

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 12 March 1997

The Council met at half-past Two o'clock

MEMBERS PRESENT:

THE PRESIDENT

THE HONOURABLE ANDREW WONG WANG-FAT, O.B.E., 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 MARTIN LEE CHU-MING, Q.C., J.P.

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

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

THE HONOURABLE SZETO WAH

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

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

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

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

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE CHIM PUI-CHUNG

THE HONOURABLE FREDERICK FUNG KIN-KEE

THE HONOURABLE MICHAEL HO MUN-KA

DR THE HONOURABLE HUANG CHEN-YA, M.B.E.

THE HONOURABLE EMILY LAU WAI-HING

THE HONOURABLE LEE WING-TAT

THE HONOURABLE ERIC LI KA-CHEUNG, O.B.E., J.P.

THE HONOURABLE FRED LI WAH-MING

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

THE HONOURABLE JAMES TO KUN-SUN

DR THE HONOURABLE SAMUEL WONG PING-WAI, O.B.E., F.Eng., 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

THE HONOURABLE CHRISTINE LOH KUNG-WAI

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

THE HONOURABLE LEE CHEUK-YAN

THE HONOURABLE CHAN KAM-LAM

THE HONOURABLE CHAN WING-CHAN

THE HONOURABLE CHAN YUEN-HAN

THE HONOURABLE ANDREW CHENG KAR-FOO

THE HONOURABLE PAUL CHENG MING-FUN

THE HONOURABLE CHENG YIU-TONG

DR THE HONOURABLE ANTHONY CHEUNG BING-LEUNG

THE HONOURABLE CHEUNG HON-CHUNG

THE HONOURABLE CHOY KAN-PUI, J.P.

THE HONOURABLE DAVID CHU YU-LIN

THE HONOURABLE ALBERT HO CHUN-YAN

THE HONOURABLE IP KWOK-HIM

THE HONOURABLE LAU CHIN-SHEK

THE HONOURABLE AMBROSE LAU HON-CHUEN, J.P.

DR THE HONOURABLE LAW CHEUNG-KWOK

THE HONOURABLE LAW CHI-KWONG

THE HONOURABLE LEE KAI-MING

THE HONOURABLE LEUNG YIU-CHUNG

THE HONOURABLE BRUCE LIU SING-LEE

THE HONOURABLE LO SUK-CHING

THE HONOURABLE MOK YING-FAN

THE HONOURABLE MARGARET NG

THE HONOURABLE NGAN KAM-CHUEN

THE HONOURABLE SIN CHUNG-KAI

THE HONOURABLE TSANG KIN-SHING

DR THE HONOURABLE JOHN TSE WING-LING

THE HONOURABLE MRS ELIZABETH WONG CHIEN CHI-LIEN, C.B.E.,
I.S.O., J.P.

THE HONOURABLE LAWRENCE YUM SIN-LING

MEMBER ABSENT:

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

PUBLIC OFFICERS ATTENDING:

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

THE HONOURABLE DONALD TSANG YAM-KUEN, O.B.E., J.P.
FINANCIAL SECRETARY

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

MR CHAU TAK-HAY, C.B.E., J.P.
SECRETARY FOR BROADCASTING, CULTURE AND SPORT

MR GORDON SIU KWING-CHUE, J.P.

SECRETARY FOR TRANSPORT

MR NICHOLAS NG WING-FUI, J.P.

SECRETARY FOR CONSTITUTIONAL AFFAIRS

MR DOMINIC WONG SHING-WAH, O.B.E., J.P.

SECRETARY FOR HOUSING

MRS KATHERINE FOK LO SHIU-CHING, O.B.E., J.P.

SECRETARY FOR HEALTH AND WELFARE

MR RAFAEL HUI SI-YAN, J.P.

SECRETARY FOR FINANCIAL SERVICES

MR JOSEPH WONG WING-PING, J.P.

SECRETARY FOR EDUCATION AND MANPOWER

MR PETER LAI HING-LING, J.P.

SECRETARY FOR SECURITY

MR BOWEN LEUNG PO-WING, J.P.

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS

MR KWONG KI-CHI, J.P.

SECRETARY FOR THE TREASURY

MISS DENISE YUE CHUNG-YEE, J.P.

SECRETARY FOR TRADE AND INDUSTRY

THE HONOURABLE LAM WOON-KWONG, J.P.

SECRETARY FOR THE CIVIL SERVICE

MR STEPHEN IP SHU-KWAN, J.P.

SECRETARY FOR ECONOMIC SERVICES

MR KWONG HON-SANG, J.P.

SECRETARY FOR WORKS

MRS STELLA HUNG KWOK WAI-CHING, J.P.

SECRETARY FOR HOME AFFAIRS

CLERK IN ATTENDANCE:

MR RICKY FUNG CHOI-CHEUNG, SECRETARY GENERAL

PAPERS

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

Subject

Subsidiary Legislation	<i>L.N. No.</i>
Legal Aid (Assessment of Resources and Contributions) (Amendment) Regulation 1997.....	85/97
Telecommunication (Cordless Telephone Apparatus) (Exemption from Licensing) (Amendment) Order 1997	86/97
Official Languages (Alteration of Text) (Trade Descriptions Ordinance) Order 1997.....	87/97
Banking Ordinance (Amendment of Tenth Schedule) Notice 1997	88/97
Official Languages (Authentic Chinese Text) (Yan Chai Hospital Ordinance) Order.....	(C) 22/97
Official Languages (Authentic Chinese Text) (International Organizations and Diplomatic Privileges Ordinance) Order	(C) 23/97
Official Languages (Authentic Chinese Text) (Matilda and War Memorial Hospital Ordinance) Order	(C) 24/97
Official Languages (Authentic Chinese Text) (Tung Wah Group of Hospitals Ordinance) Order...	(C) 25/97

Official Languages (Authentic Chinese Text) (Pok Oi Hospital Incorporation Ordinance) Order	(C) 26/97
Official Languages (Authentic Chinese Text) (Alice Ho Miu Ling Nethersole Hospital Incorporation Ordinance) Order	(C) 27/97
Official Languages (Authentic Chinese Text) (The Prince Philip Dental Hospital Ordinance) Order	(C) 28/97
Official Languages (Authentic Chinese Text) (Trade Descriptions Ordinance) Order	(C) 29/97

Sessional Papers 1996-97

- No. 72 — Draft Estimates for the year ending 31 March 1998;
Volume IA and Volume IB - General Revenue Account
- No. 73 — Draft Estimates for the year ending 31 March 1998;
Volume II - Fund Accounts

WRITTEN ANSWERS TO QUESTIONS

Prohibiting Use of Plastic Envelopes and Bags for Mail

1. **DR SAMUEL WONG** asked: *It is learnt that a substantial amount of postal articles are wrapped in plastic envelopes or bags, thus presenting considerable sorting and stamping problems to the Post Office which requires extra manpower and time to handle such articles. The use of plastic materials for such a purpose also causes environmental problems. In this connection, will the Government inform this Council whether it will consider prohibiting people from posting their mail in plastic envelopes or bags?*

SECRETARY FOR ECONOMIC SERVICES: Mr President, use of plastic wrappers is common for mailing heavy weight printed paper items (exceeding 50g) and less common for letter size mail items. Processing letter size mail items packed in plastic envelopes poses operational problems for the Post Office: such mail cannot be processed by the mechanized letter sorting system and have to be manually sorted. Heavy weight mail, whether packed in plastic wrappers or not, have to be sorted manually. Mail packed in plastic wrappers must be posted in bulk and postage is prepaid by means of the Permit Mailing System or postage franking impressions. As such, the datestamping problem does not arise.

The Universal Postal Union, an international postal organization, permits the use of plastic wrappers for mailing. We understand that no postal administrations disallow the use of plastic wrappers in the post. The Hong Kong Post Office, as part of the international postal network, has no plans to prohibit posting of mail in plastic wrappers.

It is the established policy of the Post Office to discourage the use of plastic wrappers in the post. Since June 1995, printed papers of less than 50g mailed in plastic wrappers have been charged at rates higher than the normal postage payable (ranging from 8% to 16%). The Post Office will continue to encourage their customers to use more environmentally friendly packaging.

Chemical Waste Treatment Centre on Tsing Yi

2. **MR LEE WING-TAT** asked (in Chinese): *It is learnt that the Environmental Protection Department (EPD) is formulating a plan for the delivery of the territory's clinical wastes to the Chemical Waste Treatment Centre (CWTC) on Tsing Yi Island for disposal. In this connection, will the Government inform this Council whether:*

- (a) *the EPD's move to formulate such a plan is because of the drastic drop in the amount of chemical wastes disposed of at the CWTC last year;*
- (b) *an Environmental Impact Assessment will be undertaken on the above plan; and*

- (c) *the EPD will suspend its plan to construct a purpose-built centralized incineration facility for the disposal of all clinical wastes generated in the territory?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS (in Chinese): Mr President,

- (a) The consideration to treat clinical waste at the Chemical Waste Treatment Centre (CWTC) is not connected to the amount of chemical waste treated. The Administration submitted a paper on the Centralized Incineration Facility for Special Wastes (CIF) to the Public Works Subcommittee of Finance Committee in May 1995. During that meeting, Members requested more information on whether the proposed CIF was the most cost-effective means of treating clinical waste and if there were alternatives. The Administration therefore conducted a review on the possibility of utilizing existing incinerators, including the CWTC, to treat clinical waste and is now assessing the available options.
- (b) If the option of disposing of clinical waste at the CWTC was favoured, an Environmental Impact Assessment would be conducted before making a final decision.
- (c) No decision has been taken on the construction of the CIF.

Fresh Water Supply Problems in Ma On Shan

3. **MR CHOY KAN-PUI** asked (in Chinese): *Regarding the incident concerning the fresh water supply in two newly occupied estates in Ma On Shan — a public housing estate and a Home Ownership Scheme (HOS) estate — becoming salty several days ago, does the Government know:*

- (a) *which departments should be responsible for the above incident, and whether the residents and shop owners who have suffered losses or injuries as a result of the incident will be compensated; and*

- (b) *of the total number of cases involving fresh water supply problems in public housing estates and HOS estates of the Housing Authority (HA) in the past three years, the classification of such cases, and whether there are any of such cases for which the Government should bear responsibility?*

SECRETARY FOR HOUSING (in Chinese): Mr President, the Housing Department has completed an investigation into the water contamination incident which occurred on 1 March 1997 in a public housing estate and a subsidized home ownership estate in Ma On Shan. The investigation report has been submitted to the Chairman of the HA, and the findings have been released publicly. The Building Committee of the HA will examine the report, decide on appropriate follow-up action and recommend whether any disciplinary action should be taken against the contractor or other parties involved.

The report confirmed that the incident was caused by an error made by a subcontractor in connecting the fresh water and salt water mains on a construction site of the HA. The main contractor has undertaken to examine all claims by residents for compensation arising from the incident.

There were, 1 777 cases of fresh water supply problems in public rental housing and subsidized home ownership estates in the past three years. The breakdowns were due to equipment or pipe failure, electricity supply failure, shutdown of water supply by the Water Supplies Department and vandalism. None of these cases showed negligence on the part of the Government. Apart from the incident on 1 March, there were no other cases of fresh water supply being contaminated by salt water supply.

"Tun Fu" Ceremonies in Public Works Projects

4. **MR ALBERT CHAN** asked (in Chinese): *It is learnt that in major works projects undertaken by the Government in the rural area, a certain sum from the project vote will be set aside to meet the expenses incurred in connection with "Tun Fu" ceremonies. However, no funds are reserved for "Tun Fu" ceremonies in respect of minor projects, and this has resulted in a number of minor maintenance and improvement works not being proceeded with. In this*

regard, will the Government inform this Council whether it will review the budgets for minor works projects so that District Offices will be provided with adequate funds to meet "Tun Fu" expenses in special circumstance; if so, when the review will take place; if not, why not?

