

# OFFICIAL REPORT OF PROCEEDINGS

Wednesday, 7 March 1990

The Council met at half-past Two o'clock

## PRESENT

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)  
SIR DAVID CLIVE WILSON, K.C.M.G.

THE CHIEF SECRETARY  
THE HONOURABLE SIR DAVID ROBERT FORD, K.B.E., L.V.O., J.P.

THE FINANCIAL SECRETARY  
THE HONOURABLE SIR PIERS JACOBS, K.B.E., J.P.

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

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

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

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

THE HONOURABLE CHAN YING-LUN, O.B.E., J.P.

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

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

THE HONOURABLE CHENG HON-KWAN, O.B.E., J.P.

THE HONOURABLE CHUNG PUI-LAM, J.P.

THE HONOURABLE HO SAI-CHU, M.B.E., J.P.

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

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

THE HONOURABLE DAVID LI KWOK-PO, 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, J.P.

PROF. THE HONOURABLE POON CHUNG-KWONG, J.P.

THE HONOURABLE SZETO WAH

THE HONOURABLE TAI CHIN-WAH, J.P.

THE HONOURABLE MRS. ROSANNA TAM WONG YICK-MING, J.P.

THE HONOURABLE TAM YIU-CHUNG

DR. THE HONOURABLE DANIEL TSE, O.B.E., J.P.

THE HONOURABLE ANDREW WONG WANG-FAT, J.P.

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

THE HONOURABLE GRAHAM BARNES, C.B.E., J.P.  
SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS

THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.  
SECRETARY FOR TRANSPORT

THE HONOURABLE EDWARD HO SING-TIN, J.P.

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

THE HONOURABLE PAUL CHENG MING-FUN

THE HONOURABLE MICHAEL CHENG TAK-KIN, J.P.

THE HONOURABLE DAVID CHEUNG CHI-KONG, J.P.

THE HONOURABLE MRS. NELLIE FONG WONG KUT-MAN, J.P.

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

THE HONOURABLE DANIEL LAM WAI-KEUNG, J.P.

THE HONOURABLE MRS. MIRIAM LAU KIN-YEE

THE HONOURABLE LAU WAH-SUM, J.P.

DR. THE HONOURABLE LEONG CHE-HUNG

THE HONOURABLE LEUNG WAI-TUNG, J.P.

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

THE HONOURABLE KINGSLEY SIT HO-YIN

THE HONOURABLE MRS. SO CHAU YIM-PING, J.P.

THE HONOURABLE JAMES TIEN PEI-CHUN, J.P.

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

THE HONOURABLE PETER WONG HONG-YUEN, J.P.

THE HONOURABLE YEUNG KAI-YIN, J.P.  
SECRETARY FOR EDUCATION AND MANPOWER

THE HONOURABLE MRS. ANSON CHAN, J.P.  
SECRETARY FOR ECONOMIC SERVICES

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

THE HONOURABLE MRS. ELIZABETH WONG CHI-LIEN, I.S.O., J.P.  
SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE ALISTAIR PETER ASPREY, O.B.E., A.E., J.P.  
SECRETARY FOR SECURITY

## **ABSENT**

THE HONOURABLE RONALD JOSEPH ARCULLI, J.P.

THE HONOURABLE RONALD CHOW MEI-TAK

## **IN ATTENDANCE**

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

**Papers**

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

*Subject*

Subsidiary Legislation	<i>L.N. No.</i>
Prevention of Bribery Ordinance Prevention of Bribery Ordinance (Amendment of Schedule) Order 1990	62/90
Electricity networks (Statutory Easements) Ordinance Electricity networks (Statutory Easements) (Rectification of Approved Scheme) Order 1990	63/90
Tax Reserve Certificates (Fourth Series) Rules Tax Reserve Certificates (Rates of Interest) Notice 1990	64/90

## Sessional Papers 1989-90

No. 57 — Draft Estimates for the year ending 31 March 1991: Volume I General Revenue Account Expenditure Summaries and Controlling Officers' Reports

No. 58 — Draft Estimates for the year ending 31 March 1991: Volume II General Revenue Account Expenditure by Heads and Subheads

No. 59 — Draft Estimates for the year ending 31 March 1991: Volume III —Fund Accounts

No. 60 — Report on the Administration of the Fire Services Welfare Fund for the year ended 31st March 1988

**First Reading of Bill****APPROPRIATION BILL 1990**

*Bill read the First time and ordered to be set down for Second Reading pursuant to Standing Order 41(3)*

**Second Reading of Bill**

THE FINANCIAL SECRETARY moved the Second Reading of: "A Bill to apply a sum not exceeding \$88,201,918,000 to the service of the financial year ending on 31 March 1991."

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He said: I move that the Appropriation Bill 1990 be read the Second time. In presenting my Budget for 1990-91, I am conscious that over the past 12 months the international scene has changed more quickly and dramatically than any of us could have anticipated. Hong Kong did not emerge unscathed. But the Administration remains determined to undertake the vital programme of infrastructural and other projects which you, Sir, described in your address to this Council last October.

2. We have set ourselves ambitious long-term objectives, and this Budget sets the scene for their ultimate achievement. The programme in its entirety is our investment in our own future and is essential to the continued progress and prosperity of this community. Hong Kong has grown to be both an international trading and financial centre and a place which provides a rewarding lifestyle for its people only by planning ahead and by meeting challenges and overcoming difficulties as they arise.

3. The programme of public expenditure upon which we are now embarking is within our capabilities but it will require financial management of a high order. Today it is more important than ever that we should assess our prospects realistically and tailor our thinking to what is possible. The starting point has to be the best use of our resources. Controlling public sector expenditure in all its forms, achieving value for money, containing civil service growth, increasing productivity, all are needed.

4. Raising revenue, and how we raise it, is no less important. In this Budget I shall be proposing a number of measures designed to improve the revenue yield and to bring about a relative shift from direct to indirect taxation.

5. In setting the scene for the achievement of our objectives, I shall not attempt to describe in detail how each project will be financed. That is for a later stage when our plans are further advanced. What I am seeking is a sound fiscal position upon which we will be able to develop our financing strategy. The task will not be achieved in the course of one year. Now that the key decision to build our new airport has been taken, it is all the more important to ensure that we maintain a position of considerable financial strength. I shall have more to say about this later.

6. As to presentation of the Budget and related documents, I would like to draw Members' attention to the fact that this year we published the estimates earlier than usual to assist Members in their preparation for the special meetings of Finance Committee. We have also revised and retitled the three volumes of the estimates to provide a more logical and, I hope, convenient arrangement of the contents. In addition, I have made some changes to the presentation of the printed version of the speech. The unwieldy footnotes should be removed to a new supplement, which also contains a glossary of some of the technical terms.

7. Although my speech this year is focussed upon our programme of expenditure and on how it should be managed and financed, I shall as usual begin by describing the economic background to my Budget.



THE ECONOMY IN 1989<sup>1</sup>

8. The economy continued to slow down in 1989, adjusting to the pressures on capacity brought about by substantial growth over the previous three years. Reduced overseas demand for Hong Kong's products, as well as the austerity programme in China, also contributed to the cyclical slow-down. As a result, our gross domestic product (GDP) recorded a growth rate of only 2.5% in real terms in 1989, compared with increases of around 14% in 1987 and 7% in 1988<sup>2</sup>. A period of consolidation is perhaps inevitable, and in some respects welcome.

9. With the unemployment rate staying below 2% for three successive years, wages and salaries have been driven up by the keen competition for manpower, and this has contributed to a level of domestically generated inflation which is uncomfortably high. In the latter part of last year, however, there was some indication that conditions in the labour market were becoming less tight, in that there was a significant drop in the number of job vacancies in most sectors.

10. For 1989 as a whole, the Consumer Price Index (A) rose by an average of around 10%. But there are signs that inflationary pressures, which dominated much of the year, may now be easing as a result of the economic slow-down. The year-on-year rates of increase in the consumer price indices started to level off in the second half of the year, after peaking in June. But the adjustment process will take time. I shall have more to say about this when describing our economic prospects for 1990.

11. In the external sector, there was virtually no growth in domestic exports in 1989, but re-exports continued to grow strongly, although not as fast as in 1988. As a proportion of total exports, re-exports exceeded domestic exports for the second consecutive year<sup>3</sup>. The performance about domestic exports in some of our major markets, including the United States, the Federal Republic of Germany and the United Kingdom, was rather disappointing. By contrast, our domestic exports to both Japan and China still showed a significant increase, although there was some slackening in the latter part of the year. Re-exports to China grew more modestly than in 1988, but the strong growth in re-exports of China origin was sustained. With total re-exports up by 19%, Hong Kong remained a major entrepot for China and the Asia-Pacific region.

12. The slow-down in economic growth was also evident in the domestic sector. Private consumption expenditure grew by only 3% in 1989, much less than the increase of 9% in 1988; expenditure on consumer durables in fact showed a decline.

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<sup>1</sup> For detailed statistics on the economy in 1989 see the Supplement and the '1989 Economic Background'.

<sup>2</sup> Unless otherwise indicated, all growth rates for the economy are in real terms.

<sup>3</sup> The share of re-exports in the value of total exports increased from 48% in 1987 to 56% in 1988 and to 61% in 1989.

13. The growth rate of investment also fell, from 6% in 1988 to only about 1% in 1989. This comprised a 1.5% increase in expenditure on plant and machinery and a 5.3% increase in expenditure on building and construction, offset in part by a decrease of about 3% in the real estate developers' margin. Reflecting a more cautious sentiment towards investment in the manufacturing sector, retained imports of machinery for use in manufacturing declined by 8% last year.

14. With the slow-down in both exports and domestic demand, imports also grew more slowly, at 9% in 1989 compared with 27% in the previous year. As in 1988, our visible trade account remained virtually in balance.

15. Last year was a testing time for Hong Kong, and this was reflected in our economic performance. As an open economy, we are vulnerable to external influences. But history has demonstrated our flexibility and resilience. Although the June events had their effect, notably on the property and tourist-related sectors, the economy generally, and the financial sector in particular, withstood the impact well. The exchange rate of the Hong Kong dollar against the US dollar remained stable even during the months of May and June, and Hong Kong dollar interest rates stayed close to corresponding US dollar rates for most of the year<sup>4</sup>. It is abundantly clear that the linked exchange rate continues to serve the interests of Hong Kong.

16. The maintenance of monetary stability is vital to Hong Kong in the run-up to 1997 and beyond. We need to ensure that our monetary system can successfully absorb shocks. Where necessary and appropriate, we will take action to strengthen our system. For example, the issue of short-term Exchange Fund bills, scheduled to start shortly, will provide us with an additional means of conducting the money market operations which assist in maintaining exchange rate stability.

17. Despite the events in 1989, Hong Kong continued to develop as an international financial centre. There was a significant increase in the number of licences granted to foreign banks and banking business grew rapidly. This indicates continuing confidence on the part of the international banking community in the prospects for the Hong Kong economy, to which I shall now turn.

#### ECONOMIC PROSPECTS FOR 1990<sup>5</sup>

18. Overall, the economy is expected to continue to grow only slowly during the first half of this year, with the possibility of some recovery in the second half. For 1990 as a whole, the growth rate of the GDP is forecast to be broadly similar to that

<sup>4</sup> *The market exchange rate moved within a narrow range of HK\$7.774/7.815 to US\$1 during 1989.*

<sup>5</sup> *For detailed forecasts on the economy in 1990 see the Supplement and the '1990 Economic Prospects'. Will depend more on China's export capability than on her import demand. A slow-down from last year's growth rate of 19% seems inevitable, and my forecast of re-export growth for this year is 8%.*

achieved in 1989. The rate of inflation will nevertheless be somewhat lower. For many sectors, constraints on productive capacity and pressure on costs will continue to affect business growth.

19. Although it is likely that the world economy will grow more slowly this year, I expect our domestic exports to resume modest growth, at 2.5%, as compared to virtually zero growth last year. But performance will vary from market to market. Our domestic exports to the United States may show a marginal improvement after two years of decline. Those to China are likely to be restrained by China's austerity programme, and exports across the border for outward processing purposes may continue to be affected by supply bottlenecks in Guangdong and uncertain overseas demand. Our domestic exports to the Federal Republic of Germany and Japan should show fairly strong growth, but those to the United Kingdom could decline further.

20. Our major partner in our re-export trade is China. In present circumstances, growth in Hong Kong's total re-exports will depend more on China's export capability than on her import demand. A slow-down from last year's growth rate of 19% seems inevitable, and my forecast of re-export growth for this year is 8%.

21. Exports of services are forecast to increase by 5.5% this year. I expect continued demand for trade-related services and an encouraging recovery in tourism. For imports of services, I forecast a growth rate of 5%.

22. The recent slow-down in economic growth in Hong Kong is likely to affect domestic demand in 1990. My forecast of the growth rate in 1990 for private consumption expenditure is 3.5%, and for investment in plant and machinery 2.8%. By contrast, and reflecting the continuing commitment of the Government to provide more and better public services, government consumption expenditure is expected to increase by 10% and public sector expenditure on building and construction by 15%. Even though private sector expenditure on building and construction is expected to be only 0.5% higher, overall construction output is forecast to increase by 5.5%. The pressure on the construction industry, even before the new airport project really gets under way, will thus continue to be heavy.

23. In the light of the forecasts of exports and domestic demand, imports are expected to grow by 6.4%. With total exports forecast to grow by 5.7%, and with a modest improvement in the terms of trade, we should have a small visible trade surplus for 1990<sup>6</sup>.

24. In sum, I am forecasting a GDP growth rate of 3% in 1990. In current price terms, Hong Kong's per capita GDP is expected to rise to US\$12,100<sup>7</sup>. At this level, our per capita GDP should continue to be among the highest in the region.

<sup>6</sup> \$6.5 billion, equivalent to 1% of the total value of imports.

<sup>7</sup> An increase of 11% in money terms, or 1.9% in real terms. At current prices, it would amount to \$94,700.

25. Before I describe the present state of public finances, I wish to say a little more about the inflationary pressures in the economy. This is a matter of concern. In the labour market, the persistently low unemployment and underemployment rates over the past couple of years suggest that there is still little spare capacity. This will continue to restrain economic growth in the short term. Although, as I have already commented, there have been signs of easing in the labour market in recent months, the pressure on wages and salaries is likely to persist for some time.

26. Thus I expect that the rate of inflation will come down, but more slowly than we would like. The availability of outward processing facilities across the border may have caused our rate of inflation to be less responsive to shifts in external demand. The prospect for a significant reduction in inflationary pressures will depend, in large measure, on labour market conditions. I forecast the average rate of increase in the Consumer Price Index (A) to be 8.5% in 1990, somewhat lower than the 10% increase in 1989.

27. Although there has been some improvement, inflation is still too high. But the remedies do not rest entirely in the Government's hands. The private sector can do much to help by improving productivity both through training and through appropriate investment.

28. In 1990 and in the years beyond, economic and political developments both globally and within the region will continue to be the key influence on Hong Kong's economic prospects. We remain exposed to many uncertainties, but in those uncertainties there are opportunities to be grasped. How we respond will be the measure of our success.

#### REVISED ESTIMATES 1989-90 AND PRESENT STATE OF PUBLIC FINANCES

29. I turn now to the present state of the public finances. The revised estimates for the current financial year indicate that total government expenditure will, at \$73.1 billion, exceed the estimate by about 6%. Revenue, at \$82.4 billion, is expected to exceed the estimate by about 2%. As a result I am now expecting an overall surplus in 1989-90 of \$9.3 billion compared with my original estimate of \$11.5 billion<sup>8</sup>.

30. General Revenue Account expenditure, at \$52.3 billion, is expected to be close to the original estimate. It has been possible to meet increases in expenditure from the provision for additional commitments and from savings, including those arising from unfilled posts.

31. Expenditure from the various funds is expected to total \$20.8 billion compared with the estimate of \$16.8 billion, an increase of around 24%. This increase is attributable to our having to meet higher building and construction costs in the public works programme; the cost of resuming the Mobil site at Tsing Yi, which was not

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<sup>8</sup> *Supplement (Table 1)*

provided for in the estimates; and lastly, additional investment in the Housing Authority.

32. Taking the General Revenue Account and the funds together, total government expenditure is likely to be about 6% above the original estimate and about 29% above the actual figure for 1988-89.

33. Consolidated Public Sector expenditure, that is total government expenditure and that incurred by the Housing Authority and the Urban and Regional Councils, is also expected to be about 29% above the actual figure for 1988-89. After adjustment for cost increases, this represents an increase of around 13% compared with the original estimate of 9%.

34. Revenue to the General Revenue Account will, at \$74.3 billion, exceed the estimate by about 2%. This is mainly attributable to continuing growth in salaries tax, bets and sweeps tax and stamp duties. Revenue to the funds, at \$8.1 billion, will exceed the estimate by around 4%, mainly through higher revenue from land sales.

35. The General Revenue Account surplus of \$22 billion is partly offset by a net deficit on the various funds of \$12.7 billion, thus giving the overall surplus of \$9.3 billion. A total of \$17.7 billion will be transferred from General Revenue Account to the funds, in line with the estimate<sup>9</sup>. Of this, \$7 billion will be transferred to the Development Loan Fund in line with my intention, stated in my last Budget speech, of setting aside funds to meet expenditure on major infrastructural works. These transfers do not, of course, affect the overall surplus.

36. I shall be introducing a resolution into this Council next week to set up a Capital Investment Fund to serve, with the Capital Works Reserve Fund, as a vehicle for funding expenditure on capital projects. The new fund will provide the Government's financial contribution to projects outside the public works programme, such as the new airport. When the fund is established on 1 April it will take over the balance of the Development Loan Fund.

37. Although expenditure from General Revenue Account is expected to be close to the estimate, it should be noted that the growth rate of this recurrent expenditure is higher than that of GDP. Furthermore, capital expenditure from the funds will substantially exceed budget. The increase in Consolidated Public Sector expenditure of 13% over 1988-89 will be well above the trend GDP growth rate of 6% assumed last year. Consolidated Public Sector expenditure is expected to represent about 17% of GDP, compared with our earlier estimate of 16.4%. I shall revert to these relationships when discussing my strategy for public expenditure.

38. Notwithstanding this substantial growth in public expenditure, our fiscal position is satisfactory at present. We shall be ending the year with a surplus of about \$9 billion and this will take our accumulated reserves to just under \$71 billion. The

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<sup>9</sup> *Supplement (Table 2)*

operating surplus will be sufficient to cover more than 50% of our capital expenditure. But we remain excessively dependent on revenue from direct taxes and we are thus vulnerable to any downturn in the performance of the economy in future.

## STRATEGY FOR PUBLIC FINANCES

39. I turn now to my strategy for managing the public finances. On the expenditure side, we need to maintain the discipline that, over the years, the growth rate of public sector expenditure should not exceed the growth of the economy. To help us to achieve this discipline, we look to the Medium Range Forecast to provide the overall framework within which we plan our spending<sup>10</sup>. By looking several years ahead we can determine trends and, if necessary, take corrective action.

40. Since the Medium Range Forecast is based on assumptions regarding the expected performance of the economy, the assumed rate of growth of the GDP over the planning period is critical. We are concerned with the trend over the period and not with year-on-year variations. Last year, for the purpose of the Forecast, I assumed that the trend growth rate of GDP would be 6% per annum. Having regard to recent developments and to the general economic outlook, I have come to the view that for planning purposes the trend GDP growth assumption should be lowered to 5.5% per annum. But I should add a note of caution. We are expecting a 3% rate of growth in 1990, and if a trend growth rate of 5.5% per annum is to be achieved we will need higher rates of growth in the later years.

