

1 HONG KONG LEGISLATIVE COUNCIL -- 4 March 1992

HONG KONG LEGISLATIVE COUNCIL -- 4 March 1992 1

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 4 March 1992

The Council met at half-past Two o'clock

PRESENT

THE DEPUTY PRESIDENT

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

THE CHIEF SECRETARY

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

THE FINANCIAL SECRETARY

THE HONOURABLE NATHANIEL WILLIAM HAMISH MACLEOD, C.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 MRS SELINA CHOW LIANG SHUK-YEE, O.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, O.B.E., J.P.

THE HONOURABLE NGAI SHIU-KIT, O.B.E., J.P.

THE HONOURABLE PANG CHUN-HOI, M.B.E.

THE HONOURABLE SZETO WAH

THE HONOURABLE TAM YIU-CHUNG

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

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

THE HONOURABLE EDWARD HO SING-TIN, O.B.E., J.P.

THE HONOURABLE RONALD JOSEPH ARCULLI, J.P.

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

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

THE HONOURABLE MRS MIRIAM LAU KIN-YEE, J.P.

THE HONOURABLE LAU WAH-SUM, O.B.E., J.P.

DR THE HONOURABLE LEONG CHE-HUNG

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

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

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

THE HONOURABLE ALBERT CHAN WAI-YIP

PROF THE HONOURABLE EDWARD CHEN KWAN-YIU

THE HONOURABLE VINCENT CHENG HOI-CHUEN

THE HONOURABLE MOSES CHENG MO-CHI

THE HONOURABLE MARVIN CHEUNG KIN-TUNG, J.P.

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE CHIM PUI-CHUNG

REV THE HONOURABLE FUNG CHI-WOOD

THE HONOURABLE FREDERICK FUNG KIN-KEE

THE HONOURABLE TIMOTHY HA WING-HO, M.B.E., J.P.

THE HONOURABLE MICHAEL HO MUN-KA

DR THE HONOURABLE HUANG CHEN-YA

THE HONOURABLE SIMON IP SIK-ON, J.P.

DR THE HONOURABLE LAM KUI-CHUN

DR THE HONOURABLE CONRAD LAM KUI-SHING

THE HONOURABLE LAU CHIN-SHEK

THE HONOURABLE MISS EMILY LAU WAI-HING

THE HONOURABLE LEE WING-TAT

THE HONOURABLE GILBERT LEUNG KAM-HO

THE HONOURABLE ERIC LI KA-CHEUNG, J.P.

THE HONOURABLE FRED LI WAH-MING

PROF THE HONOURABLE FELICE LIEH MAK, O.B.E., J.P.

THE HONOURABLE MAN SAI-CHEONG

THE HONOURABLE STEVEN POON KWOK-LIM

THE HONOURABLE HENRY TANG YING-YEN, J.P.

THE HONOURABLE TIK CHI-YUEN

THE HONOURABLE JAMES TO KUN-SUN

DR THE HONOURABLE SAMUEL WONG PING-WAI, M.B.E., J.P.

DR THE HONOURABLE PHILIP WONG YU-HONG

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE HOWARD YOUNG

THE HONOURABLE ZACHARY WONG WAI-YIN

ABSENT

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

THE HONOURABLE NG MING-YUM

IN ATTENDANCE

MR DAVID ALAN CHALLONER NENDICK, C.B.E., J.P.

SECRETARY FOR MONETARY AFFAIRS

THE HONOURABLE EDWARD BARRIE WIGGHAM, C.B.E., J.P.

SECRETARY FOR THE CIVIL SERVICE

MRS ANSON CHAN, C.B.E., J.P.
SECRETARY FOR ECONOMIC SERVICES

MR MICHAEL LEUNG MAN-KIN, C.B.E., J.P.
SECRETARY FOR TRANSPORT

MR YEUNG KAI-YIN, J.P.
SECRETARY FOR THE TREASURY

MR JOHN CHAN CHO-CHAK, L.V.O., O.B.E., J.P.
SECRETARY FOR EDUCATION AND MANPOWER

MR MICHAEL SUEN MING-YEUNG, J.P.
SECRETARY FOR HOME AFFAIRS

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

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

MR CHAU TAK-HAY, J.P.
SECRETARY FOR TRADE AND INDUSTRY

MR JAMES SO YIU-CHO, O.B.E., J.P.
SECRETARY FOR RECREATION AND CULTURE

MR MICHAEL SZE CHO-CHEUNG, I.S.O., J.P.
SECRETARY FOR CONSTITUTIONAL AFFAIRS

MISS ELAINE CHUNG LAI-KWOK, J.P.
SECRETARY FOR WORKS

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 L.N. No.

Water Pollution Control (North Western Water
Control Zone) Order.....
37/92

Water Pollution Control (North Western Water
Control Zone) (Appointed Days) Order..... 38/92

Statement of Water Quality Objectives (North
Western Water Control Zone).....
39/92

Antiquities and Monuments (Declaration of
Historical Building) Notice 1992.....
40/92

Copyright Ordinance (Amendment of Schedule)
Notice
1992..... 41/92

Noise Control Ordinance (Commencement)
Notice
1992..... 42/92

Sessional Papers 1991-92

No. 56 -- Draft Estimates for the year ending 31 March 1993;
Volume I General Revenue Account - Expenditure
Summaries and Controlling Officers' Reports

No. 57 -- Draft Estimates for the year ending 31 March 1993;
Volume II General Revenue Account - Expenditure by
Heads and Subheads

No. 58 -- Draft Estimates for the year ending 31 March 1993;
Volume III - Fund Accounts

No. 59 -- Regional Council's revised Estimates of
Expenditure 1991-92

Written answers to questions

Route 3 highway projects

1. MR GILBERT LEUNG asked: In view of the anticipated sharp increase of cross-border traffic between Lok Ma Chau and Guangzhou upon the scheduled completion of Phase I of Zhu-Shen Expressway in the Guangdong province in mid-1993 and the report that the section of Route 3 connecting Yuen Long with Lok Ma Chau to provide a link with the above Expressway will not be in place until 1998, will the Government inform this Council whether the timetable of the highway projects for Route 3, particularly the section connecting Yuen Long with Lok Ma Chau, will be reviewed; and if not, what contingency plan is available to alleviate the traffic congestion which may be expected to build up at the bottlenecks in that part of the transport network during the intervening period?

SECRETARY FOR TRANSPORT: Mr Deputy President, the section of road between Yuen Long and Lok Ma Chau is part of Route 2, not Route 3. It is planned to be a dual-three lane expressway forming the final section of the New Territories Circular Road. Construction of that part of the road from Lok Ma Chau to Fairview Park has already been completed and opened to traffic. The section from Fairview Park to Au Tau is due for completion in October this year. The road will have ample capacity to meet the projected increase in traffic using Lok Ma Chau border crossing after the opening of Phase I of the Zhu-Shen Expressway.

In addition, the Tuen Mun - Yuen Long Eastern Corridor and the Yuen Long Southern By-pass, due for completion in July 1993 and July 1994 respectively, will help ensure a smooth flow of traffic to and from the border.

As an alternative to this route, vehicles crossing the border at Lok Ma Chau can travel to the urban area via the New Territories Circular Road and the Tolo Highway. Both will have sufficient capacity to meet traffic demand after the opening of the Zhu-Shen Expressway.

As regards that section of Route 3 connecting Au Tau and north Tsing Yi (the Country Park Sector), preliminary design is in hand, followed by a financial consultancy in the middle of this year. The purpose is to assess the viability of this project as a "build, operate and transfer" (BOT) scheme with a view to its being implemented before 1998.

Flushing water

2. DR SAMUEL WONG asked: Will the Government inform this Council:

(a) why the proposals to use treated sewage effluent for flushing in Sha Tin, Ma On Shan, and Tai Po new town areas were dropped in 1988; and

(b) whether it would encourage the use of recycled water or water from wells for flushing purpose so as to reduce the consumption of potable water?

