referred to above and from the Reserve Account.

4 The Reserve Account receives transfers of resources from the General Revenue Account and releases these resources to the Works Account to fund net expenditure as required.

Summary

	Actual				Revised	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
Suspense Account						
OPENING BALANCE	—	—	—	—	861	1,477
Expenditure	—	—	—	546	1,798	1,698
Revenue	—	—	—	1,856	4,573	3,583
Surplus before Transfer to Works Account	—	—	—	1,310	2,775	1,885
Transfer to Works Account	—	—	—	449	2,159	2,140
Surplus/(Deficit) after Transfer to Works Account	—	—	—	861	616	(255)
CLOSING BALANCE	—	—	—	861	1,477	1,222
Works Account						
OPENING BALANCE	—	3,197	3,322	5,272	602	1,000
Expenditure	7,603	7,575	5,808	5,706	6,500	7,050
Revenue	—	—	—	137	80	80
Deficit before Transfers	(7,603)	(7,575)	(5,808)	(5,569)	(6,420)	(6,970)
Transfer from Suspense Account	—	—	—	449	2,159	2,140
Transfer from Reserve Account/GRA	10,800	7,700	7,758	450	4,659	4,830
Surplus/(Deficit) after Transfers	3,197	125	1,950	(4,670)	398	—
CLOSING BALANCE	3,197	3,322	5,272	602	1,000	1,000
Reserve Account						
OPENING BALANCE	—	—	—	—	5,350	5,081
Transfer from GRA	—	—	—	5,350	4,390	5,080
Transfer to Works Account	—	—	—	—	4,659	4,830
CLOSING BALANCE	—	—	—	5,350	5,081	5,331

Appendix A(3)—Contd.

CAPITAL WORKS RESERVE FUND**Expenditure Analysis**

	Actual				Revised Estimate	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
Suspense Account						
Payment to account of future SAR Government	—	—	—	423	1,798	1,698
Refunds	—	—	—	123	—	—
Total Suspense Account Expenditure	—	—	—	546	1,798	1,698
Works Account						
Land Acquisition	1,029	1,040	587	1,025	1,200	1,200
Buildings	1,361	1,376	886	909	992	1,257
Engineering	1,879	1,620	1,135	851	455	457
Highways	—	—	—	—	619	825
New Towns and Public Housing	2,851	3,030	2,802	2,555	2,633	2,752
Water works	483	509	398	366	601	559
Total Works Account Expenditure	7,603	7,575	5,808	5,706	6,500	7,050

Note: Details supporting the Works Account estimates can be found in the **Estimates—Volume 2**(Pages 33 to 98)

Revenue Analysis

	Actual				Revised Estimate	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
Suspense Account						
Land Premium						
Sales by public auction and tender	—	—	—	1,392	3,324	2,000
Private treaty grants	—	—	—	240	571	600
Modification of existing leases, exchanges and extensions	—	—	—	207	640	950
Interest	—	—	—	17	38	33
Total Suspense Account Revenue	—	—	—	1,856	4,573	3,583
Works Account						
Interest	—	—	—	98	40	40
Donations and contributions	—	—	—	39	40	40
Total Works Account Revenue	—	—	—	137	80	80

Appendix A(4)

DEVELOPMENT LOAN FUND**Background**

The Development Loan Fund was established on 1 November 1958 by Resolution of the Legislative Council for the purpose of financing, by loans or advances or by investments, schemes of development in Hong Kong. This was replaced on 27 July 1983 by a further Resolution passed by the Legislative Council.

Summary

	Actual				Revised Estimate	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
OPENING BALANCE	1,378	1,175	1,438	1,681	1,843	2,024
Expenditure	2,442	1,892	1,673	1,806	1,557	1,690
Revenue	389	755	611	668	638	635
Deficit before Transfer from GRA	(2,053)	(1,137)	(1,062)	(1,138)	(919)	(1,055)
Transfer from GRA	1,850	1,400	1,305	1,300	1,100	1,000
Surplus/(Deficit) after Transfer from GRA	(203)	263	243	162	181	(55)
CLOSING BALANCE	1,175	1,438	1,681	1,843	2,024	1,969

Appendix A(4)—Contd.

DEVELOPMENT LOAN FUND**Expenditure Analysis**

	Actual				Revised Estimate	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
Loans						
Housing	2,216	1,764	1,590	1,589	1,505	1,644
Education	5	6	5	10	1	1
Primary products	(1)	(1)	4	(1)	(1)	2
Development of Industrial Estates	145	123	74	53	52	43
Transport	77	—	—	—	—	—
Repayment waived						
Advances to Hong Kong Industrial Estates Corporation	—	—	—	155	—	—
Total Expenditure	2,442	1,892	1,673	1,806	1,557	1,690

Note: Details supporting these estimates can be found in the **Estimates—Volume 2**(pages 105 to 106)

Revenue Analysis

	Actual				Revised Estimate	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
Repayments of loans	127	212	309	480	444	448
Interest on loans	105	139	165	88	88	101
Interest on deposit and bank balances	157	93	131	100	106	86
Land sales premia	—	—	6	—	—	—
Gain on sale of shares held under projects and investments	—	311	—	—	—	—
Total Revenue	389	755	611	668	638	635

Note: Details supporting these estimates can be found in the **Estimates—Volume 2**(pages 107 to 108)

Appendix A(5)

HOME OWNERSHIP FUND**Background**

The Home Ownership Fund was established on 5 January 1977 by Resolution of the Legislative Council for the purpose of financing the construction of flats to promote home ownership amongst families within a specified income level. This was replaced by a further Resolution passed by the Legislative Council on 27 July 1983.

Summary

	Actual				Revised Estimate	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
OPENING BALANCE	724	755	862	1,313	1,700	2,767
Expenditure	716	1,511	1,058	754	811	752
Revenue	1,147	1,618	1,509	1,141	1,878	1,797
Surplus before Transfer to GRA	431	107	451	387	1,067	1,045
Transfer to GRA	400	—	—	—	—	—
Surplus after Transfer to GRA	31	107	451	387	1,067	1,045
CLOSING BALANCE	755	862	1,313	1,700	2,767	3,812

HOME OWNERSHIP FUND**Expenditure Analysis**

	Actual				Revised Estimate	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
Home Ownership Scheme	716	1,127	1,036	699	724	743
Middle Income Housing Programme	—	382	3	—	—	—
Private Sector Participation Scheme	—	2	19	55	87	9
Total Expenditure	716	1,511	1,058	754	811	752

Note: Details supporting these estimates can be found in the **Estimates—Volume 2**(Page111)

Revenue Analysis

	Actual				Revised Estimate	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
Home Ownership Scheme						
Proceeds from sales	1,147	1,147	1,501	1,095	1,796	1,688
Middle Income Housing Programme						
Proceeds from resale of unsold flats	—	137	3	—	—	—
Private Sector Participation Scheme						
Proceeds from sale of unsold flats	—	—	—	15	—	—
Receipts from developers for excesses over guaranteed prices	—	—	—	12	78	105
Miscellaneous receipts	—	—	1	3	2	2
Tender premia for LP gas supply	—	—	—	13	—	—
Forfeiture for cancellation of sale of flats	—	4	2	2	2	2
Surplus on sale of returned flats	—	—	2	1	—	—
Total Revenue	1,147	1,618	1,509	1,141	1,878	1,797

Note: Details supporting these estimates can be found in the **Estimates—Volume 2**(Page112)

Appendix A(6)

MASS TRANSIT FUND**Background**

The Mass Transit Fund was established on 28 March 1973 by Resolution of the Legislative Council to finance the purchase by Government of equity in the proposed mass transit railway system. This was replaced by a further Resolution passed by the Legislative Council on 27 July 1983.

Summary

	Actual				Revised	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
OPENING BALANCE	411	38	2	345	525	1,054
Payments—Purchase of Equity in MTRC in order to finance:						
Rates	26	76	55	51	56	102
Land premia	347	—	10	192	—	—
General financing needs	—	—	—	1,500	—	1,000
Deficit before Transfer GRA	(373)	(76)	(65)	(1,743)	(56)	(1,102)
Transfer from GRA	—	40	408	1,923	585	500
Surplus/(Deficit) after Transfer from GRA	(373)	(36)	343	180	529	(602)
CLOSING BALANCE	38	2	345	525	1,054	452

STUDENT LOAN FUND**Background**

The Student Loan Fund was established on 1 February 1980 by Resolution of the Legislative Council to finance loans to students at selected post-secondary institutions. The Fund is now governed by a Resolution made by the Legislative Council on 27 July 1983 under section 29(1) of the Public Finance Ordinance (Cap. 2).

Summary

	Actual				Revised Estimate	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
OPENING BALANCE	15	70	72	68	65	63
Loans to students	83	78	87	90	95	103
Repayments of loans	34	40	48	57	68	76
Deficit before Transfer from GRA	(49)	(38)	(39)	(33)	(27)	(27)
Transfer from GRA	104	40	35	30	25	20
Surplus/(Deficit) after Transfer from GRA	55	2	(4)	(3)	(2)	(7)
CLOSING BALANCE	70	72	68	65	63	56

Note: Details supporting the estimates of loans can be found in the **Estimates—Volume 2** (Pages 139 to 140)

Appendix A(8)

LOTTERIES FUND**Background**

The Lotteries Fund was created on 30 June 1965 by Resolution of the Legislative Council for the purpose of financing social welfare services by grants, loans and advances. The Fund took over the unspent funds raised by lotteries held under the Government Lotteries Ordinance 1962. Between 1965 and 1975 it received the net proceeds of government lotteries held during those years. The old style lotteries were changed to the Mark Six Lottery in September 1975. The Fund is now mainly funded from this source.

Summary

	Actual				Revised	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
OPENING BALANCE	184	233	281	320	308	268
Expenditure	45	31	47	59	98	86
Revenue	94	79	86	47	58	69
Surplus/(Deficit)	49	48	39	(12)	(40)	(17)
CLOSING BALANCE	233	281	320	308	268	251

LOTTERIES FUND**Expenditure Analysis**

	Actual				Revised Estimate	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
Grants	45	31	46	57	94	81†
Loans	—	—	1	—	—	—
Supervision fee	—	—	—	2	1	5
Operating deficit (to RHKJC)	—	—	—	—	3*	—
Total Expenditure	45	31	47	59	98	86

* In respect of RHKJC's accounting years of 1983/84 and 1984/85.

† Including commitments of \$30mn not yet approved.

Note: Details supporting these estimates can be found in the **Estimates—Volume 2** (Pages 115 to 117)

Revenue Analysis

	Actual				Revised Estimate	Estimate
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
	\$mn	\$mn	\$mn	\$mn	\$mn	\$mn
Lotteries						
Net proceeds	44	45	31	17	19	20
Unclaimed prize money	6	9	11	9	10	12
Auctions of vehicle registration marks	3	3	3	4	4	4
Loan repayments	1	—	—	—	—	—
Interest	27	22	37	17	8	14
Operating surplus (from RHKJC)	13**	—	4††	—	17‡	19§
Total Revenue	94	79	86	47	58	69

** In respect of RHKJC's accounting years 1981/82

†† In respect of RHKJC's accounting years 1982/83

‡ In respect of RHKJC's accounting years 1985/86

§ In respect of RHKJC's accounting years 1986/87

Note: Details supporting these estimates can be found in the **Estimates—Volume 2** (Pages 118)

ESTABLISHMENT OF THE CIVIL SERVICE

For monitoring purposes, the Civil Service is taken to include staff in the Housing Authority, Regional and Urban Councils and other seconded staff as well as those working in government departments.

	Establishment (at December prior to)					
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Department						
His Excellency the Governor's Establishment	60	53	53	53	53	53
Agriculture and Fisheries	2,646	2,495	2,541	2,536	2,494	2,467
Architectural Services	—	—	—	—	—	1,867
Audit	231	247	256	255	254	255
Auxiliary Medical Services	51	59	60	63	63	64
Building Development	2,984	2,951	2,409	2,388	2,356	—
Buildings and Lands	—	—	—	—	—	3,635
Census & Statistics	1,067	1,168	1,166	1,220	1,222	1,227
Civil Aid Services	102	105	105	106	109	112
Civil Aviation	532	583	604	615	613	621
Civil Engineering Services	—	—	—	—	—	1,956
Correctional Services	4,947	5,623	6,281	6,392	6,394	6,368
Customs & Excise	—	3,219	3,288	3,364	3,421	3,493
Education	5,415	5,924	6,174	6,298	6,375	6,517
Electrical and Mechanical Services	—	6,677	7,281	7,470	7,468	7,471
Engineering Development	10,866	3,797	3,892	3,879	3,748	—
Environmental Protection	89	118	121	122	121	283
Fire Services	5,995	6,161	6,263	6,448	6,643	6,946
General Expenses of the Civil Service (operational reserves)	—	802	801	750	499	503
Government Data Processing Agency	329	358	343	342	336	340
Government Laboratory	193	221	231	238	247	255
Government Land Transport Agency	209	215	219	222	219	216
Government Secretariat	1,365	1,824	1,830	1,809	1,866	1,915
Government Secretariat: City and New Territories Administration	1,771	1,855	1,854	1,795	1,983	2,031
Government Secretariat: Civil Service Branch	1,352	—	—	—	—	—
Government Secretariat: Civil Service Training Centre	—	119	117	117	110	109
Government Secretariat: Lands & Works Branch	259	248	231	230	224	144
Government Secretariat: Municipal Services Branch	—	—	—	560	537	521
Government Secretariat: Overseas Offices	—	—	—	—	147	144
Government Supplies	818	817	820	831	829	828
Highways	—	—	—	—	—	1,621
Housing	2	2	2	2	2	2
Immigration	3,567	3,994	4,611	4,637	4,690	4,878
Independent Commission Against Corruption	1,137	1,171	1,171	1,171	1,150	1,187
Industry	—	158	173	175	183	192
Information Services	326	343	373	486	484	479
Inland Revenue	3,276	3,350	3,326	3,350	3,391	3,480
Judiciary	1,268	1,369	1,391	1,440	1,468	1,557
Kowloon-Canton Railway	1,398	—	—	—	—	—
Labour	1,646	1,689	1,660	1,651	1,656	1,623

Appendix B—Contd.

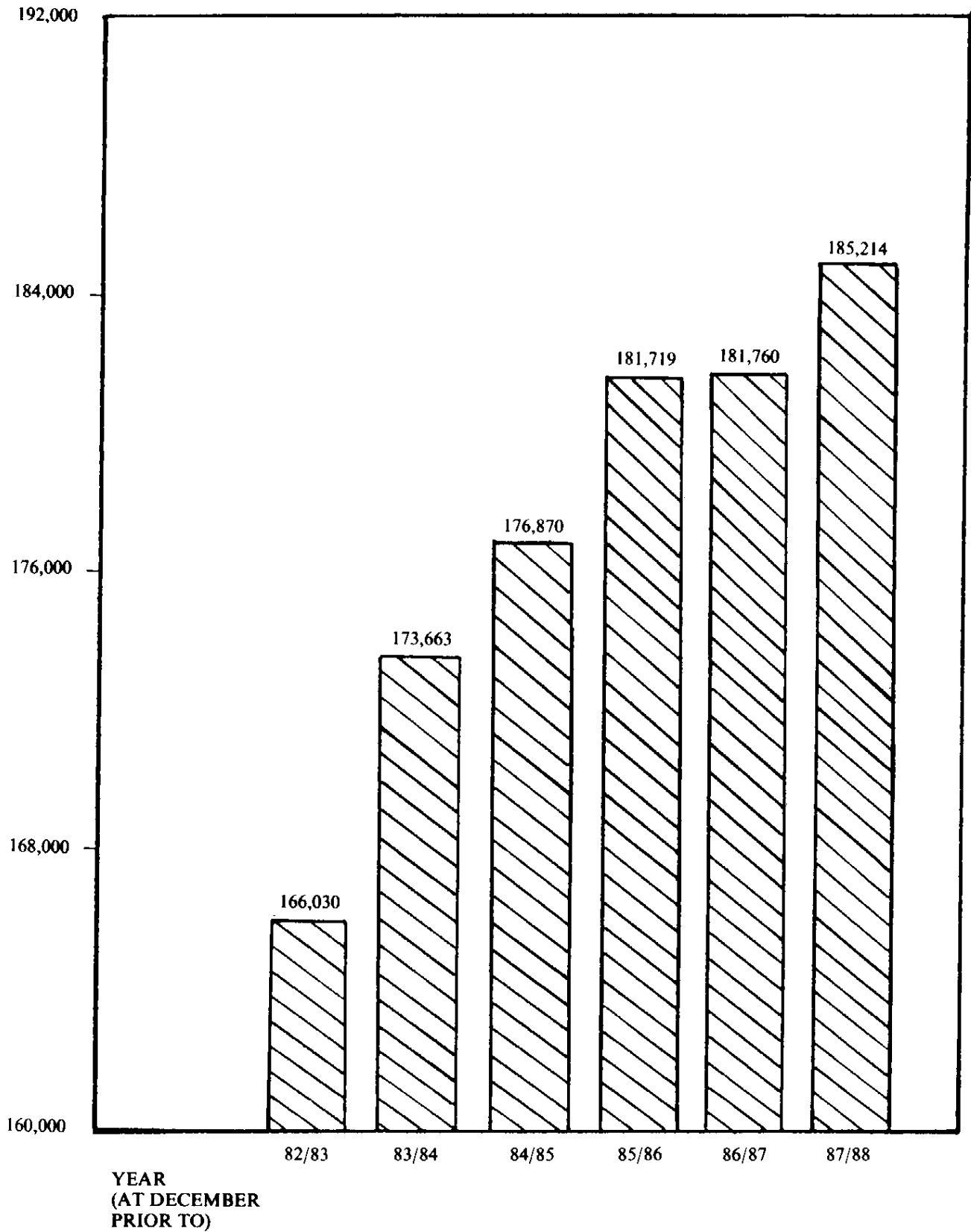
	Establishment (at December prior to)					
	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Department						
Lands	3,193	3,231	3,218	3,270	3,164	—
Legal	363	390	429	520	554	672
Legal Aid	265	316	315	326	329	354
London Office	107	118	119	114	—	—
Marine	1,600	1,687	1,700	1,684	1,644	1,626
Medical and Health	19,805	20,736	22,000	24,333	24,977	25,744
New Territories Development	548	553	562	573	568	—
Police Complaints Committee	—	—	—	—	20	22
Police: Royal Hong Kong Police Force	27,369	28,440	29,472	30,310	30,978	31,672
Post Office	3,946	4,423	4,409	4,430	4,465	4,552
Printing	465	437	440	421	412	429
Public Services Commission	10	10	10	10	10	10
Radio Television Hong Kong	633	746	739	742	729	729
Rating and Valuation	733	814	841	816	804	911
Recreation and Culture	535	688	706	—	—	—
Registrar General's	872	958	965	1,013	1,041	1,193
Registry of Trade Unions	21	25	25	25	25	25
Royal Hong Kong Auxiliary Air Force	69	81	83	83	83	83
Royal Hong Kong Regiment (The Volunteers)	61	61	62	54	54	54
Royal Observatory	252	261	262	268	281	284
Social Welfare	2,990	3,262	3,316	3,307	3,107	3,296
Standing Commission on Civil Service Salaries and Conditions of Service	25	35	35	35	32	37
Technical Education and Industrial Training	1,038	194	207	207	209	209
Television and Entertainment Licensing Authority	56	60	60	60	66	66
Territory Development	—	—	—	—	—	704
Trade	—	735	732	729	732	777
Trade Industry and Customs	3,680	—	—	—	—	—
Transport	1,403	1,869	1,822	1,781	1,695	1,676
Treasury	765	776	763	779	778	781
Universities and Polytechnics	28	44	44	45	45	48
Urban Services (including Regional Services)	8,067	8,423	8,371	8,661	—	—
Water Supplies	5,012	4,689	4,685	4,819	4,896	5,022
Sub-total	137,812	141,777	146,040	150,430	143,053	146,336
Staff seconded to						
Housing Authority	11,140	11,702	11,847	12,257	12,069	12,151
Regional Council	—	—	—	—	8,502	8,690
Urban Council	17,052	17,458	18,017	18,139	17,275	17,268
vocational Training Council, etc.	26	2,726	966	893	861	769
Sub-total	28,218	31,886	30,830	31,289	38,707	38,878
Total	166,030	173,663	176,870	181,719	181,760	185,214

