



# DAILY INFORMATION BULLETIN

WEDNESDAY, MARCH 1, 1978

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### FINANCIAL SECRETARY MAKES SEVEN REVENUE PROPOSALS

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THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, TODAY MADE SEVEN REVENUE PROPOSALS IN HIS BUDGET FOR 1978-79.

ONE INVOLVED AN INCREASE IN POSTAL CHARGES AND SIX ARE CONCERNED WITH INDIRECT TAX.

THE FIRST PROPOSAL IS DESIGNED TO STOP CONFERRING ON SOME 20,000 TAX DEFAULTERS, THE BENEFIT OF THE TWO TAX INSTALMENT SYSTEM. SO, WITH EFFECT FROM 1978-79, TAX NOTICES WILL CARRY THE WARNING THAT IF THE FIRST INSTALMENT IS NOT PAID BY THE DUE DATE, THE SECOND WILL AUTOMATICALLY BECOME DUE.

THE SECOND PROPOSAL SEEKS TO INCREASE EXCISE DUTY ON IMPORTED CIGARETTES IN ORDER TO RESTORE THE INCIDENCE OF DUTY WHICH HAS DROPPED AS A RESULT OF LESS TOBACCO (BY WEIGHT) BEING USED IN IMPORTED CIGARETTES.

THE INCREASE, WHICH CAME INTO EFFECT AT 2.30 P.M. TODAY, WILL RAISE THE AMOUNT OF DUTY LEVIED ON A PACKET OF 20 IMPORTED CIGARETTES BY SIX CENTS AND BRING AN ADDITIONAL REVENUE OF ABOUT \$10 MILLION IN 1978-79.

THE THIRD PROPOSAL IS TO RENDER UNLAWFUL THE USE OF KEROSENE FOR AUTOMOTIVE PURPOSES. THIS IS BECAUSE KEROSENE DOES NOT ATTRACT DUTY AT PRESENT, AND CERTAIN USERS OF PASSENGER AND GOODS VEHICLES HAVE BEEN ABUSING THIS CONCESSION BY MIXING KEROSENE WITH DIESEL OIL IN THEIR ENGINES.

THIS PRACTICE IS ALSO OBJECTIONABLE ON ENVIRONMENTAL GROUNDS BECAUSE DIESEL/KEROSENE MIXTURES GIVE RISE TO A GREAT DEAL OF SMOKE.

THUS, MAKING THE USE OF KEROSENE FOR AUTOMOTIVE PURPOSES ILLEGAL WILL HAVE THE DUAL EFFECT OF REMOVING A NUISANCE, AND OF STOPPING A LOSS OF REVENUE OF ABOUT \$2 MILLION A YEAR.

THE FOURTH PROPOSAL IS TO INCREASE FIRST REGISTRATION TAX ON PRIVATE CARS THROUGH THE INTRODUCTION OF A SCALE WHICH WILL DISTINGUISH BETWEEN BASIC, SEMI-LUXURY AND LUXURY CARS. THESE TERMS ARE DEFINED AS FOLLOWS IN RELATION TO THE LANDED (OR CIF) VALUE (WHICH IS NOT THE SAME AS SALE PRICE) OF PRIVATE CARS:

- \* BASIC ..... UP TO \$20,000
- \* SEMI-LUXURY ..... \$20,000 TO \$30,000
- \* LUXURY ..... OVER \$30,000.

/THE RATE OF .....

THE RATE OF TAX ON BASIC CARS REMAINS UNCHANGED AT 30 PER CENT. THE RATES FOR THE SEMI-LUXURY AND LUXURY CARS HAVE BEEN INCREASED TO 35 PER CENT AND 40 PER CENT RESPECTIVELY.

THE NEW RATES, WHICH COME INTO EFFECT TOMORROW (MARCH 2), WILL RAISE AN ADDITIONAL REVENUE OF ABOUT \$15 MILLION IN 1978-79.

SALES OF BASIC CARS REPRESENT ABOUT THREE-QUARTERS OF TOTAL SALES IN HONG KONG AND FOR THOSE IN THE SEMI-LUXURY AND LUXURY CATEGORIES THE MAXIMUM EFFECT OF THE PROPOSALS WILL BE TO INCREASE RETAIL PRICES BY BETWEEN 2 PER CENT AND 6 PER CENT RESPECTIVELY.

THE FIFTH PROPOSAL IS A REVENUE CONCESSION. THE FINANCIAL SECRETARY PROPOSES TO ABOLISH STAMP DUTY ON A LARGE VARIETY OF TRANSACTIONS, EXCEPT ON CONTRACT NOTES IN RESPECT OF SHARES AND MARKETABLE SECURITIES, ASSIGNMENTS OF IMMOVABLE PROPERTY AND LEASES AND ASSIGNMENTS OF LEASES.

THE ESTIMATED LOSS TO GOVERNMENT REVENUE FROM THIS PROPOSAL IN 1978-79 IS \$130 MILLION.

THE SIXTH PROPOSAL IS TO REDUCE STAMP DUTY ON CONTRACT NOTES SO AS TO REMOVE AN ALLEGED DISINCENTIVE TO TRADE IN MARKETABLE SECURITIES.

FROM NEXT MONDAY (MARCH 6), TRANSACTIONS IN THE STOCK MARKET WILL ATTRACT STAMP DUTY AT THE RATE OF \$6 PER MILLE (COMPARED WITH \$8 PER MILLE AT PRESENT). THE COST TO REVENUE IS ESTIMATED TO BE \$25 MILLION.

THE COST OF THE TWO REVENUE CONCESSIONS IS ESTIMATED AT \$155 MILLION. THE INCREASE IN REVENUE ARRIVING FROM THE FIVE OTHER REVENUE PROPOSALS IS \$35 MILLION. THUS, THE GOVERNMENT IS EFFECTIVELY FOREGOING REVENUE OF \$120 MILLION.

AS A RESULT OF THESE PROPOSALS THE ESTIMATED OUTTURN FOR 1978-79 IS A SMALL DEFICIT OF \$20 MILLION MADE UP AS FOLLOWS:

	\$MILLION
ESTIMATED REVENUE .....	10,366
ESTIMATED EXPENDITURE .....	10,266
DIFFERENCE .....	+ 100
COST OF REVENUE PROPOSALS .....	- 120
ESTIMATED OUTTURN .....	- 20.

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FINANCIAL SECRETARY PREDICTS RECORD SURPLUS

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THERE WILL BE A RECORD \$1,150 MILLION SURPLUS IN THE GOVERNMENT'S ACCOUNTS AT THE END OF THIS FINANCIAL YEAR AS A RESULT OF +AN UNEXPECTED FLUSH OF REVENUE RATHER THAN A FAILURE OF EXPENDITURE+, THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, REVEALED TODAY.

MOVING THE SECOND READING OF THE 1978/79 APPROPRIATION BILL IN THE LEGISLATIVE COUNCIL, MR. HADDON-CAVE SAID THE REVISED ESTIMATES OF REVENUE AND EXPENDITURE FOR 1977/78 ARE \$9,235 MILLION AND \$8,160 MILLION RESPECTIVELY, RESULTING IN A SURPLUS OF \$1,075 MILLION.

+THIS FIGURE IS FAIRLY CLOSE TO THE ESTIMATE OF THE SURPLUS DERIVED FROM THE TREASURY'S CASH BOOK AT FEBRUARY 16 LAST, BUT NOT QUITE CLOSE ENOUGH.

+ACCORDINGLY, WHEN CONSIDERING OUR FINANCIAL POSITION AT APRIL 1 NEXT, I SHALL BE USING A FIGURE OF \$1,150 MILLION BEING MY PREDICTION OF THE SURPLUS,+ HE SAID.

THE FINANCIAL SECRETARY DESCRIBED THE SURPLUS -- EQUAL TO 11.6 PER CENT OF TOTAL REVENUE -- AS +RATHER REMARKABLE, EVEN FOR THIS VERY REMARKABLE PLACE+, PARTICULARLY AS IT IS THE HIGHEST ON RECORD.

THE REVISED ESTIMATE OF REVENUE FOR 1977/78 AT \$9,235 MILLION, MR. HADDON-CAVE NOTED, EXCEEDS THE ORIGINAL ESTIMATE OF \$8,275 MILLION BY \$960 MILLION, OR 12 PER CENT.

+RECURRENT REVENUE IS UP BY A NET \$735 MILLION, OR BY 10 PER CENT, ON THE ORIGINAL ESTIMATE.

+NO LESS THAN \$449 MILLION OF THIS EXCESS IS DUE TO MY UNDER-ESTIMATING THE MARKED EFFECT OF THE SHARP RECOVERY IN 1976 ON EARNINGS AND PROFITS TAXES AND THE GROWING EFFICIENCY OF THE INLAND REVENUE DEPARTMENT= AND BETS AND SWEEPS TAXES YIELDED \$70 MILLION OR 25 PER CENT, MORE THAN THE ORIGINAL ESTIMATE,+ HE EXPLAINED.

IN ADDITION, CAPITAL REVENUE IS UP BY \$225 MILLION, OR 24 PER CENT, ON THE ORIGINAL ESTIMATE AS PREMIA FROM LAND TRANSACTIONS HAVE YIELDED \$199 MILLION MORE THAN EXPECTED.

THE INCREASE WAS DUE TO A LARGER NUMBER OF MODIFICATIONS AND RE-GRANTS, HIGHER LAND PRICES AND A PRONOUNCED TENDENCY FOR PREMIA TO BE PAID IN LUMP SUMS RATHER THAN BY ANNUAL INSTALMENTS.

ON EXPENDITURE, MR. HADDON-CAVE EXPLAINED THAT THERE IS A NET OVER-SPENDING BUT ONLY OF \$12 MILLION ON RECURRENT ACCOUNT DESPITE THE 1977 CIVIL SERVICE SALARIES REVISION WHICH COST \$260 MILLION.

/THIS WAS .....

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THIS WAS DUE TO SAVINGS IN MOST PERSONAL EMOLUMENTS SUBHEADS AS IT TOOK LONGER THAN EXPECTED TO FILL NEW VACANT POSTS, HE ADDED.

AS FOR CAPITAL ACCOUNT, THE FINANCIAL SECRETARY SAID THERE IS A NET UNDER-SPENDING OF \$97 MILLION. (ORIGINAL ESTIMATE \$2,009 MILLION= REVISED ESTIMATE \$1,912 MILLION). THIS REPRESENTS A MUCH BETTER PERFORMANCE THAN IN THE LAST TWO YEARS WHEN IN 1976-77 WE UNDERSPENT \$556 MILLION AND IN 1975-76, BY \$415 MILLION.

OVERALL, THE GOVERNMENT HAS ACHIEVED THE TARGETS ORIGINALLY SET AT THE BEGINNING OF 1977-78, AS THE REVISED EXPENDITURE ESTIMATE, AT \$8,160 MILLION, IS FOR THE THIRD RUNNING, LESS THAN THE APPROVED ESTIMATE, BUT THIS TIME BY ONLY \$85 MILLION, OR BY ONLY ONE PER CENT OF THE APPROVED ESTIMATE OF \$8,245 MILLION, MR. HADDON-CAVE NOTED.

TURNING TO THE GOVERNMENT'S FISCAL RESERVES, THE FINANCIAL SECRETARY ESTIMATED THAT THE RESERVES, AT \$3,713 MILLION AT THE BEGINNING OF THIS FINANCIAL YEAR, WILL STAND AT \$4,890 MILLION AT THE BEGINNING OF 1978-79.

HE SAID THE GOVERNMENT NEED TO EARMARK AT LEAST \$3,200 MILLION OF OUR RESERVES TO SECURE OUR CONTINGENT LIABILITIES WHICH WILL STAND AT AROUND \$6,400 MILLION AT MARCH 31, 1979, RISING TO \$9,500 MILLION BY MARCH 31, 1982. (THE LIABILITIES INCLUDE GOVERNMENT GUARANTEES IN RESPECT OF THE MASS TRANSIT RAILWAY CORPORATION'S LOANS AND GUARANTEES IN RESPECT OF MORTGAGE LOANS BY BANKS MADE UNDER THE HOME OWNERSHIP SCHEME.)

