

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 3 March 1993

The Council met at half-past Two o'clock

PRESENT

THE PRESIDENT

THE HONOURABLE JOHN JOSEPH SWAINE, C.B.E., LL.D., 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 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 EDWARD HO SING-TIN, O.B.E., J.P.

THE HONOURABLE RONALD JOSEPH ARCULLI, J.P.

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

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

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

DR THE HONOURABLE LEONG CHE-HUNG, O.B.E.

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

THE HONOURABLE PETER WONG HONG-YUEN, O.B.E., J.P.

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE VINCENT CHENG HOI-CHUEN

THE HONOURABLE MOSES CHENG MO-CHI

THE HONOURABLE CHEUNG MAN-KWONG

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 EMILY LAU WAI-HING

THE HONOURABLE GILBERT LEUNG KAM-HO

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

THE HONOURABLE FRED LI WAH-MING

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, J.P.

THE HONOURABLE ZACHARY WONG WAI-YIN

DR THE HONOURABLE TANG SIU-TONG, J.P.

THE HONOURABLE CHRISTINE LOH KUNG-WAI

THE HONOURABLE ROGER LUK KOON-HOO

THE HONOURABLE ANNA WU HUNG-YUK

ABSENT

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

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

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

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

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

THE HONOURABLE CHIM PUI-CHUNG

THE HONOURABLE LEE WING-TAT

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR CLETUS LAU KWOK-HONG

Papers

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

Subject

Subsidiary Legislation	<i>L.N. No.</i>
Aerial Ropeways (Fees) Regulation	40/93
Building (Oil Storage Installations) (Amendment) Regulation 1993	41/93
Registrar General (Establishment) Ordinance (Amendment of Second Schedule) Notice 1993	44/93
Registrar General (Establishment) (Transfer of Functions and Repeal) Ordinance (8 of 1993) (Commencement) Notice 1993	45/93
Road Traffic (Amendment) (No. 3) Ordinance 1992 (83 of 1992) (Commencement) Notice 1993	46/93

Sessional Papers 1992-93

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| No. 60 | — | Hong Kong Examinations Authority 1992
Financial Statements for the year ended 31 August 1992
with Programme of Activities
1 September 1991 - 31 August 1992 |
| No. 61 | — | Draft Estimates for the year ending 31 March 1994;
Volume I General Revenue Account -
Expenditure Summaries and Controlling Officers' Reports |
| No. 62 | — | Draft Estimates for the year ending 31 March 1994;
Volume II General Revenue Account -
Expenditure by Heads and Subheads |
| No. 63 | — | Draft Estimates for the year ending 31 March 1994;
Volume III - Fund Accounts |

Written answers to questions**Public rental housing units**

1. MRS ELSIE TU asked: *Will the Administration inform this Council:*

- (a) *of the respective numbers of public rental housing units completed in each of the past three years;*
- (b) *of these units, the respective numbers allocated to the various categories of applicants (for example, applicants on the waiting list, people affected by government clearance, compassionate rehousing case, and so on) in each year; and*
- (c) *of the units allocated to applicants on the waiting list in each year, the numbers of those units which were located in Tin Shui Wai?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President, the numbers of public rental units produced by the Housing Authority in 1989-90, 1990-91 and 1991-92 were 33 900, 32 600 and 21 400. However, the numbers of flats allocated were higher because flats recovered from sitting tenants also became available. The numbers of flats allocated in the three years were 46 700, 43 700 and 42 300. The details of the allocations are given in the Annex.

The first rental flats at Tin Shui Wai were ready for allocation in April 1992. Up to the end of January 1993, about 3 000 flats at Tin Shui Wai had been allocated to waiting list applicants.

Annex

Allocation of Rental Flats by Categories

<i>Category</i>	<i>1989-90</i>	<i>1990-91</i> <i>flats allocated*</i>	<i>1991-92</i>
1. Emergency	300	300	300
2. Clearance			
(a) Development	5 900	7 000	5 500
(b) Re-use of temporary housing areas	4 800	2 000	2 000
(c) Walled City	900	1 100	1 200
3. Compassionate	1 200	1 200	1 200

<i>Category</i>	<i>1989-90</i>	<i>1990-91</i> <i>flats allocated*</i>	<i>1991-92</i>
4. Redevelopment/ Conversion	14 000	12 100	13 000
5. General Waiting List	14 500	14 000	14 000
6. Transfer and Relief of overcrowding	3 400	4 700	3 800
7. Junior Civil Servants and Pensioners	1 700	1 300	1 300
Total	----- 46 700 =====	----- 43 700 =====	----- 42 300 =====

* rounded off to nearest 100

Local driving system

2. MR STEVEN POON asked (in Chinese): *In view of Hong Kong becoming part of China in 1997 and the increasingly busy cross-border traffic in recent year, will the Government inform this Council:*

- (a) *whether there is any plan to change the local right-hand-drive system to left-hand-drive system so that vehicles of the two territories can travel safely and freely between China and Hong Kong;*
- (b) *if so, what the plan is and when it will be introduced; if not, what the reasons are; and*
- (c) *whether studies have been carried out on the international practice or the experience overseas regarding the repositioning of the steering wheel of vehicles; if so, what the findings are; if not, what the reasons are for not carrying out such studies?*

SECRETARY FOR TRANSPORT: Mr President,

- (a) We have no plans to change from the right hand drive system to left hand drive. The present driving arrangements work satisfactorily in practice. More than 20 000 vehicles cross the border each day and they are able to cope with the different driving systems on either side of the border without serious difficulty.

- (b) If we were to change the system in Hong Kong, this would be enormously expensive and inconvenient to the public. Major alterations would be needed to our road infrastructure and there would inevitably be road safety implications.
- (c) The difference in driving systems between Hong Kong and China is not unique. For example, there is a substantial movement of vehicles between the United Kingdom and continental Europe, which will increase significantly with the opening of the Channel Tunnel, but there are no plans to standardize driving systems. The fact is that with care and common sense on the part of motorists, the two driving systems can co-exist satisfactorily.

Compassionate rehousing

3. MR LAU CHIN-SHEK asked (in Chinese): *Will the Government inform this Council of the following:*

- (a) *the number of applications for compassionate rehousing received and approved in each of the past three years;*
- (b) *the procedures currently adopted, as well as the average time needed and the longest time taken, for processing these applications; and*
- (c) *the quota on the number of public housing units to be allocated each year for compassionate rehousing; whether regular reviews are conducted to examine the adequacy of the quota; and whether sub-quotas have been set within the quota to cater for different categories of applications and, if so, details of these sub-quotas?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President, the numbers of applications for compassionate rehousing received and approved in each of the past three years were as follows:

<i>Year</i>	<i>No. of cases received</i>		<i>No. of cases approved</i>	
1989-90	1 203	(945)	1 200	(942)
1990-91	1 210	(984)	1 200	(974)
1991-92	1 509	(1 494)	1 200	(1 185)

() cases referred by the Social Welfare Department

Compassionate rehousing is offered to applicants on the recommendation of the Social Welfare Department after careful consideration of the individual circumstances and having regard to a set of qualifying criteria such as income level, property ownership and medical or social needs. All cases are subject to the usual vetting such as duplication checks and pre-letting interviews. On average, it takes about three weeks to complete the formalities and allocate a flat, but cases can sometimes take up to eight months to process if the applicant repeatedly turns down rehousing offers for one reason or another.

In the past three years, the quota for compassionate rehousing remained at 1 200 rental flats each year. This quota is subject to regular review and monitoring. Experience has shown that the quota is adequate, but the Housing Authority is prepared to adjust it to meet demand if necessary.

Since 1991, a sub-quota of 100 has been set aside for divorcees who have been granted custody of their children.

Demolition of dangerous buildings

4. DR HUANG CHEN-YA asked (in Chinese): *In view of the collapse of a building being demolished in Wing On Street in Central in October 1992, will the Government inform this Council:*

- (a) *when the said building was declared a dangerous building and whether demolition work was carried out according to the schedule specified by the Administration; if not, what the reasons are; and*
- (b) *how it monitors the demolition process of buildings and ensures the safety of passers-by?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President, the building at No. 30 Wing On Street was closed on 27 June 1991 under emergency powers following a fire on the previous day. The buildings at Nos. 22 to 28 were declared to be dangerous or liable to become dangerous on 18 September 1991. Orders requiring the demolition of all the buildings at Nos. 22 to 30 as a joint operation were also served on the owners on 18 September 1991. The orders specified that demolition had to be completed by 9 December 1991. When the orders were not complied with, the Building Authority wrote to the owners on 11 December 1991 informing them that the Authority would arrange to carry out the demolition. No reasons for the non-compliance were given by the owners.

A preliminary site inspection in January 1992 revealed that certain structures connected with the adjacent buildings, i.e. at Nos. 20 and 32 Wing On Street, needed to be removed before the demolition of the buildings at Nos. 22 to 30. The necessary modification work was carried out by the owner of the

building at No. 20 Wing On Street in March 1992. In early April 1992 the Buildings Ordinance Office (BOO) decided that the ground floor portion of the party wall between Nos. 30 and 32 could be retained to avoid further delay in the demolition of the building at No. 30. The government contractor was then instructed to demolish the buildings at Nos. 22 to 30 in June 1992.

In August 1992, BOO noted that demolition had not yet commenced and reminded the contractor to start. The removal of wooden partition walls, erection of bamboo scaffolding and related works were carried out between 4 September and 14 October 1992. The work was then temporarily suspended by the contractor pending the delivery of canvas to enclose the buildings. On 18 October 1992, the buildings at Nos. 28 and 30 collapsed.

Demolition work is subject to both statutory and contractual control. The Building (Demolition Works) Regulations set out requirements for the proper supervision and operational precautions to ensure that demolition is carried out in a safe manner. The General and Special Conditions of Contract for Building Works include the necessary powers and remedies to ensure that building works are carried out and completed by contractors employed by the Government to a satisfactory standard. Demolition work is checked periodically by BOO.

The erection of hoardings, covered walkways, catch fans and screens is required to prevent accidents and minimize nuisance from dust. The shoring of adjoining buildings may also be required as a precaution.

Following the investigation of the building collapse at Wing On Street, the following measures have been adopted by the Building Authority to improve demolition practice:

- (a) demolition will be accorded high priority and treated as a matter of urgency;
- (b) other parties involved will be advised at the earliest possible time regarding the need for precautionary and preparatory work;
- (c) the government contractor will be given specific instructions as regards dates for commencing and completing demolition works;
- (d) buildings closed under Closure Orders will be kept under surveillance;
- (e) the effect of work at construction sites on nearby dangerous buildings will be considered expeditiously; and
- (f) greater emphasis will be placed on building owners' statutory duties and legal liability in ensuring building safety.

BOO is also considering further measures to ensure the safety of passers-by, such as street closure during the demolition process.

Environmental problems in West Kowloon

5. MR JAMES TO asked (in Chinese): *As works relating to the "West Kowloon Reclamation, remaining hinterland drainage works and sewerage network package I" project will commence shortly, will the Government inform this Council of:*

- (a) the measures to be taken to abate environmental pollution (such as noise, dust and stench) in the course of construction; and*
- (b) the interim measures to alleviate the deteriorating sewerage problem in West Kowloon pending completion of the works?*

SECRETARY FOR WORKS: Mr President,

- (A) The measures to be taken to abate environmental pollution (such as noise, dust and stench) in the course of construction*

The measures taken to abate environmental pollution on this site are in accordance with the requirements of the relevant Ordinances, which are incorporated in the contract specifications, and the recommendations of the Environmental Impact Assessment carried out before the commencement of the works.

During the course of the works we expect that there will be an increase in noise and dust levels, but quiet plant and noise barriers will be used which will achieve a considerable reduction in noise levels at sensitive receivers. Control measures such as watering of exposed site surfaces, use of wheel and vehicle body washing, covering of spoil vehicles would be implemented to reduce the dust level.

There is no evidence that stench will constitute a major pollution problem on this site. Nevertheless, a series of mitigation works have been carried out at Mei Foo including removal of a temporary bund to allow increased tidal flushing and redirecting the effluent by temporary pumping into adjacent box culverts.

An Environmental Project Office has been set up for this project to monitor and advise on environmental matters. With strict enforcement of the current environmental legislation and close site supervision, it is expected that mitigation measures taken will

greatly abate environment pollution during the course of construction.

(B) *The provisional programmes to alleviate the deteriorating sewerage problem in West Kowloon pending the completion of the works*

Contrary to the assumption made in part (b) of the question, there is no deteriorating problem in the West Kowloon while the reclamation works are in progress. The table below shows that water quality in the West Kowloon water reception area is actually improving.

*Mean Dissolved Oxygen Concentrations
for Depth Average (mg/l)*

<i>Monitoring Station</i>		<i>July 1992</i>	<i>Aug 1992</i>	<i>Sep 1992</i>	<i>Oct 1992</i>	<i>Nov 1992</i>	<i>Dec 1992</i>	<i>Jan 1993</i>
L5	(Sham Shui Po)	3.80	3.07	4.0	4.2	4.5	4.4	4.6
L6	(Lai Chi Kok)	3.62	2.42	3.0	3.6	4.0	3.9	4.4
L7	(MTRC Intake)	2.68	1.78	2.2	3.5	3.7	3.5	3.9
L8	(WSD Intake)	2.84	1.54	2.3	3.7	4.0	3.6	4.2

Note: The proposed mean dissolved oxygen concentrations in Victoria Harbour for protection of marine life is 4mg/l (depth average) or higher, as recommended by EPD.

The improvement has been brought about by:

- (a) Commissioning of the West Kowloon interceptor sewer and rising main to Stonecutters under the North West Kowloon Sewage Treatment and Disposal Scheme in September 1992.
- (b) Completion of temporary dry weather flow interceptions works by end December 1992.
- (c) Seasonal fluctuation in water quality. (It should, however, be noted that water quality may again deteriorate at the onset of the summer rains, when pollutants may be flushed into the in-shore waters from the hinterland.)

There will be further improvement in the quality of water with the completion of the following:

- (a) 2 dry weather flow (DWF) interceptors by end 1993.
- (b) A further 10 DWF interceptors by end 1994.

The remaining pollutant load in the storm drains will be dealt with by the removal of all expedient connections in the area, and when control under the Water Pollution Control Ordinance is extended to the Victoria Harbour Water Control Zone after 1995.

Visually handicapped persons

6. MR TAM YIU-CHUNG asked (in Chinese): *Will the Government inform this Council of:*

- (a) *the number of visually handicapped persons aged between 18 and 65 years and the number of such persons who are in employment; and*
- (b) *the ways through which vocational training and employment services are provided by the relevant government departments to assist the visually handicapped in seeking employment?*

SECRETARY FOR HEALTH AD WELFARE: Mr President, according to available information in the Central Registry for Rehabilitation as at end 1992, some 5 170 visually-impaired persons are aged between 18 and 65. Based on the employment statistics from two leading non-governmental organizations serving visually-impaired persons, it is estimated that about half of them are in employment.

The Vocational Training Council (VTC) provides vocational training for all categories of disabled persons, including visually-impaired persons, in its skills centres for the disabled, technical institutes and industrial training centres. In skills centres, visually-impaired persons can take courses specially designed for them or courses open to persons with various disabilities. For those who are capable of following craft and technician level courses, special support services are provided to enable them to follow the mainstream training in technical institutes and industrial training centres. These courses enable visually-impaired persons to acquire marketable skills so that they are better equipped for seeking employment. The Selective Placement Division (SPD) of Labour Department provides job placement service for disabled persons looking for employment in the open market. Post-placement follow-up service is also provided to help disabled persons settle in in their jobs. In 1992, the SPD dealt with 2 705 registrations, of which 164 were from visually-impaired persons. It

succeeded in placing 1 366, including 33 visually-impaired job-seekers, into jobs compatible with their ability and aptitude.

False information in HOS applications

7. MR GILBERT LEUNG asked (in Chinese): *Will the Government inform this Council:*

- (a) of the number of cases of false information detected in the applications submitted under the Home Ownership Scheme in the past five years;*
- (b) what measures are in place to detect such fraud and what they cost; and whether the Administration has reviewed the effectiveness of these measures; if so, what the findings were; if not, what the reasons are for not doing so; and*
- (c) whether it would consider imposing heavier penalties on those applicants who provide false information; if so, what the proposed punitive measures are; if not, what the reasons are for not doing so?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President, between 1988-89 and 1992-93, 33 cases of submitting false information in connection with an application for HOS/PSPS flats were detected. Most of these cases related to the failure to declare property ownership in the preceding six months or under-reporting of household income.

Some cases came to light on receipt of complaints but the majority were detected by the Housing Department through duplication checks on property ownership with the Land Registry. Under-reporting of income is normally verified through the applicant's employer and other relevant sources. The administrative cost involved in detection is about \$600,000 a year (at 1992 prices). The Housing Authority considers the existing measures to be efficient and effective but will keep them under review.

Under the Housing Ordinance, those convicted of knowingly giving false statements in connection with an application for assisted housing are liable to a fine of \$200,000 and imprisonment for one year. In addition, the court may order the offender to sell the flat back to the Authority or to pay an amount equal to the difference between the market value of the flat and its original price. The penalty provision is considered adequate.

Visiting teaching staff at local universities

8. MISS EMILY LAU asked: *In view of the public concern that a number of department heads and senior teaching staff at the Hong Kong University of Science and Technology (HKUST) are on sabbatical leave from their own overseas academic institutions, will the Administration inform this Council:*

- (a) *whether it is aware of the number of the HKUST staff who were in this position at the beginning of the academic year 1992-93; and if such arrangement is also prevalent at the University of Hong Kong and Chinese University of Hong Kong; and*
- (b) *whether such practice is regarded by the Administration as acceptable and desirable?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President, the Administration understands from the Hong Kong University of Science and Technology that, as at the beginning of the 1992-93 academic year, two of its 58 senior teaching staff (i.e. Senior Lecturer and above) were on sabbatical leave from overseas academic institutions. The Administration also understands from the institutions concerned that two or three of the 312 senior academic staff at the University of Hong Kong, and five of the 257 senior academic staff at the Chinese University of Hong Kong, are on sabbatical leave from overseas academic institutions.

Our universities are established by statute and enjoy full autonomy in the management of their academic affairs, including the selection and appointment of academic staff. The desirability or acceptability of appointing academic staff who are on sabbatical leave from overseas institutions is not, therefore, a policy matter for the Administration. However, we understand that it is a common practice internationally for higher institutions to appoint visiting teaching staff on leave from their own institutions to promote an exchange of ideas and expertise.

Karaoke establishments

9. MR MAN SAI-CHEONG asked (in Chinese): *In view of the popularity of karaoke establishments, will the Government inform this Council:*

- (a) *of its policy and control measures over the operation of karaoke establishments;*
- (b) *whether there are indications that:*
 - (i) *some karaoke establishments are being controlled by triad elements for supplying dangerous drugs or prostitution;*

- (ii) *noise from karaoke establishments is causing nuisance to nearby residents;*
- (iii) *the fire escapes of some karaoke establishments are not complying with the regulations laid down by the Fire Services Department; and*
- (c) *if problems in (b) above are identified, what measures will be taken to tackle them?*

SECRETARY FOR HOME AFFAIRS: Mr President,

- (a) Most karaoke establishments are run either as part of a restaurant or as a club. The policy is therefore to control these establishments through existing licensing regimes.

Restaurants are licensed by the Urban Council or the Regional Council under the Public Health and Municipal Services Ordinance (Cap 132). Fire safety requirements are imposed as part of the licensing conditions. Clubs are licensed by the Secretary for Home Affairs under the Clubs (Safety of Premises) Ordinance (Cap 376) in the interests of fire and building safety.

- (b) (i) It is believed that triads seek to extort money from karaoke establishments in return for protection in a manner similar to their activities in other places of public entertainment. In 1991, there were six cases involving offences of unlawful societies (mainly triad societies), two cases of procurement of women for immoral purposes, and two minor drug offences in karaoke establishments. In 1992, there were 23 cases relating to unlawful societies, one case relating to procurement of women for immoral purposes, one case of possession of drugs for trafficking and three minor drug cases.
- (ii) In 1990, 1991 and 1992, the Environmental Protection Department received 88, 33 and 27 complaints respectively about noise emanating from karaoke establishments.
- (iii) There are no indications that karaoke establishments are not complying with the regulations on fire escapes. Karaoke establishments which are run as restaurants or clubs have to comply with the relevant fire regulations before they can be licensed.

- (c) Regarding (b)(i), the police have deployed considerable manpower to mount operations against illegal activities in karaoke establishments. They also maintain close liaison with the operators of these establishments.

Regarding (b)(ii), if the noise emanating from karaoke establishments causes nuisance to nearby residents, staff of the Environmental Protection Department will advise and warn the operators with a view to abating the problem and, if necessary, Noise Abatement Notices will be issued to the offending establishments.

Regarding (b)(iii), if obstructions to fire escapes or any irregularities are identified by the Fire Services Department, either through inspections or in response to complaints, fire hazard abatement action or prosecution will be taken, as appropriate, under the Fire Services Ordinance.

Exchange visits between officials of the Chinese and Hong Kong Governments

10. MR MARTIN BARROW asked: *Will the Government inform this Council of:*

- (a) *its policy towards exchange visits of civil servants between Beijing and Hong Kong in 1993; and*
- (b) *the number of such visits planned in 1993 and how this compares with 1992?*

SECRETARY FOR CONSTITUTIONAL AFFAIRS: Mr President, the Government's policy continues to be to encourage exchange visits between officials of the governments of China and Hong Kong.

It is difficult to distinguish between pure exchange visits and business trips: for example, cross-border liaison meetings are sometimes accompanied by exchange visits and vice-versa. In 1992, however, 354 groups of Hong Kong officials visited China and 136 groups of Chinese officials visited Hong Kong.

The Hong Kong Government does not prescribe the number of visits that take place each year, as much depends on the needs of individual departments. However, we expect the number of visits in 1993 to be broadly comparable to the number in 1992.

Primary school places in Kwai Chung

11. MR LEE WING-TAT asked (in Chinese): *Regarding the present provision of and demand for primary school places in Kwai Chung, will the Government inform this Council:*

- (a) *whether there is a surplus of primary school places in Kwai Chung; and*
- (b) *if so, whether it will consider implementing whole-day primary schooling in Kwai Chung and consult school principals, teachers and parents on its feasibility?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President, the answers to Mr LEE's question are:

- (a) In 1992, there is a theoretical surplus of 12 350 primary school places in Kwai Chung. The 24 primary schools in the District have a total potential capacity for 28 050 places, against the actual demand of 15 700 children of primary school age.
- (b) For the next seven years, the primary school age group in Kwai Chung is projected to increase to 21 500 but the availability of places is expected to drop to 19 950 due to smaller class sizes and some schools in older estates closing down, giving a shortfall of 4 420 places. It will not be possible, therefore, for all the present bi-sessional primary schools to turn whole-day now. However, individual schools in localities with no supply of places problems over the planning period are welcome to consult the Education Department on the feasibility of operating on a whole-day basis. Under existing policy, new primary schools to be built for Kwai Chung will, as far as possible, be operated in the whole-day mode.

Medical practitioners' fees

12. MR CHIM PUI-CHUNG asked (in Chinese): *Last year, the Consumer Council received from the public 24 complaints against medical practitioners, with some alleging the overcharging of surgical fees. To protect the interest of the public, will the Government inform this Council:*

- (a) *whether it will require medical practitioners to produce a list of surgical fees so that the charging criteria are made known to the public;*
- (b) *whether it will monitor the level of charges; if not, what the reasons are; and*

- (c) *if it is aware of whether Hong Kong medical practitioners are charging higher surgical fees in comparison with their counterparts in nearby countries such as Japan, Singapore and Taiwan?*

SECRETARY FOR HEALTH AND WELFARE: Mr President, as I said in my reply to a similar question in the Legislative Council on 8 July 1992, I believe that every consumer has the right to know and to have access to information which would enable him to make an informed choice. To this end, patients have a right to know the level of fees charged by the doctors treating them. The Hong Kong Medical Association has accepted that it is a patient's right to know the fees before any treatment commences. It has produced a poster for private medical practitioners to put up in their clinics to remind patients of their right to know the fees. A copy of this is at annex.

Unlike public sector charges which are standardized, the fees charged by private surgeons depend on many factors, such as their experience and knowledge in a particular specialty, and the complexity of the procedure performed. The fees are also a reflection of what patients are willing to pay. There are no fixed charging criteria.

It would not be meaningful to compare these with doctors' charges in other countries, due to differences in Gross National Product, standard of living, income, health system and other social factors.

Government publishes a schedule of fees for public hospitals and clinics for information and for reference. Similarly, the Medical Insurance Association of Hong Kong and the Hong Kong Medical Association have published the results of their surveys on doctors' fees. Private hospitals and private doctors have been encouraged to do likewise.

Although the Consumer Council recorded 10 complaints of dissatisfaction over medical charges quoted by medical practitioners, high charges in themselves do not constitute grounds for professional misconduct.

If a patient is quoted a fee for a surgical procedure in advance, it is up to the patient to accept or reject the fees. However, if the doctor does not disclose a fee to his patient on request, the matter should be referred to the Hong Kong Medical Association or to the Medical Council of Hong Kong for arbitration or investigation, respectively. If the doctor charges a fee other than the one quoted and agreed on without good reason (such as a change in the patient's medical condition), there may be grounds for complaint or legal action.