Note: Details supporting the latest establishment can be found in the **Estimates—Volume 2** (pages 297 to 417)

Diagram 1

ESTABLISHMENT OF THE CIVIL SERVICE
1982-83 TO 1987-88

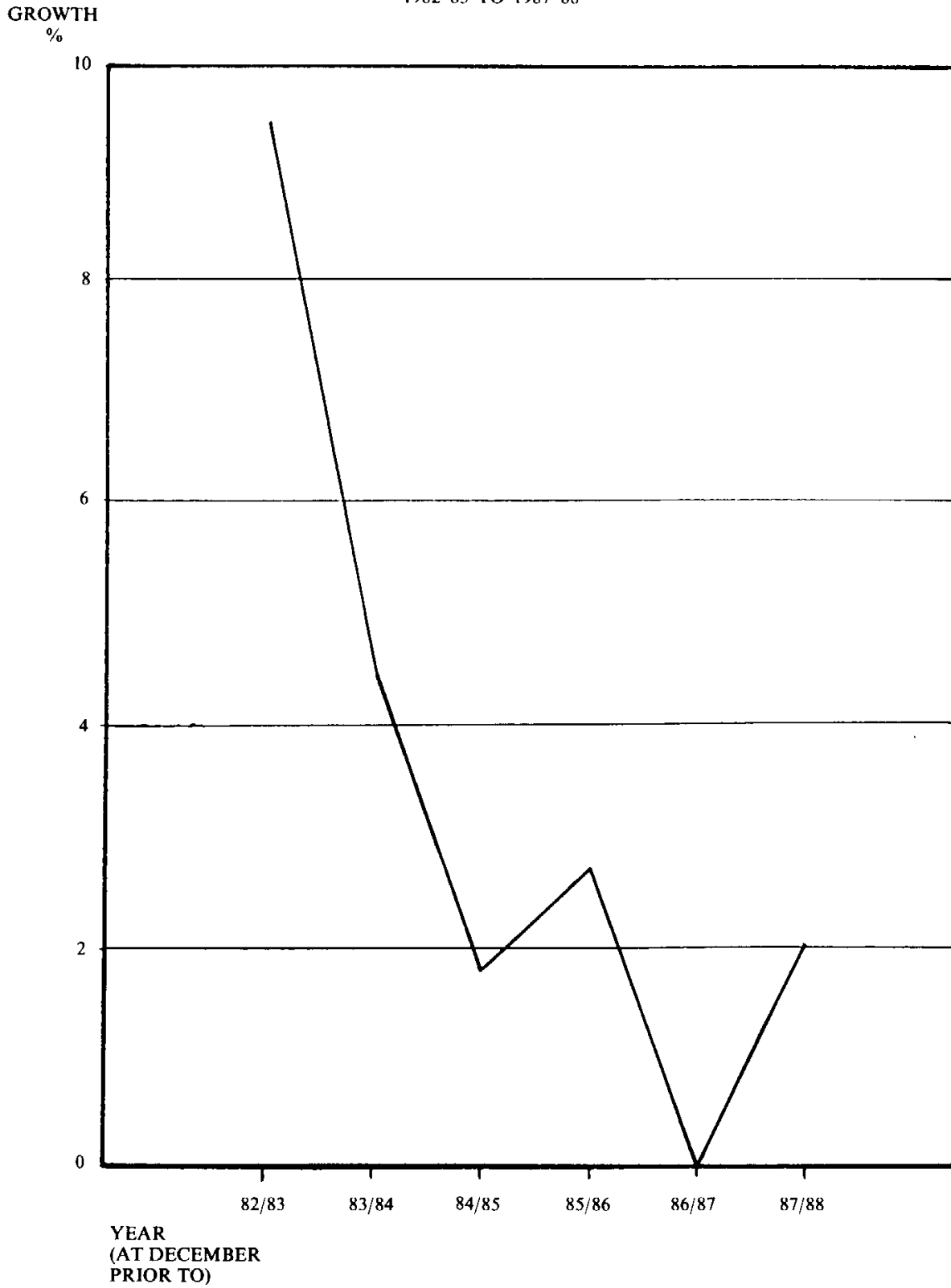
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Appendix B—Contd.

Diagram 2

PERCENTAGE GROWTH IN THE ESTABLISHMENT OF THE CIVIL SERVICE
1982-83 TO 1987-88



Appendix C

MEDIUM RANGE FORECAST 1986-87 TO 1990-91**Background**

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

2 Eight broad parameters are also used which serve to define either general economic assumptions or deliberate budgetary strategy. Two are basic economic assumptions having a significant impact on the Government's financial performance. Six are specific to Government's finances and therefore subject to direct control.

General Economic Assumptions

3 Growth in Gross Domestic Product (GDP)—There is a clear link between many of Government's major revenue sources and economic growth. For planning purposes and in the light of recent performance the medium range assumption as to annual GDP growth has been revised upwards from 4 1/2% to 5 1/2% in real terms. This is close to the average performance of the last 5 years.

4 Inflation—This has fallen rapidly in 1985 and 1986 but, in recent months, has begun to edge upwards. Over the forecast period an average year on year rate of 4 1/2% is assumed.

Specific Budget Assumptions

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

6 Total expenditure growth—It is intended that the trend should not exceed the growth in GDP in real terms. For planning purposes trend expenditure growth is held to slightly below GDP growth to provide room for manoeuvre in the face of unforeseen circumstances.

7 Capital expenditure growth—By its nature some fluctuations in the level of capital expenditure are to be expected. Taking one year with another the aim is to halt the decline of recent years and some increase is now planned. Allowance is made for a number of major projects due to start in the forecast period. At the same time, regard is had to the recurrent consequences of capital works in terms of staffing etc.

8 Taxation policy—The projections reflect the taxation measures introduced in this year's budget. Thereafter, no major shifts in the tax burden are assumed. Account is taken, however, of the need to maintain the real yield from fees and charges, fixed duties etc. and to review periodically the various tax thresholds.

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

10 Size of the civil service—This is a major determinant of the trend of Government's expenditure. An average annual growth of around 2 1/2% p.a. in civil service numbers is implicit in these forecasts.

Detailed Assumptions

11 There are many assumptions which underlie those already mentioned. These deal, for example, with expected completion dates of individual capital projects and their recurrent consequences in the form of staffing and projected growth in the demand for individual services. It is not, however, intended to spell them out here as they are not essential to consideration of the strategy implied.

12 Each year, the computer models are updated. This year's forecasts, for instance, reflect the higher economic growth rate assumption and consequential improvements in the revenue base for future years.

Appendix C—*Contd.***The Forecasts**

13 The latest forecasts are summarized in three tables (extracted from the full output of the computer models) and one diagram—

Table 1—Operating statement, being the relationship between recurrent (day to day) revenue and expenditure.

Table 2—Capital expenditure and financing statement.

Table 3—Consolidated cash flow in each year and the impact on Government's reserves.

Diagram 1—Tests of forecasting sensitivity.

14 The tables concentrate on Government's consolidated finances. They provide no details of the boundaries between the various Funds through which, for operational reasons, the Government controls its finances.

15 Some of the main features of these forecasts are:

—a consolidated surplus averaging around \$1 1/2 billion over the remainder of the forecast period.

—within this, 1989-90 shows a small deficit, but only after allowing for a further equity injection of \$1 1/2 billion into the Mass Transit Railway Corporation. On current projections of the Mass Transit Railway Corporation finances this may not now be needed, but is retained on the grounds of prudence.

—an operating surplus that is sufficient over the forecast period to finance some 70% of capital expenditure, i.e. well over the 50% minimum aimed for.

16 The considerable sensitivity of these forecasts to the performance of the economy will be noted from Diagram 1.

Consolidated Account Expenditure in the Context of the Economy

17 Tables 1 to 3 deal with Government's own expenditure. For control purposes, this is consolidated with the expenditure of other public bodies such as the Urban Council in order to compare the Consolidated Account Expenditure to the total size of the economy.

18 The results of this comparison are set out in one table and one diagram—

Table 4—showing the build up of Consolidated Account Expenditure and its relationship to the size of the economy (GDP).

Diagram 2—presenting this relationship in diagrammatic form and in comparison to historic performance.

These indicate how the relationship of Consolidated Account Expenditure in relation to GDP is being stabilized at around 16%-17%.

19 A further table (Table 5) is included this year which indicates the relationship between Consolidated Account Expenditure and Public Sector Expenditure. The former has historically been used as a measure for control of Government's finances. Public Sector Expenditure is an economic definition used in the context of national accounts for GDP estimation. It excludes, for instance, government transfers and current expenditure of government "trading" departments. Since the two series of statistics have different components, they may move differently and Table 5 is intended to clarify the extent of this difference in movements.

Comparison of Forecasts to Historic Trends and Earlier Projections

20 Diagram 3 indicates the pattern of expenditure growth allowed for in these forecasts compared with past results since 1975-76. The following points are of note:

—recurrent expenditure growth has been successfully stabilized since 1983-84. The forecasts assume a continuation of firm control over recurrent expenditure.

—capital expenditure growth is inevitably much more volatile and was, in fact, negative in 1984-85 and 1985-86. The forecasts assume a return to growth albeit controlled to a narrower range.

—total real expenditure growth has fallen considerably since the late 70's and early 80's and is forecast to be controlled at around 5% p.a.

21 The changes in base-line forecasts compared with those included in last year's budget are illustrated in Diagram 4. Both expenditure and revenue are higher. Expenditure reflects the boost in capital spending referred to in the Budget Speech. The revenue base is lifted largely as a result of improved economic performance both achieved in 1986 and projected thereafter.

Appendix C—Contd.

Operating Statement

Table 1

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

	Revised Estimate	Projection			
	1986-87	1987-88	1988-89	1989-90	1990-91
	\$mn	\$mn	\$mn	\$mn	\$mn
Recurrent Expenditure	32,400	35,790	39,860	44,350	49,330
Capital Expenditure of a regular nature	710	950	1,150	1,050	1,100
Total Operating Expenditure	33,110	36,740	41,010	45,400	50,430
Recurrent Revenue before interest	40,080	43,970	48,370	52,940	57,930
Operating Surplus before interest	6,970	7,230	7,360	7,540	7,500
Interest on Balances	1,110	1,350	1,620	1,650	1,660
Operating Surplus after interest	8,080	8,580	8,980	9,190	9,160

Capital Expenditure and Financing Statement

Table 2

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

	Revised Estimate	Projection			
	1986-87	1987-88	1988-89	1989-90	1990-91
	\$mn	\$mn	\$mn	\$mn	\$mn
Capital Expenditure					
General Revenue Account	830	1,060	1,210	1,110	1,010
Capital Works Reserve Fund	6,500	7,050	8,390	9,350	9,920
Other Funds*	2,530	3,640	2,660	4,190	2,720
Bond issue repayment	—	—	—	1,000	—
Total Capital Expenditure	9,860	11,750	12,260	15,650	13,650
Capital Revenue					
General Revenue Account	1,920	850	780	780	800
Capital Works Reserve Fund (land sales and interest)	2,240	2,220	2,400	2,510	2,620
Other Funds*	2,590	2,500	2,400	2,450	2,560
Total Capital Revenue	6,750	5,570	5,580	5,740	5,980
Capital Financing (Deficit)	(3,110)	(6,180)	(6,680)	(9,910)	(7,670)

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

Appendix C—Contd.

Consolidated Cash Flow

Table 3

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

	Revised Estimate	Projection			
	1986-87	1987-88	1988-89	1989-90	1990-91
	\$mn	\$mn	\$mn	\$mn	\$mn
Capital Financing (Deficit)	(3,110)	(6,180)	(6,680)	(9,910)	(7,670)
Operating Surplus	8,080	8,580	8,980	9,190	9,160
Consolidated Cash Surplus/(Deficit)*	4,970	2,400	2,300	(720)	1,490
Reserve Balances at 1 April	27,050	32,020	34,420	36,720	36,000
Reserve Balances at 31 March	32,020	34,420	36,720	36,000	37,490
* Analysis of Consolidated Cash Surplus/(Deficit)					
General Revenue Account	3,070	1,770	1,640	(720)	800
Funds	1,900	630	660	—	690

Appendix C—Contd.

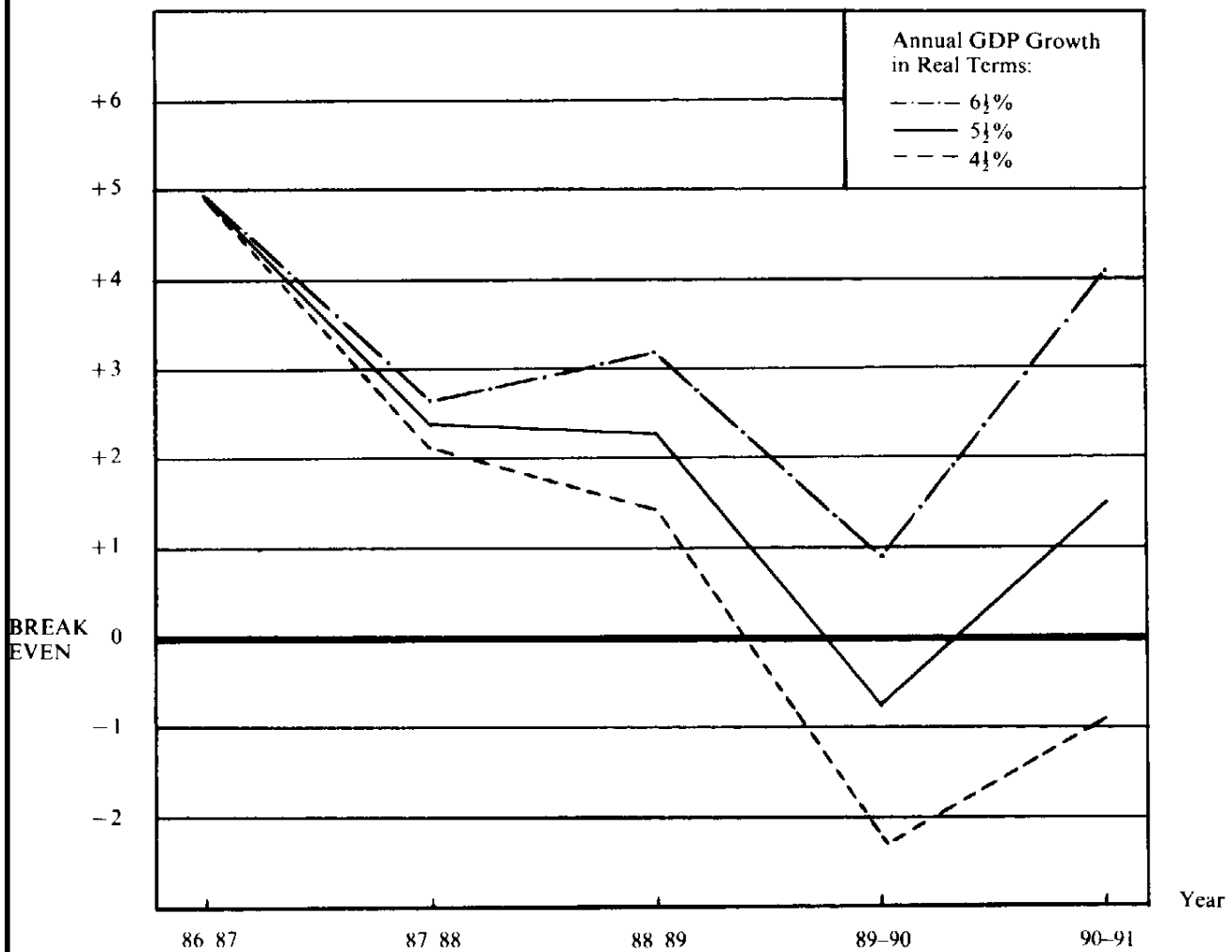
Diagram 1

Tests of Forecasting Sensitivity

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

It should be noted that only the revenue variation is reflected. In practice, any persistent variance from the basic GDP growth assumption of 5½% would also be followed by an upward or downward change in permitted expenditure growth.

\$ Billion



Appendix C—Contd.

Consolidated Account Expenditure in the Context of the Economy (Note 1) Table 4

Table 1 to 3 deal with Government's own expenditure. For control purposes, this is consolidated below with the expenditure of other public bodies such as the Urban Council in order to compare the Consolidated Account Expenditure to the total size of the economy.

	Revised Estimate	Projection			
	1986-87	1987-88	1988-89	1989-90	1990-91
	\$mn	\$mn	\$mn	\$mn	\$mn
Government's Expenditure					
Operating Expenditure	33,110	36,740	41,010	45,400	50,430
Capital Expenditure	9,860	11,750	12,260	15,650	13,650
Total Government Expenditure	42,970	48,490	53,270	61,050	64,080
Add Other public sector bodies	5,400	6,020	6,680	7,510	8,440
Deduct Debt repayments	(70)	(80)	(90)	(1,090)	(90)
MTRC equity injections	—	(1,000)	—	(1,500)	—
Total Consolidated Account Expenditure	48,300	53,430	59,860	65,970	72,430
Gross Domestic Product (calendar year)(Note 2)	291,900	321,700	354,500	390,700	430,600
Growth in GDP					
Money terms	10.7%	10.2%	10.2%	10.2%	10.2%
Real terms	8.7%	5.5%	5.5%	5.5%	5.5%
Growth in Consolidated Account Expenditure					
Money terms	11.1%	10.6%	12.0%	10.2%	9.8%
Real terms	4.1%	4.9%	6.2%	4.5%	4.1%
Consolidated Account Expenditure as percentage of GDP (at current prices)(Note 3)	16.5%	16.6%	16.9%	16.9%	16.8%

Note 1 The Consolidated Account comprises expenditure by the Urban Council, the Housing Authority and from 1986-87, the Regional Council, expenditure financed by Government's statutory funds, expenditure on public works projects financed with loans from the Asian Development Bank and all expenditure charged to the General Revenue Account. Expenditure by institutions in the private or quasi-private sector is included to the extent of their subventions. The activities of government departments which are partly financed by charges raised on a commercial basis are also included (e.g. airport, waterworks). But not included is expenditure by those organizations, including even statutory organizations, in which the Government has only an equity position, such as the Mass Transit Railway Corporation and, post 1982-83, the Kowloon-Canton Railway Corporation. Similarly, debt repayments and equity payments are excluded as they do not reflect the actual consumption of resources by the Government.