SECRETARY FOR WORKS: Mr Deputy President,

(a) A government working group was set up in 1985 to examine the feasibility of re-using treated sewage effluent (TSE) in the Sha Tin new town. It concluded that, whilst it was technically feasible, the TSE option was more expensive than using sea water for flushing. The findings apply equally to the Ma On Shan and Tai Po new towns. In addition, a 1988 consultancy report concluded that in order to reduce the pollution loading in Tolo Harbour, the least costly scheme was to export all effluent from Sha Tin and Tai Po Sewage Treatment Works to Kai Tak Nullah and to use sea water for flushing in the Sha Tin and Tai Po areas. Subsequently this effluent export scheme was adopted.

(b) Currently the amount of sea water used for flushing is 67%, and this will rise to 90% by 1995. For developments outside sea-water flushing supply zones, where it is presently uneconomical to provide sea water for flushing purposes, the use of potable water will not be approved for developments unless the feasibility of using stream water and well water has first been explored. To use recycled water for flushing needs special recycling plants. For the small amounts of flushing water involved this is not economically practical, and is not therefore used.

Law and order in Islands District

3. MR LEE WING-TAT asked: In relation to the Islands district, inclusive of Cheung Chau, Peng Chau, Lamma Island, Lantau Island and Po Toi Island, will the Government inform this Council:

(a) what have been the statistics of various crimes and their detection rates for the past three years (1989, 1990 and 1991);

(b) whether the statistics show an increase in triad-related activities, use of holiday flats for indecent and criminal harbouring purposes, and mechanized sampan thefts;

(c) what police strategies there are to tackle these three types of law and order problems?

SECRETARY FOR SECURITY: Mr Deputy President, the Islands Police District includes all the islands referred to in the question, except Po Toi, which is within the South Division of the Marine Police Region.

In the past three years (1989, 1990 and 1991), the total numbers of cases of reported crime in the Islands District were 857, 818 and 942 respectively. The corresponding detection rates were 50.6%, 45.4% and 42.5%.

There were 13 triad-related cases in 1989; 12 in 1990 and 20 in 1991. Holiday flats in the Islands District are occasionally used for illegal purposes, but there is no indication that such activities are increasing. As for theft of mechanized sampans, cases increased from five in 1989 to 25 in 1990 and 49 in 1991.

The police regularly carry out anti-triad operations in the Islands District. To counter thefts of motorized sampans, the police have stepped up patrols and operations. They give advice to fishermen and residents' associations on measures to prevent such crimes by, for example, removing boats onshore when not in use.

Division of the Buildings and Lands Department

4. MR LAU WONG-FAT asked: Will the Government inform this Council of the reasons for the impending division of the Buildings and Lands Department and what

organizational and practical measures it is taking to reassure the public that the division will not result in increase in expenditure, waste of resources, duplication of work and inconvenience to members of the public through a greater degree of bureaucracy?

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr Deputy President, the main effect of the impending division of the Buildings and Lands Department will be to establish the Buildings Ordinance Office as a separate department to be known as the Buildings Department and the division of the present Buildings and Lands Department headquarters accordingly.

Greater emphasis and fresh impetus is required to deal with the problems of safety and maintenance in private buildings. These efforts will be assisted if the identity and authority of the department and its officials responsible for control and enforcement activities in this field are more clearly established in the eyes of the public. Experience has shown that productivity and accountability can be improved significantly by the establishment of functional departments. Recent examples are the Planning Department and the Drainage Services Department; but over the years there have been many others.

The re-organization will be achieved at no additional cost. There will be no basic changes in the systems of land administration and building control, which are at present operated by the Lands Administration Office (including the District Lands Offices) and the various divisions of the Buildings Ordinance Office, and will continue under the aegis of the future Lands Department and Buildings Department. Co-ordination between the two functions, and with other departments such as the Planning Department, the Environmental Protection Department and the Works Department, will also continue on the present basis.

The new arrangements will enable a better balance between the departments and their programme areas and resource requirements to be maintained at the policy branch level in the Planning, Environment and Lands Branch.

Assurances along these lines will be given and elaborated on at the various stages of the processing of the re-organization proposals and will be fully publicized once implementation is able to start.

Exhaust systems of restaurant kitchens

5. MR STEVEN POON asked: Given that noise, heat and oily smells from exhaust systems of restaurant kitchens often cause nuisance to residents and pedestrians in the vicinity, will the Administration inform this Council:

(a) how the installation and operation of such exhaust systems are regulated and approved;

(b) whether restaurant operators are required to take measures to ensure that no particles and smells are produced from these exhaust systems; and

(c) of the number of complaint cases received in the past five years, how many have not been satisfactorily resolved and what are the reasons?

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr Deputy President, as the licensing authority for restaurants, the municipal councils require all restaurant operators to comply with certain licensing requirements before the issue of licences. The installation and operation of exhaust systems of restaurant kitchens are regulated by licensing conditions which stipulate that exhaust fumes should be discharged in a manner and at such a position as not to cause nuisance. A Letter of Compliance in respect of the installation should also be obtained from the Director of Fire Services. Breach of licensing conditions can result in suspension or cancellation of the licence, after sufficient warnings have been given. In addition, restaurant operators are also required to submit plans for the installation or alteration of any furnace, oven or chimney to the Director of Environmental Protection for prior approval.

Restaurant operators are required to take precautionary measures to ensure that the exhaust systems are operated and maintained properly. In the case of emission of particles and smell from such systems, the municipal councils are empowered to serve a notice requiring the restaurant operator to abate the nuisance. In addition, the Administration can also serve notices under the Air Pollution Control Ordinance and the Noise Control Ordinance to require the abatement of the nuisance or the installation of additional pollution control equipment. In the event of non-compliance with these abatement notices, legal action can be taken as appropriate.

Over the past five years, the municipal councils have received 1 349 complaints. Furthermore, during the period 1989-1991 the Environmental Protection Department received 360 complaints against kitchen fume and odour and 300 complaints against noise from kitchen exhaust systems. All cases have been satisfactorily resolved.

Mutual aid committees

6. REV FUNG CHI-WOOD asked: Will the Government inform this Council:

(a) whether the Administration has formulated any policy to render assistance to residents in public housing estates, Home Ownership Scheme (HOS) estates and private buildings in organizing mutual aid committees;

(b) whether there are any guidelines on how soon after the occupation of a building such a committee should be established;

(c) how many blocks in public housing estates and HOS estates have not yet set up mutual aid committees since occupation; how many of these blocks have been occupied for one year, two years and three years or above; and

(d) whether the Administration has figures on private buildings which have not yet set up mutual aid committees and whether it is aware of the reasons for their failure to do so?

SECRETARY FOR HOME AFFAIRS: Mr Deputy President, the Mutual Aid Committee (MAC) scheme was first introduced on a trial basis in 1973 as a form of voluntary organization in which the residents can work together to improve the security, cleanliness and maintenance of their buildings. Its value was confirmed following a review in 1974. The Government aims to encourage and assist residents in private and public buildings forming MACs.

Since MAC is a form of voluntary organization there is no question of setting a timing for its formation in each building. The normal practice is for our liaison staff in the City and New Territories Administration to make visits to residents in buildings, to explain to them the functions and benefits of an MAC and to encourage

them to form one. The final decision on MAC formation rests with the residents themselves.

Based on the information provided us by the Housing Department and the Housing Society, there are 1 732 blocks of buildings in public housing estates (both rental and sale flats included) in Hong Kong. Our register shows that there are 1 219 MACs in these buildings. In other words, MACs have been formed in more than 70% of them. We do not keep statistics on buildings which have not yet set up an MAC and are not able therefore to answer the second part of the question.

The Administration does not have figures on private buildings which have not yet set up MACs. There are 2 893 MACs formed in private buildings.

We do not know for sure the reasons as to why residents in some private buildings have not yet formed MACs. We surmise that some may have opted to form Owners' Corporations while others may not see the need to have a resident association of any kind because they experience no security, or environmental or building management problems.

Rates relief scheme

7. MR FREDERICK FUNG asked: Will the Government inform this Council of:

(a) the rates collected in 1990-91 from the urban and rural areas respectively; and

(b) under the rates relief scheme introduced in April 1991

(i) the total amount of relief granted; and

(ii) the respective amount of relief granted under the scheme for properties of public corporations (for example, race courses in Sha Tin and Happy Valley, telephone exchanges and MTR stations) and other ordinary types of buildings?