+THAT LEAVES \$1,690 MILLION FOR SHORT TERM DIFFICULTIES AND TO FINANCE OUR SEASONAL DEFICITS AT 16.5 PER CENT, THIS IS A LITTLE BETTER THAN OUR GUIDELINE OF 15 PER CENT OF ESTIMATED EXPENDITURE IN THE ENSUING YEAR,+ MR. HADDON-CAVE SAID.

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#### GOVERNMENT EXPENDITURE FOR 1978-79 UP 26 PER CENT

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THE GOVERNMENT'S OVERALL EXPENDITURE FOR 1978/79 IS ESTIMATED AT \$10,266 MILLION — AN INCREASE OF 26 PER CENT ON THE 1977/78 REVISED ESTIMATES AND TWICE THE ACTUAL EXPENDITURE IN 1974/75.

DEALING WITH THE DRAFT ESTIMATES OF EXPENDITURE BY THEIR FUNCTIONAL COMPONENTS, THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE ANNOUNCED THAT \$7,323 MILLION WILL GO TO RECURRENT SERVICES AND \$2,943 MILLION TO CAPITAL EXPENDITURE.

ESTIMATED EXPENDITURE ON RECURRENT SERVICES FOR 1978/79 REPRESENTS AN INCREASE OF \$1,075 MILLION, OR 17 PER CENT, OVER THE REVISED ESTIMATES FOR THE CURRENT FINANCIAL YEAR OF \$6,248 MILLION.

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CIVIL SERVICE SALARIES AND ALLOWANCES ACCOUNT FOR \$2,771 MILLION OR 37.8 PER CENT OF RECURRENT EXPENDITURE. THIS COMPARES WITH 39.5 PER CENT IN 1977/78, AND AN AVERAGE OF 40.4 PER CENT OVER THE PREVIOUS THREE YEARS.

THE FINANCIAL SECRETARY NOTED THAT OVER THE THREE YEARS ENDING MARCH 31, 1977, THE APPROVED ESTABLISHMENT OF THE CIVIL SERVICE ROSE BY 4,677 TO 117,495, OR BY FOUR PER CENT. IN 1977/78, THE ESTABLISHMENT HAS GROWN BY A FURTHER 8,414 POSTS, OR BY 7.2 PER CENT, TO 125,909 POSTS.

DEPARTMENTAL OTHER CHARGES (I.E. RECURRENT EXPENSES OTHER THAN SALARIES AND ALLOWANCES), AT \$1,064 MILLION, TAKE UP 14.5 PER CENT OF RECURRENT EXPENDITURE FOR 1978/79. THIS COMPARES WITH 14.2 PER CENT IN 1977/78 AND AN AVERAGE OF 16.7 PER CENT OVER THE PREVIOUS THREE YEARS.

+I CONSIDER THAT, FOR DEPARTMENTAL OTHER CHARGES TO BE KEPT BELOW 15 PER CENT OF TOTAL RECURRENT EXPENDITURE IS A REFLECTION OF THE CONTINUED CONCERN OF DEPARTMENTS WITH COST-EFFICIENCY,+ THE FINANCIAL SECRETARY SAID.

PUBLIC WORKS RECURRENT EXPENDITURE (I.E. RECURRENT EXPENDITURE ON THE MAINTENANCE OF THE GOVERNMENT'S PHYSICAL ASSETS), AT \$473 MILLION, ACCOUNTS FOR 6.5 PER CENT OF RECURRENT EXPENDITURE. THIS COMPARES WITH 7.5 PER CENT IN 1977/78 AND AN AVERAGE OF SIX PER CENT OVER THE PREVIOUS THREE YEARS.

RECURRENT SUBVENTIONS, INCLUDING THOSE TO BE DISBURSED BY THE UNIVERSITY AND POLYTECHNIC GRANTS COMMITTEE, WILL ABSORB \$1,857 MILLION OR 25.4 PER CENT OF RECURRENT EXPENDITURE. THIS COMPARES WITH 26.7 PER CENT IN 1977/78 AND AN AVERAGE OF 26.1 PER CENT OVER THE PREVIOUS THREE YEARS. +OVERALL,+ MR. HADDON-CAVE SAID, +TAKING RECURRENT AND CAPITAL SUBVENTIONS TOGETHER, A FIFTH OF TOTAL EXPENDITURE IS DISBURSED BY SUBVENTED ORGANISATIONS.+

ON THE COST OF UPKEEPING THE ARMED FORCES HERE, THE FINANCIAL SECRETARY INDICATED THAT HONG KONG'S CONTRIBUTION WILL BE \$356 MILLION OR 3.5 PER CENT OF THE TOTAL EXPENDITURE IN 1978/79, COMPARED WITH 3.6 PER CENT IN 1977/78.

TURNING TO CAPITAL EXPENDITURE, THE FINANCIAL SECRETARY SAID THE PROVISION OF \$2,943 MILLION IS MADE UP OF \$858 MILLION FOR PUBLIC WORKS IN THE URBAN AREAS, \$1,150 MILLION FOR PUBLIC WORKS IN THE NEW TOWNS AND ON HOUSING, AND \$935 MILLION FOR SUCH ITEMS AS CAPITAL GRANTS FOR EDUCATION AND MEDICAL SERVICES, THE UNIVERSITIES AND THE POLYTECHNIC (\$185 MILLION). DEPARTMENTAL SPECIAL EXPENDITURE (I.E. DEPARTMENTAL CAPITAL EXPENDITURE ON PLANT AND EQUIPMENT) WILL AMOUNT TO \$201 MILLION. THE HOME OWNERSHIP SCHEME WILL REQUIRE ANOTHER \$399 MILLION AND DEFENCE CAPITAL WORKS \$114 MILLION.

AS FOR THE PATTERN OF EXPENDITURE PROVIDED FOR IN THE DRAFT ESTIMATES FOR 1978/79, MR. HADDON-CAVE SAID GENERAL SERVICES (INCLUDING LAW AND ORDER) WILL ABSORB 18.7 PER CENT OF TOTAL EXPENDITURE= ECONOMIC SERVICES SEVEN PER CENT= COMMUNITY SERVICES 20.4 PER CENT= SOCIAL SERVICES 42.6 PER CENT, AND ALL OTHER SERVICES 11.3 PER CENT.

+BALANCED BUDGET+ FOR 1978/79  
\* \* \* \*

THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, TODAY PROPOSED A +BALANCED BUDGET+ FOR THE FINANCIAL YEAR 1978-79.

+THE DIFFERENCE BETWEEN MY ESTIMATE OF REVENUE OF \$10,366 MILLION SHOWN IN THE REVENUE ESTIMATES AS PRINTED AND THE DRAFT ESTIMATES OF EXPENDITURE AMOUNTING TO \$10,266 IS \$100 MILLION,+ HE TOLD THE LEGISLATIVE COUNCIL.

BUT, AFTER TAKING INTO ACCOUNT \$120 MILLION, THE NET COST TO THE REVENUE IN IMPLEMENTING REVENUE PROPOSALS, IT WILL TURN THE BUDGET INTO A SMALL DEFICIT OF \$20 MILLION, MR. HADDON-CAVE SAID.

HE SAID THE ESTIMATE OF RECURRENT REVENUE, AT \$9,130 MILLION, REPRESENTED AN INCREASE OF \$1,056 MILLION, OR 13 PER CENT, OVER THE REVISED ESTIMATE FOR 1977-78 OF \$8,074 MILLION.

EARNINGS AND PROFITS TAX ACCOUNTED FOR \$3,990 MILLION, OR 44 PER CENT, OF TOTAL RECURRENT REVENUE. +THIS REPRESENTS AN INCREASE OF \$615 MILLION OVER THE REVISED ESTIMATE FOR 1977-78. THANKS TO THE SURGE OF INCOMES IN 1976, THE FIRST YEAR OF RECOVERY AFTER THE RECESSION,+ HE SAID.

THE YIELD FROM GENERAL RATES ESTIMATED AT \$795 MILLION, IS AN INCREASE OF \$85 MILLION, OR 12 PER CENT, OVER THE REVISED ESTIMATE FOR 1977-78 OF \$710 MILLION. +THIS INCREASE ALLOWS FOR THE EFFECT OF THE SECOND YEAR OF THE SCHEME DESIGNED TO CUSHION THE IMPACT OF THE NEW VALUATION LIST APPLICABLE FROM 1977-78, THE FURTHER EXTENSION OF RATING IN THE NEW TERRITORIES AND THE YIELD FROM NEW DEVELOPMENTS IN THE URBAN AREAS WHICH WILL BECOME LIABLE TO RATES FOR THE FIRST TIME,+ HE SAID.

THE YIELD FROM STAMP DUTIES, ESTIMATED AT \$550 MILLION, IS AN INCREASE OF \$60 MILLION, OR 12 PER CENT, OVER THE REVISED ESTIMATE FOR 1977-78. +THIS IS ALMOST ENTIRELY DUE TO ADDITIONAL ASSIGNMENTS OF PROPERTY WHICH WILL CONTRIBUTE NEARLY 55 PER CENT TO TOTAL STAMP REVENUE, ABOUT THE SAME AS IN 1977-78, BUT WELL UP ON THE THREE PREVIOUS YEARS,+ HE SAID.

THE FINANCIAL SECRETARY ESTIMATED THAT REVENUE FROM BETS AND SWEEPS TAXES WOULD YIELD NO LESS THAN \$480 MILLION IN 1978-79.

MR. HADDON-CAVE ESTIMATED CAPITAL REVENUE TO BE \$1,236 MILLION, AN INCREASE OF \$75 MILLION ON THE REVISED ESTIMATE FOR 1977-78 OF \$1,161 MILLION. +THIS INCREASE IS MADE UP OF AN ADDITIONAL \$120 MILLION FOR TAXI CONCESSIONS AND \$15 MILLION FOR ESTATE DUTY AND A DECREASE OF \$61 MILLION FROM LAND SALES, PRIVATE TREATY GRANTS, MODIFICATIONS AND RE-GRANTS,+ HE SAID. IN SPITE OF THIS DECREASE HE POINTED OUT THAT, AT \$874 MILLION, EXPECTED REVENUE FROM LAND TRANSACTIONS WAS BOUYANT BY HISTORICAL STANDARDS AND THAT LAND SALES SHOULD YIELD \$669 MILLION.

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AS FOR RECURRENT EXPENDITURE FOR THE YEAR 1978-79, THE FINANCIAL SECRETARY SAID THE TOTAL OF DEPARTMENTS' MAIN ESTIMATES, BASED ON THE PROVISIONAL ACCEPTABLE LEVELS OF EXPENDITURE PREVIOUSLY GIVEN TO THEM, AND THEIR SUBSIDIARY ESTIMATES FOR NEW SERVICES GIVEN HIGH PRIORITY BY THE GOVERNMENT, FINALLY CAME TO \$7,323 MILLION. ON THE FINANCING OF NEW SERVICES, MR. HADDON-CAVE MADE THE FOLLOWING POINTS:

+NEVERTHELESS, HAVING REGARD TO THE LIKELY OUTTURN FOR 1977-78, THE LIKELY SIZE OF THE CAPITAL ACCOUNT IN 1978-79, AND SEVERAL POLICY DECISIONS IN THE SOCIAL WELFARE AND SECONDARY EDUCATION FIELDS TAKEN AFTER THE FORECAST RETURNS HAD BEEN SUBMITTED (WHICH WERE ESTIMATED TO COST \$160 MILLION IN THE FIRST YEAR), I TOOK THE VIEW THAT SOME \$220 MILLION COULD BE AFFORDED FOR NEW PROPOSALS CONTAINED IN THE FORECAST SUBMISSIONS IN 1978-79,+ HE SAID.

TURNING TO CAPITAL EXPENDITURE, MR. HADDON-CAVE SAID THE FINANCE BRANCH TOOK AS THEIR STARTING POINT FOR THE PREPARATION OF THE ESTIMATES THE GUIDELINE FIGURE OF \$3,050 MILLION WHICH HE SUGGESTED LAST YEAR WOULD BE ACCEPTABLE. BUT, HE ADDED, +HAVING REGARD TO THE SPENDING CAPABILITY OF THE PUBLIC WORKS DEPARTMENT AND THE HOUSING AUTHORITY, A FIGURE OF \$2,008 MILLION WAS EVENTUALLY INSERTED IN THE DRAFT ESTIMATES. A FIGURE OF \$935 MILLION WAS INSERTED FOR ALL OTHER CAPITAL EXPENDITURE MAKING A TOTAL OF \$2,943 MILLION,+ HE SAID.