Note 2 For years beyond the current year, the GDP figures are based on trend assumptions. The projection for 1987 is, therefore, slightly different from the specific forecast for that year published in the '1987 Economic Prospects'.

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

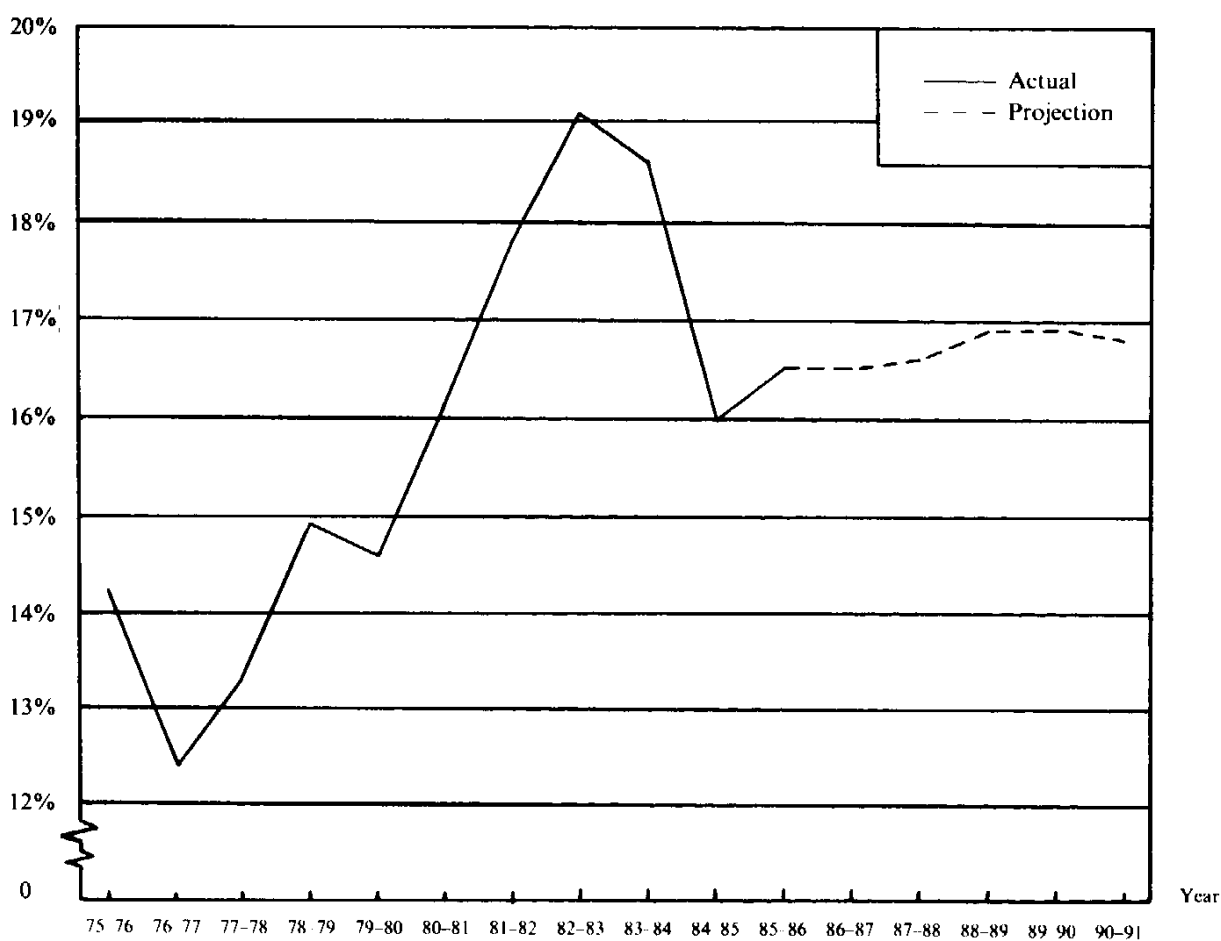
Appendix C—Contd.

Diagram 2

**Historical and Projected Relationship
between Gross Domestic Product
and Consolidated Account Expenditure**

Illustrates the historical relationship between GDP and Government's Consolidated Account Expenditure since 1975-76 and projected figures up to 1990-91.

Consolidated Account
Expenditure as
percentage of GDP



**Relationship between Consolidated Account Expenditure and
Public Sector Expenditure as defined for GDP purposes**

Table 5

Consolidated Account Expenditure has historically been used as a measure for control of Government's finances. Public Sector Expenditure is an economic definition used in the context of national accounts for GDP estimation. It excludes, for instance, government transfers and current expenditure of government "trading" departments. Since the two series of statistics have different components, they may move differently and the following table is intended to clarify the extent of this difference in movements.

	Revised Estimate	Projection			
	1986-87	1987-88	1988-89	1989-90	1990-91
	\$mn	\$mn	\$mn	\$mn	\$mn
Total Consolidated Account Expenditure (from Table 4)	48,300	53,430	59,860	65,970	72,430
<i>Add:</i> Imputed rent (Note 1) and expenditure by other public sector bodies not included in total Consolidated Account Expenditure (Note 2)	4,120	5,150	4,920	4,630	5,310
<i>Deduct:</i> Transfers:					
—recurrent and capital subventions (Note 3)	(9,910)	(11,190)	(12,540)	(13,820)	(15,250)
—other transfer payments made by Government (Note 4)	(4,920)	(5,150)	(5,650)	(5,630)	(5,280)
Current expenditure of government "trading" departments (Note 5)	(5,560)	(5,990)	(6,680)	(7,330)	(8,080)
Total Public Sector Expenditure (Note 6)	32,030	36,250	39,910	43,820	49,130
Growth in Public Sector Expenditure					
Money terms	10.0%	13.2%	10.1%	9.8%	12.1%
Real terms	2.5%	5.5%	2.6%	2.3%	4.5%
Gross Domestic Product (calendar year) (Note 7)	291,900	321,700	354,500	390,700	430,600
Growth in GDP					
Money terms	10.7%	10.2%	10.2%	10.2%	10.2%
Real terms	8.7%	5.5%	5.5%	5.5%	5.5%
Public Sector Expenditure as percentage of GDP (at current prices) (Note 8)	11.0%	11.3%	11.3%	11.2%	11.4%

Note 1 An estimate of the notional rent of premises owned by the Government and occupied by the non-trading government departments.

Note 2 Capital expenditure by the Mass Transit Railway Corporation and the Kowloon-Canton Railway Corporation and current and capital expenditure by other public organizations such as the Vocational Training Council, Trade Development Council, Hong Kong Productivity Centre, Hong Kong Tourist Association and Consumer Council, etc.

Note 3 Financial assistance to government-assisted institutions in the private or quasi-private sector.

Note 4 Expenditure on land acquisitions, compensations, purchases of properties, welfare payments, grants and loans etc.

Note 5 Government trading departments are distinguished from other government departments in that they are engaged in the production of goods and services principally for sale to the public. The criteria for distinguishing the trading activities of the Government from its other activities are (i) that the activity consists of the production of goods and services of a kind which might be provided by a private business, and (ii) that sales, either to the public or to other government departments, account for a major part of their activities. Some examples of departments regarded as being engaged in trading activities are Civil Aviation, Housing, Post Office and Water Supplies.

Note 6 Total Public Sector Expenditure and its growth rates in this table are calculated on a fiscal year basis. These may, therefore, be different from those calculated under a calendar year basis and quoted elsewhere in the Budget Speech.

Note 7 The GDP growth rates for the years 1987 to 1990 (and the GDP figures thus derived) are the trend projections used for medium-range budgetary planning purposes. Fluctuations in economic activity from year to year are not taken into account.

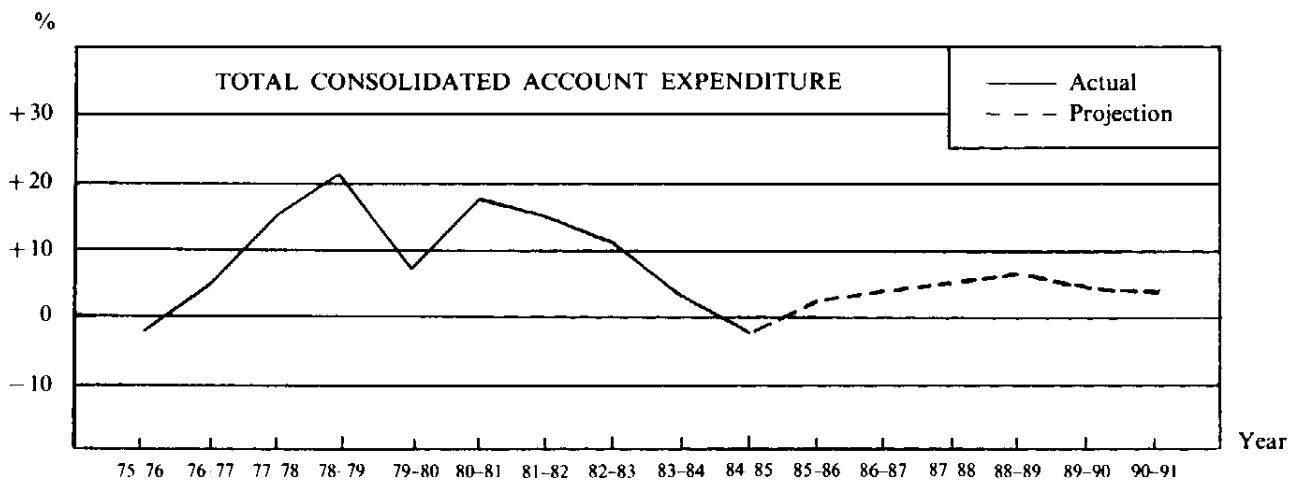
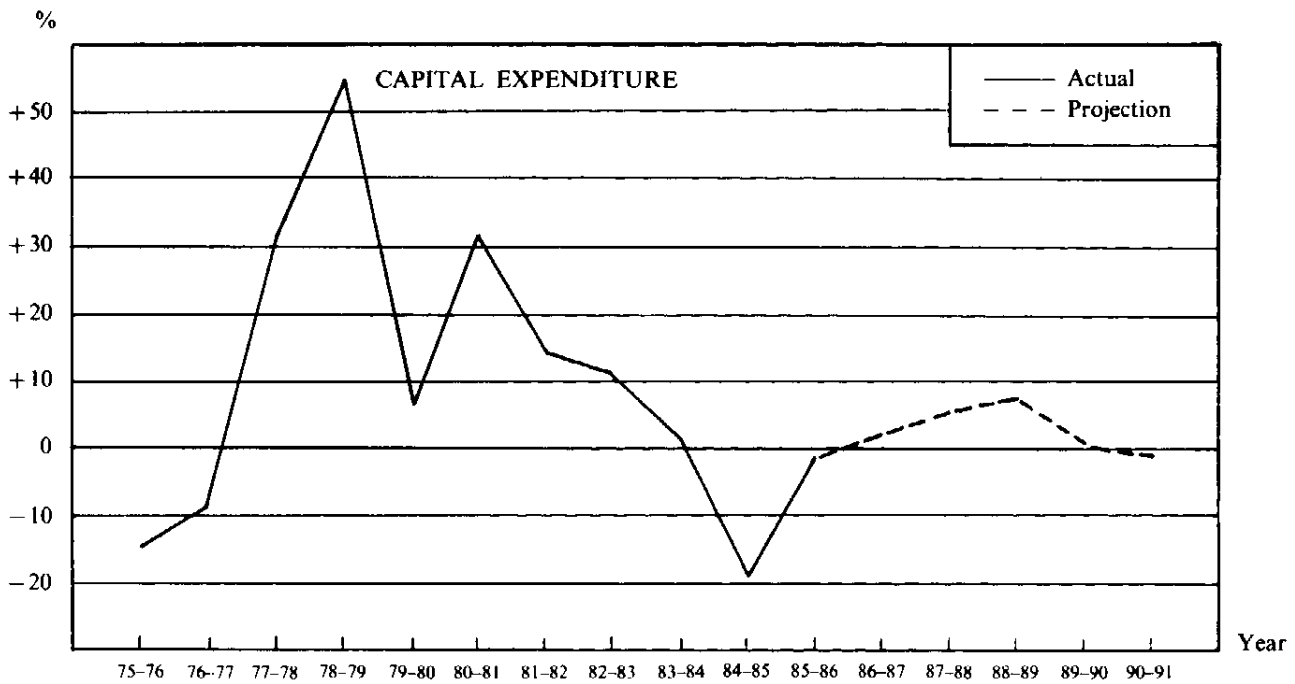
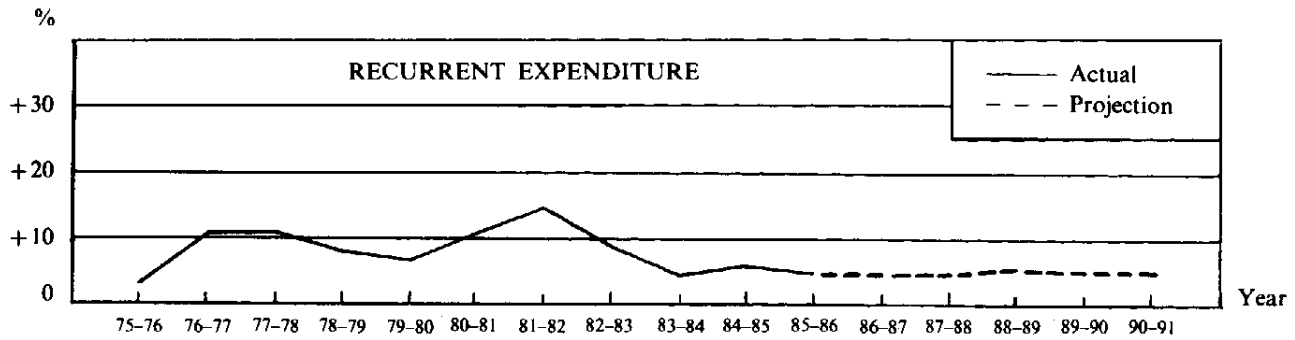
Note 8 Caution should be exercised in interpreting these percentages as the Public Sector Expenditure is estimated on a fiscal year basis while the GDP is estimated on a calendar year basis.

Appendix C—Contd.

**Historical and Projected Real Growth Rates
in Consolidated Account Expenditure**

Diagram 3

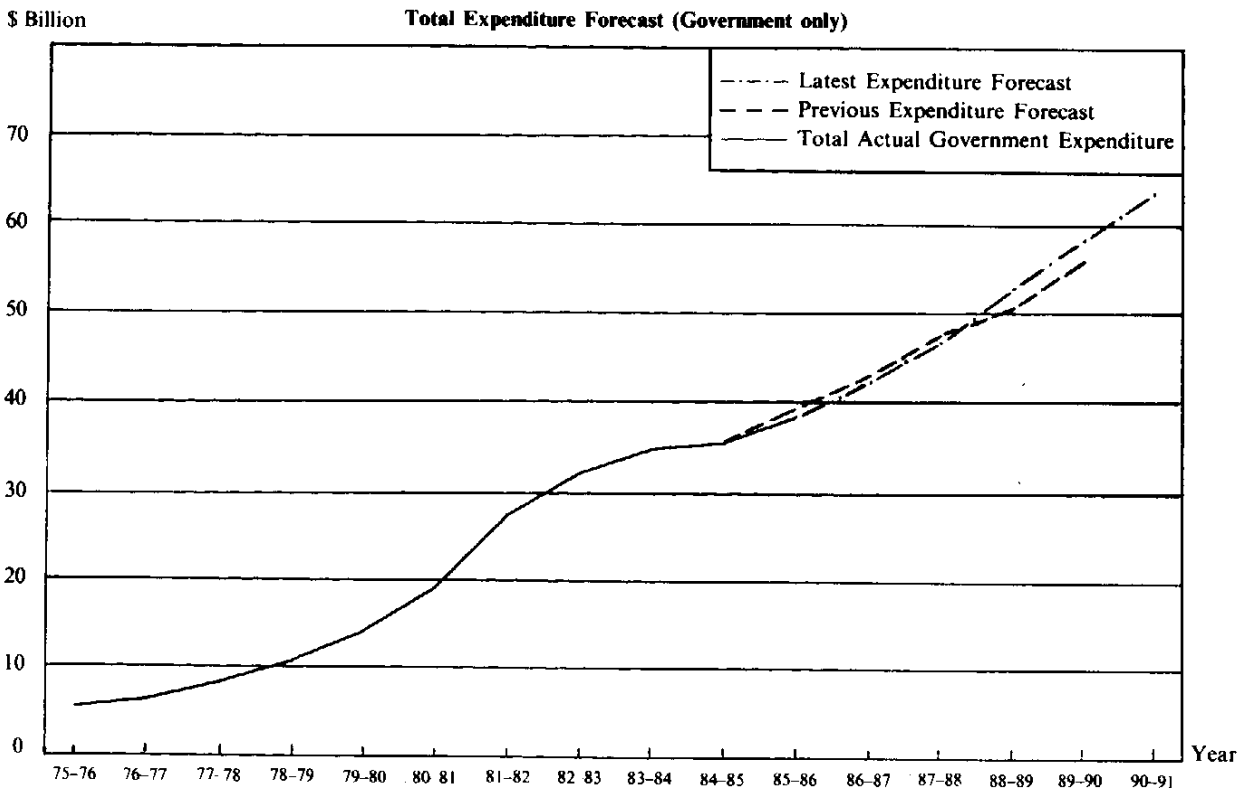
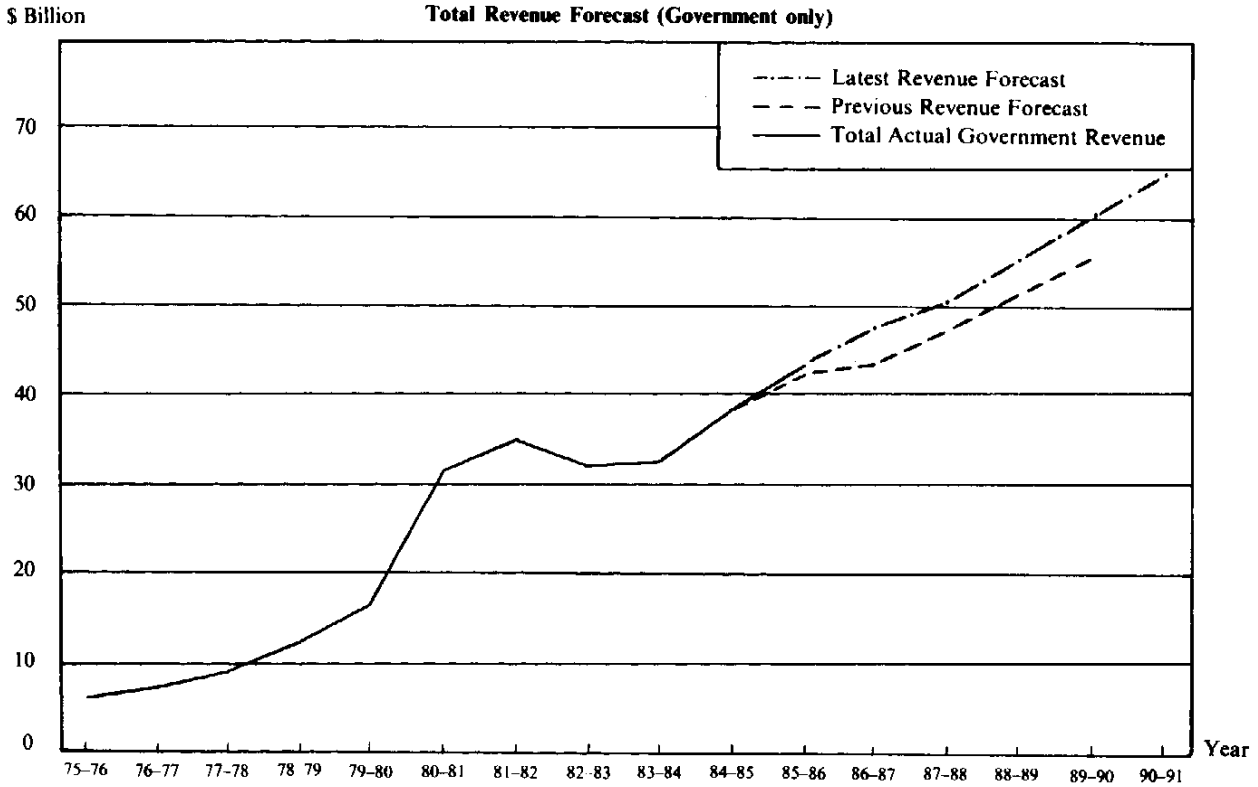
Indicates the pattern of expenditure growth allowed for in the forecast period compared with past results since 1975-76.



