

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 1 March 1995

The Council met at half-past Two o'clock

PRESENT

THE PRESIDENT

THE HONOURABLE SIR JOHN SWAINE, C.B.E., LL.D., Q.C., J.P.

THE CHIEF SECRETARY

THE HONOURABLE MRS ANSON CHAN, C.B.E., J.P.

THE FINANCIAL SECRETARY

THE HONOURABLE SIR NATHANIEL WILLIAM HAMISH MACLEOD, K.B.E., J.P.

THE ATTORNEY GENERAL

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

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

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

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

DR THE HONOURABLE DAVID LI KWOK-PO, O.B.E., LL.D., J.P.

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

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

THE HONOURABLE SZETO WAH

THE HONOURABLE TAM YIU-CHUNG

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

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

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

THE HONOURABLE RONALD JOSEPH ARCULLI, O.B.E., J.P.

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

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

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

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

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE VINCENT CHENG HOI-CHUEN, O.B.E., J.P.

THE HONOURABLE MOSES CHENG MO-CHI

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE CHIM PUI-CHUNG

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, O.B.E., J.P.

DR THE HONOURABLE LAM KUI-CHUN

DR THE HONOURABLE CONRAD LAM KUI-SHING, J.P.

THE HONOURABLE EMILY LAU WAI-HING

THE HONOURABLE LEE WING-TAT

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

THE HONOURABLE JAMES TIEN PEI-CHUN, O.B.E., J.P.

THE HONOURABLE ALFRED TSO SHIU-WAI

THE HONOURABLE LEE CHEUK-YAN

ABSENT

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

THE HONOURABLE MARVIN CHEUNG KIN-TUNG, O.B.E., J.P.

REV THE HONOURABLE FUNG CHI-WOOD

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR RICKY FUNG CHOI-CHEUNG

Papers

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

Subject

Subsidiary Legislation	<i>L.N. No.</i>
Sewage Services (Sewage Charge) Regulation	59/95
Sewage Services (Trade Effluent Surcharge) Regulation	60/95
Mining (General) (Amendment) Regulation 1995.....	61/95
Mines (Safety) (Amendment) Regulation 1995.....	62/95
Dangerous Goods (General) (Amendment) (No. 2) Regulation 1995	63/95
Dangerous Goods (Government Explosives Depots) (Amendment) Regulation 1995	64/95
Official Languages (Alteration of Text) (Noise Control Ordinance) Order 1995.....	65/95
Pension Benefits Ordinance (Amendment of Schedule) Order 1995.....	66/95
Pension Benefits (Prescribed Ages) (Directorate Ranks) (Amendment) Notice 1995	67/95
Pension Benefits (Prescribed Ages) (Senior Ranks) (Government Flying Service) Notice.....	68/95
Hawker (Regional Council) (Amendment) Bylaw 1995	69/95
Hawker (Urban Council) (Amendment) Bylaw 1995.....	70/95
Urban Council (Fees for Official Signatures and Miscellaneous Services) (Repeal) Bylaw 1995	71/95
Buildings (Amendment) Ordinance 1995 (6 of 1995) (Commencement) Notice 1995.....	72/95
Official Languages (Authentic Chinese Text) (Judgments (Facilities for Enforcement) Ordinance) Order.....	(C)10/95

Official Languages (Authentic Chinese Text) (Foreign Judgments (Restriction on Recognition and Enforcement) Ordinance) Order	(C)11/95
Official Languages (Authentic Chinese Text) (Judicial Proceedings (Adjournment During Gale Warnings) Ordinance) Order	(C)12/95
Official Languages (Authentic Chinese Text) (Foreign Jurisdiction (Expenses) Ordinance) Order	(C)13/95
Official Languages (Authentic Chinese Text) (Judicial Proceedings (Regulation of Reports) Ordinance) Order	(C)14/95
Official Languages (Authentic Chinese Text) (Foreign Judgments (Reciprocal Enforcement) Ordinance) Order	(C)15/95
Official Languages (Authentic Chinese Text) (Noise Control Ordinance) Order	(C)16/95

Sessional Papers 1993-94

- No. 68 — Draft Estimates for the Year Ending 31 March 1996; Volume I
General Revenue Account — Expenditure Summaries and
Controlling Officers' Report
- No. 69 — Draft Estimates for the Year Ending 31 March 1996; Volume II
General Revenue Account — Expenditure by Heads and Subheads
- No. 70 — Draft Estimates for the Year Ending 31 March 1996; Volume III —
Fund Accounts

Miscellaneous

Technical Memorandum on Procedures and Methods for Sampling and Analysis of
Trade Effluents

Written answers to questions

Teaching of Putonghua

1. MR ERIC LI (in Chinese): *With regard to the development of education to meet the needs of the territory during the transitional period, will the Government inform this Council:*

- (a) *of the respective numbers of primary and secondary schools with Putonghua designated as a compulsory or optional subject in the 1994-1995 academic year, and their respective percentages out of the total numbers of primary and secondary schools in the territory;*
- (b) *whether it will consider including Putonghua as a compulsory subject in the curricula of the territory's primary and secondary schools; if not, what the reasons are;*
- (c) *of the total number of qualified Putonghua teachers in the 1994-1995 academic year, and whether this number can meet the present demand of teachers for this subject; and*
- (d) *how many teachers the Hong Kong Institute of Education plans to train in the teaching of Putonghua in each of the next three academic years?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President,

- (a) The numbers of primary and secondary schools offering Putonghua as a subject in their curriculum in the academic year 1994-95, and their respective percentages out of the total number of primary and secondary schools in the territory are as follows:

<i>Level</i>	<i>Number offering Putonghua</i>	<i>As a percentage of the total</i>
Secondary schools	173	38.3%
Primary schools	446	46.7%

- (b) The Curriculum Development Council recommended that Putonghua should be offered as an optional subject in the school curriculum taking into consideration the time constraint in the existing curriculum and the availability of suitable Putonghua teachers. The Education Department considers such advice realistic as it allows schools greater flexibility to offer a curriculum more suited to their own circumstances.

- (c) There is no formal qualification prescribed for teachers of Putonghua. The Education Department offers special training programmes for Putonghua teachers. Up to December 1994, 3 377 serving teachers have been trained under these programmes. It is difficult to assess whether this number is sufficient to meet the demand as it is expected that more schools will want to offer Putonghua as a subject. Nevertheless, the Education Department is prepared to expand its on-going training programmes if there is any unmet demand.
- (d) The Hong Kong Institute of Education plans to train the following number of pre-service and in-service teachers in 1995-98:

	<i>Teachers expected to be trained</i>		
	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>
Putonghua as an elective subject in pre-service Certificate in Education Course	71	91	96
In-service Courses for Putonghua Teachers	790	790	790

Lift Shaft Robberies

2. MR WONG WAI-YIN (in Chinese): *Following several incidents in which robbers appeared from elevator shafts in Tuen Mun in 1993, there were indications that this type of robberies had become active in Sha Tin last year. Will the Government inform this Council:*

- (a) *of the number of such cases which had occurred in the territory in the past two years;*
- (b) *what measures the authorities concerned have adopted to prevent such cases from occurring; whether the recurrence of similar cases indicates that the measures taken have been ineffective; and*
- (c) *how the recurrence of such cases can be prevented in the future, so as to safeguard the life and property of the public?*

SECRETARY FOR SECURITY: Mr President,

- (a) We have not kept specific statistics on lift shaft robberies on a territory-wide basis. However, we believe that the number of such cases is very small in comparison with the number of robberies occurring in lifts, which was 1 219 in 1993 and 1 221 in 1994.
- (b) The police have adopted specific measures to tackle the occurrence of lift shaft robberies in consultation with the Housing Department and the Fire Services Department. In public housing estates, the lift compartments were sealed by way of a "spot-welding" method to prevent access from the trap door of the lift-car. The police have also set up observation posts in the proximity of the plant areas in identified blackspots to closely monitor the situation. In so far as occurrence of such incidents in public housing estates in the new towns is concerned, we are aware that eight cases were reported in Tuen Mun in 1993 but none in 1994; and none reported in Sha Tin in 1993 but three cases in 1994. There is no indication that this kind of robberies is on the rise or prevalent in the territory.
- (c) The police have taken steps to tackle such robberies at two levels. At the district level, the district intelligence units scrutinize crime reports to identify emerging crime techniques and specific culprits active in particular areas. This approach offers the greatest flexibility in dealing with a crime which is carried out by a relatively small number of individuals, operating in localized areas most familiar to them.

At the headquarters level, the Crime Prevention Bureau of the Police Headquarters maintains close liaison with the Housing Department to advise on the provision of safety features in lift designs. Since November 1994, the Housing Department has also launched a major programme to upgrade the provision of security measures for all public housing estates. This includes the installation of close circuit televisions (CCTV) in the lift cars of all rental blocks which are linked to a control room for central monitoring. The system also permits residents to monitor any of the lifts in his block through a television set. Apart from the installation of CCTV's inside lifts, the Housing Department has also installed entrance gates with security-coded access and 24-hour tower-guard service in some of the estates. Patrol by estate officers is also provided as necessary. The proposed package to upgrade the security in public housing estates and other preventive measures adopted by the police will help combat robbery cases occurring inside lifts.

Utilization of Sites Reserved for Primary Schools

3. MR CHEUNG MAN-KWONG (in Chinese): *In 1993 and 1994, the Education Department surrendered 14 sites reserved for building primary schools mainly for the reason that those sites did not meet the proposed area requirement. In this regard, will the Government inform this Council whether it will consider utilizing 25 existing sites reserved for primary schools, which also fail to meet the area requirement, with some flexibility so that a certain number of whole-day primary schools with a smaller capacity than the proposed ones (for example, with accommodation for 12 classes only) can be built to provide different types of schools for students to choose from on the one hand, and to attain the target of providing whole-day primary schooling as soon as possible on the other?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President, our present policy is to build standard primary schools with 30 classrooms because they are generally more cost-effective and efficient in providing more school places to meet the demand. However, the Government is prepared to be flexible to build small size schools in special circumstances, for example, in areas where there is a persistent shortfall of school places and the extent of such a shortfall is not large enough to warrant the building of a standard school. The Education Department will continue to consider making the best use of the reserved sites.

As to the whole-day primary schools, all new primary schools are planned to operate on a whole day basis and existing primary schools will be converted to whole day operation insofar as this will not adversely affect the supply of school places. This is being implemented.

Chinese Visitors Working in the Territory

4. MISS EMILY LAU (in Chinese): *In view of the complaints about the serious situation of visitors on two-way permits from Mainland China being found working during their period of stay in the territory, will the Government inform this Council:*

- (a) *whether Chinese visitors holding two-way permits are allowed to work in the territory; and*
- (b) *if the answer to (a) is in the negative, whether any such visitors were caught by the Government for breaching the relevant regulations last year; if so, what the number was and what was the proportion of those caught to the total number of two-way permit holders visiting the territory; and whether these offenders will be prosecuted and prohibited from visiting the territory again within a certain period of time?*

SECRETARY FOR SECURITY: Mr President,

- (a) Chinese visitors on Two-way Permits are not permitted to work in Hong Kong.
- (b) Last year, some 27 250 or 5% of the total number of two-way permit holders had overstayed, and 1 730 (or 0.3% of the total) were arrested for engaging in unauthorized work. A total of 6 720 two-way permit visitors were also prosecuted for overstaying. Of those arrested for taking up unauthorized employment, 1 698 were also prosecuted. Blatant offenders will be scrutinized on their future visits and may be refused entry.

Services for Arriving Travellers at the Airport

5. MR ERIC LI (in Chinese): *As private cars are not allowed to park temporarily on the road outside the arrival area of the Hong Kong International Airport for picking up or setting down passengers, arriving travellers requiring pick-up by private cars have to push their large luggage trolleys to the lift lobby in the arrival area and take the lift to get to the car park on the second floor or above, thus causing heavy congestion in the lift lobby area. In view of this, will the Government inform this Council whether:*

- (a) *escalators or passenger conveyors will be installed for the exclusive use of arriving travellers not using luggage trolleys to enable them to get to the car park more quickly;*
- (b) *ramps for passengers and luggage trolleys will be built to link up the car park with the arrival area;*
- (c) *luggage couriers will be employed to handle the travellers' luggage centrally and to make deliveries to various floors of the car park as requested by the travellers; and*
- (d) *there are any plans to implement other improvement measures; if so, what the details are and when they will be implemented?*

SECRETARY FOR ECONOMIC SERVICES: Mr President,

- (a) In order to reduce the congestion in the Arrivals Hall caused by arriving passengers with baggage trolleys queuing for lifts to go the multistorey carpark, we encourage those passengers with light baggage to make use of the external escalators. There are directional signs installed to guide passengers to these escalators which operate between the arrivals level and the third floor of the

Passenger Terminal Building, where they can cross over by bridge to the carpark.

- (b) A preliminary assessment by the Director of Architectural Services indicates that construction of a ramp connecting the Arrivals Hall to the carpark area is technically possible. However, it is anticipated that the project would take six to eight months for completion and would require substantial demolition works at the western end of the Passenger Terminal Building and the possible relocation of certain existing facilities. Given the time frame for implementation and the significant disruption which would occur during the construction period, the proposal is not considered a viable option.
- (c) The Civil Aviation Department has conducted trials involving luggage couriers to transfer passengers' baggage from the arrivals level to the third floor of the carpark, using the external escalators. The trials indicated that the placement and transfer of baggage onto the escalator was very labour intensive. As an alternative, the Department is considering the possibility of providing suitable self-help baggage trolleys which could be wheeled directly onto the escalator by the passengers themselves. An officer from the Department will shortly be visiting a number of airports which have similar arrangements to explore this option in further detail and a selection of trolleys will be acquired for further testing and evaluation at Kai Tak.
- (d) As regards other improvement measures, arrangements have been put in place to assign additional Securair staff to the Arrivals Hall during the evening peak period from 6 pm to 11 pm to regulate passenger flow. There are also plans to implement other improvement measures, on a phased basis, which will be completed by the end of this year. These include:
 - (i) the relocation of the existing lift doors and realignment of the passenger exit ramps within the Arrivals Hall so as to segregate the lift users and greeters, thus reducing congestion around the lifts; and
 - (ii) the creation of additional waiting areas for greeters by relocating the Neighbourhood Police Office and concessions.

Field Officer II

6. MRS PEGGY LAM (in Chinese): *According to available information, the number of officers in the rank of Field Officer II currently employed by the Agriculture and Fisheries Department (AFD) is below the approved staffing establishment. Will the Government inform this Council:*

- (a) *of the approved staffing establishment and the existing number of vacancies in the rank;*
- (b) *whether the AFD has deployed any staff to monitor the operation of pet shops and snake shops on a regular basis; if so, how staff are deployed to fulfil all inspection duties when the AFD is experiencing a shortage of staff; and*
- (c) *how snake shops are monitored to ensure that appropriate measures are adopted by these shops to prevent snakes from sneaking out of shop premises and causing nuisance to the residents nearby?*

SECRETARY FOR ECONOMIC SERVICES: Mr President,

- (a) There are 152 posts of Field Officer II on the establishment of the Agriculture and Fisheries Department, of which 24 are vacant at present.
- (b) The Department has deployed nine Field Officer II posts on the monitoring of licensed animal trading establishments, including pet shops and snake shops. These establishments are visited twice a month to check that health and safety regulations are being complied with. Should there be a shortage of staff to perform this work, temporary redeployment of Field Officers II from other parts of the Department will be arranged as necessary.
- (c) It is an offence to carry on a business as an animal trader without a licence. In the case of snake traders, it is a requirement of the licence that the premises are suitable for keeping snakes and that the enclosures to be used are escape-proof. A breach of this requirement is a criminal offence. Before a licence is granted, the premises are inspected by a Veterinary Officer of the Agricultural and Fisheries Department. Thereafter, they are subject to regular inspections which ensure that the enclosures are escape-proof and maintained to the required standard.

Minor Employment Claims Adjudication Board

7. MR PANG CHUN-HOI (in Chinese): *It is learnt that the Minor Employment Claims Adjudication Board intends to clear 700 cases transferred by the Labour Tribunal in six months' time, which means that each of the five adjudication officers on average handles only one case per day. Will the Government inform this Council of the reasons for the slow progress of processing these cases?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President, in addition to cases redirected by the Labour Tribunal, the Minor Employment Claims Adjudication Board is also taking on new cases referred to it by the Labour Relations Service. The Board has so far registered 313 cases involving a total amount of \$1,041,081. Among these cases, 175 were redirected from the Labour Tribunal and 138 were new ones referred by the Labour Relations Service. It is expected that the Board will be able to hear 400 to 500 new cases and clear all the cases transferred from the Labour Tribunal by end of May this year.

Nullah in Tsui Ping Road

8. MR FRED LI (in Chinese): *Regarding the unpleasant smell emitted constantly from the surface nullah in Tsui Ping Road in Kwun Tong which has caused a serious nuisance to workers working in factories nearby as well as the residents of Laguna City, will the Government inform this Council:*

- (a) *whether there is any plan to cover up the nullah; if so, what the details are; if not, why not; and*
- (b) *what short-term measures are in place to improve the present condition of the smelly nullah?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President,

- (a) There is currently no plan to deck the nullah which is designed to convey stormwater to the sea, and is not meant for polluted wastewater. Decking the nullah would not eradicate the odour problem. The only effective solutions are to control the pollution at source and to divert the wastewater discharges away from the nullah and into foul sewers. The odour from the nullah at Tsui Ping Road arises mainly from domestic and commercial wastewater discharges from Sau Mau Ping and Tsui Ping Estates, which are brought to the nullah through expedient connection of foul sewage. There are also discharges of industrial effluents from Kwun Tong industrial area into that part of the nullah which is adjacent to the Laguna City. The Tsui Ping Road nullah, like other open nullahs, is an essential hydraulic structure for discharging stormwater during rainstorms. Regular inspection and desilting can be conducted more effectively and economically in an open nullah than in a decked nullah. Decking an open nullah is a costly civil engineering exercise which makes it difficult to enter the nullahs and carry out desilting work with mobile plant. More importantly decking could make the situation worse because it will lead to the retention of hydrogen sulphide, the main cause of the bad odour and a gas which is

potentially dangerous to the public and maintenance staff, and corrosive to the structure. Also, in busy urban areas, decking nullahs involves much disturbance to the neighbourhood.

- (b) Regular inspection and desilting are carried out by the Drainage Services Department to ensure that the Tsui Ping Road nullah is hydraulically effective and to maintain an acceptable hygienic standard. The last cleansing work was completed in November 1994. Since the Kwun Tong area is covered by the Victoria Harbour (Phase I) Water Control Zone, all discharges in the area will be controlled through the enforcement of the Water Pollution Control Ordinance from 1 July 1995. Sewerage improvement works are also being implemented by the Drainage Services Department under the East Kowloon Sewerage Master Plan programme. The domestic and commercial discharges into the Tsui Ping Road nullah are expected to be diverted away from the nullah by mid 1996 and the industrial discharges near Laguna City by mid 1997.

Non-local Higher and Professional Education (Regulation) Bill

9. MR HENRY TANG (in Chinese): *In the annex to the Chief Secretary's written reply of 14 December 1994 to a question concerning the items of legislation the Government plans to introduce into this Council in 1994-95, there is one item concerning the monitoring of the provision of courses provided in the territory by non-local institutions of higher education and professional bodies. In this connection, will the Government inform this Council:*

- (a) *of the progress of the drafting of the relevant bill; when it is expected to be introduced into this Council for scrutiny; and*
- (b) *whether the bill will ensure that courses provided by such institutions and professional bodies are up to the standard required; and whether the bill will require the setting up of a mechanism to monitor the operation of local education institutions acting as agents of such courses, so as to ensure that information provided by these institutions on the courses offered, including those concerning qualifications awarded, recognition enjoyed, course duration and fees, and so on, is accurate?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President,

- (a) The Administration is working on the fourth draft of the English text of the Non-local Higher and Professional Education (Regulation) Bill. It is still our aim to introduce the Bill into the Legislative Council within the current legislative session.
- (b) The objective of the new regulatory framework is to ensure that the standards of the courses conducted by the non-local institutions of higher education and professional bodies in Hong Kong are recognized by the non-local institutions themselves and the accrediting authorities in their countries of origin, and that the standard of overseas courses delivered in Hong Kong would be monitored effectively to maintain them at a level comparable to those achieved on-campus in their countries of origin. Subject to verification of the information provided by the executive head of a local tertiary institution, those overseas courses offered in collaboration with a local tertiary institution would be exempt from registration. Registration of courses within the scope of the Bill, however, would be subject to verification of the information by the Hong Kong Council for Academic Accreditation. Subject to further legal advice Government is also considering the inclusion of provisions to prohibit irresponsible operators or agents acting on their behalf from publishing or broadcasting false or misleading information about their courses.

Safety of Dangerous Goods Vehicles

10. MR WONG WAI-YIN (in Chinese): *The explosion of a goods vehicle carrying liquified petroleum gas (LPG) cylinders in Tsing Hang Path, Tuen Mun, in 1992 aroused public concern about the safety of dangerous goods vehicles, and immediate action was taken by the authorities concerned to prevent similar incidents from occurring. In this connection, will the Government inform this Council:*

- (a) *what actions and measures have been adopted during the past two years to prevent the occurrence of similar incidents; and whether such actions and measures have been effective;*
- (b) *of the number of prosecutions against the illegal parking of dangerous goods vehicles since the explosion, together with the highest and lowest penalties imposed in the convicted cases; and*
- (c) *which sites can be used to provide parking spaces for dangerous goods vehicles; and whether the provision of such sites is adequate to meet the demand, and if not, whether additional sites have been planned and when they will be made available for use?*

SECRETARY FOR ECONOMIC SERVICES: Mr President, the incident at Tuen Mun on 30 September 1992 involved two parked goods vehicles permitted to carry both liquified petroleum gas (LPG) cylinders and kerosene. The kerosene on the vehicles was ignited in suspicious circumstances, engulfing the LPG cylinders and causing them to explode.

In the past two years, the Gas Authority has taken a number of measures to reduce the risk of similar incidents occurring, including prohibiting the joint conveyance of LPG and kerosene, stepping up enforcement against illegal parking of LPG cylinder wagons and looking for sites away from built-up areas where LPG cylinder wagons could be parked safely overnight. Specifically:

- The Gas Authority has prohibited the joint conveyance of LPG and kerosene through amendments to the permit conditions for LPG cylinder wagons. These amendments have been phased in so as to allow the industry a reasonable time to comply with the new arrangements, with full implementation achieved in November 1993. The new arrangements, now strictly enforced, have reduced the possibility of a similar incident involving both commodities.
- The Gas Authority has stepped up enforcement against contraventions of the permit conditions for LPG cylinder wagons, which stipulate that any vehicle laden with LPG cylinders may only be parked unattended outdoors in a non-congested area and at least 15 metres away from any building of multiple occupancy. Since the incident at Tuen Mun, the Gas Authority has taken out 78 prosecutions against the owners of illegally parked LPG cylinder wagons. Fines imposed ranged from \$500 to \$5,000.

For the longer term, the Gas Authority is identifying suitable sites for the overnight parking of LPG cylinder wagons. Potentially suitable sites are being assessed in consultation with the LPG suppliers and the relevant District Boards. The first such parking area will be brought into operation in Tuen Mun this month. Once the facility is in operation, the Gas Authority will amend the LPG cylinder wagon permit conditions so as to prohibit overnight parking of the vehicles elsewhere in the district.

The Gas Authority estimates that seven more such sites will commence operation in other districts over the next 18 months. The long term objective is to prohibit overnight parking of vehicles loaded with LPG cylinders in urban areas.

Water Quality in Tolo Harbour

11. REV FUNG CHI-WOOD (in Chinese): *In his report of October 1994, the Director of Audit pointed out that after the commissioning of the process modification works of the Tai Po Sewage Treatment Works Stage IVA, the*

actual nitrogen removal rate for 1993 was only 66%, which fell far short of the target rate of 90%. In view of this, will the Government inform this Council:

- (a) whether the above removal rate is an indication that no improvement can be made to the water quality in Tolo Harbour;*
- (b) what further steps will be taken by the Government to improve the water quality in Tolo Harbour; and*
- (c) what is the present state of water quality in Tolo Harbour?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President,

- (a) In fact, the average nitrogen removal rate of the Tai Po Sewage Treatment Works increased to 75% in 1994. The Tai Po Sewage Treatment Works process modification to enhance nitrogen removal is only one of several actions taken under the Tolo Harbour Action Plan to reduce the discharge of nutrients into Tolo Harbour. The key action is to remove the nutrient inputs from the Sha Tin and Tai Po Sewage Treatment Works permanently by exporting the discharges from the two treatment works to Victoria Harbour via the Kai Tak nullah by implementing the Effluent Export Scheme. Construction work for the Scheme is largely complete and the Scheme should be commissioned later this year. Once the Scheme is in operation, nutrient loadings in Tolo Harbour will be greatly reduced and water quality improved. The process modification work was only intended to be an interim measure to reduce nitrogen loading pending completion of the Effluent Export Scheme and has no long term implications for the water quality of Tolo Harbour.
- (b) The measures taken by Government to improve the water quality of Tolo Harbour are co-ordinated under the Tolo Harbour Action Plan. This comprises, in addition to the process modification works and Effluent Export Scheme, provision of village sewerage, transfer of water treatment works sludge to Sha Tin Sewage Treatment Works for marine disposal, and implementation of the Water Pollution Control Ordinance and the Livestock Waste Control Scheme including the banning of livestock keeping in new towns. Many of these measures have either been completed or are being implemented. With the planned completion of the two key measures, that is, the Effluent Export Scheme later this year and the provision of village sewerage to unsewered areas in Sha Tin and Tai Po next year, water quality will gradually improve after 1996.