MR. HADDON-CAVE POINED OUT THAT IN CONSTRUCTING THE BUDGET, HE HAD BORNE IN MIND SIX CONSIDERATIONS.

+FIRST, THE LIKELY LEVEL OF THE GROSS DOMESTIC PRODUCT IN 1978= SECONDLY, THE IMPORTANCE OF ACHIEVING A GROWTH RATE OF PUBLIC EXPENDITURE IN REAL TERMS NEXT YEAR HIGH ENOUGH TO BRING THE AVERAGE GROWTH RATE OVER THE FIVE YEAR PERIOD 1974-75 TO 1978-79 UP TO THE 10 PER CENT GUIDELINE DEFINING STEADY PROGRESSION= THIRDLY, THE STATE OF OUR FISCAL RESERVES= FOURTHLY, THE DIFFERENT MONETARY CONSEQUENCES OF A PUBLIC SECTOR (CONSOLIDATED ACCOUNT) WHICH IS IN BALANCE, DEFICIT OR SURPLUS= FIFTHLY, THE GUIDELINES WHICH DEFINE THE DESIRABLE RELATIONSHIP BETWEEN RECURRENT AND CAPITAL EXPENDITURE AND THE ROLE WHICH RECURRENT REVENUE SHOULD PLAY IN THE FINANCING OF THE CAPITAL ACCOUNT= AND FINALLY, THE ABSOLUTE LEVELS AT WHICH THE VARIOUS COMPONENTS OF THE CAPITAL ACCOUNT SHOULD BE FIXED,+ HE SAID.

/ON THE .....

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ON THE RELATIONSHIP BETWEEN PUBLIC SECTOR EXPENDITURE AND THE G.D.P., THE FINANCIAL SECRETARY SAID THAT ASSUMING NO CHANGES IN BUDGETARY OR FISCAL POLICIES, THE SIZE OF THE PUBLIC SECTOR AS MEASURED BY THE RATIO OF PUBLIC SECTOR EXPENDITURE TO THE G.D.P. WOULD, OR SHOULD, EXHIBIT CYCLICAL VARIATIONS, PERHAPS EVEN ON A SLOWLY RISING TREND. +THAT IS TO SAY, IT WILL (OR SHOULD) INCREASE ON THE DOWNSWING PHASE OF ECONOMIC ACTIVITY AND DECREASE ON THE UPSWING, AND TEND TO INCREASE AGAIN AS THE RECOVERY PHASE MATURES,+ HE SAID. +THUS THE RATIO DECREASED FROM A HIGH OF 18.8 PER CENT IN THE TROUGH YEAR 1974-75, TO AN AVERAGE OF 16.5 PER CENT IN THE TWO UPSWING YEARS 1975-76 AND 1976-77 AND THEN INCREASED AGAIN TO 17.2 PER CENT IN 1977-78 AS THE GROWTH RATE OF THE ECONOMY (IN MONEY TERM) DECELERATED (FROM 27 PER CENT IN 1976 TO 15 PER CENT IN 1977),+ HE SAID. +IN THE COMING FINANCIAL YEAR, 1978-79, IF THE PUBLIC SECTOR'S SPENDING PERFORMANCE MATCHES FUNDS AVAILABLE AND THE G.D.P. FORECAST (FOR 1978) IS ACCURATE, THE RATIO WILL INCREASE FURTHER TO 18.4 PER CENT,+ HE ADDED.

ON THE GROWTH RATE OF GENERAL REVENUE ACCOUNT EXPENDITURE, MR. HADDON-CAVE SAID IN REAL TERMS, THE INCREASE BUDGETED FOR IN 1978-79 WAS 21 PER CENT COMPARED WITH 16 PER CENT IN 1977-78 (REVISED ESTIMATE) AND 3.4 PER CENT IN 1976-77 (AND WAS NO LESS THAN A 46 PER CENT INCREASE ON 1974-75). +THUS THE GROWTH RATE OVER THE FIVE YEARS 1974-75 TO 1978-79 INCLUSIVE WILL BE VIRTUALLY UP TO THE STEADY-PROGRESSION GUIDELINE OF 10 PER CENT PER ANNUM,+ HE SAID.

ON THE STATE OF OUR FISCAL RESERVES, THE FINANCIAL SECRETARY SAID, +ALTHOUGH THE LEVEL OF OUR FISCAL RESERVES MUST KEEP IN STEP WITH THE LEVEL OF EXPENDITURE, AS THE FREE ELEMENT IN OUR RESERVES AT APRIL 1, 1978 WILL BE 16.5 PER CENT OF ESTIMATED EXPENDITURE, I SEE NO NEED TO BUDGET DELIBERATELY FOR A SURPLUS.+

+I REGARD WHAT IS, IN EFFECT, A BALANCED BUDGET TO BE QUITE ADEQUATE TO SECURE OUR FINANCIAL STABILITY EVEN IN THESE UNCERTAIN TIMES, PARTICULARLY AS I HAVE PROVIDED QUITE GENEROUSLY FOR TRANSFERS TO THE DEVELOPMENT LOAN FUND AND THE HOME OWNERSHIP FUND,+ HE SAID.

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/9 .....

NINE PER CENT GROWTH IN GDP FORECAST

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THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, TODAY FORECAST A NINE PER CENT GROWTH RATE IN REAL TERMS OF GROSS DOMESTIC PRODUCT FOR 1978 - SAME AS THE TREND GROWTH RATE BETWEEN 1961 AND 1977, BUT HIGHER THAN THE RATE THAT CAN BE EXPECTED TO BE MAINTAINED THROUGH TO THE MID-1980S.

MAKING A FORECAST FOR THE IMMEDIATE PROSPECT FOR HONG KONG'S ECONOMY IN HIS BUDGET SPEECH IN THE LEGISLATIVE COUNCIL TODAY, MR. HADDON-CAVE SAID THE GROWTH RATE OF G.D.P., AT CURRENT PRICES, FOR THE YEAR AHEAD IS ABOUT 17 PER CENT, BRINGING IT TO A VALUE OF \$63,500 MILLION.

MR. HADDON-CAVE ALSO GAVE A BREAKDOWN OF THE GROWTH RATE FORECAST IN REAL TERMS BY COMPONENTS OF EXPENDITURE ON G.D.P. FOR THE YEAR AHEAD AS FOLLOWS:

- \* PRIVATE CONSUMPTION EXPENDITURE - 10 PER CENT
- \* GOVERNMENT CONSUMPTION EXPENDITURE - 14 PER CENT
- \* GROSS DOMESTIC FIXED CAPITAL FORMATION - 15 PER CENT
- \* EXPORTS OF GOODS - SIX PER CENT
- \* IMPORTS OF GOODS - NINE PER CENT
- \* EXPORTS LESS IMPORTS OF SERVICE - 10 PER CENT AND
- \* STOCKS - SIX PER CENT

ON PRIVATE CONSUMPTION EXPENDITURE, HE SAID THE GROWTH RATE FOR 1978 IS ABOVE THE AVERAGE 8.4 PER CENT EXPERIENCED OVER THE PERIOD FROM 1971 TO 1977, BUT HE STRESSED THAT THIS RATE CAN ONLY BE SUSTAINED IN THE MEDIUM AND LONG TERM IF EXPORTS SHOW A CORRESPONDINGLY STRONG GROWTH RATE.

TURNING TO THE GROSS DOMESTIC FIXED CAPITAL FORMATION, MR. HADDON-CAVE SAID THE GROWTH RATE OF INVESTMENT IN TRANSPORT EQUIPMENT AND CONSTRUCTION MACHINERY SHOULD REMAIN HIGH AND HE FORECAST A TEN PER CENT GROWTH RATE OF INVESTMENT IN PLANT AND MACHINERY IN 1978.

HE EXPECTED THAT THE GROWTH RATE OF PRIVATE INVESTMENT EXPENDITURE IN BUILDING AND CONSTRUCTION IN 1978 WOULD BE LESS THAN THAT IN 1977. THE GROWTH RATE IN PUBLIC SECTOR'S INVESTMENT EXPENDITURE AND MTR CAPITAL WORKS WOULD BE IN THE REGION OF 30 TO 40 PER CENT, RESULTING IN A FURTHER SHIFT IN CONSTRUCTION ACTIVITY IN FAVOUR OF THE PUBLIC SECTOR.

MR. HADDON-CAVE PREDICTED CONSTRUCTION EMPLOYMENT TO GROW BY ABOUT 15 PER CENT AND PRODUCTIVITY BY ABOUT FIVE PER CENT IN 1978, SO THAT THE CAPACITY OF THE BUILDING AND CONSTRUCTION INDUSTRY MAY EXPAND BY ABOUT 20 PER CENT.

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ON EXPORTS, HE SAID A DETAILED EXAMINATION OF THE PROSPECTS FOR THE GROWTH IN OUR VARIOUS MARKETS IN 1978 WAS UNDERTAKEN FOR THE PURPOSE OF MAKING AN ECONOMETRICALLY BASED FORECAST OF GROWTH IN TOTAL EXPORTS.

+ALTHOUGH OUR DOMESTIC EXPORTS OF TEXTILES AND CLOTHING WILL BE AFFECTED BY RECENTLY NEGOTIATED QUOTA RESTRICTIONS, ALBEIT PERHAPS LESS SEVERELY IN 1978 THAN LATER ON, THE POSSIBILITY OF FURTHER TRADING-UP REMAINS AND THE PROSPECTS FOR EXPORTS OF GOODS OTHER THAN CLOTHING AND TEXTILES CONTINUE TO BE GOOD.+ THE FORECAST IS, FOR TOTAL EXPORTS TO GROW IN 1978 BY SIX PER CENT.

ON IMPORTS, MR. HADDON-CAVE FORECAST A NINE PER CENT GROWTH, THE EMPHASIS BEING ON CONSUMER GOODS AND CAPITAL GOODS.

ON PRICES, MR. HADDON-CAVE ALSO PREDICTED THAT THE WORLD PRICES FOR PRIMARY PRODUCTS ON THE WHOLE WOULD REMAIN FAIRLY STABLE WITH FOOD PRICES FALLING SLIGHTLY AS A RESULT OF GOOD HARVESTS, AND PRICES FOR RAW MATERIALS AND METALS AND MINERALS RISING SLIGHTLY.

+WORLD PRICES FOR MANUFACTURES ARE FORECAST TO INCREASE BY SIX PER CENT IN 1978.

+ON THE ASSUMPTION THAT THE EXCHANGE VALUE OF THE HONG KONG DOLLAR WILL BE STABLE DURING 1978, I EXPECT CONSUMER PRICES GENERALLY TO INCREASE BY ABOUT FIVE PER CENT WITH HIGHER INCREASES FOR HOUSING AND SOME PERSONAL SERVICES.+ HE SAID.

MR. HADDON-CAVE ALSO POINTED OUT THAT THE PRICE INCREASES OF THE OTHER COMPONENTS OF THE G.D.P. COMBINE WITH THIS FORECAST INCREASE IN CONSUMER PRICES WOULD GIVE A DEFLATOR OF SEVEN PER CENT IN 1978 - HIGHER THAN THE INCREASE IN CONSUMER PRICES.

HE GAVE TWO REASONS FOR MAKING THIS FORECAST, +FIRSTLY, THE INVESTMENT PRICES WILL BE HIGHER THAN THIS AT 10 PER CENT DUE TO HIGHER BUILDING AND CONSTRUCTION COSTS AND HIGHER IMPORT PRICES FOR CAPITAL GOODS.

+SECONDLY, I EXPECT EXPORT PRICES TO INCREASE SLIGHTLY FASTER (FIVE PER CENT) THAN THE INCREASE IN IMPORT PRICES (FOUR PER CENT) PARTLY REFLECTING QUALITY UPGRADING WHICH MAY NOT BE FULLY ACCOUNTED FOR BY OUR QUANTUM INDEXES OF EXPORTS AND PARTLY REFLECTING INCREASES IN LABOUR COSTS,+ HE SAID.