Government monitors the level of fees charged by private practitioners, as revealed through the various surveys that I have mentioned. There is no indication that the community as a whole is being denied adequate medical care because of exorbitant surgical fees in the private sector. If, however, there was clear indication that consumer interests were blatantly ignored by the operation

of the private sector, Government intervention would be justified. Any untoward Government intervention might create more anomalies than such intervention sought to remove.

Annex

The staff of this clinic are happy to provide you with information on the fees for consultation, laboratory investigations, or operations, and the names of the drugs given to you.

Illegal immigrants from Mainland China

13. MRS PEGGY LAM asked (in Chinese): *In view of an upward trend in the number of mainlanders illegally entering Hong Kong after the Lunar New Year, will the Government inform this Council:*

- (a) of the reasons for the increase in the number of illegal immigrants;*
- (b) of the contingency measures to tackle this problem; and*
- (c) whether liaison and cooperation with the Chinese side has been strengthened with a view to solving the problem?*

SECRETARY FOR SECURITY: Mr President,

- (a) We do not know precisely why the numbers of illegal immigrants have increased since the Lunar New Year. What can be gleaned from arrested illegal immigrants suggests that increased unemployment in the Pearl River Delta area might have been a factor. We understand that about 1 million migrant workers came South from other provinces in China after the Lunar New Year in search of employment. These migrants displaced others in the Pearl River Delta, who decided to try their luck in Hong Kong.
- (b) We have plans to prevent illegal immigration, by seeking to prevent illegal immigrants from crossing the border and making it difficult for them to find work here by imposing penalties for working illegally here or employing illegal immigrants. We have recently stepped up measures, with the Housing Authority's cooperation, on contractors caught employing illegal immigrants; we are asking the Court of Appeal to set a higher penalty for those convicted of employing illegal immigrants; have also expressed concern about this problem at the recent Annual Border Liaison Review Meeting with the Guangdong authorities; the police and the Immigration and Labour Departments are stepping up their intelligence gathering and operations; the police, in addition to enhanced Border and Marine operations, have set up a special Quick Reaction Force to

deal with situations when reports of suspected IIs are received; and regular operations to search for illegal immigrants are conducted at known black spots, such as construction sites, farms and factories.

In addition, we are stepping up publicity. Two new anti-II employment APIs are being shown on television from this week; they are aimed at recruiting more support from employers and employees. We are providing posters and hand-outs on construction sites, where the largest number of recent IIs are found. We are also stepping up Police action to catch those involved in such syndicated employment of IIs.

- (c) Liaison and cooperation with the Chinese authorities is good and is conducted through various channels, such as our regular Border Liaison meetings and the Annual Border Liaison Review Meeting. The police also have regular meetings with their counterparts in China on crime related issues and illegal immigration is one of the major topics on the agenda during these meetings. We intend to raise our concerns with the Chinese authorities at a higher level, citing the most recent increase in illegal immigration.

Students receiving private tuition

14. MR ERIC LI asked (in Chinese): *Will the Government inform this Council whether the Education Department has any information which shows the number of parents of secondary and primary school pupils who consider that their children could only keep up with their studies through the assistance of private tutors, if so, what the details of such information are; if not, whether consideration will be given to conducting a survey for this purpose and, if so, when it will be conducted?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President, the Education Department (ED) is aware that private tuition is fairly common in Hong Kong, but has no specific information on the numbers involved or on how much of the tutoring activity is undertaken in order to enable students to keep up with their studies. ED considers private tuition to be unnecessary (unless there are special circumstances such as protracted ill health) because schools operate remedial classes for those who have problems with their work and additional teachers are provided for this purpose. For this reason, ED has no plans to conduct any survey on the subject.

Airlines required to carry away inadmissible persons

15. MR HOWARD YOUNG asked: *Will the Government inform this Council:*

- (a) *whether it is current policy to require airlines to carry persons who are refused entry out of Hong Kong on the next available flights;*
- (b) *whether an airline will be penalized if it cannot comply with this requirement due to flight overloading; if so, how many such cases have occurred in the past three years and what the average fine imposed is; and*
- (c) *as the requirement may result in airlines having to turn away other passengers, whether it will consider working out an action plan with the airlines so that their normal business will not be affected?*

SECRETARY FOR SECURITY: Mr President,

- (a) It is our policy to require airlines to carry those refused entry out of Hong Kong on the next available flight.

The Immigration Ordinance empowers Immigration Officers to remove from Hong Kong persons who are refused permission to land. Section 24 of the Ordinance further empowers Immigration Officers to give directions to the captain, owner or agent of the ship or aircraft in which the person arrived regarding the manner of the removal.

In exercising these powers, Immigration Officers follow standards and practices recommended by the Convention on International Civil Aviation (ICAO). This stipulates that a person found inadmissible is to be transferred back into the custody of the operator who shall be responsible for his prompt removal.

Prompt removal of an inadmissible person is, therefore, an internationally accepted procedure. It avoids the prolonged detention of the person concerned and the risk of his being rejected by his point of origin because of a time lapse. Immigration Officers liaise with the airlines to ensure removal of an inadmissible person by the first available flight. They are flexible when airlines have difficulties; when that day's direct flights are fully booked, alternative arrangements will be made. We seek to minimize the prolonged detention of an inadmissible person and the expenses incurred in maintaining him here; these expenses are borne by the airline which brought the inadmissible person to Hong Kong.

- (b) Under section 44 of the Immigration Ordinance, any person who contravenes the direction of an Immigration Officer given in accordance with section 24(1) of the Ordinance for the removal of an inadmissible person, shall be liable on conviction to a fine of \$20,000. Immigration Officers appreciate the difficulties faced by airlines and do not issue a direction lightly. No airline has been prosecuted for contravening a direction given in accordance with section 24(1) of the Immigration Ordinance.
- (c) Immigration Officers liaise with the airlines and do not require them to remove ordinary passengers in order to find seats on outgoing flights for the removal of inadmissible persons. Airlines seek to avoid the expense of looking after passengers refused landing and generally have enough flexibility, in terms of stand-by or staff passengers to enable them to remove inadmissible persons without inconveniencing normal passengers.

Wastage rates for primary and secondary school teachers

16. MR TIK CHI-YUEN asked (in Chinese): *Will the Government provide this Council with statistics on the wastage rate of teachers in primary and secondary schools for each of the years from 1988 to 1992, with a breakdown according to lengths of service and districts?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President, for the school years 1989-90 and 1990-91, the overall wastage rates for primary and secondary school teachers were as follows:

	<i>1989-90</i>	<i>1990-91</i>
Primary	8.8%	8.6%
Secondary	11.5%	10.9%

The breakdown by years of service and districts are at Annexes A and B.

I regret that similar details are not available for the year 1988-89 or, for the moment, for the year 1991-92. The reason for this was explained in my written reply to Mr TIK's question in this Council on 3 February 1993.

Annex A

Wastage Rates for various ranks of teachers
in primary and secondary school

<i>Years of Service*</i>	<i>Wastage Rate(%)</i>			
	<i>Primary</i>		<i>Secondary</i>	
	<i>1980-90</i>	<i>1990-91</i>	<i>1989-90</i>	<i>1990-91</i>
(i) Certificated Master (CM)				
0 - 4	9.65	11.1	11.43	13.62
5 - 9	7.68	6.88	9.91	9.59
10 - 14	7.61	5.99	6.60	7.21
15 - 19	8.33	7.83	5.75	7.14
20 - 24	9.36	9.37	5.65	9.16
25 - 29	15.75	12.21	13.79	10.91
30 or above	18.52	26.46	5.56	26.32
(ii) Assistant Master (AM)				
0 - 4	4.65	4.33	5.00	4.44
5 - 9	8.29	5.23	6.55	4.67
10 - 14	6.64	6.43	5.41	3.80
15 - 19	11.43	6.96	6.52	7.07
20 - 24	10.53	5.41	4.76	2.27
25 - 29	3.03	15.38	6.25	4.35
30 or above	8.00	10.00	25.00	37.50
(iii) Senior Assistant Masters (SAM)				
0 - 4	3.39	9.09	5.46	3.47
5 - 9	7.41	11.86	7.14	7.14
10 - 14	9.09	8.33	4.24	11.21
15 - 19	-	16.67	10.71	14.93
20 - 24	-	-	5.71	9.09
25 - 29	-	-	17.24	4.76
30 or above	33.33	-	25.00	9.09
(iv) Principal Assistant Masters (PAM)				
0 - 4	8.33	7.06	-	-
5 - 9	12.90	10.29	-	-
10 - 14	22.22	30.00	-	-
15 - 19	11.11	25.00	-	-
20 - 24	-	-	-	-
25 - 29	-	50.00	-	-
30 or above	-	-	-	-

<i>Years of Service*</i>	<i>Wastage Rate(%)</i>			
	<i>Primary</i>		<i>Secondary</i>	
	<i>1989-90</i>	<i>1990-91</i>	<i>1989-90</i>	<i>1990-91</i>
(v) Graduate Teachers of all ranks				
0 - 4	-	-	18.63	16.39
5 - 9	-	-	8.33	8.70
10 - 14	-	-	7.30	7.55
15 - 19	-	-	7.86	6.70
20 - 24	-	-	9.21	10.44
25 - 29	-	-	8.81	9.18
30 or above	-	-	25.00	13.04

* Years of Services refers to the length of service in that particular rank.

Annex B

Wastage Rate for primary and secondary school teachers by district

<i>District</i>	<i>Wastage Rate</i>			
	<i>Primary</i>		<i>Secondary</i>	
	<i>1989-90</i>	<i>1990-91</i>	<i>1989-90</i>	<i>1990-91</i>
Central and Western	13.33%	8.57%	12.28%	9.79%
Wan Chai	9.78%	10.07%	12.00%	13.49%
Eastern	10.07%	8.83%	10.11%	11.63%
Southern	9.42%	11.50%	14.11%	13.37%
Sham Shui Po	9.38%	7.90%	10.59%	8.76%
Mong Kok	9.67%	9.83%	8.23%	12.17%
Yau Tsim	8.66%	10.59%	13.09%	11.38%
Kowloon City	10.29%	11.59%	13.55%	12.60%
Wong Tai Sin	8.24%	7.57%	10.73%	9.38%
Kwun Tong	8.61%	7.63%	12.73%	11.03%
Tsuen Wan	7.46%	7.47%	10.52%	8.90%
Tuen Mun	8.47%	7.71%	9.78%	10.21%
Yuen Long	8.10%	7.58%	12.57%	11.67%
North	6.48%	7.90%	10.16%	10.99%
Tai Po	8.15%	10.02%	11.82%	12.56%
Sha Tin	8.84%	8.01%	10.07%	9.80%
Sai Kung	8.20%	10.26%	12.45%	11.70%
Islands	12.13%	9.33%	9.80%	9.52%
Kwai Tsing	7.38%	7.95%	11.45%	9.59%
Overall	8.82%	8.62%	11.52%	10.88%

Teaching and learning related researches

17. MR CHEUNG MAN-KWONG asked (in Chinese): *Will the Government inform this Council of the following:*

- (a) *the number of teaching and learning related researches that have been and are being conducted by the Education Department since 1988, with a brief description of the contents and objectives of each research, as well as their costs;*
- (b) *which of the reports of these researches will not be released, and the basis on which the Government decides whether to release these reports; and*
- (c) *whether the Government will consider releasing all such reports, taking into account that such researches are conducted with public funds and solely for teaching and learning purpose; if not, what the reasons are?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President, since 1988, the Education Department has embarked on 16 teaching and learning related research projects. As these have been or are being carried out by departmental staff, a clear apportionment of costs is not possible. Their contents and objectives are annexed.

The reports on the completed research projects can be made available to parties which have a legitimate interest in them. These reports are not intended for release to the general public because they were carried out to meet departmental needs and there has been little public interest in the findings to warrant wide publication.

Annex

Teaching and Learning Related
Research Projects undertaken by
the Education Department since 1988

<i>Project</i>	<i>Objectives</i>
1. Further research on Split-Class teaching of the English Pilot Scheme. (Completed)	To determine: <ul style="list-style-type: none"> (a) whether the conventional class or the split-class model is more effective in improving pupils' efficiency in the English language and their attitudes towards English; and

<i>Project</i>	<i>Objectives</i>
	(b) if the split-class model when staffed with teachers trained in small-group instruction would prove to be the most effective.
2. Studies on the relationship between Age and Learning. (Completed)	To explore and investigate the effects of over-age and under-age on the academic performance of pupils as well as on their confidence/self-image in learning; to explore the causes of over-age and under-age; the effects of repeating and accelerated promotion was also included.
3. Correlation studies between the Hong Kong Certificate of Education, the Higher Level and the Advanced Level Examinations. (Completed)	To establish the predictive indices of the Hong Kong Certificate of Education Examination, collectively and individually, with reference to the Higher Level and the Advanced Level Examinations by correlation studies.
4. A Study on Curriculum Patterns and Subject Streaming at S.4 level. (Completed)	To investigate the curriculum pattern including the streaming of pupils into Arts, Science or commercial classes, and so on among grammar, prevocational and technical secondary schools, and to relate this to the opportunities offered to pupils as well as to the restriction of choices given to the S.4 pupils in the school year 1989-90.
5. A study on the Academic Performances of Two Groups of Children who obtained a Primary One Place Before and After the Introduction of POA System. (Completed)	To (a) compare the academic achievement in the three foundation subjects: Chinese, English, and Mathematics of those pupils entering P.1 before and after the introduction of the POA System and (b) assess the impact of the introduction of the POA System on the achievement of pupils.

<i>Project</i>	<i>Objectives</i>
6. A study on the Transition From the Lower Primary Level Adopting Activity Approach To the Upper Primary Level Adopting Non-Activity Approach. (Completed)	To (a) identify any difficulties encountered by pupils in their transition from lower primary to upper primary levels; (b) study ways and means of facilitating the transition; and (c) study the possible effects of the transition on the cognitive and affective development of pupils concerned.
7. A Study on the Relation between Initial Language Proficiency at S.1 Level and subsequent HKCEE Performance for Medium-of-Instruction Grouping. (Completed)	(a) In the context of the existing SSPA System, to identify the threshold of English and Chinese in percentile terms for the purposes of medium of instruction grouping at S.1 level; and (b) to compare the rates of success in HKCEE between students in secondary schools using various modes of language medium on the basis of the language threshold identified.
8. Research on Change of Medium of Instruction in Secondary Schools. (In progress)	To study the effect of the change of teaching medium on the standards of achievement of students in Chinese, English, Mathematics, Integrated Science, History, Geography, Learning process and Operational Aspects.
9. A study on the continuity of curriculum and teaching practices between kindergarten and primary school levels of education. (In progress)	To identify the differences in curriculum and teaching practices between kindergarten and primary schooling; to identify the difficulties, if any, encountered by pupils in their transition from kindergarten to primary schools and to explore ways and means of facilitating the transition.

<i>Project</i>	<i>Objectives</i>
10. A study on the continuity of curriculum and teaching practices between primary and junior secondary levels of education. (in progress)	To identify the differences in curriculum and teaching practices between primary and junior secondary schooling; to identify the difficulties, if any, encountered by pupils on entry to secondary schools and to explore ways and means of facilitating the transition.
11. A study on the continuity of curriculum and teaching practices between junior secondary and senior secondary levels of education. (In progress)	To identify the differences in curriculum and teaching practices between junior and senior secondary schooling; to identify the difficulties (academic and emotional) encountered by pupils on promotion to S4 and to explore ways and means of facilitating the transition.
12. A Study on Chinese Handwriting at the Kindergarten Level. (In progress)	To identify the developmental stages of kindergarten children's readiness for Chinese handwriting; and to identify some general principles on the selection of suitable Chinese characters for handwriting purpose for children at different developmental stages.
13. A Comparative Study on the Effectiveness of the Inductive Method and the Deductive Method in the Teaching of Putonghua Phonetic System at Primary Level. (In progress)	To investigate and compare the effectiveness of the Inductive Method with the Deductive Method in helping Cantonese-speaking pupils in Hong Kong to learn the Putonghua Phonetic System; and to compare pupils' interest in learning the Putonghua Phonetic System through the Inductive and Deductive Methods.

<i>Project</i>	<i>Objectives</i>
14. A Study on the Development of Civic Awareness and Attitudes of Pupils of Primary and Secondary Schools in Hong Kong. (In progress)	To find out the current status of civic awareness and civic attitudes of pupils in primary and secondary schools in Hong Kong; to study the impact of school civic education programmes on the development of pupils' civic awareness and civic attitudes; and to identify from the findings, basic points of reference for the development of pupils' civic awareness and attitudes.
15. A Study on Knowledge and Attitudes of Secondary School Pupils on Sex and Sex Education. (In Progress)	To find out secondary school pupils' existing knowledge and attitudes towards sex and sex education; and to investigate pupils' attitudes towards the approach to sex education in schools.
16. Research on Gifted Education. (In progress)	To adapt and norm the Torrance Test of Creative Thinking; and to collect data to develop a teachers' checklist on the characteristics of local gifted children.

Mortgage loan rates

18. MR DAVID LI asked: *Property prices in Hong Kong have fallen some 15% to 20% since November 1991 when the Government requested the banking sector to restrict their mortgage loan rates. Since these restrictions have apparently not rendered residential properties more affordable to prospective purchasers and since banks face an increasing risk of defaults on mortgage loans if property prices continue to fall, will the Administration inform this Council under what specific conditions it would agree to banks' relaxation of their mortgage loan rates?*

SECRETARY FOR MONETARY AFFAIRS: Mr President, The 70% loan rate guideline was voluntarily adopted by the banking industry in November 1991, in the wake of excessive speculative activity and for the purpose of safeguarding the banks' own interests. The Government welcomed this measure and it has since been urging all authorized institutions to adhere to the guideline. The Government's concerns were threefold:

(a) stability of the banking sector

Residential mortgage lending represents some 20% of banks' loans for use in Hong Kong. Violent fluctuations in property prices adversely affect banks' asset quality and therefore the banking sector's stability. This is evident in the experience of the developed countries in recent years and has led to hefty loan loss provision by banks. The 70% guideline should provide banks with an adequate cushion to guard against any downward adjustment in property prices.

(b) inflation

Although property prices are not a component of the Consumer Price Index, rental is. Experience shows that there is a high correlation between property price and rental level in the longer run. Rising property prices therefore will not assist in our anti-inflation efforts.

(c) genuine end users

Excessive speculative activity makes it difficult for genuine end-users to buy their own homes. It also subjects them to undue risk when prices are artificially pushed beyond their affordability. The 70% guideline serves well to curb speculation and stabilize the property market.

The guideline has evidently been successful. The market has been cooling down in the past six months. Transaction volume has shrunk. Prices have corrected healthily. Excessive speculation has been curbed.

However, it is important that the positive effects of the measure are not easily thrown away by premature relaxation. Despite the slowing down, bank mortgage lending has continued to expand and indeed has slightly increased its share of total loans for use in Hong Kong in 1992. The market is very difficult to read at the moment. Its current state may well also owe something to the political situation and to seasonal factors. Given that interest rates are still at low levels in comparison with current inflation, another outburst of speculative activity on relaxation of the guideline cannot be ruled out, particularly if the political situation improves or becomes less of a factor in people's minds. We strongly believe that banks should continue to be cautious and the 70% loan-to-valuation ratio should be kept intact. However the situation will be kept under constant monitoring and review.

We will continue to encourage banks to take a cautious stand with regard to residential mortgages. Relaxation should be considered only when there can be some confidence that this will not lead to a fresh round of speculation. Moreover, it can be safely assumed that relaxation in future, if any, will be cautiously controlled and will aim only at helping genuine end-users, and first-time buyers in particular. We believe that this position still commands general support among the banking sector.

It should also be pointed out that, despite a slow down in the market in the past few months, property prices in January 1993 were in fact still some 14% higher than in November 1991.

Crime on Lantau Island

19. MR ALBERT CHAN asked (in Chinese): *A monthly average of 30 cases of crime were reported on Lantau Island for the first six months of 1992. However, the figure rose to 53 cases per month for the period July to September 1992. Will the Government inform this Council of:*

- (a) the reasons for such an increase for that period; and*
- (b) the measures taken or which will be taken to cope with the increase in crime on Lantau Island?*

SECRETARY FOR SECURITY: Mr President, the increase in the monthly average reported crime on Lantau Island between July and September 1992, compared to the first six months of the same year, was an expected seasonal fluctuation. The influx of visitors during the summer months accounts for the increase. Police strength on the island is increased during the summer months to cope with the increase in population.

Illegal car racing

20. DR CONRAD LAM asked (in Chinese): *With regard to Secretary for Security's reply of 11 November 1992 to the question on illegal car racing, will the Government inform this Council:*

- (a) how many arrests and successful prosecutions have resulted from the 60 joint operations carried out by the police since January 1990 to counter illegal car racing activities;*
- (b) how many traffic accidents have been caused by illegal car racing in the past three years, and of these, how many have caused injuries and death to innocent drivers and pedestrians; and*

- (c) *whether the Police have plans in hand to step up measures against such activities and, if not, what the reasons are?*

SECRETARY FOR SECURITY: Mr President, since January 1990, the police have made 143 arrests for the offence of motor racing under section 55 of the Road Traffic Ordinance. 38 people have been convicted under this section with penalties ranging from a fine of \$1,500 to imprisonment of seven months. Arising from these arrests, there have also been prosecutions and convictions for reckless driving and driving in excess of the speed limit.

We do not keep statistics specifically related to traffic accidents, or deaths or casualties caused by illegal car racing. Excess speed has been a factor in some 13% of all traffic accidents involving injuries over the past three years. However, we believe only a small proportion of such accidents have involved car racing.

The police use traffic patrols, radar speed detectors and road blocks to detect offenders. They also mount special undercover and surveillance operations. Their Task Force will continue these measures and other special operations in conjunction with police traffic teams to counter illegal car racing.

First Reading of Bill

APPROPRIATION BILL 1993

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

Second Reading of Bill

APPROPRIATION BILL 1993

THE FINANCIAL SECRETARY moved the Second Reading of: "A Bill to apply a sum not exceeding \$123,753,730,000 to the service of the financial year ending on 31 March 1994."

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He said: Mr President,

INTRODUCTION

I move that the Appropriation Bill 1993 be read the Second time.

2. This Budget will further increase the well-being of the people of Hong Kong. We shall improve the livelihood of our community, as well as the range and quality of social services and other programmes in line with the measures outlined by the Governor in his policy address. But, in addition, we will be able to make further improvements in key programme areas. There will also be lower taxes for the great majority of tax-paying families. Before I go into the details, I want to explain what has made this possible.

3. In preparing this year's Budget against a background of rapid political as well as economic change, both here and abroad, I have been very conscious of our fundamental objectives in managing our financial and economic affairs.

- The business environment should be as positive as possible, with minimum government interference and maximum support.
- The Government's policies and programmes should balance economic realities and the public's aspirations.
- Funding for expanded government programmes should normally come from the revenue generated by economic growth rather than higher taxes.
- Economic growth should improve the quality of life for the whole community.
- The future Special Administrative Region Government (SARG) should get off to the best possible start in 1997, with a flourishing economy, adequate finance and an infrastructure fit for the next century.

4. This year's Budget is a Budget which builds on success. I have been able to pursue these aims with considerable confidence in this my second Budget because of our robust economic performance. This has been based on:

- the continued impressive growth of China's economy, and
- the ability of our businessmen to look beyond present political controversies to the long-term prospects for sustained growth throughout the Hong Kong economy.

5. But the Government cannot achieve this on its own. We have to work together in partnership with others:

- in partnership with this Council, which means, for example, frank and early consultations with Members on Budget priorities,
- in partnership with the business community, to maintain Hong Kong's competitiveness, and to maximize private investment in our infrastructure, and
- in partnership with the community we all serve, so as to ensure that its needs are met and its criticisms heeded.

THE ECONOMY

1992 performance

6. As is both traditional and logical, I begin the main body of this Budget speech by reviewing the performance of the economy. In presenting my first Budget last year, I said that my overriding duty as Financial Secretary was to see that Hong Kong's record of economic success continued into the future. For it is from this economic success that all else flows. I think we can fairly say that over the last year, Hong Kong has confounded the sceptics yet again. Despite forebodings about our ability to weather new political storms and in the face of recessionary conditions in many of our leading export markets, we have continued to flourish.

- GDP grew 5% in real terms, well up from the growth rate in preceding years. GDP per head increased to over US\$16,000.
- Total exports grew 19%.
- In effect we have full employment. Our unemployment rate has remained among the lowest in the world.
- Inflation fell back, although not nearly enough for comfort.

