



HONG KONG GOVERNMENT

INFORMATION SERVICES

DAILY INFORMATION BULLETIN

Wednesday, March 1, 1972

FINANCIAL SECRETARY PROPOSES REDUCTION IN RATES OF SALARIES TAX

To Ease Burden On Middle Income Wage Earners

Mr. Haddon-Cave Also Proposes Increased Car Parking Charges

The Financial Secretary, the Hon. C.P. Haddon-Cave, when presenting his Budget to the Legislative Council this (Wednesday) afternoon, proposed four tax concessions and an increase in car parking charges.

The proposed tax concessions are:

- * Reduction in the rates of salaries tax to ease the burden on people in the middle income group, with effect from April 1;
- * Reduction in the maximum rate of estate duty from 20 per cent to 15 per cent, with effect from April 1;
- * Abolition of the duties on hydro-carbon oils, (such as kerosene and liquified petroleum gas), other than furnace oil, aircraft spirit, motor spirit and automotive diesel oil used by road vehicles, with effect from 6 p.m. today;
- * Abolition of the duty on methyl alcohol, with effect from 6 p.m. today.

The proposed increase in car parking charges at Government multi-storey and open air car parks, to be effective from April 1, is as follows:

- * The cost of monthly tickets for Government multi-storey car parks to be raised from \$120 to \$200;
- * Parking charges for Government open air car parks to be raised from \$1.50 to \$2.50 per half day;

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- * The full rate hourly charge at Government multi-storey car parks to be raised from 60 cents to \$1, with a minimum charge of \$2 instead of \$1.50;
- * The charge for cheap period parking at Government multi-storey car parks to be raised from 40 cents to 50 cents, with a minimum charge of \$1.

The Financial Secretary told Council that his Budget proposals for 1972-73 would have the net effect of reducing the estimated surplus of \$70.3 million to \$46.9 million.

He also said he proposed to introduce shortly a bill to amend the Estate Duty Ordinance to enable small estates under \$100,000 to be dealt with summarily.

Mr. Haddon-Cave warned motorists they faced the prospect of further increases in car parking charges in future years. Charges for on-street parking, he added, also needed to be raised.

Turning to the future, the Financial Secretary said he had two proposals to make for 1973-74.

These are:

- * A new basis of assessment for salaries tax in which assessment will be made on income earned during the current year;
- * A reduction in the present rate charge of 17 per cent to 15 per cent. Landlords will only be able to claim refund of half of the rate, instead of the whole rate, charged on unoccupied premises.

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REDUCED FUEL BILLS FOR HOUSEWIVES, FISHERMEN, INDUSTRIALISTS

There is good news in today's Budget for housewives, fishermen, operators of restaurants and cooked food stalls as well as small manufacturers. Their monthly fuel bill is to be reduced.

The Financial Secretary, Mr. C.P. Haddon-Cave has proposed the abolition, as from 6 o'clock tonight, of the duties on hydro-carbon oils other than furnace oil, aircraft spirit, motor spirit and automotive diesel oil used by road vehicles.

These include kerosene and liquified petroleum gas used mainly for cooking and heating by domestic households and by foodstalls and restaurants.

An Order, made under the Public Revenue Protection Ordinance, was signed by His Excellency the Governor this morning.

The hydro-carbon oils affected cover a wide range of light oils used in industry, such as benzene, turpentine and solvents; treated automotive diesel oil used by food stalls, restaurants, certain industries, harbour launches and ferries and the fishing fleet.

Also affected are various mixtures of diesel oils used in small quantities by restaurants, a few industries and marine vessels with old-type diesel engines; sludge oil used for the manufacture of putty and water-proofing compounds, lubricating oil, light oils and diesel oils used in various admixtures ranging from floor polishes to paints to insecticides.

In his Budget speech, the Financial Secretary said that all these oils at present attracted a duty of ten cents per gallon and liquified petroleum gas was dutiable at two cents per pound.

"These are low rates," he said, "but it must be a cardinal rule of our indirect tax system that it does not bear on industrial costs or on the basic cost of living.

"Clearly, the duties on these oils offend this principle and I propose, therefore, that they should be abolished....."

Mr. Haddon-Cave said he expected the relief accorded to households using kerosene and L.P.G. for cooking would reduce the monthly fuel bill of the average household by seven per cent and four per cent respectively.

"The annual saving on the fuel bills paid by fishermen will range from \$70 to \$3,000 depending on size of craft."

He told Legislative Council: "The total cost to the revenue in 1972-73 will be of the order of \$16.2 million, of which about \$6.7 million will be in respect of kerosene and liquified petroleum gas, \$1.6 million in respect of diesel oil used by launches, ferries and the fishing fleet, and the remainder (\$7.9 million) in respect of the various oils used by industry."