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SLOW DOWN IN GDP GROWTH RATE EXPECTED IN MID-1980'S

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A QUESTION MARK NOW HANGS OVER THE EXTENT TO WHICH HONG KONG CAN MAINTAIN INTO THE MID-1980S THE SEVEN PER CENT GROWTH RATE OF G.D.P. PER CAPITA WHICH IT HAS ENJOYED SO FAR IN THE 1970S, THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, TOLD THE LEGISLATIVE COUNCIL TODAY.

HE SAID AS FAR AS GENERAL CONDITIONS FOR WORLD TRADE WERE CONCERNED, THE FORECAST FOR THE THREE YEARS 1979 TO 1981 AT PRESENT APPEARED TO BE MODERATELY EXPANSIONARY, ALTHOUGH THERE WERE UNCERTAINTIES CONCERNING THE ECONOMIES OF THE UNITED STATES AND GERMANY.

+ONE PROMISING FEATURE IS THAT THE OUTLOOK IS FOR THE RATE OF INFLATION TO CONTINUE TO FALL, + MR. HADDON-CAVE SAID. +THE IMPLICATION OF THIS IS THAT THERE MAY BE LESS OPPOSITION TO EXPANSIONARY POLICIES THAN WOULD OTHERWISE BE THE CASE.+

+BUT THE MAIN UNCERTAINTY REMAINS: TO WHAT EXTENT WILL HONG KONG BE ABLE AND, PERHAPS MORE IMPORTANT, BE ALLOWED TO TAKE ADVANTAGE OF ANY GROWTH IN WORLD TRADE THAT RESULTS FROM THESE POLICIES?+ HE SAID.

+A FURTHER FACTOR WHICH WILL, IN ANY CASE, SLOW DOWN THE GROWTH RATE OF G.D.P. BY THE MID-1980S IS THE SLOW DOWN IN THE GROWTH RATE OF THE POPULATION OF WORKING AGE FROM THE PRESENT THREE PER CENT PER ANNUM TO JUST OVER ONE PER CENT,+ HE ADDED.

MR. HADDON-CAVE SAID THE G.D.P. FORECAST FOR 1978 -- AT NINE PER CENT IN REAL TERMS -- WAS THE SAME AS THE TREND GROWTH RATE EXPERIENCED BETWEEN 1961 AND 1977, BUT WAS HIGHER THAN THE RATE HE BELIEVED HONG KONG COULD EXPECT TO MAINTAIN THROUGH TO THE MID-1980S.

+FOLLOWING THE CONCLUSION OF THE RATHER RESTRICTIVE TEXTILES AGREEMENTS WITH THE UNITED STATES, THE E.E.C. AND OTHER COUNTRIES, THE GROWTH PROSPECTS FOR EXPORTS OF TEXTILES AND CLOTHING ARE DEFINITELY LESS THAN WOULD OTHERWISE BE THE CASE,+ HE SAID.

+ALTHOUGH, AS FAR AS TEXTILES AND CLOTHING EXPORTS TO THE E.E.C. ARE CONCERNED, THE IMMEDIATE EFFECT IN 1978 HAS ALREADY BEEN DISCOUNTED TO A GREAT EXTENT BY VIRTUE OF THE RELATIVELY LOW LEVEL OF EXPORTS IN 1977, THE NEW AGREEMENTS ARE SUCH THAT BOTH GROWTH AND FLEXIBILITY PROVISIONS FOR THE NEXT FIVE YEARS HAVE BEEN REDUCED SUBSTANTIALLY.

+THIS SHIFT TO PROTECTIONISM IS MOST WORRYING FOR, AFTER ALL, TEXTILES AND CLOTHING DO REPRESENT ABOUT HALF OF HONG KONG'S DOMESTIC EXPORTS AT PRESENT,+ HE ADDED.

MR. HADDON-CAVE POINTED OUT THAT THE CONSEQUENCES OF PROTECTIONISM IN TERMS OF THE GROWTH RATE OF THE ECONOMY MUST DEPEND ON HONG KONG'S ABILITY BOTH TO TRADE UP IN TEXTILES AND CLOTHING AND TO FIND NEW MARKETS FOR THESE TRADITIONAL EXPORTS= AND TO DEVELOP MARKETS FOR OTHER PRODUCTS.

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+I SUSPECT THAT, AT OUR STAGE OF DEVELOPMENT, WE MAY FIND THAT THE SCOPE IN RESPECT OF TEXTILES AND CLOTHING IS LIMITED,+ HE SAID. +SUPPOSING, AS MAY WELL BE THE CASE, THE GROWTH RATE OF EXPORTS OF TEXTILES AND CLOTHING IN REAL TERMS IS HALVED, THEN, TO MAINTAIN OUR DESIRED GROWTH RATE OF G.D.P., EXPORTS OF OTHER PRODUCTS MIGHT HAVE TO INCREASE BY SOMETHING OVER 12 PER CENT PER ANNUM (COMPARED WITH A RECENT TREND OF EIGHT PER CENT).+

MR. HADDON-CAVE SAID A SHIFT TO SUCH PRODUCTS WOULD INVOLVE GREATER UNCERTAINTY.

+FOR EXAMPLE, OUR EXPERIENCE WITH ELECTRONICS INDICATES WE SHALL TEND TO DEPEND ON SUDDEN DEVELOPMENTS IN TECHNOLOGY. THEN AGAIN, MANY OF THESE PRODUCTS ARE FAR MORE DURABLE THAN THE PRODUCTS OF THE TEXTILES AND CLOTHING INDUSTRIES= AND THE MARKETS FOR THEM ARE MORE EASILY SATURATED,+ HE SAID.

+FURTHERMORE, IN ANY CASE, HONG KONG LACKS THE ADVANTAGE OF A LEAD IN TERMS OF EXPERIENCE, ONE OF THE MANY POINTS WHICH THE ADVISORY COMMITTEE ON DIVERSIFICATION WILL BE DEALING WITH,+ HE ADDED.

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RECOMMENDATIONS OF THIRD INLAND  
REVENUE ORDINANCE COMMITTEE  
\* \* \* \* \*

THE RECOMMENDATIONS BY THE THIRD INLAND REVENUE ORDINANCE REVIEW COMMITTEE ON TAXATION TREATMENT OF INTEREST, DIVIDEND WITHHOLDING TAX AND THE EXISTING SURCHARGE OF TWO PERCENTAGE POINTS ON CORPORATE PROFITS TAX TOGETHER WITH SEVERAL RELATIVELY MINOR RECOMMENDATIONS HAVE BEEN ACCEPTED BY THE GOVERNMENT.

THIS WAS REVEALED TODAY BY THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE IN HIS BUDGET SPEECH IN THE LEGISLATIVE COUNCIL.

MR. HADDON-CAVE SAID A SMALL PARTY OF OFFICIALS CHAIRED BY HIM TO EXAMINE THE RECOMMENDATIONS OF THE COMMITTEE HAD FOUND EIGHT OTHER RECOMMENDATIONS TO BE UNACCEPTABLE.

+THESE DEAL WITH A WORKING WIFE'S ALLOWANCE, THE EXTENSION OF PROFITS TAX TO PROFITS WHICH A BUSINESS ACTIVELY CARRIED ON IN HONG KONG OBTAINS WITHOUT THE SUBSTANTIAL INTERVENTION OF ANY BRANCH ELSEWHERE, THE TAXATION TREATMENT OF CERTAIN FRINGE BENEFITS, THE TAXATION TREATMENT OF QUARTERS OCCUPIED BY DIRECTORS OF DIRECTOR-CONTROLLED COMPANIES, SUBSCRIPTIONS TO PROFESSIONAL SOCIETIES, PREMIUMS FOR SHORT LEASES AND GIFTS IN KIND TO CHARITIES.+

/MR. HADDON-CAVE

MR. HADDON-CAVE SAID THE REMAINING RECOMMENDATIONS OF THE REVIEW COMMITTEE ARE STILL BEING EXAMINED BY THE OFFICIAL WORKING PARTY. THESE INCLUDE TWO MAJOR RECOMMENDATIONS RELATING TO MANDATORY ASSESSMENTS OF AGGREGATE INCOME AND THE CONSEQUENTIAL TREATMENT OF PROPERTY INCOME AS BUSINESS PROFITS, A RECOMMENDATION RELATING TO THE TAXATION OF SHIPPING PROFITS AND A SUGGESTION THAT THE PRESENT TABLE OF RATES OF DEPRECIATION COULD, WITH ADVANTAGE, BE SIMPLIFIED.

ON THE TAXATION TREATMENT OF INTEREST, MR. HADDON-CAVE SAID THE REVIEW COMMITTEE RECOMMENDED THAT THE EXISTING CHARGE ON INTEREST AS SUCH, AND ON INTEREST WHICH FORMS PART OF THE PROFITS OF A BUSINESS, SHOULD CONTINUE TO BE RESTRICTED TO INCOME ARISING IN OR DERIVED FROM HONG KONG, BUT THAT THE CRITERION NEEDS TO BE REINFORCED BY LEGISLATION.

+FIRST, IN RESPECT OF INTEREST GENERALLY, THE REVIEW COMMITTEE RECOMMENDED THAT THIS REINFORCEMENT SHOULD BE BY WAY OF EXTENDING THE TERRITORIAL SOURCE CRITERION, SO AS TO TAX INTEREST RECEIVED ON FUNDS USED BY THE BORROWER TO PRODUCE PROFITS CHARGEABLE TO HONG KONG TAX UNLESS, OF COURSE, THE INTEREST IS ALREADY BEING TAXED UNDER THE PROVISION OF CREDIT TEST.

+SECONDLY, THE REVIEW COMMITTEE RECOMMENDED THAT, IN RESPECT OF INTEREST WHICH FORMS PART OF THE PROFITS OF BANKS AND OTHER DEPOSIT-TAKING INSTITUTIONS, THE REINFORCEMENT SHOULD BE EFFECTED BY INCLUDING ALL INTEREST WHICH A BANKING BUSINESS ACTIVELY CARRIED ON IN HONG KONG OBTAINS WITHOUT SUBSTANTIAL INTERVENTION OF ANY BRANCH ELSEWHERE,+ MR. HADDON-CAVE SAID.

HE POINTED OUT THAT UNDER THE INLAND REVENUE ORDINANCE, TAX IS LEVIED AT THE STANDARD RATE ON INTEREST ARISING IN OR DERIVED FROM HONG KONG.

BUT THE ORDINANCE LAYS DOWN NO TEST FOR DETERMINING THE PLACE WHERE THE INTEREST ARISES IN OR IS DERIVED FROM.

+HOWEVER,+ MR. HADDON-CAVE SAID, +BASED ON CASE LAW, IT HAS BEEN ESTABLISHED THAT THE TEST TO BE USED IS THE PROVISION OF CREDIT TEST, THAT IS TO SAY, THE PLACE WHERE THE CREDIT IS MADE AVAILABLE TO THE BORROWER.+

+THE PROVISION OF CREDIT TEST TO IDENTIFY THE SOURCE OF INTEREST CHARGEABLE TO TAX HAS PROVED OPEN TO MANIPULATION.+

WITH THE EMERGENCE OF HONG KONG AS A FINANCIAL CENTRE AND WITH MORE SOPHISTICATED INSTRUMENTS NOW BECOMING AVAILABLE, MR. HADDON-CAVE SAID, +THERE IS A POSSIBILITY THAT EVEN FURTHER EROSION OF THE YIELD FROM INTEREST TAX WILL BE EXPERIENCED.

+IT HAS BEEN FOUND THAT LOAN AGREEMENTS CAN BE SO STRUCTURED THAT INTEREST ESCAPES HONG KONG TAX COMPLETELY EVEN WHEN THE PROCEEDS ARE REMITTED BACK TO HONG KONG FOR USE HERE,+ HE SAID.

/MR. HADDON-CAVE .....

MR. HADDON-CAVE SAID BECAUSE OF THESE REASONS, THE GOVERNMENT AGREED WITH THE WORKING PARTY THAT THE REVIEW COMMITTEE'S RECOMMENDATION ON TAXATION TREATMENT OF INTEREST SHOULD BE ACCEPTED AS IT STANDS AND A BILL TO AMEND THE INLAND REVENUE ORDINANCE WILL BE PUBLISHED IN THE GOVERNMENT GAZETTE ON FRIDAY.

HE SAID THE PROPOSED LEGISLATION, IF PASSED INTO LAW, WOULD BE EFFECTIVE FROM THE YEAR OF ASSESSMENT 1978-79.