SECRETARY FOR THE TREASURY: Mr Deputy President, on the first part of the question, the rates revenue collected in 1990-91 in the Urban Council area was \$5,012 million. The corresponding figure in respect of the Regional Council area was \$1,831 million.

On the second part of the question, the total amount of rates relief granted in 1991-92 for all properties is estimated at \$1,418 million, broken down as follows:

\$ million

- (a) Private domestic properties 141.8
- (b) Public housing properties 16.3
- (c) Commercial properties 287.7
- (d) Offices 391.4
- (e) Industrial properties 250.1
- (f) Other properties (1) 330.5

1,417.8

=====

As regards relief granted to public corporations, because these organizations occupy all types of properties (other than public housing) spread out throughout the territory, it will take considerable time and staff resources to provide the full details. The purpose of the rates relief scheme introduced for 1991-92 is to limit the increase in rates payable in respect of a property to 25% of the amount payable in 1990-91. The scheme is applicable equally to all types of properties and the fact that properties are held by a public corporation will not affect the amount of rates relief to be granted.

Note (1) Other properties include schools, hospitals, racecourses, public utilities, carparks, tramways, railways, tunnels and others.

Motion

PUBLIC FINANCE ORDINANCE

THE SECRETARY FOR THE TREASURY moved the following motion:

"That with effect from 1 April 1992:

- (a) this Council approves the establishment of a special suspense account to be known as the Electrical and Mechanical Services Department Vehicle Maintenance Services

Suspense Account ("the Account");

(b) the Account shall be employed for the provision of vehicle maintenance and ancillary services by the Electrical and Mechanical Services Department;

(c) the Account shall be administered by the Financial Secretary who may in writing delegate his power of administration to other public officers;

(d) subject to section (f), the Director of Accounting Services and any public officer so authorized in writing by him may pay from public moneys such sums as may be necessary for the provision of vehicle maintenance and ancillary services by the Electrical and Mechanical Services Department and debit the payments to the Account;

(e) the Account shall be credited with any charges paid for the services so provided and any other revenue as may be authorized by the Financial Secretary; and

(f) the Account shall not at any time be in debt to an amount exceeding \$70,000,000 or such lesser sum as the Financial Secretary may determine from time to time."

He said: Mr Deputy President, I rise to move a resolution standing in my name on the Order Paper. Its purpose is to establish a special suspense account under section 30(1) of the Public Finance Ordinance for the Vehicle Section of the Electrical and Mechanical Services Department (EMSD) with effect from 1 April 1992.

The Electrical and Mechanical Services Department is responsible, among other things, for the maintenance of a fleet of about 7 000 vehicles for all government departments and the municipal councils, the Housing Authority and the Hospital Authority. In addition, the Department also deals with vehicle procurement and modification, and provides all vehicle-related technical services. At the present time, because the expenses of these services are charged to the EMSD Head of Expenditure, it is difficult for user departments to be fully aware of the costs involved in maintaining their respective fleets of vehicles.

The Vehicle Section of EMSD has been identified as a possible candidate for the introduction of a trading fund. As a first step in this direction, the Chief Secretary has approved a proposal to introduce charging for EMSD's vehicle maintenance services through the mechanism of a special suspense account. Under the Public Finance Ordinance, a special suspense account may be established for the

purpose of any commercial or industrial activity carried on by or on behalf of the Government. The resolution before Members seeks to establish a special suspense account for this purpose.

Once this special expense account comes into operation, the expenses incurred by the EMSD in providing vehicle maintenance and ancillary services will be debited to the account, while the charges paid by user departments and other public bodies for services rendered will be credited to it. Any debit balance in the account will be a charge to the General Revenue, clause (f) of the resolution provides that the amount of such debt should not exceed \$70 million at any time. This is the limit which the Legislative Council has set in respect of this special suspense account established on 1 December 1990 for financing the purchase and holding of stores by the EMSD. This clause also provides that the Financial Secretary may set a lower limit to ensure tighter control.

The aim in establishing this special suspense account is partly to promote greater cost-consciousness amongst users, and partly to foster commercial disciplines within the EMSD's Vehicle Section. The account will be monitored by a committee chaired by me.

Mr Deputy President, I beg to move.

Question on the motion proposed, put and agreed to.

First Reading of Bills

HONG KONG ACADEMY OF MEDICINE BILL

APPROPRIATION BILL 1992

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

Second Reading of Bills

HONG KONG ACADEMY OF MEDICINE BILL

THE SECRETARY FOR HEALTH AND WELFARE moved the Second Reading of: "A Bill to provide for the establishment and functions of the Hong Kong Academy of Medicine as a body corporate and matters incidental thereto."

She said: Mr Deputy President, I move that the Hong Kong Academy of Medicine Bill be read the Second time.

On this important Budget day, I am privileged to speak before the Financial Secretary and to introduce a significant Bill which marks a new era in the history of medicine in Hong Kong.

With the rapid advancement of medical sciences and technology, there is a growing need for postgraduate medical education and training to ensure that doctors continue to remain proficient in their field for the whole of their professional working lives. This is particularly the case with medical specialties.

At present, opportunities for local postgraduate education are unco-ordinated and receive no statutory recognition. Many Hong Kong doctors go overseas to further their knowledge and skills. Consequently, there has been a growing demand within the medical profession for the establishment of formal, locally-based postgraduate medical education programmes, geared towards standards and service needs defined in Hong Kong.

The Academy is being established precisely to meet those standards and to serve those needs. It will enable more doctors to undergo specialist training. In so doing, it will benefit both the profession and the community by enhancing expertise and knowledge among doctors practising in Hong Kong.

The Academy will be an umbrella organization, with a number of academy colleges each responsible for a particular medical specialty. Fellows of the Academy will be doctors who have completed a six-year course of supervised postgraduate training and passed examinations conducted by their respective academy college.

The Academy will be empowered to grant or confer specialist medical designations and to recommend to the Medical Council of Hong Kong that such be recognized as quotable qualifications. This will enable them to be distinguished by their patients as qualified specialists in their respective fields of medicine.

Here, I would like to pay tribute to the Hong Kong Academy of Medicine Preparatory Committee. The Chairman, Professor David TODD, and Members of the Committee have served in their personal capacities and have dedicated their time since February 1990 to plan for the establishment of the proposed Academy. I am grateful to them all for their careful consideration of all relevant matters, which has enabled this Bill to be placed before this Council.

Mr Deputy President, I move that the debate on this motion be adjourned.

Question on the adjournment proposed, put and agreed to.

APPROPRIATION BILL 1992

THE FINANCIAL SECRETARY moved the Second Reading of: "A Bill to apply a sum not exceeding \$103,385,645,000 to the service of the financial year ending on 31 March 1993".

CONTENTS

Paragraphs

INTRODUCTION 1-11

THE ECONOMY 12

1991 Performance 13-15

1992 Prospects 16-21

INFLATION 22-34

BUDGET STRATEGY 35-43

EXPENDITURE AND REVENUE ESTIMATES 44

The 1991-92 Outturn 45-50

Draft Expenditure Estimates 1992-93 51-63

Revenue Estimates 1992-93 64-65

The Reserves 66-71

REVENUE PROPOSALS 72-75

New Revenue Measures 76-92

Other Indirect Taxes 93-95

Tax Concessions 96-106

Implementation 107

Commentary 108

CONCLUSION 109-116

He said:

INTRODUCTION

Mr Deputy President,

I move that the Appropriation Bill 1992 be read the Second time.

2. In presenting this my first Budget, I am very conscious of Hong Kong's remarkable record of economic success during the past 40 years. My prime duty as Financial Secretary is to do all I can to ensure that this record of success continues into the future.

3. Economic success must be a Financial Secretary's first priority. Our past success has meant that the standard of living for the whole community has been transformed. It is not just that personal incomes have increased to the point where per capita GDP is now among the highest in Asia. Our economic success has been the foundation for everything we have achieved in the past 40 years in housing, health care, education and social welfare.