- (c) While the Action Plan has prevented further decline in the water quality, major improvement will not be achieved until the remaining two key measures, that is, the export of treated effluent to Victoria Harbour and the provision of village sewerage in unsewered areas, have been fully implemented. The waters of the Tolo Harbour continue to suffer from high nutrient levels and low dissolved oxygen in the lower layer of the water. While there has been a reduction in the number of algal blooms since 1988, there have been no other significant improvements in the last three years.

Air Traffic Between the Territory and Taiwan

12. MR HENRY TANG (in Chinese): *With regard to air traffic between the territory and Taiwan, will the Government inform this Council of:*

- (a) *the progress of negotiation for the renewal of the air services agreement between the territory and Taiwan which will expire at the end of April this year, and whether any discussion has been held regarding the extension of the agreement beyond 1997; and*
- (b) *the implications on the local economy as well as the benefits to consumers resulting from Taiwan's proposed plan to designate air transportation services as "authorized enterprise", which will enable such enterprises, irrespective of whether Chinese-held shares of these enterprises exceed 20%, to invest in Taiwan as long as they are registered in the territory, thus providing airlines registered locally not yet operating Taiwan flights with the opportunity to join the competition?*

SECRETARY FOR ECONOMIC SERVICES: Mr President,

- (a) Air services between Hong Kong and Taiwan are conducted under the terms of an inter-airline agreement between Cathay Pacific Airways (CPA) and China Airlines (CAL). The current agreement expires on 29 April 1995 and discussions on this renewal are underway between the two airlines. The Hong Kong Government has no involvement in these discussions.
- (b) The Hong Kong/Taiwan route is already well-served, with CPA and CAL operating close to 200 frequencies per week and five other airlines providing about 25 services per week. We have no indication that other Hong Kong airlines are interested in serving this route. An assessment of the impact on the market of such an operation would in any case depend on a number of variables, for example, the operator concerned, frequency of services, quality of services, destinations, and so on.

"Comprehensive Development Area" Zoning

13. MR ALBERT CHAN (in Chinese): *Since the adoption of the "Comprehensive Development Area (CDA)" zoning as a guiding concept to promote co-ordinated urban renewal, the Town Planning Board has endorsed a number of CDA layout plans despite objections from the local residents, thus allowing the Land Development Corporation, the Hong Kong Housing Society and private developers to submit applications for development. In this connection, will the Government inform this Council:*

- (a) *of the effects of CDA zoning on the promotion of urban renewal;*
- (b) *of the time required from the designation of a CDA to the implementation of the redevelopment scheme;*
- (c) *whether the developers granted permission to undertake redevelopment in a CDA are required to start or complete their projects within a specified period; if so, what is the number of cases in which work has failed to commence in accordance with the schedule of the scheme, and what the reasons for the delays are;*
- (d) *whether, in view of the adverse affects which a delay in redevelopment may have on the residents and the district concerned, consideration will be given to imposing punishment on those developers who are granted the right of development but have delayed the commencement of redevelopment projects, so as to speed up the urban renewal process; and*
- (e) *whether CDA zoning will continue to be adopted as a guiding concept for urban renewal; if so, whether any plans have been drawn up to improve its effectiveness?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President, answers to this five-part question are as follows:

- (a) The "CDA" zone is designated on statutory town plans under the Town Planning Ordinance (Cap. 131) to ensure that an area is developed/redeveloped in a comprehensive manner. It helps promote urban renewal by maximizing the opportunity to provide community and open space facilities and upgrading the obsolete road network in the old urban area.
- (b) Once a site is designated as "CDA" on a statutory town plan, a developer can submit a planning application to the Town Planning Board in the form of a master layout plan. There is, however, no provision under the plan or the Ordinance on when an application should be submitted.

- (c) The Board normally specifies a time limit in granting planning permission including proposals in a "CDA" zone. The planning permission will cease to have effect, unless prior to the specified date either the development permitted has commenced or the planning permission is renewed.

There are 48 "CDA" zones with approved master layout plans. As at the last quarter of 1994, 14 "CDA" schemes were completed and seven were under construction. Works on the remaining 27 "CDA" schemes have not commenced. Some are at various stages of implementation such as negotiation regarding land exchange, land assembly, resumption/clearance and assessment and payment of compensation. The pace of implementation of "CDA" zones is affected by complex factors including ownership patterns, physical site constraints, business decisions by individual developers/land owners, and the general economic climate.

- (d) There is no provision under the Town Planning Ordinance to "punish" developers who are granted planning permission but fail to proceed with the redevelopment projects. The planning permission will expire if a developer does not commence work or have the permission renewed. Upon expiry of a planning permission, a fresh application to the Board is required should the developer wish to undertake the redevelopment project again.
- (e) The "CDA" zoning will continue to be used to promote urban renewal. To facilitate prospective developers' preparation of master layout plans for "CDA" sites, planning briefs are prepared to set out planning and engineering requirements. The Board reviews the implementation progress of the various "CDA" zones every five years once they have been designated on the statutory town plans.

Juvenile Crime

14. MR TIMOTHY HA (in Chinese): *Juvenile crime has been on an upward trend, with recent statistics showing that the rate of crime committed by young people under the age of 21 in the first half of last year was 35%, and that the situation was even more serious in new towns such as Tuen Mun where the rate reached 60%. In view of this, will the Government inform this Council whether:*

- (a) *it has formulated any long-term policy to tackle the worsening problem of juvenile crime, if so, what the details are; if not, why not;*

- (b) *there is any specific plan on the educational front to instil correct values in young people to prevent them from going astray; and*
- (c) *it has formulated any new plans to improve the quality and quantity of youth activities organized by the relevant Government departments and voluntary agencies?*

SECRETARY FOR SECURITY: Mr President, the problem of young offenders remains a matter of concern to the Government. While the proportion of young persons (under 21 years of age) arrested dropped last year, the actual number of such persons arrested has increased.

Specifically, in answer to the Honourable Timothy HA's three questions:

- (a) Our policy on tackling the problem of youth crime is threefold: first, to prevent its occurrence through education, family and social services, and publicity; secondly, to arrest and punish the offenders through law enforcement and the criminal justice system; and thirdly, to rehabilitate the offenders, through family, social and correctional services. Many government departments, including the Police, Correctional Services, Education and Social Welfare, join forces to tackle this problem.

The Fight Crime Committee, which is chaired by the Chief Secretary and advises the Administration on measures to fight crime, gives particular attention to the problem of juvenile crime. Its Standing Committee on Young Offenders has commissioned the University of Hong Kong to conduct a research into the social causes of juvenile crime. The results of this research should help the Administration to understand the problem better so as to formulate appropriate counter-measures.

- (b) The Administration recognizes the importance of cultivating social and moral values in our young people to prevent them from going astray. Since 1981, the Education Department has issued the "General Guidelines on Moral Education in Schools", which recommends a cross-curricular approach to integrate moral education into the formal and informal school curricula, and extra-curricular activities. Schools have responded positively. In addition, the Department also provides training programmes for teachers and produces resource materials to help schools and teachers implement moral education activities.
- (c) The Administration is always keen to improve both the quality and quantity of youth services. The Social Welfare Department is implementing the recommendations of the Working Group on Review of Children and Youth Centre Services, which include:

- (i) offering programmes to young persons which are more "social work" oriented;
- (ii) setting up integrated social work teams to provide comprehensive youth services to meet young people's needs; and
- (iii) providing programmes with intensive social work input to school dropouts, students with low academic achievement, youth with unsteady employment pattern and unemployed youth.

The Social Welfare Department has provided funding support in 1994-95 for two additional outreaching social work teams and 47 additional school social workers to tackle youth problems. Funding has also been ear-marked for another 22 additional school social workers in 1995-96. The Department will also set up a team of specially trained social workers in October 1995 to provide intensive counselling and structured group programmes for young drug abusers. These all aim to provide more and better services to our young people.

Many Government departments and voluntary agencies also organize community activities, involving young people's participation. The Commission on Youth, chaired by the Honourable Eric LI, has carried out a number of relevant studies (for example, on Youth Participation in Community Activities) which should facilitate all concerned to understand the aspirations and needs of young people better, and in turn help to improve the quality of activities organized for them.

Performance of Travel Agents

15. MR FRED LI (in Chinese): *Mr President, at present the Government does not take into account the performance of travel agents, such as whether there have been frequent complaints against them of providing services that do not accord with what is advertised, when considering their applications for licence renewal. In this connection, will the Government inform this Council whether:*

- (a) *the Government will include the standard of their performance as a prerequisite in considering travel agents' applications for licence renewal; if not, what the reasons are; and*
- (b) *the Government will consider setting up a "traveller complaints and information hotline" as well as stepping up its publicity efforts, so that the public can have a better understanding of their rights and*

the channels for lodging complaints, thus providing the consumers with greater safeguard; if not, what the reasons are?

SECRETARY FOR TRADE AND INDUSTRY: Mr President, regarding part (a) of the Honourable Member's question, the Registrar of Travel Agents at present examines the financial position of a licensed travel agent and checks whether the licensee remains a member of the Travel Industry Council (TIC) and has been convicted of any criminal offence in applying the "fit and proper" test, for licence renewal under the Travel Agents Ordinance. In order to further improve the service of licensed travel agents, we are consulting the Advisory Committee on Travel Agents on whether, and if so how, substantiated complaints from the Consumer Council (CC) and TIC about the service provided by licensed travel agents should be taken into account in applying the "fit and proper" test.

As regards part (b), past complaint statistics collated by the CC and TIC indicate that outbound travellers are well aware of their rights and the complaint channels. If they are not satisfied with the quality of their travel agent's service, they may lodge their complaints direct with the agent concerned in the first instance. If they are not content with the agent's explanation and, in some cases, the compensation offered by the travel agent, they may pursue their complaint with the CC, TIC or Small Claims Tribunal, or resort to civil action. There are sufficient channels for travellers to lodge their complaints. To establish another complaint channel will duplicate the existing efforts of the CC and TIC.

In fact, outbound travellers are from time to time reminded by the CC's publicity efforts of their rights and the complaint channels available. To enhance the protection of outbound travellers, we have invited the CC and TIC to step up their publicity efforts in this regard.

Dissuading Young People from Smoking

16. DR HUANG CHEN-YA (in Chinese): *Regarding the issue of dissuading young people from smoking, will the Government inform this Council whether:*

- (a) *it is aware of the number of young smokers and the expenditure incurred by them on smoking in each of the past three years;*
- (b) *it is aware of the number of sports and cultural activities sponsored by the tobacco industry and the total amount of such sponsorship for the past three years; if so, what the respective figures are; and*

- (c) *it will set up a health promotion fund to take the place of the tobacco industry in sponsoring the above activities so as to cultivate a positive influence on young people who may then cut down on smoking?*

SECRETARY FOR HEALTH AND WELFARE: Mr President, since 1982, cigarette smoking pattern surveys have been conducted regularly by the Census and Statistics Department as part of the General Household Survey. This shows that the smoking population in Hong Kong has declined over the years. According to the latest survey which covered the period August-September 1993, about 16 600 people aged 15-19 were daily smokers. This represented 4.2% of the relevant population group. In July 1990, the figures were 20 600 and 4.6% respectively. It should be noted, however, that since smoking is not a socially-accepted behaviour, these statistics may be subject to under-reporting.

The survey did not seek information on individual smoking expenditure. Nevertheless, the total can be estimated from survey data about the average number of cigarettes smoked. In 1993, we estimate that young people spent about \$70 million on cigarettes (at an average price of \$23 per packet), compared with about \$47 million in 1990 (at an average price of \$12.50 per packet).

The major public arts/sports bodies such as the Sports Development Board, the Urban Council, the Hong Kong Arts Development Council and the Hong Kong Academy for Performing Arts do not seek or accept sponsorship of their activities from tobacco companies. The policy of the Regional Council is that "sponsorship may be accepted from companies whose line of business may include tobacco, provided that no tobacco advertising is made in any related publicity".

We do not monitor the sponsorship of non-government arts and sports activities by the tobacco industry and are therefore not in a position to provide figures regarding the total amount of such sponsorship. However, we are aware that the tobacco industry provided sponsorships amounting to some \$28 million for nine major arts/sports events in 1994-95, some \$20 million for nine major arts/sports events in 1993-94 and some \$11.3 million for 10 major arts/sports events in 1992-93.

The Government has put much effort into dissuading young people from smoking. Our overall anti-smoking strategy comprises legislation, public education as well as publicity. This strategy advises young people not to smoke and informs them of the hazards of smoking. At the same time, it aims to minimize the community's exposure to tobacco advertising so that young people will not be encouraged to associate themselves with smoking.

Although tobacco sponsorship cannot be identified as the single cause of smoking among children, overseas and local circumstantial evidence suggests that it plays an important role. Some overseas countries, for example, Australia and New Zealand have banned tobacco sponsorship for sports and cultural events and set up a health promotion fund to provide alternative funding to sustain them. We are studying the experience of overseas countries and the applicability of this concept to Hong Kong.

Deferred Payment of Tuition of Government Funded Tertiary Institutions

17. MR CHEUNG MAN-KWONG (in Chinese): *With regard to the issue concerning students of Government funded tertiary institutions applying to defer payment of their tuition, will the Government inform this Council:*

- (a) *of the number of students who have applied to defer payment of their tuition, as well as the proportion of such students to the total number of students, in each of the past three years;*
- (b) *whether the deadline for payment of tuition was set at a date before the completion of the vetting of the students' applications for grants and loans, resulting in some students having to apply to the institutions for deferment of payment of their tuition, particularly those relying on the grants and loans to pay their tuition; and*
- (c) *if the answer to (b) is in the affirmative, whether the Government regards the situation of students applying for deferment of payment of their tuition as an indicator reflecting their affordability to pay the tuition; if so, whether it will review the rate of increase of tertiary tuition; if not, whether it can provide any explanation in regard to the problem of students applying for deferment of their tuition mentioned above?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President,

- (a) Tuition fees are paid direct to the institutions and the institutions themselves have the authority to grant approval for applications to defer payment. Information on the situation for the three previous years supplied by the institutions is as follows:

	(a) <i>Student Population</i>	(b) <i>No. of Applications for Deferment</i>	(c) <i>Application Rate for Deferment (b)/(a)</i>
1992-93	42 562	890	2.1%
1993-94	46 613	1 390	3.0%
1994-95	55 020	2 838	5.2%

- (b) The deadlines set by the institutions covered by the Local Student Finance Scheme (LSFS) for the 1994-95 academic year were:

<i>Name of the Institution</i>	<i>Deadline for the First Semester</i>	<i>Deadline for the Second Semester</i>
City University of HK	31 Aug 94	25 Mar 95
HK Baptist University	24 Aug 94	7 Jan 95
Lingnan College	10 Sept 94	28 Jan 95
The Chinese University of HK	11 Nov 94	21 Feb 95
The HK Polytechnic University	10 Sept 94	27 Jan 95
The HK University of Science and Technology	17 Aug 94	20 Jan 95
The University of HK	31 Aug 94	4 Jan 95
HK Technical College (Chai Wan)	25 Aug 94	22 Feb 95
HK Technical College (Tsing Yi)	25 Aug 94	22 Feb 95

Applications for grants and loans under the LSFS are submitted by students through their respective institutions to the SFAA. The application period commences in May and closes at the end of October each year. Under the SFAA's current performance pledge, the normal processing time for an application supported by complete information is three months from the date of receipt. It can be seen that there is no strict correlation between the deadline dates set by the individual institutions for payment of fees and the

date of completing the processing of an application for financial assistance. The latter depends more on the date of submission of the application by an applicant.

For students who experience or anticipate difficulties in paying their tuition fees on the deadlines, there are standing arrangements advising them to seek the approval of their respective institutions for a deferral of payment in advance. Such requests are invariably granted on proven financial difficulties. These students can also approach the SFAA for immediate processing of their applications. Such requests will be considered sympathetically if supported by grounds of genuine financial hardship.

- (c) In view of the fact that deferral statistics are influenced by the application dates set for both grants and loans and deferral, the Government does not regard the statistics as a useful indicator reflecting the students' ability to pay the tuition fees.

First-time Driving Licence Holders

18. MR JAMES TO (in Chinese): *Regarding the involvement in traffic accidents of drivers who have obtained their full driving licences for less than one year, will the Government inform this Council:*

- (a) *of the number of traffic accidents involving such drivers in each of the past three years;*
- (b) *whether, given that such drivers are prone to traffic accidents, the Government will consider adopting the practice of other countries such as Australia, and making it a statutory requirement for first-time driving licence holders to display "New Driving Licence" signs prominently in the front and the rear of their vehicles within one year after the issue of their licences, so as to warn other drivers; and*
- (c) *whether the Government will consider introducing legislation requiring such drivers to drive at lower speed on highways, in order to reduce the chances of traffic accidents?*

SECRETARY FOR TRANSPORT: Mr President, the traffic accident statistics for the last three years, in respect of drivers who have held a full licence for less than a year, are as follows:

<i>Private car</i>			<i>Motor Cycle</i>		
<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>
744	745	710	588	511	567

Available statistics suggest that newly qualified drivers are more prone to traffic accidents. For example, in 1994 private car drivers with less than one year's experience had an accident rate of 10.5 per 1 000 drivers, compared with 7.5 per 1 000 drivers for those with more than one year's experience.

In answering a question in the Legislative Council on 11 January this year, I said that it would be appropriate to review the situation and to consider whether any special arrangements needed to be introduced in respect of young or inexperienced drivers. I also said that we would be seeking information on practices in other countries, and whether these had been successful in reducing the incidence of accidents involving newly qualified drivers. We are now in the process of gathering such information.

Speeding is not the only cause of traffic accidents. Other factors include the sudden changing of lanes without due care, and driving too close to the vehicle in front. Different speed limits for different categories of qualified drivers may well create more problems than they solve. For example, if newly qualified drivers were required to drive at slower speeds this could hold up the traffic and cause frustration amongst other motorists, perhaps resulting in accidents. Nevertheless, this suggestion will be considered further.

Jordan Valley Flatted Factory

19. MRS ELSIE TU: *Will the Government inform this Council whether it will reveal its plans for the demolition or redevelopment of the old dilapidated resettlement factory buildings which pose an eyesore to the residents of Jordan Valley in Ngau Tau Kok, near Chun Wah Road?*

SECRETARY FOR HOUSING: Mr President, the Jordan Valley Flatted Factory occupies a small site of 0.31 hectare and contains 188 units which are fully occupied. There is no plan at present to demolish or redevelop the resettlement factory building.

BILL

First Reading of Bill

APPROPRIATION BILL 1995

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 1995

THE FINANCIAL SECRETARY moved the Second Reading of: "A Bill to apply a sum not exceeding \$160,221,951,000 to the service of the financial year ending on 31 March 1996."

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He said: Mr President,

INTRODUCTION

I move that the Appropriation Bill 1995 be read a Second time.

2. This is the fourth Budget I have presented to Honourable Members, and it will be my last. At the end of August, my term as Financial Secretary will come to an end. I shall leave this vital job in the excellent hands of a close colleague and good friend. His appointment will be announced quite soon.

3. This is not the occasion for a farewell speech. Members will be spared a nostalgic tour of my memories of almost 30 years in public service. But I hope you will allow me to reflect a little on what have been the common themes of all four of my Budgets and, indeed, to a large extent the common themes of the Hong Kong Government's economic and fiscal management for the last forty years. If I were pressed to attempt the impossible, and to sum up the secret of Hong Kong's remarkable success over this period, I would ascribe it to our commitment to what might be called consensus capitalism, a consensus about the need to encourage free enterprise and competition, while promoting equity and assistance for those who need it:

- enterprise, because that is what gives dynamism to our economy;
- equity, because the community rightly expects a fair deal for everyone, and in particular that raw competition be tempered by help for those less able to compete.

4. This consensus capitalism, this search for a balance between the market economy and an adequate welfare safety net, has been at the heart of my approach to the preparation of the 1995 Budget, as it has been in preparing the previous three. An essential ingredient has been my consultation with Members. It is not mere politeness that makes me pick out as probably the key change which I introduced into the Budget process, the systematic prior consultation of Members on both revenue and expenditure. This consultation has been a crucial factor in helping us to determine the priorities for both the Governor's annual policy address and the Budget. And recognition of that fact has also of course helped me to get Members' support in approving the expenditure Estimates and revenue proposals — with the occasional exception, I will admit. I would thank Members for the cooperative and constructive spirit in which this exercise has been carried out, and ask for your support for a Budget which I believe reflects many — but inevitably not all — of your priorities.

5. In preparing my Budget,

- I have held fast to the living-within-our-means rule of public expenditure. This most vital of all our principles ensures that over time government spending grows no faster than the economy as a

whole. It is a delightfully simple concept which has proved to be remarkably effective in avoiding a bloated bureaucracy.

- I have planned for the long term whilst dealing prudently and realistically with the actual circumstances that face us.
- I have kept in mind the simple principle that, to quote last year's Budget speech, the Government should leave money where it can do most good, in the pockets of the taxpayers.
- I have held firm to my belief in private enterprise and small government. Because, again to quote myself, only in this way can we ensure that business will have the freedom and the opportunity to generate the wealth Hong Kong needs.
- But I also accept that we cannot leave everything to the private sector. The Government has a plain duty to provide the social, physical and regulatory infrastructure which supports the private sector.
- I share the community's belief that the Government has special social responsibilities, in particular towards the disadvantaged, the disabled and the vulnerable. This priority is demonstrated by the fact that no less than 45% of our recurrent expenditure is devoted to health, social welfare and education. And this is in addition to our massive housing programme.
- I also believe that fair and orderly markets are essential to our economic success. And, of course, the linked exchange rate is a vital ingredient in ensuring the stability which investors need.

Above all, I believe that the key to our continuing success is that in Hong Kong, there is no serious ideological dispute over these fundamentals of our economic policy. This is why I have labelled the Hong Kong approach consensus capitalism.

6. There is one further point I wish to make by way of introduction. It is inevitable that in a period of transition, uncertainties will exist. It is particularly difficult at present to forecast China's economic future, with all the implications that future has for us. So more than ever we need strong reserves and continued control of expenditure; but at the same time we must not let the current state of the stock and property markets, and the more cautious market sentiment towards China, make us overlook the undoubted strength of our own position. As I shall explain, our economic fundamentals are strong; and the latest forecast of the size of our future reserves will I believe provide a welcome reassurance.

7. These then are the foundations on which all my Budgets have been built. They are entirely consistent with the principles which have guided Hong Kong's economic success for almost half a century — and, reassuringly, they are entirely consistent with the principles set out in the Basic Law. This means that not only are they the economic compass which has steered Hong Kong safely through times of turbulence as well as its boom years, but there is also every reason to be confident that they will continue to do so.

THE ECONOMY

1994 Performance

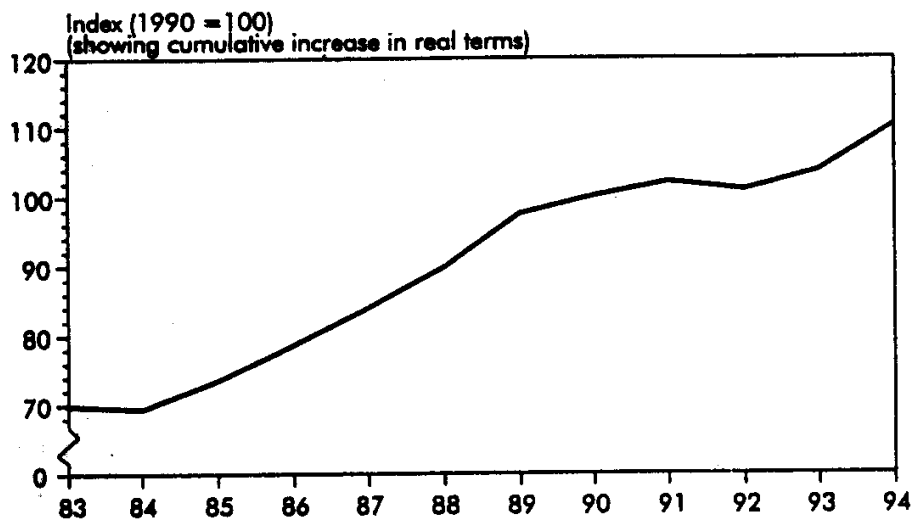
8. Economic expansion is a Hong Kong tradition, an annual phenomenon almost taken for granted. Last year was no exception. The facts of our economic success in 1994 speak for themselves. In real terms,

- GDP grew by 5.5%, marginally lower than our most recent forecast of 5.7% but still a considerable achievement.
- Encouragingly, investment spending grew by 13%, almost double the average annual rate over the past decade.
- Total exports grew by 10% and re-exports by 14%. We are the world's eighth largest trading community, and likely soon to move even further up that particular league table.
- Exports of services grew by 7.5%. We are probably the world's eleventh largest exporter of services.
- Reflecting the expansion of our financial services, the value of Hong Kong dollar private sector debt issues more than tripled, to \$60 billion.

9. These are the facts and figures of prosperity, the statistics of success. And this success has benefited the whole community. Above all, our workforce continues to enjoy virtually full employment, higher real incomes and a rising standard of living.

- Unemployment averaged around 2.1% in 1994, while underemployment was only 1.4%.
- GDP per head was US\$21,800, the 15th highest in the world. In terms of spending power, we ranked sixth highest in the world.
- Median household income rose by 4% in real terms.