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HONG KONG'S OVERALL ECONOMIC GROWTH RATE WILL BEGIN TO PICK UP
IN SECOND HALF OF 1973

Prediction By Financial Secretary In Budget Address

The Financial Secretary predicted today that Hong Kong's overall economic growth will remain at around ten per cent in 1972 and in the early months of 1973 but will begin to pick up again within 18 months, that is, in the second half of 1973.

He made the prediction in his Budget speech in the Legislative Council when he reviewed the economic background against which the Colony's draft estimates of revenue and expenditure have been prepared.

He said that in the latter half of 1973 income and employment levels of the major economies of Europe and North America were expected to rise and world trade was expected again to expand.

His prediction was based on the assumption that undue discrimination would not be exercised against Hong Kong by the governments of Hong Kong's major trading partners, either in the context of particular sectors of Hong Kong's trade or in the context of the Generalized Preferences Scheme for developing countries.

From preliminary estimates of Hong Kong's national income for the six year period 1966/71, prepared by the Census and Statistics Department, it seemed that the effect of the 1967 disturbances was most marked in 1968, when the Colony's overall growth rate was of the order of four to five per cent only. He defined national income as Gross National Product at current market prices.

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In the previous year, 1967, the rate was fourteen to fifteen per cent, despite the disturbances, because the process of recovery from the difficulties experienced in 1965 and 1966 by the banking and construction sectors was beginning to get under way.

"But by 1969 a surge movement was beginning to build up, the Gross Domestic Product increasing by 20 per cent in that year and by rather more than 20 per cent in 1970.

"But there was an easing off in this remarkable movement in 1971 to around ten per cent and I do not think we can expect to do better than this in 1972 or in the early months of 1973."

The Financial Secretary said this prospect of a slower advance over the next twelve to 18 months was entirely due to the outlook for export earnings.

The external demand for Hong Kong's products was so strong in 1968 and 1969 that the Colony's earnings increased by 25 per cent in each of these years. They eased off a little to 17½ per cent in 1970 and to 11½ per cent in 1971.

He thought there might be a further easing in 1972 before a resurgence of the rate of growth in 1973.

The Financial Secretary said that although the manufacturing sector was dominant in Hong Kong's economy, contributing about 43 per cent to the Gross National Product, the economy's strong external liquidity position meant two things:-

- * Firstly, there need be no brake for the time being on the present high level of activity of other sectors, such as building and civil engineering;
- * Secondly, earnings of tourism and services should be well maintained.

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"Thus the rate of growth of imports, other than that element associated with the easing in the rate of growth of domestic exports, should be maintained, for there will be no need for the banking system to reduce credit facilities."

Net balances due from banks abroad stood at \$6,400 million at the end of 1971 compared with \$4,900 million at the beginning.

At the same time, the Financial Secretary pointed out, the Government's strong reserve position, which he termed a legacy of Sir John Cowperthwaite's "wise and firm handling of our affairs during the past ten years," would enable Members of the Legislative Council to contemplate with "eqanimity" the Draft Expenditure Estimates for 1972/73.

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FINANCIAL SECRETARY SOUNDS NOTE OF CAUTION

ON INVESTMENT GROWTH PERFORMANCE

Rate Of Investment Growth Is Slowing Down: Mr. Haddon-Cave

Hong Kong must not be "too complacent" about its investment growth performance in recent years, the Financial Secretary, Mr. C.P. Haddon-Cave said today.

"At any rate," he added, "before satisfying ourselves that adequate provision is being made for depreciation and additions to our stock of fixed capital assets."

The Financial Secretary was speaking at today's Budget meeting of the Legislative Council.

He said Hong Kong's performance in the past seven years had been erratic. After reaching a peak of over \$3,000 million in 1965, gross investment in fixed assets declined continuously down to less than \$2,000 million in 1968.

This trend, however, was sharply reversed in the following three years. In 1969, the figure rose to \$2,500 million, in 1970 to \$3,500 million and "possibly to \$4,000 million last year."

"The rate of growth of investment is now slowing down, but more so in plant, machinery and equipment rather than in land, buildings and other construction," he said, adding that the rising trend in expenditure on Government's public works programmes was a significant factor.

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In the last three years, gross investment had been running at about 21 per cent of Gross Domestic Product. "This is on the low side: in Japan it is 35 per cent and in Taiwan and Korea it is said to be 23 per cent and 27 per cent respectively."

The Financial Secretary suggested that Hong Kong should keep "a watchful eye" on this aspect of the Colony's economic position during the next few years, bearing in mind that, for the most part, "our investment has been directed to the most productive purposes and that the capital assets created have been very intensively used."