41. Notwithstanding the somewhat slower trend growth rate assumption for the next few years, we are firmly committed to a programme of public expenditure representing a major and necessary investment in our future. We also need to maintain and in some areas even improve our existing services. All this will take us beyond our budgetary guidelines for a time. The breaching of these guidelines, as I indicated last year, can on occasions be justified, particularly as regards capital expenditure, but we must keep strict control over the level of recurrent expenditure.

42. It has never been easy to maintain the discipline of controlling the growth rate of expenditure close to that of the economy at a time when our revenue has enabled us to meet expenditure. It has been even more difficult to do so when we have been enjoying substantial budget surpluses. But let me emphasize that a budget surplus should not be a reason for incurring expenditure beyond our guidelines. In recent years we have been able both to add to our reserves and to allow the community to benefit through cuts in taxation. But conditions are now changing.

43. As regards the other side of the equation, slower economic growth will affect the growth in our revenue. The period up to the turn of the century is likely to be dominated by our major infrastructural building programmes. On present indications it seems unlikely that we will be able to fund from existing revenue resources all of

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<sup>10</sup> *Appendix A*

the expenditure without drawing on our reserves to a dangerous extent. We shall therefore need to increase our revenue. Furthermore, even with adequate control over the growth of expenditure, we must still seek to broaden our revenue base and reduce its vulnerability to fluctuations in our economy.

44. Some have asked how we will finance the airport and the rest of our programme of infrastructural development. I said at the outset that we were not yet in a position to give full details. Much will depend upon the negotiations that we conclude with interested parties. Our broad strategy is clear. We will build on methods already well tried and tested in Hong Kong. We shall seek participation by the private sector in individual projects which are for one reason or another intrinsically attractive to private sector investment. This will mean that some projects will be built and operated entirely by the private sector. We have many successful examples of this approach, such as the container terminals, and more recently the Tate's Cairn Tunnel and the Eastern Harbour Crossing. For some other projects, most notably the airport itself, we plan to use methods similar to those employed for the Mass Transit Railway. We envisage a statutory airport authority, financed by a blend of government equity and loan financing. Lastly, certain projects will be carried out entirely by the Government through the public works programme. The exact mix must ensure that we obtain the best overall results for Hong Kong both in terms of delivery and financial benefit in the longer term.

45. The port and airport strategy comprises a number of different but related projects to be completed over a considerable period of time. The effect on the economy and on our finances will not be concentrated in any one year. We have some scope for phasing in the light of demand and other factors, especially in relation to the port. Over the months ahead, as the detailed costings and plans become available, we shall be able to assess all aspects of the financing and the possible effects on the economy. Financial advisers will assist us in this task, and our strategy will have to be sufficiently flexible to take into account the particular economic and financial climate at the time the different projects commence.

46. Large civil engineering projects are not as labour intensive as they were in the past. I am confident that both the new airport and all the other infrastructural developments that we are contemplating are within our overall capability, although as you yourself said, Sir, we may need to consider exceptional arrangements to ensure that they are completed on time and without unacceptable inflationary impact.

47. What I am seeking to do in this Budget is to begin putting in place a structure for our public revenues that can be used as a basis for financing these projects, whilst at the same time maintaining as far as possible our low rates of direct taxation.

#### *Strategy for expenditure*

48. I now turn specifically to my strategy for expenditure. In the period of the Medium Range Forecast up to 1993-94, real growth in Consolidated Public Sector expenditure is forecast to average about 6.6% a year. This is higher than the trend growth rate assumption for the GDP of 5.5% a year. The proportion of GDP

represented by Consolidated Public Sector expenditure will average 19% compared with an average over the last four years of 15.5%<sup>11</sup>. In the light of the slow-down in the economy and the level of expenditure to which we are now committed, this is regrettably unavoidable.

49. The Medium Range Forecast shows an average annual growth rate for recurrent expenditure of 7%. In the light of this, and from what I have said so far, there is clearly a need to tighten control and ensure value for money. The Civil Service accounts for a high proportion of recurrent expenditure and we have already conducted a special exercise to review staff establishments and to control growth in the size of the service. By reducing establishment levels in the current year we have achieved nil growth. I am grateful for the efforts made by branch secretaries and heads of departments in this exercise. As most of the posts deleted were unfilled, what we have done does not reduce current levels of expenditure, but it does reduce the scope for future growth, and sets a new, lower base. It is from this new, lower base that departments will have to justify any additional posts.

50. It is inevitable that new commitments will require more posts, but in 1990-91 we aim to limit growth in establishment to 2.5%, and posts will be created only if there is a clear need and a definite prospect of filling them. Given that we have achieved nil growth in 1989-90, this means that the growth in establishment over the two years in question will average only 1.25%. A useful start.

#### *Strategy for revenue*

51. Turning to revenue, in essence, and using the Medium Range Forecast, my strategy is that we should raise enough to meet government expenditure and to maintain adequate reserves.

52. As I have said many times before, our revenue base is too narrow and too vulnerable to economic change. Revenue from direct taxes, that is salaries tax, profits tax and estate duty, represented 60% of total revenue from direct and indirect taxes in 1985-86. In 1989-90, it had risen to 63% and it is expected to be 65% in 1990-91. We must now take steps to reverse this trend.

53. We must also maintain the value of our revenue from other sources, in particular the charges made for the services we provide. The level of fees and charges is based on the principle that they cover the cost of the service being provided unless we have consciously decided to recover less than the full cost, or unless the fee or charge in question is tax-loaded. Thus, fees and charges are reviewed regularly.

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<sup>11</sup> *Proportion of GDP represented by Consolidated Public Sector expenditure:*

1986-87 : 15.7% 1988-89 : 15.2%

1987-88 : 14.2% 1989-90 : 17.0%



*The Government's reserves*

54. In the context of the programme of public expenditure to which we are committed, our reserves have a critical place in relation to our overall strategy for public finances. At the end of the current financial year the consolidated reserves are expected to stand at about \$71 billion, which is equivalent to about 85% of Consolidated Public Sector expenditure<sup>12</sup>. This high percentage is unlikely to be maintained, even assuming growth in the economy at the trend rate of 5.5%.

55. The reserves are sometimes seen as a symbol of Hong Kong's economic and financial success. In recent years substantial surpluses have been added to the reserves, but the next few years are unlikely to be as fiscally comfortable. There will be a fall in the relative size of our reserves and we must not exacerbate that decline by unwise expenditure or revenue concessions, however popular such a course of action might be in the short term.

56. We must maintain our reserves at an adequate level. To some extent, what is an adequate level is a matter of judgement, but in forming that judgement it is necessary to take into account a number of factors. First, we may have to draw on reserves to meet unforeseen shortfalls in revenue. Secondly, we have contingent liabilities to cover<sup>13</sup>. These include guarantees of non-government public sector borrowing, such as that by the two railway corporations. In addition, we may be called upon to increase our equity holding in the Mass Transit Railway Corporation. We also have to cover the liabilities of the Hong Kong Export Credit Insurance Corporation. Although we can measure in financial terms the contingent liabilities I have mentioned, it is extremely unlikely that we would be required to discharge them in full. Nevertheless, it is only prudent to make some allowance for them.

57. Lastly, with a programme of the size and complexity of the port and airport development we must accept that some of the costs may be higher than originally estimated. We are assuming that a large proportion of the expenditure on the airport and related projects will be financed by the private sector. But the availability of private sector finance and the terms of any loans will be influenced by the financial strength of the Government. Healthy reserves and financial prudence will have an important bearing on the decisions of institutional lenders and investors. So we must maintain our record of sound budget management.

## DRAFT ESTIMATES 1990-91

58. I now present the draft estimates of expenditure and revenue for 1990-91. In so doing, I am faced with a dilemma. I referred at the outset to the ambitious long-term goals that we have set ourselves. The estimates for public expenditure, which show a

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<sup>12</sup> *Appendix A*

<sup>13</sup> *Appendix C*

considerable increase, should be seen in the context of our investment for the future. It is essential that we continue to develop and improve our services and the infrastructure necessary to enable Hong Kong to continue its dramatic success story. But the dilemma is that the level of public expenditure implicit in our programmes will, in the short term, take us well beyond our guidelines. Nevertheless, what I am seeking over the medium to longer term is a real and sustainable improvement in services and infrastructure, and this depends upon the imposition of discipline and insistence on value in its widest sense.

*Draft estimates of expenditure*

59. The draft estimates show expenditure on General Revenue Account of \$65.3 billion, an increase of 25% over the revised estimate for 1989-90. Expenditure from the funds is estimated at \$25.7 billion, an increase of 23% over 1989-90. Total Consolidated Account expenditure, estimated at \$91 billion, will thus be 24% higher than total expenditure in the current financial year<sup>14</sup>.

60. The estimate of \$65.3 billion for General Revenue Account includes \$8.3 billion for additional commitments to cover items of expenditure which cannot be foreseen or for which we do not have firm estimates. In making this provision it has been necessary, among other things, to take a view of the cost of setting up the Hospital Authority. Not an easy task. Whilst it is expected that the Hospital Authority will assume its responsibilities later this year, it is too early to assess accurately the full financial implications, or the extent to which the additional expenditure will fall within 1990-91. Consequently, although I have made some provision in the draft estimates, it might be necessary to seek additional funds later on.

61. The expenditure from the funds, at \$25.7 billion, allows for a 30% increase in expenditure on public works and for further equity investment of \$4 billion in the Housing Authority.

62. Transfers totalling \$22.9 billion will be made from General Revenue Account to the various funds, including \$4.1 billion to the new Capital Investment Fund<sup>15</sup>. These transfers will be in addition to expenditure of \$65.3 billion provided for in the draft estimates for the General Revenue Account.

63. Total Consolidated Public Sector expenditure is expected to be 24% higher than in 1989-90 and this, when adjusted for cost increases, indicates a growth in real terms of 9.4%<sup>16</sup>. In 1990-91, we expect recurrent and capital expenditure to increase in real terms by approximately the same rate. The rate of growth greatly exceeds the expected rate of growth in the economy in 1990 of only 3%. Furthermore, as I have said, in the period to 1993-94 the average annual real growth in Consolidated Public

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<sup>14</sup> *Supplement (Table 1)*

<sup>15</sup> *Supplement (Table 2)*

<sup>16</sup> *Appendix A*

Sector expenditure is estimated at 6.6%, which is above the assumed trend GDP growth rate of 5.5%.

64. With Consolidated Public Sector expenditure expected to grow in 1990-91 at a rate which exceeds the growth in the economy, expenditure will represent 18.8% of GDP, which is a higher proportion than the 17% expected in 1989-90. In the longer term, this trend is unacceptable. We must not allow the public sector to consume an increasing share of Hong Kong's economic resources indefinitely, and I should explain why we have deviated from our budgetary guidelines.

65. First, our budget strategy takes account of several years, not just the estimates year, and when there is a short-term dip in economic growth it is neither necessary nor desirable to reduce public expenditure by a rigid and automatic adherence to our guidelines. To do so would disrupt to an unwelcome extent the orderly development of our public services.

66. Secondly, we have commitments and items of expenditure which cannot easily or readily be avoided or deferred. The purchase of additional water supplies is perhaps a good example.

67. Thirdly, in some areas the development of our services has not kept pace with the growing aspirations of the community. People rightly expect better quality services and, if we are to meet those expectations, we have to spend more. Thus the estimates provide for the introduction in the next financial year of some new services, and improvements to existing services. These include additional funding for the Open Learning Institute, the new University of Science and Technology, the setting up of a Hong Kong Sports Development Board, and improvements in the environmental, social welfare and health fields, such as the Sha Tin Infirmary and Tuen Mun Hospital<sup>17</sup>.

68. Lastly, to maintain good and efficient public services, we have to ensure that we can recruit and retain staff of the necessary calibre. Improvements in the pay and conditions of our Civil Service are a major factor in the growth in public expenditure. But we will need to exert more pressure to ensure a matching quality of performance and improved productivity. We cannot afford over any significant length of time both real increases in civil service pay and significant growth in numbers. Despite some success from our recent efforts, the growth rate is still too high and will have to come down in the next few years.

69. We have to recognize that in Hong Kong today the cost of an employee is high and is likely to increase over the short term. This applies as much to the public sector as to the private sector. In endeavouring to control the overall growth in public expenditure, we cannot ignore this fact. We must recognize that if we are to control the overall growth in public expenditure, our prime target must be growth in numbers. I have already mentioned the special exercise to reduce staff establishments,

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<sup>17</sup> *Appendices D and E*

but we need to do more in this area because staff costs represent some 60% of recurrent expenditure.

70. Thus, we must ensure maximum value for money. This requires more efficiency and productivity at every level of Government. We must look first to the baseline expenditure to accommodate improvements and new services and not simply add to expenditure levels. Financial management remains of critical importance.

71. Turning now to the main programme areas, in terms of Consolidated Public Sector expenditure, spending on social services at \$16 billion will show an increase of 17% in real terms over 1989-90, and spending on education will increase by 3%. Expenditure on social services and education will together account for 30% of the total. In the years ahead we will continue to see an expansion in these areas, particularly in tertiary education. In addition, expenditure on community affairs will increase by 16% and on security by 8%.

72. Expenditure on the housing programme will represent about one-eighth of total expenditure, excluding the clearance of Kowloon Walled City. About one-third of the new housing units to be constructed will be for sale. In addition more will be spent on remodelling and renovating some of the older housing estates.

73. As regards infrastructure and economic services, expenditure will grow in 1990-91 largely because of improvements to Kai Tak Airport to meet anticipated traffic demand and because of preliminary expenditure on the new airport and other major infrastructural projects. Once we actually embark on these projects the share of expenditure devoted to infrastructure and economic services will increase substantially. In addition, there will be a large equity investment by the Government in the airport authority and the railway corporations in respect of the airport itself and related projects which will be undertaken by these bodies.

74. The acceleration of the programme to improve the environment, to which we attach great importance, is underlined by the fact that expenditure will grow by no less than 43% in real terms. At \$2.2 billion, this is a relatively small part of our total expenditure, but in the years ahead this programme area will account for an increasing share<sup>18</sup>.

#### *Draft estimates of revenue*

75. I turn now to the draft estimates of revenue. General Revenue Account before my budget proposals shows revenue of \$82.7 billion, an increase of 11% over 1989-90<sup>19</sup>. Revenue from direct taxes will increase by 16% and will represent 65% of the total of direct and indirect taxes taken together. This compares with 63% in 1989-90, as Members will recollect.

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<sup>18</sup> *Appendix B*

<sup>19</sup> *Supplement (Table 1)*

76. Revenue to the various funds is estimated to be \$5.9 billion, a reduction of 27% compared with 1989-90. In the current financial year, we have enjoyed some exceptional land sales. Having regard to the projected land sales programme and the state of the property market, we do not expect such buoyant results in 1990-91; hence the reduction in the estimate. Taken together, revenue to the General Revenue Account and the funds will be \$88.6 billion, an increase of 7% over 1989-90. This increase is modest when compared with increases in some previous years.

#### *Summary of draft estimates*

77. The draft estimates of expenditure and revenue, before revenue measures, indicate a deficit of \$2.4 billion. Given the expenditure commitments we have undertaken, and having regard to the lower economic growth rate we are expecting, I have decided to introduce measures which will both yield additional revenue and shift some of the burden of taxation from direct taxes to indirect taxes. My proposals will reduce direct taxation by about \$800 million but increase indirect taxation by \$2.9 billion and other revenue by \$1 billion.

#### TAXATION MATTERS

78. Before turning to the details of my revenue proposals, I wish to say a few words about a number of issues that I raised in my speech last year.

#### *Wholesale tax*

79. In presenting my first three Budgets, and on various other occasions, I have spoken at length about the need to move towards a wider and more stable tax base for Hong Kong. I floated the idea of some form of sales tax, and last year I announced my intention to issue a consultative document to a number of professional bodies and other organizations. In so doing, I sought informed advice on the technical aspects relating to the possible introduction of a sales tax at the wholesale level. The consultative exercise was completed in October, and I would like to express my thanks for the useful views and comments that we received.

80. The consultation did not uncover any major technical hurdle to the introduction of a wholesale tax in Hong Kong, and some helpful comments were made as to how we might implement such a tax. What was clear, however, was that most of those consulted felt that Hong Kong was not ready for a wholesale tax at this moment in time, and indeed some expressed concern over the possible adverse consequences of such a tax on the economy. Some also doubted whether it would achieve the desired objective of providing a more stable source of tax revenue, and generously put forward suggestions as to other revenue raising measures that we might adopt.

81. Although I was faced with something less than total enthusiasm for a wholesale tax, there was nevertheless a recognition of the need for a more stable tax base, one less vulnerable to the vicissitudes of economic performance. Indeed, an encouraging number of Members of this Council who spoke in the debates on the last two Budgets

also recognized the problem. I attach a great deal of importance to these reactions. Part of the purpose of my raising for debate the whole matter of a sales or wholesale tax was to encourage discussion of the fundamental problem, that is the vulnerability of our tax system as presently structured.

82. That the discussion has taken place largely without political Sturm and Drang has been helpful. What has been said has influenced me in putting together my budget proposals this year. I am not dissatisfied with the results of the consultation and debate and I will continue to avoid any hasty decisions. We must ensure that we do not saddle ourselves with a tax structure that might be difficult to implement or inappropriate to our needs. Thus whilst we are giving this issue of a wholesale tax further thought, I wish to make it clear that I am not working to any specific timetable.

#### *Venture capital*

83. I mentioned last year that I was considering whether a tax concession should be granted to venture capital investments in Hong Kong<sup>20</sup>. There has been some uncertainty as to whether profits arising from venture capital disinvestment are liable to profits tax, and it was suggested that this uncertainty was hindering the development of such financing methods. I have examined the proposal in some detail and have come to the conclusion that the complexity of the necessary legislation makes the proposal unsuitable for implementation in Hong Kong at this time. I am conscious also that the benefits accruing to the economy are unlikely to be significant.

#### *Stamp duty*

84. Recently, it has been suggested to me that a concession on stamp duty on share transfers would be welcome and that it would be self-financing through increased turnover. It was also suggested that we should ease the administrative cost involved in the collection of stamp duty by changing the system of levy so that the duty becomes payable by one party only, namely the vendor. Whilst I can appreciate that these proposals may be of some attraction to those investing in our markets, for fiscal reasons I do not think that, at the present time, we are in a position to give any concession on the duty itself. Furthermore, I would need to be convinced that the payment of the duty by one party would not create loopholes, causing an unacceptable erosion of stamp duty revenue. I shall, however, be examining both proposals in greater detail, because I am conscious of the possible potential for market development.

### REVENUE MEASURES

85. I now turn to the revenue proposals themselves. The package includes a number of revenue raising measures which will yield some \$3.9 billion in 1990-91

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<sup>20</sup> 1989 Budget Speech

and approximately \$4.7 billion in a full year<sup>21</sup>. I also propose to grant a number of tax concessions, in respect of direct taxes, estimated to cost \$800 million in 1990-91, and \$1.1 billion in a full year. The net effect will be to produce additional revenue of \$3.1 billion for 1990-91. These proposals will therefore convert the estimated overall deficit of \$2.4 billion to an overall surplus of \$720 million. The proposals will, in addition, achieve the objective of reducing the percentage of total tax revenue derived from direct taxes, from 65% to 62%.

86. Higher indirect taxes, by their nature, can have some inflationary impact, but I am satisfied that the package I shall be proposing will have only a marginal effect. I consider the alternative of raising the same amount of revenue from higher direct taxes on balance to be less desirable. We have managed to reduce the standard rate of tax in recent years. To raise it again could adversely affect investment decisions.