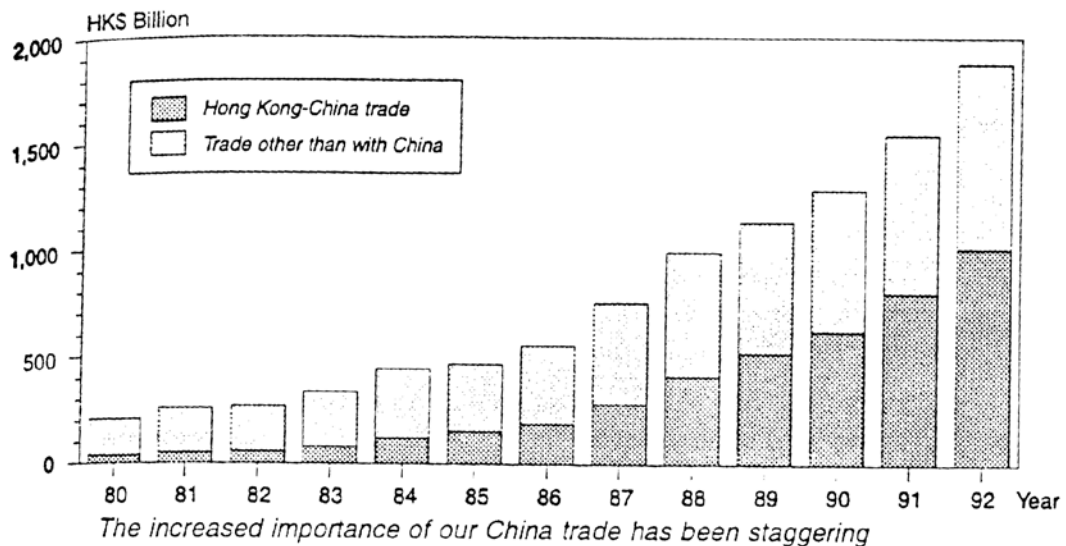


7. It is a mark of our success that nowadays we can compare ourselves with the major economies of the world, and increasingly the comparisons in many respects come out in our favour. So, after another year of economic success, where does Hong Kong rank in the world?

- In terms of GDP per head, a crude but useful yardstick of economic well-being, we have almost caught up with the developed economies of the United Kingdom and Australia, and have already overtaken Spain and New Zealand.
- In terms of international trade, we are the 10th largest trading economy in the world.
- In terms of foreign currency reserves, we are the 12th largest in the world.

8. It is not simply that Hong Kong has got its policies right, though this has been crucial. It is not only that our community possesses talent in abundance. It is also that we are fortunate enough to be in the fastest growing region in the world — and that we are flexible and efficient enough to take full advantage of the opportunities this presents. Thus our regional trade expanded by 23% in 1992, and trade with China in particular by 25%. Over the last decade, the increase in importance of our China trade, in both absolute and relative terms, has been staggering.

Hong Kong's Trade, Overall and with China

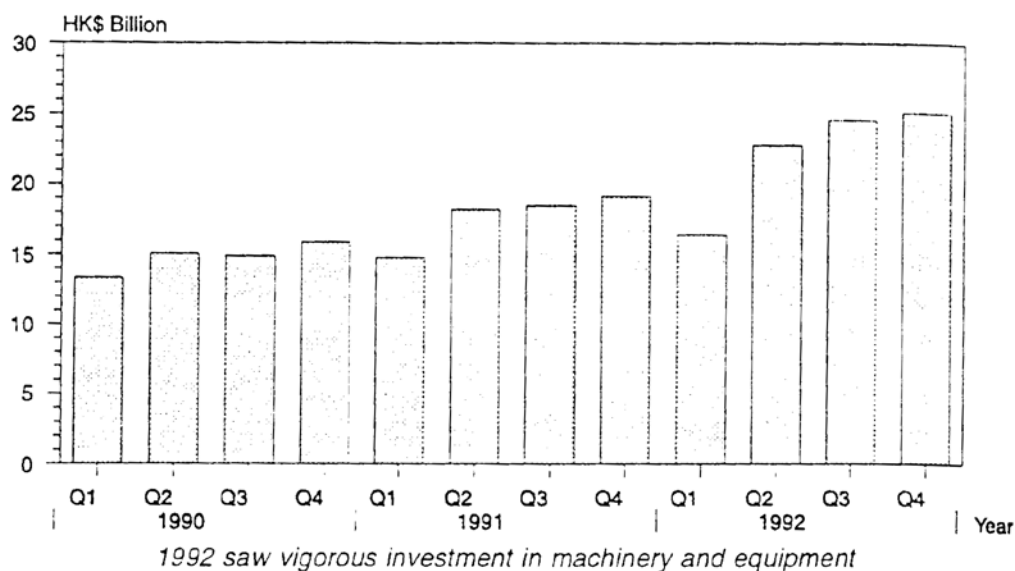


9. We are benefiting handsomely from the astonishing growth rates recorded by Guangdong and other parts of China. And we have also contributed handsomely to China's success, through our investment in that country's manufacturing, communications and services. Thanks largely to the market-oriented economic policies adopted by the Chinese Government over the last decade, Hong Kong has become part of the fastest-growing economic region in the world. We are part of what I believe history will recognize as an economic miracle to rival the much-vaunted post-war record of Japan and Germany.

1993 prospects

10. So our prospects for 1993 are extremely good. I am confident that we shall continue to flourish as we approach the "Asian Century". But we can never take success for granted. It is far from inevitable. Our continued prosperity depends on maintaining the right environment for business growth. On this score, our prospects for 1993 are very encouraging, although we cannot ignore some potential clouds, particularly on the trade horizon. I am encouraged, for example, by the vigour of investment in machinery and equipment, which is laying a firm basis for further increases in productivity.

Investment in Machinery and Equipment



11. I expect economic growth in 1993 to be somewhat greater than last year.

- Although Western Europe and Japan are likely to remain sluggish, China and the Pacific region are set to continue their record growth. And prospects for the United States, still our major market, seem brighter than last year.
- Provided that MFN status for China is renewed, total exports will grow by 18.5% in real terms, with re-exports growing by 25%. Imports will also grow by 19%.
- Growth in foreign trade will translate into higher personal incomes and increased consumer demand. Consumer spending will grow by 7.5% in real terms.
- Growth in foreign trade, backed by rising consumer demand, will also create a favourable investment climate. Private sector spending on machinery and equipment will grow by 15% in real terms.

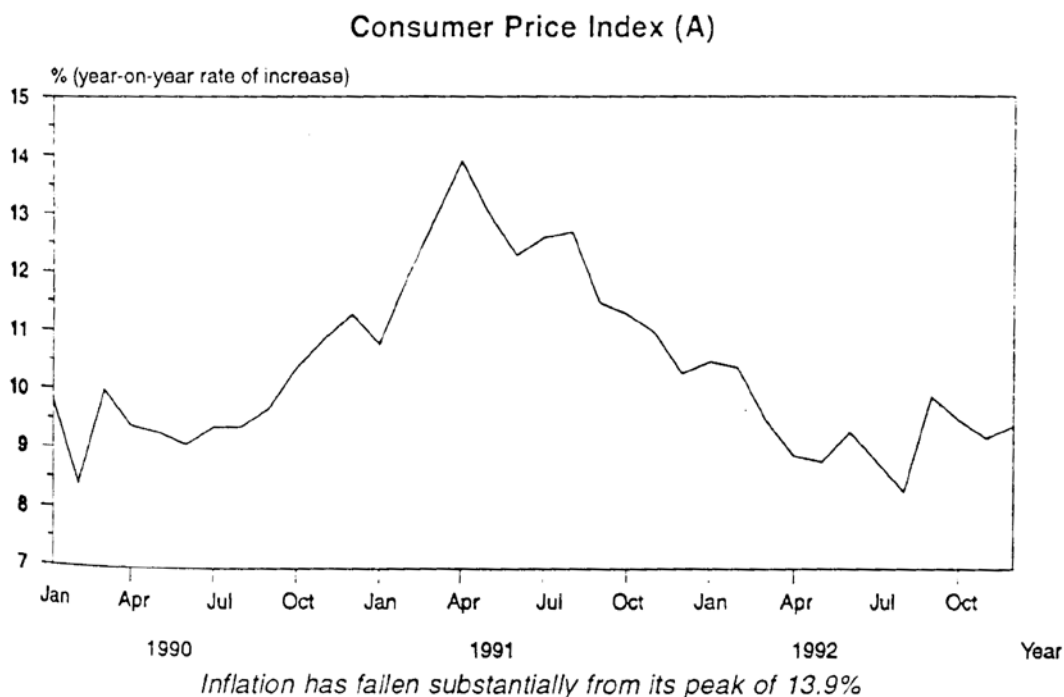
12. This "benign cycle" of foreign trade, investment and GDP growth, which is transforming living standards throughout much of Asia, means that Hong Kong will continue to climb higher up the world economic rankings.

- GDP will grow by 5.5% in real terms, and GDP per head will amount to \$146,700 (US\$18,800).
- We have every chance of overtaking the GDP per head of the United Kingdom and Australia and of approaching Italy and the Netherlands.

THE CHALLENGES AHEAD

13. I am confident that we can achieve these results. But we also need to face frankly to the challenges ahead - to the difficulties which may confront us.

- Although, at 9.4% last year, inflation has fallen substantially from its peak of 13.9%, it will remain uncomfortably high, with the CPI(A) likely to stay close to 9.5% this year.
- Trade restrictions, particularly China's MFN status in the United States market, will remain an anxiety.

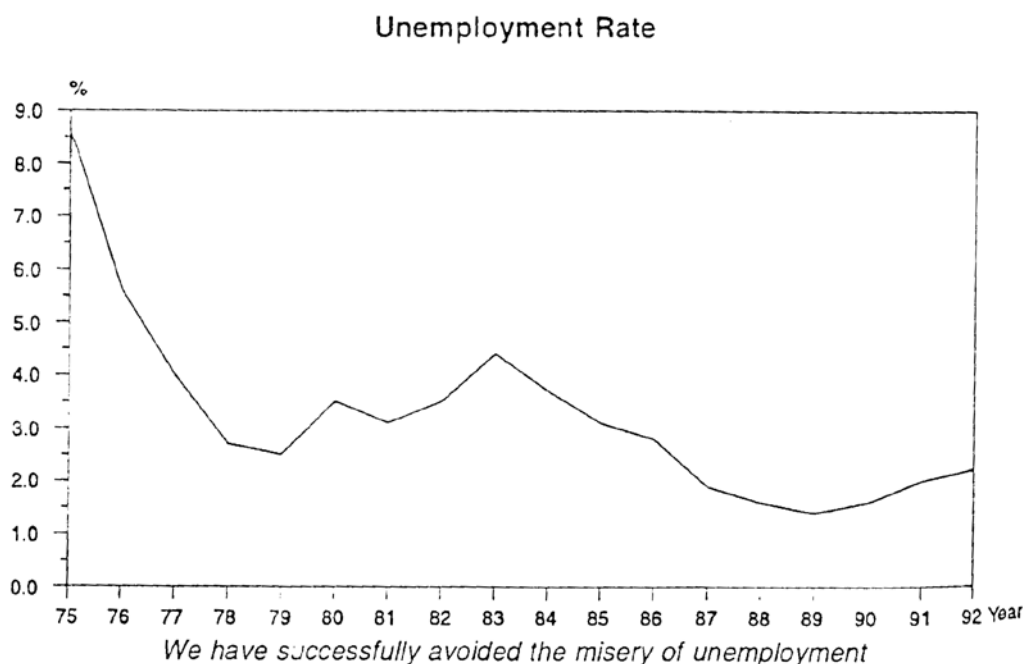


Inflation

14. Elaborating on these two challenges, first, inflation. As I have just said, inflation will average slightly more than 9% this year. The level in individual months may prove somewhat higher because of seasonal factors. But the overall trend should be for single-digit inflation. I accept that this, though better than in previous years, is still not satisfactory. I share the same basic objectives as economic policy-makers all over the world : low inflation, high growth and full employment. But policy-makers around the world also know to their cost that there is no certain recipe for achieving this.

15. In many western economies, price stability has been achieved, but only at the cost of low economic growth and high unemployment.

16. In common with most of our Asian neighbours, we put growth first. Hong Kong's priorities must continue to be economic expansion, real growth in both profits and personal incomes, and a high level of employment. Pursuit of these goals makes it difficult to escape from pressure on our prices. But I believe that our community would prefer to face the problem of containing inflation rather than the threat of bankruptcies, unemployment and stagnant incomes. Indeed, Hong Kong's record in successfully avoiding the misery of unemployment is outstanding.

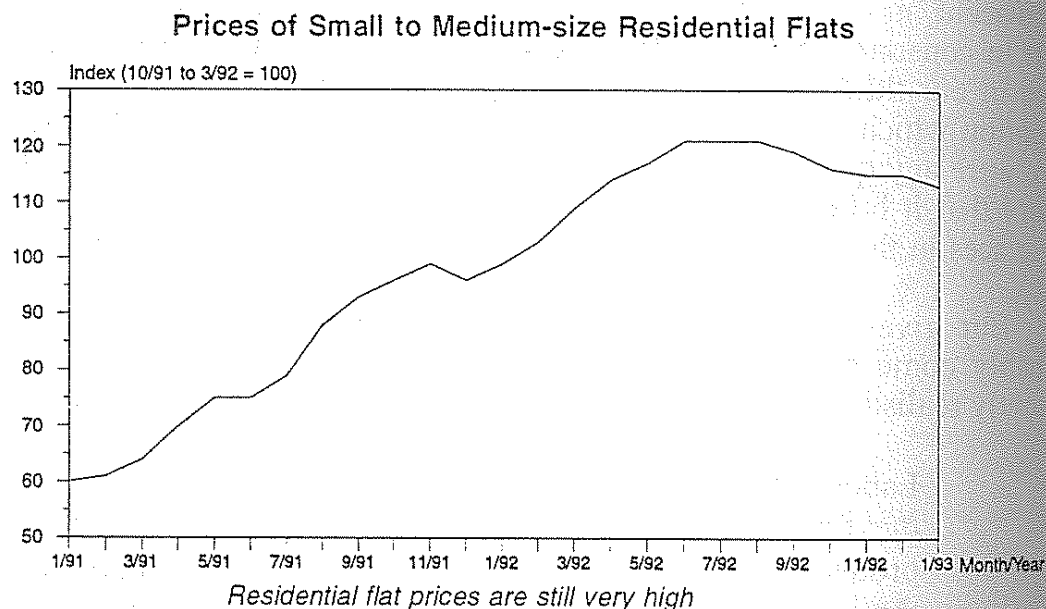


17. Nonetheless, inflation is an issue on which no one can afford to be complacent, in the Government, in business or in the community. The sudden spurt in consumer prices in January was a reminder that complacency has no place in our thinking. I should add that I am confident that January was an exception which will be offset over the year as a whole. At the same time, if there were any quick solution, other than economic stagnation and all the social misery that it brings, Hong Kong would have found it. The truth is that very few places in the world have found a low-cost, sure-fire remedy for inflation.

18. But given the constraints under which we operate, Hong Kong has probably come as close to finding as much relief from inflation as we can presently realistically expect.

- Labour remains our biggest constraint. With a limited workforce, our first priority must be maximum efficiency. Last year, labour productivity increased by 5.4% in real terms. In partnership with the private sector, we will continue to improve the efficiency of our labour force through education and training programmes. The injection last November of \$300 million into the Employees Retraining Fund will make it possible to retrain some 10 000 workers in 1993. This is, of course, additional to the \$1 billion which will be spent in 1993-94 on vocational training by the Vocational Training Council. However, there is no doubt that we will still face a serious shortage of labour in certain sectors, and that we have not yet found a satisfactory solution to this problem.

Land is also a serious constraint, one which many families feel through the high cost of accommodation. We have gone some way towards mitigating the impact of speculative pressures on the price of housing. In particular, the stamp duty measures introduced in late 1991, together with the limit on bank mortgage lending, have helped to stabilize the price of homes. Indeed, residential flat prices have now come somewhat off their peak. However, they are still very high; for example, they are not far off double their price in January 1991. I believe we must be very cautious about proposals to ease lending limits and the like if we are to avoid another price spiral. Individual buyers also need to bear in mind their vulnerability to possible higher interest rates, especially if they borrow a very high percentage of the price of a property — clearly the more they borrow towards a flat, the more exposed they are. But when the time does come to ease off, I have some sympathy for suggestions inside and outside this Chamber that, if possible, priority should be given to first-time home buyers.



- Industry has sought solutions of its own to higher production costs, particularly through relocation of all or part of production to the relatively low-cost environment of southern China. This has helped us maintain competitive export prices despite domestic inflation. Export prices rose last year by only 1%.
- The other response to inflation is to protect the vulnerable members of our community against the impact of rising prices. We shall continue to maintain the real value of social security payments through increasing the level of benefits in line with inflation. This is in addition to the real increase in benefits announced in the Governor's policy address, which will take effect this summer.

Trade restrictions

19. The second challenge to our economic prospects that I mentioned was trade restrictions. China and the United States together account for nearly half of our total foreign trade. We clearly have a major interest in trade issues between these two giants being sensibly resolved. MFN status is actually the normal treatment for the vast majority of the United States' trading partners. Withdrawal of MFN status is a very serious step. It involves penal tariff rates on many goods. For example, in certain toys and apparel products, the non-MFN tariff rates are more than ten times the MFN rates. I believe it is clearly in the interest of all to find a more constructive basis for such a key relationship.

20. Over the next few months, the new United States administration will have to decide whether to renew China's MFN status. We in Hong Kong shall have to use every opportunity to explain our concerns in Washington. The case we shall be making to the American administration, as strenuously as possible, in defence of Hong Kong's economic well-being and the principles of free trade can be simply put.

- It is estimated that loss of MFN status by China would cost Hong Kong up to 70 000 jobs and up to three percentage points of our annual GDP growth.
- It is unreasonable and undesirable to inflict economic damage on Hong Kong as a result of disputes between Washington and Peking.
- It is a mistake to underestimate the progress which China has already made in areas of concern in the course of economic liberalization.
- It is impossible to see how those claiming to protect or help Hong Kong can do so by damaging our trade.
- Hong Kong would not be the only casualty. One estimate is that withdrawal of MFN would cost American consumers US\$14 billion because of higher import prices, while retaliation by China could put at risk over 150 000 American jobs and US\$6 billion worth of investment in United States exports to China.

The Governor is looking forward to travelling to Washington at an appropriate time later in the year to put forward some of these arguments in person.

21. Although MFN is the most immediate threat to our export growth, the failure to bring the Uruguay Round to a successful conclusion is also a considerable disappointment. There is much at stake in these talks, for Hong Kong and for the world. For Hong Kong, the Uruguay Round would help to bring a significant reduction in the level of discrimination against our exports of services as well as goods. For the international economy, the Round offers an opportunity to extend to new areas the trade liberalization which has produced in Asia the dramatic progress from poverty we have seen over the past 20 years.

THE SERVICE ECONOMY

22. I should like to take this opportunity to highlight progress made in our increasingly important service economy. One of Hong Kong's greatest assets is an ability to adapt to new economic realities, through the working of the market mechanism, not through government edict. Over the past decade, our economy has been transformed as we have emerged as one of the business capitals of

Asia. In 1981, 23% of GDP came from the manufacturing sector. In 1991, manufacturing — while still important — accounted for only 16%.

23. We are now a predominantly service economy, with China and the rest of the region as the main market and source of growth. In 1991, 73% of our GDP came from the service sector, which now employs 66% of the workforce. This strategic shift in the balance of our economic activities has created new challenges, especially in terms of the Government's responsibilities. A good example of our positive response to these new challenges was our decision last year to go into partnership with the private sector in the new field of electronic data interchange, or EDI. As a result, we will be significantly improving the efficiency of our trade and business sectors.

Financial services

24. If the services sector is now the predominant sector of our economy, there is no more important component of it than our financial services. Hong Kong owes a great deal to its financial services sector. It has been the flagship of our economic transformation in recent years. I should like to pay a special tribute this afternoon to Mr David NENDICK who, as Secretary for Monetary Affairs until a few weeks ago, did so much to encourage this process.

25. The success of our financial services industry is based on a partnership with the Government. The Government's main role has been to secure:

- a stable exchange rate and solid public confidence in the currency, and
- the stability and integrity of our monetary and financial markets through a strengthened regulatory framework.

For the avoidance of any doubt, let me repeat here the assurance that I gave last year, that I remain committed to the existing linked exchange rate.

26. In a field which is evolving as rapidly and dramatically as financial services, the Government has a special responsibility to keep abreast of change. I consider it particularly important that the Government should respond quickly and positively to enable our financial services to take full advantage of changing circumstances. We are doing just that. In the past year, we have seen major developments:

- important steps taken to enable the establishment of the Hong Kong Monetary Authority, thanks to the unanimous support of this Council,
- further monetary reform through the establishment of the Liquidity Adjustment Facility, Hong Kong's version of a discount window,

- the launching of a new securities central clearing and settlement system, thanks to the efforts of the Securities and Futures Commission and the Hong Kong Stock Exchange, and
- the decision by the Chinese Government to consider the listing of nine state-owned companies on our stock market, announced in October 1992.

27. These were important and useful steps. But there is more we can do.

- We are considering steps to improve the liquidity of securities issued by statutory corporations (such as the Airport Authority and the Mass Transit Railway Corporation) through extending to them the market making arrangements for Exchange Fund Bills and Bonds.
- We are designing a central custody system for Hong Kong dollar debt instruments in paperless form.
- We shall convert the Land and Companies Registries into new style "trading fund" departments to enable them to serve their clients better.

28. I will also later in this speech set out my position on whether further stamp duty concessions are needed to maintain the competitiveness of our stock exchange.

29. There is an important technical point which I should like to clarify. In 1991-92, we started to issue two-to-three year government bonds, which have enhanced the development of the Hong Kong dollar debt market. This programme is going well. Because these bonds are now primarily aimed at market development — clearly with our present strong fiscal position, we currently have no need to borrow for capital expenditure purposes — I believe that it is desirable for the new Hong Kong Monetary Authority to take over responsibility for the financial accounting, and have the proceeds of the bond issues taken into the Exchange Fund rather than the Capital Works Reserve Fund. Consideration is being given to how this could best be achieved without affecting the bond programme. But for the purposes of the Medium Range Forecast (and the 1993-94 estimates), I have assumed that such revised arrangements will apply in 1993-94.

Protecting the public

30. A key issue for both the Government and the financial services industry is how to strike the right balance between market forces and the protection of the consumer. We have traditionally relied in many areas on self-regulation as the

best way to protect the public without excessive government interference. But legislation has its part to play in achieving the right balance.

31. Over the next year, we shall be taking two important steps to enhance consumer protection.

- First, to strengthen the Insurance Authority, we will present legislation which, among other things, will provide earlier warning of potential difficulties and impose tighter capital requirements on the industry.
- Secondly, to regulate voluntary retirement schemes, we will bring into effect the Occupational Retirement Schemes Ordinance by the middle of this year. This will provide greater protection for employees who are members of such schemes.

32. These measures have been carefully judged to give protection to the public without impairing business growth. In fact, the measures will enhance the quality of the products and expand their market. The development of a more effective regulatory framework for those who buy insurance policies and contribute to retirement schemes will encourage the community to have greater confidence in the integrity of these products.

Market forces

33. I would like to emphasize, however, that the Government, like the community at large, continues to believe that competition and the market are the best allies of the consumer, and the best ways to maximize efficiency and avoid unfair pricing. I believe that we should intervene to supervise markets only when essential to protect the consumer. Whenever possible, self-regulation is preferable to government intervention.

34. Even where government controls prove to be unavoidable, we are determined to exploit all possible opportunities to promote competition. We have demonstrated this in the last year by encouraging competition in telecommunications, public transport and television. It is no less true of our financial services, where intense rivalry exists between major institutions, both local and from overseas, combined with a system of supervision which matches the standards achieved in other major international financial centres.

BUDGET STRATEGY

35. I turn now to my Budget strategy. I remain committed to the principles of sound financial management which have guided our budgetary policy over the years. These principles have served us well. Two in particular deserve to be restated today:

- public spending must not grow faster than the economy, and
- the reserves must provide an adequate cushion to meet known commitments and future uncertainties.

36. These principles cannot be applied mechanically on a year-by-year basis. To do so would be to apply unnecessarily rigid constraints, particularly to capital expenditure. Major projects tend to be uneven in their expenditure flows. This means that, in some years, the Budget will show a surplus; in other years, we will have a deficit. The key is to maintain a reasonable level of reserves to avoid the disruption of "stop-go" policies

37. This year, our finances are in a very healthy condition. The Medium Range Forecast to 1996-97 is published in Appendix A to this speech.

38. This Forecast demonstrates that our plans for the future are well within our means. Hong Kong can comfortably afford:

- the far-reaching targets in key programme areas announced by the Governor in his policy address, and
- very substantial programmes of capital spending on our physical infrastructure, including the Airport Core Programme.

39. The Forecast also demonstrates that we can afford to be even more ambitious and undertake:

- further improvements to services in key programme areas, which I will be announcing later in this speech,
- an important package of new initiatives, which I shall also be coming to later, and, of course,
- major tax concessions.

40. As I have just indicated, this Budget contains far-reaching proposals for new expenditure. These have been made possible by the excellent state of our public finances. They represent what I regard as imaginative yet prudent use of record Budget surpluses to produce lasting economic and social benefits, without mortgaging our future. In particular, we have been able to bring forward some important projects that, otherwise, could not have been undertaken for many years. And to take very much into account Members' expressed priorities.