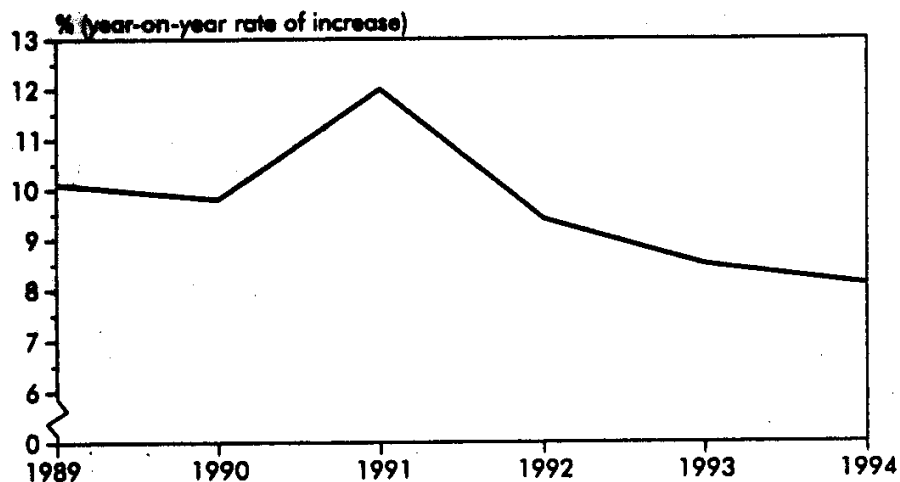
Median Household Income



Median household income has risen by 58% in the past 10 years in real terms.

10. Nevertheless, rising prices remained a cause for concern during 1994. In last year's Budget, I forecast that inflation would be 8.5% for the year. We did rather better than expected, with an inflation rate of 8.1%. But the pressure on prices remains too high for us to be complacent.

Consumer Price Index (A)



Despite the downward trend, inflation remains too high.

1995 Prospects

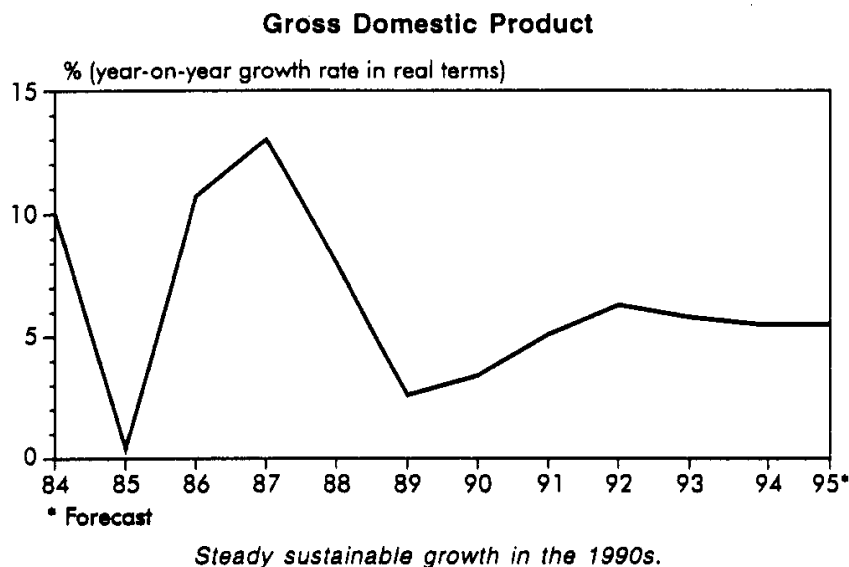
11. So what are the prospects for 1995? Let me start with what is usually called sentiment in those least sentimental markets of all, the stock and property markets. This year began on a more pessimistic note. There have been uncertainties about the vital China market, and even deeper concerns about commercial disputes between Hong Kong's two most important trading partners, China and the United States. There have been worries about the direction of local share and property prices, about interest rates and currency speculation.

12. These worries about the challenges which lie ahead are a valuable reminder that Hong Kong cannot afford to be complacent. The fact that we have not missed a year of GDP growth in the last quarter century does not mean that we can take our prosperity for granted. We have to earn our profits and our incomes the hard way, by trading successfully year in and year out. But at the same time, we must keep things in perspective. And in relation to China in particular, so important to our own economy, we must avoid being sucked into the lemming rush from overdone euphoria to undue pessimism. The truth, as always, lies somewhere between these extremes. Our policies must be based on the underlying, long term realities, not the short term vagaries of the market. Thus, we must keep firmly in mind the fact that our economic fundamentals are sound, and that we have good reason to expect that we will be able to overcome any difficulties which 1995 and beyond may bring.

13. I believe that, overall, the economy will continue to perform well this year. For 1995, I am forecasting the following real increases.

- GDP will rise by 5.5%.
- GDP per head will rise to over US\$24,000.
- Total exports will rise by 13%. (Domestic exports will increase by 2% and re-exports by 16%.)
- Exports of services will grow by 9%.
- In addition, our trade in goods and services will continue to show a positive balance.

14. We appear to have established a pattern for the 1990s of steady, sustainable growth, one which is high by the standards of other advanced economies. Although overall growth in 1995 looks like being similar to that in 1994, it is of course true that, as always, we must be prepared to respond at short notice to sudden shocks and reverses in world trading conditions.



The China Economy

15. Our economic links with China remain the single most important factor in our economic prospects. And these links are still expanding into new areas of China, and into different sectors of China's economy.

- Last year, our trade with China grew by 15% to total \$885 billion. We now trade with virtually every province in China. For many of them, Hong Kong is their largest trading partner.
- We remain the largest external investor in China, with a cumulative realized investment of around US\$60 billion. These projects now cover sectors such as transport, telecommunications, power supply, retailing and finance, as well as manufacturing and tourism.
- China is probably the largest external investor in Hong Kong.
- The positive impact of China's economic growth on Hong Kong has been particularly important for our service sector. It is a remarkable fact that in Hong Kong the contribution made by the service sector to GDP is probably the highest in the world. This proportion is sometimes taken as a measure of how developed an economy has become. For Hong Kong, the proportion is a remarkable 77%. The fastest growth has been in the import/export trade, external transport, finance, insurance and business services.

16. influence on the Hong Kong economy. Recent statistics show some moderation in GDP growth, down from 13.4% in 1993 to 11.8% in 1994. And the Chinese Government has forecast further progress in taking some of the heat out of the economy in 1995.

- The official prediction is that GDP growth will be 9%, a little lower than the 11.8% recorded in 1994.
- The official estimate is that inflation will be 15%, significantly below the 21.7% recorded in 1994.

17. In summary, the Chinese economy has been set the goal for 1995 of high but sustainable growth, with moderating inflation. Whilst clearly nobody underestimates the scale of this task, it is very much in Hong Kong's interests that these objectives be achieved, because China's booming markets remain the main engine of our own economic success.

18. Indeed, China's economic success is important for the whole world. It is therefore disappointing that the negotiations for China to become a founding member of the World Trade Organization have not yet been successful. How can there be a meaningful World Trade Organization without China? We must hope that the remaining difficulties can be overcome quickly, and the necessary reforms which must accompany accession be agreed, so that China can take its full and rightful place in the international trading community, and so that China's trading partners can in turn benefit from improved market access and greater transparency and certainty in trading rules and procedures.

19. It is disturbing that China and the United States find it so difficult to resolve their trade disputes through negotiation. Certainly there are important principles at stake; we all have a real interest, for example, in the protection of intellectual property rights. But hopefully the chances of resolving trade disputes through negotiation would be considerably increased by the inclusion of China in the World Trade Organization.

The World Economy

20. Looking now at wider horizons, we have recently had another unpleasant and unexpected reminder of how interdependent the world economy has become. Events in Mexico had an adverse impact on world financial markets, and even caused some ripples for our own currency. Thanks to a prompt and skilful response from the Hong Kong Monetary Authority, we saw off the speculators. And there was also a very welcome consensus among this region's central bankers on the need for co-operation and co-ordination to roll back speculation against Asian currencies. Can there be anyone left who seriously questions the importance to Hong Kong's stability and prosperity of the linked exchange rate, firmly supported by our substantial reserves? Just in case there are any surviving sceptics, let me save them further losses from future fruitless speculation. The linked exchange rate is here to stay. And it is here to stay at the level it is today. Please do not read any subtlety, any inwardness, any nuances into this statement. It means exactly what it says.

21. Although, as I have said, the year did not start on a very optimistic note, we are in fact unusually fortunate that the prospects for the world economy are better than they have been for many years. OECD forecasts, for example, are the most encouraging for some years.

- Total world trade is expected to grow by about 8%.
- GDP growth is expected to be fastest among our Asian neighbours, at over 7%.
- The economies of both the United States and the European Union are expected to grow by 3%.

22. So far as world trade is concerned, one of the most promising omens for this year is that 1995 marks the beginning of a new era in international trade, with the establishment of the World Trade Organization.

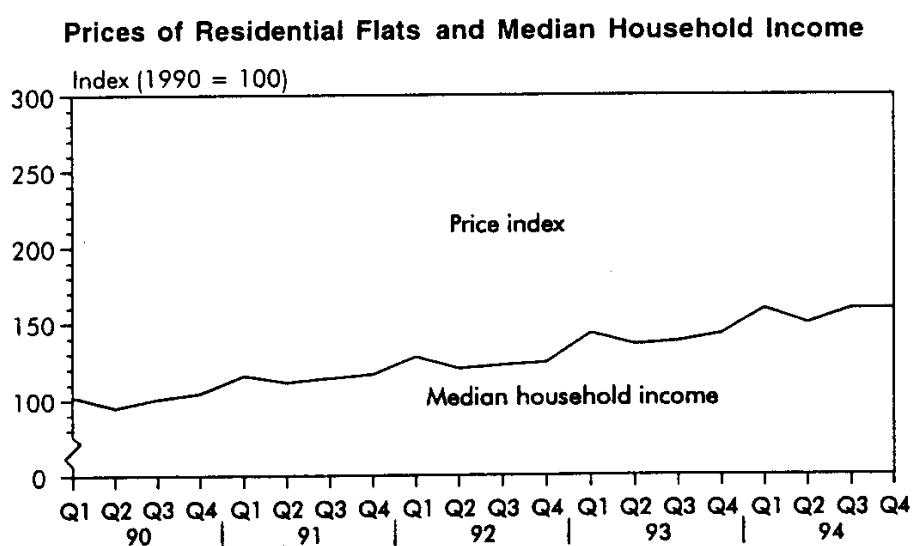
23. True, there are some significant loose ends which need to be sorted out. More work needs to be done on financial services, telecommunications and maritime transport. It will also take time to phase out some of the restrictive arrangements of the past, most notably the Multi-Fibre Arrangement. But the long-term benefits to Hong Kong are clear. We can look forward to significant reductions in both tariff and non-tariff barriers to trade. As a major international business centre, we will also gain because key areas, such as services and trade-related intellectual property rights and investment measures, will become subject to a multilateral framework of rules and discipline. Improvements to dispute settlement procedures are particularly important to Hong Kong and other small economies which often lack the muscle to resolve differences with larger trading partners on a bilateral basis.

24. The same forward-looking spirit underlies the commitment made by APEC members in the Bogor Declaration to work towards free trade in the Asia Pacific region by 2020. This will not be an easy task, and the commitment is all the more remarkable when viewed against the historical attachment of many members to protectionist policies. But in the case of APEC, I am an optimist. I believe APEC members have the capacity to set a good example to other trade groupings around the world. Trade with APEC members accounts for almost 80% of our total trade and has been growing at an average annual rate of 19% over the last decade. Thus, APEC is a vital part of our economic future. Hong Kong will offer vigorous and enthusiastic support to the process of developing a blueprint to implement the vision set out in the Bogor Declaration. We have to do all we can to make this particular vision become reality.

Inflation

25. Looking now at more domestic issues, the least encouraging forecast for 1995 is that inflation will remain relatively high at 8.5%. Although we have had considerable success in reducing inflation, this is still an uncomfortably high rate. A new trend we must reckon with is the impact of the rising cost of imports, which reflects, in particular, higher commodity prices world-wide and a weaker United States dollar. Whereas in 1993, prices of retained imports remained virtually unchanged, they rose by about 5% in 1994. Nevertheless, we can identify three factors which should help us in future in the battle against inflation.

26. I start with the property market. By the middle of January this year, the prices of existing residential properties had fallen by an average of 14% from their peak in April 1994. This easing of residential prices has gone some way to meeting the concerns of this Council and the community at large that the soaring property market of 1994 was driving prices beyond the reach of the average family. Nonetheless, this fall in prices should be kept in perspective. Whilst prices have moderated, they remain at levels which are historically high. Prices in January this year were still some 37% higher than they were in January 1993. They are also clearly less affordable, in relation to median household incomes, than in earlier years.



Flats are still clearly less affordable than in earlier years.

27. The package of measures introduced by the Government in June last year helped to halt the rapid rise in residential prices. As we made clear at the time, we adopted a cautious and incremental approach. Our stated aim was to limit our intervention in the market to the minimum necessary to remove distortions,

to ensure fair competition and to protect the interests of genuine home buyers. In short, to make the market work more fairly and efficiently. The package dealt with both the short and the long term. In the short term, the intention was to squeeze out the speculator, and in this we have largely succeeded. In the long term, we will tackle the problem at its root by increasing the supply of flats. Beyond this, however, we must leave the housing market to find its own equilibrium. Let me put that point even more clearly. When we introduced our package of measures, we also identified some further steps which could be taken if the package did not succeed. Those additional measures are clearly now not needed, and no further intervention is planned. Having successfully combated the speculator, we must let market forces play their part. In addition, of course, the Government recognizes its social responsibilities, which is why we provide heavily subsidized accommodation in the public sector for over half of the population.

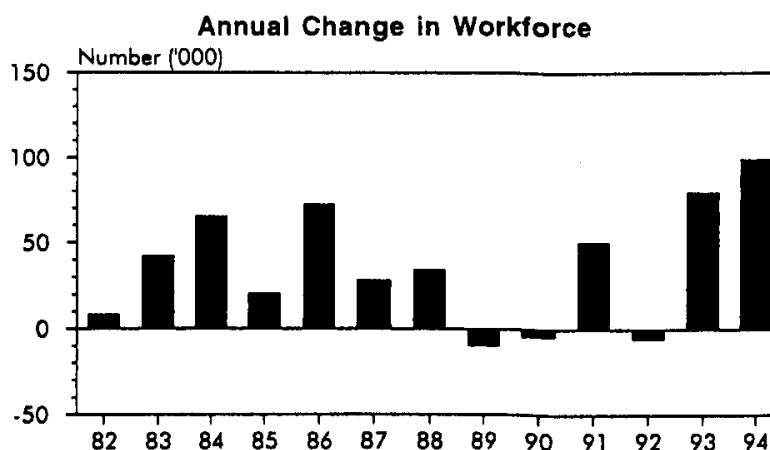
28. In terms of office accommodation, Hong Kong earned the dubious distinction last year of being labelled the most expensive business location in the world. The office market remains tight in prime locations, although average rentals may have peaked. The prospects for the medium term are that a new equilibrium will emerge as additional supply becomes available from the redevelopment of existing sites in Central, from developments on the Central and Wan Chai Reclamation and from sites along the Airport Railway.

29. I have noted some recent suggestions that we should slow down or reduce planned reclamation around the harbour and elsewhere. How short memories are! Only last year the whole community was rightly bewailing the high price of property, both residential and commercial. We were urged to act quickly to make flat prices more affordable and to ensure that Hong Kong remained competitive as an international commercial centre. We were urged to abandon an alleged high land price policy, to increase the supply of land, and indeed to create a land bank so that we could respond more quickly to imbalances in supply and demand. This is precisely what these reclamations are intended to achieve.

30. But let me assure Members that the wilder criticisms we hear are very wide of the mark. We have no intention whatsoever of reducing our magnificent harbour to a mere trickle, as some of the more imaginative articles in our newspapers have suggested. Besides, these criticisms seem to ignore the fact that the main working harbour has already moved west. Nor do we have any intention of flooding the market with huge amounts of new land. As always, the timing of actual land sales will depend on market conditions. But we must put ourselves in a position where we can meet future demand. This is what the various reclamations will enable us to do. Not to do so would be short-sighted folly.

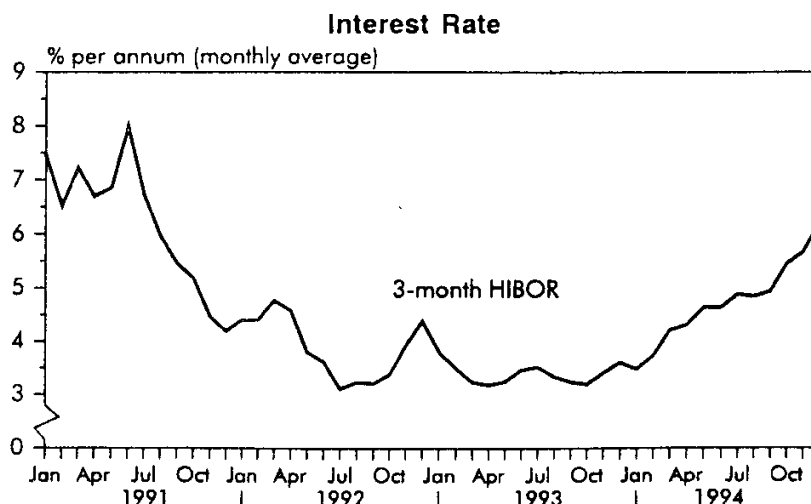
31. Let me also remind the sceptics that the additional land has other vital purposes. Members have never been slow to point out that some parts of the urban area remain far too overcrowded and congested. Such conditions are not acceptable in an affluent community like ours. The additional land now being reclaimed from the harbour will enable people living in congested areas to enjoy a better quality of life without having to uproot themselves from the urban area. Of the 1 109 hectares which we plan to reclaim, some 793 hectares, or 72% of the total, will be used for open space, new roads and other community purposes. Only 27% will be used for commercial or residential development. In conjunction with the cleaning up of our harbour waters resulting from the high priority sewage programme, these plans will produce a far more healthy and attractive environment in and around the harbour.

32. The second factor which should help in the battle against inflation is a modest but very welcome expansion of the workforce. The workforce increased by 2.9% in 1993 and by 3.5% in 1994. This is a helpful change compared with the marginal decline in 1992. Last year's increase of about 100 000 included a number of returning immigrants. Without these increases in the size of the workforce over the last two years, inflationary pressures would have been even more intense as the economy continued to expand. The larger workforce should stand us in good stead in our efforts to contain inflation as the economy looks forward to another year of significant growth in 1995.



Recently, a modest but welcome increase in the workforce.

33. The third factor which will help to dampen inflation is the significant rise in interest rates. Currently, the best lending rate is slightly higher than inflation, and the gap between the interest paid on deposits and the rate of inflation has narrowed. As a result, the cost of borrowing has gone up, whilst savings have become more attractive. Both trends should help to contain inflation by reducing demand. Nonetheless, we must also recognize that any reduction in inflation brought about by lower demand, whether it is due to higher interest rates or to an economic slow-down in China, will tend to result in lower economic growth. There is a price to pay for lower inflation, as I have pointed out many times in the past.



Rising interest rates will help to contain inflation.

34. Despite the welcome contributions from easier conditions in the property market and from higher interest rates, these will take time to have effect, and relatively high inflation will persist through 1995. Let me assure Members that we, for our part, will continue to counter inflation as vigorously as is possible and sensible in an open economy like ours. But further expansion of the economy does inevitably mean that the demand for land and labour will remain high in 1995. We cannot escape the unfortunate fact that, under Hong Kong's circumstances, pressure on prices is one of the less acceptable but continuing costs of our commitment to sustained growth.

Prospects in Perspective

35. Taken overall, our business opportunities for 1995 appear to be promising. Most of Hong Kong's major trading partners are expecting faster rates of growth than for some time. And although China is forecasting lower growth than in the past, it is still high positive growth by world standards. And all this against a background of increasing support for the removal of barriers to world trade.

36. So, apart from inflation — and even that has declined significantly — the fundamentals are sound. Why then, you might ask, is investor sentiment less bullish about Hong Kong and the Asian region generally? It is not the job of Hong Kong's Financial Secretary to second-guess the markets. But it is my job to make sure that the economic fundamentals are secure. If I were to offer any advice at all to investors, it would be to remind them of Hong Kong's continuous economic expansion since 1961 and of its resilience during times of political and economic turbulence. Perhaps Hong Kong's greatest strength is the ability to deal with, and even to profit from, uncertainty. The obvious point to make is that it is long-term fundamentals, not short-term mood swings, which should guide investment decisions.

KEEPING HONG KONG COMPETITIVE

37. How then can we ensure that our economic fundamentals continue to be good? By keeping Hong Kong competitive, and by relying on our traditional strengths and intervening only when necessary. Members of this Council have heard me say many times that we in the Hong Kong Government put our faith in markets, that we believe in small government, and that it is the private sector which generates our wealth.

38. Nevertheless, small government does not mean no government. A free market economy does not mean an economy completely free from regulation. It means an economy in which the Government knows its place. Small government should not be made an excuse for passive government. There are tasks and responsibilities which only a government can perform. In so doing, the Government makes a direct contribution to Hong Kong's economic progress, as well as to the well-being of its people. It is the Government which must provide the bulk of our social and economic infrastructure, the essential framework within which the private sector can work its wealth-creating magic. The Government must provide the leadership necessary to create this framework, and we have an obligation to do so as efficiently as possible, but in partnership with the private sector where that makes sense.

Social Investment

39. Our people are Hong Kong's greatest resource. So, I will start with the social infrastructure. Let me quote some examples of the Government's investments in this area which will contribute greatly to our future prosperity.

40. A high-quality, well-paid workforce starts in the classroom, and so education remains the largest single component of our recurrent Budget. We are reducing class sizes, improving student/teacher ratios and upgrading the training and qualifications of teachers. Institutions funded by the University Grants Committee now offer 57 000 degree places and over 16 000 sub-degree places.

- But the economy needs practical as well as academic skills. Next year, the Vocational Training Council will spend \$1.4 billion on training over 43 000 full-time and over 66 000 part-time students. The Employee Retraining Board will have provided retraining for over 50 000 by the end of 1995-96.
- Wealth is created best in a safe city with social stability. This requires effective law enforcement and an efficient legal system. Last year, violent crime fell for the fourth year in succession. We are investing heavily in improving access to the courts and speeding up legal proceedings.

The Physical Infrastructure

40. Investment in our physical infrastructure is also vital. Let me give you a few examples of how we are discharging our responsibility to create the modern facilities which Hong Kong needs, wherever possible in close collaboration with the private sector.

- The new airport at Chek Lap Kok is a massive investment in Hong Kong's prosperity. By now, formation of the airport island is close to completion, and work has started on the construction of the passenger terminal. I urge everyone to go and actually look at the airport island, and the two new bridges. They are uplifting evidence of Hong Kong's determination to remain at the forefront of the world trading community.
- As the new airport — and the booming cross-border trade — transform our economic geography, so we need a new transport network. The MTRC has awarded most of the key contracts for the airport railway, and the new western transport corridor is on schedule. This corridor will link Hong Kong Island to the new airport through the Western Harbour Crossing, the West Kowloon Expressway, Route Three, the Lantau Fixed Crossing and the North Lantau Expressway.
- On top of the \$14 billion which the private sector will be investing in the Western Harbour Crossing and the Country Park Section of Route Three, the Government will be spending \$30 billion on new roads over the next five years.
- These new transport links will bring direct relief to the travelling public. For example, the airport railway will cut journey times between Lai King and Central by 65%, from 23 minutes to only eight minutes. Peak hour traffic on the existing West Kowloon Corridor will drop by a dramatic — and much needed — 40% when the West Kowloon Expressway opens in 1997.
- Hong Kong has the busiest container port in the world, and cargo throughput for the port as a whole increased by 18% in 1994. To meet the forecast growth in traffic of 150% up to the year 2011, we will be investing about \$7 billion to provide backup services for new port facilities. We need to get on with Container Terminals 10 and 11 on Lantau and to this end we expect to finish design work by the end of the year.

- Our plans to develop the railway system are no less ambitious. Our Railway Development Strategy identifies a need to build three new rail links by 2001. The Chinese Government will be fully consulted on these major projects.

Manufacturing Technology

41. The Government also has a role to play in supporting technological development.
- We have established a new Hong Kong Industrial Technology Centre. Even before its official opening later this month, 70% of its space has been let already to technology-based businesses.
 - Funds for technology development will be increased to \$210 million. In addition, later this year, the Applied Research Council will be set up with the important task of enhancing links with China's research institutes.

A Modern Financial Centre

42. We have a special obligation to provide a modern infrastructure to support our burgeoning financial services sector. Hong Kong is probably unique in having its role as an international financial centre enshrined in its constitutional document. Article 109 of the Basic Law requires the future Special Administrative Region (SAR) Government to maintain Hong Kong's status as an international financial centre by providing an appropriate economic and legal environment. Let me give some examples of how we are already at work to maintain and improve that environment.

- We are co-operating closely with the banking community to develop by 1996 one of the most modern real-time gross settlement systems in the world. We hope to have this linked up with similar systems in other major financial centres, as well as to the Chinese National Automated Payment System to allow payments arising from cross-border activities to be effected safely.
- We are upgrading our debt market clearing and settlement systems. The Central Moneymarkets Unit of the Hong Kong Monetary Authority now handles over 150 issues with an outstanding value of \$90 billion. The Unit has established links with major international clearing systems to provide overseas investors with easy access to the Hong Kong debt market.