#### *Dutiable commodities*

87. My first proposal relates to dutiable commodities. For some years now the duties on hydrocarbon oils, liquors and tobacco have been revised solely to keep pace with inflation. I now propose to raise additional revenue from this source.

#### *Hydrocarbon oils*

88. For fiscal and not transport reasons, I propose to increase the duty rate on hydrocarbon oils by 30%. Therefore, the duty on petrol will increase from \$2.75 a litre to \$3.58 a litre, and on diesel oil for road vehicles from \$1.37 a litre to \$1.78 a litre. I estimate the additional revenue arising from these increases to be \$580 million.

89. The refund on diesel oil to the franchised bus companies will remain at 65 cents a litre. The cost of the duty increase to all three companies taken together will be about \$50 million. The effect will be to increase costs by an average of about 4 cents a passenger trip.

90. I have considered the possibility of introducing a differential rate of duty for unleaded petrol. At the moment this is impracticable because of the lack of suitable facilities at petrol stations. When this situation changes, I shall give the proposal further thought. Clearly, the benefits for the environment would be welcomed.

#### *Intoxicating liquor and alcohol*

91. I have a number of proposals in relation to intoxicating liquor and alcohol. First, I propose to raise the specific duty rates on all liquors and alcohol by about 10% to offset erosion by inflation.

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21 *Details are given in the Supplement.*

92. Secondly, I propose to bring the ad valorem rate on champagne and sparkling wines into line with that of brandy, whisky and other spirituous liquors and to increase the rate on both categories to 35%.

93. Thirdly, I propose to merge the two categories of still wines into one, with duty payable at \$24 a litre plus an ad valorem rate of 20%.

94. Details of these new rates are given in the Supplement to the printed version of this speech. Assuming no consumer resistance, I estimate the additional revenue yield to be \$50 million.

#### *Tobacco*

95. For fiscal and not health reasons, I propose to increase the duty on tobacco by about 25%. The duty on cigarettes will increase from \$190 to \$240 per 1 000 sticks. The duty on cigars will be increased from \$250 to \$310 a kilogram; on smoking tobacco from \$230 to \$290 a kilogram; and on Chinese prepared tobacco from \$50 to \$60 a kilogram. Assuming no consumer resistance, I estimate the additional revenue yield to be \$400 million.

#### *First registration tax*

96. I turn next to the first registration tax on motor vehicles. The last real increase in this tax dates back to 1982, and the scale which defines basic, semi-luxury and luxury cars has remained unchanged since it was first introduced in 1978. I propose to redefine the scale to reflect more realistically the current value of vehicles and to increase the tax rates for private cars, motor cycles and tricycles and goods vehicles by 10 percentage points.

97. For private cars, the present scale distinguishes between basic cars, for which the rate of tax is 70%, semi-luxury cars, for which the rate is 80%, and luxury cars, for which the rate is 90%. I propose, again for fiscal and not transport reasons, to change the rates as follows: 80% tax on a basic car; 90% tax on a semi-luxury car; and 100% tax on a luxury car. My proposals would have no practical effect on the retail price of a basic or a semi-luxury car as defined in the new scale. They would increase the retail price of a luxury car by about 3 to 4%. Details of the new scale and revised rates are given in the Supplement to the printed version of this speech. I estimate the additional revenue arising from these increases to be \$200 million.

#### *Bets tax*

98. Bets tax was last increased in 1985. I propose to increase this for both standard and exotic bets by one percentage point. The tax rates will become 10.5% on standard bets and 17% on exotic bets, and will take effect from the beginning of the next racing season.

99. I am conscious of the need to maintain a reasonable return to punters and not to give any encouragement to the activities of illegal bookmakers. I propose therefore



that the increase in the rates should be borne entirely by the Jockey Club, that is to say, there will be no reduction in the size of the prize money pool. The increase is estimated to yield an additional \$340 million in 1990-91.

### *Rates*

100. My next proposal concerns rates on property. These are levied by applying a percentage charge to the rateable value of properties and are clearly one of the more stable sources of revenue. The value of rates when expressed as a proportion of actual rents charged for properties has fallen considerably in recent years. I have therefore decided to make an adjustment to the present rates percentage charge.

101. The total charge is currently 6%. In Hong Kong, Kowloon and New Kowloon, 2.5 percentage points are for general revenue and 3.5 percentage points for the Urban Council. For properties in the New Territories, the revenue from the charge of 6% all goes to the Regional Council, and none to general revenue.

102. I propose to raise the general rates, that is the rates which are payable to general revenue, by 1.5 percentage points. No revision is proposed to the Urban and Regional Council rates. This means that the general rate will be 4% in Hong Kong, Kowloon and New Kowloon and 1.5% in the New Territories, and that the overall charge will be 7.5% throughout the territory. The additional yield to general revenue in 1990-91 resulting from this proposal is in the region of \$1.3 billion.

103. The average increase in rates for a small private flat will be about \$40 a month, and for a large flat about \$200. In the past, the Housing Authority has initially absorbed increases in rates for tenants of public housing. The Authority's rents, which include an element for rates, are normally revised every two years on a rolling cycle. It will be for the Authority to decide whether to absorb the rates in a similar manner on this occasion. The average cost of the increase for a Housing Authority flat will be around \$20 a month. Details of increases relating to different classes of property are set out in the Supplement to the printed version of this speech.

104. I should point out that the Government's announced intention to revise all rateable values with effect from 1991-92 is a completely separate exercise and is not of itself designed to increase rates revenue. Its purpose is to ensure that the burden of the charge is equitably spread between different classes of ratepayer. Consequently if, as is likely, this results in a substantial increase in rateable values, the percentage charges for that year will be looked at again but, let me emphasize, looked at in the light of the revenue needs of the Government and the two Councils at that time.

### *Fees and charges*

105. I now turn to fees and charges. I propose to increase the following fees and charges — first, business registration fees; secondly, company registration fees; thirdly, bank and deposit-taking company licence and registration fees; fourthly, vehicle and driving licence fees; and, lastly, passenger embarkation and berthing fees.

*Business registration fee*

106. The business registration fee, which is tax-loaded, was revised last year to \$630. With effect from 1 April 1990, I propose to increase it to \$900.

107. At the same time, I propose to increase the present exemption levels, which relieve businesses with low turnover from payment of the fee. In future, a business will, upon application, be exempt from the fee if its average sales do not exceed \$5,000 per month; or, where the business consists of rendering services, if its average receipts do not exceed \$1,500 per month. The present exemption levels have not been adjusted since 1974.

108. I estimate the additional revenue arising from the increase in business registration fee to be \$140 million. The \$100 levy for the Protection of Wages on Insolvency Fund will continue and is therefore not affected by this proposal.

*Company registration fee*

109. A registration fee is payable under the Companies Ordinance by limited companies upon incorporation. The present fee of \$600 has remained unchanged since 1983. I propose to increase this fee to \$1,000. I estimate the additional revenue to be \$30 million.

*Bank and deposit-taking company licence and registration fees*

110. I propose to increase licence fees for banks other than restricted licence banks by 22% and those for restricted licence banks by 30%. I also propose to increase registration fees for deposit-taking companies by 30%. Details are given in the Supplement to the printed version of this speech. I estimate the additional revenue arising from these increases to be \$30 million.

*Vehicle and driving licence fees*

111. I propose to increase vehicle and driving licence fees by 10% to take account of inflation. I estimate the additional revenue arising from these increases to be \$150 million.

*Passenger embarkation and berthing fees*

112. I propose to increase the passenger embarkation fee payable by those departing from the Macau and China Ferry Terminals from \$17 to \$19, approximately in line with inflation. As the fee was last raised in October 1989, the next increase will take effect as from 1 October 1990. I further propose to increase berthing fees by 15% from 1 April 1990. I estimate total additional revenue arising from these increases to be \$20 million in 1990-91.

*Other charges*

113. A number of other charges, including those in relation to services provided by the Water Supplies Department, Civil Aviation Department and Transport Department, are scheduled for review in 1990. From these sources, I expect additional revenue of \$510 million in 1990-91.

*Tax concessions*

114. I turn now to tax concessions. I propose to zero-rate the clawback on personal allowances, increase some allowances, reduce the rates of tax for the first two marginal rate bands for salaries tax and personal assessment, adjust the depreciation allowance for commercial buildings, and in relation to estate duty, raise the exemption level and provide a further specific relief.

*Personal taxation*

115. For personal taxation, I propose:-

first, to zero-rate the clawback on allowances. This means that all eligible taxpayers will be entitled to the full additional allowance irrespective of their income levels, and effectively increases the basic and married person's allowances from \$32,000 and \$66,000 to \$39,000 and \$80,000 respectively. Middle-income taxpayers stand to benefit most. For this group, the tax payable will be reduced by up to \$1,750 for a single person and \$3,500 for a married couple;

secondly, to reduce the rates of salaries tax applicable to the first two \$10,000 bands of net chargeable income from 3% to 2% and from 6% to 4% respectively. This concession will particularly benefit taxpayers with lower incomes;

thirdly, that the child allowance for the first and second child be increased from \$13,000 to \$14,000, and from \$9,000 to \$10,000 respectively; and

lastly, that the basic rate of dependent parent allowance be increased from \$11,000 to \$12,000.

116. These concessions will take effect from the year of assessment commencing 1 April 1990. Therefore, the first occasion on which they will apply will be to provisional and final salaries tax assessments for 1990-91, and also to 1990-91 personal assessments. I estimate that the cost to the revenue in 1990-91 will be \$700 million, and \$980 million for a full year.

117. Examples of the effects of these personal taxation concessions upon various categories of taxpayers, together with comparative tables, are set out in the Supplement to the printed version of this speech.

*Commercial rebuilding allowance*

118. Commercial buildings attract an annual rebuilding allowance. With the existing allowance set at 0.75% it takes some 133 years to write off the cost of a commercial building. This is a long time. I propose therefore to reduce the write off period to 50 years by increasing the rate of the allowance to 2%. The cost to revenue of this increased allowance is estimated to be \$70 million in 1990-91, and \$85 million in a full year.

*Estate duty*

119. I have two concessions relating to estate duty. First, in recognition of the effect of inflation on asset values, I propose to raise the estate duty exemption limit from \$2 million to \$4 million. In addition, I propose to replace the present schedule of rates with a new schedule scaled from 6% on estates between \$4 million and \$4.5 million to 18% on estates over \$5 million<sup>22</sup>.

120. Secondly, I propose to exempt from estate duty all death benefits from retirement funds approved by the Commissioner of Inland Revenue under section 87A of the Inland Revenue Ordinance. This will reduce hardship that might otherwise be caused to dependents of deceased employees. I estimate the overall cost of these concessions to be \$50 million.

*Unit trusts and mutual funds*

121. I mentioned last year that I was giving thought to altering the definition of securities" in the Inland Revenue Ordinance so that a wider range of profits made by authorized unit trusts would be excluded from profits tax<sup>23</sup>. I further undertook to consider whether there was a case to exempt mutual fund corporations from profits tax in a similar manner to unit trusts. I have decided in favour of both proposals. It is my intention to introduce suitable legislation into this Council as soon as possible to amend the Inland Revenue Ordinance accordingly. I estimate the cost of these two concessions to be \$25 million.

*Implementation*

122. My proposals on dutiable commodities, first registration tax and vehicle and driving licence fees come into effect today under the Public Revenue Protection Orders signed by you, Sir. Under similar authority, my other proposals on rates,

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<sup>22</sup> *On estates between:*

\$4,000,001-\$4,500,000	6%
\$4,500,001-\$5,000,000	12%
\$5,000,001 and over	18%

<sup>23</sup> *1989 Budget Speech*

business and companies registration fees, bank and deposit-taking companies registration and licence fees, and berthing fees will come into effect on 1 April 1990.

### *SUMMING UP*

123. Sir, in conclusion, in this Budget I have considered it particularly important to look beyond 1990 in order to ensure that as far as possible my proposals, and the strategies upon which they are based, are appropriate not only for the current year but also for the years ahead. It is essential that we have in place a sound foundation on which to build for our future. Prudent management in the past has provided a basically strong financial position, built up on the back of healthy budget surpluses. But we can no longer take surpluses for granted, and thus both our expenditure and our revenue structure must be adapted to our changed circumstances.

124. At the beginning of the new decade, we are laying down plans for a bold and far-reaching programme of expenditure, a programme designed not for cosmetic or confidence building purposes but because we need the services and infrastructure contemplated if we are to continue to prosper. Our planning must be thorough and we must use our resources to the best advantage. It is clear that we face difficulties and uncertainties, and I have alluded to them in the course of my speech, not by way of discouragement but as a spur to action. Opportunities exist, and it is now up to us to secure our future for ourselves.

125. I have emphasized the importance of effective financial management. We are examining ways in which major new projects might most sensibly be financed. The more ambitious our programmes, the more the need for us to manage our resources prudently and intelligently. I have described the steps we have taken to control public expenditure and I have given a clear indication that there is more to be done.

126. The infrastructural development that lies ahead of us, in particular the airport and the associated harbour crossings, are of interest to the private sector, and as our plans develop we look forward to private sector involvement. But we cannot expect potential investors to participate unless the Government itself has a sound financial position. In framing my budget proposals, this has been in the forefront of my mind.

127. Financial management is not just a matter of managing our expenditure, important though that is. I have stressed in all my Budgets that we must also look critically at our revenue base. I have over the last few years explained my concern regarding our over-reliance on direct taxation, and the vulnerability of our present tax structure to changes in economic performance. I make no apologies for having done so. The projected state of public finances when weighed against the programmes that we have set for ourselves gives added point to what I have said.

128. The revenue measures I have proposed this year are thus intended to serve a twofold purpose. First, to raise the additional revenue we need. And secondly, to begin to address the problem of our over-reliance on direct taxation. I believe in moving gradually so as not to put strain on our systems or on the community.

129. Finally, Sir, my Budget this year foreshadows the implementation of a programme of immense significance, a programme that will affect the whole fabric and quality of life in Hong Kong. We have set our sights high; we have identified the problems; and we know what needs to be done if we are to overcome them. But we will not succeed unless we display the will to do so. Our aims will not be achieved unless they are pursued with that vigour and enthusiasm which has made Hong Kong what it is today. The coming years are rich in promise for Hong Kong, and I believe that the skills, drive and resourcefulness for which our community is famous will not fail us at this point in time.

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

*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, 14 March 1990.

*Adjourned accordingly at thirteen minutes to Four o'clock.*

**SUPPLEMENT**

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Capital expenditure All expenditure charged to the funds, plus expenditure from General Revenue which is charged to any of the subheads listed in the estimates under Capital Account, except that which is considered to be **operating expenditure**.

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

Capital revenue All revenue credited to the funds (including interest on balances), plus the exceptions listed under **recurrent revenue**.

Consolidated Account expenditure The aggregate of **General Revenue Account expenditure** and **funds expenditure**, excluding transfers from General Revenue Account. Consolidated Account expenditure can also be described as total government expenditure. It is not the same as **Consolidated Public Sector expenditure**.

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

Consolidated Public Sector expenditure This is not an official account but a statement for comparing expenditure with budget guidelines and criteria. It comprises **Consolidated Account expenditure** less:-

- (a) investment in the Housing authority (from Development Loan Fund);
- (b) grant to the Regional Council (from General Revenue Account);
- (c) repayment of debt (from General Revenue Account); and
- (d) investment in MTRC (from Mass Transit Fund),

plus:-

- (a) gross expenditure. (revenue and capital) of the Housing Authority and the Urban and Regional councils; and
- (b) payments from the Lotteries Fund.

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



Funds expenditure Expenditure charged to the Capital Works Reserve Fund, the Development Loan Fund, the Mass Transit Fund and the Student Loan Fund. Transfers to or from the funds are not relevant to the level of expenditure.

Funds revenue All receipts, except transfers from general revenue account, which are credited directly to the funds. These comprise:-

(a) Capital Works Reserve Fund

donations for projects  
interest on balances  
share of land premium

(b) Development Loan Fund and Student Loan Fund

repayment of loans  
interest on loans  
interest on balances

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

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

Government reserves The accumulation of **consolidated cash surpluses**.

Internal revenue

direct taxes  
bets and sweeps tax  
entertainment tax  
hotel accommodation tax  
stamp duties  
air passenger departure tax  
Cross-Harbour Tunnel tax

Operating expenditure All expenditure from General Revenue Account charged to any of the subheads listed in the estimates under 'Recurrent Account', plus expenditure charged to certain subheads listed under Capital Account but which does not involve the acquisition of an asset.

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

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

- (a) estate duty
- (b) taxi concessions
- (c) land transactions
- (d) repayments of loans
- (e) donations

which are treated as **capital revenue**.

Taxes (direct)

earnings and profits tax  
estate duty

Taxes (indirect)

bets and sweeps tax  
entertainment tax  
hotel accommodation tax  
stamp duties  
air passenger departure tax  
Cross-Harbour tunnel tax  
duties  
general rates  
motor vehicle taxes  
royalties and concessions

Note:

Subject to the approval of the Legislative Council on 14 March 1990, the Development Loan Fund, the Mass Transit Fund and the Student Loan Fund will be disestablished on 31 March 1990. The functions and obligations of these Funds will be assumed on 1 April 1990 by a Capital Investment Fund and a Loan Fund. This change will not affect the classification of revenue and expenditure explained above.

THE ECONOMY IN 1989Paragraph 8

The growth rates in real terms of the various major components of expenditure on the GDP in 1989 are as follows:

		%
Private consumption expenditure		3.0
Government consumption expenditure		5.8
Gross domestic fixed capital formation		1.0
transfer costs of land and buildings	-11.0	
building and construction	5.3	
real estate developers' margin	-2.8	
plant and machinery	1.5	
Total exports of goods		10.2
domestic exports	0.1	
re-exports	18.6	
Imports of goods		8.9
Exports of services		3.9
Imports of services		5.3
Gross domestic product		2.5

Paragraph 9

The annual unemployment rates since 1985 are as follows:

	%
1985	3.1
1986	2.8
1987	1.9
1988	1.6
1989	1.3

Paragraph 10

Year-on-year rates of increase in the Consumer Price Index (A) in the latter part of 1989:

	%
1989 Jun	11.0
Jul	10.3
Aug	9.9
Sep	10.1
Oct	10.4
Nov	9.6
Dec	9.7
Annual average for 1989	10.1

Paragraph 11

Growth rates in real terms (%) of:

	<u>1987</u>	<u>1988</u>	<u>1989</u>
Domestic exports	23.1	9.0	0.1
Re-exports	45.9	45.7	18.6

Paragraph 14

Hong Kong's visible trade in 1989:

	<u>\$ Million</u>	<u>% increase in money terms</u>
Domestic exports	224,104	3.0
Re-exports	346,405	25.8
Total exports	570,509	15.7
Imports*	565,238	12.8
Visible trade surplus	5,271 <sup>+</sup>	

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

+ This is equivalent to 0.9% of the total value of imports of goods in 1989. In 1988 there was a visible trade deficit of \$8,105 million, equivalent to 1.6% of the total value of imports.

ECONOMIC PROSPECTS FOR 1990Paragraph 18

The forecast growth rates in real terms of the various major components of expenditure on the GDP in 1990 are as follows:

		%
Private consumption expenditure		3.5
Government consumption expenditure		10.0
Gross domestic fixed capital formation		2.0
transfer costs of land and buildings	-5.0	
building and construction	5.5	
real estate developers' margin	-3.0	
plant and machinery	2.8	
Total exports of goods		5.7
domestic exports	2.5	
re-exports	8.0	
Imports of goods		6.4
Exports of services		5.5
Imports of services		5.0
Gross domestic product		3.0

Paragraph 23

Total final demand (excluding re-exports) is forecast to increase by 3.5%. This is largely in line with the forecast growth rate of GDP, or net output, at 3%.