SECRETARY FOR HOME AFFAIRS (in Chinese): Mr President, Government does not set aside a sum of money from the project vote to meet expenses in connection with "Tun Fu" ceremonies for its works projects, regardless of the size of the projects concerned. Any claims for "Tun Fu" payments are considered on their own merits. If approved, these will be paid in the form of *ex gratia* allowance under Head 701 "Land Acquisition" of the Capital Works Reserve Fund in the case of public works projects. Claims for non public works projects are paid from Head 91 Subhead 221 under the General Revenue Account.

Minor works projects undertaken by Government in rural areas mainly cover improvement and maintenance works and are funded under the Capital Works Reserve Fund. These are generally carried out at the request of the local community to improve local conditions. Claims for "Tun Fu" payments will be considered in accordance with the established procedures.

Additional Resources for Privacy Commissioner for Personal Data

5. **DR DAVID LI** asked: *The Privacy Commissioner for Personal Data recently stated that the number of complaints received by his office since the implementation of the Personal Data (Privacy) Ordinance in December last year was running at about one per day, and he expressed concern that the 32 staff members in the office might not be able to cope with the workload. In this connection, will the Government inform this Council whether it will consider allocating additional resources to the office to cope with the workload?*

SECRETARY FOR HOME AFFAIRS: Mr President, it is true that the Privacy Commissioner for Personal Data has been receiving, on average, one formal complaint per working day since the core provisions in the Personal Data (Privacy) Ordinance came into effect on 20 December 1996. He has also been receiving about 40 enquiries a day. As at the end of February 1997, he has

received a total of 39 formal complaints and about 1 700 enquiries.

The handling of complaints and enquiries is only one of the many functions of the Commissioner. His other functions include, for example, promoting awareness and understanding of the Ordinance and also, promoting and assisting bodies representing data users to prepare codes of practice on compliance with the Ordinance.

In considering whether or not additional resources should be allocated to the Commissioner, we have to consider first, the workload of his office as a whole and secondly, the relative priority of competing demands for additional resources.

I fully appreciate the excellent work put in by the Commissioner and his staff and I know that they have been working very hard. Naturally, the workload of an office is particularly heavy in the initial stage of its establishment. Since the office has been in full operation for less than three months, it is too early to tell whether any additional resources are required in the longer term.

I can assure Members that despite the very heavy workload of the office, it has been able to cope with the processing of complaints and other important tasks.

Regulation of Non-locally Registered Reinsurance Companies

6. **DR HUANG CHEN-YA** asked (in Chinese): *It is learnt that in recent years, there have been a number of serious frauds in the United Kingdom involving some reinsurance companies, and this has undermined the financial health of insurance companies. In view of this, will the Government inform this Council:*

- (a) *whether locally registered insurance companies are allowed to enter into reinsurance arrangements with reinsurance companies which are not registered in the territory; if so, of the amount of such reinsurance premiums and the proportion of this amount to the total amount of reinsurance premiums of these insurance companies.*
- (b) *whether there are any locally registered insurance companies which have suffered losses as a result of the reinsurers running into*

operational problems in the past five years; if so, of the number of insurance companies so affected and their respective losses; and

- (c) *of the measures taken by the Office of the Commissioner of Insurance to regulate the operations of the non-locally registered reinsurance companies which enter into reinsurance arrangements with locally registered insurance companies?*

SECRETARY FOR FINANCIAL SERVICES (in Chinese): Mr President,

- (a) The purpose of reinsurance is to spread the risks of an insurance company. It has been the practice for insurance companies world-wide to reinsure both locally and overseas in order to achieve adequate spreading. The Insurance Companies Ordinance (the Ordinance) does not prohibit insurance companies authorized in Hong Kong from entering into reinsurance arrangements with reinsurance companies not authorized here. An insurance company is required under the Ordinance to submit to the Insurance Authority (IA) the reinsurance premiums it pays to all its reinsurers, but a breakdown into those paid to reinsurance companies authorized or not authorized in Hong Kong is not required. Whilst such a breakdown is not required for prudential regulation, the IA estimates that, of the \$6.8 billion of reinsurance premiums paid out by the Hong Kong general business insurance companies, about \$3.9 billion (that is, 58%) went overseas to reinsurance companies not authorized in Hong Kong.
- (b) An insurance company may occasionally be unable to obtain recovery of claims from the reinsurance companies for various reasons, including operational problems and insolvency of the reinsurance companies. Any non-recovery of claims from reinsurance companies will be treated as bad debts and will be written-off by an insurance company in the normal course of business. The Ordinance does not require such non-recovery of claims to be reported separately in the financial statements to be submitted to the IA, and hence we have no information in this respect. According to our records, no insurance company in Hong Kong has been affected in the past five years by non-recovery of

claims from reinsurance companies to an extent which rendered it unable to meet the solvency margin requirement under the Ordinance. This is probably because reinsurance, for the purpose of spreading risks, is normally placed with a panel of reinsurance companies (sometimes more than 20). It is therefore unlikely that failure of a single reinsurance company would significantly affect the solvency position of the insurance company concerned.

- (c) The overseas operations of reinsurance companies not authorized in Hong Kong are not subject to the regulation of the Ordinance. However, an insurance company in Hong Kong wishing to place reinsurance with any reinsurance company (whether authorized in Hong Kong or not) will be subject to, *inter alia*, the requirement for adequate reinsurance arrangements. Each year an insurance company is required to submit particulars of its reinsurance arrangements to the IA for inspection. These particulars include the type of reinsurance treaties, the limits under those treaties and the identities of the reinsurance companies.

In determining the adequacy of reinsurance arrangements, the IA will take into account, *inter alia*, the financial condition of the reinsurance companies concerned by making reference to their financial statements and other relevant information such as rating publications. In case of doubt, the IA would also consult the relevant insurance authorities responsible for the regulation of the companies concerned in their places of incorporation. If the IA is not satisfied with the financial condition of a reinsurance company, the amount recoverable from the company will be excluded in assessing the solvency position of the locally authorized insurance company. Alternatively, the insurance company may be required to remove and substitute the reinsurance company concerned from its panel of reinsurance companies.

Study on Improvement to Senior Citizen Card Scheme

7. **MR WONG WAI-YIN** asked (in Chinese): *At the meeting of the Legislative Council Panel on Welfare Services held on 10 January this year, officials from the Social Welfare Department stated that they were in the process*

of commissioning a consultancy firm to study how the Senior Citizen Card Scheme can be improved. In this connection, will the Government inform this Council:

- (a) of the scope of the above study;*
- (b) of the expected commencement and completion dates of the study; and*
- (c) whether the public will be consulted on the results of the study?*

SECRETARY FOR HEALTH AND WELFARE (in Chinese): Mr President,

- (a) The study will include a users' survey to obtain data on the rate and pattern of utilization of the Senior Citizen Card by cardholders, and the attitudes and views of the elderly on the utilization and coverage of the Scheme. The consultants will be asked to formulate and recommend new and innovative marketing strategies to promote the Senior Citizen Card Scheme with a view to making improvements to the Scheme.
- (b) We expect the consultancy to commence in the summer, to be completed by the end of the year.
- (c) The views of the elderly collected from the users' survey will be taken into full account when the consultants formulate their recommendations. The consultants' recommendations will be promulgated and public views are always welcomed.

Unlawful Sale or Lease of Home Ownership Scheme Flats

8. **MISS EMILY LAU** asked (in Chinese): *Does the Government know:*

- (a) whether there have been any Home Ownership Scheme (HOS) flat owners who have sold or leased out their HOS flats unlawfully within the 10-year restriction period; if so,*

- (i) *how many of these owners have been prosecuted;*
- (ii) *whether there are any of these owners who have not been prosecuted and if so, what the reasons are; and*
- (b) *of the measures which will be taken by the authority concerned to eliminate these unlawful activities?*

SECRETARY FOR HOUSING (in Chinese): Mr President, sale of HOS and Private Sector Participation Scheme (PSPS) flats is subject to the terms set out in the Schedule to the Housing Ordinance. The Schedule specifies that a purchaser shall not sell or lease the flat, in whole or in part, other than to the Housing Authority, or unless a period of 10 years has elapsed from the date of assignment and the balance of premium has been paid to the Housing Authority. A breach of these conditions renders the flat owner liable to a maximum fine of \$500,000 and to imprisonment of up to one year.

To date, five cases involving unlawful letting or resale of HOS or PSPS flats have been referred by the Housing Department to the Attorney General for prosecution. One case was withdrawn because the defendant had left the territory and a summons could not be served. In the other four cases, one owner was fined \$20,000; another was fined \$50,000; and four co-owners in the remaining two cases were each fined \$5,000.

There were three other cases involving suspected unlawful resale of HOS or PSPS flats, but no prosecution was instituted because of insufficient evidence (two cases) and expiry of the statutory limit (one case).

The Housing Department regularly reminds owners of HOS and PSPS flats of the statutory restrictions on letting or sale through notices in estate management offices, newsletters, and meetings of management office staff, mutual aid committees and residents associations. Solicitors have also been reminded, through the Law Society, of the resale restrictions.

Escort Services for Medical Treatment

9. **DR HUANG CHEN-YA** asked (in Chinese): *Does the Government know:*

- (a) *of the number of elderly or disabled singletons who attended the outpatient departments of public hospitals and the outpatient clinics of the Department of Health, and the number of these outpatients who called for ambulance services or requested escort services in order to attend the outpatient departments or clinics, in the past year;*
- (b) *whether there are any statistical data to show the number of these two types of persons who were unable to attend the outpatient departments or clinics due to the lack of escort services in the past year; and*
- (c) *of the types of escort services for medical treatment which are now available, and the plans in hand to improve such services?*

SECRETARY FOR HEALTH AND WELFARE (in Chinese): Mr President, the following type of escort services are available for people attending clinics of the Department of Health or specialist clinics of public hospitals:

(i) *Non-emergency ambulance transport service*

People attending clinics of public hospitals can request non-emergency ambulance transport service which is run by the Hospital Authority. Those attending clinics of the Department of Health can request similar service which is run by the Auxiliary Medical Service in the Kowloon Region and the Fire Services Department in Hong Kong Island and the New Territories. Such service is provided to patients on the basis of medical conditions/needs. Requests for service have to be made through medical professionals, allied health staff or social workers who have to authorize the requests on ground of health need. The service is introduced to persons in need mainly through clinic staff. The Auxiliary Medical Service also introduces its service through radio broadcasting and distribution of pamphlets.

(ii) *Home help teams*

Home help teams subvented by the Social Welfare Department also provide escort service for people attending clinics who are in need of such service. Home help service is introduced to the public through social workers

and the distribution of pamphlets.

(iii) Volunteer Workers Programme

In addition to existing volunteer services provided by community organizations, the Social Welfare Department has a pilot Volunteer Workers Programme which provides escort service for elderly people attending medical clinics who are in need of such service. At present, there are two such programmes, one in Wong Tai Sin and another in Sham Shui Po. The teams only serve these specific districts. Applicants have to be 60 years old or above. This service is introduced to the elderly through posters, pamphlets and promotion in multi-service centres for the elderly.

Statistics on attendance at clinics of the Department of Health or public hospitals do not identify whether the patient is an elderly singleton or a disabled singleton. Consequently, we do not have information on the number of such persons attending these clinics nor do we have information on these persons who were unable to attend due to the lack of escort services.

Noise Mitigation Works at Airport Railway Tsing Yi Station

10. **MR LEE WING-TAT** asked (in Chinese): *The Government plans to construct noise insulation facilities at the Tsing Yi Station of the Airport Railway (AR) with a view to reducing the noise nuisance caused to the residents of Cheung On Estate, but it does not have any plan to provide a total enclosure for this section of the AR. In this connection, will the Government inform this Council of the following:*

- (a) whether the authorities concerned will conduct a test on the level of noise at this section of the railway when the AR is due to have its trial run; if so, whether concerned parties in the district (including District Board members and members of the local concern groups and Mutual Aid Committees) will be invited to take part in the test; and*
- (b) if the noise level at this section of the railway is found to be higher*

than the acceptable level, whether the authorities concerned will provide a total enclosure for this section and carry out noise mitigation measures, such as the insulation of windows and the provision of air conditioners, in the neighbouring buildings?