- We have strengthened bank supervision by introducing a new loan classification system and a more comprehensive regime for regulating liquidity. A major priority for the year ahead will be to draw up further guidelines for financial derivatives to ensure better management of the risks associated with these products. We will also amend the Banking Ordinance to improve further the legal framework for banking supervision.
- We have already brought the banking sector into closer line with international practice by requiring the disclosure of more information. We have also increased the disclosure required from listed companies. Disclosure requirements will be further increased for the 1995 accounts. We will also review the question of balance-sheet inner reserves. These higher standards will not only boost investor confidence; they will also make it easier for banks to tap international financial markets.
- We will shortly be consulting relevant bodies on detailed legislative proposals to streamline and rationalize the fragmented legal framework for the securities and futures markets.
- We will improve the protection of insurance policy holders by requiring general business insurers to maintain assets in Hong Kong sufficient to match their liabilities. We shall specify minimum requirements for insurance agents and brokers and prescribe higher solvency margins for life insurers.
- We are also undertaking a comprehensive review of our insolvency legislation. This is an area which is critical to an orderly, stable and modern business environment.
- Over the next two years, we shall continue our comprehensive reforms of the legal and administrative systems to protect intellectual property. These will include better protection for patents, trade marks, copyright and industrial designs, as well as the localization of United Kingdom-based legislation. We will allocate more resources to enforcement, and we will step up liaison with the business sector and our counterparts abroad.

43. I have set out these examples at some length because they illustrate a very important point about the role of the Government. It does not generate the community's wealth, but it does a great deal to ensure that we maintain an environment in which prosperity can be created and competition can flourish. Having provided the framework, it is then the Government's duty to leave entrepreneurs and investors free to get on with the business of generating wealth. That this approach works is evident from our record of economic growth and from the praise which we have received from foreign observers. Members are already aware that the World Competitiveness Report has ranked

Hong Kong as the fourth most competitive place in the world and that Fortune Magazine has voted Hong Kong the best place in the world to do business. But we have recently earned two further accolades. The United States Heritage Foundation ranks Hong Kong as the freest economy in the world, and the United States Government's 1994 National Treatment Study rates Hong Kong as one of the most open, transparent and fair markets in which to conduct banking. We appreciate these votes of confidence in Hong Kong, and will continue to do all we can to earn them.

PROMOTION OF SERVICES

44. I referred earlier to the record contribution made by the service sector to the economy. Whilst the Government has provided a framework to encourage the development of the service sector, its role in promoting trade in services has been relatively modest. This is hardly surprising. When the Trade Development Council was established, our exports were dominated by trade in goods. However, given the growing potential for trade in services, I believe that there is now a case for a more balanced approach to overseas promotion. The preliminary results of a consultancy study suggest there are several areas where carefully targeted promotion could help to reinforce Hong Kong's position as a world class service centre for the Asia Pacific region. Over the next few months, we shall be working with bodies such as the Coalition of Service Industries and the Trade Development Council to determine how best this should be done. I believe a new initiative in this area would be very worthwhile. We have very considerable expertise to sell.

45. Government has long been involved in the promotion of tourism — one of our most important service industries — through its financial support for the Hong Kong Tourist Association. I am aware of concern that the future growth of this industry could be hampered by a shortage of hotel rooms. We are now considering a number of measures recommended by consultants to ensure that Hong Kong will have enough hotel rooms to accommodate the rising number of tourists and business travellers. These recommendations include the relaxation of plot ratios and the release of new sites. We shall be consulting closely with all those concerned before deciding on the way forward, but our aim will be the positive one of ensuring that this industry can go on growing without any unnecessary constraints or handicaps.

BUDGET STRATEGY

46. I come now to my Budget strategy. In keeping with what I have said so far, my strategy for this year's Budget is clear and consistent. There are four principal components to the strategy I have adopted.

- **First**, inevitably, is the need to control government expenditure so that, over time, it grows no faster than the economy as a whole.

This means in practice that we cannot do everything we would like to do immediately. We have to set priorities annually, in an orderly and well thought through process. Even in Hong Kong, a quick fix will not always be possible; but that said, I think it fair to say that in Hong Kong solutions are forthcoming quicker than almost anywhere else.

- **Secondly**, to provide the funds for the programmes announced in the Governor's annual policy address and in the Policy Commitments. This means living up to past promises and refusing to undertake new commitments where these would be beyond our means.
- **Thirdly**, to maintain reserves adequate to provide a cushion against future contingencies. Especially during this transitional period, this means taking a highly prudent view of the volatility to which an economy as open as ours may be subject. As I will explain later, we shall be adding significantly to our reserves.
- **Fourthly**, to decide whether it is possible to reduce the burden on the taxpayer in the light of our overall economic and financial position. As Members will hear later, our financial strength will permit me to do this once again this year, on a modest but useful scale.

47. A philosophy based on such an approach to the management of our public finances commands wide support in the community. Such principles feature prominently, in one form or another, in the advice which Honourable Members have offered to me, both in the annual Budget debates and in personal consultations. Of course, it is true that striking the right balance between the individual elements of this strategy is not easy — this is not a mechanical process. Inevitably, then, there may be differences of opinion over how cautious a view we should take of our growth prospects and of future contingencies. There are equally likely to be differences over how far and how fast we can afford to respond to the community's demands for improved services and for investments in the infrastructure. Although the Government's overall Budget strategy has been remarkably consistent over the years, the balance to be struck between its various elements inevitably alters from one year to the next, as our circumstances change.

The Elderly

48. Before I turn to the details of our expenditure and revenue, I should like to say a few words about an issue which has been the subject of intense public debate over the last 12 months and which, sadly, we have not yet managed to resolve. I have been made very aware by Members of this Council that the care and support of the elderly are very high priorities for our community. We are

now considering the way ahead on retirement protection following the failure of the Old-Age Pension Scheme proposal (OPS) to win majority support. Whatever option is selected will need to enjoy a wide degree of community acceptance, and the clear and unambiguous support of this Council. I very much hope that the debate next week will provide us with the clear signal that we need if we are to proceed further.

49. In a separate exercise, we are undertaking a detailed examination of our Comprehensive Social Security Assistance (CSSA) scheme. I am well aware of the view that we should, as soon as possible, make very significant increases in CSSA payments for the elderly. Figures like \$2,300 or \$2,500 have been mentioned. I would urge that we do not rush headlong into such a major decision. It is not just that it would involve a large and continuing recurrent expenditure commitment, though clearly that weighs on my mind too. The fact is that this Budget is not the place to deal with what is a large and complex issue. Let me explain further.

- *First*, we do need to know where we are headed on the question of retirement schemes. Clearly, the implications of introducing a scheme providing pensions for all, as in our OPS proposal, are quite different from a more limited scheme providing protection only for the employed, as in the Mandatory Provident Fund proposal (MPF), which now seems to be emerging as the preferred choice.
- *Secondly*, and more importantly perhaps, it is surely an unhelpful oversimplification to talk as if the only question to be resolved is the level of CSSA payments to the elderly. It is surely unhelpful, and indeed misleading, to assume that we only need to consider payments for the elderly, and that \$2,300 or \$2,500 or whatever, is necessarily the right level. We must recognize that it is the needs of all recipients, not just the elderly, that should be considered. After all, at other times, we have been told that we must give priority to the needs of the single parent, or of children. Surely other groups, not only the elderly, have a right to be considered too? Hence there is a genuine need to see the results of the household expenditure survey towards the end of the year, and in the light of those results to assess calmly and rationally the appropriate level of payments for all recipients, including the elderly.
- *Thirdly*, the timing is also impossible for this year's Budget, Members are well aware that expenditure decisions are taken well in advance of the Budget speech, and that we cannot at the last minute find large recurrent sums.

50. Don't misunderstand me. We share the underlying wish of the community, and of many Members, to provide greater protection and support for the elderly. We wish to relieve the financial anxieties of old age. But we must do so in a manner which ensures that we consider other valid claims on our sympathy and on our inevitably limited resources. Let me make this crystal clear. Although we are fortunate enough to be able to increase government expenditure each year, we must maintain the discipline of not letting expenditure grow faster than the economy. We owe that to future generations. There is only so much extra that we can do at any one time. We therefore have to set priorities. And setting priorities means that if you give a high priority to one area you must give a lower priority to another area. Much as we might like to escape hard choices and difficult decisions, that is not possible in the real world. And priorities for spending in 1995-96 have already been set. They include the improvements in CSSA payments set out in the Governor's policy address; namely, an increase of \$205 a month for children and of \$200 a month for single parents.

51. I would like to deal with one other obstacle to having the rational dialogue on this subject that we need, if we are to arrive at an equitable conclusion. I was amazed to read a claim that CSSA payments for the elderly have not increased in real terms since the 1970s. It is a fact that since 1971, the standard rate for a single elderly person has increased by 23 times whereas inflation has increased by a mere six times over the same period. This is a substantial improvement in real terms. More generally, and as successive policy addresses have made clear, we have been improving our social services on an unprecedented scale. Over the last five years, for example, recurrent public expenditure has increased in real terms — repeat real terms — on health by 56% and on welfare by 66%.

EXPENDITURE AND REVENUE ESTIMATES

The 1994-95 Outturn

52. I now come to the details of our public finances. I turn first to the likely outturn for 1994-95. Underestimating surpluses has a long history in Hong Kong. On checking the Budget speech for 1966, the year I came to Hong Kong, I found that the Financial Secretary even then faced the same familiar problem — how to explain a larger than expected surplus, and, what is more, a surplus caused largely by underspending.

53. Given this history, and our recent forecasting record in particular, Members will be pleasantly surprised — as I was — to hear that this year we are on target. In other words, the surplus we expect for 1994-95 is in line with our original estimate of \$7.7 billion. In overall terms, this outcome has arisen because modest underspending has been offset by equally modestly reduced revenue.

54. Explaining these variations in more detail, expenditure this year will be \$165.8 billion, some \$3.1 billion less than our original forecast (a difference of less than 2%). Some \$2.0 billion of this underspending is due to reduced equity injections into the Provisional Airport Authority and MTRC as a result of the protracted negotiations on the airport financing package. There has also been underspending of \$3.5 billion from the Capital Works Reserve Fund because of delays in land resumption and slippage in capital works. However, this is partly offset by the fact that expenditure from the Loan Fund will be \$3.1 billion more than forecast, mainly because of loans granted to the Housing Society to meet the land premia due for sites under the Sandwich Class Housing Scheme (for which no provision was made in the original estimate).

55. The underspending of \$3.5 billion from the Capital Works Reserve Fund amounts to less than 11% of the original estimate (excluding debt interest and repayment of \$2.4 billion). In percentage terms, this level of underspending is a further continuation of the much improved performance achieved in 1993-94. Members will recall the severe underspending which we experienced in 1991-92 and 1992-93 and the steps which we have taken to overcome this problem. Given the lead time required for major capital projects, it will be some time before we see the full impact of our remedial measures reflected in actual spending performance. Nevertheless, considerable progress has already been achieved. Our expenditure in 1994-95 represents a growth of around 40% in real terms over the level in 1991-92. Our forecasts assume that this progressive improvement will continue.

Expenditure from Capital Works Reserve Fund

Works Account

	Original Estimate	Actual Expenditure	Underspending
	<i>\$m</i>	<i>\$m</i>	%
1991-92	25,746	16,405	36.3
1992-93	28,918	19,578	32.3
1993-94	31,394	27,382(note)	12.8
1994-95	32,953	29,405	10.8

Note: The actual expenditure in 1993-94 excludes one-off payments of \$4,829 million in respect of the extension to the TDC Conference and Exhibition Centre and \$1,690 million for North District Hospital for which no provision was made in the original estimate.

56. So far as revenue this financial year is concerned, we expect it also to be some \$3.1 billion less than our original forecast (a difference of less than 2%.) There are three main reasons for this.

- *First*, we now estimate that our share of revenue from land premia will be \$3.4 billion less than originally forecast. While land prices generally have been in line with our expectations, the disposal of a number of sites was deferred until the final quarter of the financial year. Because of the sharing arrangements with the future SAR Government, the proceeds from land sold in the final quarter of 1994-95 will not be received until 1995-96.
- *Secondly*, in the original estimate, we had anticipated recovering \$2.7 billion from the MTRC for works undertaken by the Government in connection with the airport railway. However, this has now been deferred to 1995-96 as a result of the delay in reaching agreement with China on the financing details.
- *Thirdly*, these shortfalls in revenue have been partially offset by higher than expected interest earnings of \$1.6 billion on the fiscal reserves as a result of the rise in interest rates.

Draft Expenditure Estimates 1995-96

57. Before turning to the figures for the new financial year, I must once again thank Members for the contributions they have made in helping me to formulate both our spending plans and our revenue proposals. Members will again find many of their suggestions included in my proposals. I hope you will resist the temptation only to focus on items not included.

58. Let me deal first with expenditure. I estimate that total government expenditure (excluding payments from the Capital Investment Fund) in 1995-96 will amount to \$169.7 billion. This is an increase of \$23.7 billion over the original estimate for 1994-95.

59. Members have already received copies of the draft estimates of expenditure and will be examining these in detail during the special meetings of the Finance Committee which have been arranged for this purpose. In drawing up the estimates of expenditure, as I explained earlier when outlining my Budget strategy, our first expenditure priority has been to provide funds to meet the targets announced by the Governor in his policy addresses to this Council and to implement the initiatives published by Branch Secretaries in their Policy Commitments in October 1994.

60. Let me highlight briefly just some of these extensive improvements.

- For the elderly, we will implement the recommendations of the Working Group on Care for the Elderly, involving both welfare and medical services. We will provide an extra 1 489 places in care and attention homes, an additional 23 social centres, four day care centres, three multi-service centres and two elderly health centres.
- For children, we will provide an extra 1 400 day nursery places and 250 day creche places.
- For people with a disability, we will provide an extra 1 287 residential places, 1 008 day places and 471 pre-school places.
- For children and single parents, the standard CSSA payments will be increased from 1 April by \$205 a month for children and by \$200 a month for single parents. In addition, full-time students aged 19-21 will receive the standard rate for children instead of the standard rate for adults, giving them between \$420 and \$555 more a month. On top of these improvements, there will be the normal increases to compensate for inflation.
- For the sick, we will provide an extra 807 hospital beds, hospice care for an extra 400 patients a year, expanded dialysis facilities and improved care for sufferers from diabetes and heart disease.

The Budget Process

61. Members will recall that the 1994 Policy Commitments set out 337 new, fully-costed initiatives. These were in addition to the 221 specific undertakings announced in the 1992 and 1993 policy addresses. It would be surprising if the Government could come forward today, only six months after the last policy address, with a further list of major policy proposals. In any case, it is an essential feature of any administration which is both accountable and cost-conscious that its policies are carefully considered and that its programmes are meticulously planned. This means that most of the new proposals which the Government wants to bring forward will be announced in the annual policy address.

New Initiatives for 1995

62. Nevertheless, as I said earlier in explaining the Budget strategy, it may be possible to make resources available in the Budget for new spending initiatives in order to tackle pressing problems, for example, by redeploying resources from one area to another. I would like now to describe these new spending initiatives.

Kindergartens

63. First, kindergartens. In last year's policy address, the Governor announced that we would raise the quality of kindergarten education by upgrading the training and qualifications of teachers and by requiring kindergartens to employ a minimum percentage of trained teachers. These initiatives have been well-received. However, Members of this Council have been unanimous in arguing that teachers must be adequately paid if they are to have sufficient incentive to improve their qualifications. Members have therefore proposed more direct help to enable kindergartens to employ trained teachers. We are sympathetic to this proposal, and accept that improvements are clearly needed. We are looking urgently at how best to achieve this, and resources have been earmarked for this purpose. But we recognize that we need at the same time to look at the child care centre sector. My colleagues, the Secretary for Education and Manpower and the Secretary for Health and Welfare, are working together enthusiastically to produce early proposals on the best way forward in these two vital areas for our young children.

Support for Nurses

64. Secondly, support for nurses. Members have often paid tribute to the invaluable role played by nurses in our health care system. I am glad to say, therefore, that we will be able to implement further improvements in the training and role of nurses, in addition to the measures announced in last year's policy address. We will increase the number of first-year first-degree places in nursing from 40 to 180 over three years; upgrade the qualifications of nursing tutors; and employ more health care assistants to relieve nurses of their non-professional duties. These measures will help us to raise still further the quality of care in our hospitals and clinics.

Health Promotion

65. Thirdly, health promotion. We can also do more to prevent disease through health promotion. Tobacco is the single most preventable cause of death. It is not just the smoker who suffers : those living or working with smokers are also affected. We shall introduce further anti-smoking legislation. In parallel with this, we will intensify health education and publicity by setting up a Health Care and Promotion Fund with an injection of \$80 million. This fund will be used for two purposes. Its primary use will be to increase educational research and other activities to promote awareness of health issues. But I believe we should also provide financial assistance to the small number of patients every year who suffer from rare diseases which require medical treatment which is so specialized that it is not available in Hong Kong. So that too will be covered by the Fund, subject of course to Members' support.

Purchase of Welfare Premises

66. Fourthly, the purchase of welfare premises. In last year's Progress Report on the undertakings announced in the 1992 and 1993 policy addresses, we acknowledged that we were falling behind in our efforts to meet some key targets for social welfare and rehabilitation, mainly because of difficulties in finding sufficient premises. In some cases, there was a real risk that we would not be able to honour our commitments. We have taken a fresh look at this problem and concluded that a workable solution is to buy premises in private developments. We will be seeking the approval of Finance Committee to spend about \$2.5 billion on the purchase of premises over the next two years. These premises will be used to accommodate, amongst other things, 20 day nurseries, 10 day creches, six multi-service centres for the elderly, 28 social centres for the elderly and 13 home help centres. As a result, and subject, of course, to Members' approval, we can now be more confident that we will be able to meet the key targets in these areas by 1997.

Improving Safety

67. Fifthly, improving safety. After the tragedy at Kwun Lung Lau last July, the Secretary for Works initiated a comprehensive review of our programme for improving the safety of slopes and retaining walls. To speed up this programme, which involves over 10 000 sites, we will provide 130 additional staff for the Geotechnical Engineering Office and 30 additional staff for the Buildings Department. This should allow us to complete the programme over the next five years, a full ten years earlier than originally planned. We will also be appointing 34 extra staff in the Buildings Department to set up a permanent team dedicated to monitoring safety on construction and demolition sites. This will help us to minimize the risk of a repetition of the appalling accident that occurred last September at a Nathan Road construction site.

Duplicate Tsing Yi South Bridge

68. Lastly, Members of this Council have been pressing for a duplicate Tsing Yi south bridge to relieve the serious traffic congestion experienced by Tsing Yi residents and to cope with the growth in container traffic. Our original plan was to entrust the construction of the bridge to the consortium chosen to develop Container Terminal 9. Whilst we still hope to resolve our difficulties over Container Terminal 9, we risk a serious deterioration in traffic conditions if we delay the bridge any longer. We have therefore decided to make preparations for the bridge to be built separately. We will soon be asking the Finance Committee to approve the funding, estimated at just over \$1 billion.

1995 Expenditure in Perspective

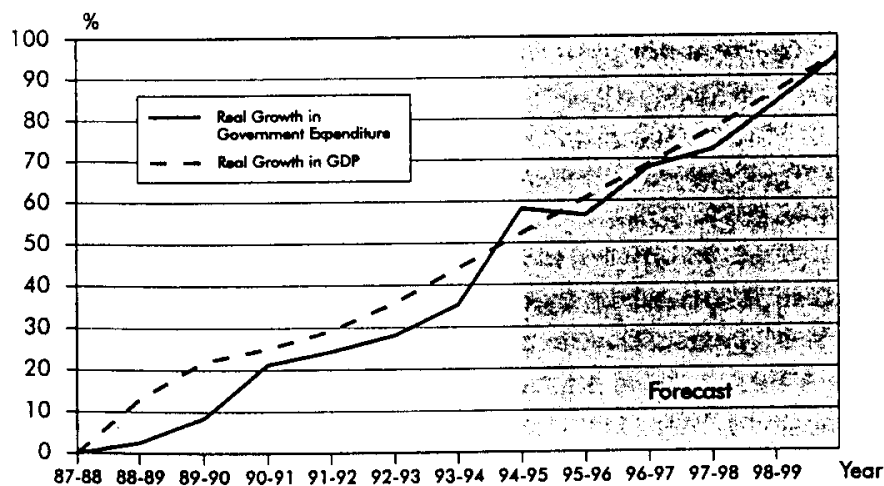
69. Looking at the overall impact of the Budget on our social services, I am struck again by how fortunate we in Hong Kong are that sustained economic growth and prudent management of our public finances enable us to make substantial real improvements in the social services. Total public spending, including some of the new initiatives I have just announced, will grow in real terms:

- on education by 5.5%;
- on health by 7.7%; and
- on social welfare by 24.1%.

These improved services will bring real benefits to a high proportion of the community.

70. I am happy to be able to reassure Members that despite these improvements, and despite our peak spending on the Airport Core Programme, we remain within our spending guidelines. We have continued to contain the growth in government expenditure over time in line with the growth in the economy, the first priority in my Budget strategy.

**Comparison of Cumulative Growth in Government Expenditure
with Cumulative Growth in GDP
since the Introduction of the Medium Range Forecast**



The cumulative growth in government expenditure is in line with the growth in the economy.

REVENUE PROPOSALS

71. I turn now to my revenue proposals. In the past three years, I have:

- reduced the burden of direct taxation, particularly for the sandwich class;
- abolished some redundant indirect taxes which complicated the system and added relatively little to the revenue;
- simplified or reduced estate and stamp duties; and
- continued the drive to deter tax evaders.

Here, once again, I have had very much in mind the principles of rewarding enterprise and promoting equity.

72. The benefits to the taxpayer of the reductions and reforms of the past three years have been very considerable. For example,

- The basic and married person's allowances have increased by 37% in real terms.
- The proportion of the total workforce paying no salaries tax has increased from 49% to 62%.
- The proportion of the total workforce paying salaries tax at the standard rate has decreased from 5% to 2%.
- The number of indirect taxes has been reduced from 15 to 12.

73. This is the background against which I have framed my revenue proposals this year. Obviously, the scope for reform of our already very simple tax system is limited, as is the scope for further reductions if the revenue base is not to be unduly eroded. In addition, during the transition it is particularly desirable to keep our reserves at a healthy level. This has to be a key element in our budget strategy. My consultations with Members of this Council suggest that the community shares this judgement. I therefore believe that a cautious approach is justified in considering tax measures which would draw on the reserves. Nevertheless, I am still in a position to be able to recommend to this Council a number of useful tax concessions, whilst at the same time forecasting higher reserves.

74. To put it the other way round, I am sure it is right that, having secured the funding of the Government's programmes, both capital and recurrent, and having added significantly to the already substantial reserves, we should take any remaining opportunity to reduce the tax burden, especially on those with special needs.

75. As with expenditure, my consultations with Members have been invaluable in helping me to strike the right balance. I have no doubt that my successor will also find your advice and support invaluable.

Revenue Sources

Salaries Tax

76. This year, I have been able to respond in particular to the case put to me by Members for salaries tax concessions for those with special needs. I have the following proposals to make.

- **First**, I propose to double the additional dependent parent and grandparent allowances, from \$3,000 to \$6,000, for those parents or grandparents living with the taxpayer.
- **Secondly**, I propose to increase the child allowance for the third to ninth child to \$11,000. (The existing level of allowance ranges from \$1,000 to \$3,000.)
- **Thirdly**, I propose to increase the single-parent allowance by 25%, from \$32,000 to \$40,000.
- **Fourthly**, I propose to introduce a new allowance of \$11,000 for a disabled dependant, defined as someone who is eligible to claim an allowance under the Government's Disability Allowance Scheme. I estimate that about 30 000 taxpayers will benefit from this new concession. I should make it clear that this allowance will be in addition to any allowance already being claimed by the taxpayer for the disabled family member in question.

77. In addition, this year, I am able once again to put forward proposals which will lighten, not dramatically but nonetheless usefully, the tax bills of the vast majority of salaries tax payers.

- **First**, I propose to increase by 10% the basic allowance, from \$72,000 to \$79,000.
- **Secondly**, I also propose to increase by 10% the married person's allowance, from \$144,000 to \$158,000.
- **Thirdly**, I propose to increase the allowance for the first and second child by 10%, from \$20,000 to \$22,000.
- **Fourthly**, I propose to increase the basic dependent parent and grandparent allowances by 10%, from \$20,000 to \$22,000.

78. These eight improvements will reduce the tax burden of some 96% of salaries taxpayers. What will these proposed concessions mean in practice? Let me give you a few examples.

- A single-parent family with two children will have to earn more than \$13,500 a month before paying any tax. At present, this family would be liable to pay tax when its earnings exceeded \$12,000 a month.
- A single-income family of five, with two children and one disabled dependent parent or grandparent living with the family, will have to earn more than \$20,000 a month before paying any tax. At present, this family would be liable to pay tax when its earnings exceeded \$17,200 a month.
- A single-income family of four with a monthly income of \$18,000 will have its tax bill cut by some 81%. It will pay less than \$24 a month in tax.
- The typical sandwich-class family with monthly earnings of \$22,000 will have its tax bill cut by 37%. It will pay only \$428 a month in tax.

79. The concessions I have proposed will take effect from the year of assessment starting on 1 April 1995. I estimate that they will cost \$1.2 billion in 1995-96 and \$7.7 billion up to 1998-99. Full details of the concessions are set out in the Supplement to the printed version of this Speech, together with examples of their effects on different categories of taxpayer.