Paragraph 26

The forecast rate of increase in the GDP deflator in 1990 is 9%, and that of the domestic demand deflator is 7.6%. The rate of increase in unit building and construction cost is forecast to be around 12%.

REVENUE MEASURESParagraph 88

## Duties : Hydrocarbon oil

	<u>Present rate</u>	<u>Proposed rate</u>
(1) Motor spirit and aircraft spirit	\$2.75/L	\$3.58/L
(2) Light diesel oil	\$1.37/L	\$1.78/L

Paragraph 94

## Duties : Intoxicating liquor and alcohol

	<u>Present rate</u> (\$)	<u>Proposed rate</u> (\$)
<u>Part I</u>		
Brandy	\$52/L + 30% AV	\$57/L + 35% AV
Whisky, Gin, Liqueurs, Rum, Vodka and other spirituous liquors	\$52/L + 30% AV	\$57/L + 35% AV
Champagne and other sparkling wines	\$32/L + 20% AV	\$35/L + 35% AV
Still wines	\$22/L + 20% AV or) \$18/L + 20% AV )	)- \$24/L + 20% AV )
Intoxicating liquors in this Part above the strength of 45% alcohol by volume, for every 1% above such strength in addition to the duties specified above	\$1.50/L	\$1.65/L
<u>Part II</u>		
Cider and Perry	\$145/hectolitre	\$160/hectolitre
<u>Part III</u>		
Beer	\$220/hectolitre	\$242/hectolitre

Paragraph 94 (cont.)

	<u>Present rate</u> (\$)	<u>Proposed rate</u> (\$)
<u>Part IV</u>		
Non-European type wines	\$950/hectolitre	\$1045/hectolitre
Chinese type spirits and other spirituous liquors, Sake, Arrack	\$490/hectolitre	\$539/hectolitre
and in addition for every 1% by which the alcoholic strength by volume exceeds 30%	\$16.35/hectolitre	\$18.00/hectolitre
<u>Part V</u>		
Ethyl alcohol, and admixtures containing ethyl alcohol	\$490/hectolitre	\$539/hectolitre
Methyl alcohol, and admixtures containing methyl alcohol	\$490/hectolitre	\$539/hectolitre
and in addition for every 1% by which the alcoholic strength by volume exceeds 30%	\$16.35/hectolitre	\$18.00/hectolitre





Paragraph 97

Motor vehicle first registration tax  
Scales and rates

<u>Class</u>	<u>Existing scale</u>	<u>Proposed scale</u>	<u>Existing rates %</u>	<u>Proposed rates %</u>
Private cars				
(i) Basic cars	cif value below \$20,000	cif value below \$30,000	70	80
(ii) Semi-luxury cars	cif value between \$20,000 - \$30,000	cif value between \$30,000 - \$60,000	80	90
(iii) Luxury cars	cif value exceeding \$30,000	cif value exceeding \$60,000	90	100
Motor cycles & Motor tricycles			70	80
Goods vehicles			15	25
Other types of vehicles (Taxis, public and private light buses, public and private buses, special purpose vehicles)			15	15

Paragraph 103

Average rates increase 1990-91  
for the main classes of property

Class	Size	Average monthly rates payable up to 31.3.90	Average monthly rates payable from 1.4.90	Average monthly increases in rates
Private domestic		\$	\$	\$
Unit A	up to 39.9m <sup>2</sup> (up to 430 sq.ft.)	123	154	31
Unit B	40 - 69.9m <sup>2</sup> (431 - 752 sq.ft.)	180	225	45
Unit C	70 - 99.9m <sup>2</sup> (753 - 1,075 sq.ft.)	312	390	78
Small domestic	up to 99.9m <sup>2</sup> (up to 1,075 sq.ft.)	166	208	42
Unit D	100 - 159.9m <sup>2</sup> (1,076 - 1,721 sq.ft.)	566	707	141
Unit E	160m <sup>2</sup> and over (1,722 sq.ft. and over)	1,308	1,635	327
Large domestic	100m <sup>2</sup> and over (1,076 sq.ft. and over)	823	1,029	206
Public domestic [Note (1)]		86	108	22
Shop and commercial premises	average - 79.7m <sup>2</sup> (858 sq.ft.)	763	954	191
Offices	average - 101.6m <sup>2</sup> (1,094 sq.ft.)	753	941	188
Industrial [Note (2)]	average - 321.0m <sup>2</sup> (3,455 sq.ft.)	658	822	164

Note (1) Including Housing Authority, Housing Society and Private Low Cost Housing Rental Estates.

Note (2) Including factories and storage premises.

Paragraph 104

## Fees and charges

The policy on fees and charges continues to be that services should generally be paid for by those who use them. Some 80 per cent of the fees and charges presently collected are set at levels to ensure full cost recovery. The remainder generally fall into six different categories, viz nominal, subsidised, deterrent, tax-loaded, utilities and others, to each of which different criteria are applied to determine an appropriate level of fee or charge.

Paragraph 110

Bank, restricted licence bank and deposit-taking company licence and registration fees		Existing fee (\$)	Proposed fee (\$)
1.	Annual banking licence fee for bank, other than an unincorporated bank [section 19(1) of the Banking Ordinance (Cap 155)]	388,800	474,340
2.	Registration fee [section 23(1)]	62,100	80,730
3.	Renewal of registration fee [section 23(2)]	62,100	80,730
4.	Restricted banking licence fee [section 26(1)]	211,140	274,480
5.	Renewal of restricted banking licence fee [section 26(2)]	211,140	274,480
6.	Fee for establishment of a local branch of a bank [section 45(1)]	18,360	22,400
7.	Annual fee for maintaining a local branch of a bank [section 45(1) and (2)]	18,360	22,400
8.	Fee for the establishment of a local branch of a deposit-taking company or restricted licence bank [section 45(1)]	10,500	13,650
9.	Annual fee for maintaining a local branch of a deposit-taking company or restricted licence bank [section 45(1) and (2)]	10,500	13,650
10.	Fee for the establishment of a local representative office [section 48(1)]	18,360	22,400
11.	Annual fee for maintaining a local representative office [section 48(1), (2) and (3)]	18,360	22,400
12.	Fee for the establishment of an overseas branch of a bank [section 51(1)]	36,720	44,800

Paragraph 110 (cont.)

	<u>Existing fee</u> (\$)	<u>Proposed fee</u> (\$)
13. Annual fee for maintaining an overseas branch of a bank [section 51(1) and (2)]	36,720	44,800
14. Fee for the establishment of an overseas branch of a deposit-taking company or restricted licence bank [section 51(1)]	21,100	27,430
15. Annual fee for maintaining an overseas branch of a deposit-taking company or restricted licence bank [section 51(1) and (2)]	21,100	27,430
16. Fee for establishment of an overseas representative office of a bank [section 51(1)]	9,180	11,200
17. Annual fee for maintaining an overseas representative office of a bank [section 51(1) and (2)]	9,180	11,200
18. Fee for the establishment of an overseas representative office of a deposit-taking company or restricted licence bank [section 51(1)]	10,500	13,650
19. Annual fee for maintaining an overseas representative office of a deposit-taking company or restricted licence bank [section 51(1) and (2)]	10,500	13,650

Paragraph 111

## Vehicle and driving licence fees

	<u>Existing fee</u> (\$)	<u>Proposed fee</u> (\$)
<u>1. Driving Licences</u>		
Full	205	225
Driving instructor's	625	690
Learner's	420	460
Temporary	205	225
Driving test	420	460
Motor cycle driving test	390	460
Driving instructor's test	420	460
International driving permit	65	70
Duplicate licence	90	100
Duplicate international driving permit	65	70
Record of convictions	50	55
Certificate of no recorded conviction	50	55
<u>2. Vehicle Licences</u>		
<u>Goods Vehicle and Special Purpose Vehicle</u>		
not exceeding 1.9 tonnes	970	1,065
exceeding 1.9 tonnes but not exceeding 5.5 tonnes	1,890	2,080
exceeding 5.5 tonnes	3,780	4,160
<u>Taxi</u>	2,515	2,765
<u>Private Car</u>		
not exceeding 1,500 cc	3,150	3,465
exceeding 1,500 cc but not exceeding 2,500 cc	4,690	5,160
exceeding 2,500 cc but not exceeding 3,500 cc	6,235	6,860
exceeding 3,500 cc but not exceeding 4,500 cc	7,785	8,565
exceeding 4,500 cc	9,270	10,195
additional fee for private car using diesel fuel	1,205	1,325
<u>Electrically powered passenger vehicles</u>		
not exceeding 1 tonne	365	400
for each additional 250 kg	75	85

Paragraph 111 (cont.)

	<u>Existing fee</u> (\$)	<u>Proposed fee</u> (\$)
<u>Motor Cycle</u>	990	1,090
<u>Motor Tricycle</u>	990	1,090
<u>Public Light Bus</u>	6,870	7,555
<u>Private Light Bus</u>	2,175	2,395
<u>Public Bus</u>		
for the driver	20	22
additional fee for each seat	40	44
<u>Private Bus</u>		
for the driver	20	22
additional fee for each seat	35	39
<u>Trailer</u>		
for each 250 kg or part thereof	25	28
<u>Invalid Carriage</u>	10	11





Paragraph 117 (cont.)BROAD EFFECT OF THE BUDGET CONCESSIONS ON  
SINGLE AND MARRIED TAXPAYERS IN 1990-91

	<u>Single</u>	<u>Married</u>	<u>Total</u>
(a) Number of taxpayers who will have:			
no tax liability	1,000	11,000	12,000
a reduced tax liability	529,000	364,000	893,000
(b) Number of taxpayers who will receive <b>no benefit</b> , i.e. those who will continue to pay tax at the standard rate	<u>20,000</u>	<u>55,000</u>	<u>75,000</u>
Total	<u>550,000</u>	<u>430,000</u>	<u>980,000</u>

Paragraph 117 (cont.)

A PROJECTION OF THE DISTRIBUTION OF SINGLE AND MARRIED  
TAXPAYERS BY DIFFERENT INCOME GROUPS IN 1990-91

<b><u>Single</u></b>	<u>No. of taxpayers</u>
Low Income Group (i.e. those with income below \$100,000)	438,000
Middle Income Group (i.e. those with income between \$100,000 and \$180,000)	84,000
High Income Group (i.e. those with income in excess of \$180,000)	27,000
 <b><u>Married</u></b>	
Low Income Group (i.e. those with income below \$150,000)	267,000
Middle Income Group (i.e. those with income between \$150,000 and \$300,000)	106,000
High Income Group (i.e. those with income in excess of \$300,000)	<u>46,000</u>
<b>Total after Budget concessions</b>	968,000
 <u>Add:</u>	
No. of Taxpayers estimated to fall out and be kept out of the tax net (on account of the Budget concessions but liable to pay 1989-90 final tax in 1990-91)	<u>12,000</u>
<b>Total no. of Taxpayers estimated to pay tax in 1990-91</b>	<u><u>980,000</u></u>

Paragraph 117 (cont.)

EXAMPLES OF THE EFFECT THAT THE PROPOSED ABOLITION OF CLAWBACK ON ADDITIONAL PERSONAL ALLOWANCE AND REDUCTION IN THE MARGINAL RATES OF TAX FOR THE FIRST TWO TAX BANDS WILL HAVE ON SALARIES TAX AT VARIOUS INCOME LEVELS

Single person

Annual Income	Present tax payable (Exemption level: \$39,000)		Proposed tax payable (Exemption level: \$39,000)		Tax Saving		Remarks
	Amount (A)	Effective rate (%)	Amount (B)	Effective rate (%)	(A) - (B) (\$)	(A) - (B) (%)	
42,000	99	0.2	60	0.1	39	39.4	All taxpayers earning less than \$191,500 will benefit from the reduction in marginal rates.  With the abolition of the clawback -  - taxpayers earning between \$39,000 and \$109,000 will now receive the full \$7,000, rather than a reduced, additional allowance          - taxpayers earning over \$109,000 and previously not entitled to additional allowance will be granted the full \$7,000 unless they are chargeable at the standard rate.
48,000	297	0.6	180	0.4	117	39.4	
60,000	1,179	2.0	690	1.2	489	41.5	
72,000	2,556	3.6	1,860	2.6	696	27.2	
84,000	4,425	5.3	3,450	4.1	975	22.0	
96,000	6,867	7.2	5,460	5.7	1,407	20.5	
108,000	9,875	9.1	7,890	7.3	1,985	20.1	
109,000	10,150	9.3	8,100	7.4	2,050	20.2	
120,000	12,900	10.8	10,850	9.0	2,050	15.9	
132,000	15,900	12.0	13,850	10.5	2,050	12.9	
144,000	18,900	13.1	16,850	11.7	2,050	10.8	
156,000	21,900	14.0	19,850	12.7	2,050	9.4	
168,000	24,900	14.8	22,850	13.6	2,050	8.2	
171,000	25,650*	15.0	23,600	13.8	2,050	8.0	
180,000	27,000	15.0	25,850	14.4	1,150	4.3	
191,500	28,725	15.0	28,725*	15.0	-	-	Standard Rate taxpayers will not benefit from the concessions.

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

## Paragraph 117 (cont.)

EXAMPLES OF THE EFFECT THAT THE PROPOSED ABOLITION OF CLAWBACK ON ADDITIONAL PERSONAL ALLOWANCE, INCREASE IN DEPENDENT PARENT ALLOWANCE AND REDUCTION IN THE MARGINAL RATES OF TAX FOR THE FIRST TWO TAX BANDS WILL HAVE ON SALARIES TAX AT VARIOUS INCOME LEVELS

**Single person, with two dependent parents**

Annual Income	Present tax payable (Exemption level: \$59,000)		Proposed tax payable (Exemption level: \$63,000)		Tax Saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)		
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
60,000	33	0.1	-	-	33	100.0	This group will <u>not</u> be required to pay tax as a result of the abolition of clawback on additional personal allowance and increase in dependent parent allowance.
63,000	132	0.2	-	-	132	100.0	
72,000	558	0.8	180	0.3	378	67.7	All taxpayers earning less than \$251,500 will benefit from the reduction in marginal rates.  With the abolition of the clawback -  - taxpayers earning between \$39,000 and \$109,000 will now receive the full \$7,000, rather than a reduced, additional allowance  - taxpayers earning over \$109,000 and previously not entitled to additional allowance will be granted the full \$7,000 unless they are chargeable at the standard rate.
84,000	1,575	1.9	690	0.8	885	56.2	
96,000	3,105	3.2	1,860	1.9	1,245	40.1	
108,000	5,202	4.8	3,450	3.2	1,752	33.7	
109,000	5,400	5.0	3,600	3.3	1,800	33.3	
120,000	7,560	6.3	5,460	4.6	2,100	27.8	
132,000	10,400	7.9	7,890	6.0	2,510	24.1	
144,000	13,400	9.3	10,850	7.5	2,550	19.0	
156,000	16,400	10.5	13,850	8.9	2,550	15.5	
168,000	19,400	11.5	16,850	10.0	2,550	13.1	
180,000	22,400	12.4	19,850	11.0	2,550	11.4	
192,000	25,400	13.2	22,850	11.9	2,550	10.0	
204,000	28,400	13.9	25,850	12.7	2,550	9.0	
216,000	31,400	14.5	28,850	13.4	2,550	8.1	
226,000	33,900*	15.0	31,350	13.9	2,550	7.5	
228,000	34,200	15.0	31,850	14.0	2,350	6.9	Standard Rate taxpayers will not benefit from the concessions.
240,000	36,000	15.0	34,850	14.5	1,150	3.2	
251,500	37,725	15.0	37,725*	15.0	-	-	

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

Paragraph 117 (cont.)

EXAMPLES OF THE EFFECT THAT THE PROPOSED ABOLITION OF CLAWBACK ON ADDITIONAL PERSONAL ALLOWANCE AND REDUCTION IN THE MARGINAL RATES OF TAX FOR THE FIRST TWO TAX BANDS WILL HAVE ON SALARIES TAX AT VARIOUS INCOME LEVELS

Married person, with no children

Annual Income	Present tax payable (Exemption level: \$80,000)		Proposed tax payable (Exemption level: \$80,000)		Tax Saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)	(A) - (B)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
84,000	132	0.2	80	0.1	52	39.4	All taxpayers earning less than \$294,000 will benefit from the reduction in marginal rates.  With the abolition of the clawback -  - taxpayers earning between \$80,000 and \$220,000 will now receive the full \$14,000, rather than a reduced, additional allowance  - taxpayers earning over \$220,000 and previously not entitled to additional allowance will be granted the full \$14,000 unless they are chargeable at the standard rate.
96,000	756	0.8	440	0.5	316	41.8	
108,000	1,896	1.8	1,320	1.2	576	30.4	
120,000	3,600	3.0	2,700	2.3	900	25.0	
132,000	5,796	4.4	4,560	3.5	1,236	21.3	
144,000	8,500	5.9	6,840	4.8	1,660	19.5	
156,000	11,800	7.6	9,600	6.2	2,200	18.6	
168,000	15,100	9.0	12,600	7.5	2,500	16.6	
180,000	18,400	10.2	15,600	8.7	2,800	15.2	
192,000	21,700	11.3	18,600	9.7	3,100	14.3	
204,000	25,000	12.3	21,600	10.6	3,400	13.6	
216,000	28,300	13.1	24,600	11.4	3,700	13.1	
220,000	29,400	13.4	25,600	11.6	3,800	12.9	
228,000	31,400	13.8	27,600	12.1	3,800	12.1	
240,000	34,400	14.3	30,600	12.8	3,800	11.0	
256,000	38,400*	15.0	34,600	13.5	3,800	9.9	
264,000	39,600	15.0	36,600	13.9	3,000	7.6	
288,000	43,200	15.0	42,600	14.8	600	1.4	
294,000	44,100	15.0	44,100*	15.0	-	-	

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

## Paragraph 117 (cont.)

EXAMPLES OF THE EFFECT THAT THE PROPOSED ABOLITION OF CLAWBACK ON ADDITIONAL PERSONAL ALLOWANCE, INCREASE IN CHILD ALLOWANCE AND REDUCTION IN THE MARGINAL RATES OF TAX FOR THE FIRST TWO TAX BANDS WILL HAVE ON SALARIES TAX AT VARIOUS INCOME LEVELS

**Married person, with two children**

Annual Income	Present tax payable (Exemption level: \$100,000)		Proposed tax payable (Exemption level: \$104,000)		Tax Saving		Remarks
	Amount (A)	Effective rate (%)	Amount (B)	Effective rate (%)	(A)	(B)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
102,000	66	0.1	-	-	66	100.0	This group will <u>not</u> be required to pay tax as a result of the abolition of clawback on additional personal allowance and increase in child allowance.
104,000	132	0.1	-	-	132	100.0	
108,000	264	0.2	80	0.1	184	69.7	All taxpayers earning less than \$354,000 will benefit from the reduction in marginal rates.  With the abolition of the clawback -  - taxpayers earning between \$80,000 and \$220,000 will now receive the full \$14,000, rather than a reduced, additional allowance  - taxpayers earning over \$220,000 and previously not entitled to additional allowance will be granted the full \$14,000 unless they are chargeable at the standard rate.
120,000	1,080	0.9	440	0.4	640	59.3	
132,000	2,424	1.8	1,320	1.0	1,104	45.5	
144,000	4,260	3.0	2,700	1.9	1,560	36.6	
156,000	6,636	4.3	4,560	2.9	2,076	31.3	
168,000	9,600	5.7	6,840	4.1	2,760	28.8	
180,000	12,900	7.2	9,600	5.3	3,300	25.6	
192,000	16,200	8.4	12,600	6.6	3,600	22.2	
204,000	19,500	9.6	15,600	7.6	3,900	20.0	
216,000	22,800	10.6	18,600	8.6	4,200	18.4	
220,000	23,900	10.9	19,600	8.9	4,300	18.0	
228,000	25,900	11.4	21,600	9.5	4,300	16.6	
240,000	28,900	12.0	24,600	10.3	4,300	14.9	
264,000	34,900	13.2	30,600	11.6	4,300	12.3	
288,000	40,900	14.2	36,600	12.7	4,300	10.5	
311,000	46,650*	15.0	42,350	13.6	4,300	9.2	
312,000	46,800	15.0	42,600	13.7	4,200	9.0	
336,000	50,400	15.0	48,600	14.5	1,800	3.6	
354,000	53,100	15.0	53,100*	15.0	-	-	Standard Rate taxpayers will not benefit from the concessions.