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS (in Chinese): Mr President,

- (a) MTRC will conduct a trial run to ascertain the noise impacts from the Airport Railway prior to its opening in 1998. The noise impacts will be assessed at the nearest noise sensitive receivers at Tsing Yi. The Kwai Tsing District Board will be informed of the detailed arrangements near the time of the trial and concerned parties will be welcome to witness the noise tests.
- (b) The environmental impact assessment on the Airport Railway project indicated that the mitigation measures already implemented along the railway alignment, which include noise barriers of extended height on its south and absorptive treatment of the regular barrier on its north, would be sufficient to contain noise impacts to levels within the Noise Control Ordinance. However, in case the noise impacts exceed the statutory limits, MTRC will implement the best practicable measures to comply with the Noise Control Ordinance.

Regulation on Internal Modifications of High-rise Commerical Buildings

11. **DR SAMUEL WONG** asked: *Will the Government inform this Council whether there are any regulations:*

- (a) *governing the types of materials used in additional partitioning, renovation and decoration works undertaken in the high-rise commercial buildings after the issue of occupation permits; and*
- (b) *requiring the above additional installations to comply with fire regulations?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr

President,

- (a) The Building (Construction) Regulations under the Buildings Ordinance prescribe in broad terms the nature and quality of building materials to be used so as to ensure compliance with the required structural health and safety standards. The compliance with the Regulations does not depend on whether the occupation permit has been issued or not.

Section 14 of the Buildings Ordinance provides that no person shall commence or carry out any building works without the prior approval of the Building Authority. Section 41(3) provides for an exemption from the approval requirement if the building works do not involve the structure of the building.

- (b) The Building (Planning) Regulations and the Building (Construction) Regulations govern the provision of means of escape and fire resisting construction, and so on. Moreover, in obtaining approval from the Building Authority, section 16(1) of the Buildings Ordinance lays down a requirement for a certificate from the Director of Fire Services certifying that all fire service installations and equipment will be properly provided.

For building works which require approval from the Building Authority, approval is only given if they are in compliance with the relevant fire safety regulations. Similarly, where the additional building works do not require building approval, compliance with the fire safety regulations is imposed by virtue of section 41(3) of the Buildings Ordinance. Moreover, section 9 of the Fire Services Ordinance also empowers the Fire Services Department to take fire hazard abatement action if such additional building works affect the efficient working order of fire service installations or cause obstruction to the means of escape.

Regulation of Electricity Tariff Charges

12. **MISS CHRISTINE LOH** asked: *The Hong Kong Electric Company Limited (HEC) and the China Light and Power Company Limited (CLP) have*

monopoly to supply electricity to Hong Kong Island and Kowloon/New Territories respectively. The two companies have separately built, and will continue to build, additional electricity generating capacities which are not needed to meet the territory's electricity demand, and this has resulted in unnecessarily high tariff charges. In view of this, will the Government inform this Council:

- (a) of the current price per Kilowatt:hour at which CLP and HEC sell electricity to each other;*
- (b) of the plans in place to encourage the two utility companies to compete for customers in order to reduce excess capacity, with a view to achieving lower tariff charges; and*
- (c) of the plans in place to establish a fair access charge so that each company can use the other's grid to distribute electricity to customers?*

SECRETARY FOR ECONOMIC SERVICES: Mr President, the Hong Kong Electric Company Limited (HEC) and the China Light and Power Company Limited (CLP) do not have exclusive rights to supply electricity in their respective supply areas, nor will they be permitted to build additional electricity generating capacity without full justification to the Government. The information sought by the question is as follows:

- (a) CLP and HEC sell electricity to one another in emergency situations or, more routinely, when one company finds on a particular day that it needs to operate plant with a high operating cost, such as a diesel-fired gas turbine, to meet peak demand and the other company can transfer power to meet that demand by raising output from plant with a lower fuel cost. The price per Kilowatt-hour at which such transactions take place is calculated having regard to the fuel costs and other circumstances prevailing at the time and can vary over a wide range. Transaction prices have varied recently from 19.1 to 27.2 cents per Kilowatt-hour but can reach considerably higher levels.
- (b) The question of reduction of excess capacity (in CLP's system) can be addressed more effectively through deferral of generating units

due to be installed at Black Point Power Station, rather than through encouragement to CLP and HEC to compete for customers in each other's supply area.

- (c) The Government has no plans to determine a charge for CLP and HEC to access each other's network. The question of charging for such access is a commercial matter for the companies themselves.

Safety of Parade Floats

13. **MR WONG WAI-YIN** asked (in Chinese): *With regard to the float parade accident on 7 February this year, will the Government inform this Council of the measures which will be adopted by the Transport Department to strengthen the monitoring of the safety of parade floats, including the specifications of the decorative designs, so as to ensure that accidents do not occur?*

SECRETARY FOR TRANSPORT (in Chinese): Mr President, Transport Department, in consultation with Fire Services Department, Electrical and Mechanical Services Department and the Police, is drawing up guidelines for floats for compliance by the organizers and participants in parade floats. The guidelines will set out, among others, requirements on the vehicles for use as float vehicles, decoration and fitting out of floats, types of decoration materials to be used, fitting of auxiliary generators and power supply cables, installation of fire extinguisher, ventilation of the float vehicles and rules for drivers and passengers. All floats will be subject to inspection before taking part in a parade. Transport Department will consult event organizers on the guidelines before they are finalized for promulgation at the end of this month.

First Reading of Bill

APPROPRIATION BILL 1997

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 1997

THE FINANCIAL SECRETARY to move the Second Reading of: "A Bill to apply a sum not exceeding \$163,677,347,000 to the service of the financial year ending on 31 March 1998."

He said: Mr President,

INTRODUCTION

An Historic Occasion

I move that the Appropriation Bill 1997 be read a Second time.

2. With this short conventional phrase, we begin deliberation of what, by any measure, is a rather extraordinary Budget. After all, 1997 is a very special year for Hong Kong. The eyes of the world will be upon us as we set out on our historic journey.

3. As we gather here today, we are a dependent territory which has been under British Administration for 150 years. In a little over three months' time, and indeed for most of the period covered by this Budget, we will be a Special Administrative Region (SAR) of the People's Republic of China. This is a defining moment in our history.

4. My underlying theme this afternoon will be the need for Hong Kong to find a balance — a balance between continuity and change during this exceptional year. We need continuity for our existing policies and programmes

which support our economic and social progress. But with our dynamic society and fast-moving economy, we cannot afford to stand still. We must improve, we must grow. We must move forward. Fortunately, our healthy public finances and robust economic prospects have made the task of finding the right balance somewhat easier.

5. The Budget I am presenting this afternoon is unique because it is a transitional one, a Budget specially designed to meet the circumstances of 1997. It must respond to the far-reaching consequences of the resumption of the exercise of sovereignty and the creation of the SAR. This Budget seeks to fulfil that historic mission. At its most basic level, it provides continuity both in terms of our fiscal framework and in terms of our public services. At the same time, because of the unique circumstances of its preparation, the Budget operates on a higher plane to show how we can work together with China and fulfil the promises of the Joint Declaration and the Basic Law. To achieve this goal, we have drawn up a Budget which not only follows strictly our traditional principles of prudent financial management, but also complies with the provisions of the Basic Law which will come into effect on 1 July.

Speech Structure

6. This afternoon, I will start by reporting on the consultation process which has produced this Budget. I will then discuss the role of the Basic Law in underpinning the Budget and in promoting our future prosperity before turning to the Government's major spending programmes. I have already presented a detailed review of how the economy performed in 1996 and what we can look forward to this year in two speeches I made, the first in December and the second last month. So, unlike last year, I will only briefly outline our economic performance and prospects.

7. I will also describe the major improvements we propose to make to our services. This review will be followed by a report on public finances, including the forecast outturn for 1996-97, the estimates for 1997-98, and the Medium Range Forecast up to the early part of the next century. This will set the scene for my revenue proposals.

8. As I did last year, to conclude my speech, I will outline my main points

and proposals in Cantonese.

A PROCESS OF CONSULTATION

9. Because this is a transitional Budget, the British and the Chinese Sides needed to go through a process of consultation in order to achieve a unified Budget for the whole financial year.

The Joint Liaison Group

10. As Members will recall, a Budget Expert Group was established in 1995 under the Sino-British Joint Liaison Group to deal with the transitional Budget and related matters. When we started these consultations, the sceptics predicted nothing but bad news. The reality has proved to be very different. The Budget Expert Group has worked throughout in a co-operative spirit. Its discussions have been pragmatic and constructive. And it has reached rapid consensus at every stage. Members will have noted the repeated public declarations by the Chinese side over the last year that their involvement in the budget process was unique. They have made clear that after 30 June 1997, preparation of the annual Budget will be a matter entirely for the SAR and its Government in accordance with Article 106 of the Basic Law. These declarations have been very helpful in reassuring both the local and the international community.

11. In this year of transition, it would have been all too easy to send the wrong signals about the future of our economic and social policies, budgetary principles and business practices on which Hong Kong has built its past success. Thus, throughout the budget consultations, we had four objectives.

- ❑ First, we wanted to achieve a Budget that would cover the entire financial year from 1 April 1997 to 31 March 1998; a budget which was financially sound and prudent and which would take into account the interests of all.
- ❑ Second, we wanted to ensure that our public services would continue smoothly, uninterrupted by the transition. This goal covered not only existing services, but also the improvements which particular programmes needed.
- ❑ Third, we wanted to ensure that there would be no room for doubt

about the continuity of the tax system and our other sources of revenue across the transition.

- Fourth, we wanted to draw up a Budget which would strengthen Hong Kong's financial and economic prospects for the future.

12. I am able to present before Members today a Budget which both sides have agreed in the Budget Expert Group. I believe that the two sides were able to reach agreement for two reasons. First, we had a shared commitment to a smooth and successful transition. Second, we had a shared understanding that the Basic Law's provisions should guide the drawing up of this year's Budget. I hope that by the time I have finished speaking, Members will agree that we have met the objectives which we set ourselves in these consultations.

THE CONSTITUTIONAL FRAMEWORK

13. I would now like to explain the important part played by the Basic Law. Its 160 Articles define our constitutional framework, our political institutions and the shape of our future from 1 July. In particular, they will guide our economic policies. 42 Articles refer directly to economic issues and 28 others are related to economic development. By my count, 44% of the Basic Law's provisions are designed to lay down the economic rules of the SAR and to describe how Hong Kong's separate economic system will continue to flourish. I would like to mention here that the full text of the Basic Law Articles to which I refer this afternoon is shown in the supplement to the printed version of this speech.

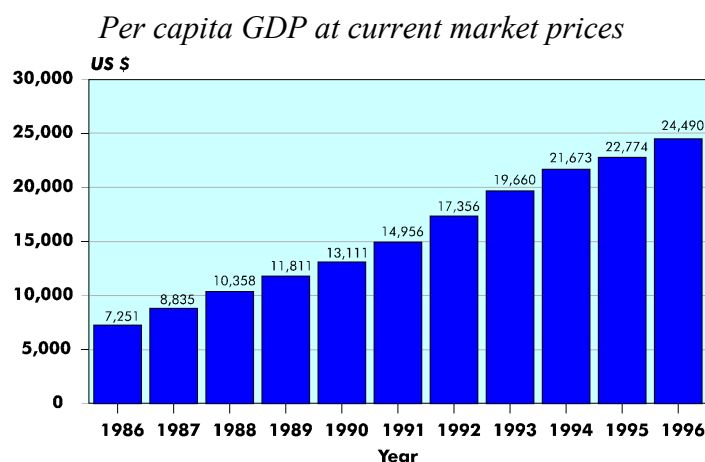
14. The most important of these is Article 5. It states: "The socialist system and policies shall not be practised in the Hong Kong Special Administrative Region, and the previous capitalist system and way of life shall remain unchanged for 50 years." This is a clear pledge that Hong Kong will continue to enjoy free, open and competitive markets which are not controlled by state planning or state direction.