Profits Tax

80. I do not propose any change this year in the level of corporate tax. Our profits tax rates are already very low by international standards.

81. Nevertheless, I do propose to ask the Board of Inland Revenue to review one important aspect of the capital allowances which can be claimed against profits tax. In addition to the generous initial allowance of 60% — which should itself probably be reviewed on some future occasion — qualifying expenditure attracts an annual allowance of 10%, 20% or 30%, depending on the type of plant and machinery involved. The categorisation into one of these three levels has a significant effect on the tax bill in any particular year. I will be asking the Board of Inland Revenue to review the classification of the items which fall into the three categories of annual allowance, to ensure it is fair and objective. Any changes will, of course, be subject to approval by Members of this Council.

Estate Duty

82. Last year, I made a number of concessions on estate duty. In particular, I excluded completely the value of the matrimonial home when determining the value of the estate for duty purposes. This year, I intend simply to offset the effect of inflation. Accordingly, I propose to increase from \$5.5 million to \$6 million, the level below which no duty is payable. Above that level, I propose that estate duty be payable at 6% on estates between \$6 million to \$7 million; 12% for estates between \$7 million and \$8 million; and 18% on estates over \$8 million. The cost of this proposal will be \$20 million in 1995-96 and \$100 million up to 1998-99.

Tobacco Duty

83. In 1993-94, tobacco duty was increased by 9.5%, in line with inflation. Nevertheless, revenue from tobacco duty decreased substantially that year because of increased smuggling of cigarettes. I therefore decided last year to maintain duty rates at their existing levels so as not to aggravate the problem of smuggling. I also promised to step up our efforts to tackle the tobacco smugglers by setting up a 40-strong task force in the Customs and Excise Department. Since its establishment in April last year, this task force has proved extremely effective in tackling the problem. Revenue from duty paid cigarettes has increased by 28% in the first nine months of this financial year. Reports indicate that the black market price of cigarettes has also increased markedly.

84. This is a very welcome improvement. We will continue to tackle the smugglers through targeted investigations and intelligence gathering. Nevertheless, given the substantially improved situation, I consider that an inflation-related adjustment in the duty rate is now needed to preserve the deterrent effect of this tax. I propose therefore to increase tobacco duty by 8%.

Fuel Duty

85. I also propose to increase the duty on petrol and hydrocarbon oils by 8% to keep pace with inflation.

Alcohol Duty

86. Finally alcohol. Last year, I introduced a new, simple ad valorem duty system, not to raise revenue, but to achieve even greater equity between imported and locally manufactured products, and between high and low value products of the same category. I consider that the new system has been generally successful in achieving this aim. The ordinary consumer has benefited considerably from the effects of greater competition at the lower end of the

market, with greater choice and cheaper products now available. Such are the benefits of an ad valorem system. I do not propose therefore any change in the basic system.

87. Some have argued that I should apply a "cap" to the duty payable on the more expensive products, such as vintage wines. I am not entirely lacking in sympathy with this suggestion, given that at the higher end, the duty (and hence the price) has undoubtedly increased. But whilst my heart, and my palate, urge sympathy, my intellect tells me to make no such change. These are early days to assess fully the impact of the system, but there is no evidence yet to suggest that the new system has resulted in reduced revenue yields at this upper end of the market, though there has been a drop in dutiable quantities. To apply a cap would also undermine the logic of the new system which is based on the simple principle of vertical equity. I have had to conclude that such a cap is not justified. But we will undertake to review the situation again in the light of revenue yields over a longer period.

Implementation

88. The proposed increases in fuel duty and tobacco duty come into effect under a Public Revenue Protection Order issued today. My proposals on personal taxation and estate duty will come into effect on 1 April 1995.

TAX ENFORCEMENT

Evasion

89. As has become traditional, I would now like to deal with tax enforcement. We are determined to continue the attack on tax evasion, encouraged by the results achieved so far. Over the past three years, the Inland Revenue Department's investigation and field audit staff have tackled over 3 500 cases and obtained more than \$2.7 billion in back tax and penalties. In the coming year, we will step up this campaign by establishing an additional field audit team, bringing the total to eight. I would like to take this opportunity to congratulate the Commissioner and his staff for their very high level of professionalism and efficiency, and for the enthusiasm they bring to bear on this difficult task.

90. In my Budget speech last year, I highlighted the problem of substantial under-reporting of income by members of some professions. I announced our intention to tackle the problem, initially through better self-regulation. Since then, the Commissioner of Inland Revenue has been in contact with a number of professional bodies and trade associations to underline the need for their members to maintain proper records and issue proper receipts.

91. However, a recent survey by the Inland Revenue Department shows how extensive this problem has become. Persuasion is apparently not enough. Of the 4 500 businesses surveyed,

- 60% did not issue receipts or only issued them on request;
- only 45% kept a full set of books and accounts; and
- 40% did not keep sufficient records to enable their taxable profits to be readily ascertained.

92. I find these figures alarming. And unacceptable. Clearly, we cannot rely on self-regulation alone. I propose, therefore, to bring forward legislation to specify clearly the minimum records which a business must keep, and to increase the maximum fine for non-compliance. In simple terms, a business will be required to keep the records necessary to enable all business transactions to be traced, explained and verified through the accounting system. I hope that these new measures will reduce the temptation by some to under-report their business income. For those still unable to resist temptation, these measures will help the tax inspector to detect evasion more effectively. And, if even this still does not produce the desired results, we will need to go one step further and legislate also to make the issue of receipts mandatory.

Legal Loopholes

93. I turn now to the question of tax avoidance. Last year, I highlighted the increasingly widespread use of service companies to avoid or to significantly reduce tax liability. I described two types of case which are of special concern. The first amounts to an attempt to disguise what is, in substance, an employer-employee relationship. The second involves the payment of inflated management fees by a firm to a service company which is controlled by the firm's proprietor or its partners. I announced our intention to remedy this situation by legislation.

94. In response to the concern of some Members at the time, I undertook to conduct consultations on how best to frame the legislation. Since then, we have discussed the issue with Members of this Council, as well as with taxation experts and leading practitioners. As a result, we have now modified our proposals in a way which, I believe, achieves our basic objectives while meeting the concerns raised about the equity and effectiveness of our original approach. In brief, I now propose to deal with the first type of case by legislation but to deal with the second type by a Practice Note which will be issued by the Commissioner of Inland Revenue. We aim to introduce the legislation into this Council and to issue the Practice Note by the end of this month. I hope that this pragmatic compromise will meet with Members' approval.

THE MEDIUM RANGE FORECAST

Basic Assumptions

95. As in previous years, I have published a Medium Range Forecast in Appendix A to the printed version of this speech. This is our forecast of revenue and expenditure over the next four years. As always, I had better emphasize that this is a forecast only, presented today to provide the appropriate context for Hong Kong's planning. It in no way imposes any commitment on the future SAR Government.

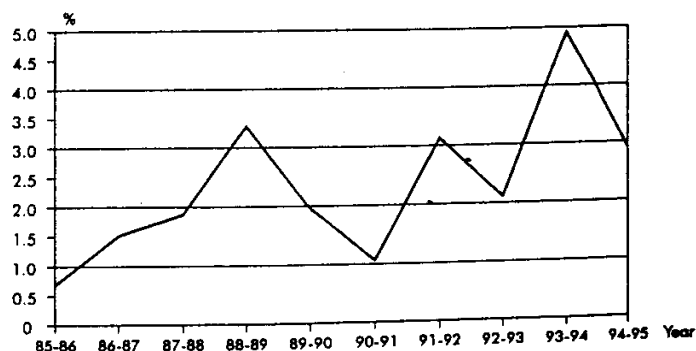
96. Let me explain two key assumptions on which the forecast has been based.

97. First, I have taken what some may regard as a rather conservative view of the forecast trend growth rate of GDP. The assumption used in my previous three Budgets has been of a trend growth rate of 5%. In fact, the economy has done somewhat better than this, and is likely to continue to do so. GDP grew by 5.1% in 1991, by 6.3% in 1992, by 5.8% in 1993, by 5.5% in 1994; and we expect it to grow by 5.5% in 1995.

98. It could be argued that this stable and steady performance warrants raising the forecast trend growth rate from 5% to 5.5%. This would have important implications, for example on our revenue projections. However, I believe that both Members of this Council and the community at large accept that this is a year for particular prudence. I have concluded, therefore, that it is better to err on the side of caution, and to maintain the forecast at 5%. This provides an extra margin in the event of any unexpected downturn in the economy, in addition to the cushion provided by the reserves.

99. A second key factor over the forecast period will be the level of our receipts from land premia as we release valuable sites along the airport railway for development. Receipts from land premia are particularly difficult to predict, influenced as they are by fluctuating sentiment in the property market. Receipts from land premia have been at consistently high levels in recent years. However, we must recognize the potential short-term volatility of receipts from this source.

Gross Receipts (before sharing between HKG and the future SARG)
from Land Premia as a Percentage of Gross Domestic Product
1985-86 to 1994-95



Land premia are particularly volatile.

100. I have therefore maintained a conservative approach to our forecasts of revenue from land premia, consistent with those used in the previous Medium Range Forecast. The improvement in our finances over the medium term, which I will describe shortly, does not therefore arise from any significant change in forecast land revenue.

Forecast Improvements

101. After taking account of the revenue proposals I have put forward this afternoon, I am making the following forecasts.

- *First*, we will be drawing on our reserves in 1995-96 to finance a very small deficit of \$2.6 billion. This is equal to less than 2% of government expenditure. Compared with a surplus of \$7.7 billion in 1994-95, it is mildly expansionary.
- *Secondly*, we will return, however, to an overall surplus from 1996-97 onwards, a year earlier than previously forecast. Only in the coming financial year, when our investment in the Airport Core Programme peaks, will it be necessary to draw on our reserves, and even then to a much smaller extent than previously expected.
- And, of course, *thirdly*, we shall continue to see a healthy surplus on our operating account throughout the forecast period.

102. There are two main reasons for this improvement in our financial prospects compared with the earlier forecast.

- *First*, rising interest rates add to the earnings which our fiscal reserves generate.
- *Secondly*, on the expenditure side, the forecast reflects a more realistic assessment of our capacity to increase spending on public works. Thus, we are now assuming a level of spending below that predicted in the previous Medium Range Forecast.

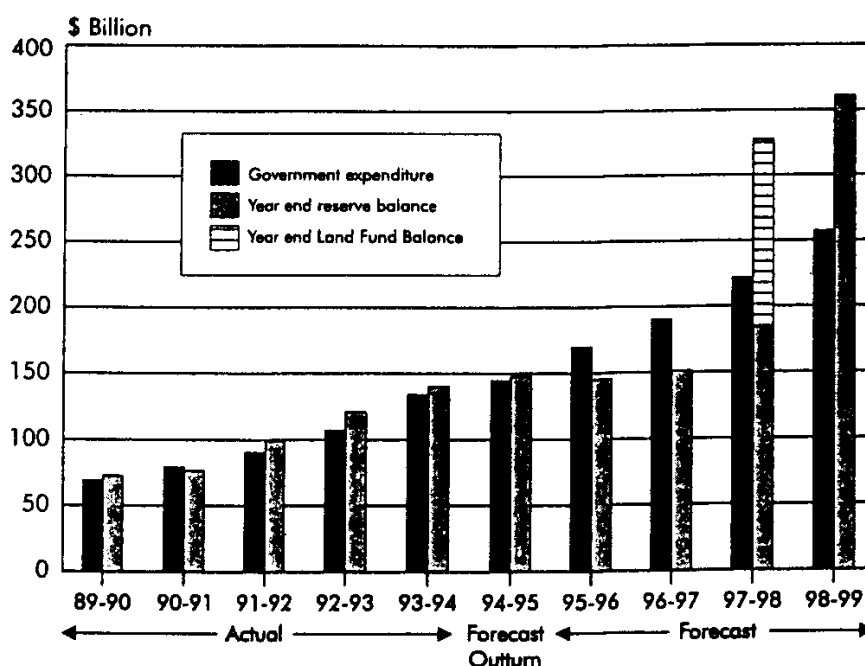
The Reserves

103. I am now forecasting that our fiscal reserves at 31 March 1997, shortly before the transfer of sovereignty, will stand at an impressive \$151 billion. This is a very reassuring cushion, and some \$31 billion more than I was forecasting a year ago.

104. From 1 July 1997, the future SAR Government will receive the full proceeds from land sales, and will collect rents from the extension of New Territories leases. The Medium Range Forecast shows a surplus of \$33 billion in both 1997-98 and 1998-99.

105. As a consequence, and after taking full account of the SAR Government Land Fund, the Medium Range Forecast predicts total reserves at 31 March 1999 of \$361 billion. This represents about 1.4 times total government expenditure forecast for 1998-99. I believe that this would be the highest ratio of reserves to spending achieved in the history of Hong Kong.

Medium Range Forecast of Government Expenditure and year end Reserve Balances 1989-90 to 1998-99



Forecasting the highest ratio of reserves to expenditure ever.

CONSULTATIONS WITH CHINA ON 1997-98 BUDGET

106. In last year's policy address, the Governor pledged to co-operate fully with the Chinese Government over the transfer of assets to the SAR Government and over the preparation of the 1997-98 Budget. I would like to report to this Council on how we are implementing these two commitments.

107. Last November, we handed over to the Chinese Government a list of property assets owned by the Hong Kong Government. This was a formidable document, covering everything from schools to police stations. We have promised to update this inventory regularly.

108. The 1997-98 Budget will span the transfer of sovereignty. To prepare for this budget, we have proposed a four-stage programme of briefings for a designated team of experts on how Hong Kong manages its public finances.

- *First*, we have offered a general background briefing on our fiscal and budgetary systems.
- *Secondly*, a series of seminars would explore in more detail the key elements of our budgetary system and procedures, such as the Medium Range Forecast, the annual Resource Allocation Exercise, the draft Estimates and revenue policy.
- *Thirdly*, we shall invite this expert team to observe each stage of the planning and preparation process for the 1996-97 Budget. This will enable Finance Branch to explain every aspect of the budgetary process.
- *Fourthly*, starting from April 1996, we would consult the Chinese Government over the contents of the 1997-98 Budget.

109. We hope that our Chinese colleagues will find this a constructive approach and that our subsequent exchanges will be a major contribution to a smooth and stable transition in 1997.

CONCLUSION

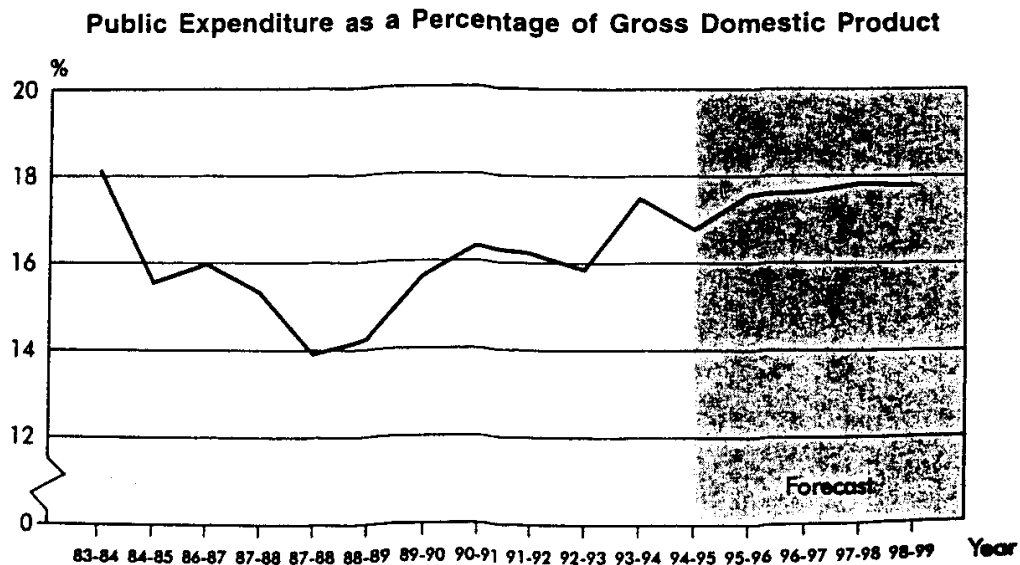
110. I promised at the start of my speech this afternoon that I would not indulge in nostalgia, but I hope I may be forgiven a little retrospection. In my very first Budget, in March 1992, I said that my prime duty as Financial Secretary was to do all I could to ensure that Hong Kong's remarkable record of economic success continued into the future — a success that was the foundation for everything we had achieved in the previous 40 years, in housing, health care, education and social welfare. I have been fortunate that domestic and external circumstances, with modest assistance from the Financial Secretary, have indeed seen that obligation fulfilled. Not only has the economy prospered, with GDP growing every year at over 5%, and inflation dropping from 12% to 8.1%, but we have also seen giant strides forward in virtually all areas, most notably perhaps, in the infrastructure, in the environment, and in housing, education, health and welfare.

111. In that same first Budget, I then took up the theme that one of our community's great strengths is the broad consensus about the need to preserve the key elements of Hong Kong's success: our commitment to the free market economy, to competition and to providing community services from our increasing prosperity. Our social services ensure that those at risk are protected; that everyone can receive a proper education and health care; and that all can rise as far as their talents can take them. We are an open, meritocratic

society, where success inspires emulation, not envy. For me, the essence of Hong Kong's way of life, its separate "system", lies in our ceaseless striving to achieve a balance between market forces and social responsibility. This is another reason to use the convenient shorthand of "consensus capitalism".

112. But call it what you like, our system works. Not that we are ever short of prophets of doom and gloom. When I was first appointed Financial Secretary in 1991, there were many who believed that because of the elections that year to give Hong Kong, for the first time in its history, a LegCo with an elected majority, we would lose our traditional consensus on economic policy and priorities. In fact, we have clearly not paid an economic penalty for constitutional reform. On the contrary, our economic success has continued, as has the broad political consensus on how to manage our public finances. We have good reason as a community to be proud of what we have achieved, and to be self-confident about our ability to deal with the challenges of the future. Look at what we have accomplished in that short period since 1991, in the area of public finance alone.

- We have reduced taxation for almost every salaried employee.
- We have made dramatic improvements in public services, and yet public spending has been kept firmly under control, at less than 20% of GDP.
- At the same time, we have added \$46 billion to our reserves. And, we shall go on adding more to those reserves, as I have explained.



Public spending has been kept firmly under control.

113. To Members of this Council, these are mostly familiar facts. I would urge you to look at them with fresh eyes. To legislators elsewhere in the world, more used to dealing with recessions, severe unemployment, austerity budgets and the problems of massive public debt, they would sound astounding. But how we reached this happy state should not be so surprising. The fundamentals of our approach to public finance have been well known to Western economists since the time of Adam Smith. But they have had, like so many other apparent Western inventions, an even longer history in China. After all, as I have highlighted on the cover of my Budget speech, Xunzi said more than two thousand years ago in his work "On Enriching the State":

"The way to make a country prosperous is to be prudent in public spending, to improve the well-being of the people and to maintain good reserves."

I can think of no more concise statement of this Government's policy. As long as we continue to abide by the principles encapsulated in this quotation, I am confident that Hong Kong will enjoy many more years of growth and prosperity.

114. 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 1995 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, 9 1995.

Adjourned accordingly at eight minutes past Four o'clock.

SUPPLEMENT**NOTES ON THE TEXT**

	Page
Salaries tax concessions	2376-2396
Adjustments to duty rates	2397
Economic performance in 1994	2398-2400
Economic prospects for 1995	2401

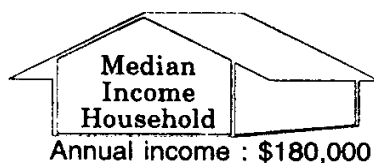
SALARIES TAX CONCESSIONS

Summary of concessions

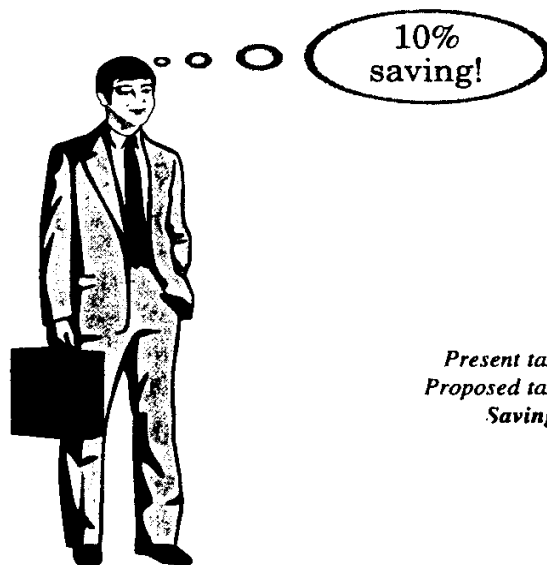
	<i>Present</i> (\$)	<i>Proposed</i> (\$)	<i>Increase</i> (\$) (%)	
Basic Allowances:				
Basic	72,000	79,000	7,000	9.7
Married	144,000	158,000	14,000	9.7
Additional Allowances:				
Child :				
First child	20,000	22,000	2,000	10.0
Second child	20,000	22,000	2,000	10.0
Third child	3,000	11,000	8,000	266.7
Fourth to sixth child	2,000	11,000	9,000	450.0
Seventh to ninth child	1,000	11,000	10,000	1,000.0
Dependent Parent/Grandparent				
Basic	20,000	22,000	2,000	10.0
Additional allowance (for dependant living with taxpayer)	3,000	6,000	3,000	100.0
Single Parent	32,000	40,000	8,000	25.0
Disabled Dependant	-	11,000	-	-

Salaries tax rates and allowances

What you save !

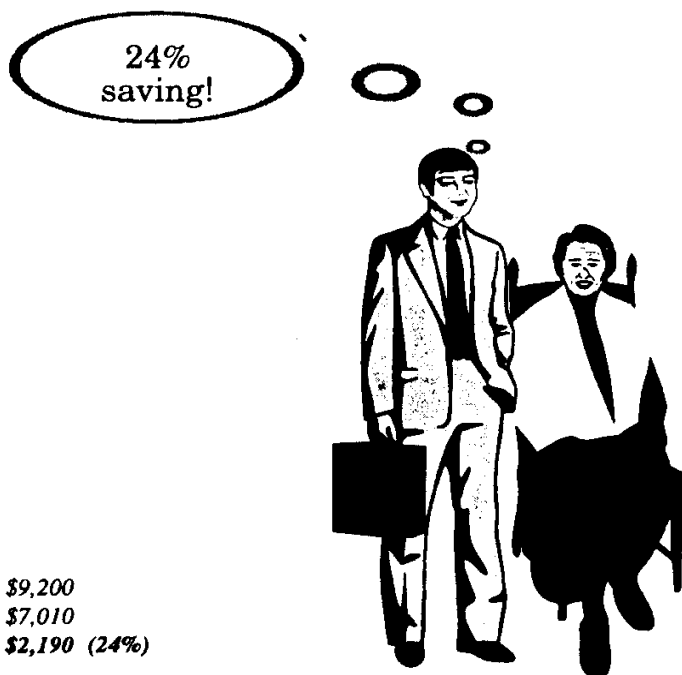


Single person



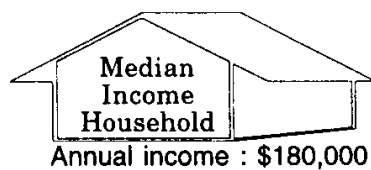
Present tax : \$13,800
Proposed tax : \$12,400
Saving : \$1,400 (10%)

Single person with a dependent parent living with the taxpayer



Present tax : \$9,200
Proposed tax : \$7,010
Saving : \$2,190 (24%)

What you save !



Married couple with no children



Present tax : \$1,840
Proposed tax : \$580
Saving : \$1,260 (68%)

Married couple with 2 children



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

What you save !

Median
Income
Household
Annual income : \$180,000

Single parent with 2 children

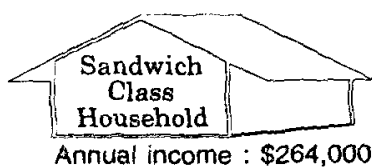
82%
saving!



Present tax : \$1,840
Proposed tax : \$340
Saving : \$1,500 (82%)

Salaries tax rates and allowances

What you save !

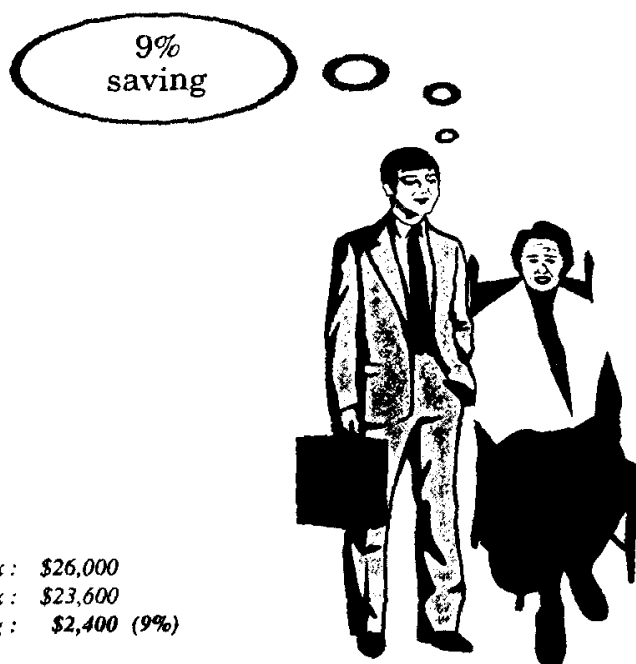


Single person



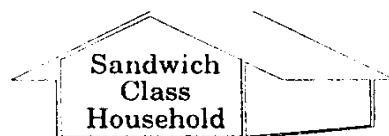
Present tax : \$30,600
Proposed tax : \$29,200
Saving : \$1,400 (5%)

Single person with a dependent parent living with the taxpayer



Present tax : \$26,000
Proposed tax : \$23,600
Saving : \$2,400 (9%)

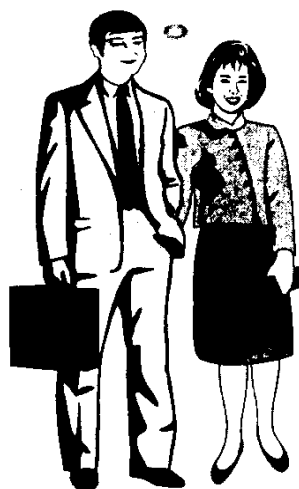
What you save !