4. Hong Kong's economic philosophy is not difficult to describe. It is a commitment to enterprise, a commitment to low taxation and a commitment to free markets and free trade. At a time when large parts of the world are rediscovering -- or in some cases discovering for the first time -- that the market is the best means of ordering economic affairs, it is worth reminding ourselves that we in Hong Kong have never lost sight of this basic fact of economic life. We have never set our face against economic realities and the need to earn a living in the world through enterprise and efficiency.

5. I would like to make it clear at the outset that I subscribe fully to the economic philosophy which has brought prosperity to the people of Hong Kong. My Budgets will be characterized by a commitment to economic growth, by a commitment to maintain sound financial management and by a commitment to help those most in need. While I am conscious of the importance of continuity in economic policy, I am also aware that Hong Kong is in the process of transformation, and that this fact must be taken into account in framing our policies. The economy has undergone a profound structural change in recent years as a large part of our manufacturing base has been transferred to the lower cost environment of Guangdong.

6. Our trading patterns have also changed. Hong Kong's success in the 1950s and 1960s was based on trade with North America and Europe. While these markets are certainly still very important, it is now trade with our neighbours in Asia which gives our economy its dynamism.

7. But this process of transformation goes beyond the structure of the economy and

our trading patterns. The priorities and aspirations of the community are also changing. It is the Government's responsibility to take account of the community's desire for better public services. We have to take account of the fact that the proportion of elderly people in the community is increasing. We have to help the workforce adjust to the changing character of the economy. We have to continue investing in our social and physical infrastructure to secure the territory's future prosperity, and we have to face up to the inflationary pressures which arise from structural change and our shortage of resources.

8. I have no doubt that the people of Hong Kong understand that if we are to continue our record of success we must ensure the health of the economy. An open economy, dependent on volatile world markets and its capacity to respond flexibly and promptly to changing circumstances, must avoid mortgaging its future or developing a monolithic public sector. This means ensuring that the growth of public expenditure remains in step with the rate of economic growth. We cannot achieve all of our objectives at once, but we are fortunate that the success of our economy has meant that each year we are able to devote additional resources to meeting our objectives. Nevertheless, we have to set priorities and make choices. Some of these choices will be difficult.

9. In framing my Budget proposals, I have taken these issues into account. I have also been concerned to ensure sufficient financial reserves to meet both known contingencies and the future strains and challenges which are an inevitable part of our heavy dependence on external trade and of the complex economic and political transition which Hong Kong has embarked upon.

10. In sum, my aim has been to balance the need to improve our public services with the need to foster growth through enterprise. At the same time, I have sought not to add to inflation nor increase the overall cost of living of ordinary households; and to keep the reserves at a prudent level.

11. I shall start with a review of Hong Kong's economy and of the problem of inflation. I shall then deal with budgetary strategy and the public finances for the current year and for 1992-93. Finally, I shall present my revenue proposals.

THE ECONOMY

12. The prospects for economic growth in 1992 look healthy. Our estimate is that GDP will grow this year by 5% in real terms. This year's economic expansion will give Hong Kong a GDP per head of HK\$125,000 or US\$16,000. At this level, Hong Kong's GDP will be among the highest in Asia, and well ahead of a number of developed economies.

1991 Performance

13. The promising outlook for 1992 continues the encouraging trend which began to emerge in the latter part of 1990 when our growth rate started to accelerate, and we saw clear evidence of economic revival. In 1991, GDP growth was about 4%, compared with only 3% in 1990.

Gross Domestic Product

Growth rate in real terms

14. The pick-up in the tempo of our economic activity reflected a number of factors.

The most significant was the positive impact of the Memorandum of Understanding with China on the Airport Core Programme. This led to a surge in optimism throughout the business community.

15. The new, more confident atmosphere shows up most strongly in the investment figures. Investment spending grew by 10% in real terms in 1991. Particularly notable last year was the 18% rise in investment in plant and machinery. This sharp growth made a major contribution to upgrading our productive capacity and quality.

1992 Prospects

16. The healthy growth predicted for this year reflects, first and foremost, our promising trade prospects. Hong Kong is especially fortunate in the new markets it has built up in the Asian region. China, in particular, is expected to maintain strong growth, with excellent opportunities for Hong Kong firms. Japan's growth will be slower than in the past, but should still be satisfactory. Major Western markets are less encouraging. The United States and the United Kingdom appear to be emerging only slowly from recession, though Germany is doing somewhat better.

17. Much of our success in recent years must be attributed to Hong Kong's growing access to trade and investment opportunities in China, and the emergence of the Pearl River Delta as Asia's "fifth dragon". As Hong Kong's manufacturing ventures in Guangdong expand in scope and increase in sophistication, more and more of the output is shipped as re-exports of finished products with no further processing required in Hong Kong. This explains the growing importance of re-exports in our total trade. In 1991, they reached a record 70% of the overall exports. The exceptional expansion of our re-exports demonstrates their competitiveness on world markets, and I believe that this encouraging trend will continue.

Hong Kong's exports
(at current prices)

18. Against this background, I expect total exports to grow by 14% this year, with re-exports increasing by 20%. Domestic exports will perform more moderately, with growth predicted at only 2%. This slower rate of expansion is not surprising. It reflects the success with which our manufacturers have relocated operations in Guangdong province in their search for growth. It also reflects the constraints on industrial growth in Hong Kong caused by the shortages of land and, more especially, of labour.

19. There is also another factor at work : the switch from manufacturing to service activities. Our services sector supports a substantially larger volume of exports, and has generated important new sources of export earnings which should not be overlooked.

20. As always, we cannot take world markets for granted. There are protectionist clouds on the horizon, although in preparing the budget forecasts I have assumed that we will be able to successfully defend our access to export outlets during 1992. We attach much importance to the Uruguay Round of multilateral trade negotiations and vigorously support efforts to achieve the maximum liberalization possible for world trade.

21. A more immediate anxiety, however, is trade relations between China and the United States. Hong Kong is not directly involved in these negotiations. But the territory has a great deal at stake because of our heavy investments in China, the manufacturing capacity we have created in Guangdong and the fact that Hong Kong and China are each

other's largest trading partner. We were relieved that the trade issue on intellectual property was solved. We hope that a settlement will also be found for the issue on market opening measures, and that China's Most Favoured Nation status in the United States will be renewed. We shall continue to make a positive contribution to this process.

INFLATION

22. While I can be reasonably confident about robust growth in GDP this year, about further expansion of our international trade and about increased business opportunities in Southern China, I am less optimistic about the prospects for an early and significant fall in the rate of inflation. This is despite the recent downward trend.

Consumer Price Index (A)

Year-on-year rate of increase

23. The community is understandably worried about rising prices, and it is only right

that I review our prospects on this front frankly and realistically.

24. This year will see a further rise in the real growth rate of GDP to 5%, as I have already explained. This expansion in economic activity will bring higher incomes. But, at the same time, it must inevitably add to the severe pressures on existing resources, particularly of labour and land. As a result, the fall in the rate of inflation will not be as substantial as we would wish. The forecast is that the Consumer Price Index (A) will increase by an average of 9.5% this year.

25. Among the proposals which have been made for attacking inflation is adjustment to the linked exchange rate. However, I reject calls for any change in the link for two main reasons. First, those in favour of this strategy claim that we have been importing inflation because of an undervalued currency. The evidence points to the opposite. Import prices rose by only 2% last year. Moreover, since we introduced the linked rate system in 1983, the currency has actually increased in value by nearly 10%. This has enabled us to benefit from lower import prices than would otherwise have been the case. Yet domestic inflation has remained high.

Effective Exchange Rate Index of the Hong Kong dollar
(quarterly average: 24-28.10.83 = 100)

26. Secondly, the link has clearly proved its value to Hong Kong since 1983. We have enjoyed a robust and stable currency despite traumatic political and economic events. Consequently, I want to take this opportunity to reaffirm the Government's commitment to the link as an essential element in the stable financial system which is so important for Hong Kong.

27. Another suggestion is that government expenditure is somehow a source of inflationary pressures. The fact is that government spending has only a limited impact on inflation. This is not hard to explain since Hong Kong's public sector accounts for only a relatively modest share of GDP.