15. Plainly, I cannot review the Basic Law in detail this afternoon. Instead, I will concentrate on just three of its economic features:

- ❑ first, its commitment to Hong Kong's role as an international business centre;
- ❑ second, its guarantee of financial prudence; and
- ❑ third, its promise of economic autonomy.

A Centre for International Business

16. Hong Kong's domestic economy is too small by itself to provide the standard of living the community expects. That is why we look to sell our goods and services throughout China, around the Asian region and to the rest of the world. As a result, we now have a GDP per head of US\$24,500. We will only be able to sustain our impressive record of economic growth in the years ahead through attracting as large a share as possible of the world's trade and investment transactions.



GDP per head is now US\$24,500.

17. In recent years, our performance as an international business centre has won very high marks from independent and prestigious authorities.

- ❑ The International Monetary Fund gave Hong Kong a resounding vote of confidence at the end of 1996. It commended our macroeconomic conditions as creating the environment for a smooth transition. It endorsed the continuation of our existing policy framework, including our prudent fiscal policies, the linked

exchange rate and our firm financial regulations.

- ❑ The Heritage Foundation ranked us as the world's freest economy in its 1997 Index of Economic Freedom. Hong Kong was graded against 10 factors, including trade and tax policies, government consumption of economic output, foreign investment and wage and price controls, and so on. Hong Kong came out top.

18. The Basic Law, in Articles 109, 112, and 114, offers a commitment to Hong Kong's continuing role as a centre for international business. They define Hong Kong as serving the needs of international business in three ways:

- ❑ through providing a centre for international financial transactions;
- ❑ through providing free flows of invisible trade based on an absence of exchange controls; and
- ❑ through providing a free flow of merchandise trade based on a free port and the absence of tariffs.

These three Articles are a clear pledge to the 2 300 foreign firms which, by the middle of 1996, had set up regional headquarters or offices in Hong Kong. They pledge that Hong Kong will continue to provide a favourable trading and investment environment for its overseas partners. Above all, they pledge the continuity which the international business community is seeking from 1 July.

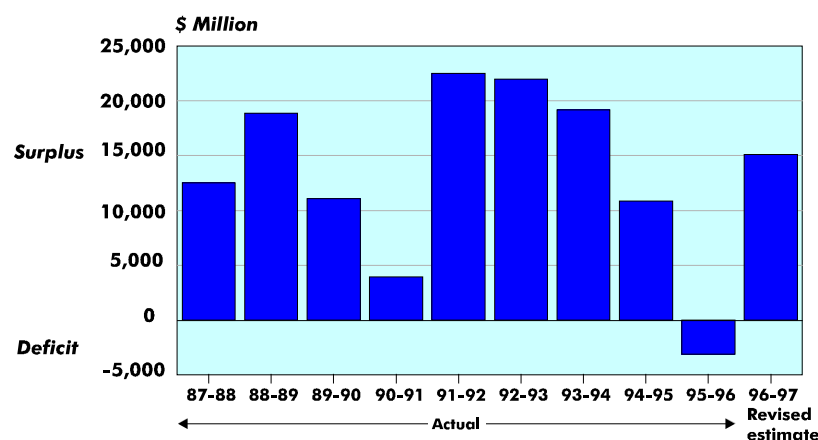
Financial Prudence

19. The Basic Law is not only committed to providing a business-friendly setting for international trade and finance. It also offers a guarantee of financial prudence in Article 107. This Article promises that Hong Kong will not abandon its tradition of avoiding deficit budgets. And it does not allow government spending to outstrip the overall growth of the economy. This guarantee of financial prudence is reinforced in Article 108 which identifies "the low tax policy previously pursued in Hong Kong" as a benchmark for the future.

20. Hong Kong should have no difficulty in complying in full with these provisions of the Basic Law.

- ❑ Living within our means has been a fundamental principle of our public finances for at least 50 years.
- ❑ Avoiding budget deficits is a well-established tradition. In nine of the last 10 years, we actually achieved a budget surplus. (Only at the peak of our investment in the Airport Core Programme in 1995-96 did we record a deficit.)

Surpluses/deficits from 1987-88 to 1996-97



In nine of the last 10 years there has been a budget surplus.

- ❑ Matching government spending to the trend growth in GDP is a discipline which Hong Kong's Financial Secretaries have long accepted. In the last five financial years since 1991, growth in government expenditure and GDP were identical in real terms at 30%.

Article 107 and its guarantee of financial prudence is an important reassurance for entrepreneurs and investors, both here and overseas. It is a guarantee that there will be no change from 1 July in either the philosophy or the policies which have enabled Hong Kong to create Asia's most attractive business environment.

Economic Autonomy

21. At the same time, entrepreneurs and investors need to know what a high degree of autonomy will mean in practice for the economy. In particular, how much autonomy the SAR will have in its trade and financial relations with the rest of the world.

22. Three Articles in the Basic Law define Hong Kong's future economic autonomy. Article 106 states: "The Hong Kong Special Administrative Region shall have independent finances." Article 110 states: "The monetary and financial systems of the Hong Kong Special Administrative Region shall be prescribed by law." Article 115 states: "The Hong Kong Special Administrative Region shall pursue the policy of free trade and safeguard the free movement of goods, intangible assets and capital."

23. These Articles have a clear message.

- ❑ The resources of Hong Kong are to be managed separately and independently. They are to be used exclusively for the benefit of Hong Kong people.
- ❑ Hong Kong's financial and monetary affairs shall be determined exclusively by Hong Kong laws.
- ❑ Trade and investment will continue to enjoy freedom of movement and freedom of markets.

These three Articles do not impose new or difficult demands on us. On the contrary, they are a promise that Hong Kong's best practices will continue into the future. They enshrine in law Hong Kong's winning formula for economic success in the past. They will prove even more important in ensuring our future prosperity.

24. These provisions of the Basic Law are of special importance in allowing Hong Kong to protect its standing in world markets. Without the economic autonomy they confer, we would not qualify for membership of such international bodies as the World Trade Organization, the Bank for International Settlements, the Asian Development Bank, the World Customs Organization or APEC. These are the key forums shaping the future of the global economy. As the world's eighth largest trading economy, the ninth largest exporter of services and the fifth largest foreign exchange market, it is vital for Hong Kong that our voice is heard in their deliberations. That our views influence their decisions. The British and the Chinese sides have agreed the necessary arrangements to continue Hong Kong's separate membership of such bodies from 1 July in accordance with Articles 116 and 151 of the Basic Law. And we are already taking full advantage of the opportunities offered by membership of these

organizations.

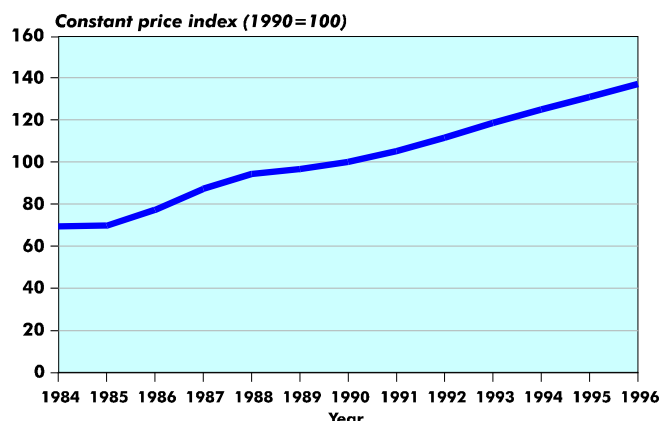
The Four Pillars

25. I have tried to sum up the spirit of the separate economic system which the Basic Law is pledged to safeguard in what I have often called Hong Kong's "four pillars of wisdom". These are the rule of law, a level playing field, corruption-free government and the free flow of information. To ensure the rule of law, the community must live by laws that are public, laws that apply to all and are enforced by courts which are fair, open to all and independent. A level playing field is crucial for competitive markets and efficient business. It means that contracts are awarded fairly and equitably. No favours. No patronage. A corruption-free government is essential to preserve the rule of law and a level playing field. Without a total commitment to integrity, the Civil Service will not command the respect of the community or win its co-operation. Finally, the free flow of information is the lifeblood of a modern service economy. It leads to transparency and accountability in both the public and private sectors. It is the best protection against corruption and abuse of power, not only by the Government but in the business world as well.

CONTINUITY AND CHANGE: MEETING ECONOMIC NEEDS

26. At this point, I should like to focus on the resilience of our economy and its ability to adjust to changing political as well as business conditions. A major reason we have almost doubled our GDP in real terms since 1984 is the momentum of economic development in the mainland of China over this period. Hong Kong has been uniquely placed to take the fullest advantage of the business opportunities created by economic modernization and the "open door" policies.

Gross domestic product 1984-96



GDP has almost doubled in real terms since 1984.

27. At the same time, we should not ignore another, peculiarly Hong Kong factor. Hong Kong has long had a clear understanding between the Government and the business community that business decisions are best left to entrepreneurs and investors. The Government's job is to provide the right environment for business to grow. We do not pretend to be better at forecasting the future and trends of market demand than businessmen risking their own capital. Unlike some others in Asia who were caught by the slump in the electronics industry, Hong Kong emerged in good shape from 1996.

Future Forecasts

28. I now turn to 1997. We believe that China's economic policies will continue to produce relatively high growth rates combined with good control of inflationary pressures. We also anticipate steady, or in some cases better, performance in a number of OECD and Asian economies which trade with us and China. Locally, we anticipate a further strengthening in consumer demand. Taking these factors together, as I explained last month in some detail, we are forecasting for this year:

- ❑ 5.5% real growth in GDP;
- ❑ 8.5% increase in merchandise exports and 8% increase in exports of services; and
- ❑ 7% increase in inflation (CPI(A)).

29. Thus, as Members can appreciate, 1997 promises to be another year of

sound, sustainable growth. This will ensure solid growth in employment, new business opportunities and good profits across the economy as a whole. But the slight pick-up envisaged in inflation is a reminder that when a mature economy like ours is growing at a rate close to full capacity, there will inevitably be pressures on both our labour and our land resources. Indeed, we have already seen pressures building up faster than we would prefer on the property market in particular. (I will return later in my speech to how we can tackle property prices.) To contain these pressures, we will have to continue our battle against inflation. This underlines the importance of the Government maintaining the tightest control over public spending and pursuing maximum value for money throughout the public sector. It also means doing everything possible to raise productivity and enhance business efficiency.

Helping Business

30. At which point I turn naturally to the subject of helping business, one very close to my heart. I should now like to explain how this transitional Budget has tried to respond to the needs of the business community. Hong Kong thrives by deliberately leaving as much room as possible for enterprise and innovation. Our low, simple and predictable tax regime is rightly famous. The level of government regulation of trade and investment is the lowest in the world. But there is no room for complacency. I believe that we should adopt an active strategy to maximize our growth prospects. Thus, in last year's Budget, I announced a package of new measures to support business and to make government procedures more user-friendly.

31. Over the past 12 months, the Secretary for the Treasury, supported by the Efficiency Unit, has led a special task force to make sure that the Hong Kong Government is truly "business friendly". The task force has completed the seven pilot studies which made up the first phase of the Helping Business Programme. We are now implementing the recommendations.

32. In December, I formed a Business Advisory Group comprising 11 top businessmen plus six senior government officials. The Group will set the agenda for the second phase of the Programme. We will look at ways to cut red tape further and reduce over-regulation. We will examine ways to measure, and then reduce, the cost of compliance with government requirements. We will see

what more scope exists for services now performed by the Government to be taken up by the private sector. In all of this work, we will listen very closely to the private sector's needs and respond as best as we can.