Annual income : \$264,000

Married couple with no children

17%
saving!



Present tax : \$16,200
Proposed tax : \$13,400
Saving : \$2,800 (17%)

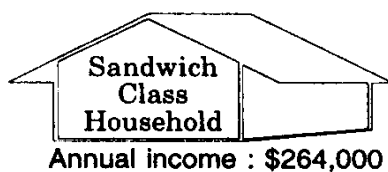
Married couple with 2 children

37%
saving!

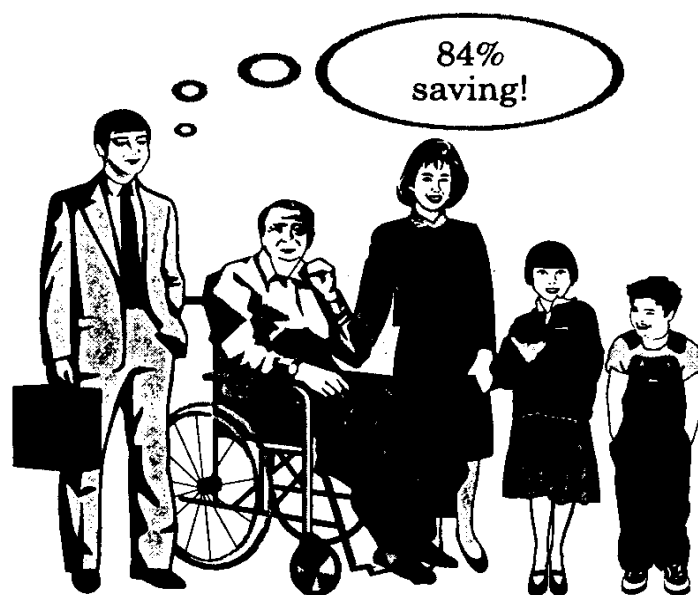


Present tax : \$8,200
Proposed tax : \$5,140
Saving : \$3,060 (37%)

What you save !

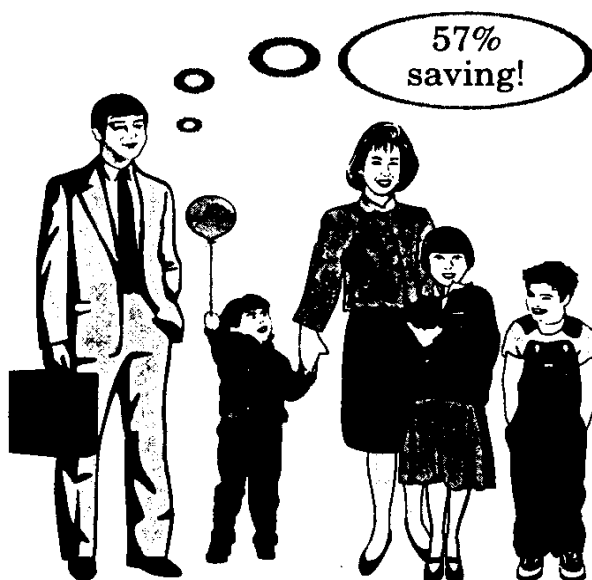


**Married couple with 2 children
and 1 disabled dependent parent living with the taxpayer**



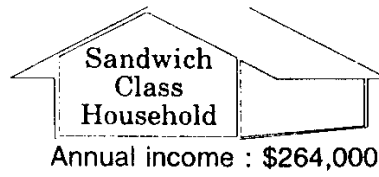
Present tax : \$4,290
Proposed tax : \$670
Saving : \$3,620 (84%)

Married couple with 3 children

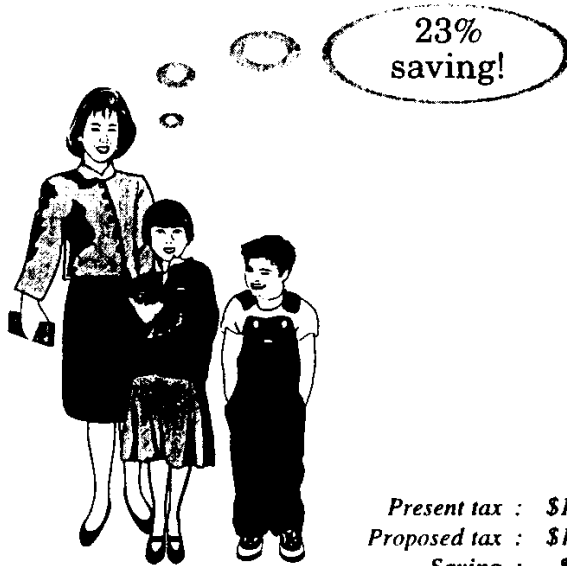


Present tax : \$7,690
Proposed tax : \$3,270
Saving : \$4,420 (57%)

What you save !



Single parent with 2 children



Present tax : \$16,200
Proposed tax : \$12,400
Saving : **\$3,800 (23%)**

**Annual income levels below which
no salaries tax is payable**

	<i>Present</i> (\$)	<i>Proposed</i> (\$)	%
No dependent parent / grandparent			
Single	72,001	79,001	+9.7
Married	144,001	158,001	+9.7
Married + 1 child	164,001	180,001	+9.8
Married + 2 children	184,001	202,001	+9.8
Married + 3 children	187,001	213,001	+13.9
Including two dependent parents / grandparents			
Single	112,001	123,001	+9.8
Married	184,001	202,001	+9.8
Married + 1 child	204,001	224,001	+9.8
Married + 2 children	224,001	246,001	+9.8
Married + 3 children	227,001	257,001	+13.2
Including two dependent parents / grandparents both living with the taxpayer			
Single	118,001	135,001	+14.4
Married	190,001	214,001	+12.6
Married + 1 child	210,001	236,001	+12.4
Married + 2 children	230,001	258,001	+12.2
Married + 3 children	233,001	269,001	+15.5
Including one disabled dependent parent / grandparent living with the taxpayer			
Single	95,001	118,001	+24.2
Married	167,001	197,001	+18.0
Married + 1 child	187,001	219,001	+17.1
Married + 2 children	207,001	241,001	+16.4
Married + 3 children	210,001	252,001	+20.0
Single parent with			
1 child	124,001	141,001	+13.7
2 children	144,001	163,001	+13.2
3 children	147,001	174,001	+18.4

**Annual income levels at which salaries
taxpayers enter the standard rate zone**

	<i>Present</i> (\$)	<i>Proposed</i> (\$)	%
No dependent parent / grandparent			
Single	444,000	472,000	+6.3
Married	732,000	788,000	+7.7
Married + 1 child	812,000	876,000	+7.9
Married + 2 children	892,000	964,000	+8.1
Married + 3 children	904,000	1,008,000	+11.5
Including two dependent parents / grandparents			
Single	604,000	648,000	+7.3
Married	892,000	964,000	+8.1
Married + 1 child	972,000	1,052,000	+8.2
Married + 2 children	1,052,000	1,140,000	+8.4
Married + 3 children	1,064,000	1,184,000	+11.3
Including two dependent parents / grandparents both living with the taxpayer			
Single	628,000	696,000	+10.8
Married	916,000	1,012,000	+10.5
Married + 1 child	996,000	1,100,000	+10.4
Married + 2 children	1,076,000	1,188,000	+10.4
Married + 3 children	1,088,000	1,232,000	+13.2
Including one disabled dependent parent / grandparent living with the taxpayer			
Single	536,000	628,000	+17.2
Married	824,000	944,000	+14.6
Married + 1 child	904,000	1,032,000	+14.2
Married + 2 children	984,000	1,120,000	+13.8
Married + 3 children	996,000	1,164,000	+16.9
Single parent with			
1 child	652,000	720,000	+10.4
2 children	732,000	808,000	+10.4
3 children	744,000	852,000	+14.5

Effect of the increase in allowances

Single person

Annual income	Present tax payable (Exemption level: \$72,000)		Proposed tax payable (Exemption level: \$79,000)		Tax saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)	(A) - (B)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
78,000	120	0.2	-	-	120	100.0	All taxpayers earning less than \$472,000 will benefit from the concessions. Taxpayers with incomes not exceeding \$79,000 will not be required to pay tax as a result of the increase in the basic allowance.
84,000	240	0.3	100	0.1	140	58.3	
96,000	760	0.8	340	0.4	420	55.3	
108,000	1,840	1.7	1,210	1.1	630	34.2	
120,000	2,920	2.4	2,290	1.9	630	21.6	
132,000	4,800	3.6	3,610	2.7	1,190	24.8	
144,000	6,840	4.8	5,650	3.9	1,190	17.4	
156,000	9,000	5.8	7,690	4.9	1,310	14.6	
168,000	11,400	6.8	10,000	6.0	1,400	12.3	
@ 180,000	13,800	7.7	12,400	6.9	1,400	10.1	
192,000	16,200	8.4	14,800	7.7	1,400	8.6	
204,000	18,600	9.1	17,200	8.4	1,400	7.5	
216,000	21,000	9.7	19,600	9.1	1,400	6.7	
228,000	23,400	10.3	22,000	9.6	1,400	6.0	
240,000	25,800	10.8	24,400	10.2	1,400	5.4	
† 264,000	30,600	11.6	29,200	11.1	1,400	4.6	
288,000	35,400	12.3	34,000	11.8	1,400	4.0	
312,000	40,200	12.9	38,800	12.4	1,400	3.5	
336,000	45,000	13.4	43,600	13.0	1,400	3.1	
360,000	49,800	13.8	48,400	13.4	1,400	2.8	
384,000	54,600	14.2	53,200	13.9	1,400	2.6	
408,000	59,400	14.6	58,000	14.2	1,400	2.4	
432,000	64,200	14.9	62,800	14.5	1,400	2.2	
* 444,000	66,600	15.0	65,200	14.7	1,400	2.1	
456,000	68,400	15.0	67,600	14.8	800	1.2	
# 472,000	70,800	15.0	70,800	15.0	-	-	Taxpayers earning \$472,000 or more will pay tax at the standard rate.
480,000	72,000	15.0	72,000	15.0	-	-	

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

Income level at which salaries taxpayers will enter the standard rate zone after the 1995 Budget.

@ Median income household

† Sandwich class household

Effect of the increase in allowances

Single person, with one dependent parent / grandparent living with the taxpayer

Annual income	Present tax payable (Exemption level: \$95,000)		Proposed tax payable (Exemption level: \$107,000)		Tax saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)	(%)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
96,000	20	<0.1	-	-	20	100.0	All taxpayers earning less than \$584,000 will benefit from the concessions.
108,000	260	0.2	20	<0.1	240	92.3	Taxpayers with incomes not exceeding \$107,000 will not be required to pay tax as a result of the increases in the basic, the dependent parent / grandparent and the additional dependent parent / grandparent allowances.
120,000	850	0.7	260	0.2	590	69.4	
132,000	1,930	1.5	850	0.6	1,080	56.0	
144,000	3,010	2.1	1,930	1.3	1,080	35.9	
156,000	4,970	3.2	3,010	1.9	1,960	39.4	
168,000	7,010	4.2	4,970	3.0	2,040	29.1	
@ 180,000	9,200	5.1	7,010	3.9	2,190	23.8	
192,000	11,600	6.0	9,200	4.8	2,400	20.7	
204,000	14,000	6.9	11,600	5.7	2,400	17.1	
216,000	16,400	7.6	14,000	6.5	2,400	14.6	
228,000	18,800	8.2	16,400	7.2	2,400	12.8	
240,000	21,200	8.8	18,800	7.8	2,400	11.3	
† 264,000	26,000	9.8	23,600	8.9	2,400	9.2	
288,000	30,800	10.7	28,400	9.9	2,400	7.8	
312,000	35,600	11.4	33,200	10.6	2,400	6.7	
336,000	40,400	12.0	38,000	11.3	2,400	5.9	
360,000	45,200	12.6	42,800	11.9	2,400	5.3	
384,000	50,000	13.0	47,600	12.4	2,400	4.8	
408,000	54,800	13.4	52,400	12.8	2,400	4.4	
432,000	59,600	13.8	57,200	13.2	2,400	4.0	
456,000	64,400	14.1	62,000	13.6	2,400	3.7	
480,000	69,200	14.4	66,800	13.9	2,400	3.5	
504,000	74,000	14.7	71,600	14.2	2,400	3.2	
528,000	78,800	14.9	76,400	14.5	2,400	3.0	
* 536,000	80,400	15.0	78,000	14.6	2,400	3.0	
552,000	82,800	15.0	81,200	14.7	1,600	1.9	
576,000	86,400	15.0	86,000	14.9	400	0.5	
# 584,000	87,600	15.0	87,600	15.0	-	-	Taxpayers earning \$584,000 or more will pay tax at the standard rate.
600,000	90,000	15.0	90,000	15.0	-	-	

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

Income level at which salaries taxpayers will enter the standard rate zone after the 1995 Budget.

@ Median income household

† Sandwich class household

Effect of the increase in allowances

Single person, with two dependent parents / grandparents

Annual income	Present tax payable (Exemption level: \$112,000)		Proposed tax payable (Exemption level: \$123,000)		Tax saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)	(A) - (B)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
120,000	160	0.1	-	-	160	100.0	All taxpayers earning less than \$648,000 will benefit from the concessions. Taxpayers with incomes not exceeding \$123,000 will not be required to pay tax as a result of the increases in the basic and the dependent parent / grandparent allowances.
132,000	400	0.3	180	0.1	220	55.0	
144,000	1,480	1.0	490	0.3	990	66.9	
156,000	2,560	1.6	1,570	1.0	990	38.7	
168,000	4,120	2.5	2,650	1.6	1,470	35.7	
@ 180,000	6,160	3.4	4,290	2.4	1,870	30.4	
192,000	8,200	4.3	6,330	3.3	1,870	22.8	
204,000	10,600	5.2	8,400	4.1	2,200	20.8	
216,000	13,000	6.0	10,800	5.0	2,200	16.9	
228,000	15,400	6.8	13,200	5.8	2,200	14.3	
240,000	17,800	7.4	15,600	6.5	2,200	12.4	
† 264,000	22,600	8.6	20,400	7.7	2,200	9.8	Taxpayers earning more than \$123,000 but less than \$648,000 will have reduced tax liabilities as a result of the increases in the basic and the dependent parent / grandparent allowances.
288,000	27,400	9.5	25,200	8.8	2,200	8.0	
312,000	32,200	10.3	30,000	9.6	2,200	6.8	
336,000	37,000	11.0	34,800	10.4	2,200	5.9	
360,000	41,800	11.6	39,600	11.0	2,200	5.3	
384,000	46,600	12.1	44,400	11.6	2,200	4.7	
408,000	51,400	12.6	49,200	12.1	2,200	4.3	
432,000	56,200	13.0	54,000	12.5	2,200	3.9	
456,000	61,000	13.4	58,800	12.9	2,200	3.6	
480,000	65,800	13.7	63,600	13.3	2,200	3.3	
504,000	70,600	14.0	68,400	13.6	2,200	3.1	
528,000	75,400	14.3	73,200	13.9	2,200	2.9	
552,000	80,200	14.5	78,000	14.1	2,200	2.7	
576,000	85,000	14.8	82,800	14.4	2,200	2.6	
* 604,000	90,600	15.0	88,400	14.6	2,200	2.4	
624,000	93,600	15.0	92,400	14.8	1,200	1.3	
# 648,000	97,200	15.0	97,200	15.0	-	-	Taxpayers earning \$648,000 or more will pay tax at the standard rate.
672,000	100,800	15.0	100,800	15.0	-	-	

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

Income level at which salaries taxpayers will enter the standard rate zone after the 1995 Budget.

@ Median income household

† Sandwich class household

Effect of the increase in allowances

Single person, with two dependent parents / grandparents both living with the taxpayer

Annual income	Present tax payable (Exemption level: \$118,000)		Proposed tax payable (Exemption level: \$135,000)		Tax saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)	(%)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
							All taxpayers earning less than \$696,000 will benefit from the concessions.
120,000	40	<0.1	-	-	40	100.0	
132,000	280	0.2	-	-	280	100.0	Taxpayers with incomes not exceeding \$135,000 will not be required to pay tax as a result of the increases in the basic, the dependent parent / grandparent and the additional dependent parent / grandparent allowances.
144,000	940	0.7	180	0.1	760	80.9	
156,000	2,020	1.3	490	0.3	1,530	75.7	
168,000	3,100	1.8	1,570	0.9	1,530	49.4	
@ 180,000	5,140	2.9	2,650	1.5	2,490	48.4	
192,000	7,180	3.7	4,290	2.2	2,890	40.3	
204,000	9,400	4.6	6,330	3.1	3,070	32.7	
216,000	11,800	5.5	8,400	3.9	3,400	28.8	
228,000	14,200	6.2	10,800	4.7	3,400	23.9	
240,000	16,600	6.9	13,200	5.5	3,400	20.5	
† 264,000	21,400	8.1	18,000	6.8	3,400	15.9	
288,000	26,200	9.1	22,800	7.9	3,400	13.0	
312,000	31,000	9.9	27,600	8.8	3,400	11.0	
336,000	35,800	10.7	32,400	9.6	3,400	9.5	
360,000	40,600	11.3	37,200	10.3	3,400	8.4	
384,000	45,400	11.8	42,000	10.9	3,400	7.5	
408,000	50,200	12.3	46,800	11.5	3,400	6.8	
432,000	55,000	12.7	51,600	11.9	3,400	6.2	
456,000	59,800	13.1	56,400	12.4	3,400	5.7	
480,000	64,600	13.5	61,200	12.8	3,400	5.3	
504,000	69,400	13.8	66,000	13.1	3,400	4.9	
528,000	74,200	14.1	70,800	13.4	3,400	4.6	
552,000	79,000	14.3	75,600	13.7	3,400	4.3	
576,000	83,800	14.5	80,400	14.0	3,400	4.1	
600,000	88,600	14.8	85,200	14.2	3,400	3.8	
* 628,000	94,200	15.0	90,800	14.5	3,400	3.6	
648,000	97,200	15.0	94,800	14.6	2,400	2.5	
672,000	100,800	15.0	99,600	14.8	1,200	1.2	
# 696,000	104,400	15.0	104,400	15.0	-	-	
720,000	108,000	15.0	108,000	15.0	-	-	Taxpayers earning \$696,000 or more will pay tax at the standard rate.

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

Income level at which salaries taxpayers will enter the standard rate zone after the 1995 Budget.

@ Median income household

† Sandwich class household

Effect of the increase in allowances

Married couple, with no children

Annual income	Present tax payable (Exemption level: \$144,000)		Proposed tax payable (Exemption level: \$158,000)		Tax saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)	(%)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
156,000	240	0.2	-	-	240	100.0	All taxpayers earning less than \$788,000 will benefit from the concessions. Taxpayers with incomes not exceeding \$158,000 will not be required to pay tax as a result of the increase in the married person's allowance.
168,000	760	0.5	200	0.1	560	73.7	
@ 180,000	1,840	1.0	580	0.3	1,260	68.5	
192,000	2,920	1.5	1,660	0.9	1,260	43.2	
204,000	4,800	2.4	2,740	1.3	2,060	42.9	
216,000	6,840	3.2	4,460	2.1	2,380	34.8	
228,000	9,000	3.9	6,500	2.9	2,500	27.8	
240,000	11,400	4.8	8,600	3.6	2,800	24.6	
† 264,000	16,200	6.1	13,400	5.1	2,800	17.3	
288,000	21,000	7.3	18,200	6.3	2,800	13.3	
312,000	25,800	8.3	23,000	7.4	2,800	10.9	
336,000	30,600	9.1	27,800	8.3	2,800	9.2	
360,000	35,400	9.8	32,600	9.1	2,800	7.9	
384,000	40,200	10.5	37,400	9.7	2,800	7.0	
408,000	45,000	11.0	42,200	10.3	2,800	6.2	
432,000	49,800	11.5	47,000	10.9	2,800	5.6	
456,000	54,600	12.0	51,800	11.4	2,800	5.1	
480,000	59,400	12.4	56,600	11.8	2,800	4.7	
504,000	64,200	12.7	61,400	12.2	2,800	4.4	
528,000	69,000	13.1	66,200	12.5	2,800	4.1	
552,000	73,800	13.4	71,000	12.9	2,800	3.8	
576,000	78,600	13.6	75,800	13.2	2,800	3.6	
600,000	83,400	13.9	80,600	13.4	2,800	3.4	
648,000	93,000	14.4	90,200	13.9	2,800	3.0	
696,000	102,600	14.7	99,800	14.3	2,800	2.7	
* 732,000	109,800	15.0	107,000	14.6	2,800	2.6	
744,000	111,600	15.0	109,400	14.7	2,200	2.0	
# 788,000	118,200	15.0	118,200	15.0	-	-	Taxpayers earning \$788,000 or more will pay tax at the standard rate.
792,000	118,800	15.0	118,800	15.0	-	-	

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

Income level at which salaries taxpayers will enter the standard rate zone after the 1995 Budget.

@ Median income household

† Sandwich class household

Effect of the increase in allowances

Married couple, with two children

Annual income	Present tax payable (Exemption level: \$184,000)		Proposed tax payable (Exemption level: \$202,000)		Tax saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)	(%)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
192,000	160	0.1	-	-	160	100.0	All taxpayers earning less than \$964,000 will benefit from the concessions.
204,000	400	0.2	40	<0.1	360	90.0	Taxpayers with incomes not exceeding \$202,000 will not be required to pay tax as a result of the increases in the married person's and the child allowances.
216,000	1,480	0.7	280	0.1	1,200	81.1	
228,000	2,560	1.1	940	0.4	1,620	63.3	
240,000	4,120	1.7	2,020	0.8	2,100	51.0	
† 256,000	5,200	2.1	3,140	1.2	2,060	40.2	
288,000	13,000	4.5	9,400	3.3	3,600	27.7	
312,000	17,800	5.7	14,200	4.6	3,600	20.2	
336,000	22,600	6.7	19,000	5.7	3,600	15.9	
360,000	27,400	7.6	23,800	6.6	3,600	13.1	
384,000	32,200	8.4	28,600	7.4	3,600	11.2	
408,000	37,000	9.1	33,400	8.2	3,600	9.7	
432,000	41,800	9.7	38,200	8.8	3,600	8.6	# Taxpayers earning more than \$202,000 but less than \$964,000 will have reduced tax liabilities as a result of the increases in the married person's and the child allowances.
456,000	46,600	10.2	43,000	9.4	3,600	7.7	
480,000	51,400	10.7	47,800	10.0	3,600	7.0	
504,000	56,200	11.2	52,600	10.4	3,600	6.4	
528,000	61,000	11.6	57,400	10.9	3,600	5.9	
552,000	65,800	11.9	62,200	11.3	3,600	5.5	
576,000	70,600	12.3	67,000	11.6	3,600	5.1	
600,000	75,400	12.6	71,800	12.0	3,600	4.8	
648,000	85,000	13.1	81,400	12.6	3,600	4.2	
696,000	94,600	13.6	91,000	13.1	3,600	3.8	
744,000	104,200	14.0	100,600	13.5	3,600	3.5	
792,000	113,800	14.4	110,200	13.9	3,600	3.2	
840,000	123,400	14.7	119,800	14.3	3,600	2.9	
* 892,000	133,800	15.0	130,200	14.6	3,600	2.7	
936,000	140,400	15.0	139,000	14.9	1,400	1.0	
# 964,000	144,600	15.0	144,600	15.0	-	-	# Taxpayers earning \$964,000 or more will pay tax at the standard rate.
984,000	147,600	15.0	147,600	15.0	-	-	

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

Income level at which salaries taxpayers will enter the standard rate zone after the 1995 Budget.