28. The Government is also urged to do more to beat inflation by raising productivity. I fully agree with this advice. We take very seriously the need to exploit opportunities for economy and efficiency and indeed are effectively keeping growth in the civil service to zero. We shall be pushing on with public sector reform. We are creating an Efficiency Unit. We are encouraging greater accountability, and considering privatization of commercial-type operations. For the community at large, our training programmes are being upgraded to enable workers to enhance their skills and to find new ones, and to switch from declining industries to jobs in growth sectors.

29. But productivity gains alone cannot overcome the overall shortage of resources which fuels inflation. Last year, thanks to the increased efficiency of our workforce, backed by the surge in investment which I have already mentioned, we saw a further increase in labour productivity generally. But still the pressure on prices continues. Plainly, we have to tackle the shortage of labour resources at source. The unemployment rate is currently below 2%. This is effectively full employment. It is for this reason that we have embarked on a carefully-controlled programme of labour importation.

Unemployment and Underemployment Rates

30. A widespread view among Hong Kong's economists, which I accept, is that inflation has mainly been generated by the strains and distortions involved in the restructuring of our economy. We are switching from an industrial to a mixed manufacturing/service economy. In only ten years, the proportion of our workforce employed in the services sector has increased from about 47% to 63%. And the manufacturing workforce has declined by 220 000 people. We are taking on a new role as the centre of an extensive manufacturing and commercial hinterland in Southern China.

31. This radical transformation in the fundamental character of the Hong Kong economy has created acute shortages of key professionals, executives and service workers, as well as of land and buildings. Higher living standards, and expectations of further rises in disposable incomes generated by this transformation, have also created a surge in demand for services of every kind within Hong Kong itself. The result has been inflation. It is undesirable and, for some, painful. It should gradually abate as the transformation progresses. In the meantime, we have to recognize the fact that rising prices reflect the strains created by the quest for growth and the pursuit of a higher standard of living.

32. This transformation has given us good growth despite the problems of the world economy in recent years, and has allowed our exports to remain highly competitive

despite domestic inflation. Let us remind ourselves of the alternative. We could seek to suppress inflation by a deliberate deflation. The result would be substantial unemployment, a sharp rise in the number of bankruptcies and a drastic fall in investment. The economic and social costs of such a recession are, in my view, unacceptable.

33. Even though efforts to relieve the basic causes of inflation will not produce immediate results, there are certain undesirable aspects of inflation which we must tackle. The first is the danger that as the community's living standards rise, the vulnerable, the disabled, the unskilled and the elderly will be left behind, hard hit by rising prices. To maintain the real living standards of these groups, the Government will continue to ensure that social security benefits are revised in line with the cost of living. No one will be deprived of education or medical care because of a lack of means. Prosperity brings with it an obligation for the community to protect those most at risk, especially in a period of inflation. The Government accepts this responsibility.

34. Secondly, where prices are deliberately inflated through market rigging, it is essential that we take steps to protect the public. We acted promptly last year when the prices of new flats were being driven sharply upwards by speculators. With the support of this Council, I intend to see that Hong Kong continues to enjoy markets where, as far as possible, competition ensures that the public gets a fair deal.

BUDGET STRATEGY

35. It will be clear from what I have said about Hong Kong's economic philosophy that neither I nor my predecessors have viewed the Budget as, in any significant sense, a tool for directing or managing the economy. Could the Government have engineered the transition to a service economy which promises so much for future prosperity? Clearly not. Free enterprise is the basis of economic growth, and economic decisions are best left to markets.

36. In preparing my budget proposals, I have focussed, therefore, on the management of public finances rather than attempting to manipulate macroeconomic variables. In any event, the size of the public sector is relatively small, and Hong Kong Budgets have tended to be basically neutral in macroeconomic terms, as is this one.

37. In setting about financial management, I have been determined:

- to ensure that public spending remains in line with economic growth.
- to raise sufficient revenue to cover our spending commitments, and to ensure that at least half the costs of our capital expenditure is financed by recurrent revenue.
- to maintain reserves at the level I judge adequate both to meet known commitments and to provide a cushion against future uncertainties.

38. This last guideline takes into account the need under the Memorandum of Understanding on the Airport Core Programme both to complete the Airport Core Projects by mid-1997 to the maximum extent possible, and to plan our finances with the firm objective that the future Government of the Special Administrative Region inherits fiscal reserves of at least \$25 billion. This latter commitment is entirely compatible with our traditional financial policy and budget planning. We have always followed sound monetary and fiscal policies, and sought to ensure adequate reserves. The guidelines I have adopted represent sound sense and are those which Hong Kong must follow in the future, as in the past.

39. In applying my guidelines, I have of course looked beyond the immediate requirements for the coming year. We prepare a Medium Range Forecast which normally covers the current financial year, the estimate year and three years beyond that. The latest Medium Range Forecast goes further and includes 1996-97. I judged it sensible this year to extend the forecast period by one year in order to show the position up to the last full year before the change of sovereignty. I am publishing the details of this forecast in Appendix A to this speech.

40. This forecasting procedure is a vital and effective tool of financial management. It involves a three stage process:

- First, we forecast the trend rate of economic growth. This gives us the maximum safe ceiling for the growth in public expenditure.
- Second, we forecast the basic spending pressures: the level of expenditure growth necessary to maintain existing services, to meet expected increases in demand,

to cover the recurrent implications of new capital projects due to come on stream in the forecast period, and to cover major new commitments made in previous years.

- Third, the gap between the expenditure ceiling and the expenditure forecast defines the scope for funding new commitments, provided that sufficient funds are available.

41. In planning my Budget this year, I estimated that the trend rate of growth would be 5% for the forecast period. After examining our expenditure objectives, priorities and scope for economies, I have concluded, as I shall explain later, that we will be able both to pay for the Airport Core Programme and to fund real increases in both recurrent programmes and in other capital expenditure next year. I make this prediction with confidence, given the sound policies and techniques which are a consistent feature of our public finances. I express my thanks to my colleagues in the Government Secretariat and departments for achieving this result. And I look forward to their continued co-operation in the future.

42. In this context, I should like to reassure this Council on our ability to manage the Airport Core Programme. I think the case for this massive investment in Hong Kong's future is well understood and widely accepted. The Government's share of the costs of the capital works will absorb about 25% of the total capital expenditure during the period up to 1997. It is a major commitment, but three quarters of our planned capital expenditure over the next six years will be devoted to projects other than the Airport Core Programme. I hope this puts the programme in its proper perspective.

43. Moreover, the introduction of new measures such as fixed-price lump sum contracts and cash limited provision should greatly assist us in controlling costs. Within a month or two, we should be in a position to put to Finance Committee further details of the estimated cost of the entire Airport Core Programme, and of how we propose to finance individual projects.

EXPENDITURE AND REVENUE ESTIMATES

44. Improved economic progress in 1991 and the good growth prospects for this year are matched by the encouraging state of our public finances. We enter the new financial year with the capacity to expand government spending in real terms,

prudently but significantly. At the same time, we will be able to maintain adequate reserves.

The 1991-92 Outturn

45. The latest estimate is that for 1991-92, we will record an overall budget surplus of \$14.1 billion, excluding borrowings, compared with the original forecast of \$1.3 billion. This surplus is welcome, and has been taken into account in assessing the extent to which we need further revenue measures.

46. Of the surplus, \$8 billion was the result of underspending. We budgetted originally for a total expenditure of \$104.8 billion, including equity investments. In the event, total spending came to only \$96.8 billion, some 8% lower.

47. The main reason for this shortfall in expenditure was an underspending of \$5.6 billion on public works. One factor was the inevitable slippage of some projects in the Airport Core Programme as a result of delays in concluding the negotiations on the Memorandum of Understanding last year, leading to a deferral of spending to subsequent years. In addition, we achieved some helpful savings on public works contracts, thanks to lower construction prices.

48. Buoyant revenues accounted for \$4.7 billion of the surplus. We budgetted originally for total revenues of \$106.1 billion. In the event, total revenue amounted to \$110.8 billion, or about 4% more than expected.

49. The revenue from stamp duty and land sales provided the bulk of the additional revenue. Prices at land auctions were substantially above the original forecasts. We also benefited from the sale of two major sites postponed from the previous year.