Services Promotion

33. Last year, I also drew attention to the changing nature of our economy and the growing importance of the services sector. Since August 1995, I have chaired a Task Force on Services Promotion, taking advice from a group of businessmen.

34. Attached to the 1996 Budget was an Addendum which set out specific proposals covering the major service industries. As is the way in Hong Kong, things have progressed very rapidly. For example, we have:

- ❑ introduced legislation to allow development of a captive insurance industry;
- ❑ finalized plans for the Mortgage Corporation;
- ❑ completed negotiations on all major Air Services Agreements, giving us our own separate arrangements;
- ❑ issued six licences for Personal Communications Services; and
- ❑ opened a dialogue with Hong Kong Telecom to develop further Hong Kong's international telecommunications market.

Overall, we have achieved over 90% of our original target. The record is impressive. Full details, including our plans for the coming year, are in the Final Report of the Task Force which is published today to mark the end of its work.

35. Nor have others been idle. For example, a year ago, I asked the Trade Development Council to add the task of promoting Hong Kong's trade in services to its other responsibilities. The Council has responded to this challenge with gusto. Already it has developed a long-term strategy which emphasizes both the breadth and depth of Hong Kong's quality services. In 1996-97, it spent over \$28 million on a promotional campaign on services. In the coming year, it

will spend nearly \$30 million. The Export Credit Insurance Corporation and the Hong Kong Productivity Council have also played their part. Again, full details of these initiatives are given in the Final Report.

36. I have been impressed too by progress made by the Stock Exchange and Futures Exchange in developing and marketing new products. For example, the introduction of pound sterling futures contracts and the preparations for the launching of regional derivative warrants and convertible bonds. I welcome these developments which enhance our position as an international financial centre. I would be willing to consider favourably, on a case-by-case basis, what incentives new products might enjoy including possibly some form of stamp duty concession.

37. Similarly, with stamp duty on stock transactions, I remain prepared to review the stamp duty rate once the industry has finalized its plans to reduce brokerage charges.

38. Publication of the Task Force's Final Report does not mean our work is finished. On the contrary, it is just beginning. I intend to form a new high level Services Promotion Strategy Group to give an overall steer on the way forward. To make sure Hong Kong remains the services centre par excellence in the region, and indeed the world. Its members will include senior representatives from the Trade Development Council, the Coalition of Service Industries and Chambers of Commerce. It will hold its first meeting next month.

New Unit

39. It is vital to maintain the momentum. I am personally committed to seeing that the initiatives we have launched are taken forward with full vigour. So, I propose to create a new unit to take responsibility for both Helping Business and Services Promotion and have identified the resources for the purpose. This Unit will not be some far flung quango. It will be part of my own office and its head will report directly to me.

Building the Infrastructure

40. While changes to the institutional arrangements are taking place, we have continued to strengthen our infrastructure. For example, we are pressing ahead with the modernization of our transport facilities.

- ❑ We have created the world's busiest container port. Last year, it handled 13.2 million TEUs. We expect the first berth of CT9 to come on stream in 1999. In 2002, when the whole terminal is completed, 2.6 million TEUs will be added to the annual handling capacity of our port.
- ❑ The new airport is scheduled to open in April 1998. It will be able to handle 35 million passengers and 3 million tonnes of cargo a year. The completion of a second runway at the end of 1998 will boost overall runway capacity from 38 to 50 aircraft movements per hour within the first year of commissioning.
- ❑ Over the next few months, we will progressively complete the Airport Core Programme's transport corridor between Central District and Chek Lap Kok. We will open this to the public in stages.
- ❑ Our cross-border land crossings handle over 24 000 vehicles and nearly 150 000 passengers a day. In 1997-98, we propose to spend \$30 million to increase staff at Lok Ma Chau and Sha Tau Kok to cope with the build-up in traffic. We are also conducting a study on the works necessary to expand the facilities at Lok Ma Chau.
- ❑ We are poised to embark on major improvements under the Railway Development Strategy over the next few years. These include Phase I of the Kowloon Canton Railway Corporation's Western Corridor Railway, the Mass Transit Railway Corporation's extension to Tseung Kwan O, the Ma On Shan to Tai Wai Railway and the extension from Hung Hom to Tsim Sha Tsui of the Kowloon Canton Railway. I shall have more to say later on the funding implications of the Railway Development Strategy. The final decision on these projects will, of course, rest with the SAR Government.

41. We have also made good progress on the initiatives I announced last year to create an advanced technology base.

- ❑ We have earmarked funds for Phase I of the Science Park project. We estimate that this will cost over \$400 million over the next five years. A Planning Committee will examine the project in more detail and take it forward when the site in Tai Po becomes available in early 1998.
- ❑ We have identified a site for the second industrial technology centre. Funds will be available for work to start in 1998.
- ❑ We are investigating the potential of a site in Tuen Mun for the fourth industrial estate. The new estate should be ready by the year 2004 when the Hong Kong Industrial Estates Corporation's land bank is expected to be fully taken up.

CONTINUITY AND CHANGE: MEETING THE COMMUNITY'S NEEDS

42. In finding the right balance between continuity and change, we have to respect our social values, as well as recognize our economic priorities. Rightly, Hong Kong expects its living standards to improve and the Government to upgrade the range and quality of public services each year.

Housing: Improving the Supply

43. One of the most important of these is housing. It is probably the item which comes highest on a family's agenda. Over the last five years, in partnership with the Housing Authority, we have increased spending on housing by 34% in real terms. In 1997-98, total public spending on housing will be \$32.1 billion. This represents an increase of 16% in real terms over 1996-97.

Building More Homes

44. Largely as a result of this substantial investment, about 63 000 new flats will become available in 1997-98. Of these 21 500 will be public rental flats, 16 000 will be subsidized flats for sale and 4 000 will be flats for the Sandwich Class Housing Scheme operated by the Housing Society. The rest, that is, 21 500, will be produced by the private sector.

Land Supply

45. However, demand for housing still outstrips supply. The only really effective long-term solution is for the Government to produce more land for residential development. In the last five years, we have made available 257 hectares of land for public rental and subsidized home ownership flats, and another 145 hectares for private development. Over the next five years, we plan to release another 327 hectares for public and 260 hectares for private housing — an increase of 46% over the previous five years. But I recognize that we must try to do even more. So, I have decided to chair a special task force to look at land supply and its impact on infrastructure and housing development. The relevant policy secretaries will join me in this new initiative. We will start our work shortly.

46. Hong Kong has made remarkable progress in providing adequate shelter for our community. 47% of our households live in public housing. And as standards of living have risen, more and more people aspire to owning their own home. We will step up our efforts to help them achieve this ambition. Over the next two years, as a result of our recent injection of \$1.38 billion into the Housing Society's Sandwich Class Housing Loan Scheme, we will be able to provide loans to a further 3 000 families.

The Pressure on Prices

47. In the meantime, until the additional land is available, there continues to be pressure on property prices. We are constantly reviewing market conditions. We are already taking action against speculators using companies to buy flats and resell them shortly afterwards. The Inland Revenue Department is tackling this problem vigorously by charging Profits Tax on any gains from these trading-type transactions. I welcome the steps which the Real Estate Developers Association is taking to inhibit speculation. And the Hong Kong Monetary Authority will continue to encourage financial institutions to take a prudent and responsible attitude towards mortgage lending.

Improvements in Key Services

48. In addition to housing, this community quite rightly attaches importance to

the education of its children, to the provision of adequate health and welfare services and to the maintenance of law and order. In recent years, we have been able to make major improvements in these services. Unlike most advanced economies, Hong Kong has not had to increase the burden on the taxpayer in responding to the public's rising expectations. On the contrary, we have been able to reduce taxation while at the same time making significant improvements. We have been able to afford these because our economic growth has generated the necessary wealth to do so.

49. I am happy to tell Members that in 1997-98 we can build on our past achievements. We can, once again, use some of the additional resources produced by our continuing economic growth to make life better for our community. In deciding how best to meet the community's aspirations, I have consulted widely. Members of this Council have been as generous as ever with their comments and suggestions. I have also benefited from the views and advice of a wide range of professional associations and interest groups. This has made a difficult task considerably easier. I hope that, like last year, Members will be able to identify the contributions which they have made in shaping our spending plans.

Education : Investing in Quality

50. In education, our priority has been, and must be, to maintain and upgrade the quality. In recent years, Hong Kong has faced the challenge of change socially, economically and technologically. As a result, the community has become increasingly concerned about whether our education system can produce young people with the right professional, technical or vocational qualifications and skills to sustain the development of Hong Kong into the next century. These concerns are shared by parents, educators, employers and the Government alike.

51. In 1997-98, our total expenditure on Education will exceed \$45 billion — an increase of 7.7% in real terms over 1996-97.

Basic Education

52. We will devote additional resources to improving basic education. We will, for example:

- ❑ provide multi-media computers to all public sector primary schools and set up Information Technology Learning Centres in prevocational and technical schools, at a cost of \$300 million over the next two years; I am determined to make the next generation of Hong Kong young men the most computer literate in the world;
- ❑ continue to reduce class sizes and to increase the number of graduate teachers in our primary schools;
- ❑ convert 26 more primary schools to whole-day schooling; and
- ❑ improve the financial assistance to needy students under the Textbook Assistance Scheme.

Tertiary Quality

53. Last October, the University Grants Committee completed a comprehensive review of higher education in Hong Kong. This sets the direction for tertiary education in the future. We agree with the main recommendations in the report.

- ❑ We will support our institutions to develop their strengths to become centres of excellence.
- ❑ We plan to provide, over the next few years, an additional 11 000 hostel places. This will enable more students to identify with their academic community and participate more in its initiatives.
- ❑ We will increase the number of students from outside Hong Kong. This will help widen the outlook of our own students, enhance their language and interpersonal skills, and inject a healthy element of competition.

Students with Special Education Needs

54. In this quest for quality in our basic and higher education, we must not

lose sight of the needs of another group of children who deserve additional support. The Board of Education has made a number of valuable recommendations about what should be done to improve the opportunities for children with special educational needs. We will spend \$30 million in 1997-98 on improvements including the provision of additional staff and increased school grants for the upgrading of facilities and activity programmes in special schools.

Language Skills

55. Last year, I dedicated a special section of the Budget to measures aimed at improving language skills. Such skills are vital to our success as an SAR of China, as well as our role as an international centre for business. I believe more needs to be done this year. In 1997-98, we will spend almost \$42 million on raising the standard of language training in our schools by:

- ❑ extending the Chinese and English reading schemes to more levels of primary and secondary schooling;
- ❑ providing more intensive English courses for Secondary Six and Seven students in Chinese-medium schools;
- ❑ establishing a Language Resource Centre to support the classroom teacher; and
- ❑ conducting a pilot exercise to establish language benchmarks for teachers. This will raise the language standards and professionalism of teachers, as well as the quality of language teaching and learning in schools.

56. As for our universities, Members will recall that last year we provided \$68 million to raise the language standards of these students. This year we will spend another \$78 million. Our universities can also send a clear signal about the need for higher language standards by only accepting, as a general rule, students who meet the language requirements in their Advanced Level Examinations.

A Well-Trained Workforce

57. In addition to the necessary language skills, we need to intensify our efforts to ensure that we have a workforce well-trained to meet the needs of our changing economy. We have reviewed the role of the Employees Retraining Board and the Vocational Training Council. And we are now mapping out a comprehensive strategy for manpower training and retraining to meet the needs of the 21st century.

58. In the meantime, we have already injected \$500 million into the Employees Retraining Board to enable it to sustain its retraining programmes to assist local workers to rejoin the labour market and to extend the scheme to cover new immigrants.

A Caring Community

59. Our society has remained loyal to its traditional values. Families do all they can to look after their elderly members, those with a disability or a relative who is sick. These are important values which we must preserve. At the same time, Members of this Council and the vast majority of the people of Hong Kong want this to be a caring community. They want us to provide all the support necessary for those whose families are unable to care for them or who need help to do so. And we offer them this support through our extensive health and welfare services.