† Sandwich class household

Effect of the increase in allowances

Married couple, with three children

Annual income	Present tax payable (Exemption level: \$187,000)		Proposed tax payable (Exemption level: \$213,000)		Tax saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)	(A) - (B)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
192,000	100	0.1	-	-	100	100.0	All taxpayers earning less than \$1,008,000 will benefit from the concessions.
204,000	340	0.2	-	-	340	100.0	
216,000	1,210	0.6	60	<0.1	1,150	95.0	
228,000	2,290	1.0	300	0.1	1,990	86.9	Taxpayers with incomes not exceeding \$213,000 will not be required to pay tax as a result of the increases in the married person's and the child allowances.
240,000	3,610	1.5	1,030	0.4	2,580	71.5	
† 264,000	7,690	2.9	3,270	1.2	4,420	57.5	
288,000	12,400	4.3	7,350	2.6	5,050	40.7	
312,000	17,200	5.5	12,000	3.8	5,200	30.2	
336,000	22,000	6.5	16,800	5.0	5,200	23.6	
360,000	26,800	7.4	21,600	6.0	5,200	19.4	
384,000	31,600	8.2	26,400	6.9	5,200	16.5	
408,000	36,400	8.9	31,200	7.6	5,200	14.3	
432,000	41,200	9.5	36,000	8.3	5,200	12.6	
456,000	46,000	10.1	40,800	8.9	5,200	11.3	Taxpayers earning more than \$213,000 but less than \$1,008,000 will have reduced tax liabilities as a result of the increases in the married person's and the child allowances.
480,000	50,800	10.6	45,600	9.5	5,200	10.2	
504,000	55,600	11.0	50,400	10.0	5,200	9.4	
528,000	60,400	11.4	55,200	10.5	5,200	8.6	
552,000	65,200	11.8	60,000	10.9	5,200	8.0	
576,000	70,000	12.2	64,800	11.3	5,200	7.4	
600,000	74,800	12.5	69,600	11.6	5,200	7.0	
648,000	84,400	13.0	79,200	12.2	5,200	6.2	
696,000	94,000	13.5	88,800	12.8	5,200	5.5	
744,000	103,600	13.9	98,400	13.2	5,200	5.0	
792,000	113,200	14.3	108,000	13.6	5,200	4.6	Taxpayers earning \$1,008,000 or more will pay tax at the standard rate.
840,000	122,800	14.6	117,600	14.0	5,200	4.2	
888,000	132,400	14.9	127,200	14.3	5,200	3.9	
* 904,000	135,600	15.0	130,400	14.4	5,200	3.8	
936,000	140,400	15.0	136,800	14.6	3,600	2.6	
984,000	147,600	15.0	146,400	14.9	1,200	0.8	
# 1,008,000	151,200	15.0	151,200	15.0	-	-	
1,032,000	154,800	15.0	154,800	15.0	-	-	

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

Income level at which salaries taxpayers will enter the standard rate zone after the 1995 Budget.

† Sandwich class household

Effect of the increase in allowances

Married couple, with two children and two dependent parents / grandparents

Annual income	Present tax payable (Exemption level: \$224,000)		Proposed tax payable (Exemption level: \$246,000)		Tax saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)	(%)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
							All taxpayers earning less than \$1,140,000 will benefit from the concessions.
228,000	80	<0.1	-	-	80	100.0	Taxpayers with incomes not exceeding \$246,000 will not be required to pay tax as a result of the increases in the married person's, the child and the dependent parent / grandparent allowances.
240,000	320	0.1	-	-	320	100.0	
† 264,000	2,200	0.8	2,360	0.1	1,840	83.6	
288,000	5,480	1.9	2,380	0.8	3,100	56.6	
312,000	9,800	3.1	5,820	1.9	3,980	40.6	
336,000	14,600	4.3	10,200	3.0	4,400	30.1	
360,000	19,400	5.4	15,000	4.2	4,400	22.7	
384,000	24,200	6.3	19,800	5.2	4,400	18.2	
408,000	29,000	7.1	24,600	6.0	4,400	15.2	
432,000	33,800	7.8	29,400	6.8	4,400	13.0	
456,000	38,600	8.5	34,200	7.5	4,400	11.4	
480,000	43,400	9.0	39,000	8.1	4,400	10.1	
504,000	48,200	9.6	43,800	8.7	4,400	9.1	
528,000	53,000	10.0	48,600	9.2	4,400	8.3	Taxpayers earning more than \$246,000 but less than \$1,140,000 will have reduced tax liabilities as a result of the increases in the married person's, the child and the dependent parent / grandparent allowances.
552,000	57,800	10.5	53,400	9.7	4,400	7.6	
576,000	62,600	10.9	58,200	10.1	4,400	7.0	
600,000	67,400	11.2	63,000	10.5	4,400	6.5	
648,000	77,000	11.9	72,600	11.2	4,400	5.7	
696,000	86,600	12.4	82,200	11.8	4,400	5.1	
744,000	96,200	12.9	91,800	12.3	4,400	4.6	
792,000	105,800	13.4	101,400	12.8	4,400	4.2	
840,000	115,400	13.7	111,000	13.2	4,400	3.8	
888,000	125,000	14.1	120,600	13.6	4,400	3.5	
936,000	134,600	14.4	130,200	13.9	4,400	3.3	
984,000	144,200	14.7	139,800	14.2	4,400	3.1	
1,032,000	153,800	14.9	149,400	14.5	4,400	2.9	
* 1,052,000	157,800	15.0	153,400	14.6	4,400	2.8	
1,080,000	162,000	15.0	159,000	14.7	3,000	1.9	
1,128,000	169,200	15.0	168,600	14.9	600	0.4	
†† 1,140,000	171,000	15.0	171,000	15.0	-	-	Taxpayers earning \$1,140,000 or more will pay tax at the standard rate.
1,176,000	176,400	15.0	176,400	15.0	-	-	

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

† Income level at which salaries taxpayers will enter the standard rate zone after the 1995 Budget.

†† Sandwich class household

Effect of the increase in allowances

Married couple, with two children and two dependent parents / grandparents both living with the taxpayer

Annual income	Present tax payable (Exemption level: \$230,000)		Proposed tax payable (Exemption level: \$258,000)		Tax saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)	(%)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
240,000	200	0.1	-	-	200	100.0	All taxpayers earning less than \$1,188,000 will benefit from the concessions.
† 264,000	1,660	0.6	120	<0.1	1,540	92.8	Taxpayers with incomes not exceeding \$258,000 will not be required to pay tax as a result of the increases in the married person's, the child, the dependent parent / grandparent and the additional dependent parent / grandparent allowances.
288,000	4,460	1.5	1,300	0.5	3,160	70.9	
312,000	8,600	2.8	3,780	1.2	4,820	56.0	
336,000	13,400	4.0	7,860	2.3	5,540	41.3	
360,000	18,200	5.1	12,600	3.5	5,600	30.8	
384,000	23,000	6.0	17,400	4.5	5,600	24.3	
408,000	27,800	6.8	22,200	5.4	5,600	20.1	
432,000	32,600	7.5	27,000	6.3	5,600	17.2	
456,000	37,400	8.2	31,800	7.0	5,600	15.0	
480,000	42,200	8.8	36,600	7.6	5,600	13.3	
504,000	47,000	9.3	41,400	8.2	5,600	11.9	
528,000	51,800	9.8	46,200	8.8	5,600	10.8	
552,000	56,600	10.3	51,000	9.2	5,600	9.9	
576,000	61,400	10.7	55,800	9.7	5,600	9.1	
600,000	66,200	11.0	60,600	10.1	5,600	8.5	
648,000	75,800	11.7	70,200	10.8	5,600	7.4	
696,000	85,400	12.3	79,800	11.5	5,600	6.6	
744,000	95,000	12.8	89,400	12.0	5,600	5.9	
792,000	104,600	13.2	99,000	12.5	5,600	5.4	
840,000	114,200	13.6	108,600	12.9	5,600	4.9	
888,000	123,800	13.9	118,200	13.3	5,600	4.5	
936,000	133,400	14.3	127,800	13.7	5,600	4.2	
984,000	143,000	14.5	137,400	14.0	5,600	3.9	
1,032,000	152,600	14.8	147,000	14.2	5,600	3.7	
* 1,076,000	161,400	15.0	155,800	14.5	5,600	3.5	
1,128,000	169,200	15.0	166,200	14.7	3,000	1.8	
1,176,000	176,400	15.0	175,800	14.9	600	0.3	
# 1,188,000	178,200	15.0	178,200	15.0	-	-	Taxpayers earning \$1,188,000 or more will pay tax at the standard rate.
1,200,000	180,000	15.0	180,000	15.0	-	-	

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

Income level at which salaries taxpayers will enter the standard rate zone after the 1995 Budget.

† Sandwich class household

Effect of the increase in allowances

Married couple, with two children and one disabled dependent parent / grandparent living with the taxpayer

Annual income	Present tax payable (Exemption level: \$207,000)		Proposed tax payable (Exemption level: \$241,000)		Tax saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)	(A) - (B)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
216,000	180	0.1	-	-	180	100.0	All taxpayers earning less than \$1,120,000 will benefit from the concessions. Taxpayers with incomes not exceeding \$241,000 will not be required to pay tax as a result of the increases in the married person's, the child, the dependent parent / grandparent, the additional dependent parent / grandparent allowances and the introduction of the disabled dependant allowance.
228,000	490	0.2	-	-	490	100.0	
240,000	1,570	0.7	-	-	1,570	100.0	
264,000	4,290	1.6	6,700	0.3	3,200	84.2	Taxpayers earning more than \$241,000 but less than \$1,120,000 will have reduced tax liabilities as a result of the increases in the married person's, the child, the dependent parent / grandparent, the additional dependent parent / grandparent allowances and the introduction of the disabled dependant allowance.
288,000	8,400	2.9	2,830	1.0	5,570	66.3	
312,000	13,200	4.2	6,670	2.1	6,530	49.5	
336,000	18,000	5.4	11,200	3.3	6,800	37.8	
360,000	22,800	6.3	16,000	4.4	6,800	29.8	
384,000	27,600	7.2	20,800	5.4	6,800	24.6	
408,000	32,400	7.9	25,600	6.3	6,800	21.0	
432,000	37,200	8.6	30,400	7.0	6,800	18.3	
456,000	42,000	9.2	35,200	7.7	6,800	16.2	
480,000	46,800	9.8	40,000	8.3	6,800	14.5	
504,000	51,600	10.2	44,800	8.9	6,800	13.2	
528,000	56,400	10.7	49,600	9.4	6,800	12.1	
552,000	61,200	11.1	54,400	9.9	6,800	11.1	
576,000	66,000	11.5	59,200	10.3	6,800	10.3	
600,000	70,800	11.8	64,000	10.7	6,800	9.6	
648,000	80,400	12.4	73,600	11.4	6,800	8.5	
696,000	90,000	12.9	83,200	12.0	6,800	7.6	
744,000	99,600	13.4	92,800	12.5	6,800	6.8	
792,000	109,200	13.8	102,400	12.9	6,800	6.2	
840,000	118,800	14.1	112,000	13.3	6,800	5.7	
888,000	128,400	14.5	121,600	13.7	6,800	5.3	
936,000	138,000	14.7	131,200	14.0	6,800	4.9	
984,000	147,600	15.0	140,800	14.3	6,800	4.6	
1,032,000	154,800	15.0	150,400	14.6	4,400	2.8	
1,080,000	162,000	15.0	160,000	14.8	2,000	1.2	
* 1,120,000	168,000	15.0	168,000	15.0	-	-	Taxpayers earning \$1,120,000 or more will pay tax at the standard rate.
1,176,000	176,400	15.0	176,400	15.0	-	-	

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

Income level at which salaries taxpayers will enter the standard rate zone after the 1995 Budget.

† Sandwich class household

Effect of the increase in allowances

Single parent, with two children

Annual income	Present tax payable (Exemption level: \$144,000)		Proposed tax payable (Exemption level: \$163,000)		Tax saving		Remarks
	Amount (A)	Effective rate	Amount (B)	Effective rate	(A) - (B)	(%)	
(\$)	(\$)	(%)	(\$)	(%)	(\$)	(%)	
156,000	240	0.2	-	-	240	100.0	All taxpayers earning less than \$808,000 will benefit from the concessions.
168,000	760	0.5	100	0.1	660	86.8	Taxpayers with incomes not exceeding \$163,000 will not be required to pay tax as a result of the increases in the basic, the child and the single parent allowances.
@ 180,000	1,840	1.0	340	0.2	1,500	81.5	
192,000	2,920	1.5	1,210	0.6	1,710	58.6	
204,000	4,800	2.4	2,290	1.1	2,510	52.3	
216,000	6,840	3.2	3,610	1.7	3,230	47.2	
228,000	9,000	3.9	5,650	2.5	3,350	37.2	
240,000	11,400	4.8	7,690	3.2	3,710	32.5	
† 264,000	16,200	6.1	12,400	4.7	3,800	23.5	
288,000	21,000	7.3	17,200	6.0	3,800	18.1	
312,000	25,800	8.3	22,000	7.1	3,800	14.7	
336,000	30,600	9.1	26,800	8.0	3,800	12.4	
360,000	35,400	9.8	31,600	8.8	3,800	10.7	
384,000	40,200	10.5	36,400	9.5	3,800	9.5	
408,000	45,000	11.0	41,200	10.1	3,800	8.4	
432,000	49,800	11.5	46,000	10.6	3,800	7.6	
456,000	54,600	12.0	50,800	11.1	3,800	7.0	
480,000	59,400	12.4	55,600	11.6	3,800	6.4	
504,000	64,200	12.7	60,400	12.0	3,800	5.9	
528,000	69,000	13.1	65,200	12.3	3,800	5.5	
552,000	73,800	13.4	70,000	12.7	3,800	5.1	
576,000	78,600	13.6	74,800	13.0	3,800	4.8	
600,000	83,400	13.9	79,600	13.3	3,800	4.6	
624,000	88,200	14.1	84,400	13.5	3,800	4.3	
648,000	93,000	14.4	89,200	13.8	3,800	4.1	
672,000	97,800	14.6	94,000	14.0	3,800	3.9	
696,000	102,600	14.7	98,800	14.2	3,800	3.7	
720,000	107,400	14.9	103,600	14.4	3,800	3.5	
* 732,000	109,800	15.0	106,000	14.5	3,800	3.5	
744,000	111,600	15.0	108,400	14.6	3,200	2.9	
768,000	115,200	15.0	113,200	14.7	2,000	1.7	
792,000	118,800	15.0	118,000	14.9	800	0.7	
# 808,000	121,200	15.0	121,200	15.0	-	-	Taxpayers earning \$808,000 or more will pay tax at the standard rate.
816,000	122,400	15.0	122,400	15.0	-	-	

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

Income level at which salaries taxpayers will enter the standard rate zone after the 1995 Budget.

@ Median income household

† Sandwich class household

ADJUSTMENTS TO DUTY RATES**Hydrocarbon oil**

	<i>Present rate</i> (\$ per litre)	<i>Proposed rate</i> (\$ per litre)
Aircraft spirit	4.92	5.31
Light diesel oil	2.45	2.65
Motor spirit (leaded petrol)	5.46	5.90
Motor spirit (unleaded petrol)	4.86	5.25

Tobacco

	<i>Present rate</i> (\$ per 1,000 sticks)	<i>Proposed rate</i> (\$ per 1,000 sticks)
Cigarettes	580	626
	<i>(\$ per Kg)</i>	<i>(\$ per Kg)</i>
Cigars	745	805
Chinese prepared tobacco	142	153
All other manufactured tobacco except tobacco intended for the manufacture of cigarettes	701	757

ECONOMIC PERFORMANCE IN 1994

1. Estimated growth rates of the GDP and its expenditure components and rates of increase in the main price indicators in 1994:

(i) Growth rates in real terms of:

	(%)	(%)
Private consumption expenditure		7.8
Government consumption expenditure		3.9
Gross domestic fixed capital formation		13.1
transfer costs of land and buildings	-10.1	
building and construction	15.3	
real estate developers' margin	14.9	
machinery and equipment	14.3	
Total exports of goods		10.4
domestic exports	-2.3	
re-exports	13.9	
Imports of goods		14.1
Exports of services		7.5
Imports of services		7.7
Gross domestic product (GDP)		5.5
<i>Per capita GDP</i>		3.0
<i>Per capita GDP at current prices</i>	<i>HK\$168,200</i> <i>(US\$21,800)</i>	

(ii) Rates of increase in:

Consumer Price Index (A)		8.1
GDP deflator		7.7

2. Performance of domestic exports and re-exports

(i) Annual growth rates in real terms of:

	<i>Domestic exports</i>	<i>Re-exports</i>
	(%)	(%)
1992	0	28
1993	-4	20
1994	-2	14

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

	<i>Domestic exports</i>	<i>Re-exports</i>
	(%)	(%)
1988	44	56
1989	39	61
1990	35	65
1991	30	70
1992	25	75
1993	21	79
1994	19	81

3. Annual growth rates in real terms of retained imports:

Retained imports

	<i>Total</i>	<i>Foodstuffs and consumer goods</i>	<i>Raw materials and semi-manufactures</i>	<i>Capital goods</i>
	(%)	(%)	(%)	(%)
1992	17	24	8	22
1993	5	14	-2	4
1994	14	15	11	12

4. Hong Kong's visible and invisible trade balance in 1994:

	<i>\$Billion</i>
Domestic exports	222
Re-exports	948
Total exports	1,170
Imports*	1,254
Visible trade deficit	84
Invisible trade surplus#	103
Surplus on visible and invisible trade combined	19

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

Preliminary estimate.

5. Unemployment and underemployment rates:

	<i>Unemployment rate</i>	<i>Underemployment rate</i>
	(%)	(%)
1992	2.2	2.1
1993	2.1	1.6
1994	2.1	1.4

6. Annual rates of increase in the Consumer Price Indices:

	<i>CPI(A)</i>	<i>CPI(B)</i>	<i>Hang Seng CPI Composite CPI</i>	
	(%)	(%)	(%)	(%)
1991	12.0	11.6	11.1	11.6
1992	9.4	9.6	9.8	9.6
1993	8.5	8.7	9.5	8.8
1994	8.1	8.6	10.0	8.8

ECONOMIC PROSPECTS FOR 1995

Forecast growth rates of the GDP and its expenditure components and rates of increase in the main price indicators in 1995:

(i)	Growth rates in real terms of:		
		(%)	(%)
	Private consumption expenditure		6.0
	Government consumption expenditure		4.0
	Gross domestic fixed capital formation		10.2
	transfer costs of land and buildings	0.0	
	building and construction	14.9	
	real estate developers' margin	3.0	
	machinery and equipment	10.0	
	Total exports of goods		13.4
	domestic exports	2.0	
	re-exports	16.0	
	Imports of goods		13.4
	Exports of services		9.0
	Imports of services		7.5
	Gross domestic product (GDP)		5.5
	<i>Per capita GDP</i>		3.6
	<i>Per capita GDP at current prices</i>	<i>HK\$188,300</i>	
		<i>(US\$24,100)</i>	
(ii)	Rates of increase in:		
	Consumer Price Index (A)		8.5
	GDP deflator		8.0

APPENDICES

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Forecasting Government's expenditure and revenue in the period up to 1998-99 and setting these forecasts in a historical context.	
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Appendix A

MEDIUM RANGE FORECAST 1994-95 TO 1998-99**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 1994-95 to 1998-99.
 - (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 81/2%. It is emphasised that this is a *trend* assumption related to the GDP deflator.

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 1995-96.

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.

—Total expenditure growth

It is intended that, over time, expenditure growth should not exceed the assumption as to the *trend* 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 assumption as to the *trend* 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.

Appendix A—Contd.

SECTION II—THE MRF FOR 1994-95 TO 1998-99

9 The current MRF is summarised in the following three tables which indicate the forecast operating position, capital cash flow and consolidated reserves (*Note a*).

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 (General Revenue Account)

Table 1

	Revised Estimate	Forecast			
		1994-95	1995-96	1996-97	1997-98
	\$m	\$m	\$m	\$m	\$m
Revenue (<i>Note b</i>)	150,580	158,950	177,810	206,600	241,280
Less: Expenditure (<i>Note c</i>)	(109,230)	(126,190)	(145,320)	(166,600)	(191,010)
Operating surplus for the year	41,350	32,760	32,490	40,000	50,270

Capital Financing Statement (The Funds)

Table 2

	Revised Estimate	Forecast			
		1994-95	1995-96	1996-97	1997-98
	\$m	\$m	\$m	\$m	\$m
Opening balances of the Funds	36,630	35,110	33,770	27,230	30,550
Add: Revenue (<i>Note d</i>)	22,980	29,990	28,680	50,400	51,440
: Transfers from General Revenue Account (<i>Note e</i>)	32,100	34,040	20,000	10,000	20,000
Less: Expenditure on capital projects (<i>Note f</i>)	(29,400)	(36,500)	(42,720)	(52,670)	(63,950)
: Loans and investments (<i>Notes g and h</i>)	(24,680)	(28,870)	(12,500)	(4,410)	(4,560)
: Disaster relief aid (<i>Note i</i>)	(30)	—	—	—	—
: Debt interest (<i>Note j</i>)	(90)	—	—	—	—
: Debt repayment (<i>Note k</i>)	(2,400)	—	—	—	—
Closing balances of the Funds	35,110	33,770	27,230	30,550	33,480

Consolidated Reserves

Table 3

	Revised Estimate	Forecast			
		1994-95	1995-96	1996-97	1997-98
	\$m	\$m	\$m	\$m	\$m
General Revenue Account					
Opening balance	103,570	112,820	111,540	124,030	154,030
Operating surplus (per Table 1)	41,350	32,760	32,490	40,000	50,270
Transfers to the Funds (per Table 2) (<i>Note e</i>)	(32,100)	(34,040)	(20,000)	(10,000)	(20,000)
Closing balance	112,820	111,540	124,030	154,030	184,300
The Funds—closing balances (per Table 2)	35,110	33,770	27,230	30,550	33,480
Transfer from SARG Land Fund at 1.4.98	—	—	—	—	142,910
Fiscal Reserves at 31 March (<i>Note l</i>)	147,930	145,310	151,260	184,580	360,690
SARG Land Fund—balance at 1.7.97 (<i>Note m</i>)				138,500	
—interest from 1.7.97				4,410	
Total				327,490	

Notes on the Medium Range Forecast*(a) Accounting policies*

- (i) The Medium Range Forecast, like Government's Accounts, is prepared on a cash basis and reflects forecast receipts and payments, whether or not they relate to recurrent or capital transactions.
- (ii) The Medium Range Forecast includes the General Revenue Account and the Funds (the Capital Works Reserve Fund, the Loan Fund, the Capital Investment Fund and the Disaster Relief Fund).
- (iii) The Suspense Account of the Capital Works Reserve Fund is excluded from the Medium Range Forecast since the funds in this Account are not available to the Government until they have been distributed between the Hong Kong Government and the future Hong Kong Special Administrative Region Government (SARG) in accordance with the Joint Declaration.

(b) General Revenue Account—Revenue

This comprises all receipts to be credited to any of the eleven revenue heads, namely—

- Duties
- General Rates
- Internal Revenue
- Motor Vehicle Taxes
- Fines, Forfeitures and Penalties
- Royalties and Concessions
- Properties and Investments
- Land Transactions
- Loans, Reimbursements, Contributions and Other Receipts
- Utilities
- Fees and Charges

(c) General Revenue Account—Expenditure

This comprises all expenditure to be charged to the General Revenue Account in accordance with the Appropriation Ordinance, with the exception of the transfers to funds. It includes the day to day operational expenses of government departments together with minor capital purchases of a routine nature.

(d) Funds—Revenue

This comprises all revenue receivable by the Funds except the transfers from General Revenue Account. It includes—

- Hong Kong Government's share of land premia distributed in accordance with Annex III of the Joint Declaration
- Loan repayments received
- Interest and Dividends
- Donations towards capital projects

(e) Transfers from General Revenue Account to the Funds

- (i) The transfers from General Revenue Account to the Funds are assessed with regard to the commitments of the Funds and their forecast cash flow requirements. The breakdown of the transfers for 1994-95 and 1995-96 is:—

	1994-95	1995-96
	\$m	\$m
General Revenue Account	(32,100)	(34,040)
Capital Works Reserve Fund	15,500	13,000
Loan Fund	9,100	1,500
Capital Investment Fund	7,500	19,500
Disaster Relief Fund	—	40

- (ii) The forecast takes no account of the creation of the Civil Service Pension Reserve Fund. Any amount(s) transferred from General Revenue Account to this fund (including the transfer of \$7,000 million in 1994-95) will have no effect on the overall forecast reserves.

(f) Expenditure on capital projects

This comprises expenditure chargeable to the Capital Works Reserve Fund in respect of the Public Works Programme (including land acquisition), capital subventions, major systems and equipment and computerisation.

Appendix A—*Contd.***Notes on the Medium Range Forecast—*Contd.****(g) Loans*

These comprise loans made from the Loan Fund, including loans to the Housing Society, schools, teachers, students as well as housing loans to civil servants.

(h) Investments

These comprise, in the main, advances and equity investments made from the Capital Investment Fund to trading funds and statutory bodies including the Mass Transit Railway Corporation and the Provisional Airport Authority.

(i) Disaster relief aid

This is actual expenditure made from the Disaster Relief Fund for providing relief to disasters that occur outside Hong Kong. Because of the unpredictable nature of disasters, no estimate of future expenditure is made for the forecast period.

(j) Debt interest

This is interest payable in respect of government bonds issued before 1 April 1993, the proceeds of which were credited to the Capital Works Reserve Fund (see also Note *l*).

(k) Debt repayment

This is the repayment of government bonds issued before 1 April 1993, the proceeds of which were credited to the Capital Works Reserve Fund (see also Note *l*).

(l) Fiscal reserves

The fiscal reserves represent the accumulated balances of the General Revenue Account and the Funds. In 1991-92 and 1992-93, the net proceeds from the issue of government bonds were credited to the Capital Works Reserve Fund. The balances of the Funds and thus the fiscal reserves at 31 March 1994 include total proceeds from bond issues of \$2,400m. These bonds were fully repaid in 1994-95. No further borrowing for the account of the Capital Works Reserve Fund is anticipated in the forecast period. The movement in the fiscal reserves from one year to the next year represents the estimated surplus/deficit for the year.