Historical and Projected Government Revenue and Expenditure

Diagram 4

Illustrates changes in base-line forecasts compared with those included in last year's budget.



Appendix D

PROGRAMMES AND POLICIES

Individual heads of expenditure contribute to one or more functional programme areas. The relationship between heads of expenditure and these programme areas is defined in the key at the Annex. The total of these estimates is extended to Consolidated Account Expenditure as defined and calculated in Table 4 of Appendix C. Consolidated Account Expenditure for 1987-88 when analysed into these programme areas is compared with the historical pattern shown below.

Table 1

Consolidated Account Expenditure by Main Functions 1982-83 to 1987-88

	Para- graphs	Actual								Revised Estimate		Estimate	
		1982-83		1983-84		1984-85		1985-86		1986-87		1987-88	
		\$mn	%	\$mn	%	\$mn	%	\$mn	%	\$mn	%	\$mn	%
(A) General Services	4-9	4,800	13.4	5,438	14.1	5,922	14.9	6,797	15.6	7,133	14.8	7,914	14.8
(B) Security Services	10												
(1) Law and Order	11-32	3,091	8.7	3,189	8.3	3,305	8.3	3,781	8.7	4,292	8.9	4,685	8.8
(2) Immigration	33-35	246	0.7	273	0.7	295	0.7	339	0.8	425	0.9	495	0.9
(3) Internal Security	36-38	1,471	4.1	1,559	4.0	1,523	3.8	1,493	3.4	1,549	3.2	1,690	3.2
		4,808	13.5	5,021	13.0	5,123	12.8	5,613	12.9	6,266	13.0	6,870	12.9
(C) Economic Services	39-44	1,357	3.8	1,268	3.3	1,361	3.4	1,500	3.5	1,770	3.6	1,926	3.6
(D) Community Services	45												
(1) Transport	46-49	3,375	9.5	2,912	7.6	2,471	6.2	2,029	4.7	2,208	4.6	2,438	4.6
(2) Land and Civil Engineering	50-53	2,491	7.0	2,873	7.4	2,180	5.5	2,645	6.1	2,962	6.1	3,039	5.7
(3) Water	54-57	1,413	4.0	1,342	3.5	1,240	3.1	1,318	3.0	1,666	3.5	1,790	3.3
(4) Other	58-68	2,946	8.2	3,371	8.7	3,672	9.2	4,093	9.4	4,409	9.1	4,916	9.2
		10,225	28.7	10,498	27.2	9,563	24.0	10,085	23.2	11,245	23.3	12,183	22.8
(E) Social Services	69												
(1) Education	70-95	5,105	14.3	5,758	14.9	6,951	17.4	7,558	17.4	8,824	18.3	9,758	18.3
(2) Medical	96-104	2,665	7.4	2,956	7.7	3,312	8.3	3,767	8.7	4,416	9.2	5,159	9.6
(3) Housing	105-114	4,919	13.8	5,609	14.5	5,293	13.3	5,516	12.7	5,722	11.8	6,360	11.9
(4) Social Welfare	115-122	1,710	4.8	1,938	5.0	2,232	5.6	2,469	5.7	2,761	5.7	3,092	5.8
(5) Labour	123-131	95	0.3	110	0.3	125	0.3	139	0.3	154	0.3	173	0.3
		14,494	40.6	16,371	42.4	17,913	44.9	19,449	44.8	21,877	45.3	24,542	45.9
Total Consolidated Account Expenditure		35,684	100.0	38,596	100.0	39,882	100.0	43,444	100.0	48,291	100.0	53,435	100.0

Appendix D—Contd.

2 The make-up of the Consolidated Account Expenditure for each programme area in terms of the type of expenses is shown in the following table.

Table 2

	Para- graphs	Estimate 1987-88												
		Personal Emoluments and Related expenditure		Recurrent Subventions		Departmental Expenses and other costs		Plant, Equipment and Works		Major Works and Capital Subventions		Other Non- recurrent		Total
		\$mn	%	\$mn	%	\$mn	%	\$mn	%	\$mn	%	\$mn	%	
(A) General Services	4-9	5,497	30.7	2	—	1,869	15.2	138	16.4	354	2.9	54	18.2	7,914
(B) Security Services	10													
(1) Law and Order	11-32	3,483	19.5	—	—	690	5.6	222	26.4	274	2.2	16	5.4	4,685
(2) Immigration	33-35	391	2.1	—	—	65	0.5	39	4.7	—	—	—	—	495
(3) Internal Security	36-38	19	0.1	—	—	1,565	12.8	104	12.4	—	—	2	0.7	1,690
		3,893	21.7	—	—	2,320	18.9	365	43.5	274	2.2	18	6.1	6,870
(C) Economic Services	39-44	614	3.4	459	4.7	559	4.6	62	7.4	178	1.4	54	18.3	1,926
(D) Community Services	45													
(1) Transport	46-49	328	1.8	2	—	592	4.8	5	0.6	1,489	12.1	22	7.4	2,438
(2) Land and Civil Engineering	50-53	512	2.9	—	—	147	1.2	3	0.3	2,349	19.0	28	9.5	3,039
(3) Water	54-57	356	2.0	—	—	756	6.2	4	0.5	666	5.4	8	2.7	1,790
(4) Other	58-68	2,326	13.0	80	0.8	880	7.1	190	22.7	1,406	11.4	34	11.5	4,916
		3,522	19.7	82	0.8	2,375	19.3	202	24.1	5,910	47.9	92	31.1	12,183
(E) Social Services	69													
(1) Education	70-95	819	4.6	7,288	74.6	650	5.3	4	0.5	975	7.9	22	7.4	9,758
(2) Medical	96-104	2,187	12.2	1,284	13.2	868	7.1	62	7.4	748	6.1	10	3.4	5,159
(3) Housing	105-114	881	4.9	—	—	1,643	13.4	1	0.1	3,793	30.7	42	14.2	6,360
(4) Social Welfare	115-122	338	1.9	657	6.7	1,976	16.1	1	0.1	116	0.9	4	1.3	3,092
(5) Labour	123-131	152	0.9	—	—	17	0.1	4	0.5	—	—	—	—	173
		4,377	24.5	9,229	94.5	5,154	42.0	72	8.6	5,632	45.6	78	26.3	24,542
Total Consolidated Account Expenditure		17,903	100.0	9,772	100.0	12,277	100.0	839	100.0	12,348	100.0	296	100.0	53,435

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

(A) General Services

4 General Services comprise administration, support, public relations, revenue collection, financial control and unallocable expenses. Expenditure in 1987-88 is forecast to be \$7,914 million compared with \$7,133 million in 1986-87—an increase of 10.9%.

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

6 The Home Purchase Scheme has two objectives, namely—

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

Appendix D—*Contd.*

Officers joining the scheme may benefit from the payment of Home Purchase Allowance (HPA) for a maximum of 120 months. A total of 10 471 officers have joined the scheme. Of this number, 2 410 are officers who were eligible for private tenancy allowance or non-departmental quarters. The remaining 8 061 were not eligible for such housing benefits.

7 The total expenditure on HPA in 1987-88 is estimated at \$741.5 million compared with the revised estimate for 1986-87 of \$583.0 million. The increase of \$158.5 million is mainly due to the need to make full-year provision of about \$118.4 million for the 2 050 new participants approved to join the scheme during 1986-87. Provision is made in the 1987-88 draft Estimates for a further 2 000 officers to join the scheme.

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

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

(B) Security Services

10 Security Services comprise law and order, immigration services and internal security. These encompass the Police, ICAC, Correctional Services, Judiciary, Immigration, Government legal services, the Royal Hong Kong Regiment, the Royal Hong Kong Auxiliary Air Force, contributions to the cost of the garrison, and maintenance of border protection against illegal immigrants. Expenditure in 1987-88 is forecast to be \$6,870 million compared with \$6,266 million in 1986-87—an increase of 9.6%.

(B)(1) Law and Order

11 The share of resources allocated to law and order services has remained steady at around 8.3% to 8.9% of total government expenditure in 1982-83 to 1986-87 (Table 1).

12 The Police Force has continued its steady expansion in the 1980s to strengthen its capability to prevent and combat crime and to cope with the development of the new towns. The Auxiliary Police Force provides support to the regular Force during times of emergency and assists the regular Force in day-to-day constabulary duties. Statistics showing the establishment of the Police Force and the average daily turnout of the Auxiliary Police Force over the past five years are as follows—

	1982-83	1983-84	1984-85	1985-86	1986-87 (estimated)	1987-88 (estimated)
Establishment	28 440	29 472	30 310	30 978	31 672	32 500
Average daily turnout of Auxiliary Police	976	953	683	714	711	700

13 The primary policing function of watch and ward duties is carried out by the Uniform Branch of the Force, which has undergone a series of major restructuring exercises in recent years aimed at improving its effectiveness and efficiency in the deployment of resources. To provide a more effective command structure for the policing of the Kowloon Region, arrangements are being made to split the Kowloon Region into Kowloon East and Kowloon West in 1990-91. A gradual build-up of the necessary additional manpower has commenced, with the creation of 29 posts in 1986, and a further 46 posts in 1987.

14 Additional staff will also be provided in 1987-88 for the two new district/divisional and two new divisional police stations at Tai Po, Tsing Yi, Lo Wu and Siu Lek Yuen and the new Sha Tau Kok Police Post. With the rapid development of the New Territories, planning has commenced for its split in 1992-93 into two regions— New Territories North and New Territories South. Coupled with the expansion of the Uniform Branch is the development and improvement of the communications systems of the Force. Financial approval of \$196 million has been given for the implementation of the Integrated Radio Services System. From now until the end of the decade, an increasing proportion of the Force's resources will be committed to the communications element of the Command and Control System replacement project.

15 The Crime Wing of the Force is responsible for the investigation of crime, crime prevention, intelligence gathering and maintenance of the security of the territory. In order to improve its effectiveness and efficiency, the criminal investigation and prevention elements of the Force were reorganized on 1 October 1982. Except for 1985, the overall crime rate has shown a general declining trend from 1982 to 1986. The Commercial Crime Bureau continues to handle fraud cases of growing complexity. Examples are investigations into the Overseas Trust Bank,

Appendix D—*Contd.*

the Carrian Group and the Hang Lung Bank. Due to the magnitude and scope of these cases, increased resources and manpower have been devoted to their investigations. Statistics showing the trend of overall crime cases and commercial crime cases over the past five years are—

	1982	1983	1984	1985	Table 4 1986
<i>Overall Crime</i>					
Number of reported crime cases	87 227	86 000	83 532	86 418	81 411
Detection rate	46.4%	42.9%	42.8%	45.8%	47.9%
<i>Commercial crime</i>					
Value of property stolen (\$mn)	258.1	440.7	676.1	2,462.4	2,052.0

16 In the maintenance of law and order on the roads, the issue of summonses and fixed penalty tickets to traffic offenders has continued. The steady decrease in the number of fixed penalty tickets issued since 1982 is attributable to many factors, the primary ones being the increased deterrent effect following adjustments of the fixed penalty rates and introduction of measures against non-payment in 1983 and 1984. Statistics showing the number of summonses and fixed penalty tickets issued over the past five years are—

	1982	1983	1984	1985	Table 5 1986
Number of summonses issued	149 576	119 508	125 680	153 551	153 637
Number of fixed penalty tickets issued	2 210 548	1 880 245	1 459 472	1 226 176	1 157 538

17 Consolidated account expenditure of the Judiciary underwent a substantial increase in 1982-83 mainly due to provision of additional posts to cope with the increased workload as a result of the increased number of criminal and civil cases being tried in the High Court, District Courts and Magistrates' Courts. The trend is reflected in the following statistics—

Table 6					
Number of Cases heard in the High Court, District Courts and Magistrates' Courts					
	1982	1983	1984	1985	1986
<i>High Court</i>					
Criminal jurisdiction	319	308	335	262	270
Magisterial appeals	689	977	846	1 144	1 330
Civil jurisdiction	16 637	19 824	14 363	12 835	12 157
Sub-total:	17 645	21 109	15 544	14 241	13 757
<i>District Courts</i>					
Criminal jurisdiction	1 199	1 277	1 246	1 359	1 479
Civil jurisdiction	47 659	51 155	64 105	58 443	50 966
Sub-total:	48 858	52 432	65 351	59 802	52 445
<i>Magistrates' Courts</i>					
Charge case	135 261	163 436	184 363	178 000	172 459
Summons	829 954	755 980	558 700	413 166	370 605
Anti-litter	48 548	55 034	67 838	48 137	49 968
Miscellaneous proceedings	7 478	12 389	14 199	14 843	14 207
Sub-total:	1 021 241	986 839	825 100	654 146	607 239
Total:	1 087 744	1 060 380	905 995	728 189	673 441

Appendix D—*Contd.*

18 The considerable increases in expenditure in 1984-85 and 1985-86 were mainly due to the additional operating expenses required for running the new Supreme Court building and the Kwun Tong Court building. Additional expenditure in 1986-87 was mainly due to the operating expenses of the District Court/Magistracy and Government Office building at Wan Chai reclamation and the Sha Tin Court building, which opened during the year, and the employment of a consultant from the United Kingdom to review the administration of the Judiciary.

19 In 1987-88 increased expenditure will result from the opening of the Tuen Mun Court building, the introduction of two computer systems and a visit by a group of Chinese legal practitioners to Hong Kong for an exchange of views and ideas in respect of the judiciary system.

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

	<i>1982-83</i>	<i>1983-84</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87 Revised Estimate</i>	<i>1987-88 Draft Estimate</i>
Expenditure (\$mn)	4.2	7.4	15.5	23.2	43.1	48.5
Percentage increase over the preceding year	27.3%	76.2%	109.5%	49.7%	85.8%	12.5%

21 The increased number of commercial crime cases has also necessitated the employment of professional accountants from the private sector in the investigation of a number of the more complex cases. Expenditure rose from \$3.1 million in 1983-84 to \$17.0 million in 1986-87, and a further increase is expected in 1987-88.

22 In 1985-86, the department started a programme to translate all the laws of Hong Kong into Chinese. This programme was expanded in 1986-87 to include legislation in both English and Chinese. Additional staff have been provided and this has contributed to the increase in expenditure of the department in the three years 1985-86 to 1987-88.

23 From 1982-83 to 1986-87, the Independent Commission Against Corruption experienced a steady growth in consolidated account expenditure.

24 To promote a greater awareness of the evils of corruption, the Community Relations Department has launched a publicity campaign every year through television, radio and the press. The department has also embarked on the promotion of moral education in schools by the production of social morality programmes and teaching aids for schools. Liaison functions and special programmes are also organized involving local organizations, residents and selected categories of people. Statistics showing the number of such events organized over the past five years are as follows—

	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>
Number of liaison functions completed	11 796	14 049	17 975	17 703	17 613
Number of special programmes undertaken by local offices	158	175	177	166	218

25 The number of corruption reports received each year and of follow-up investigations has been quite steady in the past five years. Relevant statistics are as follows—

	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>
Number of corruption reports received	2 349	2 526	2 365	2 550	2 574
Number of reports investigated	1 082	1 110	1 124	1 129	1 260

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

Appendix D—*Contd.*

Table 10

	1982	1983	1984	1985	1986
Number of assignment reports completed	71	67	78	78	89
Number of completed studies monitored	23	16	35	18	21

27 Consolidated account expenditure of the Correctional Services Department has increased steadily during the past few years. This is mainly due to the increasing population in Correctional Services institutions as illustrated by the average daily muster statistics shown below—

Table 11

	1982	1983	1984	1985	1986
Prisons	5 386	5 890	5 706	5 745	5 941
Other Correctional Services institutions	1 945	2 007	2 191	2 226	2 166
Total:	7 331	7 897	7 897	7 971	8 107

28 The number of Vietnamese refugees in government closed centres declined from 5 464 in 1984 to 4 897 in 1985, and then to 4 576 in 1986.

29 The development and consolidation of Correctional Services industries continued in 1986-87 with the aim of keeping prisoners purposefully employed and enabling them to learn work skills. The total commercial value of goods and services produced by the industries has continued to increase during the past few years as shown by the following statistics—

Table 12

	1982	1983	1984	1985	1986
	\$mn	\$mn	\$mn	\$mn	\$mn
Goods produced	35.0	36.3	49.8	65.7	63.7
Services	22.4	30.5	49.9	61.0	67.8
Total:	57.4	66.8	99.7	126.7	131.5

30 In 1987-88, a computerized Integrated Law and Order Statistical System will be implemented. It allows the efficient maintenance and analysis of records in respect of offences and offenders; the latter includes a complete record of the offenders from the time they are arrested to the moment they are discharged. The system therefore permits a more thorough analysis of the characteristics of crimes and criminals, and of the process of criminal law enforcement.