MR. HADDON-CAVE SAID THIS CHANGE IN THE LAW WILL HAVE IMPLICATIONS FOR PROFITS FROM TWO SEPARATE TYPES OF ACTIVITY.

+FIRSTLY, AS REGARDS PROFITS DERIVED FROM INCOME RECEIVED ON FUNDS BORROWED IN HONG KONG, BUT INVESTED OVERSEAS, SUCH OVERSEAS ASSETS ARE NORMALLY DENOMINATED IN FOREIGN CURRENCIES, BUT NOT NECESSARILY.

+THE ADDITIONAL TAX LIABILITY WOULD BE 17 PER CENT OF THE NET PROFITS DERIVED FROM SUCH INTEREST EARNINGS.

+THESE OVERSEAS ASSETS ARE NORMALLY ACQUIRED PARTLY BECAUSE BANKS WOULD NOT OTHERWISE BE ABLE TO MEET THEIR STATUTORY LIQUIDITY REQUIREMENTS, PARTLY TO SERVICE THE FOREIGN CURRENCY REQUIREMENTS OF HONG KONG CUSTOMERS, AND PARTLY BECAUSE OF A LACK OF SUITABLE INSTRUMENTS IN HONG KONG.+

HE POINTED OUT THAT THE AFTER-TAX PROFITABILITY OF BANKS WILL BE REDUCED AND BANKS WITH LARGE NET FOREIGN CURRENCY POSITIONS WILL BE PARTICULARLY AFFECTED.

HOWEVER, HE SAID +BANKS AND SIMILAR FINANCIAL INSTITUTIONS ARE AT PRESENT IN A VERY PRIVILEGED TAX POSITION COMPARED WITH BUSINESSES GENERALLY, AND EVEN TAKING INTO ACCOUNT ANY FOREIGN TAX PAYMENTS, THEY PRESENTLY ENJOY AN EFFECTIVE RATE OF TAX HERE WELL BELOW 17 PER CENT.+

THE SECOND TYPE OF ACTIVITY AFFECTED BY THIS CHANGE IN THE LAW IS THE SO-CALLED OFFSHORE BUSINESS CONDUCTED BY BANKS AND OTHER FINANCIAL INSTITUTIONS: LENDINGS TO NON-RESIDENTS ARE FINANCED, NOT BY BORROWINGS OF HONG KONG DOLLARS, BUT BY BORROWINGS OF FOREIGN CURRENCIES FROM ABROAD.

MR. HADDON-CAVE SAID THIS TYPE OF BUSINESS HAS BEEN GROWING VERY RAPIDLY AND IS CONDUCTED BOTH BY LONG-ESTABLISHED LOCAL BANKS AND OVERSEAS INSTITUTIONS RECENTLY ESTABLISHED IN HONG KONG SOLELY FOR THIS PURPOSE.

AT PRESENT, SUCH INSTITUTIONS DO NOT HAVE TO PAY PROFITS TAX ON ANY INTEREST GENERATED BY SUCH BUSINESS, EVEN THOUGH THE BUSINESS IS CARRIED ON IN HONG KONG.

BUT UNDER THE PROPOSED AMENDMENT TO THE LAW ALL SUCH PROFITS WILL BE TAXABLE.

/MR. HADDON-CAVE .....

MR. HADDON-CAVE POINTED OUT THAT IN MANY CASES PROFITS EARNED IN HONG KONG BY A FOREIGN BANK ARE LIABLE TO TAX IN THE COUNTRY WHERE THE HEAD OFFICE OF THE BANK IS SITUATED.

HE SAID: +WHERE THERE EXISTS UNILATERAL RELIEF FROM DOUBLE TAXATION, THE ONLY EFFECT WILL BE TO REDUCE THE TAX PAID TO THE COUNTRY WHERE THE HEAD OFFICE IS SITUATED.

+BUT WHERE THERE IS AN INCREASE IN THE OVERALL TAX LIABILITY, IT COULD BE ARGUED THAT A DANGER COULD EXIST OF THIS TYPE OF BUSINESS BEING TRANSFERRED ELSEWHERE.+.

ON BALANCE, MR. HADDON-CAVE DID NOT BELIEVE THAT A SUBSTANTIAL LOSS OF SUCH BUSINESS WOULD BE LIKELY BECAUSE +NOT ONLY ARE BANKS RELUCTANT TO ASCRIBE A TAX MOTIVE TO THE FORM IN WHICH THEY DO BUSINESS, BUT ALSO HONG KONG'S TAX ADVANTAGES ARE CERTAINLY NOT THE ONLY REASON WHY OVERSEAS INSTITUTIONS DECIDE TO CONDUCT OFFSHORE ACTIVITIES HERE,+ HE SAID.

BASED ON PRESENT INFORMATION IN THE INLAND REVENUE DEPARTMENT, AND ON VARIOUS ASSUMPTIONS REGARDING INTEREST RATES AND COVERAGE, THE ADDITIONAL TAX YIELD WILL BE ABOUT \$145 MILLION IN 1979-80 AND THEREAFTER ABOUT \$80 MILLION PER ANNUM, MR. HADDON-CAVE SAID.

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#### F.S. EXPLAINS PRICING POLICY FOR PUBLIC UTILITIES

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THE BASIC PRINCIPLE BEHIND THE PRICING POLICY THE GOVERNMENT MUST ADOPT FOR GOVERNMENT-OWNED AND OPERATED PUBLIC UTILITY UNDERTAKINGS MUST BE THAT CONSUMERS SHOULD BE CHARGED THE FULL COST OF THE RESOURCES CONSUMED BY EACH UNDERTAKING UNLESS +CONSCIOUS POLICY DECISIONS DICTATE OTHERWISE ON SOCIAL OR POLITICAL GROUNDS+.

+THIS PRINCIPLE IS NOT INVALIDATED SIMPLY BECAUSE THE SERVICES ARE NOT PROVIDED BY THE PRIVATE SECTOR OR BECAUSE THEY ARE OF A TYPE THAT ONLY THE GOVERNMENT CAN PROVIDE,+ THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, TOLD LEGISLATIVE COUNCIL TODAY.

MR. HADDON-CAVE WARNED THAT A REVISION OF WATER CHARGES IS INEVITABLE THOUGH HE HAS DECIDED THE GOVERNMENT SHOULD WAIT UNTIL IT HAS MORE EXPERIENCE WITH ITS NEW COMPUTERISED BILLING SYSTEM.

THE WATERWORKS ACCOUNTS, HE SAID, WERE BARELY IN BALANCE IN 1976/77 AND ARE ESTIMATED TO BE IN DEFICIT BY \$200 MILLION IN 1977/78.

/+THE RETURN .....

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+THE RETURN ON AVERAGE NET FIXED ASSETS EMPLOYED IS NOW NIL AND NEXT YEAR THE UNDERTAKING WILL INCUR A LOSS OF NEARLY \$250 MILLION.

+FURTHER DEFICITS WILL BE INCURRED IN THE THREE-YEAR FORECAST PERIOD AMOUNTING TO NEARLY \$400 MILLION.+

MR. HADDON-CAVE POINTED OUT THAT THE DIRECTOR OF WATER SUPPLIES ESTIMATES THAT EVEN WITH THE COMPLETION OF THE HIGH ISLAND SCHEME, DEMAND WILL ONCE AGAIN HAVE CAUGHT UP WITH SUPPLY BY THE EARLY 1980S AND THAT, IF REGULAR RESTRICTIONS ARE TO BE AVOIDED, THE SUPPLY SYSTEM WILL HAVE TO BE FURTHER EXTENDED.

HOWEVER, CONVENTIONAL METHODS OF DEVELOPING WATER RESOURCES WITHIN HONG KONG, BY EXTENDING CATCHMENT AREAS AND BUILDING NEW RESERVOIRS, ARE PRACTICALLY EXHAUSTED.

THE FINANCIAL SECRETARY SAID UNLESS DEMAND CAN BE KEPT DOWN BY VOLUNTARY CONSERVATION OR RESTRICTIONS AND THE RISK OF LONG-TERM RESTRICTIONS ONCE AGAIN ACCEPTED, IT WILL BE NECESSARY TO MAKE USE OF NON-CONVENTIONAL METHODS OR TO TRY TO ARRANGE FOR A LARGER SUPPLY FROM CHINA.

+NON-CONVENTIONAL METHODS ARE VERY EXPENSIVE, REQUIRE A LONG LEAD TIME AND, IN THE MAIN, INVOLVE NEW TECHNOLOGY WHICH HAS YET TO BE TRIED IN HONG KONG OR, INDEED, TRIED ON A LARGE SCALE ANYWHERE.

+THESE METHODS WILL INVOLVE COSTLY AND TIME CONSUMING INVESTIGATIONS AND TRIALS. HAVING TO RESORT TO THEM WOULD MEAN THAT INEVITABLY THE COST OF WATER MUST RISE,+ MR. HADDON-CAVE SAID.

TURNING TO POSTAL SERVICE, THE FINANCIAL SECRETARY DISCLOSED THAT CERTAIN POSTAL CHARGES WILL BE INCREASED FROM APRIL 1.

+THE MANAGEMENT OF THE POST OFFICE IS BASED ON THE IDENTIFICATION OF VARIOUS COST CENTRES, SOME OF WHICH ARE PRESENTLY MAKING A LOSS,+ HE SAID, ADDING THAT THERE IS NO REASON WHY SEVERAL OF THESE COST CENTRES SHOULD BE CROSS-SUBSIDISED.

THE REVISION INVOLVES MODEST INCREASES IN THE CHARGES FOR INLAND PRINTED PAPERS, RE-DIRECTION OF MAIL AND FOR THE BUSINESS REPLY SERVICE.

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REVALUATION OF RATEABLE VALUES DEFERRED

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THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE TODAY PROPOSED TO DEFER, FOR THE TIME BEING, THE REVALUATION OF RATEABLE VALUES WHICH WAS INTENDED TO BE CARRIED OUT THIS YEAR.

IN HIS BUDGET SPEECH IN THE LEGISLATIVE COUNCIL TODAY, MR. HADDON-CAVE SAID THERE WAS NO MERIT IN MOUNTING SUCH AN EXERCISE IN THE ABSENCE OF ANY INDICATION THAT THE CURRENT VALUES WERE FAILING TO MEET OUR OBJECTIVES, BECAUSE +A REVALUATION EXERCISE IS, TO SAY THE LEAST, DISRUPTIVE IN ITS EFFECT BOTH ON RATEPAYERS AND ON THE STAFF OF THE RATING AND VALUATION DEPARTMENT. +

+THE COMMISSIONER OF RATING AND VALUATION HAS RE-EXAMINED THE 1977-78 VALUATION LISTS IN THE LIGHT OF RECENT MARKET RENTALS AND IS SATISFIED THAT THERE ARE, AS YET, NO ESTABLISHED TRENDS WHICH MAKE IT ESSENTIAL TO REVISE THE BASE VALUES THIS YEAR, + HE SAID.

ON THE BASIS OF THE EXISTING GENERAL RATE APPLIED TO THE 1977-78 VALUES, AND HAVING REGARD TO THE SCHEME OF RELIEF, MR. HADDON-CAVE ESTIMATED THAT RATES REVENUE SHOULD INCREASE FROM \$710 MILLION IN 1977-78 (REVISED ESTIMATE) TO \$795 MILLION IN 1978-79, OR BY NEARLY 12 PER CENT.

+THE FORECAST IS THEREAFTER FOR AN INCREASE OF 7.2 PER CENT IN 1979-80, + HE SAID.

+THIS INCREASE, IF ACHIEVED, IS ACCEPTABLE AND I DO NOT AT THIS STAGE ENVISAGE ANY CHANGE IN THE GENERAL RATE FOR 1979-80 AS A RESULT OF THIS DEFERMENT OF THE REVALUATION, + MR. HADDON-CAVE SAID.

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OVER \$1,000M BUDGETTED FOR LAW AND ORDER SERVICES  
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THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, HAS BUDGETTED \$1,024 MILLION FOR EXPENDITURE ON LAW AND ORDER SERVICES IN 1978-79 — \$638 MILLION OF WHICH WOULD GO TOWARDS THE COST OF MAINTAINING THE REGULAR POLICE FORCE.