60. On welfare, our record is impressive. We have increased our expenditure on welfare by 88% in real terms over the past five years. It will increase by a further 9.1% in 1997-98 to \$21.2 billion. On health, our spending in 1997-98 will total more than \$28 billion — an increase of 5.7% in real terms over 1996-97.

The Elderly

61. The group for which this Council and the community have expressed the greatest concern is the elderly. We share this concern. That is why, in addition to the financial assistance we provide, we are constantly improving our continuum of care for elderly people. For example, in 1997-98 we will:

- continue to develop our new support network for the elderly by identifying more of those who are vulnerable and more volunteers to

reach out to them;

- ❑ enhance the general out-patient service for the elderly by increasing the number of doctors and supporting staff;
- ❑ open 30 new social, day care or multi-services centres;
- ❑ provide five new nursing homes with 1 200 beds for the frail elderly; and
- ❑ provide an extra 1 546 residential care places in other facilities.

62. We will also relax, from 1 April this year, the residence requirement for elderly people who retire to Guangdong. They will be able to receive their monthly standard Comprehensive Social Security Assistance (CSSA) payments there. This will, in the words of a Chinese proverb, help those who like falling leaves wish to return to their roots.

Others in Need

63. Other groups also need our support. In 1997-98, we will further expand our services by, for example:

- ❑ providing an additional 790 day places and 1 664 residential places for children and adults with a disability;
- ❑ providing 600 places in sheltered workshops or supported employment;
- ❑ providing 3 511 places in day nurseries or creches;
- ❑ providing in-depth training programmes for social workers and other professionals involved in handling child abuse cases; and
- ❑ continuing to provide CSSA to those who need financial help. In 1996-97, we are spending \$7 billion on CSSA — an increase of 35% in real terms over 1995-96 and we expect a further increase of 11% in real terms in 1997-98.

Health Care

64. Our health service has made huge strides in recent years. But the community expects us to raise the standards of health care still further. I have just mentioned the increase in our health spending of 5.7% in real terms in the coming year. In 1997-98, we will for example:

- ❑ provide 669 additional hospital beds (including 126 from the opening this year of the first phase of North District Hospital);
- ❑ provide 57 additional staff for the student health service; and
- ❑ complete one new general outpatient clinic and expand five others to cater for an extra 90 000 patient consultations a year.

65. We are also undertaking a comprehensive review of our health care system. We will explore financing options to see how best to balance the costs of care between the individual and the community as a whole. We will also examine the interfaces between primary and hospital care and between public and private health care.

New Arrivals

66. This brief description of our support services would not be complete without mention of one other group. In 1996, around 60 000 new arrivals from the Mainland made Hong Kong their new home. I believe that most of them, like generations of immigrants before them, adjust quickly to life here. But as a caring community, we should help them integrate as smoothly as possible.

67. Programmes to help the new arrivals begin the moment they arrive. For example, they are offered general advice and assistance at the Hung Hom Railway Station. They are given information directories, in simplified characters, on the services available to them. We offer special orientation programmes, as well as counselling and referral services. Around 30 000 new arrivals in 1996 benefited. As for the children, we help them fit into our schools with special support services and remedial English programmes. In 1997-98, we will spend a total of around \$168 million on these children — an increase of over 150% in real terms over 1996-97.

Law and Order

68. Hong Kong people need to feel safe as they go about their daily lives. We are fortunate that this is one of the few places in the world where the crime rate has gone down. In 1996, the overall crime rate was 19% lower than that in 1991. And, even more reassuring, the rate of violent crime was 29% lower. This makes us a much safer place to live and work than other major cities like London, New York, Tokyo or Toronto.

69. We need to ensure that our excellent Police Force can continue to provide a secure environment. In 1997-98, we will be putting around 600 additional police officers on frontline operational duties. For example, these extra officers will staff the new police districts at Chek Lap Kok and North Lantau, patrol roads and highways across the territory and strengthen Crime Wing Headquarters. To help officers do their jobs even more efficiently, we will spend nearly \$70 million on computers, enhanced communication systems and new high-speed, anti-smuggling boats.

70. This afternoon, I am only able to touch on the highlights of what we plan to do in the coming financial year; plans to improve the well-being of our families by upgrading our housing, social service and security programmes. I know that many will tell us that the Government should do more —more for the least well-off and more for the groups most at risk. But I hope I have said enough to demonstrate that this is an Administration which is very conscious of the community's concerns and which will indeed strive to do more.

PUBLIC FINANCES

71. I come now to a review of Hong Kong's public finances. As we enter the run-up to the transition, I am able to report that our financial position is very strong. Our economic prospects are somewhat better than last year. Our fiscal reserves are buoyant. We will start life as an SAR in an extremely favourable position.

The 1996-97 Outturn

72. I am now forecasting a surplus for 1996-97 of \$15.1 billion. This is a substantial increase over the \$1.6 billion I originally estimated in my 1996 Budget. Revenue for the year is \$6.6 billion more than originally estimated, while underspending amounts to \$6.9 billion.

Expenditure

73. On the expenditure side, there was an underspending of \$5.5 billion from the Capital Works Reserve Fund. This amounted to 15% of the original Capital Works Reserve Fund estimate. We missed our expenditure targets for capital works projects by \$2 billion; for purchase of premises by \$2 billion; and for land acquisition by \$1.5 billion. The last was because of delays in land resumption and clearance. On purchase of premises, I should explain that the original estimate for 1996-97 included a sum of \$750 million for the purchase of office accommodation for the Legislative Council Secretariat which we had advanced to 1995-96. In addition, we experienced some slippage in identifying suitable premises for welfare facilities. But we shall do our best to catch up in the coming year. If we just look at the delivery of capital works projects, our spending has been much nearer to our original estimate. Total spending on these projects was only about 6% below the original estimate, a considerable improvement over the much higher levels experienced five years ago.

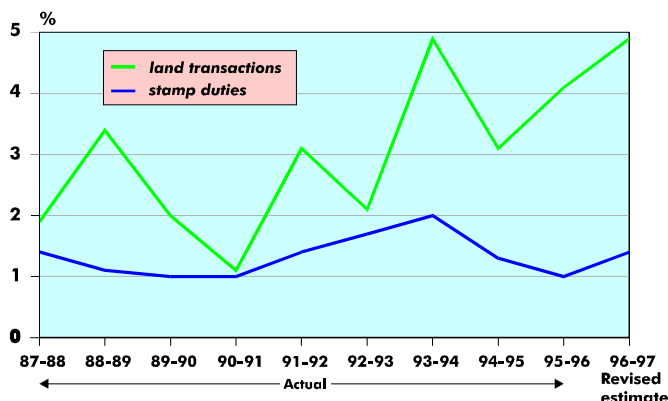
Revenue

74. On the revenue side, we have seen increases in both recurrent and capital revenues for two main reasons.

- ❑ First, our recurrent receipts are forecast to be \$5.8 billion higher than originally estimated. A sharp rise in activity in both the property and stock markets led to a surge in receipts from stamp duty in the second half of the year.
- ❑ Second, land revenue is likely to be \$1 billion higher than originally forecast. Enthusiasm among developers has risen recently. They are now showing considerable eagerness to finalize premium payments for the redevelopment of sites.

75. While additional revenue is always welcome, these increases come from two particularly volatile sources. It would not be wise for me to anticipate that this boost to our finances would be maintained over the medium term.

*Revenue from land transactions (before sharing with the SARG)
and stamp duties as % of GDP from 1987-88 to 1996-97*



Revenue from land transactions and stamp duties is volatile.

The 1997-98 Estimates

76. In drawing up this year's programme of expenditure we have, as always, followed the budgetary guideline that government expenditure, over time, should grow at a rate no faster than the economy. I have already highlighted some of the major new and improved services which we shall be introducing in 1997-98. When Members examine the detailed draft Estimates of expenditure at the special meetings of Finance Committee, they will see that we are proposing a host of other improvements which are too numerous to mention this afternoon.

77. When account is taken of all additional spending initiatives to be introduced in 1997-98, I estimate that government expenditure (excluding payments from the Capital Investment Fund) will total \$202.2 billion. This is an increase of \$24.5 billion over the revised estimate for 1996-97.

78. After adding forecast payments from the Capital Investment Fund of \$0.8 billion, total expenditure will amount to \$203 billion.

79. On the revenue side, after the various tax and duty changes which I will detail shortly, I am forecasting total receipts in 1997-98 to be \$234.7 billion — an increase of \$32.4 billion over the revised estimate for 1996-97. As I explained in last year's Budget, we can expect a sharp growth in revenue for two reasons. The first is the additional revenue from the collection of rents in accordance with Annex III of the Joint Declaration and Article 121 of the Basic Law. The second arises from the accounting changes to the treatment of income received from land transactions. From 1 July 1997, all such income will be retained by the SAR Government (rather than shared between the Government and the Land Fund).

80. I am forecasting an overall budget surplus for 1997-98 of \$31.7 billion. This is a huge figure, and one which warrants some explanation. To do this, I must refer to the Medium Range Forecast and the forecast of our financial position for the next few years.

Medium Range Forecast

81. I have published the Medium Range Forecast in Appendix A to the printed version of this speech, covering revenue and expenditure for the next four years. Its objective is to assure this Council and the community that the proposals in today's Budget are affordable not only in the context of the next financial year, but also over the medium term. The projected surplus of nearly \$32 billion is equivalent to almost 16% of forecast expenditure. So today's proposals are clearly affordable. Indeed, in the context of the coming year, they are extremely conservative. However, if we look beyond the next financial year and review the arithmetic for the period 1998-99 to 2000-01, we can see a strong case for caution.

82. These three years should show a combined surplus of \$58.9 billion. However, there is one major omission from the Medium Range Forecast. It does not take into account the substantial contributions that will be needed for the high priority projects under the Railway Development Strategy. The Medium Range Forecast does not cover this item because the precise amount and the timing of the contributions are not yet clear. However, it would be imprudent of me not to warn this Council of the huge capital investments which may be needed during this period.

83. Over the past three years, 1994-95 to 1996-97, we have contributed \$49 billion to the Airport Authority and to the Mass Transit Railway Corporation to help finance the construction of the airport and the Airport Railway. The SAR Government may well need to contribute a similar sum between 1998 and 2001 towards the construction of the high priority projects under the Railway Development Strategy.

84. While the various options are still being examined, it would only be prudent to earmark a sum of this magnitude to meet the potential funding for these projects over the forecast period. A contribution of this size would take up virtually all the surpluses I am forecasting for the period.

85. Against this background, the large surplus forecast for 1997-98 should be viewed as an one-off and is, therefore, misleading. We have to look with caution on 1997-98 as a unique year: falling between the completion of our contributions towards the cost of the airport and the Airport Railway and before our contributions to the Railway Development Strategy.

86. Earlier this afternoon, I warned of the need to take every precaution in the coming year to keep inflationary pressures under control. With the pick-up in the rate of GDP growth we are forecasting for 1997, it is even more important than usual to stick to our budgetary guidelines and to keep public expenditure under the tightest possible control. From a macroeconomic viewpoint, the exceptional surplus which I am forecasting for the next financial year represents a very fortunate windfall for our efforts to hold back the pressure on prices.

REVENUE PROPOSALS

87. I bring a similar spirit of caution to my revenue proposals. Hong Kong has never had an appetite for dramatic fiscal reforms. A transitional Budget tends to reinforce this sentiment.

(At this point, the Financial Secretary's glass was replenished.)

FINANCIAL SECRETARY: In case you are guessing, this is simply herbal tea.
(*Laughter*)

In addition, our revenue arrangements should conform with the Basic Law. They should support Hong Kong's role as a centre for international business, and they should reflect our commitment to financial prudence and economic autonomy. These considerations set the parameters for examining possible revenue proposals. The end result is a number of significant tax concessions which I am recommending to this Council for adoption. But let me first set out the areas in which I propose to make no changes.