31 Expenditure on law and order building projects for the past few years is as follows—

Table 13

	1982-83	1983-84	1984-85	1985-86	1986-87 Revised Estimate	1987-88 Draft Estimate
Expenditure (\$mn)	736.0	533.8	264.5	305.0	315.3	273.7

32 Expenditure on law and order projects was highest in 1982-83 when it was \$736 million. In that year, construction of a number of major projects including the new Supreme Court building and the Shek Pik maximum security prison were well underway. Expenditure in 1985-86 to 1986-87 has levelled off at about \$310 million per annum. With the construction of the new police headquarters complex phase I, New Territories police regional headquarters, Tai Po and Tsing Yi district headquarters and divisional police stations, the Eastern Magistracy building and the phase I re-building programme of Stanley Prison in progress, the estimated expenditure for 1987-88 is \$273.7 million.

(B)(2) Immigration

33 As a result of the increasing demands on immigration control, the share of resources allocated to this programme area has increased gradually over the years. Over the past few years, the Immigration Department has experienced substantial increases in passenger throughput at its control points. The rates of growth were 22% in

Appendix D—*Contd.*

1984-85, 21% in 1985-86 and 5.8% in 1986-87. The most noticeable increases are at the China-link control points where the growth has been 43% in 1984-85, 38% in 1985-86 and 7.6% in 1986-87. The new Lo Wu terminal with expanded facilities for passenger clearance was opened in January 1987. The new China ferry terminal at Tsim Sha Tsui is expected to be completed in January 1988. Work on a third road crossing to China at Lok Ma Chau has also been undertaken and is expected to be completed by the end of 1988. Work on the Stage V expansion programme of the Airport is in progress and is expected to be completed by the end of 1987.

34 The facilities at the other control points have also been improved. For example, the new Macau ferry terminal commenced operation in October 1985 and the new Man Kam To terminal in January 1986. The computer system to assist in passenger clearance work at control points will be introduced in stages, starting in May 1987 at the Macau ferry terminal.

35 The identity card replacement scheme which commenced in March 1983 was completed in December 1986 when all old identity cards were replaced. The total number of new identity cards issued was 5 405 800. The second identity card re-issue exercise which introduces the permanent identity card with a right of abode endorsement will commence in July 1987. This is necessary for the purpose of issuing the British National (Overseas) passports and Hong Kong Certificates of Identity from July 1987.

(B)(3) Internal Security

36 Within the area of security services, historically the expenditure attributable to the Royal Hong Kong Regiment, the Royal Hong Kong Auxiliary Air Force, Hong Kong's contribution to the cost of the garrison, and the cost of maintaining border protection against illegal immigrants has been allocated to internal security. As can be seen from Table 1, the Government's contribution towards the cost of the garrison has been fluctuating within a fairly narrow band over the last five years. This is mainly due to the biennial change-over of the garrison's infantry battalions, fluctuation in the exchange rate between the Hong Kong dollar and sterling in which a significant proportion of the expenditure on the garrison is payable, and rising costs generally.

37 A higher level of expenditure (\$1,690 million) is forecast for 1987-88, due to planned changes for two battalions (over two calendar years but in the one financial year) which will result in higher travel and movement costs and to exchange rate movements. It is also due to higher maintenance costs and an increase in capital works expenditure. Higher maintenance costs are unavoidable as the buildings in the military estate get older and start to deteriorate and as contract rates increase. The higher level of expenditure on capital works is due largely to the overhang effect of projects earlier approved but still under construction. As these projects are completed, so the effects of the reduced capital works programme should become apparent and result in lower expenditure on capital works in the years ahead.

38 A long range maritime search and rescue aircraft to replace an aircraft currently in service with the Royal Hong Kong Auxiliary Air Force will be delivered in 1987 at an estimated cost of \$35 million.

(C) Economic Services

39 Economic Services comprise food supply, aviation, shipping, trade, industry, postal services and telecommunications. Expenditure in 1987-88 is forecast to be \$1,926 million compared with \$1,770 million in 1986-87—an increase of 8.8%. The share of resources allocated to this programme group has remained relatively constant in recent years at around 3.5% of total Government expenditure (Table 1).

40 In September 1986, the first air service agreement between Hong Kong and another administration (Holland) was signed. In 1986 passenger and cargo traffic through Hong Kong International Airport continued to increase, by 7.8% and 24.7% respectively over the previous year. Traffic is expected to continue to increase in 1987. The Stage V extension to the terminal building is expected to be completed in mid-1988.

41 During 1986, 14 110 ocean-going vessels entered and 14 216 cleared the port. Cargo loaded onto and discharged from these vessels amounted to 16 993 950 and 36 664 592 deadweight tonnes respectively, representing an overall increase of 17.2% over 1985. The new Western District Public Cargo Working Area and the new China Ferry Terminal are expected to become operational in August 1987 and February 1988 respectively.

42 In 1986-87 support services available to local industry were widened and increased through developments of the Hong Kong Productivity Council, the Hong Kong Design Innovation Company Limited, the Hong Kong Laboratory Accreditation Service (HOKLAS) and the standards and calibration activities of the Industry Department. In 1987-88, these support services will continue to be developed and expanded in line with local industries' needs. Efforts will continue to encourage industrial investment from overseas through the Government's network of Industrial Promotion Offices and the One Stop Unit in Hong Kong.

43 In 1986-87, Hong Kong achieved separate contracting party status in the General Agreement on Tariffs and Trade. Major new agreements on textiles were secured with, inter alia, the USA and the EEC. In 1987-88, steps will be taken to prepare for the adoption of the Harmonized Commodity Description and Coding System which is expected to be implemented internationally in January 1988.

Appendix D—*Contd.*

44 Mail traffic handled by the Post Office increased by 9.4% in 1986 over the previous year. Speedpost items increased by 27.6%. Traffic is expected to continue to grow in 1987. In line with changes in population distribution, ten new post offices will be opened in 1987-88.

(D)Community Services

45 Community Services comprise transport facilities, land and civil engineering, water supply etc. Expenditure in 1987-88 is forecast to be \$12,183 million compared with \$11,245 million in 1986-87—an increase of 8.3%.

(D)(1)Transport

46 The share of resources allocated to this programme has fallen steadily during the decade ending 1986-87 as a number of very major schemes have been completed, or are nearing completion, including many KCR related works. In addition, the operation of the KCR has been transferred to the private sector.

47 Nevertheless, significant works of development and improvement continue. On Hong Kong Island, major works on 'Upgrading and dualling of Connaught Road and ancillary works' (\$445 million) started in September 1986 and are expected to be completed by the end of 1989. Good progress was made on the construction of the 'Access to the Wan Chai reclamation—grade separated access facilities' (\$118 million). These works are expected to be completed by the end of 1987. Significant projects to start in 1987-88 include 'Hong Kong Island Eastern Corridor stage III—Shau Kei Wan to Pak Chai Wan' (\$150 million) and the dualling of Connaught Road West (\$50 million) which forms part of the upgraded Connaught Road scheme.

48 In Kowloon, works on 'Princess Margaret Road flyover improvement' (\$85 million) started in July 1986 and foundation works are already well advanced. Good progress has also been made on the construction of the 'Elevated road—Cheung Sha Wan Road to Boundary Street' (\$58 million) and the 'West Kowloon Corridor, Cheung Sha Wan section and Tung Chau Street—Tong Mei Road ramp' (\$250 million). A feasibility study of the second road tunnel link between Sha Tin and East Kowloon—Tate's Cairn Tunnel—was completed in December 1986 and detailed design is in progress. Significant projects to start in 1987-88 include 'Gascoigne Road and Chatham Road improvements' (\$90 million) and 'Kwun Tong by-pass, phase I' (\$390 million).

49 In the New Territories, works on 'Route 5—Sha Tin to Tsuen Wan, Shing Mun section' (\$745 million) started in April 1986 and are expected to be completed in late 1989. The construction of Lam Kam Road flyover (\$70 million) also started in July 1986. The construction of 'New Territories Circular Road improvements, Au Tau to Fan Kam Road phase I—Pak Shek Au to Fan Kam Road' (\$168 million) is progressing very well and is expected to be completed in March 1987. Works on phase II of the New Territories Circular Road from Mai Po to Pak Shek Au (\$110 million) and 'Vehicular border link at Lok Ma Chau, stage I' (\$160 million) are well underway and are expected to be completed by late 1988. The design of phase III of the New Territories Circular Road between Fairview Park and Mai Po (\$198 million) was completed and tenders will be called in early 1987. Construction of phase IV between Fairview Park and Au Tau (\$180 million) will start in late 1987. 'Formation of a light rail transit reserve in the Tuen Mun—Yuen Long corridor and associated structures, stage I' (\$321 million) is well underway and work has also started on 'Junk Bay development—principal access road' (\$295 million). Good progress is being maintained on 'Tsing Yi North Bridge and approaches' (\$263 million) with the main spans across the Rambler Channel having been connected. Major projects due to start in 1987-88 include 'Road T6 and interchanges—Sha Tin New Town' (\$185 million) and 'Route 5—section between Wo Yi Hop and Shek Wai Kok' (\$215 million).

(D)(2)Land and Civil Engineering

50 Since activity carried out under this programme is primarily of a capital nature, it is inherently subject to expenditure fluctuation year on year. However, it has averaged around 6.4% per annum of Government's total spending in 1982-83 to 1986-87.

51 The start of the drainage and erosion protection project 'Improvement to Shenzhen River bends at Lok Ma Chau and Liu Pok' has been deferred to 1987-88 because of the complex negotiations with the Shenzhen Authorities on such matters as planning, design, land, management and security. The costs of these works will be shared equally between the Hong Kong Government and the Shenzhen Authorities. Hong Kong's share is estimated to be \$50 million.

52 With respect to land development projects in the urban areas, 'Ap Lei Chau East reclamation' (\$13 million), 'Aberdeen reclamation, stage II—phase 2B' (\$42 million), 'Western reclamation, stage II' (\$50 million), 'Aberdeen reclamation, stage II—phase 2C' (\$14 million) and 'Siu Sai Wan development—works, stage I' (\$31 million) were completed in 1986-87. Progress on 'Diamond Hill development—works, stage I' (\$100 million) and 'Hung Hom Bay reclamation, phase I—dredging and reclamation' (\$26 million) has been satisfactory and they are expected to be completed in November 1988 and July 1988 respectively. Two significant projects planned to start in 1987-88 are 'Kwai Chung container port area development, stage II—back up area for container terminal No. 6' (\$60 million) and 'Siu Sai Wan development—works, stage II' (\$110 million).

Appendix D—*Contd.*

53 In the New Territories, 'Tuen Mun New Town engineering development, stage IIA, package 14' (\$694 million) and reclamation works at Ma On Shan under 'Sha Tin New Town, stage II—engineering development, package 23, phase 2' (\$593 million) are now nearing completion. Several major projects including 'Junk Bay development, head of the Bay, stage II engineering works' (\$228 million) have either started or are about to start.

(D)(3)Water

54 Expenditure on water services has averaged around 3.4% of Government's total annual expenditure in 1982-83 to 1986-87.

55 Construction of the stage I works for the reception and distribution of the increased supply of water from China (\$724.5 million) is substantially complete. Construction of the stage II works, including large diameter land and submarine pipelines, tunnelling works, together with two large pumping stations to draw water from Plover Cove reservoir (\$626 million), continued through the year and are expected to be substantially completed during 1987-88. These large projects will continue to account for a large portion of waterworks expenditure in 1987-88.

56 Construction of Pak Kong treatment works (\$475 million), including the water transfer system to Junk Bay New Town and Kowloon East, will continue throughout 1987-88. Construction of Au Tau treatment works (\$254 million) and the Eastern Harbour Crossing (\$114 million) are expected to start in 1987-88. Work on submarine pipelines to Cheung Chau (\$24.6 million), Tsing Yi (\$37.5 million) and Peng Chau (\$16.3 million) has started and will continue through 1987-88.

57 Design and construction of new installations to meet anticipated increase in demand for Hong Kong Island, the Kowloon urban area, new towns and rural market towns continue. New projects planned to start in 1987-88 include improvements to Hong Kong Island primary distribution system and area distribution systems at Quarry Bay (\$32 million), Shek O (\$19.8 million) and eastern high level areas on Hong Kong Island (\$20 million); construction of Waterworks centralized workshop at Lung Cheung Road, Kowloon (\$87.3 million); installation of fresh water supply system at Junk Bay hinterland (\$29 million) and Siu Lek Yuen, Sha Tin (\$13.4 million) and further extension to the supply system in the new towns in the New Territories. Improvement works to trunk feed to fresh water service reservoirs in Kowloon East districts (\$59 million), North Point fresh water supply (\$32.4 million) and North Point/Quarry Bay salt water supply (\$14.6 million) are substantially complete.

(D)(4)Other Community Services

58 This programme comprises public safety, environmental protection, recreation and amenity works. Its share of total government spending has risen from 8.2% in 1982-83 to an allocation of 9.2% in 1987-88 (Table 1). The increase reflects the considerable allocation of extra resources to fire and ambulance services, sewerage works and recreational and cultural amenities particularly in the New Territories.

59 The Fire Services Department has continued to expand steadily over the past few years to cope with the growth of demand for fire and ambulance services, particularly in the fast developing new towns. The pace of expansion is illustrated by the following statistics showing the department's establishment and the number of fire stations and ambulance depots between the years 1982 and 1986—

	1982	1983	1984	1985	1986
Establishment	5 995	6 163	6 263	6 448	6 643
Number of fire stations	42	45	45	47	50
Number of ambulance depots	13	14	16	18	19

Table 14

60 The expansion programme for the Fire Services Department will continue into 1987-88 during which year a further 607 posts will be added to the department's establishment. Provision of \$60 million is included in 1987-88 mainly for the planning and construction of twelve divisional/sub-divisional/non-standard fire stations, three ambulance depots, one rescue training centre, one new fire services workshop and additional staff quarters. In addition, provision of \$74.9 million is included for the purchase of new and replacement fire appliances and ambulances, as well as for the phased installation of a computer-assisted telecommunication and mobilizing system in the Fire Services Communication Centre.

61 Major building projects in progress in the urban areas include 'Fire Services Headquarters and Tsim Sha Tsui East sub-divisional fire station' (\$133 million) and 'Pokfulam divisional fire station, ambulance depot and staff quarters' (\$83 million). New works to start in 1987-88 include 'Wong Tai Sin ambulance depot and 288 rank and file married quarters' (\$75.5 million) and 'Kowloon Bay fire services workshop' (\$31 million). In the New Territories, the construction of six divisional/sub-divisional fire stations and five ambulance depots (\$100 million) are in good progress. New projects to start in 1987-88 include 'Ambulance depot in area 6, Tsuen Wan' (\$8 million), 'Sub-divisional fire station and ambulance depot, area 93, Ma On Shan' (\$16 million) and 'Cheung Chau fire station (reprovisioning)' (\$4 million).

Appendix D—*Contd.*

62 As regards environmental improvement, the ten-year waste disposal programme was revised during 1986 to bring it into line with current policy and developments. New facilities introduced into the programme are the Kowloon Bay refuse transfer station required to replace both the Jordan Valley landfill and the Lai Chi Kok incinerator in 1989; a refuse transfer station at Chai Wan where the possibility of major involvement of private sector capital is being considered; the Nim Wan south landfill as a replacement for the Pillar Point valley landfill in 1988 and the north east New Territories landfill needed to replace the Shuen Wan landfill in 1990. Consultants have been commissioned to prepare environmental impact assessments of the proposed sanitary landfill sites at Nim Wan (\$7 million) and in the north east New Territories (\$8 million). A significant project scheduled to start in 1987-88 is the preparatory works and associated access road for the controlled tipping of refuse at Nim Wan—initial phase (\$130 million).

63 Site searches have been initiated to find a suitable location for a transfer station to replace the Kennedy Town incinerator, and one to provide an increased capacity for the transfer of wastes in west Kowloon. Sites are also being sought for transfer stations in Sha Tin, Tai Po, Yuen Long and Tuen Mun with a view to minimizing overall transportation and disposal costs and improving environmental standards. Where suitable locations and facilities have been established, appropriate items will be included in the Public Works Programme. In the meantime, the installation of electrostatic precipitators at the Kennedy Town incinerator (\$27 million) has been completed while the sanitary landfill sites at Ma Yau Tong and Siu Lang Shui have reached their capacity and restoration works are substantially complete. Site preparation works for the Junk Bay stage II, phase I sanitary landfill (\$70 million) and the installation of electrostatic precipitators at the Lai Chi Kok incinerator, plant A (\$42 million) have started.

64 Work has also commenced on updating the ten-year sewage treatment and disposal programme with a view to improving the condition of the waters surrounding the territory. In this respect, the north west Kowloon sewage treatment and disposal project (\$600 million) which is a major project to improve the condition of the harbour in the area of north west Kowloon will start in 1987-88. This includes the provision of screening plants, interceptor sewers, pumping mains, sewage treatment works and a sewage outfall west of Stonecutters Island. In addition, three studies have started that will have a significant bearing on the provision of sewerage infrastructure elsewhere in the territory. One is the development of a master plan for sewerage, sewage treatment and disposal for east Kowloon (\$17 million) that will identify a series of major and minor works aimed at a much needed improvement of water quality in the area of the eastern harbour. The second is the north west New Territories sewerage study (\$2.5 million) which will involve the preparation of a scheme for the disposal of sewage from the Yuen Long District in order to facilitate the full development of Tin Shui Wai New Town. The third study involves the development of a hydraulic and water quality model (\$18 million) to be used as a tool for investigating and ensuring that new reclamations and other developments do not lead to an unacceptable deterioration of water quality in Victoria Harbour.

65 In the urban area, substantial progress has been made on the six new screening plants and outfalls under construction around the harbour (\$258 million) including in particular the Kwun Tong (\$158 million) and Sham Shui Po (\$64 million) screening plants. In the new towns, the Junk Bay phase I sewage disposal works (\$295 million) has been substantially completed while stage II of the Sha Tin permanent sewage treatment works (\$353 million) and stage IVA of the Tai Po sewage treatment works (\$205 million) were completed and commissioned.

66 A major programme to improve the environment, namely the implementation of controls on the storage and disposal of animal wastes will commence in 1987-88. The estimated cost for the ten-year programme (1987-88 to 1996-97) will be over \$440 million and, of this, over \$70 million will probably be required in 1987-88. As a result of the controls to be introduced in 1987-88, pig and chicken rearing will be banned on some 1 450 farms in the urban and new towns areas and control measures will be implemented on some 1 350 farms in the Tolo Harbour and River Indus catchments where the problem of pollution caused by animal wastes is particularly acute.

67 As regards air pollution, the first two of the projected air control zones (Kwai Chung—Tsuen Wan and Harbour) were declared and overall air quality objectives were promulgated during 1986. Air quality management plans covering mobile and stationary source emission will be prepared for these two control zones during 1987 with a view to meeting statutory air quality objectives for these zones. In order to support these activities, it will be necessary to expand significantly air monitoring coverage to provide the basis for further control zones. In 1987-88, two additional stations will be established for this purpose in Kwai Chung and Tsuen Wan.