"On the other hand," he went on, "it is possible to argue that, compared with some other countries, we have devoted a smaller proportion of our investment to the development of the infrastructure."

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HONG KONG IS NOW MUCH MORE DEPENDENT ON INVESTMENT
FOR INCREASED PRODUCTIVITY

Budget Speech Of The Financial Secretary

Hong Kong is now much more dependent on investment for increased productivity, the Financial Secretary, Mr. C.P. Haddon-Cave, said in his Budget speech today.

Speaking in the Legislative Council, the Financial Secretary said the growth of Hong Kong's economy was today dependent upon the annual increase in the size of the economically active sector of the population, the skills with which it was equipped and the increase in productive capacity through new investment.

The employment situation today was in marked contrast to the 1950s when "large tranches" of unemployed and under-employed resources were available to be drawn into the productive system for use on an intensive basis.

"This is the way the economy expanded," Mr. Haddon-Cave explained.

He asked: Would the easing of Hong Kong's growth rate in 1972/73 lead to any pockets of unemployment appearing?

Or would it involve, via an easing of the tight labour market of recent years, no more than a falling off in internal inflationary pressures and a reduction in labour turn-over?

Mr. Haddon-Cave said that, as regards industrial employment, Hong Kong recorded increases in every quarter since 1947 until September last year when the total stood at 613,000.

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However, the growth of registered industrial employment had been levelling off in recent years - from 14 per cent in 1968 to eleven per cent in 1969 to five per cent in 1970 and to three per cent in 1971.

"This has occurred despite improved coverage of our statistics and despite the growth of domestic exports in the period: by total value they increased by \$5,321 million or by 63 per cent between 1968 and 1971 and the price factor did not account for more than 22 per cent of this increase."

The Financial Secretary said that productivity per man hour had improved.

This was borne out by the fact that there had been a marked slowing down in the growth of industrial employment at a time when exports and the economy, as a whole, had been growing much faster.

He pointed out that there was an actual decline in registered industrial employment in December, 1971 of 8,000 to 605,000.

"I believe this is to have been largely seasonal coupled with the recession in the wig-making industry and relatively minor cut-backs in plastics, woollen knitting and cotton spinning and the disruptive effects of the dock strike in the western seaboard ports of the United States."

Increases in non-industrial employment in the second half of 1971 more than offset this decline and at the end of 1971, industrial employers had notified the Labour Department of 17,600 vacancies.

The Financial Secretary said that, although industrial employment was not likely to increase more than marginally in 1972, "there is no prospect of pockets of unemployment building up."

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On the other hand, he continued, it should not be forgotten that the age structure of the population was such that each year a large number of young persons was coming on to the labour market.

Preliminary results of the 1971 Census indicated that the economically active population consisted of over one million men and half a million women, a total of over 1,500,000 of whom 42 per cent were in manufacturing.

"This is expected to rise to 1,700,000 in 1973," he added.

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GROWTH RATE OF REVENUE EXPECTED TO EASE OFF
Consistent With Immediate Economic Prospects

The Financial Secretary, the Hon. C.P. Haddon-Cave anticipates an increase in recurrent revenue but a drop in capital revenue in the coming financial year.

Speaking on the Budget in the Legislative Council today, he said the recurrent revenue at \$3,440 million represented a nine per cent increase over the revised estimate for 1971/72. Capital revenue at \$287 million represented a six per cent decline on the revised estimate for the current year.

Total revenue at \$3,727 million was thus seven per cent higher than the revised estimate for 1971/72.

Mr. Haddon-Cave said the revised estimate for 1971/72 was 13 per cent up on 1970/71 which, in turn, was 24 per cent up on 1969/70.

"In other words, I expect the rate of growth of revenue to ease off again, but I believe this to be consistent with the view I have taken of our immediate economic prospects, remembering that the yields from earnings and profits taxes will be determined by earnings and profits recorded in the year 1971/72."

The Financial Secretary said it was nevertheless very satisfactory to be able to estimate for an increase in revenue of \$259 million, making a total increase in the three years ending 1972/73 of \$1,246 million, or just twice the increase of \$663 million achieved in the three previous years ending 1969/70.

/He said this

He said this was satisfactory particularly as additional revenue from rates and property tax had again to be excluded because of the postponement of the revaluation of property values.

On recurrent revenue, Mr. Haddon-Cave estimated the yield from earnings and profits taxes would increase by \$110 million to \$1,019 million or by 12 per cent; and from taxes and charges on activities during the year by \$167 million to \$2,421 million or by seven per cent.