EXPENDITURE AND REVENUE ESTIMATES**The 1992-93 outturn**

41. I come now to the details of our public finances, and to the results for 1992-93. Simply put, our revenue has been higher and our spending has been lower than I predicted this time last year. I forecast last year that 1992-93 would see a Budget surplus of \$7.5 billion. I have now revised this estimate to \$20.5 billion. Accordingly the reserve balance at the end of the year is now forecast to be \$119.6 billion.

42. Of this additional surplus, \$7 billion is the result of higher-than-expected revenue. I forecast last year that total revenue would come to \$126.3 billion. I now expect total revenue to come to \$133.3 billion, some 5.5% above the original forecast.

43. This surge in revenue accounts for about half the additional surplus. This extra revenue reflects the success of the economy, and is of course good news since it has been largely generated by increased levels of business activity. Most of it comes from stamp duty, profits tax and vehicle first registration tax.

44. The other half of the additional surplus is the result of capital underspending. Members will not find this acceptable. Neither do I. I forecast last year that total expenditure would come to \$115 billion. I now expect total expenditure to come to \$109 billion, some 5% lower than the original target.

45. True, we have made some welcome savings — about \$1 billion worth — on public works contracts where tender prices have been lower than expected. But it has to be faced that the main underspending is the result of slower progress with our capital works programmes than we had planned.

46. Let me be plain about what this underspending means for the community: some desirable projects will not be ready on time. It is true that we have set ourselves ambitious targets, but such delays are not acceptable, and we have to act urgently to remove the bottlenecks.

47. The trend of underspending was already apparent at the time of my last Budget, and some measures have already been put into effect — for example, calling for tenders while at the same time putting items to Finance Committee for funding, getting rid of the bottleneck of clearing year-end payments, and the introduction of tighter monitoring procedures by Works Branch.

48. This last financial year has brought home the need for more fundamental solutions to this constraint on our capacity. Improved co-ordination and management within the Works Departments will help. No less important will be greater use of private sector expertise and resources.

49. To amplify these two points, it has become clear that we need new measures to ensure that there is effective liaison between those who design projects, those who undertake land acquisition for them, those who monitor their environmental implications and those who implement the works. And with the client Branches or Departments. This requires that overall management of public works becomes more unified. So as to remove any doubt about where overall management responsibility lies, I have taken steps to place with the Secretary for Works overall responsibility for the implementation of the Public Works Programme.

50. Given the variation in size of projects and the inevitable lumpy nature of works programming, it is not cost-effective to attempt to have all our projects designed and supervised by government engineers and architects. We shall be looking at how to entrust more of our projects to outside agencies or the private sector for design and management, as well as letting more "design-and-build" or turn-key contracts.

51. I have asked the Secretary for Works to tackle these problems as a matter of urgency. I have mentioned some remedial measures that have been taken already. Others are in the pipeline.

- A new realism will characterize our estimates of project costs and progress in future.
- To help fulfill his new responsibility for ensuring public works are delivered on time and within budget, the Secretary for Works will establish a more sophisticated, computer-based information and management system. This will link all the Works Departments and the relevant Branches. It should enable problems to be identified and solved at an earlier stage. And it will allow us to extend systems which have been used successfully in implementing the Airport Core Programme.

52. However, I believe that these remedial measures will only take us part of the way. What we need is a thorough overhaul of public works procedures, practices and systems. Our objective must be to increase substantially our capacity to deliver projects on time and within budget.

53. I have asked the Secretary for Works to carry out an urgent review and to report to me by the end of June. He will look beyond the Government's ranks for advice and also draw on the experience and expertise of the private sector, in which he himself has considerable experience. I believe this point to be crucial: we need to apply private sector best practice to the public sector. And the Secretary for Works will of course take particular account of the views of Members.

54. Among the key issues on which I have asked for concrete recommendations are:

- the extent to which the systems employed successfully in managing the Airport Core Programme might be applied to non-airport projects,
- the scope for greater use of the design-and-build approach to capital works projects,
- the greater degree of entrustment of suitable projects to the private sector that may be desirable, and
- what changes are needed in staffing levels, procedures and organization.

Draft expenditure estimates 1993-94

55. Next, I shall cover the expenditure estimates for the new financial year. I estimate that total government spending, excluding payments from the Capital Investment Fund, will rise to \$132.5 billion in 1993-94. This is an increase of \$17.4 billion compared with the original estimate for 1992-93. Members have already received copies of the draft estimates of expenditure, and I do not propose to go through these in detail this afternoon. The relevant Policy Secretaries will brief Members fully during the special meetings of Finance Committee which have been set aside for the detailed examination of the draft estimates. Nonetheless, I should like to comment on some key proposals for increased expenditure in the next financial year, particularly as some of the increases may not be readily apparent from the draft estimates of expenditure.

56. In his policy address, the Governor announced ambitious new policy targets. This year's Budget provides the resources needed to achieve the goals set for 1993-94, subject, of course, to Finance Committee approval. One of the most vital improvements was the new Comprehensive Social Security Assistance Scheme. This starts on 1 July and will substantially improve the average monthly payment received by over 100 000 of the poorer members of our society. Including proposed inflation increases due shortly:

- the average payment for a single person will be \$2,000 : an increase of \$320 or 19% over 1992, and
- the average payment for a family of four will be \$5,880 : an increase of \$1,050 or 22%. This incidentally is equivalent to 91% of the projected average manufacturing worker's wage as at September 1993 — or 101% of the September 1992 average wage.

57. There is a widespread misconception that beneficiaries of social security have had to rely on the former basic rate to meet all their needs. Less than 1% of all beneficiaries received the basic rate without any form of additional payment. So it is entirely misleading for any discussion of this issue to focus on the basic rate.

58. Let me also remind Members of some of the other improved services which will be provided in the coming year to implement the Governor's policy address.

- For the elderly, and extra 1 780 places will be provided in care-and-attention homes and homes for the aged.
- For the disabled, an extra 1 810 places will be provided in residential and other facilities.
- For children, an extra 1 920 places will be provided in nurseries, creches, children's homes and small group homes.
- For the sick, 950 extra hospital beds will be provided, together with nine new clinics or service units.
- For primary schools, 785 extra teachers will be provided, reducing class sizes and improving pupil-teacher ratios.
- For the fight against crime, an extra 800 police officers will be deployed on the streets. And backing them up, the best equipment we can provide.

New initiatives for 1993

59. It is an impressive list. But I am happy to be able to announce a considerable number of new expenditure initiatives for 1993. First, I have two further additions to recurrent expenditure to announce this afternoon.

Kindergarten Fee Remission Scheme

- In recent months, Members have pressed me to agree to an expansion of the Kindergarten Fee Remission Scheme. I am happy to be able to agree to this. As a result, an extra 32 000 families will qualify for fee remission at a cost of \$13 million a year.

Housing benefits for staff in the subvented sector

- Members have also pressed for the introduction of a mortgage-interest subsidy scheme to provide housing benefits for staff in

aided schools and in subvented social welfare and health organizations. I am happy to be able to agree to this as well. The scheme will cost \$48 million in the first full year, rising to \$94 million in the fifth full year.

60. But our current financial strength allows us to be more ambitious on non-recurrent expenditure. Subject to Finance Committee approval, I propose to increase capital expenditure to tackle long-standing problems in 10 areas of major social and economic importance. Let me make it clear, these will be in addition to the targets set by the Governor. What I am about to announce will be a package of new initiatives in each of these 10 areas. In drawing up these proposals, I have made a particular effort to take into account Members' very useful suggestions on priorities expressed to me during the Budget consultation exercise. The outcome reflects views expressed during that consultation to a very considerable extent. I hope that Members will warmly welcome the measures I am about to announce.

Relief from hardship

61. As a community, we recognize a duty to care for those in need, particularly those who are the victims of life's special tragedies.

62. It is hard to think of a worse tragedy than the haemophiliacs who have been infected with HIV through the transfusion of contaminated blood products in Hong Kong prior to 1985. They have a right to compassion, and they need our help. The Governor has already announced our intention to assist. I now propose that a special fund be set up with a sum of \$350 million. This will cover both the costs of *ex gratia* payments and the medical and support services they require, and help finance a programme of AIDS related education and publicity to help prevent the spread of this terrible disease.

63. Another tragic illness of special concern to industrial workers is pneumoconiosis. I propose to make a \$100 million grant to improve the *ex gratia* scheme for sufferers diagnosed before 1 January 1981. This will be in parallel with proposed improvements to the statutory scheme for those diagnosed after 1 January 1981, to be funded by an increase in the levy. At present both categories receive only one-off payments. In future, they will receive regular payments.

64. I should like to assist another group of work-related victims. I propose the creation of a new fund to provide immediate interest-free loans to employees injured at work and to the dependants of employees who die as a result of work-related accidents. Our contribution will be \$10 million. This fund will provide early financial relief for families who suffer hardship whilst awaiting settlement of their claims for compensation.

North District Hospital

65. Many Members of this Council have presented persuasive arguments for increasing the number of hospital beds in the North District of the New Territories. I find their case compelling.

66. I therefore propose to make a start on this project, and to allocate approximately \$1.1 billion at today's prices for the construction of a 600-bed hospital for North District. To avoid the bottlenecks of the capital works programme and to meet a 1997 completion target, we will be exploring with the Hospital Authority the possibility of making this a turn-key project with a cash-limited budget.

Health care

67. There should be no doubt about our commitment to the improvement of our community's health and its medical care. This will not come cheaply. In 1993-94, we plan to spend a total of \$17.2 billion on this area. And the bills to the taxpayer will continue to rise because, as medical technology advances, new and costlier treatments become available.

68. We must ensure that every dollar we spend on health care is used to the best possible effect. That it is not spent on overheads but is used, as far as possible, directly to benefit the patient. We have calculated that for every 1% improvement in the use of resources by the Hospital Authority, an additional \$120 million would be freed for direct patient-care. I propose, therefore, to make a grant of \$50 million to the Authority to fund a research programme to assess the cost-effectiveness of new technologies and treatment techniques which advances in medical science make available. We want to pick the best, and we want value for money.

Cleaning up the harbour

69. In his policy address, the Governor gave an undertaking to make a start on the High Priority Programme to upgrade Hong Kong's sewerage scheme and improve water quality in the harbour, at a cost of \$7.3 billion. The Governor pointed out that his strategy would require a contribution from the public and industry, but that the Government would itself contribute at least \$3 billion to reduce the level of charges that would otherwise be necessary.

70. We have now fleshed out the scope of works proposed in the Governor's address. In view of our financial position, and the importance that we make progress in this area, I propose that the High Priority Programme be expanded to include the Central and Wan Chai Sewage Master Plans. This will cost an extra \$1 billion. I also propose that, in order to keep the level of charges to the

public and industry as low as possible, the Government should invest an additional \$900 million.

71. I shall thus be proposing to Finance Committee a total government injection of \$4.9 billion to launch the implementation of this environmentally critical programme, as compared with our original intention to inject about \$3 billion. And, in the coming months, the Planning, Environment and Lands Branch will be carrying out a comprehensive public consultation exercise on fair and affordable levels of charging.

Sandwich class housing

72. In his policy address, the Governor announced a scheme to help some 13 000 families in the "sandwich class" over the period up to 1997. Preparations are well in hand for this scheme with a view to putting suitable sites into our land sales programmes for the coming years.

73. However, while the scheme was generally welcomed, there was a widespread view that the interim scheme should provide the required number of flats more quickly.

74. I have considered this carefully, and we have looked again at how best to accelerate progress. We have now concluded that the quickest and simplest approach would be for the Housing Society to operate a scheme on the Government's behalf in which genuine first-time home buyers in the sandwich class will be able to purchase flats at a discount, subject to certain conditions being met. I therefore propose to make a payment of \$2 billion to the Housing Society to fund this initial scheme. This will benefit up to 3 000 families over the next two to three years. I will be approaching Executive Council and then Finance Committee on this proposal as soon as possible.

75. I am very conscious of the need to avoid fuelling a further surge in residential property prices. It will be made clear to the Housing Society that the pace at which they proceed must have regard to trends in the property market, to avoid pushing prices up.

Improving manpower skills

76. In the past, our education policy has focused on schools and tertiary institutions. While it is right that our children and young people should be our first concern, we cannot ignore the needs of those who have finished their formal education. In Hong Kong's case, it is even more important that no talent goes undeveloped because we face relentless demands on our tight labour supply as our economic growth continues unabated.

77. The Open Learning Institute (OLI) has a special contribution to make not only to the quality of life of the individual but also to expanding the pool of qualified manpower. To help develop new, self-financing courses, especially in Chinese, I propose to make a grant of \$100 million to the OLI to establish a General Development Fund.

78. It is vitally important that our workers have access to all the new skills they require to keep abreast of changing technology. Technology will move ahead remorselessly, and our workforce must enjoy the training opportunities to take full advantage of this progress. To double the number of trainees who benefit from the New Technology Training Scheme, I now propose to make a grant of \$50 million to this Scheme.

Sports and performing arts

79. Our economic success has created more leisure for the community and more facilities to enjoy. This is not only a question of personal recreation, for the community at large has become increasingly enthusiastic about the pursuit of excellence in sport and the performing arts. As has been said eloquently in this Chamber, such activities increase our capacity to value and enjoy our everyday life; and thereby increase the health and harmony of our society.

80. The Government is particularly keen that our elite sportsmen and women should have the facilities they will need to perform at their best when they represent Hong Kong at the Asian and the Commonwealth Games in 1994 and the next Olympic Games in 1996. I therefore propose a grant of \$100 million to the Sports Development Board, which will also help to foster the development of sports science and medicine in general.

81. Hong Kong is increasingly well provided with cultural activities. But, even now, much of our excellence is imported rather than home-grown. To support new and developing artistic groups, I propose a grant of \$30 million to the Sir David Trench Fund, which has a special responsibility in this field. The Council for the Performing Arts will guide the use of this grant.

Support for trade and industry

82. The Trade Development Council (TDC) plays a key role in the promotion of Hong Kong and its products around the world. The Council is increasingly able to assume responsibility for its own financial affairs. Its Convention and Exhibition Centre has proved to be a huge success, bringing substantial economic benefits to Hong Kong. But the Centre is fast reaching the limits of its capacity. The Council has suggested the construction of an extension in front of the existing Centre.

83. Separately, Members of this Council and the Industry and Technology Development Council have repeatedly urged me to allocate more resources for industry support activities, such as research and development, so as to help our manufacturers move into high-tech production. There is also a need to review and rationalize the TDC's funding arrangements in recognition of its success in generating income. This may well enable us to increase the funds for supporting industry.

84. I would like to make progress in all these areas in the next few months. Our initial ideas need to be refined further by discussion in particular with the Trade Development Council and the Industry and Technology Development Council. But I am sufficiently confident of making such progress to provisionally earmark funds in the 1993-94 draft estimates for the extension to the Convention and Exhibition Centre.

85. This would enable me later in the year, if our discussions are successful, and subject to more detailed assessment of the cost, transport and environmental implications, to recommend making available approximately \$2.4 billion for the construction of an extension to the Convention and Exhibition Centre. And to advance expenditure of about \$3.1 billion on related reclamation and services adjacent to the existing Centre. I would emphasize that these are only rough estimates and are at 1992 prices. I expect the extension to bring about quantifiable economic benefits amounting to some \$9-10 billion a year, in addition to those unquantifiable benefits such as absorption of new knowledge and ideas brought to Hong Kong through the holding of conventions and exhibitions.

Transport infrastructure

86. One issue which many Members of this Council have emphasized to me as needing urgent improvement is the transport infrastructure in the northwest New Territories. I have much sympathy with Members' views on this.

87. The transport problems in this part of the New Territories are the result of geography and the huge expansion in our trade with China.

- We now handle about 18 000 vehicles crossing the border each day, a 70% increase over the past four years.
- Much of this traffic is generated by the container terminals. Hong Kong's container port is the largest in the world and is adding additional capacity each year equivalent to the Port of Seattle.

- The pace of development in the northwest New Territories will accelerate not only with the construction of the new airport and associated facilities but also as new land is made available for much-needed housing estates.

88. Quite apart from the adverse impact of chronic road congestion on the quality of life, it is essential that we develop better transport links with Guangdong. If Hong Kong is to play its full part in promoting and benefiting from the extraordinary success story of China's modernization, we must have the modern transport systems to handle the growing volumes of traffic created.

89. As Members of this Council have warned and residents need no reminding, the road system in the northwest New Territories is already under great pressure. The strains will worsen unless we take steps now. I intend to take advantage of this year's surplus to do exactly that.

- For the short term, I have decided that improvement to the Tuen Mun Highway should now be funded and begin this year. This will involve construction of new "climbing lanes" for slow-moving traffic on this vital artery at a cost of \$1 billion. To avoid the bottlenecks of the capital works programme, this will probably need to be a design-and-build project.
- For the medium term, increasing congestion for local traffic, together with our increasing links with Guangdong's economy, make a new road to the border essential. The first priority is Route 3 from Tsing Yi to Au Tau by way of a new bridge at Ting Kau, and a tunnel under the country park. We are now examining how best to advance this project, I hope in partnership with the private sector. I will be coming back to this Council after the summer recess with specific proposals. But I have earmarked \$4 billion (in 1994 prices) as the Government's potential contribution.

Tourism

90. Tourism is one of our major industries, with estimated receipts of \$48 billion last year. By one estimate, it employs some 180 000 people or 10% of total employment in the services sector and is the third highest earner of foreign exchange for the territory. I therefore recommend a subvention of \$337 million to the Hong Kong Tourist Association in the coming financial year.

91. I want to ensure that as much as possible of this subvention is channelled directly to activities promoting Hong Kong as a tourism destination. At present the Association is accommodated in rented office premises at an annual cost of \$13.5 million. I propose to make a capital grant of \$200-\$300 million to the Association to purchase their own office premises. The full savings in rental expenditure can then be diverted to the direct promotional activities of the Association.

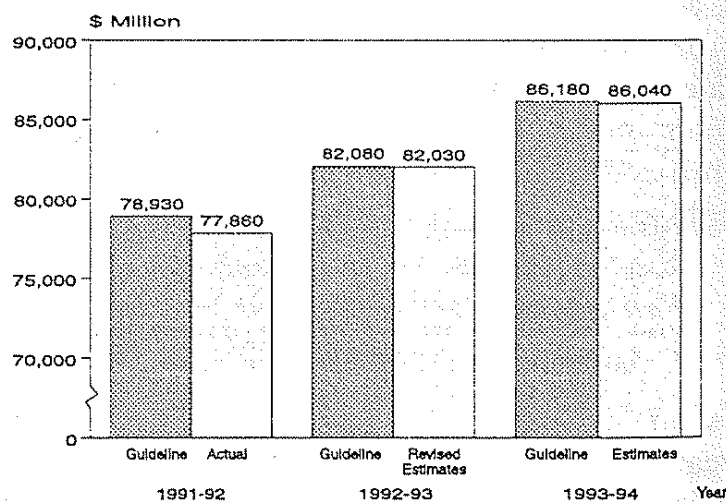
The package

92. I am convinced that the package of new initiatives which I have just described will make a major contribution to our infrastructure and thus to our future economic growth, as well as to the quality of life of very many Hong Kong people.

1993 expenditure in perspective

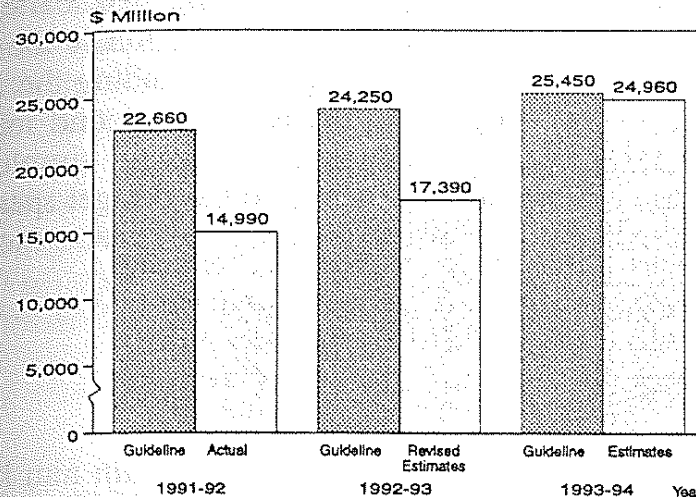
93. This package of new initiatives, together with the substantial increases in recurrent funding for social welfare, health and education announced by the Governor last October, represents a major financial commitment. That I am able to embark upon such a programme within my budgetary guidelines is one of the rewards of Hong Kong's economic success.

Comparison of Recurrent Expenditure with Guideline
(at 1992-93 price levels)



Recurrent spending in 1993-94 will be in line with the guideline

Comparison of Capital Works Expenditure with Guideline
(at 1992-93 price levels)

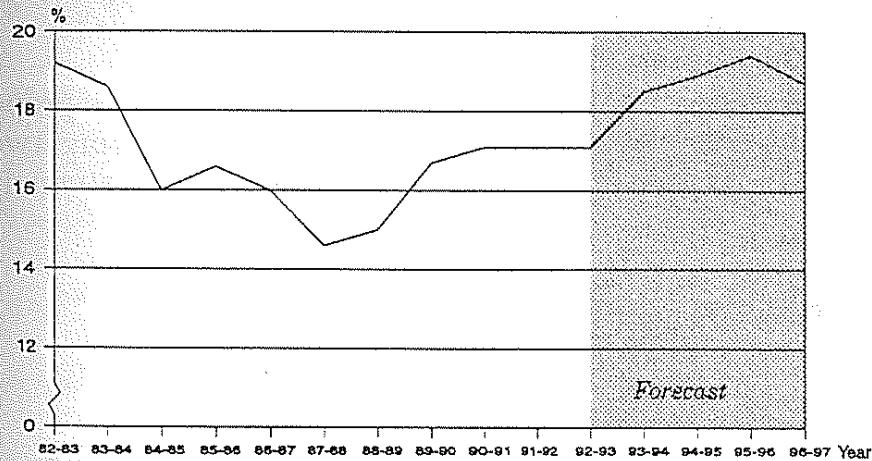


Capital spending in 1993-94 will be slightly below the guideline

94. I believe that there will be particular interest in the extent to which we are increasing our social services. Here I am glad to be able to report that the draft estimates provide for real increases in recurrent expenditure on social welfare, health and education of more than 7%. I emphasize that these are real increases, after allowing for inflation.

95. Public expenditure which, in addition to government expenditure, includes the spending of the two municipal councils, the Housing Authority and the Lotteries Fund, will amount to \$156.6 billion in 1993-94. This represents 18.5% of GDP. Present forecasts indicate that the proportion will remain below 20% in the period to 1996-97.

Public Expenditure as a Percentage of Gross Domestic Product



The proportion of GDP will remain below 20%

96. Last year, I told this Council that I intended in future to present the complex budgetary data in a form which is more user-friendly and accessible to the community at large. I will today be publishing two leaflets which I hope help to do just that. The first is called an "Introduction to the Estimates", and provides an analysis of some of the key figures, including the real increases in expenditure in each of our programme areas. The second leaflet, "What the Budget means for You", summarizes my proposals in simpler terms for the general public. Both will be available today. In the Budget speech itself, I have also continued the trend I began last year to make the text more readable and less technical.

REVENUE PROPOSALS

97. I turn, at last, to my revenue proposals. My main aim here has been to maintain fiscal prudence while, at the same time, reducing the tax burden as far as possible for the largest number of tax-paying households. The good news is that we are in a position to reduce the tax burden and to leave more money in the taxpayer's pocket, where it belongs. In doing so, I have faced three challenges.

- Because tax concessions are recurrent in nature, even a modest cut in our principal taxes can have a major impact on our current revenue flows and future reserves. We cannot go too far without jeopardizing the prudent level of reserves which we believe to be necessary.
- We need to avoid measures which would add significantly to inflation.
- We need to avoid any steps that would complicate our simple tax system. And we must progressively close loopholes for escaping the tax properly payable.

98. Setting priorities means making choices. And in my proposals I have relied on the advice I have received from Members during two rounds of detailed consultations with them. I found these discussions extremely useful.