68 With the development of the new towns, various recreation, culture and amenities projects are provided to keep pace with the needs of the growing community. Completed major projects include 'Swimming pool complex, area 16, Tuen Mun' (\$38 million) which is soon to be extended by a further phase. Projects underway include 'Tuen Mun town park, area 34, phase IIB works' (\$23 million) and 'Tso Kung Tam park, stage I' (\$56 million). Major facilities to start in 1987-88 include 'Indoor recreation centre in area 16, Tuen Mun' (\$24 million), 'Tai Po swimming pool, area 22, phase I' (\$31 million) and 'Cheung Chau market complex' (\$41 million).

(E) Social Services

69 The Social Services group of programmes is made up of education, medical, housing, social welfare and labour services. Expenditure in 1987-88 is forecast to be \$24,542 million compared with \$21,877 million in 1986-87—an increase of 12.2%. It is not only the biggest of the programme areas, it is also the fastest growing.

Appendix D—*Contd.***(E)(1) Education**

70 Expenditure on education since 1982-83 has increased substantially in real terms. Its share of Government's total spending has increased from 14.3% in 1982-83 to an allocation of 18.3% in 1987-88. This is largely due to the developments outlined below.

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

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

73 Free and universal primary education has been provided since 1971. Due to the rapid development of new towns and the consequential movement of population, 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 fifteen new primary schools are expected to be completed in 1987-88 in conjunction with the development of public housing estates in the new towns and other developing areas.

74 The minimum age of entry into Primary I is now five years and eight months and the maximum class size is being reduced from 45 to 40 pupils, and to 35 pupils for schools adopting the activity approach.

75 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. The recommendations in the Education Commission's first report, accepted by the Government in early 1985, further set out the policy objectives in respect of secondary education.

76 At present, there are subsidized places available in Forms I to III of secondary schools to meet the full demand at this level. The Government's aim is to increase in the next few years the number of places in schools, technical institutes and adult education centres to meet the full demand from Form III leavers and to phase out the Junior Secondary Education Assessment by 1991. 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 281 in September 1985 to 283 in September 1986.

77 The Government continues to build additional secondary schools to meet the policy target. Based on the current secondary school building programme, some 46 new schools are expected to be completed between 1987 and 1993. The draft Estimates include \$192.7 million in Capital Works Reserve Fund expenditure for the construction of 11 secondary schools. In addition, provision of \$116.7 million in capital subventions is included for building and equipping new school buildings and extensions.

78 With effect from September 1986, provision of additional teachers for split class teaching for the subjects of Computer Studies, Art and Design and Music at senior secondary level has also been allowed, provided that the school offers these subjects in public examinations. This additional provision aims at improving the quality of teaching in these subjects at the senior secondary level by allowing the subjects to be taught in small groups. It also aims at assisting schools to broaden their curriculum and to offer more options for their pupils.

79 Since September 1979, aided and government secondary schools having 18 or more classes may appoint a non-graduate teacher to be in charge of the school library on a full-time basis. As from September 1986, government and aided secondary schools with less than 18 classes may also appoint a non-graduate school librarian equivalent to an additional 0.5 non-graduate post.

80 As recommended by the Education Commission's first report, approval has been given for government and aided secondary schools with less than 18 classes to appoint an additional 0.5 non-graduate teacher of Chinese in order to further strengthen the quality of Chinese language teaching.

81 The 0.5 non-graduate of Chinese and the 0.5 non-graduate school librarian mentioned above together make up one full-time post. Aided and government secondary schools with less than 18 classes may therefore have one additional teacher with effect from September 1986.

82 In order to implement Government's policy on the promotion of practical/technical education for junior secondary pupils, the first Practical Education Centre was opened in September 1986. Courses offered include Design and Technology, Home Economics and Art and Design. Pupils from schools which either lack the facilities or trained staff to run the courses are encouraged to participate in the scheme. Initially such courses would be provided for pupils at Form 1 to Form 3 levels and in the first year of operation, only Form 1 pupils have been admitted.

83 Additional teachers have also been provided so that students can benefit from more counselling and guidance, remedial teaching and extra-curricular activities. Each standard-sized government and aided secondary school has been provided with three additional graduate teachers (two in September 1982 and one in September 1983) and two additional non-graduate teachers (one in September 1985 and one in September 1986).

Appendix D—*Contd.*

84 As part of the package of measures designed to improve standards of attainment in English, a two-year pilot scheme will be launched in September 1987 whereby interested aided and government secondary schools would be provided with expatriate teachers of English.

85 The Vocational Training Council continues to expand its activities in technical education and industrial training. It plans to open one new technical institute and two new training centres in 1987-88 bringing the total numbers to eight technical institutes and 16 training centres.

86 The transfer of Diploma and Certificate Courses from the Hong Kong Polytechnic to the technical institutes, which began in 1981, will continue in 1987-88. The objective is to transfer responsibility for the operation of most of the Diploma and Certificate courses to the technical institutes and thus to enable the polytechnics to concentrate a greater proportion of their work on Higher Diploma, Higher Certificate and degree levels. The courses to be transferred in 1987-88 will be the last batch of the agreed transfer.

87 The number of full-time students admitted by the Colleges of Education has been increased to meet the demand for non-graduate teachers. The training programme for assistant kindergarten teachers will be accelerated with the introduction of a 12-week part-time in-service course and the existing in-service course of training for teachers of children with special education needs will be re-structured.

88 The Government's policy is to provide 5 280 first year first degree places by the end of the triennium 1988-91, rising to 8 323 by the end of the triennium 1994-97 and to 8 800 by the end of the century. The two universities, the two polytechnics and the Baptist College will increase their number of full-time equivalent students from 31 900 in 1986-87 to 33 700 in 1987-88. In addition, about 4 200 Hong Kong students will follow first degree, Higher National Diploma or other courses in the United Kingdom.

89 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 1987-88 is \$185.6 million compared with the revised estimate for 1986-87 of \$185.3 million.

90 As stated in the 1977 White Paper, "Integrating the Disabled into the Community: A United Effort", the Government intends:
"To provide such comprehensive rehabilitation services as are necessary to enable disabled persons to develop their physical, mental and social capabilities to the fullest extent which their disabilities permit."

91 When children enter primary school they are screened for possible speech defects, vision or hearing impairment, and for difficulties in learning and possible retardation. Children identified as needing further assessment or remedial treatment are referred to specialists in either the Medical and Health Department or the Education Department and are given the type of education most appropriate to their needs and capabilities.

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

93 Aided special schools provide special education for blind, hearing impaired, physically handicapped, mentally handicapped, and maladjusted/socially deprived children as well as care by social workers and para-medical staff, and boarding care.

94 In 1987-88, the number of pupils receiving assessment and remedial services is forecast to be 36 816 compared with 35 348 in 1986-87.

95 In the area of vocational training for the disabled, the total provision of training places in government and subvented vocational training centres will be increased from 750 to about 770 in 1987-88. It is expected that the demand for vocational assessment will continue to be strong and facilities will be further developed to meet the demand. In addition to skills centres, disabled persons may also be accepted into technical institutes.

(E)(2)Medical

96 The share of total government expenditure allocated to medical services has also shown a steady increase throughout this decade and has risen from 7.4% in 1982-83 to an allocation of 9.6% in 1987-88. This largely reflects the construction and subsequent operation of major new facilities.

Appendix D—*Contd.*

97 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 that 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 subsidized medical attention.

98 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 summarized below.

99 The process of regionalization has been continued by the provision of additional staff to strengthen the regional offices for Hong Kong, Kowloon and the New Territories. In January 1984, the New Territories region was split into two regions, East and West respectively. To develop further the integration of government and subvented medical services by enabling subvented hospitals to assume a greater role in the treatment of patients, development programmes at a total estimated cost of \$1,398 million are under way in the Caritas, Pok Oi, Tung Wah Group, Yan Chai and United Christian Hospitals, the Cheshire Home and the Ruttonjee Sanatorium. Capital subventions of \$179.2 million have been provided for these projects in 1987-88.

100 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 1987, there will be some 24 850 beds in government, subvented and private hospitals. These will meet approximately 75% of the estimated requirement. Essential services of the \$894.7 million Prince of Wales Hospital were fully operational by the middle of 1985. In addition to \$1,186.6 million for the government hospital project in Tuen Mun, \$1,057.4 million will be spent on improvements and extensions to Queen Mary, Queen Elizabeth and Tang Shiu Kin Hospitals. A further \$123.5 million will be spent on site formation works and consultants' fees for a new hospital to serve the Eastern District of Hong Kong Island.

101 The recommendations of the Report on the Delivery of Medical Services in Hospitals published in March 1986 are being examined in the light of comments received during public consultation. Some of the recommendations involve radical changes to the present structure and have substantial financial implications.

102 In addition to the construction of general and specialist hospitals, 13 new clinics and polyclinics are at present included in the Public Works Programme.

103 The aim of the school dental service is to provide dental health education and conservation treatment to primary school children. Four school dental clinics are currently in operation. Work on two more school dental clinics in Tuen Mun and Shatin have started and two others are planned in Shamshuipo and Ha Kwai Chung. In 1987, the service will be extended to cover primary six school children.

104 The community nursing scheme has been recognized 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 organizations are subvented on a deficiency grant basis. In 1986 the service handled some 11 900 patients involving more than 204 600 home visits. At present, there are 20 government centres and 27 centres run by seven voluntary agencies. An additional 14 centres are being planned.

(E)(3)Housing

105 The share of total government spending on housing in 1987-88 is 11.9%.

106 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.

107 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.

108 By the end of 1986-87, the Housing Authority's stock of domestic accommodation will amount to more than 565 000 flats, with over 30 000 flats having been completed in 1986-87. By the same date, about 57 000 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 1986-87, and a forecast for the four years commencing 1987-88—

Appendix D—*Contd.*

Table 15

<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>
1983-84(actual)	28 564	7 877	2 240*	38 681
1984-85(actual)	26 354	10 168	1 408	37 930
1985-86(actual)	29 386	6 688	11 902	47 976
1986-87(estimated)	30 237	6 838	4 866	41 941
1987-88(estimated)	31 887†	7 610	2 716	42 213
1988-89(estimated)	40 885†	5 810	5 020	51 715
1989-90(estimated)	35 863	6 492	7 064	49 419
1990-91(estimated)	32 684†	5 250	4 880	42 814

Note: * Built under the now defunct Middle Income Housing Programme.

† Including a total of 7 215 flats to be produced under the Extended Redevelopment Programme (905 in 1987-88, 4 878 in 1988-89 and 1 432 in 1990-91).

109 The Housing Authority's rental housing programme is financed largely by loans to the Authority from the Development Loan Fund which are repayable over 40 years at a notional interest rate of 5% per 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. In 1986-87 total expenditure incurred by the Housing Authority on the construction of flats (including flats to be built under the Extended Redevelopment Programme and those transferred to the Home Ownership Scheme) is estimated to amount to \$2,066 million. For 1987-88, it is estimated that the capital expenditure would amount to \$2,150 million.

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

111 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 1986-87, total expenditure on the construction of flats and transfers from the rental programme is estimated to amount to \$724 million and proceeds from the sale of flats are estimated to be \$1,796 million. For 1987-88, total estimated expenditure amounts to \$743 million and proceeds from the sale of flats are estimated to be \$1,688 million.

112 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 of up to three years) at an interest rate of 8% per annum on the reducing loan balance. Land premium is payable in respect of commercial facilities. Loans to the Housing Authority for this purpose in 1986-87 amount to \$66 million, and in 1987-88 are estimated to amount to \$57 million.

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

114 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 specifications 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 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.

Appendix D—*Contd.***(E)(4) Social Welfare**

115 The share of Government's total spending allocated to social welfare has increased considerably from 4.8% in 1982-83 to 5.8% in 1987-88.

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

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

Social security—to meet the basic and other special needs of vulnerable groups in the community through a system of measures which provide financial or material 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, community service, 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.

Medical social work—to assist patients and their families with social, emotional problems related to illness and to enable them to make the best use of medical/rehabilitative services in the community.

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

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

Personal social work among young people—to guide and counsel young people away 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.

Appendix D—*Contd.*

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

		<i>Table 16</i>				
<i>Activity area</i>	<i>Service</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>
Social security	Public assistance (caseload)	54 712	59 167	62 858	62 991	66 100
	Special needs allowances (caseload)	235 220	255 500	274 180	291 567	312 900
Services for offenders	for Correctional institutions (number of places)	586	646	706	706	706
	Probation (supervision caseload)	3 367	3 524	3 678	3 625	3 717
	(number of social enquiry reports)	8 497	9 039	10 299	9 844	10 366
	Aftercare (caseload)	255	272	235	266	272
Community service order	Community service orders (supervision caseload)	—	—	—	—	200
	(number of suitability report for community service orders)	—	—	—	—	360
Family welfare services	Counselling (caseload)	27 622	38 346	28 983	29 950	30 351
	Child Care Centres (number of places)	14 538	15 560	16 403	16 572	17 963
Medical social work	Medical social work (caseload)	92 952	88 158	87 738	94 261	97 078
Services for the elderly	for the Hostels/Homes for the aged (number of places)	3 921	3 922	4 022	4 806	5 689
	Care and attention homes (number of places)	887	1 027	1 367	1 470	1 570
	Housing for the elderly (number of places)	453	589	571	570	595
Community building	Youth and community offices (number of offices)	19	19	19	19	19
	Community centres	22	22	22	12	13
	Group work units	—	—	11	11	15
	Children and youth centres	156	170	174	183	190
	Study/reading rooms	71	77	108	100	105
	Camps/hostels	33	34	34	34	34
	Neighbourhood level community development projects	36	39	39	47	53
Personal work among young people	social School social work (number of student guidance officers)	215	215	184	184	205
	School social workers	118	121	123	123	152
	Outreaching social work (number of teams)	18	18	18	18	18
	Family life education officers	56	56	56	56	56
Rehabilitation	Special child care centres (number of places)	430	490	490	490	694
	Residential care for the disabled (number of places)	1 485	1 530	1 625	2 006	2 596

119 The public assistance scheme is designed to bring the income of individuals and families up to prescribed levels. Essential needs such as food, clothing, fuel etc. are met by basic rates. The cost of accommodation, schooling, travelling and other items of special expenditure are covered separately, subject to prescribed maximum levels. The public assistance caseload fell steadily from 49 902 in 1976 to around 45 664 in 1980; then rose gradually from 1980 onwards. By the end of 1986, it was 62 991. Some 6% of the present caseload consists of persons unemployed or earning a low income.

120 The existing basic rates for public assistance and for the special needs allowances (disability and old age) were set in February 1984. Provision of \$730.9 million is included in 1987-88 for public assistance (compared with the revised estimate of \$686.1 million for 1986-87) and \$1,036.7 million for special needs allowances (compared with the revised estimate of \$958.5 million in 1986-87).

121 A large proportion of recurrent expenditure will continue to be channelled through social welfare subventions to voluntary agencies. In October 1981 a revised subvention system was approved under which the social services and facilities provided by organizations and trusts are classified as Category I or Category II depending on their nature. Services in Category I receive subvention at 100% of the standard cost and services in Category II only part 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 eight services, namely neighbourhood level community development projects, family life education, family casework, small group homes, foster care, school social work, outreaching social work and pool buses for the elderly. However, a review of the standard cost system showed that the application of mid-point salary in the calculation of personal emoluments has resulted in large surpluses in agencies' accounts. This is clearly undesirable and, pending consideration of the proposed modifications to the current subvention system, the Director of Social Welfare does not recommend any further extension of the standard cost in 1987-88. Subventions for other services, in the interim, will continue to be granted for Category I services at 100% of existing recognized expenditure, adjusted for price increases, and for Category II services at a fixed percentage based on the average level of financial support for that service (adjusted for price increases) or an appropriate lump sum. In calculating subventions to social welfare agencies only fee income received by agencies and interest accrued from subvention moneys not immediately spent will be taken into account.

122 Rehabilitation services in the social welfare field continue to be expanded and improved through the Government and subvented voluntary agencies. Funds are provided in 1987-88 for establishing four halfway houses for the ex-mentally ill, four day work activity centres, two work activity centres cum hostel, one early education and training centre, one special child care centre, four sheltered workshops cum hostel, provision of 30 additional places for disabled children in ordinary child care centres under the integrated programme, partial implementation of improvement of staffing level of sheltered workshops, and improvement in staffing level in the headquarters administration of some subvented agencies. During 1987-88, the Social Welfare Department plans to operate one home-cum-work activity centre and one hostel for the disabled.

(E)(5) Labour

123 Spending on labour services stands at around 0.3% of Government's total spending.

124 Government activities in the labour field include regulating conditions of employment, employment assistance, the fostering of labour relations, assisting employees injured at work to obtain compensation, promoting the safety and health of workers in the workplace, and administering legislation on explosives, prospecting, quarrying and mining. It also administers trade union legislation. Air pollution control, previously under the Labour Department, was transferred to the Environmental Protection Department in April 1986.

125 The Labour Department provides employment assistance to employers and job-seekers. To improve the efficiency of the service, a new facsimile network to provide fast communication between local employment service offices has been installed.

126 On 1 January 1986, the provisions of the long service payment scheme under the Employment Ordinance came into effect. These provide for payment for employees who have been dismissed without cause and have completed a number of continuous years of service with their employers.

127 From April 1985 to December 1986, the Protection of Wages on Insolvency Fund paid a total of \$26.7 million to 11 025 employees who were unable to obtain arrears of wages owed to them by their insolvent employers.

128 The Government continues to provide funds for a wide range of activities to promote industrial safety and health. These are complemented by sponsorship from the private sector.

129 Wider use of computers in the area of labour services is being planned. Work in connection with the registration of pressure equipment is undergoing computerization and action will also be taken to computerize employees' compensation cases. Six microcomputers were installed in 1986-87 to improve the efficiency of various activities of the Labour Department.

130 A proposal to regionalize labour services is now under consideration.

131 The Government began an education programme for trade unionists in 1983. The number of courses has increased gradually since then and this effort will be sustained in 1987-88.