50. Last year, we began sales of government bonds, which have raised \$1.2 billion for the Capital Works Reserve Fund. Thus the total cash surplus is \$15.3 billion, bringing our fiscal reserves at the end of 1991-92 to some \$92 billion. This would cover some 76% of our total expenditure for next year. This represents a reasonable cushion against whatever shocks might be in store for us, although the proportion is not the highest in recent years.

Draft Expenditure Estimates 1992-93

51. The forecast level of economic growth and our healthy financial position make it possible to allocate increased resources for all the Government's programme areas next year. I am proposing an increase of \$13.8 billion in total government spending compared with the original estimates for 1991-92. Total expenditure will rise to \$115.1 billion. Members have already received draft estimates of expenditure, and I do not propose to go through the figures in detail this afternoon. But please note what I am saying here. Contrary to the impression many people have gained from press reports in recent months, recurrent spending on social welfare, and indeed on the social services in general, will increase in real terms next year.

52. To push this point home, I should like to review spending items of special concern to the community at large. Hong Kong has an excellent record in developing its social services. In recent years, we have made a substantial increase in the funds available for this purpose. We can now meet the demand for basic services. But the public expects higher standards and a greater range of facilities to meet the changing requirements of our rapidly developing society. We plan to respond to these expectations. Let me highlight our plans in some of the key areas.

53. Last year's White Paper on social welfare set ambitious goals for developments during the rest of this decade. The financing of this long-term programme will require careful management. My proposals for social welfare spending this year will lay the foundations for achieving our targets. We are planning for a rapid expansion over the next four years. By 1995-96, we should be able to meet 80% of the demand from the elderly for places in care-and-attention homes, and over 60% of the demand for hostel places for the mentally-handicapped. We should be able to meet in full all the demand for places in half-way houses and long-stay care homes for discharged mental patients.

54. Our commitment to meeting the community's expectations is not confined to the welfare field. Now that the Hospital Authority is operational, I should comment on government plans for financing improvements in the range and quality of hospital care. Over the next four years, we will make the funds available to increase the number of hospital beds by 5 600 or 25%.

55. We will continue to expand and upgrade services in our traditional areas of strength which we often take for granted. Year after year, the housing programme supplies subsidized flats on a massive scale. In the current financial year, 39 000 new flats will have come on stream. In this way, we make a major contribution to

the public's well being in the shape of relatively cheap but increasingly attractive modern homes. This substantial effort will continue, with 400 000 new flats planned for the public sector over the next decade.

56. The forecast for the education sector is similarly impressive. We have plans for the further improvement of primary and secondary schooling. Our drive to expand tertiary education will continue. We are investing \$18 billion over the next three academic years, so that by 1994-95 the number of first-year, first degree places will increase to 15 000, three times the number available in 1987-88.

57. Another area of special concern is law and order. Let me make it clear at the outset that the police and the other disciplined services have been given the funds they need to do the job.

58. Taking the police, for example, the operational funds allocated to them in last year's Budget came to nearly \$6 billion. Only the education of our children and the hospital services received larger allocations. This year, spending on the police force will continue to rise in real terms.

59. I have provided the finance to cover every police officer the Commissioner believes he can recruit. At the same time, we are providing the equipment so that police officers can operate at maximum efficiency. The shopping list here is extensive. We spent more than \$44 million last year upgrading computer facilities. New launches to strengthen the marine police in their fight against smuggling and other cross-border crime are being bought at a cost of \$300 million.

60. But this investment in recruitment, training and equipment must also be matched by a continuing effort to achieve even greater efficiency and to redeploy manpower and other resources to where they are most needed.

61. There are of course a number of other programme areas, all important. Further details of the main areas of expansion, and an analysis of total expenditure by programme area, are given in Appendices to this speech.

62. We must accept the challenge that the community will go on setting higher standards for us to achieve. But I must emphasize that if we are to reach our goals and provide the quality of life we want for all our people, then it is essential that we really do review our priorities and then redeploy resources as necessary.

63. To put total government expenditure in 1992-93 in perspective, it will be equivalent to 18.8% of estimated GDP, a modest increase over the previous year's figure of 17.8%. Arguably, this ratio is not the best indicator of the Government's share in the total output of goods and services. A better measure may be the proportion of GDP accounted for by the public sector in our national income accounts. This ratio will increase very little next year above the 1991-92 figure of 11.5%.

Revenue Estimates 1992-93

64. Revenue for 1992-93 before the new measures and other adjustments would total \$127.6 billion. This figure would represent a rise of 20.3% over the original estimate for 1991-92. This increase reflects the recent spurt in economic growth we have enjoyed, which we expect will boost the revenue from earnings and profits tax. Revenue from land sales will also continue at a high level. Receipts from betting duty should rise substantially. The proceeds from stamp duty, however, are forecast to decline.

65. On the basis of these estimates, the surplus in the coming year would be around \$4 billion. If a further \$2.4 billion from our bond programme is added to this, by the end of March 1993, our fiscal reserves would total \$98.2 billion.

The Reserves

66. It is important that we identify the proper role of the reserves. The only way to achieve both continuity and efficiency in developing our programmes for the future is to make sure that our spending remains in step with the pace of economic growth. Hence, it is essential that we make our plans on this realistic basis rather than tailoring them from one year to the next on the basis of available revenue, the current budget surplus or the forecast level of reserves. We must have consistency in our expenditure programmes if we are to secure the best value for money.

67. For this reason, we test our spending plans against the Medium Range Forecast for the economy, and we examine the trend growth in planned expenditure over a period rather than in terms of a single year. If we look at the results of this exercise

since we started the current planning cycle in mid-1990, we have been pretty much on target, taking the situation as a whole. For the two years 1991-92 and 1992-93, total government expenditure is expected to grow by 10.6%, against a target of 10.8%.

Comparison of Recurrent Expenditure with Guideline
(at 1991-92 price levels)

Comparison of Capital Works Expenditure with Guideline
(at 1991-92 price levels)

68. However, the Medium Range Forecast made it clear that our revenue in future years would not be sufficient to meet expenditure. Even after the revenue measures I will be proposing shortly, cash deficits will emerge after 1992-93. However, the end result will be that we shall have the reserves we need in 1996-97.

69. In addressing the need to have adequate reserves, I have been conscious that the earlier we take the measures required to augment our reserves, the greater the cumulative effect and the greater our capacity to cope with unforeseen adverse developments.

70. My package of revenue measures will generate net additional revenue of \$1.1 billion, bringing the total estimated surplus for 1992-93 to \$5.1 billion, excluding borrowings. Our forecasts indicate that after taking the additional revenue into account, the reserves will stand at \$71.6 billion at the end of March 1997, including borrowings of \$4.8 billion. This will allow us to meet our commitments under the Memorandum of Understanding while maintaining a reasonable cushion against the contingencies of the next five years. It will have the additional subsidiary advantage that this evidence of our continuing financial strength and prudence should do much to reassure potential lenders at a time when we shall be financing our infrastructural development.

71. Moreover, Hong Kong's finances in 1997 will benefit from the Hong Kong Special Administrative Region Government Land Fund. This receives and manages the share of

land sale revenue which is set aside for the future SAR government. This fund is not included in the accounts of the Hong Kong Government but will become part of the new administration's fiscal reserves in 1997. At the end of March 1991, the land revenue transferred to the fund totalled \$20.3 billion. The forecast is that it will receive a further \$7.4 billion for 1991-92 and \$8 billion in 1992-93. If these forecasts are achieved, the fund will have received \$35.7 billion by the end of March 1993, excluding interest earned. In future years, the fund will increase further, through its share of revenue from land sales and the returns from its investments.

REVENUE PROPOSALS

72. In shaping my revenue proposals, I have not focussed exclusively on the need to raise more revenue. I have taken into account the need to reduce our dependence on relatively volatile sources of revenue. I have also sought not to add to inflation, and through carefully selected tax concessions, to provide a measure of relief to the ordinary taxpayer. The overall effect of my specific proposals is effectively neutral on the CPI(A), whilst some of the other measures -- such as zero growth in the civil service, budgetting for a surplus and the planned borrowing -- are mildly deflationary.