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

Paragraph 117 (cont.)

EXAMPLES OF THE EFFECT THAT THE PROPOSED ABOLITION OF CLAWBACK ON ADDITIONAL PERSONAL ALLOWANCE, INCREASES IN CHILD AND DEPENDENT PARENT ALLOWANCES AND REDUCTION IN THE MARGINAL RATES OF TAX FOR THE FIRST TWO TAX BANDS WILL HAVE ON SALARIES TAX AT VARIOUS INCOME LEVELS

**Married person, with two children and two dependent parents**

Annual Income	Present tax payable (Exemption level: \$120,000)		Proposed tax payable (Exemption level: \$128,000)		Tax Saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)	(A) - (B)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
126,000	198	0.2	-	-	198	100.0	This group will <u>not</u> be required to pay tax as a result of the abolition of clawback on additional personal allowance and increases in child and dependent parent allowances.
128,000	264	0.2	-	-	264	100.0	
132,000	492	0.4	80	0.1	412	83.7	All taxpayers earning less than \$414,000 will benefit from the reduction in marginal rates.  With the abolition of the clawback -  - taxpayers earning between \$80,000 and \$220,000 will now receive the full \$14,000, rather than a reduced, additional allowance  - taxpayers earning over \$220,000 and previously not entitled to additional allowance will be granted the full \$14,000 unless they are chargeable at the standard rate.
144,000	1,476	1.0	440	0.3	1,036	70.2	
156,000	2,952	1.9	1,320	0.8	1,632	55.3	
168,000	5,004	3.0	2,700	1.6	2,304	46.0	
180,000	7,560	4.2	4,560	2.5	3,000	39.7	
192,000	10,700	5.6	6,840	3.6	3,860	36.1	
204,000	14,000	6.9	9,600	4.7	4,400	31.4	
216,000	17,300	8.0	12,600	5.8	4,700	27.2	
220,000	18,400	8.4	13,600	6.2	4,800	26.1	
228,000	20,400	8.9	15,600	6.8	4,800	23.5	
240,000	23,400	9.8	18,600	7.8	4,800	20.5	
264,000	29,400	11.1	24,600	9.3	4,800	16.3	
288,000	35,400	12.3	30,600	10.6	4,800	13.6	
312,000	41,400	13.3	36,600	11.7	4,800	11.6	
336,000	47,400	14.1	42,600	12.7	4,800	10.1	
360,000	53,400	14.8	48,600	13.5	4,800	9.0	
366,000	54,900*	15.0	50,100	13.7	4,800	8.7	
384,000	57,600	15.0	54,600	14.2	3,000	5.2	
408,000	61,200	15.0	60,600	14.9	600	1.0	
414,000	62,100	15.0	62,100*	15.0	-	-	Standard Rate taxpayers will not benefit from the concessions.

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

Paragraph 117 (cont.)

INCOME LEVELS BELOW WHICH SALARIES TAXPAYERS  
ARE NOT REQUIRED TO PAY TAX

	<u>Present</u> (\$)	<u>Proposed</u> (\$)
<u>No dependent parent</u>		
Single	39,001	39,001
Married	80,001	80,001
Married + 1 child	91,819	94,001
Married + 2 children	100,001	104,001
Married + 3 children	102,728	107,001
 <u>Including two dependent parents</u>		
Single	59,001	63,001
Married	100,001	104,001
Married + 1 child	111,819	118,001
Married + 2 children	120,001	128,001
Married + 3 children	122,728	131,001
 <u>Including two dependent parents with additional dependent parent allowance</u>		
Single	64,456	69,001
Married	105,456	110,001
Married + 1 child	117,274	124,001
Married + 2 children	125,456	134,001
Married + 3 children	128,183	137,001



Paragraph 117 (cont.)INCOME LEVELS ABOVE WHICH SALARIES TAXPAYERS BEGIN  
TO PAY TAX AT THE MAXIMUM 25% MARGINAL RATE

	<u>Present</u> (\$)	<u>Proposed</u> (\$)
<u>No dependent parent</u>		
Single	102,636	109,000
Married	143,636	150,000
Married + 1 child	155,455	164,000
Married + 2 children	163,636	174,000
Married + 3 children	166,364	177,000
 <u>Including two dependent parents</u>		
Single	124,000	133,000
Married	163,636	174,000
Married + 1 child	175,455	188,000
Married + 2 children	183,636	198,000
Married + 3 children	186,364	201,000
 <u>Including two dependent parents with additional dependent parent allowance</u>		
Single	130,000	139,000
Married	169,091	180,000
Married + 1 child	180,909	194,000
Married + 2 children	189,091	204,000
Married + 3 children	191,818	207,000

Paragraph 117 (cont.)

INCOME LEVELS AT WHICH SALARIES TAXPAYERS  
ENTER THE STANDARD RATE ZONE

	<u>Present</u> (\$)	<u>Proposed</u> (\$)
<u>No dependent parent</u>		
Single	171,000	191,500
Married	256,000	294,000
Married + 1 child	288,500	329,000
Married + 2 children	311,000	354,000
Married + 3 children	318,500	361,500
<u>Including two dependent parents</u>		
Single	226,000	251,500
Married	311,000	354,000
Married + 1 child	343,500	389,000
Married + 2 children	366,000	414,000
Married + 3 children	373,500	421,500
<u>Including two dependent parents with additional dependent parent allowance</u>		
Single	241,000	266,500
Married	326,000	369,000
Married + 1 child	358,500	404,000
Married + 2 children	381,000	429,000
Married + 3 children	388,500	436,500

Paragraph 117 (cont.)ANALYSIS OF ESTIMATED SALARIES TAX YIELD (AFTER  
BUDGET CONCESSIONS) BY INCOME GROUP IN 1990-91

<u>Assessable income group per annum (\$)</u>	<u>No. of taxpayers</u>	<u>Percentage of total taxpayers (%)</u>	<u>Tax yield (\$M)</u>	<u>Percentage of total yield (%)</u>
50,000 & under	125,000	12.8	20	0.2
50,001 - 100,000	457,000	46.6	860	7.3
100,001 - 180,000	265,000	27.0	2,480	21.0
180,001 - 300,000	78,000	8.0	2,560	21.7
300,001 - 500,000	34,000	3.5	2,320	19.6
500,001 & over	<u>21,000</u>	<u>2.1</u>	<u>3,560</u>	<u>30.2</u>
Total	<u>980,000</u>	<u>100.0</u>	<u>11,800</u>	<u>100.0</u>

of 980,000 taxpayers, 75,000 (or 7.7%) are estimated to pay tax at the standard rate of 15% in 1990-91. This small group of taxpayers, however, will contribute about \$6.7 billion or 57% of the total tax yield and is composed of:

- 20,000 single persons with annual incomes of \$191,500 or more;
- 36,000 spouses assessed separately and earning \$191,500 or more per annum;
- 19,000 married couples earning \$294,000 or more per annum.

Table 1

Consolidated Account Expenditure and Revenue  
(\$ million)

	1989-90				1990-91	
	Original	Estimate	Revised	Estimate	Draft	Estimate <sup>+</sup>
<u>Expenditure</u>						
General Revenue Account		52,270		52,260		65,260
Capital Works Reserve Fund	14,490		17,860		20,820	
Development Loan Fund	2,090		2,760		4,680*	
Mass Transit Fund	90		90		90*	
Student Loan Fund	<u>130</u>	16,800	<u>130</u>	20,840	<u>130</u> *	25,720
		69,070		73,100		90,980
<u>Revenue</u>						
General Revenue Account		72,780		74,290		82,680
Capital Works Reserve Fund	7,040		7,450		5,160	
Development Loan Fund	630		560		670*	
Mass Transit Fund	-		-		-	
Student Loan Fund	<u>90</u>	7,760	<u>90</u>	8,100	<u>100</u> *	5,930
		80,540		82,390		88,610
Surplus/(Deficit)		11,470		9,290		(2,370)
<u>Reserves</u>						
Opening balance		61,510		61,510		70,800
Surplus/(Deficit)		11,470		9,290		(2,370)
Closing balance		72,980		70,800		68,430

\* Subject to the approval of the necessary Resolutions by the Legislative Council, these Funds will be replaced by a new Capital Investment Fund and a Loan Fund on 1 April 1990.

+ Before revenue measures.

Table 2

Transfers between Funds  
(\$ million)

	1989-90		1990-91
	Original Estimate	Revised Estimate	Draft Estimate <sup>+</sup>
<u>General Revenue Account</u>			
Expenditure	52,270	52,260	65,260
Revenue	72,780	74,290	82,680
Surplus	20,510	22,030	17,420
Transfer (1)	(17,740)	(17,710)	(22,940)
Surplus/(Deficit)	2,770	4,320	(5,520)
 <u>Funds</u>			
Expenditure	16,800	20,840	25,720
Revenue	7,760	8,100	5,930
Deficit	(9,040)	(12,740)	(19,790)
Transfer (1)	17,740	17,710	22,940
Surplus	8,700	4,970	3,150
Surplus/(Deficit)	11,470	9,290	(2,370)
 <u>(1) Transfers</u>			
General Revenue Account	(17,740)	(17,710)	(22,940)
Capital Works Reserve Fund	8,800	8,800	18,320
Development Loan Fund	8,900	8,900	-
Mass Transit Fund	-	-	-
Student Loan Fund	40	10	-
Capital Investment Fund	-	-	4,100*
Loan Fund	-	-	520*

\* Subject to the approval of the necessary Resolutions by the Legislative Council, these Funds will replace the Development Loan Fund, the Mass Transit Fund and the Student Loan Fund on 1 April 1990.

+ Before revenue measures.

## APPENDICES

	<i>Page</i>
<b>A. Medium range forecast 1989-90 to 1993-94</b>	1005-1015
Forecasting Government's expenditure and revenue in the period up to 1993-94 and setting these forecasts in a historical context.	
<b>B. Trends in Consolidated Public Sector expenditure 1985-86 to 1993-94</b>	1016-1031
Showing the past and projected allocation of resources between programme areas.	
<b>C. Contingent liabilities</b>	1032
Setting out the more significant contingent liabilities of Government.	
<b>D. The recurrent cost implications of major new or improved services to begin in 1990-91</b>	1033
Listing new items selected by the Chief Secretary's Committee for implementation in 1990-91.	
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Listing projects each with a project cost of \$100 million or above budgetted to begin in 1990-91.	

**MEDIUM RANGE FORECAST 1989-90 TO 1993-94****INTRODUCTION**

The *Medium Range Forecast* (MRF) is Government's planning tool for ensuring that budgetary policy, and in particular expenditure programmes, are developed and implemented within the context of the economy as a whole looking forward over a five year period. It is the starting point from which detailed expenditure programmes and revenue measures are developed and is a reflection of the financial consequences of policy decisions. The MRF is updated regularly.

2 The MRF is presented in three sections:

- (I) Forecasting assumptions and budgetary criteria.
- (II) The MRF for 1989-90 to 1993-94.
- (III) Commentary on the MRF in relation to budgetary criteria.

**SECTION I—FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA**

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

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

4 There is a clear link between many of Government's major revenue sources and economic growth. For planning purposes the medium range assumption as to annual GDP growth for the current MRF has been set at 51/2% in real terms.

*Inflation*

5 The inflation rate rose in 1989 but is expected to fall. Over the forecast period the average year on year assumption has been increased to 61/2% (from 6% in the previous Medium Range Forecast). It is emphasised that this is a *trend* assumption and the prospect in the short-term is that actual inflation will exceed this trend.

**Detailed Assumptions**

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

- estimated cash flow on capital projects.
- forecast completion dates of these capital projects and their related recurrent consequences in terms of staffing and running costs.
- estimated cash flow arising from new commitments resulting from policy initiatives.
- the expected pattern of demand for individual services.
- the trend in yield from individual revenue sources.
- new revenue measures in 1990-91.

**Budgetary Criteria**

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

8 The following are the more important budgetary criteria:

*—Total cash flow surplus/deficit*

As a general aim, a cash flow surplus is sought so that in the long term adequate reserves are maintained.

*—Operating surplus/deficit*

A substantial element of capital expenditure must be financed from a surplus on operating account (recurrent revenue in relation to recurrent expenditure). A broad target of at least a 50% funding of capital expenditure from the operating surplus is adopted.

*—Total expenditure growth*

It is intended that expenditure growth should not exceed the *trend* assumption as to growth in GDP taking one year with another.

*—Capital expenditure growth*

By its nature some fluctuations in the level of capital expenditure are to be expected. However, over a period the aim is to contain capital expenditure growth within overall expenditure guidelines, i.e. within the *trend* assumption as to GDP growth but allowance is made for unavoidable expenditure on exceptional projects. Allowance is also made for a number of major projects due to start in the forecast period. In planning the size of the capital programme regard is had to the recurrent consequences of capital works (staffing, maintenance, etc.).

*—Size of the civil service*

This is a significant determinant of the growth rate of Government's expenditure. A target average annual growth of no more than 21/2% in the size of the civil service is adopted.

*—Revenue policy*

The projections reflect the revenue measures introduced in this year's budget. Account is taken of the need to maintain the real yield from fees and charges, fixed duties etc. and to review periodically the various tax thresholds in the light of inflation.



**SECTION II—THE FORECASTS**

9 The current MRF is summarised in the following three tables which indicate the forecast operating position, capital cash flow and the aggregation of the two in a consolidated cash flow statement.

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

**Operating Statement (before budget revenue measures)**

Table 1

	Revised Estimate	Forecast			
	1989-90	1990-91	1991-92	1992-93	1993-94
	\$m	\$m	\$m	\$m	\$m
Recurrent expenditure	49,260	63,010	73,200	83,200	95,000
Other non-recurrent	1,050	930	600	600	300
Total operating expenditure	50,310	63,940	73,800	83,800	95,300
Recurrent revenue before interest but before budget revenue measures	68,460	76,590	86,000	96,200	107,600
<b>Operating surplus before interest</b>	18,150	12,650	12,200	12,400	12,300
Interest on balances	4,950	5,240	5,100	4,900	4,400
<b>Operating surplus after interest but before budget revenue measures</b>	23,100	17,890	17,300	17,300	16,700

**Capital Expenditure and Financing Statement**

Table 2

	Revised Estimate	Forecast			
	1989-90	1990-91	1991-92	1992-93	1993-94
	\$m	\$m	\$m	\$m	\$m
<b>Capital expenditure</b>					
General Revenue Account	950	1,320	1,400	1,600	1,800
Capital Works Reserve Fund	17,860	20,820	24,900	26,000	30,000
Other funds*	2,980	4,900	4,200	4,700	6,000
Bond issue repayment	1,000	—	—	—	—
Total capital expenditure	22,790	27,040	30,500	32,300	37,800
<b>Capital revenue</b>					
General Revenue Account	880	850	900	900	900
Capital Works Reserve Fund (land sales and interest)	7,450	5,160	5,300	5,300	5,300
Other funds*	650	770	900	1,100	1,100
Total capital revenue	8,980	6,780	7,100	7,300	7,300
<b>Capital financing (deficit)</b>	(13,810)	(20,260)	(23,400)	(25,000)	(30,500)

\* Development Loan Fund, Mass Transit Fund and Student Loan Fund. Subject to the approval of the Legislative Council these three funds will be replaced by a Capital Investment Fund and a Loan Fund on 1 April 1990.

## Consolidated Cash Flow

Table 3

	Revised Estimate	Forecast			
	1989-90	1990-91	1991-92	1992-93	1993-94
	\$m	\$m	\$m	\$m	\$m
Capital financing (deficit)	(13,810)	(20,260)	(23,400)	(25,000)	(30,500)
Operating surplus before budget revenue measures	23,100	17,890	17,300	17,300	16,700
<b>Consolidated cash surplus/(deficit) before budget revenue measures</b>	9,290	(2,370)	(6,100)	(7,700)	(13,800)
<i>Add: Effect of budget revenue measures*</i>	—	3,090	3,500	4,200	5,000
<b>Consolidated cash surplus/(deficit) after budget revenue measures</b>	9,290	720	(2,600)	(3,500)	(8,800)
Reserve balances at 1 April	61,510	70,800	71,520	68,920	65,420
Reserve balances at 31 March	70,800	71,520	68,920	65,420	56,620

\* Including impact of interest on balances. No new measures after 1990-91 are assumed.

**11** These tables relate to Government's overall finances. They provide no breakdown of the transfers between General Revenue Account and the various funds through which, for operational reasons, the Government controls its finances.

**12** The projections of capital expenditure include anticipated equity investment in statutory bodies in respect of infrastructural projects proposed in the Port and Airport Development Strategy (PADS). Expenditure by Government on such projects is included in the figures for the Capital Works Reserve Fund.

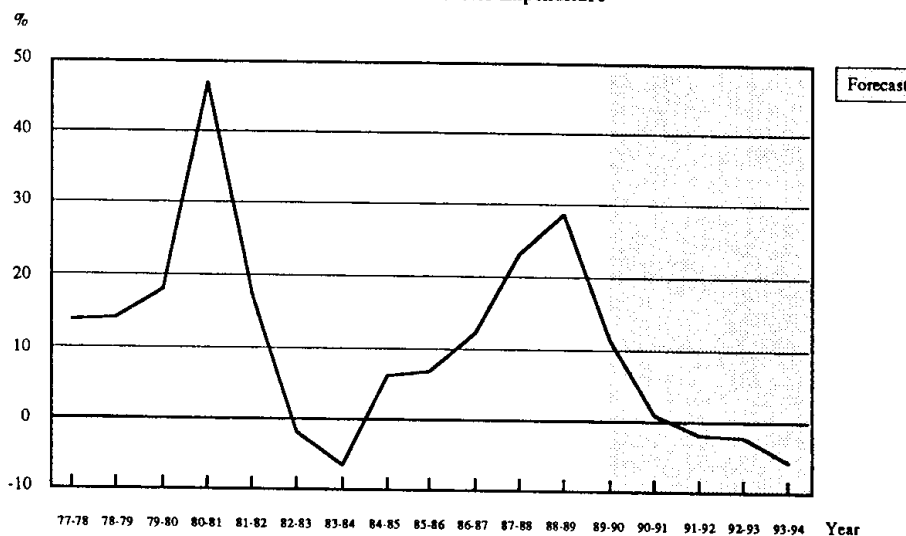
**SECTION III—COMMENTARY ON THE FORECAST**

**The Fiscal Balance**

13 Before the 1990-91 revenue measures are taken into account, the forecasts indicate an average consolidated cash flow deficit over the forecast period from 1990-91 to 1993-94 of around \$7.5 billion. This drops to around \$3.5 billion after the revenue measures proposed in the 1990-91 budget are taken into account. An impression of the relative size of the forecast surplus/deficit can be gained by comparing it with the level of Consolidated Public Sector expenditure<sup>(1)</sup>. The historical and forecast relationship in this respect is illustrated in Diagram 1.