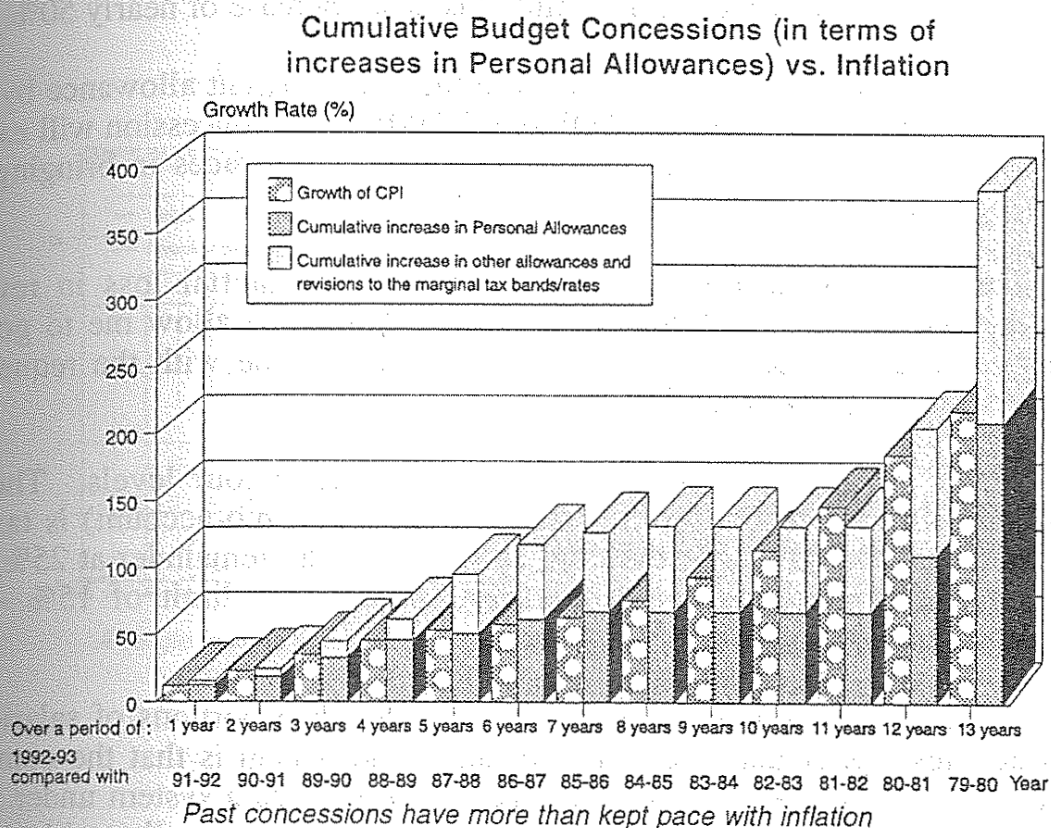
Revenue sources

99. I will now present my specific revenue proposals.

Salaries tax

100. Last year, we had a spirited debate about salaries tax. At the heart of the controversy was the question : at what level should tax allowances and tax bands be set. In particular, Members expressed concern over whether levels of tax allowances had kept up with the rate of inflation over the past few years.

101. It is important to remember that not only have tax allowances been increased fairly regularly but also that tax bands and the marginal rates have been adjusted on several occasions. The combined effect of these concessions on salaries tax payers has been to more than keep pace with inflation.



102. For this year, my starting point must be the undertaking I gave to this Council when concluding the 1992 Budget debate. I said then that, subject to economic and fiscal constraints, I planned to increase salaries tax allowances substantially, as well as to review tax bands. I added that these improvements would substantially lessen the tax liability of the "sandwich class". In the consultation exercise, it became clear that Members attached particular importance to increases in tax allowances, and I have taken this into account in shaping my proposals.

103. To meet my undertaking in respect of tax allowances, I have three proposals for salaries tax concessions.

- First, I propose to increase the basic and married person allowances by nearly 22% (from \$46,000 to \$56,000 and from \$92,000 to \$112,000 respectively). These increases are more than double the current rate of inflation. They should go a long way towards meeting the concerns of relatively less well-off taxpayers as well as the sandwich class.
- Secondly, I propose to increase the allowances for the first and second child and for dependent parents to a standard \$17,000. In the case of the second child, this is an increase of nearly 50%.
- Thirdly, I propose to increase the single-parent allowance by more than 17% (from \$23,000 to \$27,000). This concession will ease the special difficulties which the single parent faces in bringing up a family.

104. These improved allowances will mean a substantial loss in revenue. Nevertheless, our financial position is strong enough to allow me to go even further in reducing the community's tax burdens in line with the requests of Members for a review of tax bands.

105. Under the present system, tax bands are set at four levels. The first \$20,000 of salaries income (after taking allowances into account) is taxed at 2%; the next \$20,000 at 9%; the third at 17%; and the remainder at 25%. The total amount of tax payable is, however, subject to a limit of 15% — the so-called "standard rate".

106. There is occasionally confusion as to why some portions of salaries are taxed at rates higher than the standard rate. The reason is that the combined effect of the allowances and the tax bands is to produce a system under which the effective tax rate — the percentage of total salary actually paid — rises progressively in line with increased salary income, until eventually (for a small minority of taxpayers) it reaches 15%.

107. I propose this year to widen the second and third tax bands, from \$20,000 to \$30,000. This will be of particular benefit to those earning between \$10,000 and \$40,000 a month — roughly speaking, the sandwich class and those who fall just outside it.

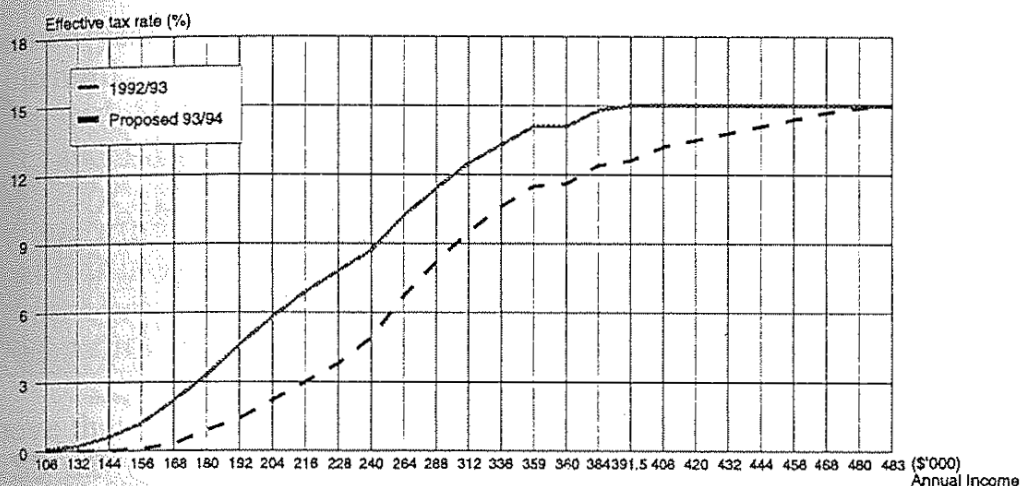
108. As a result of these measures:

- a typical single income family of four will have to earn more than \$483,000 a year before paying tax at the standard rate, compared with \$391,800 at present,

- the salaries tax bill for a typical sandwich class family of four, earning \$18,000 a month, will be reduced by over 56% (or over \$8,000), and

- a similar household earning the median income of \$11,500 a month will cease to pay any salaries tax at all.

Comparison of the Effective Tax Rates
(Married person, with 2 children)



A single income family of four will have to earn more than \$483,000 a year before paying tax at the standard rate

109. In response to the views expressed by many Members, the standard rate of 15% will remain the maximum proportion of monthly earnings which any employee will pay in salaries tax.

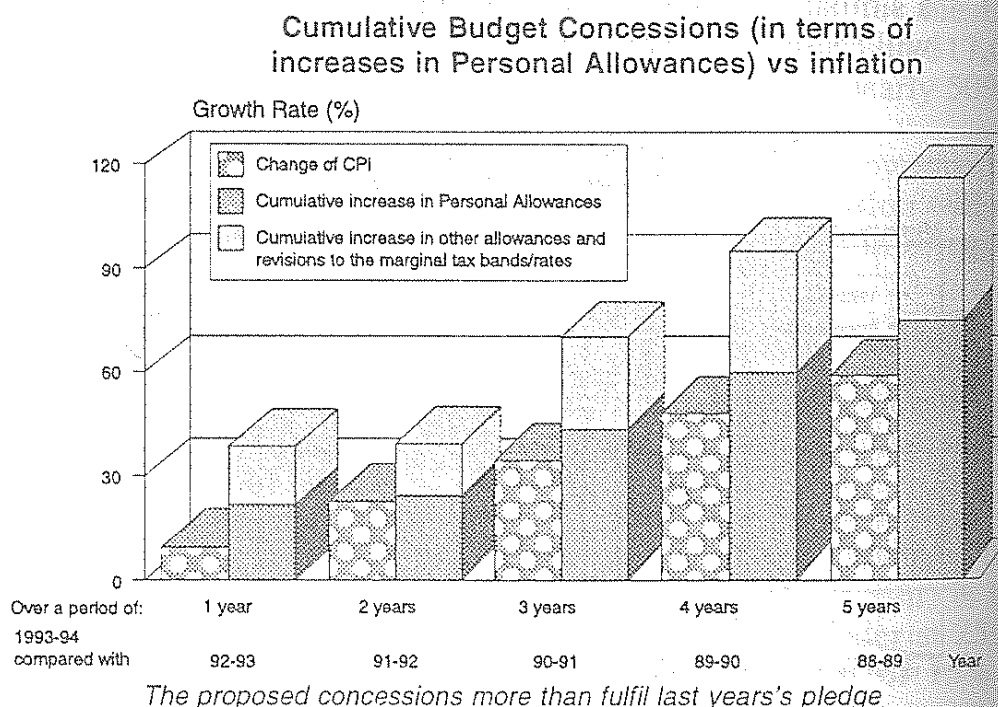
110. What will these major tax concessions for 1993-94 mean in practice? The full details are set out in the Supplement to this speech, but let me try to summarize them here.

- Over 250 000 existing taxpayers will no longer have to pay any salaries tax.

- A further 1.2 million taxpayers will pay less tax.

- This means that over 90% of salaries taxpayers will benefit from the concessions I am proposing.

111. I believe that these concessions more than fulfil the pledges I gave to this Council at the end of last year's Budget debate. They will cost \$2.6 billion in 1993-94 and almost \$17 billion up to 1997. To put this in perspective, had I limited the concessions to simply indexing salaries tax allowances to inflation, the cost would have been only a third of the concessions I have put forward and, of course, the real benefits to taxpayers correspondingly less.



Profits tax

112. I do not propose any change in the level of corporate profits tax. As I forecast in my Budget speech last year, the increase to 17.5% had no appreciable impact on local or international enthusiasm for investment in Hong Kong. Indeed, the figures on capital formation show that 1992 was an excellent year for investment growth.

113. Nevertheless, I did examine the case for a reduction in profits tax. A reduction of one percentage point in profits tax would have cost \$1.6 billion a year. This loss of revenue would have meant I had to be less generous in reducing the tax burden for our salaries tax-paying households, which was the overwhelming concern of Members.

Rates

114. Members may be relieved — but not surprised — to know that I do not intend this year to propose any increase in the general rates percentage charge. Nevertheless, rates are significant, both as a relatively progressive tax and a stable source of revenue. It is important that rates actually charged are adjusted regularly to reflect the changing rental values of property of different types and in different locations. Our routine, three-yearly rates revaluation will be conducted this year and come into effect on 1 April 1994. I also intend to propose a suitable rates "cap" to allow time for those rate-payers with particularly high increases to adjust to the new levels of charge. I believe that this will meet this Council's concerns.

Estate duty

115. For two years, no adjustment has been made to the level of estate duty. This is currently charged at a rate of 6% on estates valued at between \$4 million and \$4.5 million; 12% on estates between \$4.5 million and \$5 million; and 18% on estates over \$5 million.

116. Although the matrimonial home is already exempt from estate duty, I believe that it is now time to reduce the impact which this duty has on relatively small estates. I propose to increase the level below which no duty is payable on estates to \$5 million.

117. Above that level, I propose that estate duty be payable at 6% on estates of between \$5 million and \$6 million; 12% for estates between \$6 million and \$7 million and 18% on estates valued at over \$7 million.

118. This concession will cost \$50 million in 1993-94 and \$220 million over the period up to 1996-97.

Entertainments tax

119. Last year, I removed the entertainments tax on cinema tickets. This allowed cinema ticket prices to be held down for most of the year and got rid of paperwork both for cinema operators and for the Inland Revenue Department. This was not a massive concession, but it did remove a tax which fell rather unfairly on just one area of the entertainment industry. It also helped to simplify our tax system.

120. The only remaining tax levied under the Entertainments Tax Ordinance is the tax on entrance to race meetings, which is collected by the Royal Hong Kong Jockey Club and passed on to the Government. I see merit in tidying up and simplifying our tax system further by removing the entertainments tax from the statute book altogether.

121. While this measure will increase the Jockey Club's revenue by nearly \$10 million in 1993-94, the Club has kindly agreed to donate an equivalent amount each year to the Community Chest. The donation will go towards meeting the Chest's operating expenses. This will mean that, in future, every dollar members of the public donate to the Chest will directly benefit the charity for which it was intended.

Stamp duty

122. In each of the past two years, the level of stamp duty on stock transfers has been lowered. This was in recognition of a world-wide trend towards reducing the cost of stock market transactions. In 1991, the rate of contract note duty was reduced from 0.6% to 0.5%. Last year, I made a further reduction to 0.4%. I now propose to make one more reduction from 0.4% to 0.3%.

123. This reduction should help Hong Kong to remain competitive in comparison with the overall cost of trading elsewhere in the world. This concession will cost the revenue a further \$800 million in 1993-94, or nearly \$4 billion over the period up to 1996-97.

124. The main aim of this concession is to ensure Hong Kong remains competitive and hence to generate business in this key sector. I believe that brokers will fully understand the importance of passing on the benefit to the investing public.

Duty on cosmetics

125. Following my abolition last year of the duty on soft drinks, and in the light of requests by the tourism and cosmetics industries, I am now persuaded that it is the right time to take action on the duty of 30% on cosmetic products, which include, for example, many ordinary skin creams and perfumes as well as more expensive beauty products.

126. I shall therefore introduce legislation to abolish the present duty on cosmetics. This concession will cost \$400 million in 1993-94, and \$1.7 billion over the period up to 1996-97. I anticipate that the indirect benefit to the economy as a result of increased purchases by tourists will be significant.

127. I have received an undertaking from the cosmetics trade associations that, if the duty is abolished, retail prices of cosmetic products will be reduced in the coming year by an average of between 10-12%.

Fuel, alcohol and tobacco

128. On fuel, alcohol and tobacco, I do not propose to go beyond what will be necessary to maintain the real value of these duties after allowing for inflation. I therefore propose an increase of 9.5% in the specific duty rates on these commodities.

Tax-loaded fees and government utility charges

129. Regular revision of government utility charges and tax-loaded fees is essential to maintain their real value and to avoid the need to make up revenue shortfalls from other sources. But, as last year, necessary increases will be phased in during the course of 1993-94 to minimize the impact on the public of inflation. They will not therefore be implemented as part of the Budget package.

Transport concessions for the disabled and the elderly

130. I have one final area of concessions. It is targeted at two groups in our community who deserve special attention: the disabled and the elderly. It addresses the problem of their daily transport. I propose three concessions which, in total, will cost up to \$70 million in 1993-94.

- In order to enable public transport operators either to introduce concessionary fares for the elderly, or to improve their existing concessionary schemes, I propose to waive their annual licence fees and rentals.
- I have been convinced by representatives of the disabled that the tax concessions already granted to cars should be extended to enable the disabled to make use of three-wheel vehicles and scooters. As a result, disabled drivers of these vehicles will in future be exempted from First Registration Tax, vehicle and driving licence fees, duty on fuel up to 100 litres a month, and Cross Harbour Tunnel Tax.
- Finally, I will be introducing measures to exempt disabled drivers from tolls when using government tunnels.

Implementation

131. My proposals on dutiable commodities come into effect today under an appropriate Public Revenue Protection Order. My proposals on salaries tax allowances and bands, estate duty, entertainments tax and stamp duty, and my concessions in respect of disabled drivers will come into effect on 1 April this year.

The tax system

132. Some of the measures I have announced today will further simplify what is already one of the most straightforward — and least onerous — tax systems in the world. But I have some additional measures which I believe will further improve our tax administration.

133. Because we tax profits, salaries and property separately, a taxpayer may have to complete up to three separate returns and, possibly, a personal assessment. In 1991-92, some 300 000 taxpayers had to fill in two or more returns, at some inconvenience to the individual as well as an unnecessary paperchase for the Inland Revenue Department.

134. I therefore propose to introduce a system of Composite Tax Returns, or CTRs, with effect from 1 April 1994. A CTR will be a single return covering all taxes levied under the Inland Revenue Ordinance. I should emphasize that no one's tax liability will increase as a result of this measure. It will affect neither the rates of tax nor the amounts due. Its purpose is simply to make life easier for the taxpayer and to redeploy considerable resources in the Inland Revenue Department to combating tax avoidance and evasion.

135. Benjamin FRANKLIN claimed that life has only two certainties: death and taxes. Members have complained that the second half of this observation may not always be true in Hong Kong. During our consultation sessions, Members strongly supported our efforts to combat tax avoidance and evasion.

136. I am committed to closing significant tax loopholes as they come to light. One recent area of concern relates to section 21A of the Inland Revenue Ordinance. This provides that only 10% of certain payments, such as royalties for the use of intellectual property, are treated as assessable to profits tax. Some Hong Kong companies are exploiting this provision by entering into arrangements with overseas associates to reduce their profits tax liability. A Bill to close this loophole will be introduced into this Council as part of the Budget package. The Bill will provide that where a relevant payment is paid or credited by an associate, the full amount (rather than the present 10%) will be treated as assessable profits. In order to prevent possible revenue loss, this legislation will have effect from tomorrow.

137. I referred in my last Budget to the need to reform our system of First Registration Tax. At present, some motor vehicle importers can reduce their tax liability by artificially depressing the import price of vehicles. Preparing the necessary legislation has unfortunately proved to be a complex task. We need to ensure that all vehicle importers can operate on a level playing field but also that there are no significant increases in the average price of ordinary motor vehicles. We are now approaching the final stages of this exercise, and I intend to introduce an amendment Bill into this Council within this legislative Session.

138. Apart from restricting the potential for tax avoidance and evasion through legislation, we must make sure that departments concerned have adequate resources to enforce the law and that these resources are effectively deployed. The Commissioner of Inland Revenue's field audit teams, established in June 1991, have now audited almost 6 000 cases and recovered tax and penalties of more than \$120 million. In addition, we expect the investigation units to recover a further \$500 million in 1992-93. These results are encouraging, but I have decided to inject some more resources in the coming year to strengthen further the Inland Revenue Department's drive against tax evasion.

COMMENTARY

Temporary deficits

139. As a result of my expenditure and revenue proposals today, I am forecasting a modest Budget deficit for 1993-94 of \$3.4 billion.

140. This deficit arises because we are taking full and sensible advantage of the higher-than-expected surpluses of the last two years, rather than salting away even more of the community's money to boost our accumulated reserves. These will amount to \$78 billion at the end of 1996-97. I do not believe either this Council or the community would have welcomed a larger increase in our forecast reserves.

141. The Medium Range Forecast shows that we are planning for deficits in each of the years to 1996-97. This should come as no surprise. I forecast such a situation in last year's Budget. These deficits will peak in 1994-95 and then start to decline from 1995-96.

142. This reflects the pattern of capital spending over the forecast period, including the airport. Provided that we keep recurrent expenditure under control, as we plan to do, we will return to balanced budgets once the Airport Core Programme has been completed. Revenue will of course increase substantially in 1997 when the full proceeds from land sales will be retained, together with interest on the Land Fund.

143. Nevertheless, I want to explain why we should be prepared to accept a short period of temporary deficits. It is plainly unnecessary to build up our reserves above the level which prudent judgement and past experience justify. Our robust economy and the surge in government revenues have raised our reserves this year well above that level. But it is sometimes overlooked that the only way in which the Government can transfer resources from the reserves is by running a deficit. In other words, the deficits which I am projecting amount to no more than a prudent and proper adjustment of our balance sheet to put the redundant portion of our reserves to constructive use for the maximum benefit of Hong Kong.

144. Let me offer Members some important reassurances about this use of part of our reserves to finance these temporary deficits.

- The reserves result from the strength of our economy and public finances, which has created a larger revenue flow than we could comfortably spend in the last two years.
- The reserves will mainly be used for non-recurrent purposes and capital projects. Recurrent expenditure growth will be kept under control.
- Some of these additional spending initiatives will further enhance our infrastructure and improve our capacity to take full advantage of increasing business opportunities, particularly our China links. They will reduce bottlenecks and the costs of doing business in Hong Kong.
- This will thereby contribute to our long-term ability to fight inflation. Any short-term pressure on prices will be controllable because the impact will fall mainly on the construction sector, where costs have been falling significantly.
- These spending plans, including infrastructure investments, are entirely consistent with our wish to ensure that the future SARG gets off to a sound start, with healthy fiscal reserves.

The need for reserves

145. The greatest reassurance of all is provided by the healthy state of our reserves. Let me turn therefore to the forecast level of reserves at the end of 1996-97.

146. Members will be aware from my first Budget in 1992 that I place great importance on the need to retain adequate reserves. These are necessary not only to maintain a reasonable cushion against any contingencies in the next few years but also to meet our commitment under the Memorandum of Understanding.

147. Let me summarize the sort of contingencies against which our reserves must insure us.

- Because we are an open economy, totally dependent on selling our goods and services abroad, we are vulnerable to abrupt changes in world political and economic conditions.

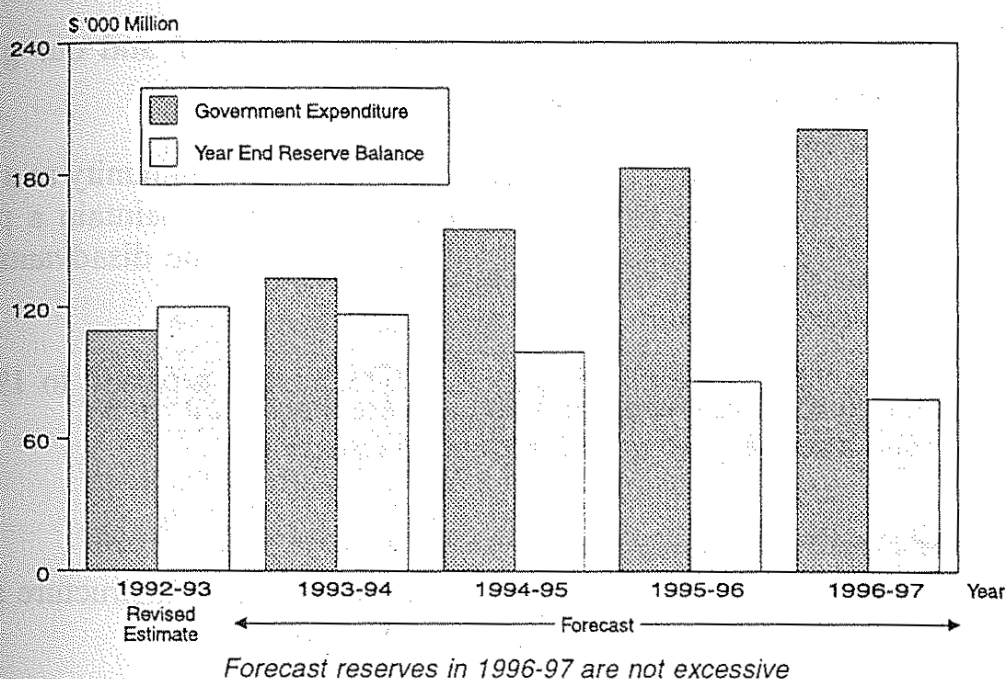
Although we have very robust growth prospects for the rest of the decade, we cannot predict or control future events. As I have already said, non-renewal of MFN status for China would have serious consequences.

A slowdown in the economy would reduce government revenues, thus threatening our ability to maintain government spending programmes.

Healthy reserves mean that a sudden reversal in our economic fortunes will not cause sharp cuts in our provision of services and the suspension of vital investment projects in the public sector.

148. I am now forecasting an accumulated reserve balance of \$78.4 billion for the end of 1996-97, some \$6.8 billion higher than the forecast I described as appropriate last year. The increase is not large, bearing in mind also that annual government spending will total around \$200 billion by that date. I do not therefore regard reserves of \$78 billion as excessive.

Medium Range Forecast of Government Expenditure
and Year End Reserve Balances 1992-93 to 1996-97



CONCLUSION

149. I would like to conclude by summing up this year's Budget.

More than ever before, the advice and criticisms of this Council have been a major input. I will continue consultation with Members for future Budgets.

- The Budget has identified the potential for an increased role for the private sector in expanding the Government's ability to complete major projects on time and within budget.
- It has implemented the first year of the ambitious programme announced by the Governor last year. But in addition, I have presented a package of additional new initiatives. This package will make a major contribution to improving people's livelihood and to raising the quality of life in areas ranging from health to road congestion, as well as improving the economic infrastructure.
- It finances these considerable advances without any increase in taxation.
- It will reduce dramatically the tax burden on the individual taxpayer, particularly for the lower income taxpayers and the "sandwich class". It has also been possible to further simplify the tax system and step up our efforts to combat tax avoidance and evasion.
- It has taken account of the transition to 1997 and our growing economic links with China.
- It has been designed to meet the needs of the community as a whole, with a realistic balance between our need to maintain a positive business environment and our obligation to the disadvantaged in our society.

150. Overall, I have today made proposals which, in the period to 1996-97, will:

- put \$23 billion back into the pockets of taxpayers,
- spend an extra \$17 billion on improving the infrastructure and the services which the community needs, and
- leave an estimated additional \$6.8 billion in our reserves in 1996-97.

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

Adjournment and next sitting

PRESIDENT: In accordance with Standing Order 54(2) the debate on the Second Reading of the Appropriation Bill 1993 is now adjourned. I refer the Estimates to the Finance Committee for examination. In accordance with Standing Orders I now adjourn the Council until 2.30 pm on Wednesday 10 March 1993.

Adjourned accordingly at eight minutes past Four o'clock.