73. I have also had very much in mind the need to plug tax loopholes whenever they appear. Hong Kong's low, simple and predictable tax regime is crucial to its successful business environment. But this commitment to a generous tax climate should not be misunderstood. Extensive tax avoidance is a clear breach of the spirit of our liberal tax arrangements and is not acceptable. Nor of course is tax evasion. Those who profit from their operations or residence here must accept their obligation to make a contribution to the community through our far-from-onerous taxes and duties.

74. One area which now demands action is the Vehicle First Registration Tax. There is increasing evidence that some importers are artificially depressing the import price of vehicles to reduce their tax liability. This may be costing several hundred million dollars a year in lost revenue. A Bill will be introduced into this Council as soon as possible to end this abuse.

75. Members are also aware that we are preparing measures to prevent speculators from avoiding stamp duty on property transactions through the device of land-holding companies. I want to repeat my message: the taxes will remain low, but where they

exist they must be paid.

New Revenue Measures

76. Let me now turn to my new revenue measures. These will yield about \$2.9 billion for 1992-93, and about \$3.8 billion in a full year. I am also proposing five concessions, which will cost \$1.8 billion for 1992-93, and about \$2.1 billion in a full year.

Corporate profits tax

77. My first proposal is to increase corporate profits tax from 16.5% to 17.5%, applicable to assessments for 1992-93. This will yield \$850 million in 1992-93, rising to \$1.6 billion in a full year. The new rate will be below the historical high of 18.5% reached in 1984-85 and represents a modest increase. It will have no appreciable impact on either local or international enthusiasm for investment in Hong Kong.

Rates

78. My next proposal concerns rates. The rateable values of all properties were revised from 1 April 1991, based on rental values as at 1 July 1990.

79. Today's rates are at an historically low level. From 1931 to 1972, they were charged at 17% of rateable values. Since then, the percentage charge has varied from as high as 18% to as low as the current 5.5%. At this level, they represent a very minor charge on ratepayers in residential properties. For the average household, rates are equal to less than 2% of household incomes. For businesses, rates are less than 1% of average operating expenses.

80. Furthermore, rates as a proportion of rental values have fallen substantially. From 1973 to 1977, they were around 8%. Today, they are less than 4%. Rates have thus declined as a proportion of the total costs of accommodation. It is very likely that this benefit has not been passed on to tenants, but has been appropriated by property owners in the form of higher rents.

81. Rates offer special advantages as a source of revenue. They broadly reflect the ratepayer's ability to pay, since they are related to the rental value of the property

occupied. At the same time, they are a stable and predictable source of revenue. I therefore propose to increase the general rates for 1992-93 by half of a percentage point. This means that the total charge to rates will be 6%. No changes are proposed to the Urban and Regional Council rates.

82. Members may recall that the rates relief scheme introduced on 1 April 1991 will end on 31 March 1992. The scheme was introduced to provide temporary relief, particularly for domestic ratepayers, to enable them to adjust to the higher rates immediately after the revaluation. But the fundamental principle of rating is that ratepayers should contribute according to the rental value of the properties they occupy. Rates relief undermines this principle and should only be a temporary measure.

83. As it happens, extending the scheme for a further year would anyway benefit less than 6% of ratepayers in domestic properties. The main beneficiaries would be ratepayers in commercial and industrial properties (about 50% of whom would be better off). The scheme has served its purpose and should not be extended.

84. The higher rates will have a moderate impact on ratepayers in domestic properties. Some seven out of 10 of these ratepayers will experience an increase of about 9% in their rates bill. In cash terms, the increase for the average private flat will be about \$43 per month. As regards public housing, the Housing Authority's rents include an element for rates and are normally revised every two years on a rolling cycle. It will be for the Authority to decide how best to reflect this rates increase in their rents. Nevertheless, I estimate that the increase in rates will come to around \$15 per month for the average Housing Authority flat.

85. Business premises will experience higher percentage increases. Rates have been very low, and even at the new levels, they will still be low compared with rents and other operating expenses. The average office tenant, for example, pays \$34 per square foot a month, which covers rent, air conditioning, management and rates. The new rates will add 80 cents, or 2.4%, to the cost per square foot a month. Details of average rates increases for the main classes of property are set out in Supplement to this speech.

86. Rates in Hong Kong will remain low by international standards. A recent survey of office accommodation revealed that in the majority of cities surveyed, rates (or similar property-based taxes) represented more than 10% of the rents, with a few around 50%. Even after the proposed increase, rates will only be about 6% of rents

in Hong Kong.

87. My proposal to increase rates by half a percentage point will increase general revenue in 1992-93 by about \$940 million. The effect on inflation, as measured by the CPI(A), will be negligible at 0.14%.

Stamp duty

88. I propose to extend the application of stamp duty to the sale or transfer of covered warrants. This is a logical extension of our existing tax system, since warrants are a routinely traded form of security. This measure will yield an additional \$140 million a year.

89. I should refer here also to a measure already passed into law by this Council. Stamp duty was imposed on sale and purchase agreements for residential property, by the Stamp Duty (Amendment) Ordinance 1992. This measure is designed to curb speculation in the domestic property market. I estimate that we will obtain an additional \$500 million a year from this source.

Betting tax

90. I propose to increase the tax rate for standard bets from 10.5% to 11.5% and for exotic bets from 17% to 17.5%. These increases will take effect from the beginning of the next racing season.

91. The Jockey Club has agreed to bear a significant proportion of the cost of the measure, and there should be no effect on turnover. I expect an additional yield of \$390 million from this measure in 1992-93.

Duty on diesel fuel used by pleasure boats

92. I propose to eliminate an inconsistency in our excise duty system and extend the requirement to pay duty on light diesel oil to locally registered pleasure craft, with effect from 1 June this year. Given the rapid growth in recent years of the number of pleasure craft, most of which use diesel fuel, I expect an additional \$80 million a year from this measure. Petrol used by such pleasure craft is already subject to duty.

Other Indirect Taxes

93. I do not propose any other increases in real terms in indirect taxation. Nevertheless, those duties which are assessed on a specific basis, as opposed to ad valorem levies, will require adjustment if real yields are not to diminish because of inflation. I am proposing a 10% increase in the duties on tobacco, hydrocarbon oils, alcoholic beverages and alcohol. Details of the new rates for these duties are set out in the Supplement to this Speech. The additional revenue yield is included in the estimated recurrent revenue forecast for 1992-93 in the Medium Range Forecast (which assumes that revenue from all sources will increase broadly in line with trend inflation).

94. I do not intend this afternoon to propose any increases in such government utility charges as water and postal charges, tunnel tolls and airport and ferry fees. We will need to consider appropriate increases to these charges during the course of this year. But the timing will be carefully phased, so that they are not bunched together and the impact on consumers can be minimized. Similar adjustments may be needed to tax-loaded fees, such as vehicle licence and company registration fees. Again, the timing of any changes will be looked at carefully.

95. Finally, Members are aware that the moratorium on government departmental fees expired on 29 February. The vast majority of these routine fees are designed to do no more than recover costs and have no impact on the Consumer Price Indices. Nevertheless, they were frozen temporarily to help break the cycle of inflationary expectation. The intended effect has been largely achieved, and routine consideration of adjustments to these fees will now resume. But any changes will be phased in gradually.

Tax Concessions

96. I turn now to tax concessions. I have had two main aims: first, to reduce or abolish taxes on certain non-luxury items which directly affect the cost of living of ordinary families; and, secondly, to ease the burden on those liable to salaries tax.

Salaries tax

97. Last year, tax bands were simplified to benefit taxpayers with lower incomes. At the same time, personal allowances for single persons and married couples were

increased. Nevertheless, there has been some criticism that the value of personal allowances has not kept pace with inflation. In assessing these criticisms, it is worth remembering that well over half of the working population of Hong Kong in fact pays no salaries tax at all; and of those who do, only 100 000 pay tax at the standard rate.

98. I have considerable sympathy with the general aim of maintaining the value of personal allowances, although this cannot be done automatically, on an annual basis, because of the need to consider detailed fiscal and economic circumstances year by year. This year, however, I am able to propose across-the-board increases in personal allowances. These will not only provide relief to taxpayers but will also result in a significant number of taxpayers dropping out of the tax net altogether.