THIS REPRESENTS 10 PER CENT OF TOTAL GOVERNMENT EXPENDITURE FOR 1978-79.

THE LAW AND ORDER SERVICES INCLUDE THE IMMIGRATION, I.C.A.C., JUDICIARY, LEGAL DEPARTMENT, PRISONS, REGISTRAR GENERAL AND THE POLICE.

PRESENTING HIS SEVENTH BUDGET TO THE LEGISLATIVE COUNCIL TODAY, MR. HADDON-CAVE SAID THE GOVERNMENT SHARED THE CONTINUING PUBLIC CONCERN ABOUT THE PREVALENCE OF CRIME, BUT POINTED OUT THAT THE NUMBER OF VIOLENT CRIMES HAD CONTINUED TO FALL SINCE 1974-75.

+MOREOVER, FOR THE FIRST TIME SINCE 1971-72, THERE IS LIKELY TO BE A REDUCTION IN THE NUMBER OF SERIOUS CRIMES IN 1977-78,+ THE FINANCIAL SECRETARY SAID.

+NO DOUBT THE INCREASE IN POLICE MANPOWER HAS CONTRIBUTED VERY LARGELY TO THIS IMPROVED SITUATION, AND THE GOVERNMENT IS DETERMINED TO SEE THAT THE DOWNWARD TREND IS MAINTAINED,+ HE ADDED.

MR. HADDON-CAVE ALSO REVEALED THAT THE \$638 MILLION ALLOCATED TO THE POLICE FORCE INCLUDES THE PROVISION FOR 1,987 NEW POSTS, YET TO BE APPROVED, AND THE ACQUISITION OF ADDITIONAL COMMUNICATIONS EQUIPMENT.

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MORE THAN \$820M TO BE SPENT ON HOUSING IN 1978/79

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MORE THAN \$820 MILLION IS EXPECTED TO BE SPENT ON THE PUBLIC HOUSING PROGRAMME IN THE COMING FINANCIAL YEAR, THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, INDICATED IN HIS BUDGET TODAY.

HE TOLD THE LEGISLATIVE COUNCIL THAT THE HOUSING DEPARTMENT ESTIMATED AN EXPENDITURE OF ABOUT \$696 MILLION ON THE HOUSING AUTHORITY'S BUILDING PROGRAMME FOR RENTED ACCOMMODATION, WHILE THE PUBLIC WORKS DEPARTMENT ENVISAGED SPENDING \$125 MILLION ON THE CONSTRUCTION OF OTHER PUBLIC HOUSING ESTATES DURING 1978/79.

IN ADDITION, MR. HADDON-CAVE SAID, THE GOVERNMENT WOULD SPEND ANOTHER \$89 MILLION ON PROVIDING COMMUNITY FACILITIES IN THESE ESTATES, SO AS TO ENSURE BALANCED DEVELOPMENT IN HOUSING.

MR. HADDON-CAVE NOTED THAT THE PUBLIC WORKS DEPARTMENT, THE HOUSING AUTHORITY AND THE HOUSING SOCIETY HAD DURING THE PAST FOUR YEARS COMPLETED ACCOMMODATION FOR 348,000 PEOPLE.

+OVER THE NEXT FOUR YEARS, 1978/79 TO 1981/82, ACCOMMODATION FOR A FURTHER 953,300 PERSONS IS EXPECTED TO BE COMPLETED, INCLUDING ACCOMMODATION FOR ABOUT 80,300 PERSONS TO BE BUILT UNDER THE HOME OWNERSHIP SCHEME,+ HE SAID.

WORK ON FURTHER ESTATES WOULD BE IN PROGRESS AT THE END OF 1981/82 FOR COMPLETION IN SUBSEQUENT YEARS, HE ADDED, +SO WE CAN EXPECT THAT, BY 1984, ADEQUATE PUBLIC HOUSING WILL BE AVAILABLE TO A VERY LARGE PROPORTION OF THE COMMUNITY'S NEEDS.+

REFERRING TO THE HOME OWNERSHIP SCHEME, MR. HADDON-CAVE SAID THE GOVERNMENT WOULD TRANSFER \$400 MILLION FROM GENERAL REVENUE INTO THE HOME OWNERSHIP FUND IN 1978/79. PHASE II OF THE SCHEME, INCLUDING A FURTHER 3,200 FLATS, WILL BEGIN NEXT YEAR.

HE ADDED THAT THE GOVERNMENT WOULD SOON INVITE REAL ESTATE DEVELOPERS TO SUBMIT TENDERS FOR TWO SITES -- ONE IN NEW KOWLOON AND THE OTHER IN TUEN MUN -- FOR THE CONSTRUCTION OF FLATS FOR SALE TO PEOPLE WITHIN THE ELIGIBLE INCOME RANGE.

+IF THIS EXPERIMENTAL JOINT VENTURE SCHEME SHOULD PROVE TO BE A SUCCESS, IT MAY OPEN UP AN ALTERNATIVE WAY BY WHICH THE GOVERNMENT CAN PROMOTE HOME OWNERSHIP,+ HE SAID.

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DRAMATIC DEVELOPMENTS SEEN IN SOCIAL WELFARE

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THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE SAID TODAY THAT WE SHOULD SEE THE MOST DRAMATIC DEVELOPMENTS IN THE FIELD OF SOCIAL WELFARE IN THE COMING YEAR.

IN HIS BUDGET SPEECH AT THE LEGISLATIVE COUNCIL, MR. HADDON-CAVE SAID IF THE POLICIES SET OUT IN THE THREE GREEN PAPERS -- THE SERVICES FOR THE ELDERLY, PERSONAL SOCIAL WORK AMONG YOUTH AND THE SOCIAL SECURITY SYSTEM -- AND THE WHITE PAPER ON REHABILITATION SERVICES ARE IMPLEMENTED IN FULL, THE ADDITIONAL RECURRENT EXPENDITURE OVER THE PERIOD 1978-79 TO 1981-82 WOULD BE NEARLY \$800 MILLION.

+THIS IS A CONSIDERABLE FIGURE. NEVERTHELESS, THE GOVERNMENT IS PROCEEDING ON THE ASSUMPTION THAT FUNDS WILL BE AVAILABLE FOR ALL THESE PLANS,+ HE SAID.

TURNING TO THE EXPENDITURE ALLOCATED FOR SOCIAL WELFARE SERVICES IN THE COMING FINANCIAL YEAR, MR. HADDON-CAVE SAID IT WOULD BE \$535 MILLION, OR 5.2 PER CENT OF TOTAL EXPENDITURE.

+ESTIMATED EXPENDITURE IN 1978-79 ON PUBLIC ASSISTANCE, ON WELFARE ALLOWANCES AND OTHER FORMS OF SOCIAL SECURITIES IS \$337 MILLION AND ACCOUNTS FOR NEARLY TWO-THIRDS OF THE PROVISION IN 1978-79 FOR RECURRENT EXPENDITURE ON SOCIAL WELFARE,+ HE SAID.

THIS REPRESENTS AN INCREASE OF \$88 MILLION, OR 35 PER CENT, OVER THE REVISED ESTIMATES FOR 1977-78, MR. HADDON-CAVE ADDED.

+THE PROVISION FOR RECURRENT EXPENDITURE IN 1978-79 ON SOCIAL WELFARE ALSO INCLUDES \$100 MILLION FOR SUBVENTIONS TO VOLUNTARY AGENCIES, AN INCREASE OF 41 PER CENT OVER THE REVISED ESTIMATES FOR 1977-78 AND A NEAR DOUBLING OF EXPENDITURE IN THE SHORT SPACE OF TWO YEARS,+ HE SAID.

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**\$1,967M TO BE SPENT ON EDUCATION IN 1978/79**

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THE GOVERNMENT HAS ALLOCATED \$1,967 MILLION FOR EDUCATION AT ALL LEVELS IN THE COMING FINANCIAL YEAR, REPRESENTING 19.2 PER CENT OF THE TOTAL EXPENDITURE.

THIS INCLUDES \$50 MILLION EARMARKED FOR THE INTRODUCTION OF FREE JUNIOR SECONDARY EDUCATION IN SEPTEMBER THIS YEAR.

IN HIS BUDGET SPEECH, THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, SAID THAT AT THE PRIMARY LEVEL THE GOVERNMENT'S POLICY OF PROVIDING PLACES FOR EVERY CHILD OF PRIMARY SCHOOL AGE (SIX TO TEN YEARS) +HAS BEEN MORE THAN ACHIEVED FOR SOME YEARS NOW.+

HOWEVER, NEW PRIMARY CLASSES WILL BE OPENED IN 1978-79 AND WITH THE SHIFT OF POPULATION TO THE NEW TOWNS, THE DRAFT ESTIMATES PROVIDE FOR AN ADDITIONAL 11,115 NEW PLACES IN DEVELOPING AREAS TO BE OFFSET BY A REDUCTION IN AREAS OF OVER PROVISION, HE ADDED.

IN RESPECT OF PLACES IN GOVERNMENT AND AIDED SCHOOLS FOR HANDICAPPED CHILDREN, MR. HADDON-CAVE SAID OVER 14,500 SUCH PLACES ALREADY EXISTED, AND THE DRAFT ESTIMATES PROVIDED FOR AN ADDITIONAL 5,300 PLACES DURING THE FORTHCOMING YEAR.

ON SECONDARY EDUCATION, THE FINANCIAL SECRETARY SAID A FORM I PLACE IN THE PUBLIC SECTOR WOULD BE AVAILABLE FOR ALL PRIMARY SIX LEAVERS IN 1978. +THE DRAFT ESTIMATES PROVIDE FOR THE NUMBER OF FORM I PLACES TO BE INCREASED FROM 74,000 AT THE PRESENT TIME TO 100,900,+ HE SAID. EDUCATION AT THE JUNIOR SECONDARY LEVEL IS TO BE FREE AS FROM THE BEGINNING OF THE NEXT SCHOOL YEAR IN SEPTEMBER.

REFERRING TO THE LEVEL OF SENIOR SECONDARY EDUCATION, MR. HADDON-CAVE SAID AN ADDITIONAL 11,381 PLACES IN FORMS IV AND V WOULD BE PROVIDED BY THIS SEPTEMBER, SO AS TO BUILD UP THE STOCK OF SUCH PLACES TOWARDS THE APPROVED TARGET OF 40 PER CENT OF THE 15-16 AGE GROUP.

TO PHASE OUT THE BUYING OF PLACES IN PRIVATE SCHOOLS AND FLOTATION OF CLASSES IN EXISTING SCHOOLS, ADDITIONAL SECONDARY SCHOOLS ARE BEING BUILT. TO DATE 31 SCHOOLS HAVE BEEN BUILT AND A FURTHER 21 WILL BE COMPLETED IN 1978-79.

THE FINANCIAL SECRETARY ALSO SAID THAT IN SEPTEMBER 1978, THE FOUR TECHNICAL INSTITUTES WILL HAVE A TOTAL ENROLMENT OF ABOUT 3,400 FULL TIME STUDENTS AND 8,600 STUDENTS ON PART-TIME DAY RELEASE COURSES, AN INCREASE OF 1,000 AND 4,900 RESPECTIVELY.

AT TERTIARY LEVEL, THE UNIVERSITIES AND THE POLYTECHNIC WOULD MOVE INTO A NEW PLANNING PERIOD DURING THE COURSE OF THIS YEAR, THIS TIME A TRIENNIUM COVERING THE ACADEMIC YEARS 1978-79 TO 1980-81.

THE NECESSARY PROVISION FOR THE CONTINUATION OF CURRENT COMMITMENTS AT THE THREE INSTITUTIONS AND FOR THEIR DEVELOPMENT DURING THE COMING FINANCIAL YEAR HAS BEEN INCLUDED IN THE DRAFT ESTIMATES, MR. HADDON-CAVE SAID.

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**\$891M EARMARKED FOR MEDICAL AND HEALTH SERVICES**

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THE GOVERNMENT WILL SPEND \$891 MILLION, OR 8.7 PER CENT OF THE TOTAL BUDGETTED EXPENDITURE, ON MEDICAL AND HEALTH SERVICES IN THE COMING FINANCIAL YEAR, THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE SAID TODAY.