KEY TO CLASSIFICATION OF EXPENDITURE

Functional classification		Reference
(A)	<i>General Services</i>	
(1)	Administration	<p>His Excellency the Governor's Establishment</p> <p>General Expenses of the Civil Service (with the exception of Leasing and management of quarters)</p> <p>Government Secretariat</p> <p>Government Secretariat: City and New Territories Administration</p> <p>Government Secretariat: Civil Service Training Centre</p> <p>Government Secretariat: Overseas Offices</p> <p>Miscellaneous Services—</p> <p> Election expenses</p> <p> Expenses and stipend of Members of the Executive and Legislative Councils</p> <p> Subscription to the Asian Development Bank</p> <p>Office of Members of the Executive and Legislative Councils</p> <p>Public Service Commission</p> <p>Registrar General's Department</p> <p>Standing Commission on Civil Service Salaries and Conditions of Service</p> <p>Subventions: Miscellaneous—</p> <p> Subventions to New Territories organizations</p>
(2)	Support	<p>Architectural Services Department</p> <p>Census and Statistics Department</p> <p>Electrical and Mechanical Services Department</p> <p>General Expenses of the Civil Service—</p> <p> Leasing and management of quarters</p> <p>Government Data Processing Agency</p> <p>Government Laboratory</p> <p>Government Land Transport Agency</p> <p>Government Supplies Department</p> <p>Marine Department</p> <p> (Government dockyard and pool launches)</p> <p>Miscellaneous Services—</p> <p> Expenses of visiting advisers</p> <p> Office rents and rates</p> <p>Pensions</p> <p>Printing Department</p> <p>Royal Observatory</p> <p>Subventions: Miscellaneous—</p> <p> World Meteorological Organization</p> <p>Capital Works Reserve Fund: payments in respect of—</p> <p> Support projects</p>
(3)	Public Relations	<p>Information Services Department</p> <p>Radio Television Hong Kong</p> <p>Subventions: Miscellaneous—</p> <p> Commonwealth Institute</p>

Appendix D—*Contd.*

Functional classification	Reference
(A) <i>General Services—Contd.</i>	
(4) Revenue Collection and Financial Control	Audit Department Customs and Excise Department Inland Revenue Department Rating and Valuation Department Treasury
(5) Unallocable Expenses	Miscellaneous Services— Additional commitments Compensation Interest on tax reserve certificates Other miscellaneous items Refunds of revenue Write-offs Public Debt
(B) <i>Security Services</i>	
(1) Law and Order	Correctional Services Department Independent Commission Against Corruption Judiciary Legal Department Miscellaneous Services— Expenses of refugees not in Correctional Services institutions Police Complaints Committee Police: Royal Hong Kong Police Force Capital Works Reserve Fund: payments in respect of— Law and Order projects
(2) Immigration	Immigration Department
(3) Internal Security	Internal Security: Miscellaneous Measures Royal Hong Kong Auxiliary Air Force Royal Hong Kong Regiment (The Volunteers)
(C) <i>Economic Services</i>	
(1) Food Supply	Agriculture and Fisheries Department (excluding Conservation and Country Parks Branch) Subventions: Miscellaneous— Commonwealth Agricultural Bureaux Capital Works Reserve Fund: payments in respect of— Food Supply projects Development Loan Fund: payments in respect of— Fisheries Loans
(2) Aviation and Shipping	Civil Aviation Department Marine Department (excluding Government dockyard and pool launches) Capital Works Reserve Fund: payments in respect of— Aviation and Shipping projects
(3) Trade and Industry	Industry Department Miscellaneous Services— Subscription to the General Agreement on Tariffs and Trade

Appendix D—*Contd.*

Functional classification	Reference
(C) <i>Economic Services—Contd.</i>	
(3) Trade and Industry — <i>Contd.</i>	Subventions: Miscellaneous— Asian and Pacific Development Centre Asian Productivity Organization Commonwealth Foundation Commonwealth Fund for Technical Co-operation Consumer Council Contribution towards the Trade Policy Research Centre Federation of Hong Kong Industries Hong Kong Design Innovation Company Limited Hong Kong International Arbitration Centre Hong Kong-Japan Business Co-operation Committee Hong Kong Management Association Hong Kong Productivity Council Hong Kong Tourist Association Hong Kong Trade Development Council Statistical Institute for Asia and the Pacific United Nations Development Programme Trade Department Development Loan Fund: payments in respect of— Flatted factories Industrial estates
(4) Posts and Telecommunications	Post Office Subventions: Miscellaneous— Contribution to the Asia-Pacific Telecommunity Capital Works Reserve Fund: payments in respect of— Post and Telecommunication projects
(D) <i>Community Services</i>	
(1) Transport	Civil Engineering Services Department (Railway Development Office) Highways Department Miscellaneous Services— Payment to Cross-Harbour Tunnel Company Ltd. Subventions: Miscellaneous— Road Safety Association Special transport facilities Transport Department Capital Works Reserve Fund: payments in respect of— Transport projects Mass Transit Fund payments
(2) Land and Civil Engineering	Buildings and Lands Department (with the exception of Buildings Ordinance Office) Civil Engineering Services Department (excluding the Railway Development and Geotechnical Control offices) Government Secretariat: Lands and Works Branch Territory Development Department Capital Works Reserve Fund: payments in respect of— Civil Engineering projects Land acquisition
(3) Water	Water Supplies Department Capital Works Reserve Fund: payments in respect of— Water Supplies projects

Appendix D—*Contd.*

Functional classification	Reference
(D) <i>Community Services—Contd.</i>	
(4) Public Safety	Auxiliary Medical Services Buildings and Lands Department (Buildings Ordinance Office) Civil Aid Services Civil Engineering Services Department (Geotechnical Control Office) Fire Services Department Capital Works Reserve Fund: payments in respect of— Public Safety projects
(5) Recreation, Culture and Amenities	Government Secretariat: Municipal Services Branch Subventions: Miscellaneous— Commonwealth Youth Programme Hong Kong Academy for Performing Arts Hong Kong Archaeological Society Outward Bound Trust of Hong Kong Promotion of sports Royal Asiatic Society Royal Life Saving Society, Hong Kong Branch Subventions for performing arts activities Television and Entertainment Licensing Authority Regional Council expenditure Urban Council expenditure Capital Works Reserve Fund: payments in respect of— Recreation, Culture and Amenities projects
(6) Environmental Protection	Agriculture and Fisheries Department (Conservation and Country Parks Branch) Environmental Protection Department Miscellaneous Services— Payment in respect of air pollution mitigation measures Subventions: Miscellaneous— Commonwealth Forestry Institute Royal Society for the Prevention of Cruelty to Animals (Hong Kong) Capital Works Reserve Fund: payments in respect of— Environmental Protection projects
(E) <i>Social Services</i>	
(1) Education	Education Department Education Subventions Miscellaneous Services— Grants towards academic exchanges Technical Education and Industrial Training Department Universities and Polytechnics Capital Works Reserve Fund: payments in respect of— Education projects Development Loan Fund: payments in respect of— Loans to schools Student Loan Fund payments

Appendix D—*Contd.*

Functional classification	Reference
(E) <i>Social Services—Contd.</i>	
(2) Medical	Medical and Health Department Medical Subventions Subventions: Miscellaneous— Council on Smoking and Health United Nations Fund for Drug Abuse Control Capital Works Reserve Fund: payments in respect of— Medical and Health projects
(3) Housing	Housing Department Housing Authority expenditure Capital Works Reserve Fund: payments in respect of— Housing projects Development Loan Fund: payments in respect of— Housing Home Ownership Fund payments
(4) Social Welfare	Legal Aid Department Social Welfare Department Social Welfare Subventions Subventions: Miscellaneous— Commonwealth War Graves Commission Far Eastern Relief Fund Hong Kong War Memorial Fund Law Society legal advice and duty lawyer schemes Magistrates poor box United Nations Children's Fund Capital Works Reserve Fund: payments in respect of— Social Welfare projects Lotteries Fund payments
(5) Labour	Labour Department Registry of Trade Unions

Appendix E(1)

PROPOSED RATES OF DUTY**(i) Intoxicating liquor and imported alcohol**

	<i>Present rate</i>	<i>Proposed rate</i>	<i>% increase (in specific elements)</i>
<i>Part I</i>			
Brandy	\$60/L+20%AV	\$67/L+20%AV	12%
Whisky, Gin, Liqueurs, Rum, Vodka and other Spirituous Liquors	\$43/L+20%AV	\$48/L+20%AV	12%
Champagne and Sparkling Wines	\$27/L+20%AV	\$30/L+20%AV	11%
Still Wines over 15%	\$18/L+20%AV	\$20/L+20%AV	11%
Still Wines not over 15%	\$15/L+20%AV	\$17/L+20%AV	13%
Intoxicating liquor in this part above the strength of 45% by volume, for every 1% above such strength in addition to the duties specified above	\$1.20/L	\$1.30/L	8%
<i>Part II</i>			
Cider and Perry	\$1.24/L	\$1.28/L	3%
<i>Part III</i>			
Beer not exceeding 1030° original gravity and in addition for every degree by which the original gravity exceeds 1030°	\$1.20/L	\$1.28/L	7%
	\$0.04/L	\$0.043/L	7%
<i>Part IV</i>			
Non-European Type Wines	\$7.80/L	\$8.30/L	6%
Chinese Type Spirits and other Spirituous Liquors, Sake, Arrack	\$4/L	\$4.30/L	7%
and in addition for every 1% by which the alcoholic strength by volume exceeds 30%	\$0.133/L	\$0.143/L	7%
<i>Part V</i>			
Ethyl alcohol, and admixtures containing ethyl alcohol	\$4/L	\$4.30/L	7%
Methyl alcohol, and admixtures containing methyl alcohol	\$4/L	\$4.30/L	7%
and in addition for every 1% by which the alcoholic strength exceeds 30%	\$0.133/L	\$0.143/L	7%

Appendix E(1)—*Contd.***(ii) Imported tobacco**

The effects of proposed duty changes on arbitrarily selected brands of cigarettes might be—

<i>Description</i>	<i>Packing</i>	<i>Approximate retail price</i>	<i>Duty increase</i>	<i>% increase</i>
(I) Locally made				
Viceroy	FTKS 20s	\$7.50	\$0.15	2.0%
Hilton	FTKS 20s	\$5.60	\$0.15	2.7%
Winston	FTKS 20s	\$7.50	\$0.15	2.0%
Good Companion	FTKS 20s	\$5.50	\$0.15	2.7%
(II) Imported				
Marlboro	FTKS 20s	\$8.50	\$0.15	1.8%
Kent	FTKS 20s	\$8.50	\$0.15	1.8%
Doral	FTKS 20s	\$5.80	\$0.15	2.6%
Salem	FTKS 20s	\$8.50	\$0.15	1.8%

Appendix E(2)

REVISED FEES AND CHARGES**(i) Immigration department—visa and travel document fees**

<i>Document of Circumstance</i>	<i>Existing fees \$</i>	<i>Proposed fees \$</i>
Emergency passport	40.00	45.00
Seaman's identity book valid for 5 years	50.00	55.00
Renewal of a seaman's identity book valid for 5 years	35.00	40.00
Seaman's certificate of nationality and identity	50.00	55.00
Ordinary visa	100.00	115.00
Transit visa	55.00	60.00
Change of conditions of stay or extension of limit of stay	100.00	115.00
Hong Kong Certificate of Identity (whether of full or restricted validity)—		
(i) 44-page certificate	140.00	150.00
(ii) 92-page certificate	280.00	300.00
Visitor's permit for resident of Macau valid for 1 visit	20.00	25.00
Visitor's permit for resident of Macau for multiple visits and valid for 1 year	40.00	45.00
Visitor's permit, valid for one visit, for resident of Macau who was formerly resident in China and settled in Macau after 14 January 1979	100.00	115.00
Entry permit	100.00	115.00
Endorsement to a travel document for which no specific fee is provided	35.00	40.00
Service charge for supplying, on application, a copy of any document, or for making or forwarding, or both, a request or recommendation to any authority of a foreign state or Commonwealth country, for consular or nationality registration or for the issue or renewal of a passport or other travel document or of a document of identity or for the grant of a visa or entry permit	40.00	45.00
Document of identity valid for 7 years—		
(i) 44-page certificate	100.00	115.00
(ii) 92-page certificate	200.00	230.00

Appendix E(2)—*Contd.*

(ii) Vehicle and driving licence fees

	<i>Existing fees</i>	<i>Proposed fees</i>
	\$	\$
1. <i>Driving Licences</i>		
Full	170p.a.	180p.a.
Driving instructor's	520p.a.	550p.a.
Learner's	350p.a.	370p.a.
Temporary	170	180
Driving test	350	370
Driving instructor's test	350	370
International driving permit	50p.a.	55p.a.
Duplicate licence	75	80
Duplicate international driving permit	50	55
2. <i>Vehicle Licences</i>		
<i>Goods Vehicle</i>		
not exceeding 1.9 tonnes	800	850
exceeding 1.9 tonnes but not exceeding 5.5 tonnes	1,550	1,650
exceeding 5.5 tonnes	3,150	3,300
<i>Taxi</i>	2,100	2,200
<i>Private Car</i>		
not exceeding 1 500 cc	2,600	2,750
exceeding 1 500 cc but not exceeding 2 500 cc	3,900	4,100
exceeding 2 500 cc but not exceeding 3 500 cc	5,200	5,450
exceeding 3 500 cc but not exceeding 4 500 cc	6,500	6,800
exceeding 4 500 cc	7,700	8,100
additional fee for private car using diesel fuel	1,000	1,050
<i>Electrically powered passenger vehicles</i>		
not exceeding 1 tonne	300	320
for each additional 250 kg	60	65
<i>Motor Cycle</i>	830	870
<i>Motor Tricycle</i>	830	870
<i>Public Light Bus</i>	5,700	6,000
<i>Private Light Bus</i>	1,800	1,900
<i>Public Bus</i>		
for the driver	15	16
additional fee for each seat	35	37
<i>Private Bus</i>		
for the driver	15	16
additional fee for each seat	30	32
<i>Trailer</i>		
for each 250 kg or part thereof	20	21

Appendix E(3)

IMPACT OF SALARIES TAX PROPOSALS**(i) Broad effect of the new additional personal allowance subject to 10% clawback on single and married taxpayers**
(expressed in terms of number of taxpayers)

<i>Single</i>	<i>No. of taxpayers</i>	
Full benefit (i.e. those with income below \$34,000 or with total allowances in excess of their income)	83 500	
Partial benefit (i.e. those with income between \$34,001 and \$83,999)	280 500	
No benefit (i.e. in situation where income exceeds \$84,000, clawback exhausts new allowance)	51 500	(However, this group will benefit from the adjustment to the 3rd tax band)
No effect—income subject to standard rate of 16.5%	10 500	
 <i>Married</i>		
Full benefit (i.e. those with income below \$70,000 or with total allowances in excess of their income)	52 000	
Partial benefit (i.e. those with income between \$70,001 and \$169,999)	99 000	
No benefit (i.e. in situation where income exceeds \$170,000, clawback exhausts new allowance)	43 500	(However, this group will benefit from the adjustment to the 3rd tax band)
No effect—income subject to standard rate of 16.5%	32 500	
Total	<u>653 000</u>	

Appendix E(3)—Contd.

(ii) Examples of the effect the proposed increase in personal allowance and adjustment to 3rd tax band will have on salaries tax payable at various income levels

Single

<i>Annual income</i>	<i>Present</i>		<i>Proposed</i>				<i>Remarks</i>
	<i>Tax payable</i>	<i>Effective rate</i>	<i>Chargeable income</i>	<i>Tax payable</i>	<i>Effective rate</i>	<i>Tax saving</i>	
(\$)	(\$)	(%)	(\$)	(\$)	(%)	(\$)	
30,000	50	0.2	NIL	—	—	50	This group receives full benefit from the increase in personal allowance.
34,000	250	0.7	NIL	—	—	250	
36,000	350	1.0	2,200	110	0.3	240	All of this group receives partial benefit from the increase in personal allowance while some will also benefit from the adjustment to the tax band.
48,000	1,400	2.9	15,400	1,040	2.2	360	
59,000	3,000	5.1	27,500	2,625	4.4	375	
72,000	5,600	7.8	41,800	4,860	6.8	740	
83,000	8,000	9.6	53,900	7,280	8.8	720	
84,000	8,250	9.8	55,000	7,500	8.9	750	This group receives no benefit from the increase in personal allowance but the full benefit of the adjustment to the tax band.
96,000	11,250	11.7	67,000	10,250	10.7	1,000	
108,000	14,250	13.2	79,000	13,250	12.3	1,000	
120,000	17,250	14.4	91,000	16,250	13.5	1,000	
132,000	20,250	15.3	103,000	19,250	14.6	1,000	
144,000	23,250	16.1	115,000	22,250	15.5	1,000	
(159,375)	27,093	17.0	130,375	26,093	16.4	1,000	
(161,765)	27,500	17.0	161,765	26,691	16.5	809	Standard rate taxpayers.

Appendix E(3)—Contd.

(iii) Examples of the effect the proposed increase in personal allowance and adjustment to 3rd tax band will have on salaries tax payable at various income levels

Married

Annual income (\$)	Present (Exempt up to \$60,000)		Proposed (Personal allowance increased by \$10,000, subject to 10% clawback PLUS adjustment to 3rd tax band)				Remarks	
	Tax payable (\$)	Effective rate (%)	Chargeable income (\$)	Tax payable (\$)	Effective rate (%)	Tax saving (\$)		
61,000	50	0.1	NIL	—	—	50	This group receives full benefit from the increase in personal allowance.	
70,000	500	0.7	NIL	—	—	500		
72,000	700	1.0	2,200	110	0.2	590	All of this group receives partial benefit from the increase in personal allowance while some will also benefit from the adjustment to the tax band.	
84,000	2,100	2.5	15,400	1,040	1.2	1,060		
96,000	4,200	4.4	28,600	2,790	2.9	1,410		
108,000	6,600	6.1	41,800	4,860	4.5	1,740		
120,000	9,500	7.9	55,000	7,500	6.3	2,000		
132,000	12,500	9.5	68,200	10,550	8.0	1,950		
144,000	15,500	10.8	81,400	13,850	9.6	1,650		
160,000	19,500	12.2	99,000	18,250	11.4	1,250		
170,000	22,000	12.9	110,000	21,000	12.4	1,000		This group receives no benefit from the increase in personal allowance but the full benefit of the adjustment to the tax band.
180,000	24,500	13.6	120,000	23,500	13.1	1,000		
192,000	27,500	14.3	132,000	26,500	13.8	1,000		
204,000	30,500	15.0	144,000	29,500	14.5	1,000		
216,000	33,500	15.5	156,000	32,500	15.0	1,000		
228,000	36,500	16.0	168,000	35,500	15.6	1,000		
240,000	39,500	16.5	180,000	38,500	16.0	1,000		
(252,941)	42,735	16.9	252,941	41,735	16.5	1,000	Standard rate taxpayers.	
(256,250)	43,562	17.0	256,250	42,281	16.5	1,281		

(iv) Examples of the calculation of salaries tax under the clawback system

Example 1—Single person earning \$36,000 per annum

Income			\$ 36,000
Less: Personal allowance		\$29,000	
Additional allowance	\$ 5,000		
Less: 'Clawback' 10% of (\$36,000-\$34,000)	200	4,800	33,800
Net chargeable income			\$ 2,200
Tax payable thereon			\$110

Appendix E(3)—Contd.

Example 2—Married person, with no children, earning \$84,000 per annum

Income			\$ 84,000
Less: Personal allowance		\$60,000	
Additional allowance	\$10,000		
Less: 'Clawback' 10% of (\$84,000-\$70,000)	<u>1,400</u>	<u>8,600</u>	<u>68,600</u>
Net chargeable income			<u>\$ 15,400</u>
Tax payable thereon			<u>\$1,040</u>

Example 3—Married person, with two children, earning \$150,000 per annum

Income			\$150,000
Less: Personal allowance		\$60,000	
Additional allowance	\$10,000		
Less: 'Clawback' 10% of (\$150,000-\$70,000)	<u>8,000</u>	<u>2,000</u>	
		\$62,000	
Child allowance		<u>19,000</u>	<u>81,000</u>
Net chargeable income			<u>\$ 69,000</u>
Tax payable thereon			<u>\$ 10,750</u>

Appendix E(3)—Contd.