99. I propose to increase the aggregate single and married person's allowances by over 12%, from \$41,000 and \$82,000 to \$46,000 and \$92,000 respectively. In addition, I propose increases ranging between 11% and 15% in the allowances for the first child, second child, dependent parent and single parent.

100. These proposals will cost \$850 million in 1992-93, or \$1.2 billion in a full year. They will cut the tax bill for 1.2 million taxpayers (83% of the total). A further 120 000 (8% of the total) will be freed completely from paying any salaries tax.

101. Details of these concessions, and examples of their effects upon various categories of taxpayer, are set out in the Supplement to this Speech. They will take effect from the year of assessment commencing 1 April 1992.

Duty on soft drinks

102. Duty on soft drinks was introduced in 1985 as a revenue raising measure. I propose to abolish it with effect from this afternoon. This concession will cost the revenue about \$230 million a year. I have taken steps which should ensure that the full benefit is passed on to consumers. I have told the soft drinks industry that we expect no price increases for at least twelve months or, where increases were introduced this year, a price reduction to reflect fully the abolition of the duty. The industry's representative association in Hong Kong has undertaken to persuade its members to do so. As a result, there should be a small but beneficial effect on the Consumer Price Indices.

Entertainments tax on cinema tickets

103. Entertainments tax is levied under the Entertainments Tax Ordinance introduced over 60 years ago in response to the new-fangled "cinematographic exhibitions" of the time. The provisions relating to cinemas are now outdated and arguably put cinemas at an unfair disadvantage when compared with home entertainment.

104. I propose to abolish the tax in respect of cinema tickets with effect from 1 April this year. The tax now accounts for roughly 10% of the cost of a normal cinema ticket. The abolition should therefore help to keep down the cost of this popular form of entertainment. It should also have a useful, if minor, impact on the Consumer Price Indices. The cost to the revenue will be only \$130 million a year. I have received assurances from Hong Kong's two largest cinema operators that the full benefit of this concession will be passed on to cinema-goers and that there will be no increase in the price of tickets in the coming year.

Duty on diesel oil

105. At present, franchised bus companies receive a refund of 65 cents a litre on duty paid for diesel oil. I propose to exempt the companies completely from the duty on diesel fuel, with effect from this afternoon. This concession will be fully reflected in future adjustments to bus fares. This proposal will cost \$190 million a year and, again, will help to combat inflation.

Stamp duty on stock transfers

106. My final proposed concession relates to stamp duty. Last year, in recognition of the world-wide trend towards eliminating the duty on stock transfers, overall contract note duty was lowered from 0.6% to 0.5%. This year, I propose to continue this process by a further reduction to 0.4% to help to maintain the competitiveness of Hong Kong's securities market. This will cost the revenue \$400 million a year. I expect the industry to pass on the full benefit to investors. Their response will influence our attitude in future years.

Implementation

107. My proposals on dutiable commodities come into effect today under appropriate Public Revenue Protection Orders. Under similar authority, my proposals on rates, profits tax, personal allowances, stamp duty and entertainments tax will come into effect on 1 April this year. The amending Bills required to bring these proposals into law will be introduced into this Council next week, or where resolutions of this Council are required, at an appropriate later sitting. In all cases, adequate time will be given to Members to consider the measures before the debates on the Bills are resumed and the resolutions introduced.

Commentary

108. Unusually, I would also like to comment on two items which are not included in my Budget -- sales tax and an increase in salaries tax. On sales tax, I have made it clear before that I do not regard this as attractive at a time of relatively high inflation, and it is not currently under serious consideration. On salaries tax, I am glad to be able to assist taxpayers by not raising it at the same time as the increase in profits tax, but I should warn that the resulting differential between salaries and profits tax is probably at about the maximum, beyond which avoidance is likely to be a problem.

CONCLUSION

109. In conclusion, I would say this. We must have confidence in ourselves, and in our ability to continue to create economic success and to enjoy its rewards. We should not fall into the trap of exaggerating differences or problems which do exist, or we risk causing others to lose confidence in us. I do not underestimate the effect debates in this Council, or in the wider public arena, can have on public perceptions and public confidence.

110. I have dealt with the social services, and the real increase in planned spending in those services, at some length, precisely because some of the public debate on those issues was being conducted in such simplistic and misleading terms that the public was in danger of being led to believe the opposite of the truth. The truth, I must reiterate, is that we remain committed to helping the man in the street, and to increasing spending on services which benefit him. This commitment has been

one of the great strengths of the Hong Kong Government, and this will continue to be the case. But along with this must go a willingness to re-appraise priorities in all areas. Resources are limited, and there must be no sacred cows created by special interest groups. We must always be ready to redeploy resources to where they are most needed.

111. I have also sought to reassure the business community that past, or indeed future political change does not mean that we are about to embark on radical changes in policy, whether in taxation or other matters. Indeed, it is in my view one of our community's great strengths that there is a broad consensus about the need to preserve the key elements of Hong Kong's success -- the commitment to the market economy, to competition, and to providing community services from the wealth created by that economy. These community services ensure that everyone receives proper education and health care, and can rise as far as their talents enable them. We are an open, meritocratic society, where success inspires effort to emulate that success, not jealousy. Rags to riches stories are commonplace in Hong Kong. Long may that continue to be so.

112. There is also broad agreement about the need to provide a safety-net for those less able to look after themselves, though there will always be legitimate debate about pace and scale. No society can achieve all that may be desirable in one dramatic gesture. But we are fortunate enough to be able to spend more on public services as the economy continues to grow and prosper.

113. The engine of growth -- the economy -- is picking up, and inflation is slowly declining. I have sought in this, my first Budget, to set out my philosophy clearly, and to explain frankly the problems as well as the opportunities we face. And I have sought in my proposals to maintain the necessary balance between investing in areas which will help keep our economy growing, such as education and the infrastructure, and spending on all the other areas which make our life here relatively safe and rewarding, including the safety-net I have referred to.

114. I have also ensured that we continue to live within our means. And by a modest net increase in taxation to provide an adequate cushion in our reserves to help meet any unforeseen adverse developments. In all this, and particularly in the tax concessions, I have sought to soften the effect of inflation.

115. Finally, I would like to finish by paying a warm and sincere tribute to my

predecessor, Sir Piers JACOBS. Sir Piers steered us safely through some testing times, and in the process carried our monetary management and regulatory framework, a long way forward. Above all, in relation to this Budget, he left our finances in a healthy state; a state I have every determination will continue.

116. Mr Deputy President, I move that the debate on this motion be now adjourned.

Debate on the Second Reading of the Bill adjourned pursuant to Standing Order 54(2).

Adjournment and next sitting

DEPUTY PRESIDENT: In accordance with Standing Orders I now adjourn the Council until 2.30 pm on Wednesday 11 March 1992.

Adjourned accordingly at fourteen minutes past Four o'clock.

Note: The short titles of the Bills/motions listed in the Hansard, with the exception of the Hong Kong Academy of Medicine Bill and the Appropriation Bill 1992, have been translated into Chinese for information and guidance only; they do not have authoritative effect in Chinese.

SUPPLEMENT

Page

GLOSSARY OF TERMS 2053

NOTES ON THE TEXT:

Economic performance in 1991 2057

Economic prospects for 1992 2060

Salaries tax concessions 2061

Adjustments to duty rates 2072

Rates on property 2074

TABLES:

1. Government Expenditure and Revenue 1991-92 2075
and 1992-93
2. Transfers between Funds 1991-92 and 1992-93 2076

NOTES ON THE TEXT

APPENDICES

Page

- A. Medium range forecast 1991-92 to 1996-97 2078

Forecasting Government's expenditure and revenue in the period up to 1996-97 and setting these forecasts in historical context.

- B. Trends in public expenditure 1987-88 to 1996-97 2086

Showing the past and projected allocation of resources

between programme areas.

C. Contingent liabilities 2100

Setting out the more significant contingent liabilities
of Government

D. Recurrent expenditure of new activities to be funded 2101
in 1992-93

Listing new initiatives expected to proceed in 1992-93.

E. Major capital works projects to begin in 1992-93 2102
or after

Listing major capital works projects to begin in 1992-93
or after.