Water revenue was put at \$167 million or \$43 million up on this year because of the new price of \$4 per thousand gallons to be paid by non-domestic consumers from April 1 next and assuming supply restrictions would not be necessary.

The Financial Secretary said the estimate of \$222 million for interest earnings was \$15 million up on this year's figure because additional sums would become available for investment but, of course, it was difficult to predict the trend of interest rates though the likelihood was for some reduction.

Turning to capital revenue, Mr. Haddon-Cave said the estimate for land sales was down by \$39 million on this year's revised estimate for fewer lots would become available for auction and premia in respect of regrants of expired leases might not reach this year's figure of \$45 million.

The only other item worth of particular mention, he said, was the \$30 million expected from the sale of taxi concessions.

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FOUR PER CENT RISE IN CONSUMER PRICE INDEX EXPECTED IN 1972

Budget Speech Of Financial Secretary

The rise in the Consumer Price Index in 1972 is expected to be about the same as in 1971 - an increase of only four per cent.

This was stated in the Legislative Council today by the Financial Secretary, Mr. C.P. Haddon-Cave, when presenting his Budget proposals.

The Consumer Price Index, after rising by three per cent in 1969 and seven per cent in 1971, registered only a four per cent increase in 1971.

The Government's decision in 1971 to maintain the gold parity of the Hong Kong dollar, he told Legislative Council, "will mean that import prices will be relatively stable, thus protecting both industrial costs and the cost of living."

Speaking on the situation in the monetary sector, the Financial Secretary said the general picture revealed by the basic statistics was one of great strength and a tribute to the banking community.

Currency in circulation at the end of 1971 was \$2,932 million - an increase of nearly 14 per cent on December, 1970 when it was \$2,578 million.

Extra currency issues for the 1971/72 Christmas and Lunar New Year holidays amounted to \$638 million compared with \$615 million in 1970/71 and \$459 million in 1969/70.

/Repeating the

Repeating the words of Sir John Cowperthwaite in his 1971 Budget speech, Mr. Haddon-Cave said this was "remarkable evidence of the growth of our wealth and of its wider distribution among the people."

Bank deposits at the end of 1971 stood at \$18,785 million or two and a third times the low level of \$7,846 million to which they fell in September, 1967, having risen in 1971 more sharply, at 26 per cent, than in any recent year since the post-emergency year of 1968 when currency flowed back to the banks as confidence was re-established.

Loans and advances in 1971, he continued, could hardly be expected to keep pace with this "rapid widening" of the banks' credit base; but nevertheless, they increased by 22 per cent to a record high of \$11,836 million, representing 63 per cent of deposits.

"So the banking system as a whole was well lent up, though the pattern of advances shifted marginally away from manufacturing in favour of other sectors, including finance houses, private individuals and inter-bank lending.

"I am not entirely satisfied that the banking system is able adequately to meet the legitimate credit needs of all types and sizes of manufacturing enterprises and I shall have more to say on this later on."

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COST OF BASIC GOVERNMENT SERVICES KEPT AT STEADY LEVEL

To Enable Substantial Increases In Spending On Social Services

Substantial increases in expenditure on developmental and social services have been made possible because Government has succeeded in keeping the relative cost of basic services, such as general administration and law and order, steady at around 17 per cent of total spending.

This was stated by the Financial Secretary, the Hon. C.P. Haddon-Cave, at today's Budget meeting of the Legislative Council.

He urged Members of Legislative Council to study closely two appendices to the 1972-73 Draft Estimates. These analyse estimated expenditure by function and also the changing pattern of spending for the eleven years ending 1972-73 compared with the expenditure proposals for 1972-73 and the forecast of expenditure for the three years ending 1975/76.

Mr. Haddon-Cave said the forecast for 1973-74 was for a total expenditure of \$4,505 million, a \$848 million increase on 1972-73, largely due to a "leap forward" of \$557 million in capital expenditure, followed by smaller increases thereafter. He stressed, however, that these figures were subject to many qualifications.

The form of the Draft Estimates, he said, followed the usual form.

"We have persevered with our efforts to ensure that the layout of each estimate reflects the administrative organisation of the department concerned so as to indicate the manner in which the funds provided by the Legislature will be spent but we are not yet satisfied that the layout is entirely satisfactory in every case.

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The Financial Secretary then went on to describe the scope and content of the Memorandum Notes at great length, not so much for the benefit of Members of Legislative Council but to stimulate the interest of the public in "this compendious study of the Government's activities and plans and the organisation of the public services."

Mr. Haddon-Cave said the Draft Estimates was the end result of three to four months of intensive work by the Finance Branch, beginning with the processing of departmental draft estimates.