(m) SARG Land Fund

The balance of this fund at 1 July 1997 has been estimated after taking into account the known balance at 31 March 1994 together with the future SARG's share of land revenue to 30 June 1997. It is assumed that the balance of the Fund will be consolidated with the general fiscal reserves from 1 April 1998.

Appendix A—Contd.

SECTION III—COMMENTARY ON THE MRF

Expenditure Growth

11 To demonstrate that expenditure growth, over time, 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

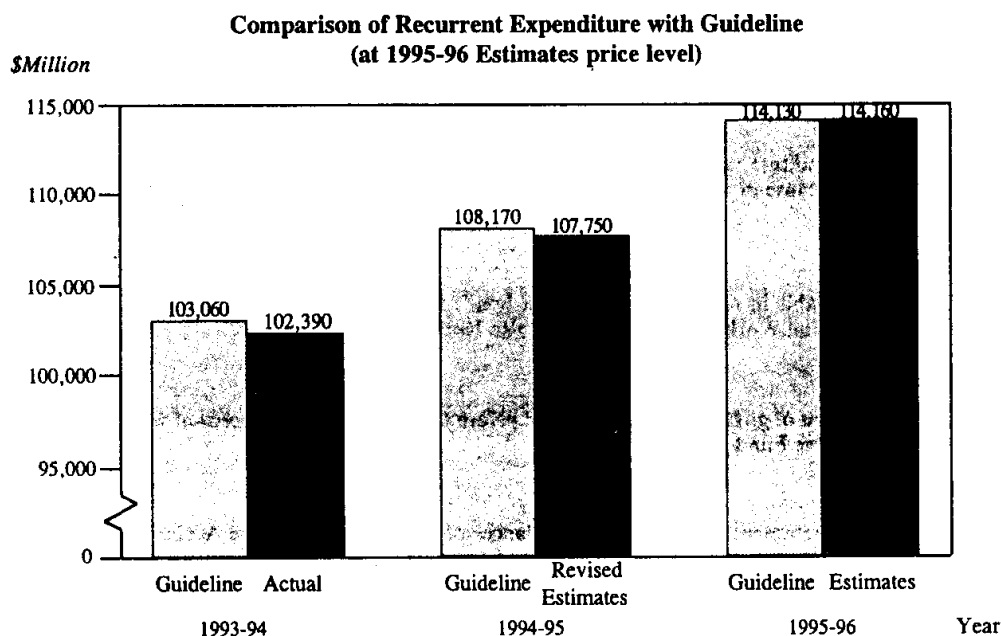
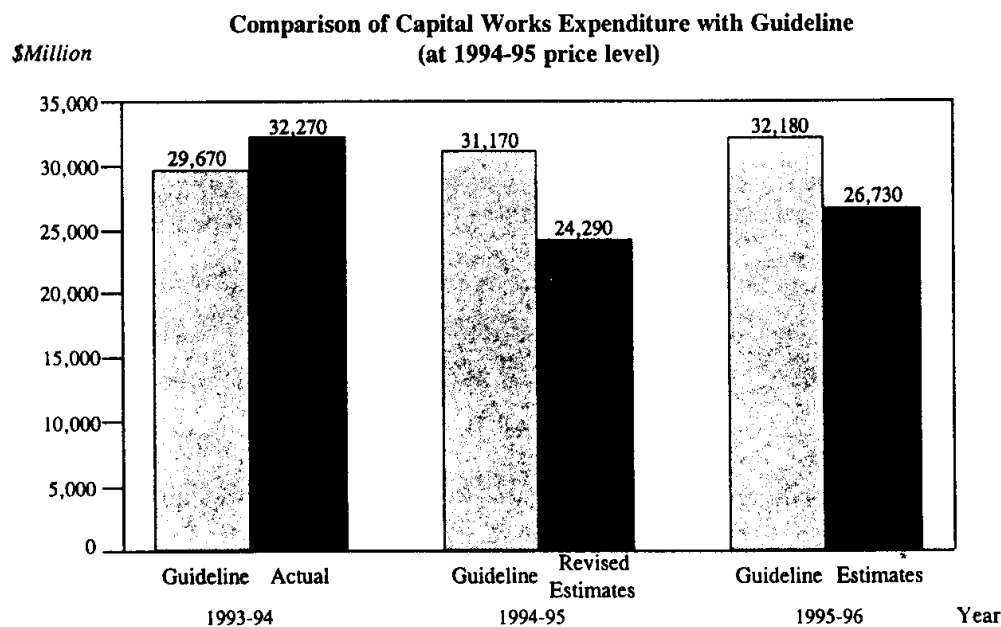


Diagram 2



The actual expenditure for capital works in 1993-94 includes exceptional one-off payments made in the year for the extension to the Convention and Exhibition Centre (\$4,829 million) and for North District Hospital (\$1,690 million). These sums are equivalent to \$6,910 million at 1994-95 prices.

Appendix A—Contd.

Public Expenditure in the Context of the Economy

12 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.

13 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			
		1994-95	1995-96	1996-97	1997-98
	\$m	\$m	\$m	\$m	\$m
Operating expenditure	107,660	124,540	143,450	164,470	188,560
Capital expenditure	37,140	45,200	46,750	57,010	68,660
Total government expenditure	144,800	169,740	190,200	221,480	257,220
Add: Other public sector bodies	26,050	34,190	43,020	46,950	47,950
Total public expenditure	170,850	203,930	233,220	268,430	305,170
Gross Domestic Product (calendar year) (Note 2)	1,019,000	1,160,900	1,322,550	1,506,720	1,716,530
Growth in GDP					
Money terms	14.8%	13.9%	13.9%	13.9%	13.9%
Real terms	5.5%	5.0%	5.0%	5.0%	5.0%
Growth in public expenditure					
Money terms	10.1%	19.4%	14.4%	15.1%	13.7%
Real terms	0.7%	9.3%	4.7%	5.2%	3.9%
Public expenditure as a percentage of GDP (at current prices) (Note 3)	16.8%	17.6%	17.6%	17.8%	17.8%

Note 1 Public expenditure comprises expenditure by the trading funds, 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 payments of government departments which are wholly or 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 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 For years beyond the current year, the GDP figures are based on *trend* assumptions.

Note 3 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

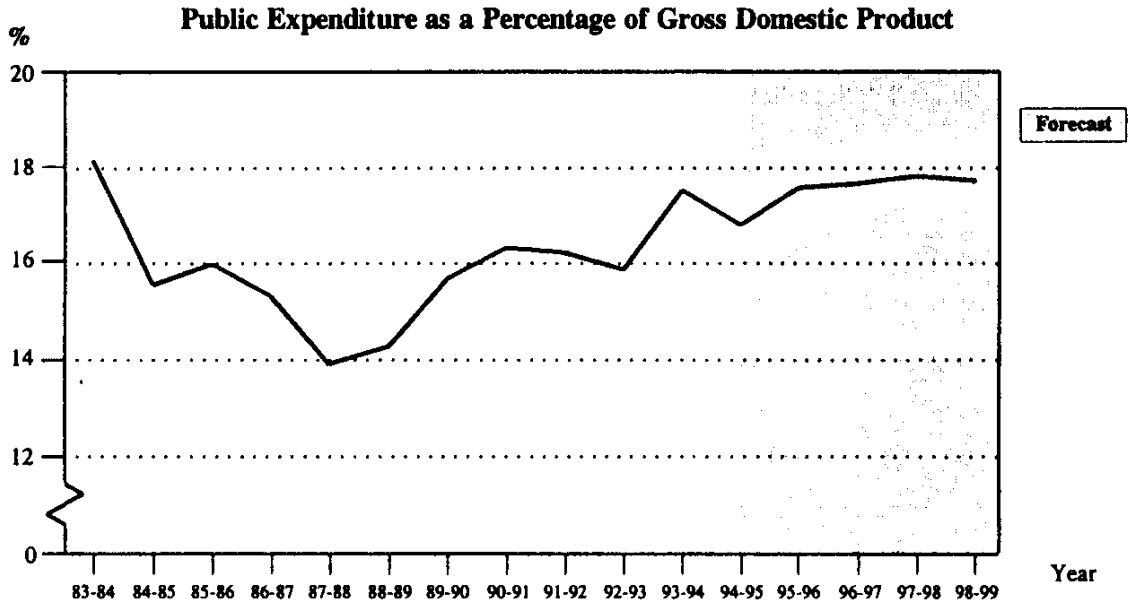
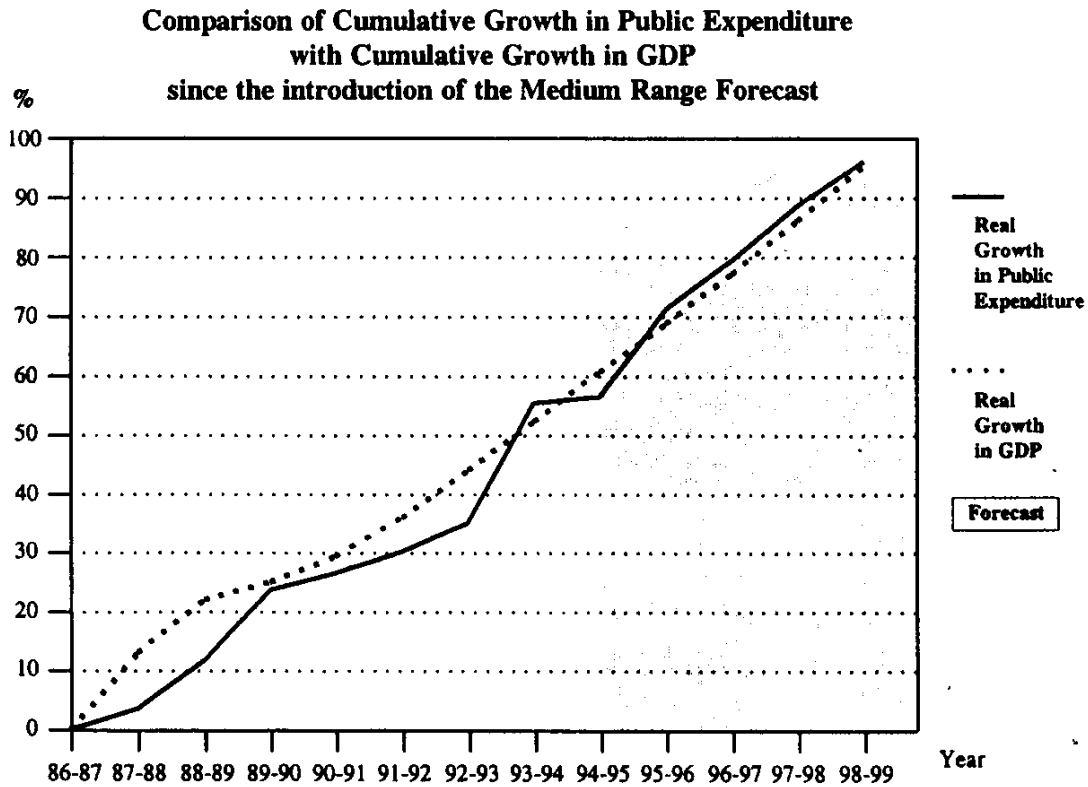


Diagram 4



Appendix A—Contd.

14 Table 5 shows the sum to be appropriated in the 1995–96 Budget analysed between operating and capital expenditure and, after including expenditure from the various funds and other public sector bodies, shows the derivation of public expenditure for 1995–96 given in Table 4.

15 The table also illustrates the effect of the budget revenue measures on the overall surplus/deficit position for 1995–96.

16 The table can be read with Tables 1–4.

Relationship Between Government Expenditure
and Public Expenditure in 1995–96

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	123,520	123,520	—	123,520	123,520
Capital account					
Plant, equipment and works	765	—	765	765	765
Other non-recurrent	1,020	1,020	—	1,020	1,020
Subventions	885	—	885	885	885
	126,190	124,540	1,650	126,190	126,190
Transfers to funds	34,035	—	—	—	—
Capital Works Reserve Fund:					
Works account and Reserve account	—	—	36,495	36,495	36,495
Loan Fund	—	—	7,055	7,055	7,055
Lotteries Fund	—	—	—	—	1,525
Housing Authority	—	—	—	—	20,460
Urban Council	—	—	—	—	5,780
Regional Council	—	—	—	—	4,020
Trading funds	—	—	—	—	2,405
	160,225	124,540	45,200	169,740	203,930
Revenue					
General Revenue Account:					
Taxation		123,465	1,565	125,030	
Other revenue		33,530	1,050	34,580	
		156,995	2,615	159,610	
Capital Works Reserve Fund		—	25,850	25,850	
Capital Investment Fund		—	2,750	2,750	
Disaster Relief Fund		—	5	5	
Loan Fund		—	1,385	1,385	
		156,995	32,605	189,600	
Cash surplus/(deficit) before budget revenue measures		32,455	(12,595)	19,860	
<i>Less:</i> Effect of budget revenue measures		(640)	(20)	(660)	
Cash surplus/(deficit) after budget revenue measures		31,815	(12,615)	19,200	
<i>Less:</i> Capital Investment Fund (Equity investments)		—	(21,820)	(21,820)	
Consolidated cash surplus/(deficit)		31,815	(34,435)	(2,620)	

TRENDS IN PUBLIC EXPENDITURE
1990-91 TO 1995-96

INTRODUCTION

The purpose of this appendix is to present trends in public expenditure over the period 1990-91 to 1995-96. This analysis is expressed in public expenditure terms as defined in Table 4 of Appendix A and includes expenditure by the trading funds, 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 ten main policy area groups:

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

Where appropriate, policy area groups are further analysed by policy areas.

2 Details of the individual heads of expenditure contributing to a particular policy area are provided in an index on pages 595-602 in Volume I of the 1995-96 Estimates. This index further provides details by head of expenditure of individual programmes which contribute to a policy area.

3 The analysis provided in this appendix shows how resources have been and will, in 1995-96, be allocated to different policy area groups. Where appropriate historical figures have been adjusted to comply with the current classification of expenditure.

Appendix B—Contd.

HISTORICAL PERSPECTIVE: THE MAJOR FEATURES

4 The changing share of expenditure on policy area groups from 1990-91 to 1995-96 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 Policy Area Group 1990-91 to 1995-96

Table 1

Policy Area Groups	Actual				Revised Estimate	Draft Estimate
	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
	%	%	%	%	%	%
(A) Economic	6.1	6.0	5.9	5.7	5.4	5.4
(B) Security						
(1) Internal Security	14.9	13.8	13.6	12.9	12.0	11.1
(2) Immigration	1.4	1.3	1.3	1.2	1.2	1.2
(3) Other	1.4	1.4	1.7	1.6	1.7	1.7
	17.7	16.5	16.6	15.7	14.9	14.0
(C) Social Welfare	7.2	7.8	7.7	8.4	8.6	9.2
(D) Health	11.3	11.8	13.5	13.8	13.9	14.0
(E) Education	21.7	20.8	21.3	21.4	21.5	21.5
(F) Environment	1.0	0.8	0.9	1.2	1.5	1.6
(G) Community and External Affairs						
(1) Recreation, Culture and Amenities	5.7	5.5	5.3	5.3	5.3	5.3
(2) District and Community Relations	0.9	0.9	0.8	0.7	0.7	0.7
(3) Other	0.4	0.3	0.3	0.3	0.3	0.3
	7.0	6.7	6.4	6.3	6.3	6.3
(H) Infrastructure						
(1) Transport	1.6	1.6	1.5	1.5	1.3	1.3
(2) Buildings, Lands and Planning	2.0	2.3	2.3	1.8	1.8	1.8
(3) Water Supply	3.3	2.9	2.8	2.7	2.6	2.6
	6.9	6.8	6.6	6.0	5.7	5.7
(I) Support	15.2	16.4	15.5	14.8	14.9	15.1
(J) Housing	5.9	6.4	5.6	6.7	7.3	7.2
	100.0	100.0	100.0	100.0	100.0	100.0
	\$m	\$m	\$m	\$m	\$m	\$m
Total Recurrent Public Expenditure	67,650	79,577	91,260	105,255	122,105	141,230

Appendix B—Contd.

Total Public Expenditure by Policy Area Group 1990-91 to 1995-96

Table 2

Policy Area Groups	Actual				Revised Estimate	Draft Estimate
	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
	%	%	%	%	%	%
(A) Economic	5.5	5.4	6.1	8.0	4.7	5.2
(B) Security						
(1) Internal Security	12.1	11.4	10.9	9.2	9.1	8.4
(2) Immigration	1.1	1.0	1.0	0.9	0.9	0.9
(3) Other	1.1	1.1	1.3	1.1	1.2	1.2
	14.3	13.5	13.2	11.2	11.2	10.5
(C) Social Welfare	5.6	5.8	6.0	5.9	6.5	7.3
(D) Health	9.8	10.0	11.0	11.9	11.1	10.9
(E) Education	17.4	18.0	17.9	16.4	17.1	16.6
(F) Environment	2.1	2.5	2.5	2.0	2.7	3.0
(G) Community and External Affairs						
(1) Recreation, Culture and Amenities	5.9	5.3	4.8	4.6	4.9	5.1
(2) District and Community Relations	0.7	0.7	0.6	0.5	0.5	0.5
(3) Other	0.3	0.3	0.3	0.2	0.2	0.2
	6.9	6.3	5.7	5.3	5.6	5.8
(H) Infrastructure						
(1) Transport	4.7	3.5	4.8	5.8	6.3	5.5
(2) Buildings, Lands and Planning	4.6	6.6	6.4	6.3	6.9	7.2
(3) Water Supply	3.2	3.2	2.9	2.8	2.9	2.8
	12.5	13.3	14.1	14.9	16.1	15.5
(I) Support	12.9	13.6	13.0	13.7	12.9	13.0
(J) Housing	13.0	11.6	10.5	10.7	12.1	12.2
	100.0	100.0	100.0	100.0	100.0	100.0
	\$m	\$m	\$m	\$m	\$m	\$m
Total Public Expenditure	95,198	108,012	123,490	155,207	170,850	203,930

Appendix B—Contd.

5 Recurrent public expenditure and total public expenditure in 1994-95 and 1995-96, analysed by policy area groups, are shown in Tables 3 and 4 respectively together with details of the real growths in expenditure between the two years.

Analysis of Recurrent Public Expenditure by Policy Area Group

Table 3

Policy Area Groups	Revised Estimate	Draft Estimate	Increase In Real Terms
	1994 95	1995 96	
	\$m	\$m	%
(A) Economic	6,650	7,665	+5.8
(B) Security			
(1) Internal Security	14,640	15,690	-1.8
(2) Immigration	1,460	1,660	+3.6
(3) Other	2,030	2,370	+5.8
	18,130	19,720	-0.5
(C) Social Welfare	10,535	12,955	+13.2
(D) Health	16,970	19,795	+7.7
(E) Education	26,235	30,330	+4.9
(F) Environment	1,780	2,245	+16.2
(G) Community and External Affairs			
(1) Recreation, Culture and Amenities	6,465	7,600	+7.7
(2) District and Community Relations	835	950	+4.0
(3) Other	395	435	+1.1
	7,695	8,985	+7.0
(H) Infrastructure			
(1) Transport	1,590	1,825	+5.0
(2) Buildings, Lands and Planning	2,235	2,590	+5.9
(3) Water Supply	3,150	3,610	+4.6
	6,975	8,025	+5.1
(I) Support	18,170	21,340	+8.8
(J) Housing	8,965	10,170	+3.5
Total Recurrent Public Expenditure	122,105	141,230	+6.0

Appendix B—Contd.

Analysis of Total Public Expenditure by Policy Area Group

Table 4

Policy Area Groups	Revised Estimate	Draft Estimate	Increase In Real Terms
	1994-95	1995-96	
	\$m	\$m	%
(A) Economic	8,045	10,550	+20.0
(B) Security			
(1) Internal Security	15,535	17,110	+0.8
(2) Immigration	1,540	1,750	+4.1
(3) Other	2,050	2,500	+9.9
	19,125	21,360	+2.1
(C) Social Welfare	11,025	14,900	+24.1
(D) Health	18,920	22,105	+7.7
(E) Education	29,220	33,945	+5.5
(F) Environment	4,615	6,205	+24.2
(G) Community and External Affairs			
(1) Recreation, Culture and Amenities	8,325	10,335	+13.4
(2) District and Community Relations	855	965	+3.6
(3) Other	410	450	+2.5
	9,590	11,750	+12.1
(H) Infrastructure			
(1) Transport	10,775	11,240	-5.0
(2) Buildings, Lands and Planning	11,780	14,670	+13.3
(3) Water Supply	5,030	5,790	+4.9
	27,585	31,700	+4.6
(I) Support	21,960	26,425	+11.2
(J) Housing	20,765	24,990	+10.7
Total Public Expenditure	170,850	203,930	+9.3

Appendix C

RECURRENT EXPENDITURE GROWTH
IN KEY POLICY AREAS IN 1995-96

Additional funds have been provided to finance the following major improvements in services in 1995-96—

	<i>\$ million</i> <i>(at 1994-95 prices)</i>
Education	1,280
<ul style="list-style-type: none"> —Reducing the ratio of pupils to teachers to: <ul style="list-style-type: none"> • 23.8 in primary schools • 19.5 in secondary schools —Reducing the class size to 35 pupils in primary schools —Enhanced training for kindergarten teachers —17 more primary schools operating on a whole day basis —Improved financial assistance under the Local Student Finance Scheme —100 additional first year degree places for nurses 	
Health	1,300
<ul style="list-style-type: none"> —807 additional hospital beds —A new general outpatient clinic —2 new health centres for the elderly —A new maternal and child health centre —A new health centre for women —A new Student Health Service to provide preventive and promotive health care to all primary students —Expansion of the renal dialysis programme for an extra 100 patients —Hospice care for an additional 400 patients a year —6 months reduction in the average waiting time for cataract surgery —An extra 70 geriatric hospital day places —4 new diabetic care centres —Improved method of treatment for an additional 200 patients with ischaemic heart disease —4 specialist outreaching medical teams for elderly patients —Strengthening of cross-border food control 	
Social Welfare	1,390
<ul style="list-style-type: none"> —For the elderly, an additional 1 489 residential places, 23 social centres, 4 day care centres, 3 multi-service centres and improvements to both welfare and medical services as recommended by the Working Group on Care For the Elderly —1 287 additional residential places for the handicapped and discharged mental patients and 988 extra day places for the handicapped —471 pre-school day places for disabled children —For children, 1 400 extra day nursery places, 250 day creche places and 12 extra small group homes —92 extra social workers to strengthen family support services and 14 additional home help teams —Additional services to help vulnerable children and youth at risk —\$205 per month extra for children and \$200 per month extra for single parent families under the Comprehensive Social Security Assistance Scheme. In addition, full-time students aged 19-21 will receive the standard rate for children instead of the standard rate for adults 	

(including \$190 million funded from the Lotteries Fund)

\$ million
(at 1994-95 prices)

Environment**290**

—Additional operating costs of:

- Chemical waste treatment centre
- Kowloon Bay, Island East and Shatin refuse transfer stations
- West New Territories, South East New Territories and North East New Territories landfills

—Additional staff for further implementation of Victoria Harbour Water Control Zone and for strengthening the implementation of the Water Pollution Control Ordinance

MAJOR CAPITAL PROJECTS
TO BEGIN IN 1995-96 OR AFTER

Funds allocated for capital projects to start in 1995-96 or after include—

	<i>\$ million</i> <i>(at 1994-95 prices)</i>
Economic	8,580
—Government facilities at Chek Lap Kok airport	
—Lantau Port Development phase 1 — back up areas and serviced land	
—Cheung Sha Wan wholesale market complex — Phase II	
Education	680
—Improvement works to primary and secondary schools, Education Commission Report No. 5 — Phase II	
Environment	2,140
—Centralised incinerator for special waste	
—Sewerage improvement schemes in North and South Kowloon, Aberdeen, Ap Lei Chau and Pokfulam, Wanchai East and North Point, Yuen Long and Kam Tin, Port Shelter, North District and Outlying Islands	
Health	1,260
—Tseung Kwan O Hospital	
—Reprovisioning out-patient clinics at Prince of Wales Hospital	
Social Welfare	2,100
—Care and Attention Homes in Sha Tin, Cheung Chau and Tsz Wan Shan	
—Redeveloping the Buddhist Po Ching Home for Aged Women	
—Purchases of premises for the implementation of social welfare targets	
Infrastructure	15,670
—Tseung Kwan O development Phases II and III — remaining engineering works	
—Tin Shui Wai reserve zone development	
—Additional treatment and water transfer facilities for the metropolitan area and the NE and NW New Territories	
—Sha Tin New Town — remaining engineering works	
—Hung Hom by-pass and Princess Margaret Road link	
—Tseung Kwan O port development	
—West Kowloon reclamation	
—Reclamation and Servicing of Tuen Mun Area 38	
—South Tsing Yi duplicate bridge	

GLOSSARY OF TERMS

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

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

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 *total Government revenue* and *expenditure* of the General Revenue Account, the Loan Fund, the Disaster Relief Fund and the Works and Reserve Accounts of the Capital Works Reserve Fund.

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

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, the Disaster Relief 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

Loan Fund

loan repayments received
interest on loans
interest on balances

Capital Investment Fund

dividends
interest
interest on balances

Disaster Relief Fund

interest on balances

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

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

Government 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.

Appendix E—*Contd.*

Operating surplus. The difference between *General Revenue Account revenue* and *expenditure*.

Public expenditure. *Government expenditure plus*:—

gross expenditure (recurrent and capital) by the trading funds, 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

recovery from Housing Authority under current financial arrangement

donations

which are treated as *capital revenue*.

Taxation

earnings and profits tax

estate duty

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