Areas of No Change

88. In framing my revenue proposals, I have considered carefully all the advice I have received from Members of this Council, as well as the views and suggestions from professional groups, business associations and other bodies. I have been happy to accept some of these proposals. Others I have not been able to endorse, and I should like to explain my thinking on some of the more important ones.

Tax Relief for Housing

89. Some Members have called for a tax allowance to cover spending on mortgage interest or even rental payments. Some have suggested that we should at least provide some form of tax concession for first-time home buyers. Let me say here that I have considerable sympathy with the family which is investing a substantial part of its monthly income in buying its own home. It is also a government objective to encourage as many families as possible to become home owners. Nevertheless, it would be wrong in principle to create a general tax concession, regardless of the individual family's needs, to cover investment in housing.

90. Any help which the Government provides to promote home ownership should be given specifically to those families which need such assistance. For this reason, we have established the Home Ownership Scheme, the Sandwich Class Housing Scheme and the Private Sector Participation Scheme. These have already helped some 220 000 households to buy their own homes. I believe that these programmes are far more effective than tax relief would be. I also urge Members to look at the way in which home ownership has expanded even in the absence of tax concession for mortgage interest. Between 1991 and 1996, the number of households owning their own home rose by 22%. Today, more than 50% of households own their own home.

91. Although I am not convinced that we should introduce a tax allowance for housing expenditure, I will discuss later one concession which will help to relieve the financial burden on home buyers.

Profits Tax

92. I do not propose to make any changes this year to the level of corporate Profits Tax. By comparison with our competitors in the region, our level of Profits Tax is already very low. We are still highly competitive even when we look at their effective tax rates, that is, the actual tax paid after all tax concessions and deductions have been applied.

93. During my consultations with Members of this Council, I found that their views on this subject were mixed. Some Members asked for a reduction. Others asked for an increase. Some even suggested a progressive rate.

94. My personal view is that a case can be made out for a comprehensive review of Profits Tax to examine whether we can make our tax system and business environment even more competitive. The review will proceed next year. We will include in our review the question of depreciation allowances which I referred to in my Budget speech last year.

Duty Adjustments

95. I turn now to a small number of areas on the revenue side where I propose modest increases. To maintain the real value of the duty charged on fuel, tobacco and methyl alcohol, I propose to raise the duty rate by 6%, in line with the rate of inflation. This will bring in additional revenue of \$430 million in 1997-98 and \$1.9 billion up to 2000-01.

A Dividend for the Community

96. And finally, the part I suspect most people have been waiting for — tax reductions. In drawing up my proposals, I have had to balance two considerations. The first is the need for financial prudence. I am very conscious of our obligation to ensure that the SAR Government is in the strongest possible financial position on 1 July. The second is the case for the people of Hong Kong to enjoy a fiscal dividend from the success they have created.

Salaries Tax

97. I believe that, given our strong financial position, it is right to reduce Salaries Tax once again. I propose the following wide range of concessions.

- ❑ I propose to increase the basic allowance from \$90,000 to \$100,000 and the married person's allowance from \$180,000 to \$200,000. This is an increase of 11.1%, well above the rate of inflation.
- ❑ I propose to increase the allowance for the first and second child by 10.2%, from \$24,500 to \$27,000.

- ❑ I propose to increase the allowance for the third to the ninth child by 12%, from \$12,500 to \$14,000.
- ❑ I propose to increase the basic allowance for dependent parents and grandparents from \$24,500 to \$27,000 (a rise of 10.2%) and the additional allowance from \$7,000 to \$8,000 (a rise of 14.3%).
- ❑ Last year, I introduced an allowance for dependent brothers and sisters. I propose to increase this by 10.2%, from \$24,500 to \$27,000.
- ❑ I propose to increase the single parent allowance by 66.7%, from \$45,000 to \$75,000.
- ❑ I propose to increase the disabled dependant allowance by 66.7%, from \$15,000 to \$25,000.
- ❑ Last year, I introduced a measure to allow a deduction for taxpayers claiming expenses in respect of fees for training courses attended at approved institutions. I propose to increase the maximum deduction by 66.7%, from \$12,000 to \$20,000 a year.

98. In deciding on these Salaries Tax concessions, I have stuck to the principle of targeting the groups that need them most. In a caring community which respects traditional family values, the tax system should recognize the special difficulties faced by single parents or families caring for relatives, particularly those with a disability. The size of the concession for the training expenses is part of our effort to keep Hong Kong a premier centre for business by encouraging the workforce to upgrade its professional and technical qualifications.

99. During my Budget consultations, I received a wide range of proposals on the marginal tax structure from Members and also professionals in the accounting and taxation fields. With the healthy revenue position forecast, both for 1997-98 and in the medium term, I agree that there is scope for me to revamp the structure. This will give added relief to middle-income salaries taxpayers, especially the "sandwich class". In framing my tax concessions, I have been

very conscious of the needs of this particular group.

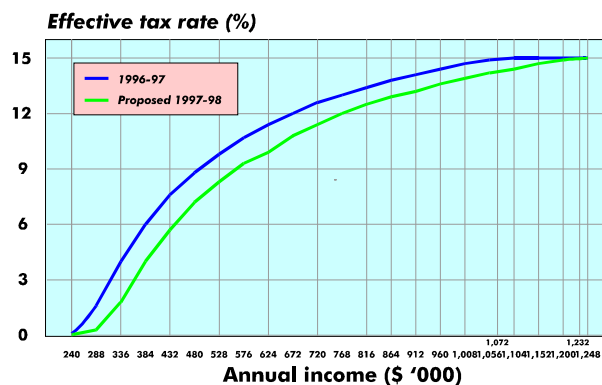
100. Currently, the marginal tax band widths are set at either \$20,000 or \$30,000. I will standardize them at the level of \$30,000. I also propose to rationalize the marginal tax rate by adopting a uniform interval of 6%. This revamping will simplify the structure and make it easier to understand. Let me explain the changes.

- ❑ The first marginal tax band will be widened from \$20,000 to \$30,000, and the marginal tax rate will be kept at the current low level of 2%.
- ❑ The width of the second marginal tax band will be maintained at \$30,000, but the marginal tax rate will be reduced from 9% to 8%.
- ❑ The width of the third marginal tax band will also be maintained at \$30,000, but the marginal tax rate will be reduced from 17% to 14%.
- ❑ The top marginal tax rate will be kept at the current level of 20%.

101. This means a taxpayer with a chargeable income of \$100,000 will pay nearly 25% less tax. The number of salaries taxpayers who have to pay the standard rate of 15% will also decrease.

102. The concessions I propose this afternoon will benefit 96% of our salaries taxpayers. Let me give some concrete examples of how I propose to cut the tax bills for individual employees and their families.

- ❑ A single-income family of four, earning \$22,000 a month, will have its tax bill cut by nearly 90%. It will pay less than \$20 a month in tax.
- ❑ The typical sandwich-class family, with a family income of \$26,000, will pay 68% less tax. It will pay only \$237 a month in tax.
- ❑ A married couple with two children will have to earn over \$100,000 a month, or more than \$1.2 million a year, before they pay salaries tax at the standard rate of 15%.

Comparison of the effective tax rates*(married couple with two children)*

A married couple with two children will have to earn more than \$1,232,000 a year (instead of \$1,072,000 as at present) before paying tax at the standard rate.

103. During last year's Budget debate, some Members expressed concern about the consequences of increasing the basic allowance in real terms, that is, at a higher rate than inflation. They argued that the effect might be to make the tax net too small and the tax base too narrow. I have looked carefully at the statistical evidence on this subject. In each of the last five years, we have raised the basic allowance in real terms. Yet the total number of taxpayers, that is, the tax net, has remained relatively stable, at around 1.4 million. Similarly, the yield from salaries tax, as a proportion of total revenue, that is, the tax base, has been reasonably stable over the last five years. The explanation for the stability of our tax net and productivity of our tax base lies in our rapid economic growth. Salaries taxpayers occupy the better-paid jobs and have benefited most from the increasing demand for well-qualified and experienced staff. The result is that while an increase in the basic allowance in real terms removes some taxpayers from the tax net, their disappearance tends to be temporary. As their salaries rise, they return to the tax net. I hope that Members will accept my assurance that today's tax concessions will not undermine the productivity of Salaries Tax as a source of revenue.

104. I estimate that these concessions will cost \$3.1 billion in 1997-98 and \$20

billion up to 2000-01.

Rates

105. I said in my speech last year that we would be carrying out a routine revaluation of rates during 1996-97, with any changes to take effect on 1 April 1997. The general revaluation has been completed and, based on rental values on 1 July 1996, the overall average increase in rateable values is 17% over the last three years. Domestic properties show an average increase of 23% and non-domestic properties an average increase of only 10% for the past three years. The rateable values for approximately 8% of properties will actually decrease or remain unchanged.

106. In formulating my proposals on rates, I have not lost sight of the government rents which some ratepayers will have to pay from July 1997 in accordance with Annex III to the Joint Declaration and Article 121 of the Basic Law. I have also taken into account the financial position of the Urban Council and the Regional Council, their planned programmes of activities and their rates revenue requirements for the next triennium, since their main source of funding comes from rates.

107. I propose that the overall rates percentage charge should be reduced from 5.5% to 5%. This is an historic low. In the Urban Council area, the percentage for Urban Council rates will decrease from 2.8% to 2.6% and that for the general rates from 2.7% to 2.4%. In the Regional Council area, the percentage for Regional Council rates will go down from 4.4% to 4.2% and that for the general rates from 1.1% to 0.8%.

108. After these adjustments, 28% of ratepayers will pay the same or lower rates. About 59% will face an increase of 20% or less.

109. But there will still be some who will face a relatively large increase in rates even after lowering the overall rates percentage charge. I propose to give these ratepayers some relief by imposing a 20% cap on increases in rates for 1997-98 and for 1998-99. This relief will apply to about 13% of ratepayers in 1997-98. In 1998-99, about 87% of all properties will have no change in rates.

110. The average increase in rates in 1997-98 for a small private flat will be only \$29 per month — an increase of 8.8%. Members will realize that the largest single group of tenants, those living in public rental housing, will not be

affected directly by changes in rates. As in the past, the Housing Authority will absorb the effect of rates increases until the next rent review. In practice, public housing tenants will be little affected because rents are revised only every two years and are fixed on the basis of affordability.

111. As for the business sector, the average rates payment for non-domestic premises will, in overall terms, fall by 3.4%. Industrial premises will enjoy the largest reduction, with an average 17% cut in their rates bill. For offices, the reduction will be a useful 6% on average. Lower rates for business firms are another contribution to ensuring Hong Kong is as user-friendly as possible to business, thus reinforcing our role as an international business centre.

112. The net effect of my proposals on revenue from general rates is that in 1997-98, it will remain at the 1996-97 level of about \$6.3 billion, whereas the two Councils' rates will increase from \$9.4 billion to \$10.3 billion. The cost of these proposals to general rates is \$1.2 billion in 1997-98 and \$3.4 billion up to the end of the century.

113. In the last Budget speech, I also raised the possibility of conducting the general revaluation on an annual basis. The objective would be to introduce smaller rises in rates each year instead of a larger rise once every three years. This is a complex issue which we are still studying. Let me assure this Council that we will certainly carefully consider the views of Members and the public before we take the final decision.