He expressed his gratitude to his colleagues in all divisions of the Finance Branch for their "loyal and painstaking efforts" and to heads of departments for their "help and understanding" during what was "always a hectic and difficult period."

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FINANCIAL SECRETARY'S BROADCAST TALK

Text Contained In D.I.B. Supplement

Note to editors: The full text of the Financial Secretary's 10-minute broadcast talk on the Budget over the Colony's radio and television stations this (Wednesday) evening is contained in a Supplement to the Daily Information Bulletin today.

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INCREASED MONTHLY RATES OF PUBLIC ASSISTANCE

Proposals Put Forward For Improving Public Assistance Scheme

The Director of Social Welfare has put forward proposals for improving generally the Public Assistance Scheme and increasing, by about 60 per cent, the monthly rates in the sliding scale of assistance.

Announcing this in his Budget speech today, the Financial Secretary, Mr. C.P. Haddon-Cave, said this proposal, provision for which had not been included in the Draft Estimates, would be put shortly to the Finance Committee of the Legislative Council.

The Financial Secretary said the increased monthly rates of assistance were being proposed to take account both of increases in the cost of living since 1970 and of certain essential items of expenditure for which no account was taken in the existing levels of assistance.

Mr. Haddon-Cave said his predecessor, while advocating for some years improvements to the old pre-1970 public assistance scheme, did so with two qualifications which he must endorse without reservation.

The first qualification was that the rates of assistance should not be such as to have an adverse effect on employment and wages.

"Because they take account of additional essential items of expenditure, the revised rates, if approved, will be closer to wages prevailing today than the present rates were to wages in 1970."

He was reasonably satisfied, from the results of the scheme so far, that the gap between the rates of assistance and wages would be sufficient.

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The second qualification was that, to guard against abuse and malpractice, public assistance should be carefully controlled and administered.

"To achieve this, we have had the benefit of the services of an officer experienced in public assistance from the British Civil Service; and this Council has approved substantial increases in the establishment of the Public Assistance Division of the Social Welfare Department.

"This means also that we can be reasonably sure that the scheme is helping those who are least able to support themselves and, in particular, the elderly, the widowed, the sick and the disabled; and that it is not, as a result of inadequate administration, affecting the incentive to work and to be self-supporting."

Mr. Haddon-Cave said that payments in public assistance in 1971-72 were likely to be \$12 million.

To the estimate of \$17½ million for 1972-73 would have to be added some \$13 million in respect of the present 14,000 to 15,000 cases if Finance Committee endorsed the new rates of assistance and other refinements now proposed.

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PILOT SCHEME FOR LOANS TO SMALL INDUSTRIAL ENTERPRISES

To Buy More Efficient Machinery, Equipment

Government has agreed to a pilot scheme providing for loans, ranging between \$50,000 and \$250,000 and totalling up to \$30 million, to small industrial enterprises to help them in buying machinery and equipment.

Announcing this in his Budget speech in the Legislative Council today, the Financial Secretary said the scheme would be put into operation, subject to Finance Committee's acceptance of the financial liability involved, as soon as the necessary arrangements could be finalised by the Director of Commerce and Industry.

He said the proposal, provision for which had not been included in the Draft Estimates, would be put to Finance Committee very shortly.

The Financial Secretary said that small industrial enterprises "have played, and will continue to play" an important part in Hong Kong's economy.

"It is essential that these small enterprises should participate in the process of upgrading our industry and increasing its productivity through the installation of more efficient machinery and equipment and the adoption of more up-to-date management practices."

A committee appointed by the Trade and Industry Advisory Board has prepared a scheme designed to make loans more easily available, at reasonable rates of interest, through the banking system to small firms to assist them in purchasing equipment and machinery.

/The committee

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The committee has defined small firms as those employing less than 200 workers and having not more than \$600,000 in proprietors' funds.

The Financial Secretary said that firms of this size accounted for more than 95 per cent of all factories registered with the Labour Department.

He told Council: "As the loans envisaged are not of the kind which the banking system has traditionally undertaken, except for a few customers well known to them, the scheme provides for some degree of government guarantee of such loans, to be given after a thorough appraisal by the Productivity Centre of the technical feasibility of each project.

"I am happy to say that the Government has now agreed to a pilot scheme providing for loans ranging between \$50,000 and \$250,000 and totalling up to \$30 million.

"This scheme will be put into operation as soon as the necessary arrangements can be finalised by the Director of Commerce and Industry provided, of course, Finance Committee accepts the contingent liability involved and approves funds for administrative overheads."

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EXPENDITURE FOR NEXT FINANCIAL YEAR

ESTIMATED AT \$3,650 MILLION

Increase Of 25 Per Cent Over 1971/72

The total estimated expenditure in the next financial year amounting to \$3,657 million represents an increase of \$727 million or 25 per cent over the revised estimate for 1971/72.