(v) **Examples of salaries tax payable by various taxpayers with same income levels and having regard to the proposed increases in personal and child allowances as well as the proposed adjustment to the 3rd tax band***Example 1—Annual earnings of \$66,000 (i.e. \$5,500 per month)*

	<i>Single</i>	<i>Single with two dependent parents</i>	<i>Married with no children</i>	<i>Married with two children</i>	<i>Married with two children and two dependent parents</i>
	(\$)	(\$)	(\$)	(\$)	(\$)
Salary per annum	66,000	66,000	66,000	66,000	66,000
Less: Personal allowance	29,000	29,000	60,000	60,000	60,000
Additional allowance (subject to 10% clawback)	1,800	1,800	10,000	10,000	10,000
	35,200	35,200	NIL	NIL	NIL
Less: Child allowance	—	—	—	19,000	19,000
Dependent parent allowance	—	18,000	—	—	18,000
Net chargeable income	35,200	17,200	NIL	NIL	NIL
Tax payable thereon	3,780	1,220	NIL	NIL	NIL
Effective rate	5.7%	1.8%	—	—	—

Example 2—Annual earnings of \$72,000 (i.e. \$6,000 per month)

	<i>Single</i>	<i>Single with two dependent parents</i>	<i>Married with no children</i>	<i>Married with two children</i>	<i>Married with two children and two dependent parents</i>
	(\$)	(\$)	(\$)	(\$)	(\$)
Salary per annum	72,000	72,000	72,000	72,000	72,000
Less: Personal allowance	29,000	29,000	60,000	60,000	60,000
Additional allowance (subject to 10% clawback)	1,200	1,200	9,800	9,800	9,800
	41,800	41,800	2,200	2,200	2,200
Less: Child allowance	—	—	—	19,000	19,000
Dependent parent allowance	—	18,000	—	—	18,000
Net chargeable income	41,800	23,800	2,200	NIL	NIL
Tax payable thereon	4,860	2,070	110	NIL	NIL
Effective rate	6.8%	2.9%	0.2%	—	—

Appendix E(3)—Contd.

Example 3—Annual earnings of \$78,000 (i.e. \$6,500 per month)

	<i>Single</i>	<i>Single with two dependent parents</i>	<i>Married with no children</i>	<i>Married with two children</i>	<i>Married with two children and two dependent parents</i>
	(\$)	(\$)	(\$)	(\$)	(\$)
Salary per annum	78,000	78,000	78,000	78,000	78,000
Less: Personal allowance	29,000	29,000	60,000	60,000	60,000
Additional allowance (subject to 10% clawback)	600	600	9,200	9,200	9,200
	48,400	48,400	8,800	8,800	8,800
Less: Child allowance	—	—	—	19,000	19,000
Dependent parent allowance	—	18,000	—	—	18,000
Net chargeable income	48,400	30,400	8,800	NIL	NIL
Tax payable thereon	6,180	3,060	440	NIL	NIL
Effective rate	7.9%	3.9%	0.6%	—	—

Example 4—Annual earnings of \$120,000 (i.e. \$10,000 per month)

	<i>Single</i>	<i>Single with two dependent parents</i>	<i>Married with no children</i>	<i>Married with two children</i>	<i>Married with two children and two dependent parents</i>
	(\$)	(\$)	(\$)	(\$)	(\$)
Salary per annum	120,000	120,000	120,000	120,000	120,000
Less: Personal allowance	29,000	29,000	60,000	60,000	60,000
Additional allowance (subject to 10% clawback)	—	—	5,000	5,000	5,000
	91,000	91,000	55,000	55,000	55,000
Less: Child allowance	—	—	—	19,000	19,000
Dependent parent allowance	—	18,000	—	—	18,000
Net chargeable income	91,000	73,000	55,000	36,000	18,000
Tax payable thereon	16,250	11,750	7,500	3,900	1,300
Effective rate	13.5%	9.8%	6.3%	3.3%	1.1%

Appendix E(3)—Contd.

Example 5—Annual earnings of \$150,000 (i.e. \$12,500 per month)

	<i>Single</i>	<i>Single</i>	<i>Married</i>	<i>Married</i>	<i>Married</i>
	<i>(\$)</i>	<i>with two</i>	<i>with no</i>	<i>with two</i>	<i>with two</i>
		<i>dependent</i>	<i>children</i>	<i>children</i>	<i>and two</i>
		<i>parents</i>			<i>dependent</i>
		<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>parents</i>
					<i>(\$)</i>
Salary per annum	150,000	150,000	150,000	150,000	150,000
Less: Personal allowance	29,000	29,000	60,000	60,000	60,000
Additional allowance (subject to 10% clawback)	—	—	2,000	2,000	2,000
	<u>121,000</u>	<u>121,000</u>	<u>88,000</u>	<u>88,000</u>	<u>88,000</u>
Less: Child allowance	—	—	—	19,000	19,000
Dependent parent allowance	—	18,000	—	—	18,000
Net chargeable income	<u>121,000</u>	<u>103,000</u>	<u>88,000</u>	<u>69,000</u>	<u>51,000</u>
Tax payable thereon	<u>23,750</u>	<u>19,250</u>	<u>15,500</u>	<u>10,750</u>	<u>6,700</u>
Effective rate	15.8%	12.8%	10.3%	7.2%	4.5%

Appendix E(3)—Contd.

(vi) Examples of the effect the proposed increase in personal allowance, reduction in standard rate and adjustment to the 3rd tax band will have on salaries tax payable at various income levels

Single person

<i>Annual income</i> (\$)	<i>Present</i> (exempt up to \$29,000)		<i>Proposed</i> (exempt up to \$34,000)		<i>Tax saving</i>	
	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	(\$)	(%)
36,000	350	1.0	110	0.3	240	68.6
48,000	1,400	2.9	1,040	2.2	360	25.7
60,000	3,200	5.3	2,790	4.7	410	12.8
72,000	5,600	7.8	4,860	6.8	740	13.2
84,000	8,250	9.8	7,500	8.9	750	9.1
96,000	11,250	11.7	10,250	10.7	1,000	8.9
108,000	14,250	13.2	13,250	12.3	1,000	7.0
120,000	17,250	14.4	16,250	13.5	1,000	5.8
132,000	20,250	15.3	19,250	14.6	1,000	4.9
144,000	23,250	16.1	22,250	15.5	1,000	4.3
(159,375)	27,093	17.0	26,093	16.4	1,000	3.7
(161,765)	27,500	17.0	26,691	16.5	809	2.9

Married person, with no children

<i>Annual income</i> (\$)	<i>Present</i> (exempt up to \$60,000)		<i>Proposed</i> (exempt up to \$70,000)		<i>Tax saving</i>	
	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	(\$)	(%)
72,000	700	1.0	110	0.2	590	84.3
84,000	2,100	2.5	1,040	1.2	1,060	50.5
96,000	4,200	4.4	2,790	2.9	1,410	33.6
108,000	6,600	6.1	4,860	4.5	1,740	26.4
120,000	9,500	7.9	7,500	6.3	2,000	21.1
132,000	12,500	9.5	10,550	8.0	1,950	15.6
144,000	15,500	10.8	13,850	9.6	1,650	10.6
168,000	21,500	12.8	20,450	12.2	1,050	4.9
180,000	24,500	13.6	23,500	13.1	1,000	4.1
216,000	33,500	15.5	32,500	15.0	1,000	3.0
(252,941)	42,735	16.9	41,735	16.5	1,000	2.3
(256,250)	43,562	17.0	42,281	16.5	1,281	2.9

Single person with two dependent parents

<i>Annual income</i> (\$)	<i>Present</i> (exempt up to \$47,000)		<i>Proposed</i> (exempt up to \$52,000)		<i>Tax saving</i>	
	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	(\$)	(%)
54,000	350	0.6	200	0.4	150	42.9
60,000	800	1.3	560	0.9	240	30.0
72,000	2,250	3.1	2,070	2.9	180	8.0
84,000	4,400	5.2	4,050	4.8	350	8.0
96,000	6,800	7.1	6,300	6.6	500	7.4
108,000	9,750	9.0	8,750	8.1	1,000	10.3
120,000	12,750	10.6	11,750	9.8	1,000	7.8
132,000	15,750	11.9	14,750	11.2	1,000	6.3
144,000	18,750	13.0	17,750	12.3	1,000	5.3
180,000	27,750	15.4	26,750	14.9	1,000	3.6
(214,706)	36,426	16.9	35,426	16.5	1,000	2.7
(215,625)	36,656	17.0	35,578	16.5	1,078	2.9

Appendix E(3)—Contd.

Married person, with two dependent parents

<i>(exempt up to \$78,000)</i>			<i>(exempt up to \$88,000)</i>			
90,000	700	0.8	200	0.2	500	71.4
96,000	1,300	1.4	560	0.6	740	56.9
108,000	3,000	2.8	2,070	1.9	930	31.0
120,000	5,400	4.5	4,050	3.4	1,350	25.0
132,000	8,000	6.1	6,540	5.0	1,460	18.3
144,000	11,000	7.6	9,350	6.5	1,650	15.0
180,000	20,000	11.1	19,000	10.6	1,000	5.0
216,000	29,000	13.4	28,000	13.0	1,000	3.4
252,000	38,000	15.1	37,000	14.7	1,000	2.6
288,000	47,000	16.3	46,000	16.0	1,000	2.1
(305,882)	51,470	16.8	50,470	16.5	1,000	1.9
(312,500)	53,125	17.0	51,562	16.5	1,563	2.9

(vii) **Examples of the effect the proposed increases in personal and child allowances, reduction in the standard rate and adjustment to the 3rd tax band will have on salaries tax payable at various income levels**

Single person, with two children

<i>Annual income</i> (\$)	<i>Present</i> <i>(exempt up to \$44,000)</i>		<i>Proposed</i> <i>(exempt up to \$53,000)</i>		<i>Tax saving</i>	
	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	<i>Tax payable</i> (\$)	<i>Effective rate</i> (%)	<i>(\$)</i>	<i>(%)</i>
55,000	600	1.1	205	0.4	395	65.8
60,000	1,100	1.8	480	0.8	620	56.4
72,000	2,700	3.8	1,920	2.7	780	28.9
84,000	5,000	6.0	3,900	4.6	1,100	22.0
96,000	7,500	7.8	6,100	6.4	1,400	18.7
108,000	10,500	9.7	8,500	7.9	2,000	19.0
120,000	13,500	11.3	11,500	9.6	2,000	14.8
144,000	19,500	13.5	17,500	12.2	2,000	10.3
180,000	28,500	15.8	26,500	14.7	2,000	7.0
(206,250)	35,062	17.0	33,062	16.0	2,000	5.7
(217,647)	36,999	17.0	35,911	16.5	1,088	2.9

Married person, with two children

<i>(exempt up to \$75,000)</i>			<i>(exempt up to \$89,000)</i>			
91,000	1,100	1.2	205	0.2	895	81.4
96,000	1,650	1.7	480	0.5	1,170	70.9
108,000	3,600	3.3	1,920	1.8	1,680	46.7
120,000	6,000	5.0	3,900	3.3	2,100	35.0
144,000	11,750	8.2	9,100	6.3	2,650	22.6
180,000	20,750	11.5	18,750	10.4	2,000	9.6
216,000	29,750	13.8	27,750	12.8	2,000	6.7
252,000	38,750	15.4	36,750	14.6	2,000	5.2
288,000	47,750	16.6	45,750	15.9	2,000	4.2
(303,125)	51,531	17.0	49,531	16.3	2,000	3.9
(308,823)	52,499	17.0	50,955	16.5	1,544	2.9

Appendix E(3)—Contd.

Single person, with two children and two dependent parents

<i>Annual income (\$)</i>	<i>Present (exempt up to \$62,000)</i>		<i>Proposed (exempt up to \$71,000)</i>		<i>Tax saving</i>	
	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>	<i>(\$)</i>	<i>(%)</i>
73,000	600	0.8	295	0.4	305	50.8
84,000	1,800	2.1	1,300	1.5	500	27.8
96,000	3,800	4.0	3,000	3.1	800	21.1
108,000	6,200	5.7	4,900	4.5	1,300	21.0
120,000	9,000	7.5	7,300	6.1	1,700	18.9
144,000	15,000	10.4	13,000	9.0	2,000	13.3
180,000	24,000	13.3	22,000	12.2	2,000	8.3
216,000	33,000	15.3	31,000	14.4	2,000	6.1
252,000	42,000	16.7	40,000	15.9	2,000	4.8
(262,500)	44,625	17.0	42,625	16.2	2,000	4.5
(270,588)	45,999	17.0	44,647	16.5	1,352	2.9

Married person, with two children and two dependent parents

	<i>(exempt up to \$93,000)</i>		<i>(exempt up to \$107,000)</i>			
	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>	<i>Tax payable (\$)</i>	<i>Effective rate (%)</i>	<i>(\$)</i>	<i>(%)</i>
109,000	1,100	1.0	295	0.3	805	73.2
120,000	2,550	2.1	1,300	1.1	1,250	49.0
144,000	7,250	5.0	5,380	3.7	1,870	25.8
180,000	16,250	9.0	14,250	7.9	2,000	12.3
216,000	25,250	11.7	23,250	10.8	2,000	7.9
252,000	34,250	13.6	32,250	12.8	2,000	5.8
288,000	43,250	15.0	41,250	14.3	2,000	4.6
324,000	52,250	16.1	50,250	15.5	2,000	3.8
(359,375)	61,093	17.0	59,093	16.4	2,000	3.3
(361,765)	61,500	17.0	59,691	16.5	1,809	2.9

Appendix E(3)—Contd.

(viii) Income levels at which salaries tax payers enter the standard rate zone

	<i>present</i> (\$)	<i>Proposed</i> (\$)
<i>No dependent parent</i>		
Single	159,375	161,765
Married	256,250	252,941
Married + 1 child	284,375	285,294
Married + 2 children	303,125	308,823
Married + 3 children	312,500	317,647
<i>Including two dependent parents</i>		
Single	215,625	214,706
Married	312,500	305,882
Married + 1 child	340,625	338,235
Married + 2 children	359,375	361,765
Married + 3 children	368,750	370,588
<i>Including two dependent parents with additional allowance</i>		
Single	234,375	232,353
Married	331,250	323,529
Married + 1 child	359,375	355,882
Married + 2 children	378,125	379,413
Married + 3 children	387,500	388,235

(ix) Analysis of salaries tax yields in terms of income of taxpayers

*Estimated salaries tax yields
(after Budget concessions) in 1987-88*

<i>Assessable income per annum</i> (\$)	<i>No. of taxpayers</i>	<i>Percentage of total taxpayers</i>	<i>Tax yield (\$mn)</i>	<i>Percentage of total yield</i>
50,000 & under	151 000	29.2	90	1.3
50,001 - 100,000	173 500	33.5	630	8.8
100,001 - 240,000	145 000	28.0	2,350	33.0
240,001 - 300,000	16 000	3.1	940	13.2
300,001 - 500,000	22 000	4.3	1,600	22.4
500,001 & over	10 000	1.9	1,520	21.3
Total	<u>517 500</u>	<u>100.0</u>	<u>7,130</u>	<u>100.0</u>

It should be noted that only 43 000 (8.3%) of the 517 500 taxpayers are estimated to pay tax in 1987-88 at the standard rate of 16 1/2%. This small group of taxpayers, however, will contribute almost \$3,710 million or 52% of the total yield. The group of standard rate taxpayers includes (in round figures)—

- 10 000 single persons with incomes of \$161,765 plus per annum;
- 14 000 married couples with incomes of \$252,941 plus per annum;
- 18 500 married couples with one or more children and/or dependent parents and with incomes of \$285,294 plus per annum.

CONTINGENT LIABILITIES AS AT 31 MARCH 1986

A contingent liability is defined as a liability arising from a condition or situation which exists at the year end, where the amount of the liability, if any, and its timing will depend on the occurrence or non-occurrence of one or more uncertain future events.

The contingent liabilities identified by the Director of Accounting Services as at 31 March 1986 are listed below. The approximate maximum potential amount of each liability as at that date is indicated in brackets. It is not an assessment of actual risk.

1. Capital subscription to Asian Development Bank (US\$45.7 million);
2. Outstanding currency notes demonetized under the Dollar and Subsidiary Currency Notes Ordinance (Cap.67) (\$10.2 million);
3. One cent notes issued under Section 4(1) of the Dollar and Subsidiary Currency Notes Ordinance (Cap. 67) (\$1 million);
4. Gold coins issued in accordance with L.N. 97 of 1975 (\$316.5 million);
5. A guarantee on notes issued by the Hong Kong Building and Loan Agency Ltd. (\$320 million);
6. All moneys which may become due by the Hong Kong Export Credit Insurance Corporation under contracts of insurance (\$3,364 million);
7. Guarantees in respect of the repayment of loans made to and the discharge of indebtedness of the Mass Transit Railway Corporation under the facilities specified in the Schedules to L.N. 242 of 1975 and L.N. 105 of 1978 (\$6,818 million);
8. Guarantees in respect of the redemption or repayment of bonds or notes issued by the Mass Transit Railway Corporation in Hong Kong (L.N. 121 of 1976 and L.N. 324 of 1983) (\$400 million);
9. A guarantee in respect of the reimbursement of costs incurred by the Mass Transit Railway Corporation arising from the possible extension of the mass transit railway to Junk Bay (\$0.7 million);
10. A guarantee in respect of the repayment of a bank loan for the German Swiss International School Foundation Ltd. (\$0.2 million);
11. Full and partial default guarantees in respect of mortgage loans made by banks and other financial institutions under the Home Ownership Scheme and the Private Sector Participation Scheme (\$5,092.1 million);
12. A guarantee in respect of the reimbursement to the developers of the projects under the Private Sector Participation Scheme for unsold flats and flats sold at a price below the stipulated average price (\$1,712.6 million);
13. A guarantee under Section 13 of the Kowloon-Canton Railway Corporation Ordinance (Cap. 372) in respect of the repayment of the principal of, the payment of interest on, and the discharge of any other financial obligation in connexion with any sums borrowed by the Kowloon-Canton Railway Corporation (\$500 million);
14. A guarantee in respect of the City Polytechnic of Hong Kong against any capital loss on disposal of the temporary premises and a guarantee in respect of a commercial loan to the City Polytechnic of Hong Kong for the acquisition of temporary premises (\$260 million);
15. A guarantee in respect of a commercial borrowing facility for the Hong Kong Nuclear Investment Company Ltd. (\$25 million);
16. Possible equity injections to the Mass Transit Railway Corporation to be made on or after 31 December 1989 (\$2,500 million);
17. Outstanding New Territories Land Exchange Entitlements (Letters A/B) (estimated monetized value of \$3,289 million);
18. Outstanding litigation (\$100 million).