SUPPLEMENT

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SALARIES TAX CONCESSIONS**Summary of concessions****A. Increase in allowances**

<i>Allowances</i>	<i>Present</i>	<i>Proposed</i>	<i>Increase</i>	
	(\$)	(\$)	(\$)	(%)
Basic	46,000	56,000	10,000	21.7
Married	92,000	112,000	20,000	21.7
Child:				
First child	15,500	17,000	1,500	9.7
Second child	11,500	17,000	5,500	47.8
Total for two children	27,000	34,000	7,000	25.9
Dependent parent*	13,500	17,000	3,500	25.9
Single parent	23,000	27,000	4,000	17.4

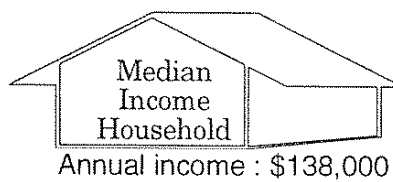
* excluding \$3,000 additional allowance for parent residing with taxpayer

B. Revision of Tax bands

<i>Rate</i>	<i>Present</i>	<i>Proposed</i>	<i>Increase</i>	
(%)	(\$)	(\$)	(\$)	(%)
2%	20,000	20,000	—	—
9%	20,000	30,000	10,000	50.0
17%	20,000	30,000	10,000	50.0
25%	Above 60,000	Above 60,000	20,000	33.3
15%	maximum	maximum	—	—

Salaries tax bands and allowances

What you save !



Single person



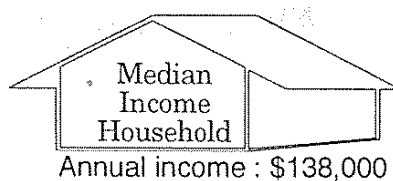
Present tax : \$13,600
Proposed tax : \$8,700
Saving : \$4,900

Married couple with no children



Present tax : \$3,220
Proposed tax : \$940
Saving : \$2,280

What you save !



Married Couple with 2 children



Present tax : \$380
Proposed tax : \$0
Saving : \$380

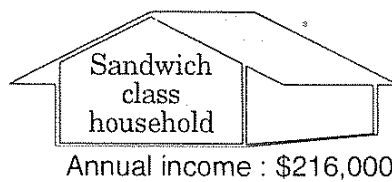
Married couple with 2 children and 2 dependent parents



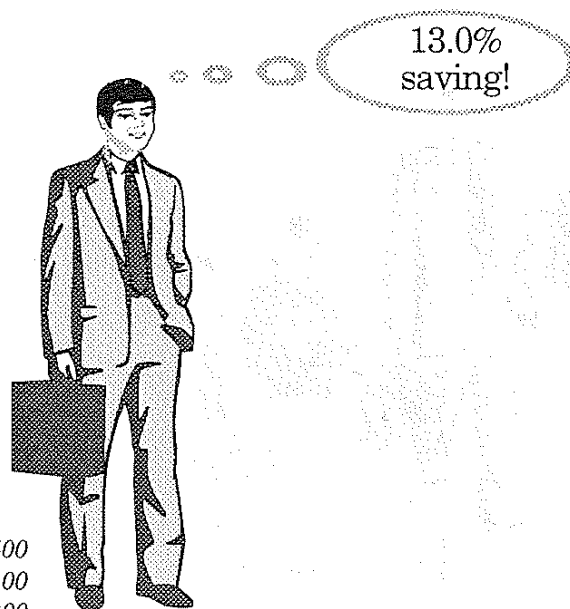
Present tax : \$0
Proposed tax : \$0
Saving : \$0

Salaries tax bands and allowances

What you save !



Single person



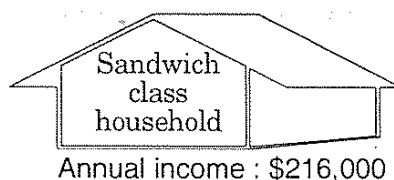
Present tax : \$32,400
Proposed tax : \$28,200
Saving : \$4,200

Married couple with no children

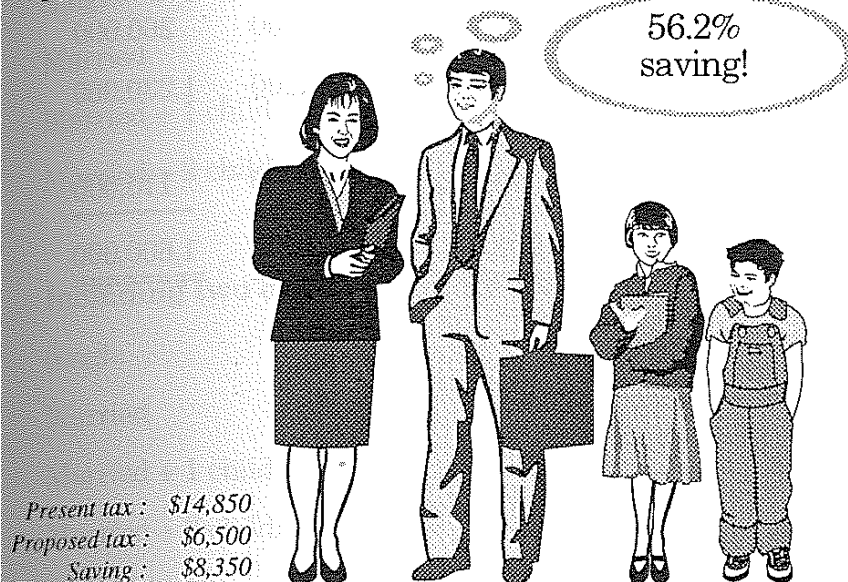


Present tax : \$21,600
Proposed tax : \$14,200
Saving : \$7,400

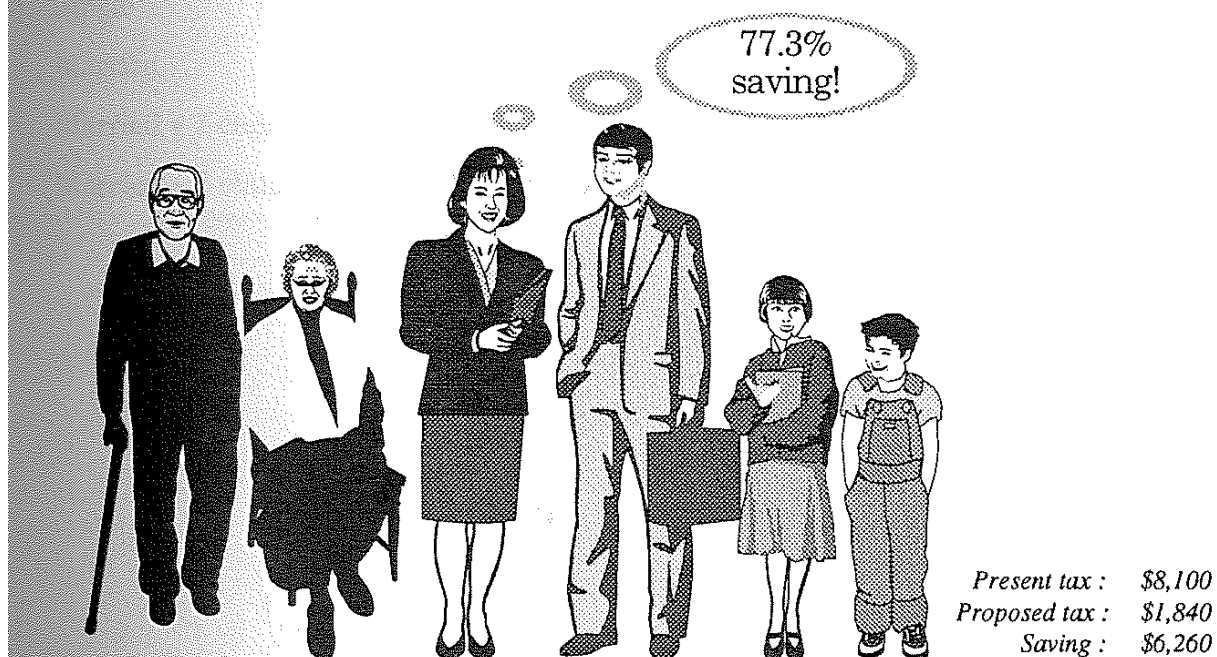
What you save !



Married Couple with 2 children



Married couple with 2 children and 2 dependent parents



**Broad effect of the concessions on
single and married taxpayers in 1993-94**

	Single	Married	Total
(a) Number of taxpayers who will now have:			
no tax liability	110,000	150,000	260,000
a reduced tax liability	680,000	550,000	1,230,000
(b) Number of taxpayers who will pay tax at the standard rate	30,000	80,000	110,000
	-----	-----	-----
Total	820,000	780,000	1,600,000
	=====	=====	=====

**Income levels below which salaries taxpayers
are not required to pay tax**

	<i>Present</i> (\$)	<i>Proposed</i> (\$)	<i>Increase</i> (%)
No dependent parent			
Single	46,001	56,001	21.7
Married	92,001	112,001	21.7
Married + 1 child	107,501	129,001	20.0
Married + 2 children	119,001	146,001	22.7
Including two dependent parents			
Single	73,001	90,001	23.3
Married	119,001	146,001	22.7
Married + 1 child	134,501	163,001	21.2
Married + 2 children	146,001	180,001	23.3
Including two dependent parents with additional dependent parent allowance			
Single	79,001	96,001	21.5
Married	125,001	152,001	21.6
Married + 1 child	140,501	169,001	20.3
Married + 2 children	152,001	186,001	22.4

**Income levels at which salaries taxpayers
enter the standard rate zone**

	<i>Present</i> (\$)	<i>Proposed</i> (\$)	<i>Increase</i> (%)
No dependent parent			
Single	209,000	258,000	23.4
Married	324,000	398,000	22.8
Married + 1 child	362,750	440,500	21.4
Married + 2 children	391,500	483,000	23.4
Including two dependent parents			
Single	276,500	343,000	24.1
Married	391,500	483,000	23.4
Married + 1 child	430,250	525,500	22.1
Married + 2 children	459,000	568,000	23.7
Including two dependent parents with additional dependent parent allowance			
Single	291,500	358,000	22.8
Married	406,500	498,000	22.5
Married + 1 child	445,250	540,500	21.4
Married + 2 children	474,000	583,000	23.0

Effect of the increase in allowances and bands

Single person

Annual Income	Present tax payable (Exemption level: \$46,000)		Proposed tax payable (Exemption level: \$56,000)		Tax Saving (A) - (B)		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate			
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
							All taxpayers earning less than \$258,000 will benefit from the concessions.
48,000	40	0.1	-	-	40	100.0	Taxpayers with incomes not exceeding \$56,000 will not be required to pay tax as a result of the increase in basic allowance.
54,000	160	0.3	-	-	160	100.0	
60,000	280	0.5	80	0.1	200	71.4	
72,000	940	1.3	320	0.4	620	66.0	Taxpayers earning more than \$56,000 but less than \$258,000 will have reduced tax liabilities as a result of the increase in basic allowance and revision of marginal rate bands.
84,000	2,020	2.4	1,120	1.3	900	44.6	
96,000	3,900	4.1	2,200	2.3	1,700	43.6	
108,000	6,100	5.6	3,440	3.2	2,660	43.6	
120,000	9,100	7.6	5,480	4.6	3,620	39.8	
132,000	12,100	9.2	7,520	5.7	4,580	37.9	
144,000	15,100	10.5	10,200	7.1	4,900	32.5	
156,000	18,100	11.6	13,200	8.5	4,900	27.1	
168,000	21,100	12.6	16,200	9.6	4,900	23.2	
180,000	24,100	13.4	19,200	10.7	4,900	20.3	
192,000	27,100	14.1	22,200	11.6	4,900	18.1	
204,000	30,100	14.8	25,200	12.4	4,900	16.3	
209,000	31,350*	15.0	26,450	12.7	4,900	15.6	
216,000	32,400	15.0	28,200	13.1	4,200	13.0	
228,000	34,200	15.0	31,200	13.7	3,000	8.8	
240,000	36,000	15.0	34,200	14.3	1,800	5.0	
258,000	38,700	15.0	38,700*	15.0	-	-	Taxpayers earning \$258,000 or more will pay tax at the standard rate.
264,000	39,600	15.0	39,600	15.0	-	-	

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

Effect of the increase in allowances and bands

Single person, with two dependent parents

Annual Income	Present tax payable (Exemption level: \$73,000)		Proposed tax payable (Exemption level: \$90,000)		Tax Saving (A) - (B)		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate			
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
							All taxpayers earning less than \$343,000 will benefit from the concessions.
78,000	100	0.1	-	-	100	100.0	Taxpayers with incomes not exceeding \$90,000 will not be required to pay tax as a result of the increases in basic and dependent parent allowances.
84,000	220	0.3	-	-	220	100.0	
96,000	670	0.7	120	0.1	550	82.1	Taxpayers earning more than \$90,000 but less as than \$343,000 will have reduced tax liabilities as a result of the increases in basic and dependent parent allowances and revision of marginal rate bands.
108,000	1,750	1.6	360	0.3	1,390	79.4	
120,000	3,390	2.8	1,300	1.1	2,090	61.7	
132,000	5,430	4.1	2,380	1.8	3,050	56.2	
144,000	8,350	5.8	3,780	2.6	4,570	54.7	
156,000	11,350	7.3	5,820	3.7	5,530	48.7	
168,000	14,350	8.5	7,860	4.7	6,490	45.2	
180,000	17,350	9.6	10,700	5.9	6,650	38.3	
192,000	20,350	10.6	13,700	7.1	6,650	32.7	
204,000	23,350	11.4	16,700	8.2	6,650	28.5	
216,000	26,350	12.2	19,700	9.1	6,650	25.2	
228,000	29,350	12.9	22,700	10.0	6,650	22.7	
240,000	32,350	13.5	25,700	10.7	6,650	20.6	
264,000	38,350	14.5	31,700	12.0	6,650	17.3	
276,500	41,475*	15.0	34,825	12.6	6,650	16.0	
288,000	43,200	15.0	37,700	13.1	5,500	12.7	
312,000	46,800	15.0	43,700	14.0	3,100	6.6	
336,000	50,400	15.0	49,700	14.8	700	1.4	
343,000	51,450	15.0	51,450*	15.0	-	-	Taxpayers earning \$343,000 or more will pay tax at the standard rate.
360,000	54,000	15.0	54,000	15.0	-	-	

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

Effect of the increase in allowances and bands

Married couple, with no children

Annual Income	Present tax payable (Exemption level: \$92,000)		Proposed tax payable (Exemption level: \$112,000)		Tax Saving (A) - (B)		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate			
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
96,000	80	0.1	-	-	80	100.0	All taxpayers earning less than \$398,000 will benefit from the concessions.
108,000	320	0.3	-	-	320	100.0	
120,000	1,120	0.9	160	0.1	960	85.7	
132,000	2,200	1.7	400	0.3	1,800	81.8	Taxpayers with incomes not exceeding \$112,000 will not be required to pay tax as a result of the increase in married person's allowance.
144,000	4,240	2.9	1,480	1.0	2,760	65.1	
156,000	6,600	4.2	2,560	1.6	4,040	61.2	
168,000	9,600	5.7	4,120	2.5	5,480	57.1	
180,000	12,600	7.0	6,160	3.4	6,440	51.1	
192,000	15,600	8.1	8,200	4.3	7,400	47.4	
204,000	18,600	9.1	11,200	5.5	7,400	39.8	
216,000	21,600	10.0	14,200	6.6	7,400	34.3	
228,000	24,600	10.8	17,200	7.5	7,400	30.1	
240,000	27,600	11.5	20,200	8.4	7,400	26.8	
264,000	33,600	12.7	26,200	9.9	7,400	22.0	
288,000	39,600	13.8	32,200	11.2	7,400	18.7	
312,000	45,600	14.6	38,200	12.2	7,400	16.2	
324,000	48,600*	15.0	41,200	12.7	7,400	15.2	
336,000	50,400	15.0	44,200	13.2	6,200	12.3	
360,000	54,000	15.0	50,200	13.9	3,800	7.0	
384,000	57,600	15.0	56,200	14.6	1,400	2.4	
398,000	59,700	15.0	59,700*	15.0	-	-	Taxpayers earning \$398,000 or more will pay tax at the standard rate.
408,000	61,200	15.0	61,200	15.0	-	-	

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

Effect of the increase in allowances and bands

Married couple, with two children

Annual Income	Present tax payable (Exemption level: \$119,000)		Proposed tax payable (Exemption level: \$146,000)		Tax Saving (A) - (B)		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate			
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
							All taxpayers earning less than \$483,000 will benefit from the concessions.
132,000	260	0.2	-	-	260	100.0	Taxpayers with incomes not exceeding \$146,000 will not be required to pay tax as a result of the increases in married person's and child allowances.
144,000	850	0.6	-	-	850	100.0	
156,000	1,930	1.2	200	0.1	1,730	89.6	
168,000	3,730	2.2	580	0.3	3,150	84.5	Taxpayers earning more than \$146,000 but less than \$483,000 will have reduced tax liabilities as a result of the increases in married person's and child allowances and revision of marginal rate bands.
180,000	5,850	3.3	1,660	0.9	4,190	71.6	
192,000	8,850	4.6	2,740	1.4	6,110	69.0	
204,000	11,850	5.8	4,460	2.2	7,390	62.4	
216,000	14,850	6.9	6,500	3.0	8,350	56.2	
228,000	17,850	7.8	8,700	3.8	9,150	51.3	
240,000	20,850	8.7	11,700	4.9	9,150	43.9	
264,000	26,850	10.2	17,700	6.7	9,150	34.1	
288,000	32,850	11.4	23,700	8.2	9,150	27.9	
312,000	38,850	12.5	29,700	9.5	9,150	23.6	
336,000	44,850	13.3	35,700	10.6	9,150	20.4	
360,000	50,850	14.1	41,700	11.6	9,150	18.0	
384,000	56,850	14.8	47,700	12.4	9,150	16.1	
391,500	58,725*	15.0	49,575	12.7	9,150	15.6	
408,000	61,200	15.0	53,700	13.2	7,500	12.3	
432,000	64,800	15.0	59,700	13.8	5,100	7.9	
456,000	68,400	15.0	65,700	14.4	2,700	3.9	
480,000	72,000	15.0	71,700	14.9	300	0.4	
483,000	72,450	15.0	72,450*	15.0	-	-	Taxpayers earning \$483,000 or more will pay tax at the standard rate.
504,000	75,600	15.0	75,600	15.0	-	-	

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

Effect of the increase in allowances and bands
Married couple, with two children and two dependent parents

Annual Income	Present tax payable (Exemption level: \$146,000)		Proposed tax payable (Exemption level: \$180,000)		Tax Saving (A) - (B)		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate			
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
							All taxpayers earning less than \$568,000 will benefit from the concessions.
156,000	200	0.1	-	-	200	100.0	Taxpayers with incomes not exceeding \$180,000 will not be required to pay tax as a result of the increases in married person's, child and dependent parent allowances.
168,000	580	0.3	-	-	580	100.0	
180,000	1,660	0.9	-	-	1,660	100.0	
192,000	3,220	1.7	240	0.1	2,980	92.5	Taxpayers earning more than \$180,000 but less than \$568,000 will have reduced tax liabilities as a result of the increases in married person's, child and dependent parent allowances and revision of marginal rate bands.
204,000	5,260	2.6	760	0.4	4,500	85.6	
216,000	8,100	3.8	1,840	0.9	6,260	77.3	
228,000	11,100	4.9	2,920	1.3	8,180	73.7	
240,000	14,100	5.9	4,800	2.0	9,300	66.0	
264,000	20,100	7.6	9,200	3.5	10,900	54.2	
288,000	26,100	9.1	15,200	5.3	10,900	41.8	
312,000	32,100	10.3	21,200	6.8	10,900	34.0	
336,000	38,100	11.3	27,200	8.1	10,900	28.6	
360,000	44,100	12.3	33,200	9.2	10,900	24.7	
384,000	50,100	13.0	39,200	10.2	10,900	21.8	
408,000	56,100	13.8	45,200	11.1	10,900	19.4	
432,000	62,100	14.4	51,200	11.9	10,900	17.6	
456,000	68,100	14.9	57,200	12.5	10,900	16.0	
459,000	68,850*	15.0	57,950	12.6	10,900	15.8	
480,000	72,000	15.0	63,200	13.2	8,800	12.2	Taxpayers earning \$568,000 or more will pay tax at the standard rate.
504,000	75,600	15.0	69,200	13.7	6,400	8.5	
528,000	79,200	15.0	75,200	14.2	4,000	5.1	
552,000	82,800	15.0	81,200	14.7	1,600	1.9	
568,000	85,200	15.0	85,200*	15.0	-	-	
576,000	86,400	15.0	86,400	15.0	-	-	

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

**Analysis of estimated salaries tax yield
(after budget concessions) by income group in 1993-94**

<i>Assessable income group</i> (\$)	<i>No. of taxpayers</i>	<i>Percentage of total taxpayers</i> (%)	<i>Tax yield</i> (\$billion)	<i>Percentage of total yield</i> (%)
90,000 & under	585,000	36.6	0.3	1.3
90,001 - 120,000	300,000	18.7	0.9	4.1
120,001 - 240,000	530,000	33.1	5.8	26.1
240,001 - 600,000	150,000	9.4	8.5	38.3
600,001 - 1,000,000	25,000	1.6	3.3	14.9
1,000,001 & over	10,000	0.6	3.4	15.3
Total	<u>1,600,000</u> =====	<u>100.0</u> =====	<u>22.2</u> =====	<u>100.0</u> =====

Of the 1,600,000 taxpayers, 110,000 (or 7%) are estimated to pay tax at the standard rate of 15% in 1993-94. This small group of taxpayers, however, will contribute about \$12.2 billion or 55% of the total tax yield and will be composed of:

Single persons with annual incomes of \$258,000 or more	30,000
Married taxpayers assessed separately and earning \$258,000 or more per annum	60,000
Married couples earning \$398,000 or more per annum	20,000
	<u>110,000</u> =====

ADJUSTMENTS TO DUTY RATES**Alcoholic beverages and alcohol**

	<i>Present rate</i>		<i>Proposed rate</i>	
	<i>specific rate</i> (\$/L)	<i>ad valorem rate</i> (%)	<i>specific rate</i> (\$/L)	<i>ad valorem rate</i> (%)
Brandy, Liqueurs, Whisky, Gin, Rum, Vodka and other spiritous liquors	73	35	80	35
Champagne and other sparkling wines	45	35	49	35
Still wines	31	20	34	20
and in addition for every 1% by which the alcoholic strength by volume exceeds 45%	2.09		2.29	

	<i>Present rate</i> (\$/hectolitre)	<i>Proposed rate</i> (\$/hectolitre)
Cider, Perry and other similar beverages	202	221
Beer	307	336
Non-European type wines	1,322	1,448
Others (including methyl alcohol)	682	747
and in addition for every 1% by which the alcoholic strength by volume exceeds 30%	22.8	25

Tobacco

	<i>Present rate</i> <i>(\$/1,000 sticks)</i>	<i>Proposed rate</i> <i>(\$/1,000 sticks)</i>
Cigarettes	530	580
	<i>(\$/Kg)</i>	<i>(\$/Kg)</i>
Cigars	680	745
Chinese prepared tobacco	130	142
All other manufactured tobacco except tobacco intended for the manufacture of cigarettes	640	701

Hydrocarbon oil

	<i>Present rate</i> <i>(\$/L)</i>	<i>Proposed rate</i> <i>(\$/L)</i>
Aircraft	4.14	4.53
Light diesel oil	2.06	2.26
Motor spirit (leaded petrol)	4.59	5.03
Motor spirit (unleaded petrol)	4.09	4.48

ECONOMIC PERFORMANCE IN 1992

1. Estimated growth rates of the GDP and its expenditure components and rates of increase in the main price indicators in 1992:

- (i) Growth rates in real terms of:

	(%)	(%)
Private consumption expenditure		8.6
Government consumption expenditure		8.1
Gross domestic fixed capital formation		11.3
transfer costs of land and buildings	21.3	
building and construction	1.3	
real estate developers' margin	-1.2	
machinery and equipment	23.1	
Total exports of goods		19.1
domestic exports	0.2	
re-exports	28.1	
Imports of goods		22.2
Exports of services		10.1
Imports of services		6.5
Gross domestic product (GDP)		5.0
Per capita GDP		4.0
Per capita GDP at current prices	HK\$127,800 (US\$16,500)	

- (ii) Rates of increase in:

Consumer Price Index (A)	9.4
GDP deflator	10.3

2. Performance of domestic exports and re-exports

- (i) Year-on-year growth rates in real terms of:

	Domestic exports (%)	Re-exports (%)
1990	-1	16
1991	0	26
1992	0	28

- (ii) Shares of domestic exports and re-exports in the value of total exports:

	Domestic exports (%)	Re-exports (%)
1987	52	48
1988	44	56
1989	39	61
1990	35	65
1991	30	70
1992	25	75

3. Year-on-year growth rates in real terms of retained imports:

	<i>Retained imports</i>			
	<i>Total</i>	<i>Foodstuffs and consumer goods</i>	<i>Raw materials and semi-manufacture s</i>	<i>Capital goods</i>
			(%)	
	(%)	(%)	(%)	(%)
1990	12	15	13	6
1991	12	9	12	20
1992	14	19	7	19

4. Hong Kong's visible and invisible trade balance in 1992:

	<i>\$Billion</i>
Domestic exports	234.1
Re-exports	690.8
Total exports	925.0
Imports*	958.5
Visible trade deficit	-33.5
Invisible trade surplus#	46.3
Surplus on visible and invisible trade combined	12.8

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

Preliminary estimate.