This is by far the largest increase ever, and had only been exceeded twice before -- in 1948/49 and in 1950/51. But these were hardly comparable years as the Government was then in the process of re-establishing services after the war.

Giving these figures in presenting his Budget in the Legislative Council today, the Financial Secretary, the Hon. C.P. Haddon-Cave said the increase followed upon increases of 20 per cent on actual expenditure in 1970/71 which in turn was an increase of 21 per cent on 1969/70.

The average level of actual expenditure in the three years ending 1969/70 was \$1,890 million while the average for the three years ending 1972/73 worked out at just over \$3,000 million.

The Financial Secretary said it was true the average capital expenditure in the three years 1969/70 was, at \$403 million, well down on the previous three years, but an increase in the three years ending 1972/73 as actual spending on the Public Works Programme began to get under way again, was to be expected. However, the increase, at \$823 million, was substantial.

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The increase on recurrent account was an important element in the situation also, Mr. Haddon-Cave said. Average recurrent expenditure in the three years ending 1969/70 was \$1,487 million and would rise to \$2,189 million in the three years ending 1972/73.

"This is an increase of no less than 47 per cent which may be compared with the increase of 104 per cent in capital expenditure," he said.

Mr. Haddon-Cave drew attention to the differences between the draft estimates for 1972/73 and the revised estimates for 1971/72, and said when one examines these differences the role of expenditure on recurrent services began to look even more significant. Of the overall increase of \$727 million, \$384 million was on recurrent account and \$343 million on capital account.

Dangerous High Level

"This means that, in the coming year, recurrent expenditure as a proportion of recurrent revenue will reach the dangerously high level of 73 per cent, compared with 68 per cent this year. We should aim to keep 30 per cent of recurrent revenue available to finance the deficit on capital account and I hope, therefore, the margin between recurrent revenue and expenditure will widen again in 1973/74."

There were two main elements in the increase of \$384 million in recurrent expenditure. One was civil service emoluments, amounting to \$218 million. The other was recurrent subventions, amounting to \$73 million.

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As regards the civil service, the Financial Secretary said if the Draft Estimates were approved the establishment would be 90,656 permanent posts and 7,809 supernumerary posts. This represented together an increase of 4.3 per cent over a year ago. The increase was the fourth lowest since 1960/61.

As regards recurrent subventions, he said these now accounted for 23 per cent of total recurrent expenditure, the 1972/73 estimate being no less than \$579 million representing an increase of \$73 million on the revised estimate for 1971/72.

Mr. Haddon-Cave said some \$47 million of the increase was for aided schools, including nearly \$700,000 for the Polytechnic - "being the first instalment in an expensive project." If the new salary scales for the teaching service were applied to the aided sector in 1972/73, extra provision required for recurrent subventions would be of the order of \$28 million.

Medical Subventions

Another \$10 million of the increase of \$47 million was required for aided medical institutions subvented on a deficiency grant basis and later on, if salary scales were adjusted, a further \$8 million would have to be sought.

Referring to social welfare subventions, the Financial Secretary said the estimate of almost \$20 million represented an increase of over 22 per cent on the revised estimate for 1971/72, or 61 per cent on actual expenditure in 1970/71.

With several unimportant exceptions, he said, the estimate for next year amounted to acceptance in toto of the recommendations made by the Social Welfare Advisory Committee.

/Mr. Haddon-Cave....

Mr. Haddon-Cave expressed thanks to the Director of Social Welfare and the members of the Social Welfare Advisory Committee for the time and effort they had spent on examining more than 70 applications and formulating recommendations on each one of them.

Dealing with the capital account, the Financial Secretary said of the increase of \$343 million, \$27 million was for departmental special expenditure, \$36 million for capital subventions and \$280 million for the Public Works Programme.

Capital Account

The 1972/73 estimate for capital subventions was \$134 million compared with the revised estimate for this year of \$97 million, despite an expected decline of \$8 million in spending by the universities. Of the estimated total, \$42 million was required for aided schools, mainly for the expanded secondary school programme, and \$34 million for hospital development including \$29 million to meet payments in respect of the United Christian Hospital at Kwun Tong and the Centenary Block of the Tung Wah Hospital. Of the \$29 million sought for these two projects, \$11 million is for revotes.

Commenting on the Public Works Programme, Mr. Haddon-Cave said an examination of the Draft Estimates would show how heavily the balance of the programme was weighted in favour of water supplies and by roads, housing, medical facilities, urban amenities and airport development in that order.