**Consolidated Cash Surplus/(Deficit)  
(After 1990-91 Budget Revenue Measures)  
as a Percentage of  
Consolidated Public Sector Expenditure**

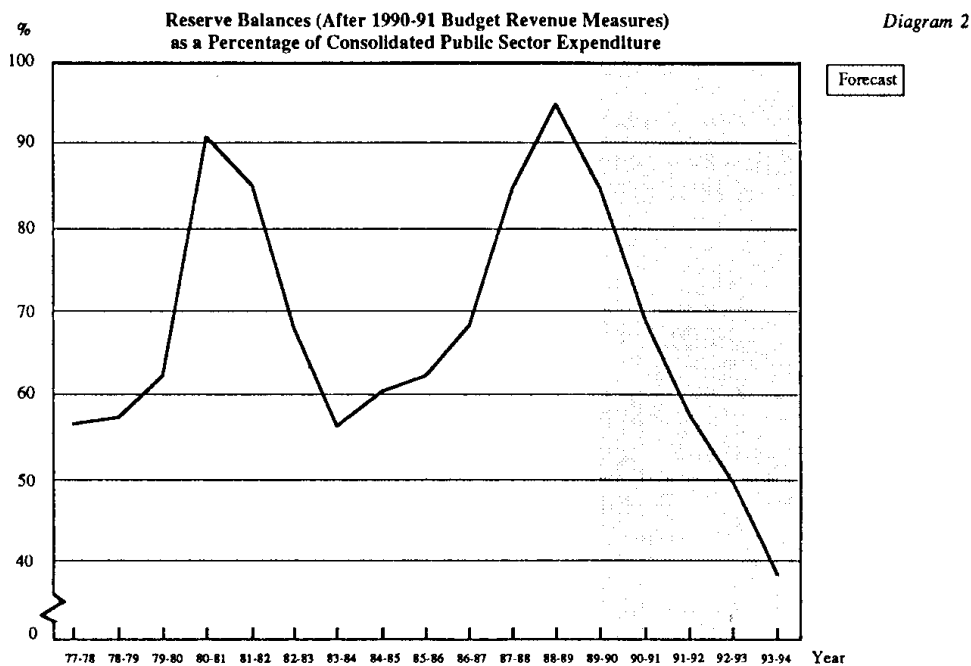
*Diagram 1*



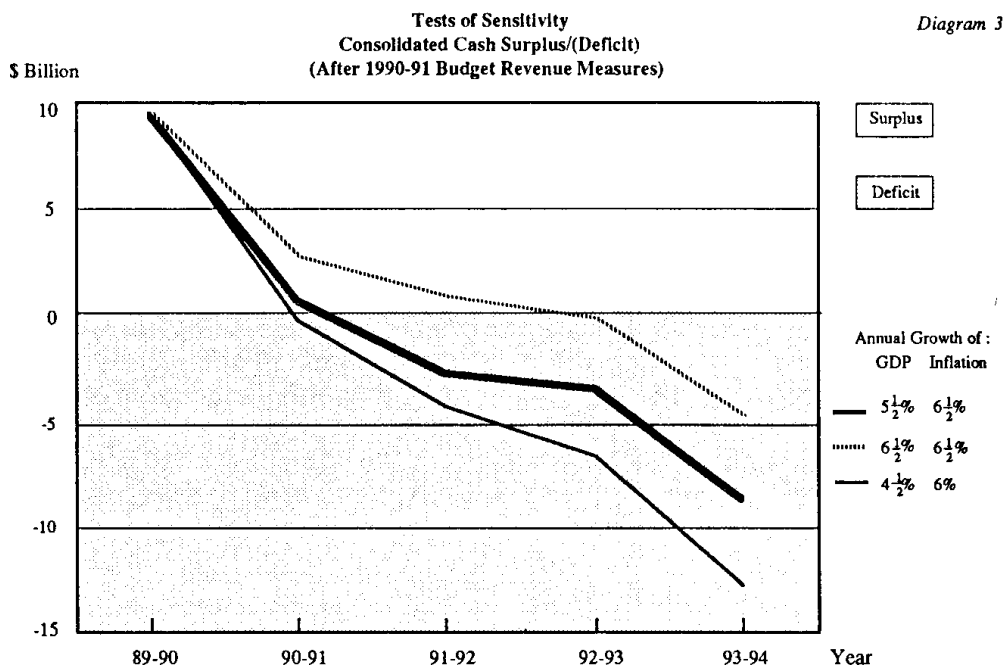
14 The operating surplus after interest (recurrent revenue over expenditure) is sufficient to finance an average of some 54% of capital expenditure over the forecast period from 1990-91 to 1993-94 before the 1990-91 budget revenue measures, but will rise to 67% with the implementation of these measures. This compares with the target of 50%.

(1) The Consolidated Public Sector expenditure comprises expenditure by the Hong Kong Housing Authority, the Urban Council and the Regional Council, expenditure financed by the Government's statutory funds and all expenditure charged to the General Revenue Account.

15 An important consideration is the relationship of the reserves to Consolidated Public Sector expenditure. The past and forecast relationship in this respect is illustrated in Diagram 2.



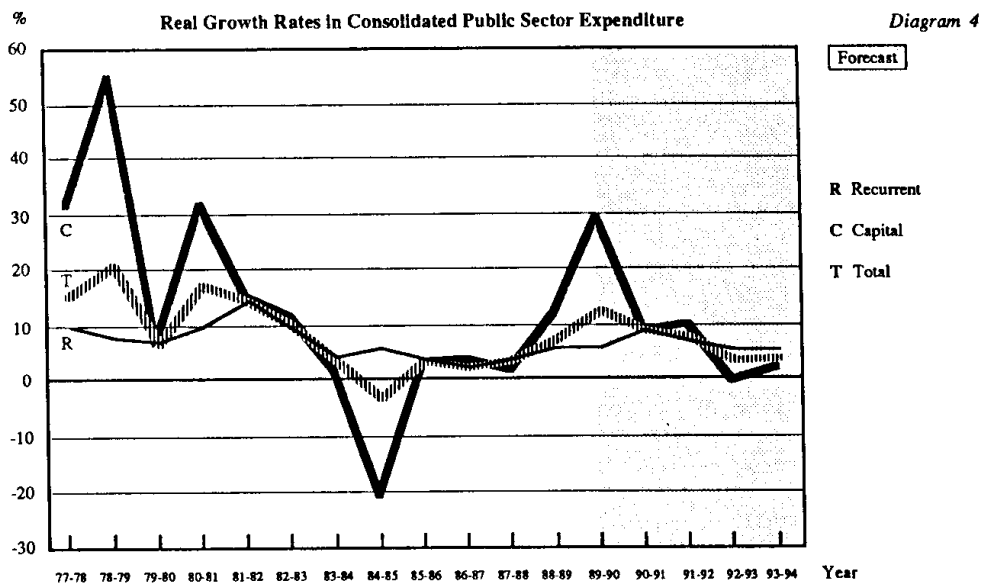
16 The importance to these forecasts of the economic growth rate assumption has already been emphasised. The tests included in Diagram 3 indicate this sensitivity.



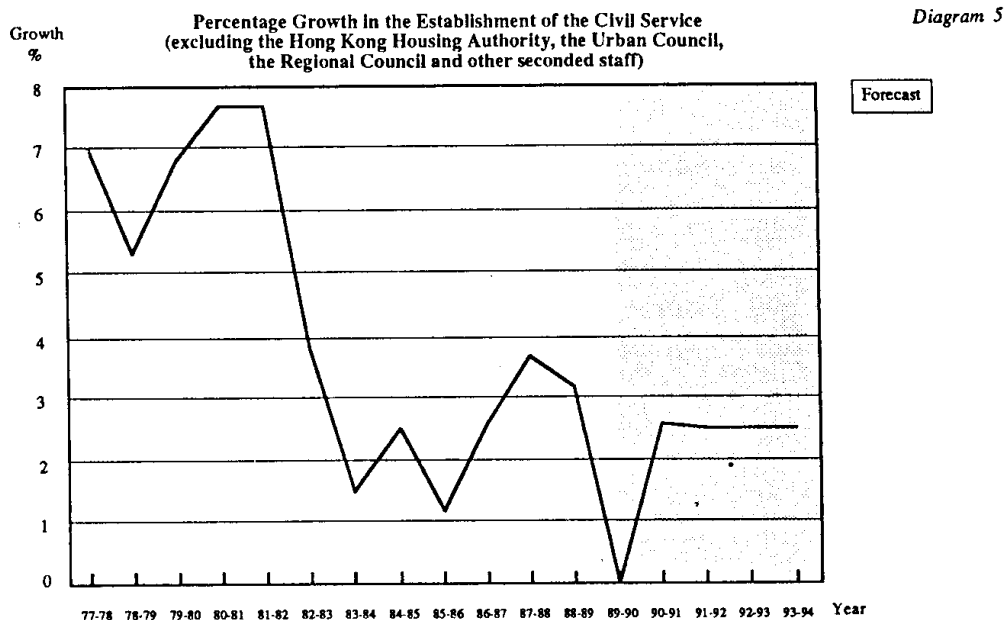
**Expenditure Growth**

17 Diagram 4 indicates the pattern of expenditure growth allowed for in these forecasts compared with results since 1977-78. The following points are of note:

- Recurrent expenditure growth has been stabilised since 1983-84 at around 5%-6%, but projections for 1989-90 and 1990-91 exceed this level.
- Capital expenditure growth is inevitably much more volatile and, indeed, was negative in 1984-85. The forecasts assume a return to growth.
- Total real expenditure growth has fallen considerably since the late 1970's and early 1980's but is forecast to rise in 1989-90 because of capital expenditure. In 1990-91 both recurrent and capital expenditure will grow by around 9½%.



18 The projected trend in staff growth implied in these forecasts is indicated in Diagram 5 as follows:



19 After a period of high staff growth in the late 1970's and early 1980's, the rate of growth has stabilised from about 1983-84 onwards. As a result of an exercise to delete vacant posts, nil growth in establishment was achieved in 1989-90 and the growth in 1990-91 will be held to the target rate of no more than 21/2%.

#### Consolidated Public Sector Expenditure in the Context of the Economy

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

21 The results of this comparison are set out in Table 4 and the historical and forecast relationship between GDP and Consolidated Public Sector expenditure is illustrated in Diagram 6.

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

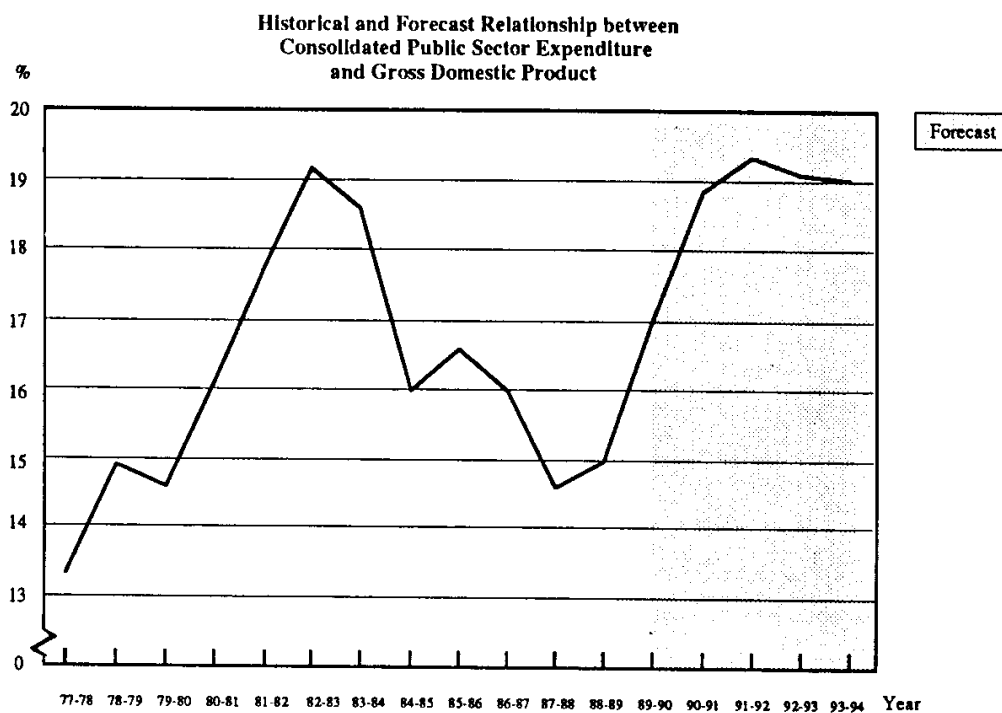
	Revised Estimate	Forecast			
	1989-90	1990-91	1991-92	1992-93	1993-94
	\$m	\$m	\$m	\$m	\$m
Operating expenditure	50,310	63,940	73,800	83,800	95,300
Less: Grant to Regional Council	(270)	(270)	—	—	—
	50,040	63,670	73,800	83,800	95,300
Capital expenditure	22,790	27,040	30,500	32,300	37,800
Less: Debt repayments	(1,000)	—	—	—	—
Equity investment	(2,290)	(4,090)	(3,200)	(3,700)	(4,900)
	19,500	22,950	27,300	28,600	32,900
Total government expenditure	69,540	86,620	101,100	112,400	128,200
Add: Other public sector bodies	14,060	17,020	18,800	20,900	21,100
<b>Total Consolidated Public Sector expenditure</b>	<b>83,600</b>	<b>103,640</b>	<b>119,900</b>	<b>133,300</b>	<b>149,300</b>
<b>Gross Domestic Product (calendar year) (Note 2)</b>	<b>491,590</b>	<b>552,550</b>	<b>621,100</b>	<b>698,100</b>	<b>784,600</b>
<b>Growth in GDP</b>					
Money terms	13.9%	12.4%	12.4%	12.4%	12.4%
Real terms	2.5%	5.5%	5.5%	5.5%	5.5%
<b>Growth in Consolidated Public Sector expenditure</b>					
Money terms	29.0%	24.0%	15.7%	11.2%	12.0%
Real terms	13.0%	9.4%	8.3%	3.7%	4.5%
<b>Consolidated Public Sector expenditure as a percentage of GDP (at current prices) (Note 3)</b>	<b>17.0%</b>	<b>18.8%</b>	<b>19.3%</b>	<b>19.1%</b>	<b>19.0%</b>

Note 1 The Consolidated Public Sector expenditure comprises expenditure by the Hong Kong Housing Authority, the Urban Council and the Regional Council, expenditure financed by the Government's statutory funds and all expenditure charged to the General Revenue Account. Expenditure by institutions in the private or quasi-private sector is included to the extent of their subventions. The activities of government departments which are partly financed by charges raised on a commercial basis are also included (e.g. airport, waterworks). But *not* included is expenditure by those organisations, including even statutory organisations, in which the Government has only an equity position, such as the Mass Transit Railway Corporation and, post 1982-83, the Kowloon-Canton Railway Corporation. 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. In particular, the projection for 1990 differs from the specific forecast for that year published in the '1990 Economic Prospects'.

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

Diagram 6



22 Table 5 indicates the relationship between Consolidated Public Sector expenditure and Public Sector expenditure as defined for GDP purposes. The former has historically been used as a measure for control of Government's finances. For the other, 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 brings out the extent of this difference in movement.

**Relationship Between Consolidated Public Sector Expenditure and Public Sector Expenditure as Defined for GDP Purposes**

Table 5

	Revised Estimate	Forecast			
	1989-90	1990-91	1991-92	1992-93	1993-94
	\$m	\$m	\$m	\$m	\$m
<b>Total Consolidated Public Sector expenditure (from Table 4)</b>	83,600	103,640	119,900	133,300	149,300
<i>Add:</i> Imputed rent (Note 1) and expenditure by other public sector bodies not included in total Consolidated Public Sector expenditure (Note 2)	8,920	9,250	10,690	11,250	12,560
<i>Less:</i> Transfers					
—recurrent and capital subventions (Note 3)	(15,830)	(19,720)	(22,470)	(25,330)	(28,540)
—other transfer payments made by Government (Note 4)	(10,560)	(10,870)	(11,510)	(12,260)	(13,700)
Current expenditure of government "trading" departments (Note 5)	(9,080)	(10,250)	(11,520)	(12,960)	(14,570)
<b>Total Public Sector expenditure in national accounts terms (Note 6)</b>	57,050	72,050	85,090	94,000	105,050
<b>Growth in Public Sector expenditure</b>					
Money terms	22.9%	26.3%	18.1%	10.5%	11.8%
Real terms	7.1%	11.2%	11.2%	3.5%	4.7%
<b>Gross Domestic Product (calendar year) (Note 7)</b>	491,590	552,550	621,100	698,100	784,600
<b>Growth in GDP</b>					
Money terms	13.9%	12.4%	12.4%	12.4%	12.4%
Real terms	2.5%	5.5%	5.5%	5.5%	5.5%
<b>Public Sector expenditure as a percentage of GDP (at current prices) (Note 8)</b>	11.6%	13.0%	13.7%	13.5%	13.4%

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 organisations 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, differ from the corresponding figures for Public Sector expenditure as a component of the GDP calculated on a calendar year basis. Moreover, there is also a difference in the price increase assumptions used.

Note 7 The GDP growth rates for the years 1990 to 1993 (and the GDP figures thus derived) are the *trend* projections used for medium-range budgetary planning purposes. Fluctuations from year to year in the level of economic activity and in prices are not taken into account. Thus, the growth rate in money terms of the GDP in 1990 differs from the short-term GDP forecast quoted elsewhere in the Budget Speech.

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 A—Contd.

23 Table 6 shows the sum to be appropriated in the 1990-91 Budget analysed between operating and capital expenditure and, after including expenditure from the various funds and by other public sector bodies shows the derivation of Consolidated Public Sector expenditure for 1990-91 given in Table 4.

24 The table also illustrates the effect of the budget revenue measures on the operating surplus, capital deficit and overall deficit/surplus position for 1990-91.

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

**Relationship Between Consolidated Account and Consolidated Public Sector Expenditure in 1990-91**

Table 6

Components of expenditure and revenue	Appropriation	Consolidated account expenditure and revenue			Consolidated public sector expenditure
		Operating	Capital	Total	
	\$m	\$m	\$m	\$m	\$m
<b>Expenditure</b>					
General Revenue Account					
Recurrent account	63,010	63,010	—	63,010	63,010
Capital account					
Plant, equipment and works	1,050	—	1,050	1,050	1,050
Other non-recurrent	660	660	—	660	660
Defence Costs Agreement	20	—	20	20	20
Subventions	250	—	250	250	250
Grant to Regional Council	270	270	—	270	—
Transfers to funds	22,940	—	—	—	—
Capital Works Reserve Fund					
Works account	—	—	20,820	20,820	20,820
Development Loan Fund*	—	—	4,680	4,680	680
Mass Transit Fund*	—	—	90	90	—
Student Loan Fund*	—	—	130	130	130
Lotteries Fund	—	—	—	—	240
Housing Authority	—	—	—	—	11,590
Urban Council	—	—	—	—	3,230
Regional Council	—	—	—	—	1,960
	88,200	63,940	27,040	90,980	103,640
<b>Revenue</b>					
General Revenue Account					
Direct taxes		39,400	450	39,850	
Indirect taxes		20,810	220	21,030	
Other revenue		21,620	180	21,800	
		81,830	850	82,680	
Capital Works Reserve Fund		—	5,160	5,160	
Development Loan Fund*		—	670	670	
Student Loan Fund*		—	100	100	
		81,830	6,780	88,610	
<b>Surplus/(Deficit) before budget revenue measures</b>		17,890	(20,260)	(2,370)	
Effect of budget revenue measures		3,140	(50)	3,090	
<b>Surplus/(Deficit) after budget revenue measures</b>		21,030	(20,310)	720	

\* Subject to the approval of the necessary Resolutions by the Legislative Council these Funds will be replaced by a new Capital Investment Fund and a new Loan Fund on 1 April 1990.