5. Unemployment and underemployment rates:

		<i>Seasonally adjusted unemployment rate</i>	<i>Underemployment rate</i>
		(%)	(%)
1990	H1	1.6	0.8
	H2	1.5	0.9
1991	H1	2.1	1.6
	H2	2.0	1.6
1992	H1	2.4	2.2
	H2	2.0	2.0

6. Year-on-year rates of increase in the Consumer Price Indices:

		<i>CPI(A)</i> (%)	<i>CPI(B)</i> (%)	<i>Hang Seng CPI</i> (%)	<i>Composite CPI</i> (%)
1990	H1	9.3	9.2	10.8	9.8
	H2	10.2	10.2	11.6	10.7
1991	H1	12.5	12.0	11.8	12.1
	H2	11.6	11.3	10.5	11.1
1992	H1	9.6	9.6	9.8	9.7
	H2	9.2	9.7	9.8	9.5

ECONOMIC PROSPECTS FOR 1993

Forecast growth rates of the GDP and its expenditure components and rates of increase in the main price indicators in 1993:

(i) Growth rates in real terms of:

	(%)	(%)
Private consumption expenditure		7.5
Government consumption expenditure		5
Gross domestic fixed capital formation		7.1
transfer costs of land and buildings	0	
building and construction	1.3	
real estate developers' margin	-2	
machinery and equipment	14.9	
Total exports of goods		18.5
domestic exports	1	
re-exports	25	
Imports of goods		18.8
Exports of services		9
Imports of services		8
Gross domestic product (GDP)		5.5
Per capita GDP		4.8
Per capita GDP at current prices	HK\$146,700 (US\$18,800)	

(ii) Rates of increase in:

Consumer Price Index (A)	9.5
GDP deflator	9.5

Table 1

Government Expenditure and Revenue
(\$ million)

	1992-93				1993-94	
	<i>Original Estimate</i>		<i>Revised Estimate</i>		<i>Draft Estimate (after revenue measures)</i>	
Expenditure						
General Revenue Account	84,600		86,910		99,300	
Capital Works Reserve Fund	29,030		20,720		32,770	
Loan Fund	1,470		1,400		1,590	
Capital Investment Fund	6,080	36,580	6,070	28,190	19,730	54,090
	121,180		115,100		153,390	
Revenue						
General Revenue Account	113,570		121,260		134,000	
Capital Works Reserve Fund	11,900		11,320		12,660	
Loan Fund	670		700		790	
Capital Investment Fund	2,590	15,160	2,360	14,380	2,580	16,030
	128,730		135,640		150,030	
Surplus/(Deficit)	7,550		20,540		(3,360)	
Reserves						
Opening balance	91,805		99,050		119,590	
Surplus/(Deficit)	7,550		20,540		(3,360)	
Closing balance	99,355		119,590		116,230	

Notes: 1. These figures have taken account of the effect of the revenue measures in 1993-94.

2. Revenue to the Capital Works Reserve Fund includes proceeds from Government borrowings of \$2,400 million in Original Estimate 1992-93 and \$2,300 million in Revised Estimate 1992-93.

3. Expenditure of the Capital Works Reserve Fund includes repayment of Government Bonds in 1993-94 of \$1,200 million.

Table 2

Transfers between Funds
(\$ million)

	1992-93		1993-94
	<i>Original Estimate</i>	<i>Revised Estimate</i>	<i>Draft Estimate (after revenue measures)</i>
General Revenue Account			
Expenditure	84,600	86,910	99,300
Revenue	113,570	121,260	134,000
Surplus	28,970	34,350	34,700
Transfer ⁽¹⁾	(18,790)	(15,990)	(24,450)
Surplus	10,180	18,360	10,250
Funds			
Expenditure	36,580	28,190	54,090
Revenue	15,160	14,380	16,030
Deficit	(21,420)	(13,810)	(38,060)
Transfer ⁽¹⁾	18,790	15,990	24,450
Surplus/(Deficit)	(2,630)	2,180	(13,610)
Consolidated Surplus/(Deficit)	7,550	20,540	(3,360)
⁽¹⁾Transfers			
General Revenue Account	(18,790)	(15,990)	(24,450)
Capital Works Reserve Fund	15,450	12,650	13,650
Loan Fund	—	—	300
Capital Investment Fund	3,340	3,340	10,500

APPENDICES

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Listing major capital projects to begin in 1993-94 or after.	

MEDIUM RANGE FORECAST 1992-93 TO 1996-97**INTRODUCTION**

The *Medium Range Forecast* (MRF) is a projection of expenditure and revenue for the forecast period based on the forecasting assumptions and budgetary criteria outlined in Section I of this Appendix.

- 2** The MRF is presented in three sections:
- (I) Forecasting assumptions and budgetary criteria.
 - (II) The MRF for 1992-93 to 1996-97.
 - (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 5% in real terms.

Inflation

5 Over the forecast period the average year on year inflation is assumed to be 8 1/2%. It is emphasised that this is a *trend* assumption related to the GDP deflator 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 1993-94.

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

The government aims to maintain adequate reserves in the long term.

—Operating surplus

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.

—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.).

—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 MRF FOR 1992-93 TO 1996-97

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 from the *trend* assumption.

Operating Statement (before budget revenue measures)*Table 1*

	Revised Estimate	Forecast			
	1992-93	1993-94	1994-95	1995-96	1996-97
	\$m	\$m	\$m	\$m	\$m
Recurrent expenditure	82,030	94,280	108,790	125,550	144,880
Other non-recurrent	3,220	3,790	650	740	840
Total operating expenditure	85,250	98,070	109,440	126,290	145,720
Recurrent revenue before interest	117,960	130,360	141,580	161,720	184,720
Operating surplus before interest	32,710	32,290	32,140	35,430	39,000
Interest on balances	1,860	3,050	2,870	2,570	2,400
Operating surplus after interest	34,570	35,340	35,010	38,000	41,400

Capital Expenditure and Financing Statement (before budget revenue measures)*Table 2*

	Revised Estimate	Forecast			
	1992-93	1993-94	1994-95	1995-96	1996-97
	\$m	\$m	\$m	\$m	\$m
Capital expenditure					
General Revenue Account	1,660	1,230	2,080	2,390	2,710
Capital Works Reserve Fund	20,720	31,570	42,230	53,140	50,990
Loan Fund	1,400	1,590	1,150	1,050	1,050
Total capital expenditure	23,780	34,390	45,460	56,580	54,750
Capital revenue					
General Revenue Account	1,440	4,550	1,440	1,530	1,670
Capital Works Reserve Fund	9,020	12,660	7,540	8,160	8,860
Capital Investment Fund	2,360	2,580	2,540	2,570	2,790
Loan Fund	700	790	950	1,050	1,120
Total capital revenue	13,520	20,580	12,470	13,310	14,440
Capital financing (deficit)	(10,260)	(13,810)	(32,990)	(43,270)	(40,310)

Appendix A—Contd.

Consolidated Cash Flow*Table 3*

	Revised Estimate	Forecast			
	1992-93	1993-94	1994-95	1995-96	1996-97
	\$m	\$m	\$m	\$m	\$m
Operating surplus before budget revenue measures (Table 1)	34,570	35,340	35,010	38,000	41,400
<i>Less:</i> Capital financing (deficit)(Table 2)	(10,260)	(13,810)	(32,990)	(43,270)	(40,310)
Cash surplus/(deficit) before budget revenue measures	24,310	21,530	2,020	(5,270)	1,090
<i>Less:</i> Effect of budget revenue measures*	—	(3,960)	(5,860)	(6,890)	(8,040)
Cash surplus/(deficit) before equity investment	24,310	17,570	(3,840)	(12,160)	(6,950)
<i>Less:</i> Capital Investment Fund (Equity investments)	(6,070)	(19,730)	(10,520)	(1,130)	(950)
Consolidated cash surplus/(deficit) before borrowing	18,240	(2,160)	(14,360)	(13,290)	(7,900)
<i>Add:</i> Net borrowing/(repayment)—Government bonds	2,300	(1,200)	(2,300)	—	—
Consolidated cash surplus/(deficit) after borrowing†	20,540	(3,360)	(16,660)	(13,290)	(7,900)
Reserve balances at 1 April	99,050	119,590	116,230	99,570	86,280
Reserve balances at 31 March	119,590	116,230	99,570	86,280	78,380

* Including impact of interest on balances.

† The forecast takes no account of any revenue measures to be taken after 1993-94.

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.

Appendix A—Contd.

SECTION III—COMMENTARY ON THE MRF

Expenditure Growth

12 To demonstrate that expenditure growth does not exceed the trend growth rate in the economy, government's spending plans should be compared with the budgetary guidelines (Diagrams 1 and 2).

Diagram 1

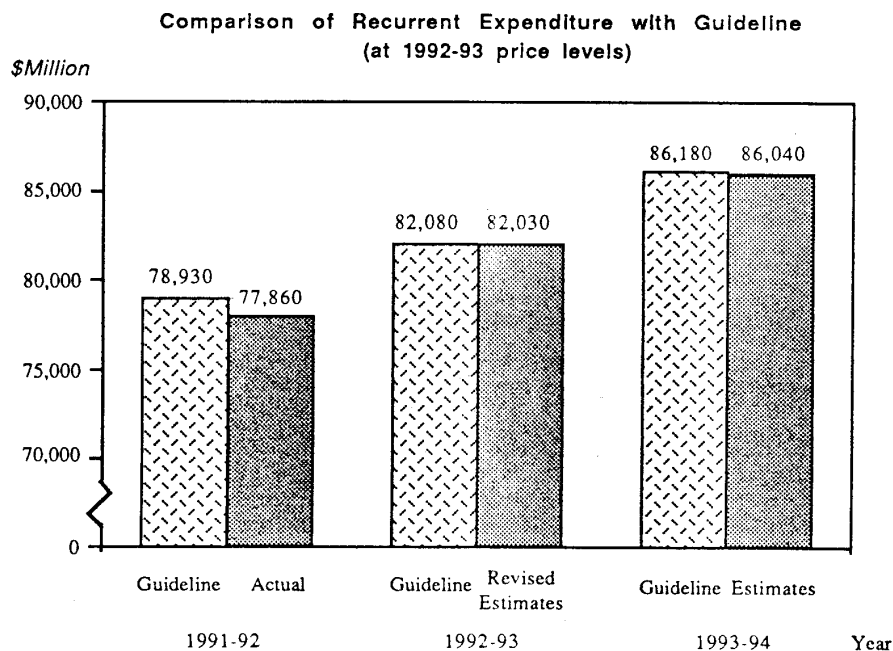
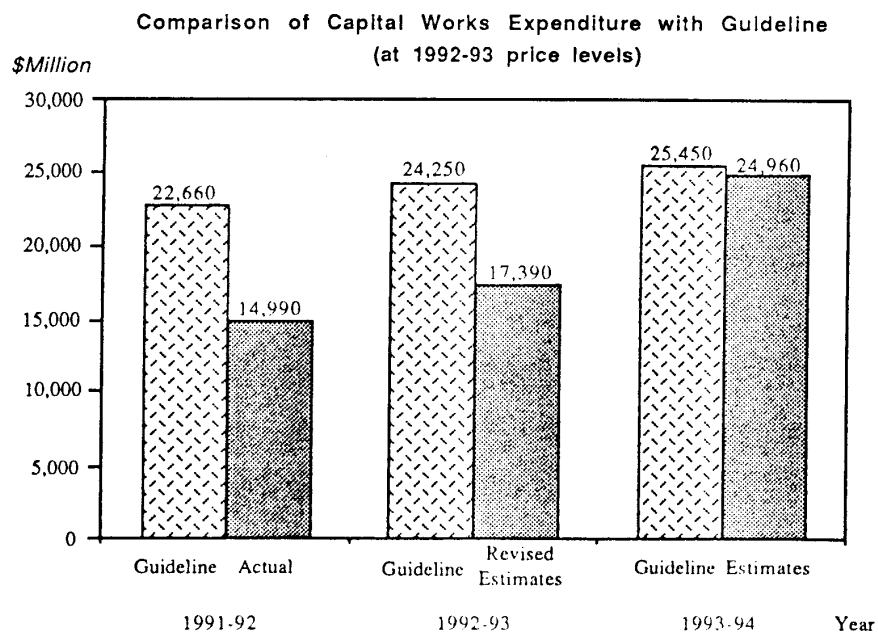


Diagram 2



Public Expenditure in the Context of the Economy

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

14 The results of this comparison are set out in Table 4 and the historical and forecast relationship between GDP and public expenditure is illustrated in Diagram 3. A comparison of cumulative growth in public expenditure with cumulative growth in GDP since the introduction of the MRF in 1986-87 is shown in Diagram 4.

Public Expenditure in the Context of the Economy (Note 1)

Table 4

	Revised Estimate	Forecast			
	1992-93	1993-94	1994-95	1995-96	1996-97
	\$m	\$m	\$m	\$m	\$m
Operating expenditure (Note 2)	82,950	98,070	109,440	126,290	145,720
Capital expenditure	23,780	34,390	45,460	56,580	54,750
Total government expenditure	106,730	132,460	154,900	182,870	200,470
Add: Other public sector bodies	20,570	24,150	27,160	30,530	33,290
Total public expenditure	127,300	156,610	182,060	213,400	233,760
Gross Domestic Product (calendar year) (Note 3)	742,580	845,990	963,790	1,098,000	1,250,900
Growth in GDP					
Money terms	15.8%	13.9%	13.9%	13.9%	13.9%
Real terms	5.0%	5.0%	5.0%	5.0%	5.0%
Growth in public expenditure					
Money terms	17.9%	23.0%	16.3%	17.2%	9.5%
Real terms	7.3%	12.5%	5.6%	6.4%	-0.4%
Public expenditure as a percentage of GDP (at current prices) (Note 4)	17.1%	18.5%	18.9%	19.4%	18.7%

Note 1 Public 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 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, equity payments are excluded as they do not reflect the actual consumption of resources by the Government.

Note 2 As the expenditure under Lotteries Fund forms part of the public expenditure, the operating expenditure in 1992-93 does not include the transfer from General Revenue Account of \$2,300 million to Lotteries Fund.

Note 3 For years beyond the current year, the GDP figures are based on *trend* assumptions.

Note 4 Caution should be exercised in interpreting these percentages as the public expenditure is estimated on a fiscal year basis while the GDP is estimated on a calendar year basis.

Appendix A—Contd.

Diagram 3

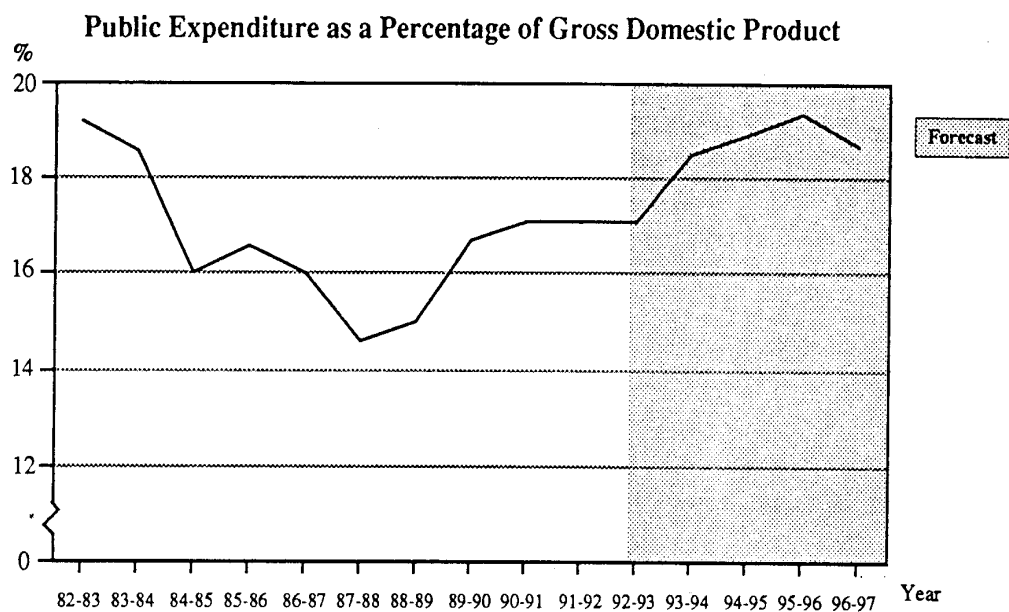
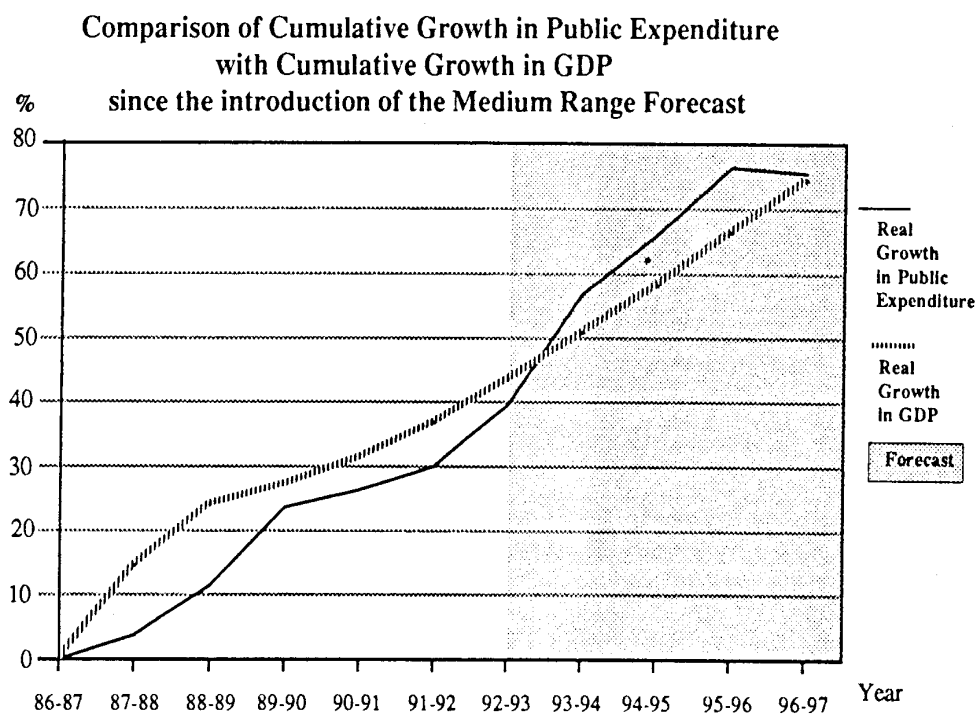


Diagram 4



Appendix A—Contd.

15 Table 5 shows the sum to be appropriated in the 1993-94 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 public expenditure for 1993-94 given in Table 4.

16 The table also illustrates the effect of the budget revenue measures on the operating surplus, capital deficit and overall deficit/surplus position for 1993-94.

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

**Relationship Between Government Expenditure
and Public Expenditure in 1993-94**

Table 5

Components of expenditure and revenue	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
	\$m	\$m	\$m	\$m	\$m
Expenditure					
General Revenue Account:					
Recurrent account	94,280	94,280	—	94,280	94,280
Capital account					
Plant, equipment and works	650	—	650	650	650
Other non-recurrent	3,790	3,790	—	3,790	3,790
Subventions	580	—	580	580	580
	99,300	98,070	1,230	99,300	99,300
Transfers to funds	24,450	—	—	—	—
Capital Works Reserve Fund:					
Works account and Reserve account	—	—	31,570	31,570	31,570
Loan Fund	—	—	1,590	1,590	1,590
Lotteries Fund	—	—	—	—	585
Housing Authority	—	—	—	—	15,940
Urban Council	—	—	—	—	4,685
Regional Council	—	—	—	—	2,940
	123,750	98,070	34,390	132,460	156,610
Revenue					
General Revenue Account:					
Direct taxes		65,700	850	66,550	
Indirect taxes		41,010	350	41,360	
Other revenue		26,700	3,350	30,050	
		133,410	4,550	137,960	
Capital Works Reserve Fund		—	12,660	12,660	
Capital Investment Fund		—	2,580	2,580	
Loan Fund		—	790	790	
		133,410	20,580	153,990	
Cash surplus/(deficit) before budget revenue measures					
Less: Effect of budget revenue measures		35,340 (3,910)	(13,810) (50)	21,530 (3,960)	
Cash surplus/(deficit) after budget revenue measures					
Less: Capital Investment Fund (Equity investments)		31,430 —	(13,860) (19,730)	17,570 (19,730)	
Cash surplus/(deficit) before borrowing					
Less: Repayment of Government bonds		31,430 —	(33,590) (1,200)	(2,160) (1,200)	
Consolidated cash surplus/(deficit)		31,430	(34,790)	(3,360)	

GLOSSARY OF TERMS

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

Capital expenditure. All expenditure charged to the Loan Fund and the Works Account and Reserve Account of the Capital Works Reserve Fund (except debt repayments) plus expenditure from General Revenue Account on Plant, Equipment and Works.

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

Capital revenue. All revenue credited to the Funds except proceeds from borrowings plus the exceptions listed under *recurrent revenue*.

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

Consolidated cash surplus/deficit. *Cash surplus/deficit* after equity investments (payments from the Capital Investment Fund) and net borrowings.

Fiscal reserves. The accumulation of *consolidated cash surpluses*. They are also known as government reserves.

Funds expenditure. Expenditure charged to the Capital Works Reserve Fund (Works Account or Reserve Account), the Loan Fund and the Capital Investment Fund. Transfers to or from the funds are not relevant to the level of expenditure.

Funds revenue. All receipt, except transfers from General Revenue Account, which are credited directly to the funds. These comprise:—

Capital Works Reserve Fund (Works Account)

donations for projects
share of land premium
interest on balances

Capital Works Reserve Fund (Reserve Account)

net borrowings

Loan Fund

repayment of loans
interest on loans
interest on balances

Capital Investment Fund

dividends
interest
interest on balances
net borrowings

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 expenditure. The aggregate of *operating expenditure* and *capital expenditure*. It is also referred to as consolidated account expenditure. It is not the same as *public expenditure*.

Government revenue. The aggregate of *Funds revenue* and *General Revenue Account revenue*.

Operating expenditure. All expenditure from General Revenue Account charged to any of the subheads listed in the estimates under 'Recurrent Account', plus Other Non-Recurrent expenditure.

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

Public expenditure. *Government expenditure plus*:—

gross expenditure (recurrent and capital) of the Hong Kong Housing Authority and the Urban and Regional Councils; and

payments from the Lotteries Fund.

It is also referred to as Consolidated Public Sector expenditure.

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

estate duty
taxi concessions
land transactions
repayments of loans
donations
which are treated as *capital revenue*.

Taxes (direct).

earnings and profits tax
estate duty

Taxes (indirect).

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

TRENDS IN PUBLIC EXPENDITURE
1988-89 TO 1993-94

INTRODUCTION

The purpose of this appendix is to present trends in public expenditure over the period 1988-89 to 1993-94. This analysis is expressed in public expenditure terms as defined in Table 4 of Appendix A and includes expenditure of the Hong Kong Housing Authority, the Urban Council, the Regional Council and the Lotteries Fund. It shows the actual and estimated recurrent and capital expenditure during this 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 461-468 in Volume I of the 1993-94 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 will, in 1993-94, be allocated to different programme area groups.

HISTORICAL PERSPECTIVE: THE MAJOR FEATURES

4 The changing share of expenditure on programme area groups from 1988-89 to 1993-94 is illustrated in Tables 1 and 2. Table 1 relates to recurrent public expenditure and Table 2 to total public expenditure.