The Financial Secretary sounded a warning on the main project in the water programme, that is the High Island Scheme. He said the cost was escalating rapidly and the Public Works Sub-Committee would shortly be asked to consider recommending a very substantial increase in the approved project estimate of \$968 million.

/He concluded:

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He concluded: "Perhaps there is some consolation to be found in the fact that I am optimistic about our chances of raising a loan from the Asian Development Bank towards the cost of our 40 million gallon a day single purpose desalting plant estimated to cost \$460 million."

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REVIEW OF REVENUE AND EXPENDITURE IN 1971/72

Revenue Increase Of \$397 Million Third Largest On Record

The revised estimates of revenue and expenditure for 1971/72 as shown in the Draft Estimates for 1972/73 are put at \$3,468 million and \$2,930 million respectively, yielding a surplus of \$538 million.

"However, I have a distinct feeling that when the accounts are closed the surplus will be around \$700 million for I expect revenue to be higher than presently estimated by 2 to 3 per cent and expenditure lower by 1 to 2 per cent."

The Financial Secretary, the Hon. C.P. Haddon-Cave, stated this today when he presented his Budget proposals to the Legislative Council.

He said although the rate of growth of revenue in 1971/72 at 13 per cent was less than in the two previous years, 1970/71 and 1969/70, when it was 24 per cent and 19 per cent respectively, it was still higher than in any other year since 1962/63; and the increase at \$397 million was the third largest on record and \$90 million more than total revenue 20 years ago in 1951/52.

"Clearly we are continuing to enjoy a flush of revenue as our economy continues its post 1967/68 surge movement. Whether we can expect this surge movement to continue in the coming months and, if so, at what rate, is a question I shall be considering later in this speech," the Financial Secretary said.

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He regarded recurrent revenue, which broke through the \$3,000 million barrier to reach \$3,164 million only a year after total revenue had done this as one of the most significant features of the revenue picture in 1971/72.

Revenue from earnings and profits taxes increased by 17 per cent; Stamp duties due to the 1971 stock market boom increased by no less than \$78 million or 61 per cent; motor vehicle taxes will exceed even last year's record figure of \$39.7 million by \$4.3 million as a result of record registration of some 30,000 new vehicles.

Excise Duties

Mr. Haddon-Cave said that although the yield from excise duties was up overall by \$31 million, it was a little disappointing as regards hydrocarbon oils, table waters and locally manufactured liquor.

The revenue from rates at \$364 million had increased by \$28 million on 1970/71 due to higher assessed rateable values for new premises.

Post Office revenue had been disappointing, and at \$162 million represented an increase of less than \$2 million on actual revenue in 1970/71.

He said interest earnings this year were expected to be a remarkable \$207 million, a 32 per cent increase on 1970/71.

This was due to the buoyancy of revenue collections during the year and the employment of a relatively higher proportion of Hong Kong's balances than before in sterling investments which yield more than local deposits, he added.

/"One aspect

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"One aspect of our strong reserve position which is perhaps sometimes overlooked is the contribution which earnings on our investments make to our recurrent revenue: this year it is no less than 6 per cent or equal to the contribution made by stamp duties. Put another way, earnings on our investments this year financed no fewer than 34 of the 65 heads of expenditure."

On capital revenue, he said this year total collections were likely to be down on the record 1970/71 figure of \$327 million by some \$23 million.

Urban Land

"However, the demand for land in the urban areas, especially for domestic and commercial development, the availability for sale of more sites than originally expected, premia on regrants of 75 year non-renewable leases and revenue from the early renewal of renewal leases have meant that the revised estimate, at \$263 million, is not far short of the record 1970/71 figure of \$272 million," he added.

The Financial Secretary said that for the second year running actual expenditure at \$2,930 million would exceed the original estimate, which had been \$2,862 million.

The amount of \$2,930 million represented an increase of almost 20 per cent on actual expenditure in 1970/71.

He explained that the continuation of the sharp upward trend was due mainly to a recovery in public works and other capital expenditure which had fallen away from \$735 million in 1965/66 to \$372 million in 1969/70.

/Capital

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Capital expenditure increased by nearly 50 per cent in 1970/71 to \$552 million and by another 43 per cent in 1971/72 to \$787 million, he said.

On capital expenditure in the seventies the Financial Secretary said: "We face the prospect of having to finance an enormous programme of public works, and at contract prices which will probably be 50 per cent higher than those prevailing in 1970/71, whilst our recurrent services will continue to expand and become more costly".

Salaries Commission

He pointed out to Honourable Members that the revised estimates of expenditure did not reflect the full impact of the cost of implementing the recommendations of the Salaries Commission in respect of 1971/72.