**TRENDS IN CONSOLIDATED PUBLIC SECTOR EXPENDITURE**  
**1985-86 TO 1993-94**

**INTRODUCTION**

The purpose of this appendix is to present trends in Consolidated Public Sector expenditure over the period 1985-86 to 1993-94(1). It shows the actual and forecast recurrent and capital expenditure during this nine year period and expresses this in terms of nine main programme area groups:

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

Where appropriate programme area groups are further analysed by programme areas.

**2** A key to the classification by programme areas is included in the annex to this appendix. Details of the individual heads of expenditure contributing to a particular programme area are provided in an index on pages 437-445 in Volume I of the 1990-91 Estimates. This index further provides details by head of expenditure of individual objectives which contribute to a programme area.

**3** The analysis provided in this appendix shows how resources have been and are planned to be allocated to different programme area groups. The analysis therefore presents two perspectives:

**Historical**

—an analysis of the changes in the share of total expenditure on programme area groups and the balance between them over the last five years (1985-86 to 1989-90).

**Forecast**

—an analysis of the planned changes in the share of total expenditure on programme area groups and the balance between them over the five years (1989-90 to 1993-94). This forecast is made on the basis of current trends and expected commitments but does not take into account new or improved services not already planned(2).

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(1) This analysis is expressed in Consolidated Public Sector expenditure terms as defined in Table 4 of Appendix A and includes expenditure of the Hong Kong Housing Authority, the Urban Council and the Regional Council.

(2) Planned changes take account of existing capital programmes, the recurrent consequences in terms of staffing and running costs of new capital assets once completed, underlying requirements of service and service improvements either already under implementation or to be implemented.

## Appendix B—Contd.

**HISTORICAL PERSPECTIVE: THE MAJOR FEATURES**

4 The changing share of expenditure on programme area groups from 1985-86 to 1989-90 is illustrated in the following table:

**Consolidated Public Sector Expenditure by Programme Area Groups 1985-86 to 1989-90** *Table 1*

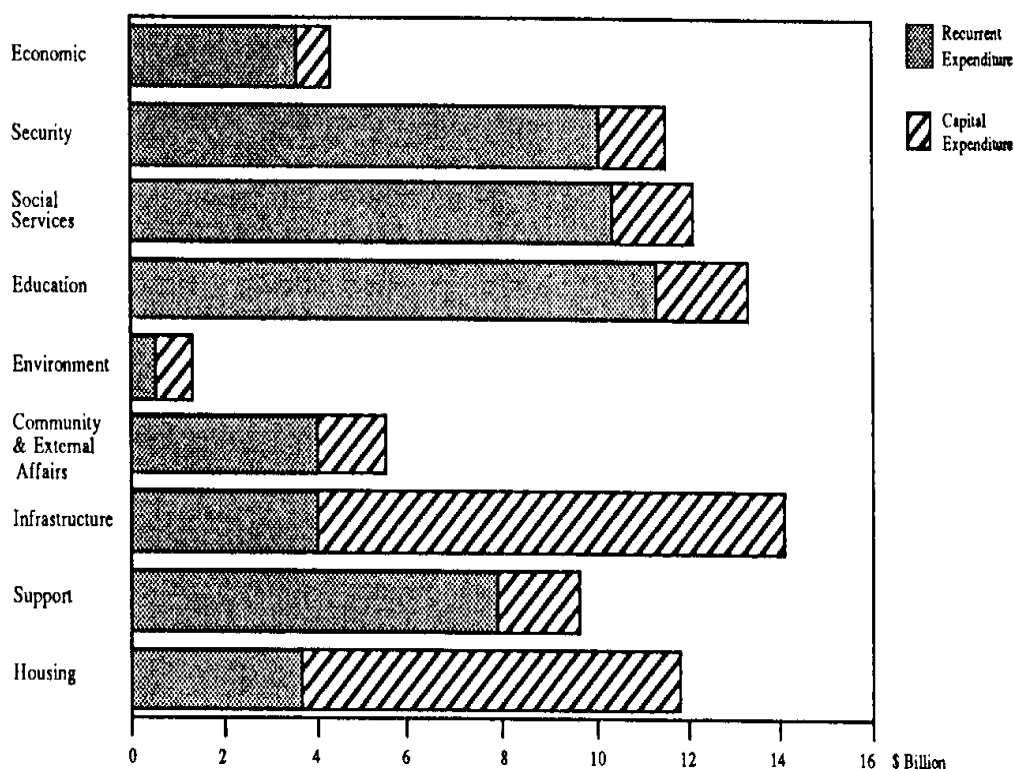
Programme Area Groups	Actual				Revised Estimate
	1985-86	1986-87	1987-88	1988-89	1989-90
	%	%	%	%	%
<b>(A) Economic</b>	5.1	5.4	5.6	5.5	5.2
<b>(B) Security</b>					
(1) Internal Security	12.6	13.1	12.8	12.5	11.8
(2) Immigration	0.8	0.9	0.9	0.9	0.9
(3) Other	1.3	1.4	1.1	1.1	1.0
	14.7	15.4	14.8	14.5	13.7
<b>(C) Social Services</b>					
(1) Social Welfare	5.8	5.8	5.9	5.9	5.8
(2) Health	8.5	9.1	9.3	8.8	8.7
	14.3	14.9	15.2	14.7	14.5
<b>(D) Education</b>	16.7	17.5	17.1	17.5	15.9
<b>(E) Environment</b>	1.0	0.8	0.8	0.8	1.6
<b>(F) Community and External Affairs</b>					
(1) Recreation, Culture and Amenities	6.5	5.8	5.9	5.6	5.6
(2) District and Community Relations	0.6	0.7	0.7	0.7	0.7
(3) Other	0.3	0.3	0.3	0.3	0.3
	7.4	6.8	6.9	6.6	6.6
<b>(G) Infrastructure</b>					
(1) Transport	4.7	4.4	5.3	4.7	5.0
(2) Land and Buildings	6.2	6.2	5.2	5.6	8.6
(3) Water Supply	3.0	3.3	3.3	3.3	3.3
	13.9	13.9	13.8	13.6	16.9
<b>(H) Support</b>	14.2	13.2	12.7	11.7	11.5
<b>(I) Housing</b>	12.7	12.1	13.1	15.1	14.1
	100.0	100.0	100.0	100.0	100.0
	\$m	\$m	\$m	\$m	\$m
<b>Total Consolidated Public Sector expenditure</b>	43,444	47,930	53,636	64,799	83,600

## Appendix B—Contd.

5 It should be noted that the volatility in spending on some programme area groups is partly a reflection of the element of capital spending within the total. Capital expenditure is, by its nature, volatile. The following diagram shows the relationship between capital and recurrent spending for each programme area group in 1989-90:

Consolidated Public Sector Expenditure  
by Programme Area Groups  
(1989-90 Revised Estimate)

Diagram 1



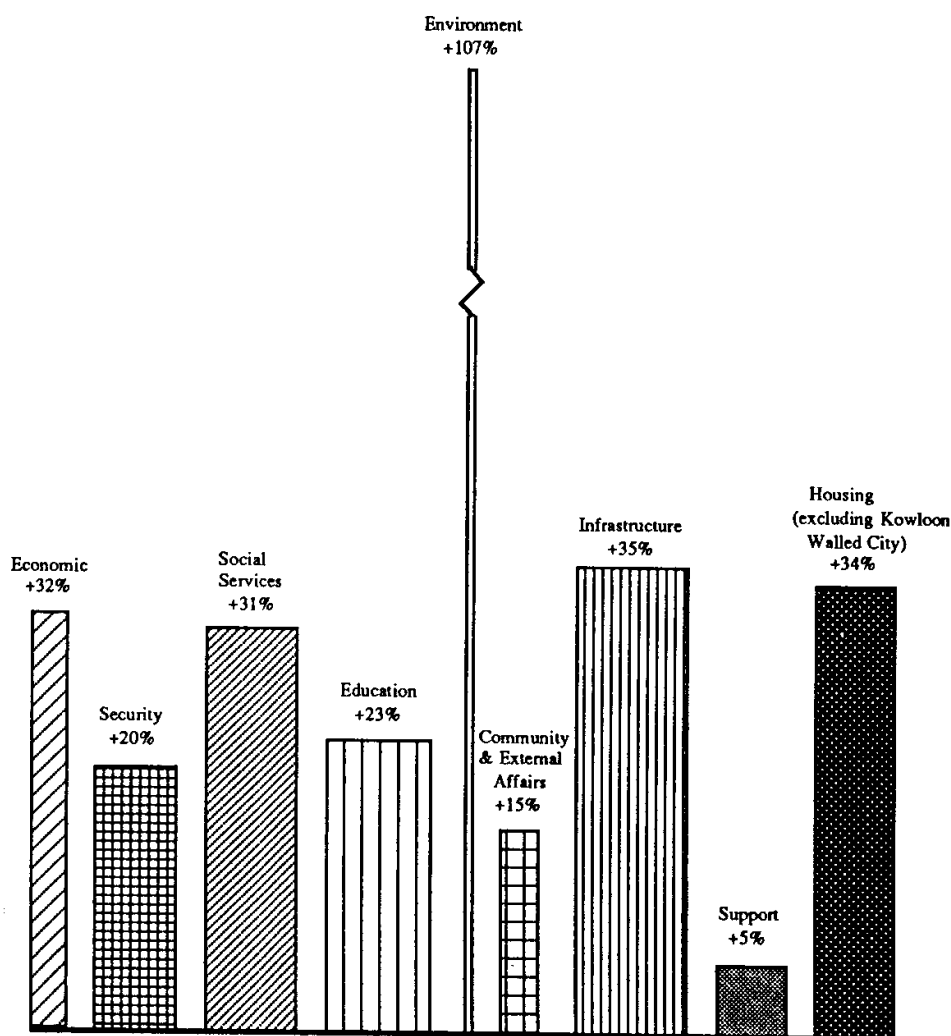
6 It will be noted that capital expenditure accounts for 57% of spending on the *Environment* group, 71% on *Infrastructure* and 68% on *Housing*.

7 Since 1985-86, expenditure on *Infrastructure* as a share of total spending has increased from 13.9% to 16.9% largely as a result of land formation. The share for *Housing* has increased from 12.7% to 14.1%. The share for *Security* and for *Education* has declined and has held steady for *Social Services* and *Economic*. But expenditure on all these programme area groups has increased in real terms as illustrated in Diagram 2.

8 The percentage changes in real terms in spending for each programme area group comparing 1985-86 and 1989-90 are illustrated in the following diagram:

Diagram 2

Percentage Changes (in real terms)  
in Spending for Programme Area Groups  
Comparing 1985-86 and 1989-90



Note: The width of each bar on the horizontal axis is proportional to the 1989-90 Revised Estimate

Appendix B—*Contd.*

**9** Consolidated Public Sector expenditure over the period increased by about 25% in real terms equivalent to an annual growth rate of about 6%. This compares with an average annual growth rate of GDP of around 8%.

**10** Within the overall growth, some sectors have grown significantly in terms of expenditure. The *Economic, Social Services, Environment, Infrastructure* and *Housing* groups have grown at rates above the average.

	<i>Total Real Growth</i> 1985-86 to 1989-90 %	<i>Average Annual</i> <i>Growth Rate %</i>
Economic	32	7.2
Social Services	31	7.0
Environment	107	29.9
Infrastructure	35	8.0
Housing	34	7.8

**11** Within other groups, expenditure on *District and Community Relations* increased by 50%, on *Immigration* by 45%, on *Health* by 32%, on *Transport* by 37% and on *Water Supply* by 42%.

## Appendix B—Contd.

**FORCAST OF TRENDS IN CONSOLIDATED PUBLIC SECTOR  
EXPENDITURE 1989-90 TO 1993-94**

12 Table 2 shows Consolidated Public Sector expenditure over the period from 1989-90 to 1993-94 and the forecast share for programme area groups.

**Consolidated Public Sector Expenditure by Programme Area Groups 1989-90 to 1993-94** Table 2

Programme Area Groups	Revised Estimate	Forecast			
	1989-90	1990-91	1991-92	1992-93	1993-94
	%	%	%	%	%
<b>(A) Economic</b>	5.2	5.7	5.2	4.7	4.7
<b>(B) Security</b>					
(1) Internal Security	11.8	11.5	11.3	11.2	11.1
(2) Immigration	0.9	1.0	1.0	1.0	1.0
(3) Other	1.0	1.0	1.0	1.0	1.0
	13.7	13.5	13.3	13.2	13.1
<b>(C) Social Services</b>					
(1) Social Welfare	5.8	6.1	6.3	6.5	6.7
(2) Health	8.7	9.4	10.5	11.1	11.1
	14.5	15.5	16.8	17.6	17.8
<b>(D) Education</b>	15.9	15.0	15.6	15.9	15.5
<b>(E) Environment</b>	1.6	2.1	2.8	2.6	3.4
<b>(F) Community and External Affairs</b>					
(1) Recreation, Culture and Amenities	5.6	6.0	5.7	5.6	6.0
(2) District and Community Relations	0.7	0.7	0.7	0.7	0.7
(3) Other	0.3	0.3	0.3	0.3	0.3
	6.6	7.0	6.7	6.6	7.0
<b>(G) Infrastructure</b>					
(1) Transport	5.0	4.7	5.2	4.9	4.8
(2) Land and Buildings	8.6	6.7	6.9	6.6	5.6
(3) Water Supply	3.3	3.3	3.6	4.4	5.7
	16.9	14.7	15.7	15.9	16.1
<b>(H) Support</b>	11.5	13.5	12.0	12.0	12.0
<b>(I) Housing</b>	14.1	13.0	11.9	11.5	10.4
	100.0	100.0	100.0	100.0	100.0
<b>Total Consolidated Public Sector expenditure</b>	\$m	\$m	\$m	\$m	\$m
	83,600	103,640	118,850	132,780	148,510

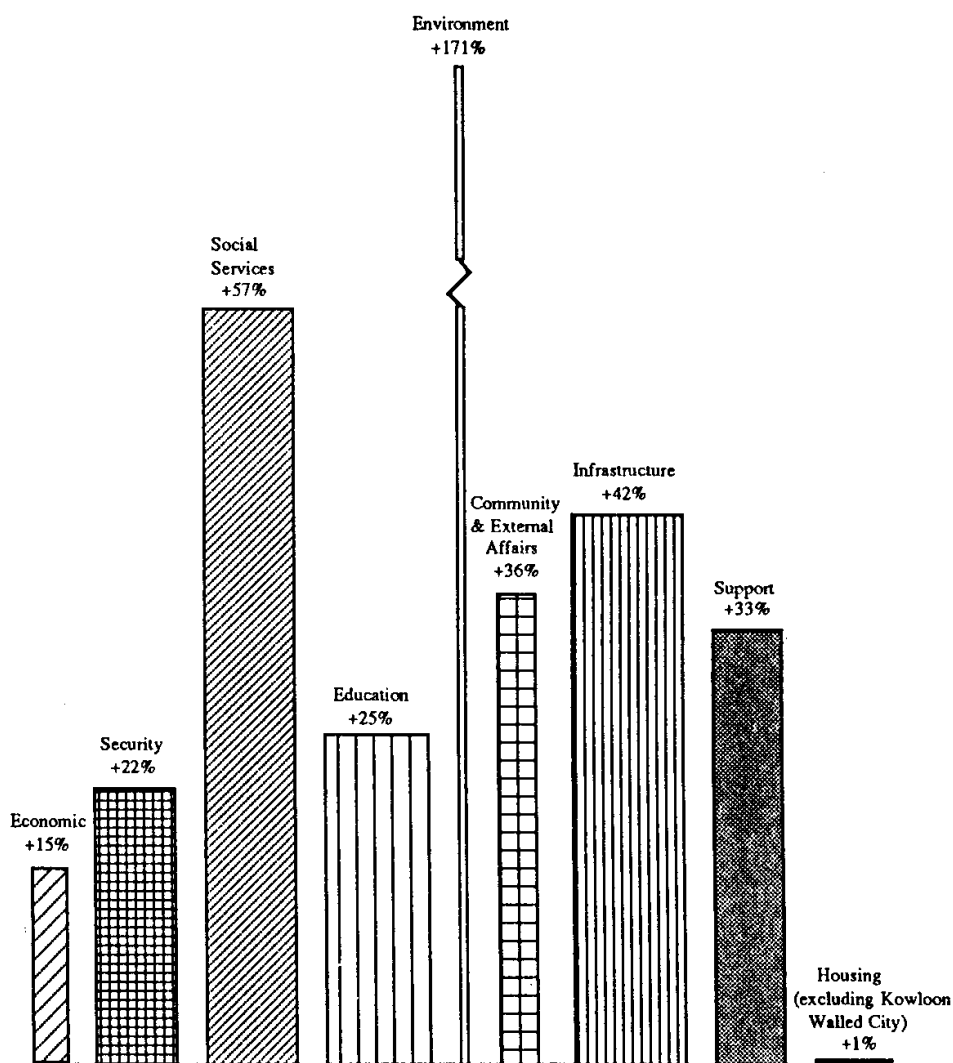




16 The forecast percentage changes in real terms in spending for each programme area group comparing 1989-90 and 1993-94 are illustrated in the following diagram:

Diagram 4

Percentage Changes (In real terms)  
in Spending for Programme Area Groups  
Comparing 1989-90 and 1993-94



Note: The width of each bar on the horizontal axis is proportional to the 1989-90 Revised Estimate

Appendix B—*Contd.*

**17** Table 2 and Diagram 4 show continued increased expenditure on *Environment*. Real growth is estimated to be 171% in the period 1989-90 to 1993-94—an average annual growth of around 30%. These increases are from a relatively small expenditure base and indicate the acceleration of Government programme to improve the environment.

**18** Spending on *Social Services* will increase by 57% which includes growth of 63% on *Health* resulting largely from the establishment of the Hospital Authority, improved conditions in the subvented sector and commissioning of new hospitals.

**19** Spending on *Community and External Affairs* will increase by 36%.

**20** Spending on *Infrastructure* will increase by 42% and within that group spending on *Water Supply* will increase by 121% largely because of capital expenditure on the distribution system. Spending on *Transport* including roads will increase by around 23%. The bulk of expenditure on the major infrastructural programme (other than airport) announced last year will fall beyond the forecast period and after 1993-94 it is expected that this group of programmes will account for a greater share of total expenditure.

**21** The forecast expenditure in Table 2 is below the expenditure levels shown in the Medium Range Forecast in Appendix A. The difference indicates the limited scope for additional expenditure on services and new initiatives which is yet to be determined. It will be increasingly necessary to review existing and planned spending commitments to release resources for new or improved services.