Recurrent Public Expenditure by Programme Area Groups 1988-89 to 1993-94*Table 1*

Programme Area Groups	Actual				Revised Estimate	Draft Estimate
	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
	%	%	%	%	%	%
(A) Economic	6.5	6.4	6.1	6.0	5.9	5.6
(B) Security						
(1) Internal Security	15.1	15.4	14.9	13.8	13.5	12.8
(2) Immigration	1.3	1.4	1.4	1.3	1.3	1.2
(3) Other	1.5	1.4	1.4	1.4	1.4	1.3
	17.9	18.2	17.7	16.5	16.2	15.3
(C) Social Services						
(1) Social Welfare	7.8	7.9	7.8	8.3	8.3	8.4
(2) Health	10.6	10.9	11.3	11.8	13.4	13.8
	18.4	18.8	19.1	20.1	21.7	22.2
(D) Education	21.4	20.4	21.1	20.3	20.3	20.8
(E) Environment	0.2	1.0	1.0	0.8	0.9	1.2
(F) Community and External Affairs						
(1) Recreation, Culture and Amenities	5.8	5.6	5.7	5.5	5.4	5.5
(2) District and Community Relations	0.9	1.0	0.9	0.9	0.8	0.7
(3) Other	0.4	0.5	0.4	0.3	0.3	0.3
	7.1	7.1	7.0	6.7	6.5	6.5
(G) Infrastructure						
(1) Transport	1.7	1.6	1.6	1.6	1.5	1.4
(2) Land and Buildings	1.8	1.9	2.0	2.3	2.3	2.2
(3) Water Supply	3.2	3.7	3.3	2.9	2.7	2.6
	6.7	7.2	6.9	6.8	6.5	6.2
(H) Support	15.2	14.2	15.2	16.4	15.9	15.8
(I) Housing	6.6	6.7	5.9	6.4	6.1	6.4
	100.0	100.0	100.0	100.0	100.0	100.0
	\$m	\$m	\$m	\$m	\$m	\$m
Total Recurrent Expenditure	46,329	55,261	67,650	79,577	92,430	106,990

Total Public Expenditure by Programme Area Groups 1988-89 to 1993-94

Table 2

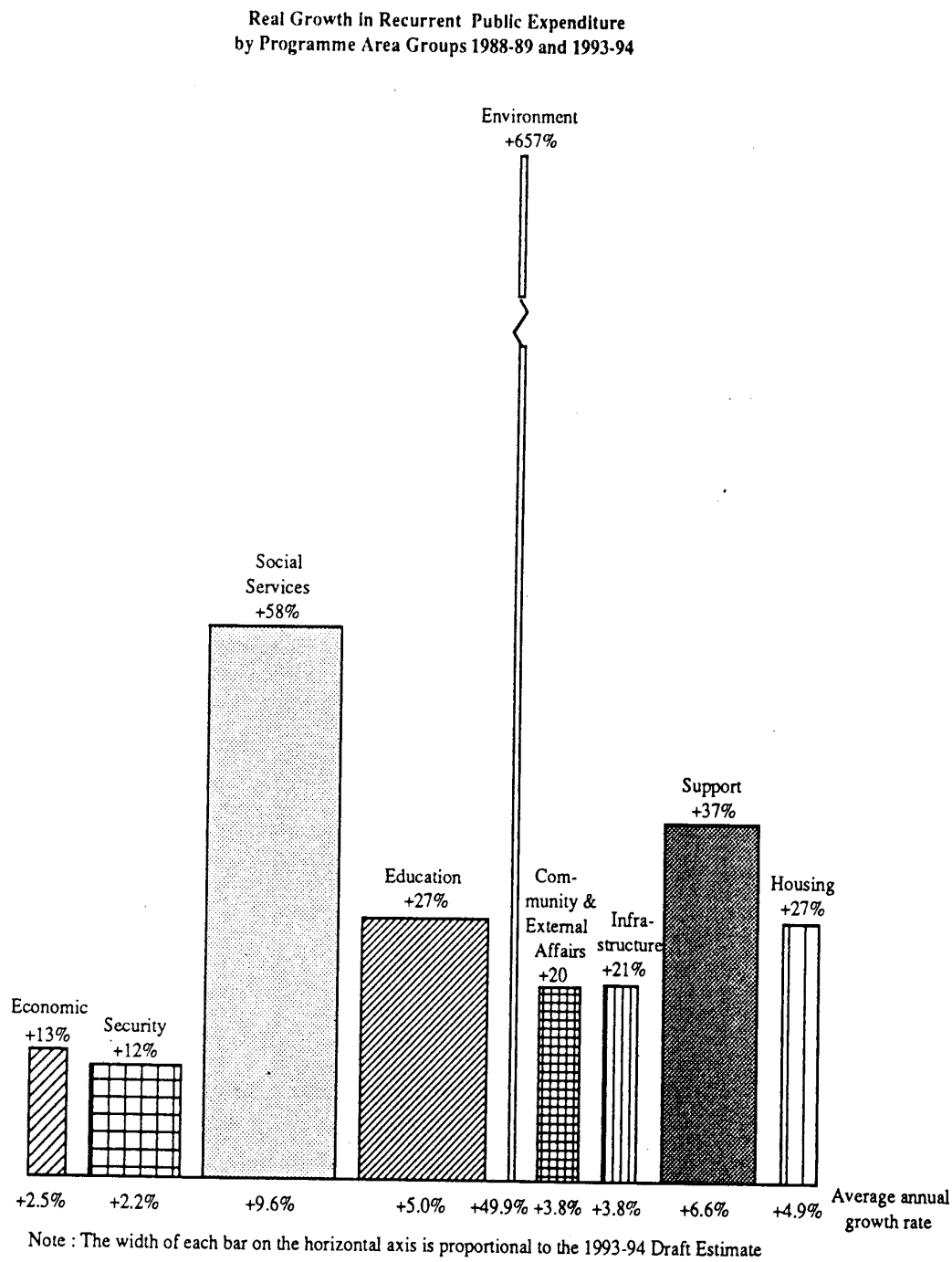
Programme Area Groups	Actual				Revised Estimate	Draft Estimate
	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
	%	%	%	%	%	%
(A) Economic	5.5	5.0	5.5	5.4	6.0	5.4
(B) Security						
(1) Internal Security	12.5	11.7	12.1	11.4	10.7	9.8
(2) Immigration	0.9	1.0	1.1	1.0	1.0	0.9
(3) Other	1.1	1.1	1.1	1.1	1.0	0.9
	14.5	13.8	14.3	13.5	12.7	11.6
(C) Social Services						
(1) Social Welfare	5.9	5.8	6.1	6.4	6.3	6.1
(2) Health	8.8	8.9	9.8	10.0	10.8	11.0
	14.7	14.7	15.9	16.4	17.1	17.1
(D) Education	17.5	15.9	16.9	17.4	17.3	16.2
(E) Environment	0.8	1.5	2.1	2.5	2.6	2.6
(F) Community and External Affairs						
(1) Recreation, Culture and Amenities	5.6	5.5	5.9	5.3	5.1	5.2
(2) District and Community Relations	0.7	0.7	0.7	0.7	0.6	0.5
(3) Other	0.3	0.4	0.3	0.3	0.2	0.2
	6.6	6.6	6.9	6.3	5.9	5.9
(G) Infrastructure						
(1) Transport	4.7	5.1	4.7	3.5	4.4	6.1
(2) Land and Buildings	5.6	8.4	4.6	6.6	6.9	7.1
(3) Water Supply	3.3	3.5	3.2	3.2	2.8	2.6
	13.6	17.0	12.5	13.3	14.1	15.8
(H) Support	11.7	11.4	12.9	13.6	12.9	13.9
(I) Housing	15.1	14.1	13.0	11.6	11.4	11.5
	100.0	100.0	100.0	100.0	100.0	100.0

	\$m	\$m	\$m	\$m	\$m	\$m
Total Public Expenditure	64,799	81,945	95,198	108,012	127,300	156,610

Appendix B—Contd.

5 The percentage changes in real terms in recurrent and total spending for each programme area group comparing 1988-89 and 1993-94 are illustrated in Diagrams 1 and 2.

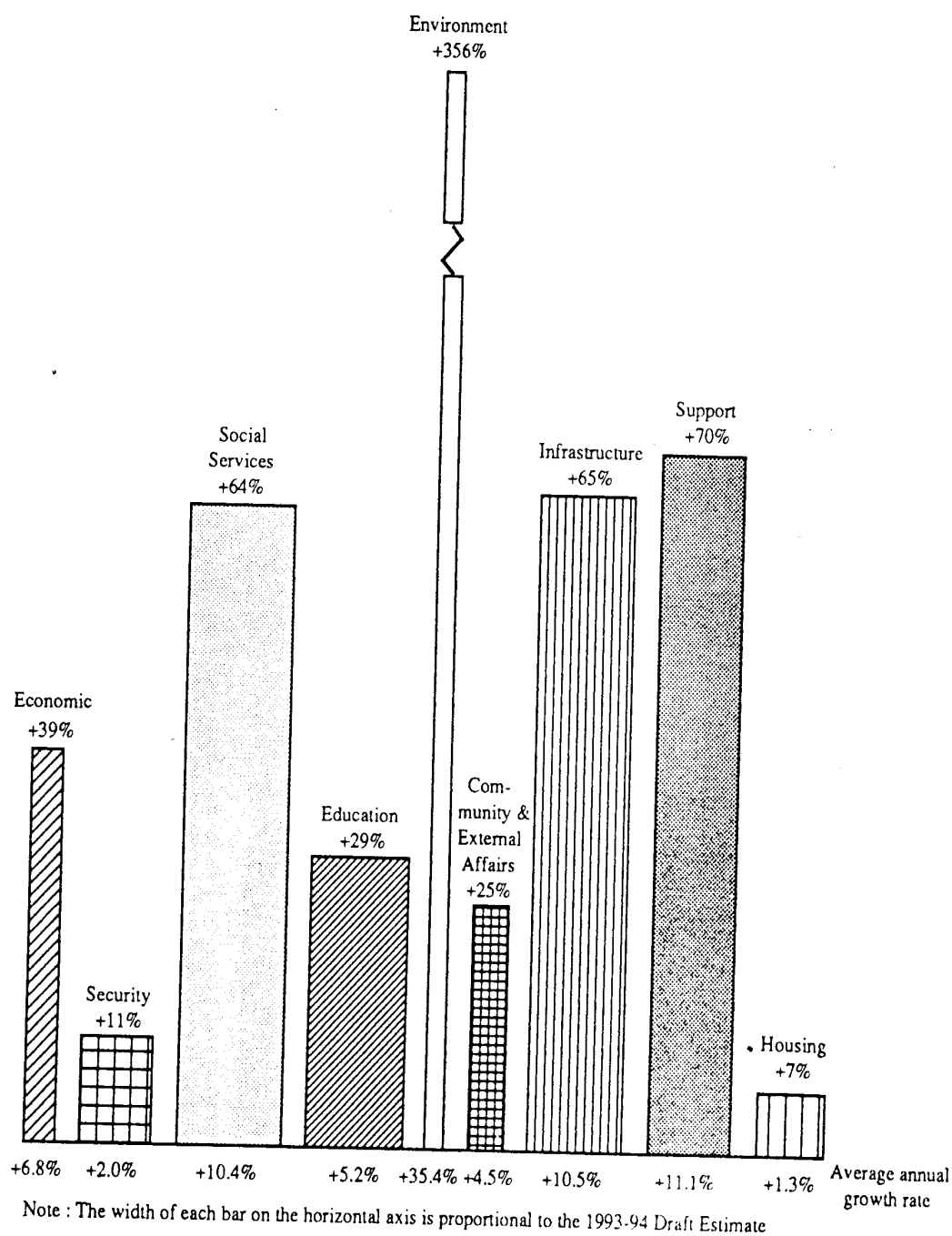
Diagram 1



Appendix B—Contd.

Diagram 2

Real Growth in Total Public Expenditure
by Programme Area Groups 1988-89 and 1993-94



Appendix B—Contd.

6 Recurrent public expenditure and total public expenditure in 1992-93 and 1993-94, analysed by programme area groups, are shown in Table 3 and 4 respectively together with details of the real growths in expenditure between the two years.

Analysis of Recurrent Public Expenditure by Programme Area Group

Table 3

Programme Area Groups	Revised Estimate	Draft Estimate	Increase In Real Terms
	1992-93	1993-94	
	\$m	\$m	%
(A) Economic	5,470	5,995	-0.1
(B) Security			
(1) Internal Security	12,490	13,680	-1.1
(2) Immigration	1,160	1,280	-0.3
(3) Other	1,265	1,385	-1.6
	14,915	16,345	-1.1
(C) Social Services			
(1) Social Welfare	7,655	9,005	+7.8
(2) Health	12,420	14,780	+7.8
	20,075	23,785	+7.8
(D) Education	18,800	22,220	+7.3
(E) Environment	830	1,290	+42.8
(F) Community and External Affairs			
(1) Recreation, Culture and Amenities	5,015	5,910	+6.9
(2) District and Community Relations	705	755	-0.5
(3) Other	300	325	-1.5
	6,020	6,990	+5.6
(G) Infrastructure			
(1) Transport	1,395	1,525	-5.5
(2) Land and Buildings	2,090	2,325	+1.0
(3) Water Supply	2,505	2,785	+0.9
	5,990	6,635	-0.6
(H) Support	14,665	16,870	+5.9
(I) Housing	5,665	6,860	+9.0
Total Recurrent Expenditure	92,430	106,990	+5.2

Analysis of Total Public Expenditure by Programme Area Group

Table 4

Programme Area Groups	Revised Estimate	Draft Estimate	Increase In Real Terms
	1992-93	1993-94	
	\$m	\$m	%
(A) Economic	7,620	8,455	+1.6
(B) Security			
(1) Internal Security	13,660	15,385	+2.2
(2) Immigration	1,220	1,340	-1.1
(3) Other	1,295	1,420	-1.7
	16,175	18,145	+1.6
(C) Social Services			
(1) Social Welfare	8,005	9,525	+9.2
(2) Health	13,740	17,180	+13.9
	21,745	26,705	+12.2
(D) Education	22,005	25,365	+4.7
(E) Environment	3,265	4,045	+14.1
(F) Community and External Affairs			
(1) Recreation, Culture and Amenities	6,435	8,205	+16.2
(2) District and Community Relations	720	775	0.0
(3) Other	315	340	-3.3
	7,470	9,320	+13.9
(G) Infrastructure			
(1) Transport	5,765	9,590	+52.7
(2) Land and Buildings	8,810	11,100	+16.1
(3) Water Supply	3,575	4,040	+3.2
	18,150	24,730	+25.2
(H) Support	16,390	21,855	+23.7
(I) Housing	14,480	17,990	+12.8
Total Public Expenditure	127,300	156,610	+12.5

	Programme Areas	Reference (<i>Note 1</i>)
(A)	<i>Economic</i>	
(1)	Monetary Affairs	Government Secretariat (Monetary Affairs Branch) Miscellaneous Services (part) Official Receiver's Office Registrar General's Department (part) Capital Works Reserve Fund: payments in respect of— Computerisation—Government Secretariat (Monetary Affairs Branch) —Registrar General's Department (part) Support projects (part) Fitting Out projects (part)
(2)	Food Supply	Agriculture and Fisheries Department (part) Government Secretariat (Economic Services Branch—part) Capital Works Reserve Fund: payments in respect of— Food Supply and Government Offices projects (part) Loan Fund: payments in respect of— Primary Products
(3)	Air and Sea Communications	Civil Aviation Department (part) Civil Engineering Department (part) Government Secretariat (Economic Services Branch—part) Marine Department (part) Post Office (part) Royal Observatory (part) Capital Works Reserve Fund: payments in respect of— Air & Sea Communication projects and related projects Major Systems—Civil Aviation Department (part) —Marine Department Computerisation—Marine Department
(4)	Posts, Telecommunications and Power	Government Secretariat (Economic Services Branch—part) Post Office (part) Capital Works Reserve Fund: payments in respect of— Major Systems—Post Office
(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) Government Secretariat: Overseas Offices (part) Industry Department Intellectual Property Department Miscellaneous Services (part) Post Office (part) Subventions: Miscellaneous (part)

Programme Areas	Reference (<i>Note 1</i>)
(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— Computerisation—Customs and Excise Department —Trade Department 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) Capital Works Reserve Fund: payments in respect of— Major Systems—Royal Observatory
(8) Employment	Government Secretariat (Education and Manpower Branch—part) Labour Department Registry of Trade Unions Subventions: Non-Departmental Public Bodies (part) Technical Education and Industrial Training Department (part) Capital Works Reserve Fund: payments in respect of— Technical Education and Industrial Training Subventions projects (part) Major Systems—Block Allocations (part)
(B) <i>Security</i>	
(1) Internal Security	Auxiliary Medical Services Civil Aid Services Civil Aviation Department (part) Correctional Services Department Customs and Excise Department (part) Electrical and Mechanical Services Department (part) Fire Services Department Government Flying Service 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 Police: Royal Hong Kong Regiment (The Volunteers) Royal Observatory (part) Subventions: Miscellaneous (part)

Programme Areas	Reference (<i>Note 1</i>)
(B) <i>Security—Contd.</i>	Capital Works Reserve Fund: payments in respect of—
(1) Internal Security— <i>Contd.</i>	Equipment Consequential on Major Capital Projects—Fire Services
	Department
	Law and Order and related projects
	Public Safety and related projects
	Support projects—Border facilities
	—Naval facilities
	—Civil Aid Services
	—Police: Royal Hong Kong Police Force
	—Government Flying Service
	Quarters
	Fitting Out projects—Police: Royal Hong Kong Police Force
	Major Systems—Civil Aviation Department (part)
	—Customs and Excise Department
	—Police: Royal Hong Kong Police Force
	—Correctional Services Department
	Computerisation—Correctional Services Department
	—Fire Services Department
	—Police: Royal Hong Kong Police Force
(2) Immigration Control	Government Secretariat (Security Branch—part)
	Immigration Department
	Capital Works Reserve Fund: payments in respect of—
	Computerisation—Immigration Department
(3) Legal Administration	Legal Department
(4) Judicial Administration	Judiciary
	Capital Works Reserve Fund: payments in respect of—
	Law and Order projects (Judiciary)
	Computerisation—Judiciary
(5) Anti-Corruption	Independent Commission Against Corruption
	Capital Works Reserve Fund: payments in respect of—
	Major Systems—Independent Commission Against Corruption
	Computerisation—Independent Commission Against Corruption
(C) <i>Social Services</i>	
(1) Social Welfare	Education Department (part)
	Government Secretariat (Health and Welfare Branch—part)
	Pensions (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 Community and related projects
	Computerisation—Social Welfare Department
	Lotteries Fund payments
(2) Health	Agriculture and Fisheries Department (part)
	Department of Health (part)

Programme Areas		Reference (<i>Note 1</i>)
(C)	<i>Social Services—Contd.</i>	
(2)	Health— <i>Contd.</i>	Government Laboratory (part) Government Secretariat (Health and Welfare Branch—part) Hospital Services Department Subventions: Miscellaneous (part) Subventions: Non-Departmental Public Bodies (part) Capital Works Reserve Fund: payments in respect of— Medical Subventions Projects Major Systems—Department of Health Health and related projects Computerisation—Department of Health Block Allocations (part)
(D)	<i>Education</i>	Department of Health (part) Education Department (part) Government Secretariat (Education and Manpower Branch—part) Radio Television Hong Kong (part) Student Financial Assistance Agency 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 Computerisation—Government Secretariat (Education and Manpower Branch—part) —Education Department Loan Fund: payments in respect of— Loans to Schools/Teachers Loans to Students
(E)	<i>Environment</i>	Agriculture and Fisheries Department (part) Civil Engineering Department (part) Drainage 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 Major Systems—Drainage Services Department
(F)	<i>Community and External Affairs</i>	
(1)	Recreation, Culture and Amenities	Government Secretariat: Recreation and Culture Branch (part) Miscellaneous Services (part) Subventions: Miscellaneous (part)

Programme Areas	Reference (<i>Note 1</i>)
(F) <i>Community and External Affairs—Contd.</i>	
(1) Recreation, Culture and Amenities— <i>Contd.</i>	Subventions: Non-Departmental Public Bodies (part) Regional Council expenditure Urban Council expenditure Capital Works Reserve Fund: payments in respect of— Recreation, Culture and Amenities projects Capital Subventions projects (part)
(2) District and Community Relations	Buildings and Lands Department (part) Government Secretariat: City and New Territories Administration Government Secretariat: Overseas Offices (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
(G) <i>Infrastructure</i>	
(1) Transport	Government Secretariat (Transport Branch) Highways Department Transport Department (part) Capital Works Reserve Fund: payments in respect of— Major Systems—Transport Department —Highways Department Transport projects Computerisation—Transport Department
(2) Buildings, Land and Planning	Agriculture and Fisheries Department (part) Buildings and Lands Department (part) Civil Engineering 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) Marine 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 Major Systems—Civil Engineering Department Landslip Prevention and Land Development projects Computerisation—Buildings and Lands Department —Registrar General's Department (part) Fitting Out Projects (part) Block Allocations (part)

Programme Areas	Reference (<i>Note 1</i>)
(G) <i>Infrastructure—Contd.</i>	
(3) Water Supply	Government Secretariat: Planning, Environment and Lands Branch and Works Branch (part) Water Supplies Department Capital Works Reserve Fund: payments in respect of— Water Supplies projects Major Systems—Water Supplies Department
(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— Computerisation—Inland Revenue Department —Rating and Valuation Department (part) —Treasury
(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) Miscellaneous Services (part) Pensions (part) Public Service Commission Standing Commission on Civil Service Salaries and Conditions of Service Standing Committee on Disciplined Services Salaries and Conditions of Service Loan Fund: payments in respect of— Housing assistance for civil servants
(3) Intra-Governmental Services	His Excellency the Governor's Establishment Architectural Services Department Census and Statistics Department (part) Civil Engineering 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—part) Government Secretariat (Economic Services Branch—part) Government Secretariat (Finance Branch—part)

Programme Areas		Reference (<i>Note 1</i>)
(H)	<i>Support—Contd.</i>	Government Secretariat: Planning, Environment and Lands Branch and
(3)	Intra-Governmental Services— <i>Contd.</i>	Works Branch (part)
		Government Supplies Department
		Information Services Department
		Marine Department (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
		—Electrical and Mechanical Services Department
		—Government Secretariat: Planning, Environment and Lands Branch and Works Branch
		—Information Services Department
		—Printing Department
		Computerisation—Electrical and Mechanical Services Department
		—Government Secretariat (part)
		—Information Services Department
		—Information Technology Services Department
		—Rating and Valuation Department (part)
		—Block Allocation
		Support and related projects (part)
		Fitting Out Projects (part)
		Quarters
		Government Offices (part)
		Block Allocations (part)
(4)	Constitutional and Transitional Affairs	Government Secretariat (Constitutional Affairs Branch—part)
		Government Secretariat (Chief Secretary's Office—part)
		Legal Aid Department
		Miscellaneous Services (part)
		Subventions: Miscellaneous (part)
		Capital Works Reserve Fund: payments in respect of—
		Computerisation—Government Secretariat (part)
(5)	Support for Members of the Executive and Legislative Councils	Government Secretariat (Chief Secretary's Office—part)
		Office of Members of the Legislative Council
		Subventions: Miscellaneous (part)
(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 projects

Note 1 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 1993-94 Estimates.

RECURRENT EXPENDITURE GROWTH
IN KEY PROGRAMME AREAS IN 1993-94

Additional funds have been provided to finance the following major improvements in services in 1993-94—

\$ million
(at 1992/93 prices)

Social Services

Health

980

- 950 additional hospital beds
- 2 new General Out-Patient clinics
- 3 new Maternal and Child Health centres
- A new Dermatology clinic
- A Health centre for the elderly
- A "Well-woman" clinic
- Expansion of 11 existing clinics
- A multi-disciplinary team to care for elderly mental patients in the community
- Extension of standardised medical records to virtually all general out-patient clinics
- Continuing implementation of the programme of management reform in individual hospitals

Social Welfare

600

- Introduction of a Comprehensive Social Security Assistance scheme *(including \$225 million funded from the Lotteries Fund)*
- For the elderly, 1 780 places in care and attention homes and homes for the aged, six day care centres, 18 social centres and three multi-service centres
- 710 residential places for the mentally handicapped and the physically disabled
- 660 places in sheltered workshops
- 440 places in day activity centres
- 1 400 day nursery places
- 270 day creche places
- 160 foster care places
- 24 small group homes
- 18 school social workers
- Mortgage interest subsidies for subvented social workers

Education

1,390

- Reduction in Primary One class size from 40 to 35 pupils
- 785 additional primary school teachers leading to a reduction in the ratio of pupils to teachers from 27 to 25.5
- 30 more primary schools operating on a whole day basis
- 1 500 additional first year first degree places
- Enhancement of the Kindergarten fee remission scheme
- Mortgage interest subsidies for teachers in aided schools

Environment

370

- Additional operating costs of—
 - Chemical waste treatment centre
 - Kowloon Bay and Island East refuse transfer stations
 - Sewage treatment plant
 - West New Territories landfill

Appendix D

MAJOR CAPITAL PROJECTS
TO BEGIN IN 1993-94 OR AFTER

Funds allocated for capital projects to start in 1993-94 or after include—

\$ million
(at 1992-93 prices)

Economic	8,390
—Improvements to the Ma Wan Channel	
—Reclamation and servicing of Tuen Mun area 38	
—Lantau Port Development phase 1	
Education	890
—Noise abatement measures, stages III and IV	
—Lingnan College—campus development	
Environment (in addition to \$4,900 million from the Capital Investment Fund towards the High Priority Sewerage scheme)	3,210
—Sewerage improvement schemes in Wanchai East, North Point and Tolo Harbour	
—Hong Kong Island West refuse transfer station	
—Restoration of landfill sites	
Social Services	2,650
—Princess Margaret Hospital—extension and improvement	
—Tai Po Convalescent/Infirmary Hospital	
—North District Hospital	
—Aberdeen skills centre for the disabled	
Infrastructure	3,950
—West Kowloon Corridor—Yau Ma Tei section—phase II	
—Lung Cheung Road and Ching Cheung Road improvements	
—North Lantau Expressway—phase II	
—Tuen Mun Highway improvements	
—Water supply improvements in Western, Central and Wanchai	
—Water treatment and transfer facilities in the North West New Territories	