IN HIS BUDGET SPEECH, MR. HADDON-CAVE SAID CONSIDERABLE PROGRESS HAD BEEN MADE IN IMPLEMENTING THE MEDICAL AND HEALTH SERVICES' REGIONALISATION SCHEME WHICH WILL IMPROVE THE UTILISATION OF BEDS AND OTHER FACILITIES BY ENABLING THE TRANSFER OF PATIENTS BETWEEN HOSPITALS.

MR. HADDON-CAVE SAID THE SCHEME MUST INVOLVE SUBVENTED HOSPITALS, AS HAD BEEN DONE WITH THE BUDDHIST AND POK OI HOSPITALS DURING 1977-78, AND WOULD CONTINUE WITH THE YAN CHAI HOSPITAL AND THE CARITAS MEDICAL CENTRE IN 1978-79.

+THIS IS NOT ONLY A COSTLY TREND, BUT ALSO INVOLVES THE GOVERNMENT HAVING A MUCH CLOSER RELATIONSHIP WITH THE HOSPITAL AUTHORITIES CONCERNED, THE IMPLICATIONS OF WHICH ARE NOT YET, PERHAPS, FULLY REALISED,+ HE SAID.

HE SAID THAT THE NET INCREASE IN THE NUMBER OF BEDS IN GOVERNMENT AND SUBVENTED HOSPITALS IN 1978, WOULD BE 823, AND THERE WERE SEVERAL MAJOR PROJECTS IN THE PLANNING PIPELINE. CONSTRUCTION WORK ON THESE PROJECTS WOULD BEGIN DURING THE NEXT YEAR OR SO.

+PERHAPS THE MOST SPECTACULAR WILL BE THE NEW 1,400-BED TEACHING HOSPITAL AT SHA TIN- I AM CURRENTLY DISCUSSING WITH THE ASIAN DEVELOPMENT BANK THE POSSIBILITY OF A LOAN TO HELP FINANCE THIS INTERESTING PROJECT,+ HE SAID.

+CONSTRUCTION OF A BLOOD TRANSFUSION CENTRE WILL BEGIN FOR THE HONG KONG RED CROSS TO ENABLE IT TO PROVIDE A CENTRALISED BLOOD TRANSFUSION SERVICE, AND PLANNING HAS STARTED ON THE DEVELOPMENT OF A 600-BED CARDIO-THORACIC CENTRE AT THE GRANTHAM HOSPITAL,+ HE SAID.

THE FINANCIAL SECRETARY ALSO PAID TRIBUTE TO THE CONTRIBUTION WHICH THE TUNG WAH GROUP OF HOSPITALS HAD MADE OVER THE YEARS, AND WILL BE MADE IN THE FUTURE, TOWARDS THE PROVISION OF MEDICAL SERVICES.

BUT HE POINTED OUT THAT SOME REORGANISATION OF ITS MEDICAL DIVISION REMAINED TO BE CONSIDERED AND THIS WAS TO BE TACKLED JOINTLY WITH THE MEDICAL AND HEALTH DEPARTMENT AS THIS DIVISION WAS FINANCED ALMOST EXCLUSIVELY FROM PUBLIC FUNDS.

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WEDNESDAY, MARCH 1, 1978

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PUBLIC SECTOR ENTERS NEW ERA

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THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, SAID TODAY THE PUBLIC SECTOR, BUILDING ON THE FOUNDATIONS LAID IN THE 1950S AND 1960S AND THE ECONOMY OF WHICH IT FORMS SUCH A VITAL PART, HAS BEEN LIFTED +TO A NEW ORDER OF MAGNITUDE.+

CONCLUDING HIS BUDGET SPEECH IN THE LEGISLATIVE COUNCIL TODAY, MR. HADDON-CAVE SAID: +SO, WHILST OUR FINANCIAL AND ADMINISTRATIVE SYSTEMS HAVE STOOD US IN GOOD STEAD OVER THE YEARS, AND OVERHEAD COSTS HAVE BEEN KEPT VERY LOW BY INTERNATIONAL STANDARDS, THEY MAY NOT BE ENTIRELY SUITABLE FOR PRESENT DAY CIRCUMSTANCES.

+IT WILL, THEREFORE, BE NECESSARY FOR CAREFUL THOUGHT TO BE GIVEN TO THE WAY IN WHICH OUR ADMINISTRATION MIGHT BE ADAPTED TO MEET THE CHALLENGES OF THE YEARS AHEAD OF US,+ HE SAID.

MR. HADDON-CAVE POINTED OUT THAT AS WE MOVE TOWARDS THE END OF THE 1970S AND START THINKING ABOUT THE EARLY YEARS OF THE NEXT DECADE, WE SHOULD BEGIN TO ASSESS THE IMPLICATIONS FOR OUR SYSTEM OF FINANCIAL ADMINISTRATION, AND FOR THE ORGANISATION OF THE GOVERNMENT'S INTERNAL ADMINISTRATION AS A WHOLE, OF THE PRESENT SIZE AND SCOPE OF OUR ACTIVITIES.

HE SAID: +WHETHER ONE CONSIDERS THE TOTAL VOLUME OF GENERAL REVENUE ACCOUNT TRANSACTIONS OF OVER \$20,000 MILLION IN 1978-79, OR OF CONSOLIDATED ACCOUNT TRANSACTIONS OF OVER \$23,000 MILLION (NOT TO MENTION THE ACTIVITIES OF THE MASS TRANSIT RAILWAY CORPORATION), IT IS OBVIOUS THAT OUR SITUATION HAS CHANGED OUT OF ALL RECOGNITION.+

THE DEBATE ON THE APPROPRIATION BILL 1978-79 WAS ADJOURNED.

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TELEVISION TALK ON BUDGET

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THE FINANCIAL SECRETARY, THE HON. PHILIP HADDON-CAVE, SPOKE ON THE 1978/79 BUDGET IN A TELEVISION BROADCAST THIS (WEDNESDAY) EVENING.

THE FOLLOWING IS THE FULL TEXT OF HIS TALK:

GOOD EVENING,

+THIS AFTERNOON I PRESENTED MY SEVENTH BUDGET TO THE LEGISLATIVE COUNCIL: THE BUDGET FOR 1978-79, THAT IS TO SAY FOR THE FINANCIAL YEAR BEGINNING ON APRIL THE 1ST.

+ON THE STATE OF THE ECONOMY I WAS ABLE TO REPORT THAT WE HAD FOLLOWED UP OUR POST-RECESSION BOON YEAR OF 1976 WITH ANOTHER PROSPEROUS YEAR. IN 1977 OUR ECONOMY GREW BY 12 PER CENT IN TERMS OF TOTAL OUTPUT OF GOODS AND SERVICES. AT THE SAME TIME, CONSUMER PRICES INCREASED ONLY MODESTLY BY 5-6 PER CENT IN 1977 COMPARED WITH 1976.

/+THIS YEAR .....

+THIS YEAR WE CAN LOOK FORWARD TO A FURTHER EXPANSION OF OUR ECONOMY BY ABOUT 9 PER CENT. THIS WILL BE ACHIEVED, DESPITE THE FACT THAT EXPORTS ARE LIKELY TO GROW ONLY A LITTLE FASTER THAN LAST YEAR, BECAUSE DOMESTIC DEMAND FOR CONSUMER GOODS AND BUILDING AND CONSTRUCTION ACTIVITY WILL CONTINUE TO GROW RAPIDLY. OUR GROWTH RATE IN 1979 AND BEYOND WILL DEPEND UPON MANY FACTORS, BY FAR THE MOST IMPORTANT OF WHICH WILL BE OUR ABILITY TO IMPROVE ON OUR RECENT EXPORT PERFORMANCE.

+THE GOVERNMENT'S ACCOUNTS ARE ALSO IN A HEALTHY STATE. IN THE CURRENT FINANCIAL YEAR, 1977-78, THAT IS TO SAY THE FINANCIAL YEAR ENDING ON THE 31ST OF MARCH, WE SHALL SPEND ALMOST EXACTLY AS MUCH AS WE PLANNED TO - ABOUT 8,200 MILLION DOLLARS- AND THIS MEANS THAT WE SHALL HAVE MET OUR TARGETS IN ALL THE MAIN FIELDS OF OUR ACTIVITIES. AND YET, BECAUSE REVENUE HAS BEEN MUCH MORE BUOYANT THAN I EXPECTED A YEAR AGO, WE SHALL ADD SUBSTANTIALLY TO OUR FISCAL RESERVES. AS A COMMUNITY DEPENDENT ON THE STATE OF THE INTERNATIONAL TRADING ECONOMY WE HAVE TO LIVE WITH MANY UNCERTAINTIES. AND SO THESE RESERVES PROVIDE THE GOVERNMENT WITH THE MEANS OF AT LEAST MAINTAINING THE LEVEL OF PUBLIC SERVICES SHOULD WE EVER RUN INTO SHORT TERM DIFFICULTIES. THEY ALSO GUARANTEE OUR CREDIT-WORTHINESS ABROAD.

+IN THE COMING FINANCIAL YEAR WE PROPOSE TO SPEND OVER 10,000 MILLION DOLLARS OR 25 PER CENT MORE THAN THIS YEAR- OR, TO PUT THIS FIGURE IN A BROADER HISTORICAL CONTEXT, WE PLAN TO SPEND TWICE AS MUCH AS WE SPENT A MERE FOUR YEARS AGO. MOREOVER, AS I TOLD LEGISLATIVE COUNCIL, WE SHALL BE DOING THIS WITHOUT HAVING TO RAISE TAXES, WITHOUT HAVING TO RESORT TO BORROWING AND WITHOUT HAVING TO CALL UPON OUR RESERVES.

+INDEED, I FELT ABLE TO PROPOSE THAT A WIDE RANGE OF STAMP DUTIES SHOULD BE ABOLISHED IN ORDER TO ENCOURAGE THE DEVELOPMENT OF HONG KONG AS A FINANCIAL CENTRE AND TO RELIEVE A LARGE NUMBER OF PEOPLE OF A PARTICULAR TAX BURDEN. I AM THINKING, FOR EXAMPLE, OF THOSE WISHING TO RAISE MORTGAGES WITH WHICH TO BUY THEIR OWN HOMES.

+I ALSO PROPOSED A 25 PER CENT REDUCTION IN THE COST OF BUYING AND SELLING SHARES ON THE STOCK MARKET. THE PRESENT RATE OF STAMP DUTY ON SUCH TRANSACTIONS WAS FIXED IN A TRADING CLIMATE VERY DIFFERENT FROM THE PRESENT DAY AND I THINK A LOWER RATE OF DUTY IS NOW CALLED FOR.

+IT IS TRUE I FELT OBLIGED TO PROPOSE SMALL INCREASES IN THE EXCISE DUTY PAYABLE ON IMPORTED CIGARETTES, IN THE TAX PAYABLE ON FIRST REGISTRATION OF THE MORE EXPENSIVE MAKES OF CARS AND IN CERTAIN MINOR POSTAL CHARGES.

+BUT IN REVENUE CONCESSIONS I GAVE AWAY, AS IT WERE, 155 MILLION DOLLARS AND ONLY SOUGHT TO RAISE EXTRA REVENUE OF 35 MILLION DOLLARS.

/+so, .....

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+SO, DESPITE A BUDGET OF OVER 10,000 MILLION DOLLARS THE TAX-PAYER CAN SURELY FEEL RELIEVED FOR, ONCE AGAIN, THE BENEFIT OF STABLE FISCAL POLICIES HAS BEEN DEMONSTRATED. I HOPE OUR CONTINUING ABILITY TO BALANCE OUR BUDGETS EVEN AT THESE EVER HIGHER LEVELS WILL HELP TO SUSTAIN CONFIDENCE IN HONG KONG, AT HOME AND ABROAD.

+BUT THE QUESTION ON EVERYONE'S MIND MUST BE: WHAT PRECISELY IS THE GOVERNMENT INTENDING TO DO WITH ALL THIS MONEY IT IS PROPOSING TO SPEND? AFTER ALL, MONEY SHOULD NOT BE SPENT IF IT IS NOT NECESSARY TO SPEND IT. AND WHEN IT IS NECESSARY TO SPEND IT PLANS FOR DOING SO SHOULD BE CAREFULLY THOUGHT OUT.