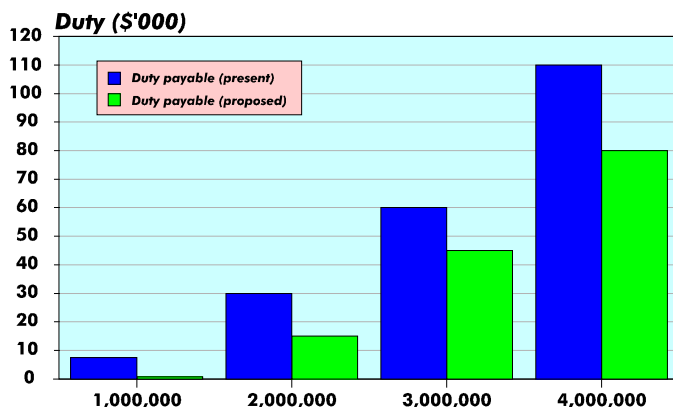
Stamp Duty on Property Transactions

114. Last year, I made adjustments to Stamp Duty on property transactions in order to benefit buyers of lower to medium-value flats, in particular those bought under the Home Ownership and Sandwich Class Housing Schemes. Increases in property prices have eroded this concession since the last Budget. Because of the Government's commitment to encouraging home ownership, I would like to restore the effect of last year's concession. I, therefore, propose to adjust the threshold values for the various Stamp Duty bands to benefit those buying flats with a value of \$4 million or less.

115. As a result of the proposed adjustments, the Stamp Duty paid on a \$2

million flat will be halved, from \$30,000 to \$15,000. I estimate that about 50 000 property transactions will benefit from the proposal in 1997-98. The concession will cost \$620 million in 1997-98 and \$3 billion up to 2000-01.

Stamp duty on selected properties before and after concessions



Stamp duty paid on a \$2 million flat will be halved, from \$30,000 to \$15,000.

Deduction of Foreign Withholding Tax

116. In the past, we took the view that the Inland Revenue Ordinance allowed a deduction for foreign withholding tax on income subject to Hong Kong Profits Tax only for companies which were controlled and managed in Hong Kong. The deduction would not be available to overseas companies operating a branch here. However, a judicial decision has indicated that foreign withholding tax charged on income or turnover is a legitimate expense, which should be deductible in determining assessable profits whatever the residency status of the company concerned. The Inland Revenue Department is following the judicial decision in its practice. Nevertheless, during the Budget consultations, the tax, accounting and banking professions asked that we clarify the law so as to provide certainty. I, therefore, propose to amend the Inland Revenue Ordinance to reflect the judicial decision and the Department's current practice. This will, I hope, offer another inducement to encourage overseas companies to set up branch operations in Hong Kong, thereby strengthening our status as an international financial centre.

Driving Licences

117. We now issue driving licences which are valid for one or three years. Regular renewal is somewhat inconvenient to licence-holders, and those who forget can commit an offence by driving without a valid licence. To make life easier for drivers and, I am happy to say, reduce administrative costs for the Transport Department, I propose to issue driving licences valid for 10 years except for those aged 60 and over. (*Laughter*) And since 10 years is a long time, the Commissioner for Transport will issue notices to remind people that their licences are due for renewal.

118. I propose to charge \$900 for a 10-year licence. This comprises \$520 for the licence fee, and \$380 for a 10-year levy to the Traffic Accident Victims Assistance Scheme (which currently charges an annual levy of \$38 on driving licence-holders). This is good value for money because a three-year licence currently costs \$864 (comprising \$750 for the licence fee and \$114 for the levy). The cost of this proposal is \$20 million in 1997-98 and \$610 million up to 2000-01.

Scrapping Scheme

119. Last year, I introduced a scheme to encourage people to scrap their old cars on environmental grounds. Since the scheme started in June last year, we have received an average of about 150 applications each month. As I promised in the last Budget, I have reviewed the effects of the scheme. It works and there have been no abuses. I propose to extend it for another 12 months and review it again at the end of the period. To increase the number of cars eligible under the scheme, I will cut the period a person is required to own the car before it is scrapped from two years to one year. And I will reduce the requirement for the car to have been licensed immediately before scrapping from two years to one.

Electric Vehicles

120. In the 1994-95 Budget, we granted First Registration Tax exemption to electric vehicles for a period of three years. Our aim was to make electric vehicles, which do not cause air pollution, more attractive by reducing their initial cost. I propose to extend the concession for another three years with another review at the end of the period.

Estate Duty

121. Last year, I revised the exemption level for Estate Duty to offset the effects of inflation, and I widened the marginal duty bands from \$1 million to \$1.5 million. This year, I propose to increase the level below which no duty is payable from \$6.5 million to \$7 million. Above that level, I propose that Estate Duty be payable at 6% on estates between \$7 million and \$8.5 million; 12% on estates between \$8.5 million and \$10 million; and 18% on estates over \$10 million. The cost of this proposal will be \$12 million in 1997-98 and \$103 million up to 2000-01.

Duty on Alcoholic Beverages

122. In my period as Financial Secretary, one issue has plagued me more than most. It comes up on visits overseas, in this Council, at meetings with bankers and businessmen, at dinner parties. Even one of my predecessors, who shall remain nameless, has lobbied me. (*Laughter*) I am talking, of course, about alcohol duty, particularly that on wine.

123. In March 1994, we introduced a simple *ad valorem* imaginative duty system on alcoholic beverages. (*Laughter*) The system has benefited ordinary consumers by giving them greater choice and cheaper alcohol as importers have had to compete for sales, especially at the lower end of the market. And it is also consistent with our obligations under international trade rules that we should treat local and imported products exactly the same. Thus, there is no valid argument for me to change the system.

124. As the French proverb says, and as those of you who enjoy a glass of wine from time to time will know, it is only the first bottle which seems expensive. (*Laughter*)

PRESIDENT: May I inquire if what the Financial Secretary was drinking is not red wine in the guise of herbal tea?

FINANCIAL SECRETARY: I will come to that, Mr President.

Once that has taken effect, so I understand, drinkers worry less about the

price. As Financial Secretary, however, I need to be mindful of Hong Kong's status as a centre for trade, finance and tourism. The case has been put to me that our 90% duty on wine is too high and is affecting our tourist industry and our business generally. For this reason, I propose to reduce wine duty from 90% to 60%. This will cost \$110 million in 1997-98 and \$490 million up to 2000-01. I am looking to shops, restaurants and hotels to pass on this duty reduction to their consumers. I shall ask the Consumer Council to monitor the price of wine in restaurants, hotels and other retail outlets to see that they do so.

Implementation

125. The proposed increases in duties on tobacco, fuel and methyl alcohol and the reduction in duty on wine come into immediate effect under a Public Revenue Protection Order issued today. Under similar authority, my proposals on Rates, Estate Duty, Stamp Duty, and First Registration Tax will come into effect on 1 April this year. My proposals on Salaries Tax and Profits Tax will take effect from the year of assessment starting on 1 April 1997, and those on driving licences and the scrapping incentive scheme will be implemented as soon as we have put in place the necessary legislative and administrative measures. I shall deliver the rest of my speech in Cantonese.

(in Cantonese):

CONCLUSION

126. Mr President, this afternoon I have explained that this Budget had a special task to perform. We needed to show how, in a year of historic change, Hong Kong's economy and public finances could remain strong and healthy. I believe we have done this by:

- ❑ reaching consensus in the Budget Expert Group on a through Budget, covering the whole financial year from 1 April 1997 to 31 March 1998;
- ❑ ensuring that our public services continue uninterrupted, with improvements to existing services where necessary;
- ❑ maintaining the integrity and continuity of our tax system across the transition; and

- ❑ drawing up a Budget which strengthens Hong Kong's financial and economic prospects for the future.

127. The Budget has been agreed by the two Sides in the Budget Expert Group and complies with the provisions of the Basic Law. I have pointed out that no fewer than 70 of the 160 Articles in the Basic Law deal with economic issues or are related to economic development. The most important, Article 5, provides that our capitalist system and way of life shall remain unchanged for 50 years. We are committed to our role as an international business centre. We are committed to our policy of financial prudence. We will continue to enjoy full autonomy in economic affairs.

128. The theme of continuity and change has run through my speech today. I have explained how we will spend:

- ❑ over \$32 billion on public housing programmes. We will make a special effort to encourage wider home ownership;
- ❑ over \$45 billion on education. In addition to strengthening our basic education, we have developed a package of initiatives to raise standards, particularly in language training;
- ❑ over \$28 billion on health care, with 669 additional hospital beds and five new nursing homes for the elderly on target for completion by the end of the financial year; and
- ❑ over \$21 billion on welfare with a wide range of improvements in services for the elderly, people with a disability and families at risk.

In each of these areas, we have funded the continuation of existing services and found new money to pay for improvements.

129. On Salaries Tax, I have set out to substantially reduce the amount of tax people have to pay, while keeping the number of taxpayers roughly the same. I propose a number of concessions, including:

- ❑ an 11% increase in the basic allowance to \$100,000 and the married

person's allowance to \$200,000;

- ❑ a 10% to 12% increase in the allowances for dependent children;
- ❑ increases of between 10% and 14% in the allowances for dependent brothers and sisters, parents and grandparents; and
- ❑ increases of over 66% in the single parent allowance, the disabled dependant allowance and the maximum deduction for training expenses.

Truly, this is a package which reinforces our traditional family values.

130. I also propose changes to the marginal tax structure as follows:

- ❑ the first \$30,000 chargeable income, currently taxed at 2% and 9%, will all be taxed at the lower rate of 2%;
- ❑ the second \$30,000 chargeable income, currently taxed at 9% and 17%, will all be taxed at the reduced rate of 8%; and
- ❑ the third \$30,000 chargeable income, currently taxed at 17% and 20%, will all be taxed at the reduced rate of 14%.

These measures will benefit the sandwich class in particular.

131. A single-income family of four earning \$22,000 a month will pay less than \$20 a month in tax. A typical sandwich-class family of four with a monthly income of \$26,000 will pay only \$237 a month in tax. A married couple with two children will have to earn over \$100,000 per month — more than \$1.2 million per year — before they pay tax at the standard rate of 15%.

132. Altogether the Salaries Tax concessions I have proposed will cost over \$3 billion in 1997-98 and \$20 billion up to 2000-01.

133. In addition, I propose to:

- ❑ reduce the rates percentage charge from 5.5% to 5% with a 20% cap for two years;
- ❑ reduce Stamp Duty on property transactions with a value not exceeding \$4 million each;
- ❑ introduce a new 10-year driving licence for about the same fee as the present three-year one — that is to reduce the present fee of \$288 a year to \$90 a year;
- ❑ reduce the duty on wine from 90% to 60%; and
- ❑ raise the exemption level for estate duty and the thresholds for the marginal duty bands.

134. The only increase I propose is to raise the duty on fuel, tobacco and methyl alcohol by 6% in line with inflation.

135. I am able to make these substantial expenditure and revenue proposals because our public finances are robust now and look set to remain so in the future. In addition to the \$15 billion surplus in 1996-97, we will record a further surplus in 1997-98 of nearly \$32 billion. I have explained that this last figure is an exceptional one. The reasons are twofold. First, because of the accounting changes on 1 July 1997 to the treatment of income received from land transactions, there will be additional revenue from this source. Second, the surplus arises in the year in between funding the new airport and airport railway and investing in the Railway Development Strategy.

136. This is a time of great change for us. But it is also a time for us to hold fast to our values. To have faith and confidence in ourselves. To look to what we Hong Kong people can do. We will begin our new life as a Special Administrative Region of the People's Republic of China with total reserves of around \$330 billion (including the Land Fund). We are the premier centre for international business in the region. We are looking forward to faster economic growth in 1997 than in 1996. Our sustained economic growth, our excellent law and order situation and our bright future prospects, mean that we can go on expanding our investment in our infrastructure, our support for business and our housing and social service programmes.

137. Mr President, many in our community, and among our friends around the world, have a major question in their minds at this time. This Budget provides at least a part of the answer: Yes, the future does work.

138. I move that the debate on this motion be now adjourned.

Question on the motion on the Second Reading of the Bill proposed.

Debate on the motion adjourned and Bill referred to the Finance Committee pursuant to Standing Order 54(2).

ADJOURNMENT AND NEXT SITTING

PRESIDENT (in Cantonese): In accordance with Standing Ordrs, I now adjourn the Council until 2.30 pm on Wednesday, 19 March 1997.

Adjourned accordingly at three minutes past Four o'clock.