## KEY TO CLASSIFICATION OF EXPENDITURE

Programme Areas	Reference§
(A) <i>Economic</i>	
(1) Monetary Affairs	Government Secretariat (Monetary Affairs Branch) Miscellaneous Services (part) Registrar General's Department (part) Subventions: Non-Departmental Public Bodies (part) Capital Works Reserve Fund: payments in respect of— Major Systems—Government Secretariat (Monetary Affairs Branch)
(2) Food Supply	Agriculture and Fisheries Department (part) Electrical and Mechanical Services Department (part) Government Secretariat (Economic Services Branch—part) Capital Works Reserve Fund: payments in respect of— Food Supply and related support projects ‡Development Loan Fund: payments in respect of— Primary Products
(3) Air and Sea Communications	Civil Aviation Department (part) Civil Engineering Services Department (part) Electrical and Mechanical Services Department (part) Government Secretariat (Economic Services Branch—part) Marine Department (part) Royal Observatory (part) Capital Works Reserve Fund: payments in respect of— Aviation and Shipping projects Major Systems—Civil Aviation Department (part) —Marine Department (part) Support projects—Royal Observatory (part)
(4) Posts, Telecommunications and Power	Electrical and Mechanical Services Department (part) Government Secretariat (Economic Services Branch—part) Post Office (part) Capital Works Reserve Fund: payments in respect of— Major Systems—Post Office Post, Telecommunication and related support projects
(5) Travel and Tourism	Government Secretariat (Economic Services Branch—part) Subventions: Non-Departmental Public Bodies (part)
(6) Trade and Industry	Agriculture and Fisheries Department (part) Census and Statistics Department (part) Customs and Excise Department (part) Government Secretariat (Trade and Industry Branch—part) Government Secretariat: Overseas Offices (part) Industry Department Miscellaneous Services (part) Post Office (part) Registrar General's Department (part) Subventions: Miscellaneous (part)

Programme Areas	Reference§
(A) <i>Economic—Contd.</i>	
(6) Trade and Industry — <i>Contd.</i>	Subventions: Non-Departmental Public Bodies (part)
	Trade Department
	Capital Works Reserve Fund: payments in respect of—
	Major Systems—Customs and Excise Department (part)
	—Trade Department
	Support projects—Customs and Excise Department (part)
	†Development Loan Fund: payments in respect of—
	Development of Industrial Estates
	Industry
(7) Public Safety	Agriculture and Fisheries Department (part)
	Electrical and Mechanical Services Department (part)
	Government Secretariat (Economic Services Branch—part)
	Royal Observatory (part)
(8) Employment	Government Secretariat (Education and Manpower Branch—part)
	Labour Department
	Registry of Trade Unions
	Technical Education and Industrial Training Department (part)
	Capital Works Reserve Fund: payments in respect of—
	Technical Education and Industrial Training Subventions projects (part)
	Support projects—Labour Department
(B) <i>Security</i>	
(1) Internal Security	Auxiliary Medical Services
	Civil Aid Services
	Civil Aviation Department (part)
	Civil Engineering Services Department (part)
	Correctional Services Department
	Customs and Excise Department (part)
	Electrical and Mechanical Services Department (part)
	Fire Services Department
	Government Laboratory (part)
	Government Secretariat (Security Branch—part)
	Internal Security: Miscellaneous Measures
	Marine Department (part)
	Miscellaneous Services (part)
	Police Complaints Committee
	Police: Royal Hong Kong Police Force
	Royal Hong Kong Auxiliary Air Force
	Royal Hong Kong Regiment (The Volunteers)
	Royal Observatory (part)
	Subventions: Miscellaneous (part)

Appendix B—*Contd.*

Programme Areas	Reference§
(B) <i>Security—Contd.</i>	
(1) Internal Security— <i>Contd.</i>	Capital Works Reserve Fund: payments in respect of— Equipment Consequential on Major Capital Projects—Fire Services Department Law and Order and related support projects (Police and Correctional Services) Public Safety and related support projects (Ambulance and Fire Services) Support projects—Border facilities —Civil Aid Services —Royal Observatory Major Systems—Civil Aviation Department (part) —Customs and Excise Department (part) —Fire Services Department —Government Secretariat (Security Branch) —Marine Department (part) —Police: Royal Hong Kong Police Force —Royal Hong Kong Auxiliary Air Force —Royal Observatory
(2) Immigration	Government Secretariat (Security Branch—part) Immigration Department Capital Works Reserve Fund: payments in respect of— Major Systems—Immigration Department Support projects—Immigration Department
(3) Legal Administration	Legal Department Capital Works Reserve Fund: payments in respect of— Major Systems—Legal Department
(4) Judicial Administration	Judiciary Capital Works Reserve Fund: payments in respect of— Law and Order projects (Judiciary)
(5) Anti-Corruption	Independent Commission Against Corruption Capital Works Reserve Fund: payments in respect of— Major Systems—Independent Commission Against Corruption
(C) <i>Social Services</i>	
(1) Social Welfare	Education Department (part) Government Secretariat (Health and Welfare Branch—part) Post Office (part) Social Welfare Department (part) Subventions: Miscellaneous (part) Technical Education and Industrial Training Department (part) Transport Department (part) Capital Works Reserve Fund: payments in respect of— Education projects (part) Education Subventions projects (part) Social Welfare and related support projects Major Systems—Social Welfare Department Lotteries Fund payments
(2) Health	Agriculture and Fisheries Department (part) Department of Health (part) Electrical and Mechanical Services Department (part) Government Laboratory (part)

Appendix B—*Contd.*

Programme Areas	Reference§
(C) <i>Social Services—Contd.</i>	
(2) <i>Health—Contd.</i>	Government Secretariat (Health and Welfare Branch—part) Hospital Services Department Subventions: Miscellaneous (part) Capital Works Reserve Fund: payments in respect of— Hospital Services Subventions projects Major Systems—Hospital Services Department Medical and Health and related support projects
(D) <i>Education</i>	Department of Health (part) Education Department (part) Government Secretariat (Education and Manpower Branch—part) Government Secretariat: Overseas Offices (part) Miscellaneous Services (part) Radio Television Hong Kong (part) Subventions: Miscellaneous (part) Subventions: Non-Departmental Public Bodies (part) Technical Education and Industrial Training Department (part) Universities and Polytechnics Capital Works Reserve Fund: payments in respect of— Education projects (part) Education Subventions projects (part) Technical Education and Industrial Training Subventions projects (part) Universities and Polytechnics Subventions projects Major System—Government Secretariat (Education and Manpower Branch) †Development Loan Fund: payments in respect of— Education ‡Student Loan Fund payments
(E) <i>Environment</i>	Agriculture and Fisheries Department (part) Civil Engineering Services Department (part) Drainage Services Department (part) Electrical and Mechanical Services Department (part) Environmental Protection Department Government Laboratory (part) Government Secretariat: Planning, Environment and Lands Branch and Works Branch (part) Marine Department (part) Capital Works Reserve Fund: payments in respect of— Environmental Protection projects
(F) <i>Community and External Affairs</i>	
(1) <i>Recreation, Culture and Amenities</i>	Electrical and Mechanical Services Department (part) Government Secretariat (Recreation and Culture Branch—part) Government Secretariat: Recreation and Culture Branch Executive Divisions Subventions: Miscellaneous (part) Subventions: Non-Departmental Public Bodies (part) Regional Council expenditure Urban Council expenditure

Programme Areas	Reference§
(F) <i>Community and External Affairs—Contd.</i>	
(1) Recreation, Culture and Amenities— <i>Contd.</i>	Capital Works Reserve Fund: payments in respect of— Recreation, Culture and Amenities projects Capital Subventions—Miscellaneous †Development Loan Fund: payments in respect of— Regional Council
(2) District and Community Relations	Buildings and Lands Department (part) Government Secretariat: City and New Territories Administration Government Secretariat: Overseas Offices (part) Housing Department (part) Miscellaneous Services (part) Rating and Valuation Department (part) Social Welfare Department (part)
(3) Broadcasting and Entertainment	Government Secretariat (Recreation and Culture Branch—part) Post Office (part) Radio Television Hong Kong (part) Television and Entertainment Licensing Authority Capital Works Reserve Fund: payments in respect of— Major Systems—Radio Television Hong Kong
(4) Sino-British Joint Declaration	Government Secretariat (Constitutional Affairs Branch—part) Capital Works Reserve Fund: payments in respect of— Support projects (part)
(G) <i>Infrastructure</i>	
(1) Transport	Electrical and Mechanical Services Department (part) Government Secretariat (Transport Branch) Highways Department Subventions: Miscellaneous (part) Transport Department (part) Capital Works Reserve Fund: payments in respect of— Major Systems—Transport Department (part) Transport projects
(2) Land and Buildings	Agriculture and Fisheries Department (part) Buildings and Lands Department (part) Civil Engineering Services Department (part) Drainage Services Department (part) Electrical and Mechanical Services Department (part) Government Secretariat: Planning, Environment and Lands Branch and Works Branch (part) Housing Department (part) Planning Department Registrar General's Department (part) Territory Development Department (part) Capital Works Reserve Fund: payments in respect of— Civil Engineering projects Land Acquisition (excluding Kowloon Walled City projects) Major Systems—Buildings and Lands Department —Registrar General's Department Public Safety projects (Landslip Prevention) †Development Loan Fund: payments in respect of— Land Development

Programme Areas	Reference§
(G) <i>Infrastructure—Contd.</i>	
(3) Water Supply	Government Secretariat: Planning, Environment and Lands Branch and Works Branch (part) Miscellaneous Services (part) Water Supplies Department Capital Works Reserve Fund: payments in respect of— Water Supplies projects
(H) <i>Support</i>	
(1) Revenue Collection and Financial Control	Audit Department Civil Aviation Department (part) Customs and Excise Department (part) Government Secretariat (Finance Branch—part) Inland Revenue Department Miscellaneous Services (part) Rating and Valuation Department (part) Treasury Capital Works Reserve Fund: payments in respect of— Major Systems—Customs and Excise Department (part) —Inland Revenue Department —Rating and Valuation Department —Treasury Support projects—Customs and Excise Department (part)
(2) Central Management of the Civil Service	Department of Health (part) General Expenses of the Civil Service Government Secretariat (Civil Service Branch) Government Secretariat: Civil Service Training Centre Government Secretariat: Overseas Offices (part) Pensions Public Service Commission Standing Commission on Civil Service Salaries and Conditions of Service Standing Committee on Disciplined Services Salaries and Conditions of Service Subventions: Miscellaneous (part) Capital Works Reserve Fund: payments in respect of— Support projects—Civil Service Training Centre
(3) Intra-Governmental Services	His Excellency the Governor's Establishment Architectural Services Department (part) Census and Statistics Department (part) Civil Engineering Services Department (part) Electrical and Mechanical Services Department (part) Information Technology Services Department Government Land Transport Agency Government Property Agency Government Secretariat (Chief Secretary's Office) Government Secretariat (Economic Services Branch—part) Government Secretariat (Finance Branch—part)



Programme Areas	Reference§
(H) <i>Support—Contd.</i>	
(3) Intra-Governmental Services— <i>Contd.</i>	Government Secretariat: Planning, Environment and Lands Branch and Works Branch (part) Government Supplies Department Information Services Department Marine Department Miscellaneous Services (part) Printing Department Rating and Valuation Department (part) Subventions: Miscellaneous (part) Territory Development Department (part) Capital Works Reserve Fund: payments in respect of— Major Systems—Architectural Services Department —Census and Statistics Department —Electrical and Mechanical Services Department —Information Technology Services Department Support projects (part)
(4) Constitutional and Electoral Affairs	Government Secretariat (Constitutional Affairs Branch—part) Legal Aid Department Miscellaneous Services (part) Subventions: Miscellaneous (part) Capital Works Reserve Fund: payments in respect of— Major Systems—Legal Aid Department
(5) Support for Members of the Executive and Legislative Councils	Office of Members of the Executive and Legislative Councils
(6) Complaints Against Maladministration	Office of the Commissioner for Administrative Complaints
(I) <i>Housing</i>	Hong Kong Housing Authority expenditure Capital Works Reserve Fund: payments in respect of— Housing Kowloon Walled City projects (including Land Acquisition) ‡Development Loan Fund: payments in respect of— Housing

§ Where a department or head of expenditure contributes to more than one programme area, details are given in the relevant controlling officer's report in Volume I of the 1990-91 Estimates.

‡ A resolution will be presented to the Legislative Council on 14 March 1990 to establish a new Loan Fund on 1 April 1990. This new Fund will assume the loan functions of the Development Loan Fund and the functions of the Student Loan Fund.

**CONTINGENT LIABILITIES AS AT 31 MARCH 1989**

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.

2 The Government's contingent liabilities as at 31 March 1989 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 the Asian Development Bank (\$671.2 million);
- (2) Outstanding currency notes demonetised 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) (\$1.1 million);
- (4) Special coins issued under L.N. 73 of 1975 (\$372.7 million);
- (5) A guarantee on notes issued by the Hong Kong Building and Loan Agency Ltd. (\$100 million);
- (6) All moneys which may become due by the Hong Kong Export Credit Insurance Corporation under contracts of insurance (\$4,682 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 Schedule to L.N. 242 of 1975 (\$2,899.7 million);
- (8) 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 Tseung Kwan O (\$2.7 million);
- (9) Possible equity injections in the Mass Transit Railway Corporation to be made on or after 31 December 1989 (\$2,500 million);
- (10) 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);
- (11) A guarantee in respect of a commercial loan to the City Polytechnic of Hong Kong for the acquisition of temporary premises (\$215 million);
- (12) A guarantee in respect of a commercial borrowing facility for the Hong Kong Nuclear Investment Company Limited (\$295 million);
- (13) Outstanding New Territories Land Exchange Entitlements (Letters A/B) (estimated monetised value of \$7,324 million); and
- (14) Outstanding litigations (\$2,156 million).

## Appendix D

**THE RECURRENT COST IMPLICATIONS OF MAJOR NEW OR IMPROVED SERVICES TO BEGIN IN 1990-91**

The following items of major developments have been selected by the Chief Secretary's Committee for implementation in 1990-91. It shows the cash cost requirement of individual items for each of the four years from 1990-91 to 1993-94. Together with some other minor items, the cash cost of proposals to be introduced in 1990-91 is about \$280 million.

<i>Description</i>	<i>Cash cost</i>			
	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>	<i>1993-94</i>
	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>
<b>Economic</b>				
(1) Setting up costs of the new Intellectual Property Department	3.7	8.1	9.3	9.9
<b>Security</b>				
(1) Increase in fees for counsel in criminal cases	4.0	8.0	8.0	8.0
<b>Social Services</b>				
(1) Provision for improvement to social welfare services	27.0	49.6	52.6	54.0
(2) Implementation of the ward steward scheme	15.0	18.0	18.0	18.0
(3) Consultants for sub-specialties	3.6	7.2	7.2	7.2
(4) Improvement of working conditions, delivery of services and the nursing establishment	27.0	65.7	88.2	110.3
<b>Education</b>				
(1) Additional funds for the Hong Kong University of Science and Technology	7.0	8.0	8.0	8.0
(2) Additional funds for the Open Learning Institute	4.0	3.0	3.0	3.0
(3) Implementation of a revised Bought Place Scheme	10.0	22.0	35.0	50.0
<b>Environment</b>				
(1) Implementation of chemical waste regulations and provisions for chemical waste treatment facilities	2.0	10.6	3.5	3.5
(2) Provision of refuse transfer stations in Hong Kong Island West and Sha Tin	15.8	0.5	20.1	20.1
<b>Community and External Affairs</b>				
(1) Setting up costs for and subvention to the Hong Kong Sports Development Board	35.0	35.0	35.0	35.0
<b>Infrastructure</b>				
(1) Establishment of the Planning Department	8.7	18.3	25.3	26.1
<b>Support</b>				
(1) Establishment of a combined income and capital means test for legal aid	12.5	25.0	25.0	25.0
(2) Improvement in vessel maintenance	22.7	18.9	19.0	19.2
(3) Increase in fees for solicitors and counsel in legal aid cases	14.5	29.0	29.0	29.0

**MAJOR CAPITAL WORKS PROJECTS TO BEGIN IN 1990-91**

The following is a list of those works/studies with a project cost of \$100 million or above budgetted to begin in 1990-91:

<i>Description</i>	<i>Project cost (\$m)</i>
<b>Port and Airport</b>	
(1) Relocation of Royal Hong Kong Auxiliary Air Force headquarters—building works	102
(2) Re provisioning of public cargo working area in Kowloon Bay	110
(3) Hong Kong International Airport—modification of east apron and Eastern Road	116
(4) Hong Kong International Airport—refurbishment of old passenger terminal building	289
(5) Container Terminal No. 8—formation of back-up areas	800
(6) Dredging and resiting of mooring buoys at Kellett Bank	325
(7) Replacement airport civil engineering study	120
(8) Route 3—country park sector (YL 3) detailed design and site investigation	226
(9) Potential port development on Tsing Chau Chai—feasibility study	150
(10) Reclamation and servicing of Tuen Mun, area 38 for special industries	1,840
<b>Environment</b>	
(11) North-east New Territories landfill, stage I, phase I	451
(12) Tolo Harbour sewerage	300
(13) Provisional extension of submarine outfall—north-west Kowloon	100
(14) Hong Kong Island South sewage disposal, stage I—Repulse Bay and Stanley	286
(15) Provision of sewers and sewage treatment plants in rural areas in the New Territories	500
<b>Reclamation</b>	
(16) Aldrich Bay typhoon shelter reclamation	125
(17) Central and Wanchai reclamation—re provisioning of Tamar	300
(18) Central and Wanchai reclamation—engineering works	5,830
(19) West Kowloon reclamation—main works	3,700
<b>Transport</b>	
(20) Kennedy Road improvements and Victoria Barracks link	119
<b>Waterworks</b>	
(21) Additional treatment and water transfer facilities for Tsuen Wan, Sha Tin, Sai Kung and urban areas—remaining works	485
(22) Chlorine absorption towers or on-site generation of chlorine/hypochlorite	275
<b>Medical</b>	
(23) Queen Mary Hospital, extension and improvements, stage III—remaining works	554
<b>Government Offices and Quarters</b>	
(24) Acquisition and refurbishment of the Hong Kong Housing Authority headquarters buildings	235
(25) Departmental quarters for disciplined services	600
<b>New Town</b>	
(26) North-west New Territories development—main drainage channels for Yuen Long and Kam Tin, stage I	678
(27) Tseung Kwan O development, phase II, stage II, engineering works	340
(28) Village improvements and development schemes in the New Territories	575
(29) Improvement, reconstruction and extension of village access roads in the New Territories	320

Appendix E—*Contd.*

2 The following is a list of major projects for which the feasibility study, design or part of the works will commence in 1990-91:

<i>Description</i>	<i>Total project cost (\$m)</i>	<i>Cost of part to start in 1990-91 (\$m)</i>
<b>Environment</b>		
(1) South-east New Territories landfill, stage I	494	10
(2) Strategic sewage disposal scheme, stage II—oceanic outfall	2,991	53
(3) Nutrient removal from Tolo Harbour—effluent export scheme	830	453
<b>Transport</b>		
(4) Improvements to resumed private streets	272	54
(5) Smithfield Extension, Belcher's Bay link, elevated road to Kennedy Town and Central walkway extension	1,410	104
<b>Waterworks</b>		
(6) Waterworks to cater for water supply from China beyond 1994	3,050	2,000
(7) Additional treatment and water transfer facilities for the metropolitan area and north-east New Territories	1,100	80
<b>New Town</b>		
(8) Sheung Shui/Fanling water supply—remaining works	113	88
(9) Tin Shui Wai development, package 5, engineering infrastructure	630	470