+WELL, I CANNOT DESCRIBE THE EXPENDITURE ESTIMATES IN DETAIL, BUT I CAN SAY THAT NEARLY 43% OF TOTAL RECURRENT AND CAPITAL EXPENDITURE, OR 4,300 MILLION DOLLARS, WILL BE DEVOTED TO THE SOCIAL SERVICES= HOUSING WILL BE COMPLETED FOR 128,000 PEOPLE= THE FIRST PHASE OF THE HOME OWNERSHIP SCHEME FOR OVER 40,000 PEOPLE WILL BE WELL ON THE WAY TO COMPLETION BY MID-1979= THERE WILL BE SUFFICIENT AIDED PLACES AVAILABLE IN SEPTEMBER IN FORMS 1 TO ACCOMMODATE THE 100,000 CHILDREN LEAVING PRIMARY 6 CLASSES THIS SUMMER= FREE JUNIOR SECONDARY EDUCATION WILL BE AVAILABLE FOR THE FIRST TIME= NEW WELFARE SERVICES FOR THE ELDERLY AND FOR YOUNG PEOPLE WILL BE INAUGURATED= THE SOCIAL SECURITY SYSTEM WILL BE IMPROVED= THE RANGE OF EDUCATIONAL, WELFARE AND MEDICAL FACILITIES AVAILABLE FOR THE HANDICAPPED WILL BE EXTENDED= AND ANOTHER 600 HOSPITAL BEDS WILL BE READY FOR USE. INCIDENTALLY, NEARLY ONE HALF OF THE TOTAL FUNDS AVAILABLE FOR THE SOCIAL SERVICES WILL BE SPENT BY SUBVENTED ORGANISATIONS SUCH AS WELFARE AGENCIES, AIDED SCHOOLS AND HOSPITALS, THE UNIVERSITIES AND THE POLYTECHNIC.

+OUT OF THE TOTAL BUDGET OF 10,000 MILLION DOLLARS ABOUT 20 PER CENT WILL BE SPENT ON THE PUBLIC WORKS PROGRAMME WHICH COMPRISES A VAST RANGE OF CAPITAL WORKS PROJECTS IN THE URBAN AREAS AND THE NEW TOWNS. IN MANY WAYS, THE MOST DRAMATIC ASPECT OF THE PUBLIC WORKS PROGRAMME IS CONCERNED WITH HOUSING: TOGETHER WITH THE HOUSING AUTHORITY'S OWN FUNDS, OVER 900 MILLION DOLLARS WILL BE SPENT ON THE RENTED HOUSING PROGRAMME AND, AS I HAVE JUST SAID, FLATS FOR 128,000 PEOPLE WILL BE COMPLETED IN 1978-79. BUT EQUALLY DRAMATIC, BUT PERHAPS SOMEWHAT OVERLOOKED, IS THE SIZE OF OUR INVESTMENT IN LAND FORMATION, ROADS, FLYOVERS, TUNNELS, WATER SUPPLIES AND OTHER MAJOR CIVIL ENGINEERING WORKS. IN 1978-79 WE SHALL BE SPENDING OVER 1,200 MILLION DOLLARS ON SUCH WORKS AND THE BENEFITS OF THIS EXPENDITURE WILL BE WIDESPREAD IN BOTH SOCIAL AND ECONOMIC TERMS.

+SO, WITH OUR ECONOMY IN FAIR SHAPE DESPITE WORLD TRADING UNCERTAINTIES AND GIVEN OUR ABILITY TO COPE WITH THE EVER INCREASING CALLS MADE ON THE PUBLIC SERVICES, I THINK WE CAN LOOK FORWARD TO THE YEAR OF THE HORSE WITH CONFIDENCE.+

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WEDNESDAY, MARCH 1, 1978

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COMMUNITY SUPPORT NEEDED FOR FAMILY LIFE EDUCATION

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MEMBERS OF THE PUBLIC WERE URGED TODAY TO PLEDGE FULL SUPPORT TO THE FAMILY LIFE EDUCATION PROGRAMME BY PARTICIPATING IN THE EDUCATIONAL AND PROMOTIONAL ACTIVITIES ORGANISED BY THE SOCIAL WELFARE DEPARTMENT AND VOLUNTARY WELFARE AGENCIES.

ADDRESSING A LUNCHEON MEETING OF THE ROTARY CLUB OF ISLAND EAST, MRS. HENRIETTA CHEN, PRINCIPAL SOCIAL WELFARE OFFICER (COMMUNITY WORK) SPOKE OF THE VARIOUS ELEMENTS OF THIS LONG-TERM COMMUNITY-WIDE PROGRAMME.

+IN ADDITION TO PUBLICITY MATERIALS DESIGNED TO AROUSE PUBLIC INTEREST, MASS ACTIVITIES SUCH AS TALKS, SEMINARS, EXHIBITIONS, OUTDOOR ITEMS, FAMILY CAMPS AND COMPETITIONS WILL BE ORGANISED,+ SHE SAID.

MRS. CHEN POINTED OUT THAT THESE ACTIVITIES WERE ALSO MEANS TO HELP INDIVIDUALS ABSORB KNOWLEDGE AND SKILLS IN CONNECTION WITH HUMAN GROWTH, DEVELOPMENT, BEHAVIOUR IN RELATION TO HIS DUTIES AND RESPONSIBILITIES TOWARDS HIS FAMILY.

SHE NOTED THAT THE NEED FOR THIS KIND OF EDUCATION WAS OBVIOUS AS EVERYONE NEEDS SOME TYPE OF ORIENTATION OR PREPARATION IN ORDER TO FULFIL HIS DUTIES WITHIN THE FAMILY, AND THE RAPIDITY OF SOCIAL CHANGES UNDERLINED THIS NEED.

+WITH RAPID SOCIAL CHANGES, INTER-GENERATION COMMUNICATION BECOMES MORE DIFFICULT THAN EVER, RESULTING IN CONFUSION, IGNORANCE AND MISINTERPRETATION OF LOVE, MARRIAGE, PARENTHOOD AND ADOLESCENT DISCIPLINE,+ SHE ADDED.

MRS. CHEN SAID THAT SOCIAL PROBLEMS SUCH AS ILLEGITIMACY, DIVORCE, DESERTION OF FAMILIES, NEGLIGENCE AND ILL-TREATMENT OF CHILDREN ARE NATURAL CONSEQUENCES OF UNPLANNED AND UNPREPARED MARRIAGES.

+TO PREVENT THIS KIND OF FAMILY PROBLEMS WHICH WOULD DIRECTLY AFFECT SOCIAL ORDER, FAMILY LIFE EDUCATION IS NEEDED TO EQUIP ONESELF WITH THE NECESSARY KNOWLEDGE.+

SHE STRESSED THAT THE ENTIRE POPULATION MIGHT BE BENEFITED FROM THIS PROGRAMME WHICH EMBRACED HUMAN DEVELOPMENT AND CHILD CARE= SEX EDUCATION AND PREPARATION FOR RESPONSIBLE PARENTHOOD= HUMAN ROLES AND RELATIONSHIPS= NUTRITION= HEALTH EDUCATION AND HOME MANAGEMENT.

TURNING TO THE IMPLEMENTATION OF THE PROGRAMME, MRS. CHEN SAID THAT FOR THE PAST SIX MONTHS A TEAM OF 10 EXPERIENCED SOCIAL WORKERS, HEADED BY HERSELF, HAD BEEN WORKING CLOSELY WITH REPRESENTATIVES OF 11 VOLUNTARY AGENCIES ON THE OVERALL PLANNING, COORDINATION AND CONSCIOUS PROMOTION OF THE SERVICE.

/+WHILE .....

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+WHILE INDIVIDUAL VOLUNTARY AGENCIES WILL PROVIDE DIRECT SERVICES AT THE DISTRICT LEVEL, THE 10 FAMILY LIFE EDUCATION OFFICERS, WITH THE ASSISTANCE OF THE RESPECTIVE COMMUNITY AND YOUTH OFFICERS, WILL ASSESS THE NEEDS, COORDINATE THE PROVISION OF SERVICE AND ORGANISE DISTRICT PROGRAMMES,+ SHE SAID.

WITH THE COMMUNITY AND YOUTH OFFICES AS THEIR BASE OF OPERATION, SHE SAID, FAMILY LIFE EDUCATION OFFICERS ARE ALSO RESPONSIBLE FOR COLLECTING AND DEVELOPING INDIGENOUS RESOURCE MATERIAL TO MEET THE NEEDS OF THE POPULATION.

+WE HOPE THAT THROUGH OUR PROMOTIONAL AND EDUCATIONAL ACTIVITIES, QUALITY OF FAMILY LIFE CAN BE IMPROVED, AND THAT WITH HEALTHY FAMILIES IN THE COMMUNITY, WE CAN LOOK FORWARD TO A SOCIETY WITH HARMONY, ORDER AND STEADY PROGRESS,+ SHE SAID.

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#### FIRE HAZARD CHECKS ON TWO ESTATES

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OFFICERS FROM THE FIRE SERVICES DEPARTMENT THIS MORNING INSPECTED JORDAN VALLEY ESTATE AND PART OF UPPER NGAU TAU KOK ESTATE IN KOWLOON TO LOOK FOR OBSTRUCTIONS TO MEANS OF ESCAPE AND THE STORAGE OF DANGEROUS GOODS WITHOUT A LICENCE.

DURING THE THREE-HOUR OPERATION WHICH STARTED AT 9.30 A.M. MORE THAN 9,270 UNITS AND SHOPS WERE INSPECTED. AS A RESULT, 20 FIRE HAZARD ABATEMENT NOTICES HAVE BEEN ISSUED FOR GENERAL OBSTRUCTIONS.

FIFTY-FOUR SHOPS WERE FOUND TO HAVE STORED KEROSENE OR LIQUEFIED PETROLEUM GAS IN EXCESS OF THE LIMIT WITHOUT A LICENCE FROM THE FIRE SERVICES DEPARTMENT.

THE OWNERS HAVE BEEN ISSUED WITH A LETTER ADVISING THEM ON HOW TO APPLY FOR A LICENCE. THE LETTER ALSO WARNS THAT A FURTHER INSPECTION OF THE PREMISES WILL BE MADE BY FIRE OFFICERS IN A MONTH'S TIME WHEN LEGAL ACTION WILL BE TAKEN IF THEY ARE STILL IN POSSESSION OF SUCH GOODS MORE THAN THE EXEMPTED QUANTITY.

DURING THE INSPECTION, FIRE OFFICERS ALSO FOUND TWO ILLEGAL STRUCTURES ON ROOFTOPS, TWO FACTORIES IN DOMESTIC PREMISES AND TWO CASES OF GENERAL OBSTRUCTIONS ALONG CORRIDORS. DETAILS OF THESE VIOLATIONS WILL BE PASSED TO THE RELEVANT DEPARTMENTS FOR THEIR ATTENTION.

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TEMPORARY CLOSURE OF TIN LOK LANE AND MORRISON HILL ROAD  
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THE TRANSPORT DEPARTMENT TODAY ANNOUNCED THAT THE SOUTHBOUND CARRIAGEWAYS OF TIN LOK LANE AND MORRISON HILL ROAD WILL BE CLOSED TO ALL TRAFFIC, EXCEPT FRANCHISED BUSES, FROM 11 P.M. ON SATURDAY (MARCH 4) TO 6 A.M. ON SUNDAY (MARCH 5) TO FACILITATE THE DIVERSION OF TRAM TRACKS IN THAT AREA.

THE LAST TRAM TO AND FROM HAPPY VALLEY WILL BE AS FOLLOWS:

KENNEDY TOWN TO HAPPY VALLEY	--	10.13 P.M.
SHAU KEI WAN TO HAPPY VALLEY	--	10.26 P.M.
HAPPY VALLEY TO KENNEDY TOWN	--	10.54 P.M.
HAPPY VALLEY TO SHAU KEI WAN	--	10.24 P.M.

MEANWHILE, THE JUNCTION OF BROADWAY ROAD AND THE SLIP ROAD LEADING TO THE LAI CHI KOK BRIDGE BUS TERMINUS WILL BE DESIGNATED AS A BOX JUNCTION WITH EFFECT FROM 10 A.M. ON FRIDAY (MARCH 3).

APPROPRIATE TRAFFIC SIGNS WILL BE SET UP AT THESE LOCATIONS TO GUIDE MOTORISTS.

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