About \$76 million, excluding teachers salaries, would fall in the 1972/73 year of account for which he proposed to seek supplementary provision.

He also pointed out that the revised estimates for the three main Public Works Non-Recurrent heads was up by \$29 million on the original estimate of \$509 million which, in turn, exceeded actual expenditure in 1970/71 by \$126 million.

The year 1971/72 had been an unusually busy year for Finance Committee and this had naturally had the effect of boosting the rate expenditure.

/The total

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The total amount approved to February 9 for items which sought specific sums by way of supplementary provision was \$364 million compared with \$301 million for the whole of 1970/71 and \$191 million for 1969/70.

He concluded by sounding a warning to heads of departments that, in 1972/73, the Finance Branch would have to look at applications for supplementary provisions rather more stringently for the ratio of supplementaries to original estimates was getting a little out of hand.

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HONG KONG IN STRONG FINANCIAL POSITION

Enters 1972-73 With Total Reserve Of \$3,923 Million

The Financial Secretary, the Hon. C.P. Haddon-Cave, said today that Hong Kong enters 1972-73 in a "strong position" with a total reserve of \$3,923 million.

Presenting his Budget in the Legislative Council, he said this year's surplus should be of the order of \$700 million, bringing the balance in the General Revenue Account to about \$2,900 million.

An estimated \$110 million for the appreciation of investments and a further \$913 million for the free surplus in the Exchange Fund added to that figure of \$2,900 million should bring the Colony's total reserve position at April 1, 1972 to \$3,923 million, he explained.

The Financial Secretary pointed out that the surplus available for transfer had increased from \$270 million when the accounts for 1970 were closed to an estimated \$913 million at the end of 1971.

He said this was "thanks to the strength of the gilt edged market and the careful management of our portfolio by the Crown Agents in London and the Accountant General acting within the broad guidelines laid down by the Exchange Fund Advisory Committee, one of the many advisory committees working quietly behind the scenes to provide the Administration with expert advice".

Hong Kong's estimated reserve position at the end of the current financial year of \$3,923 million represents an advance of \$1,448 million on the position a year ago when it was \$2,475 million.

/This figure

This figure compares favourably with \$1,726 million two years ago and \$1,173 million at March 31, 1968 after Hong Kong had borne the strain of the devaluation of sterling.

Mr. Haddon-Cave pointed out that in considering Hong Kong's reserve position the main, and indeed the primary, determinant of incomes and hence of revenue yields, "is the economy's export performance over which we can exercise but a limited degree of control".

"This exposed external position means that we must maintain a strong reserve position in relation to annual expenditure," he stressed.

"Obviously, should our trade and hence the growth of our revenue ever slacken off seriously we must be in a position to maintain recurrent services and the level of capital expenditure either until the rate picks up again or, if this takes too long and our reserves are in danger of being rapidly depleted, until we can cut the rate of growth of expenditure methodically."

The Financial Secretary pointed out that that would not be easy.

A cutback of plans for a steady expansion of recurrent services could only be achieved at a social and administrative cost, he said.

To slow down expenditure on capital works would probably be costly in the sense that nugatory expenditure would be involved, he added.

In addition, such a slowdown would certainly be difficult to organise, not only because of the problem of selecting the projects to be slowed down, but also because of the sheer size of the Public Works Programme, he said.

The expenditure commitment as at February 9 in Category A projects in the Public Works Programme was a massive \$3,424 million compared with only \$1,736 million about the same time in 1971.

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REVENUE TRENDS FROM 1961-62 TO 1972-73
Show Growing Dependence On Direct Taxation

The revenue trends over the 12 years 1961-62 to 1972-73 show there has been a growing dependence on direct taxation - from 21 per cent to 28 per cent.

The Financial Secretary, the Hon. C.P. Haddon-Cave, stated this today when he presented his Budget proposals to the Legislative Council.

This, he added, had been coupled with the maintenance of the contribution by various fees and charges (around 20 per cent), despite the difficulty of keeping them in step with rising costs.

At the same time, the role of indirect taxes had declined, from 41 per cent to 34 per cent of the total revenue, he said.

"These trends reflect the underlying philosophy of our fiscal policies and are highly appropriate to our circumstances, though I can foresee the day when certain indirect taxes assume a more important role for reasons which are partly non-fiscal."

On the budgetted surplus of \$70.3 million, Mr. Haddon-Cave said it did not take into account further commitments likely to be approved in respect of teachers salaries, medical subventions, increases in pensions and public assistance amounting to \$100 million, of which \$42 million might be considered a fair charge against this year's surplus.

"I do not really expect the final accounts for 1972-73 to reveal a deficit although, theoretically, this could happen."

/He said

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He said that adding the \$76 million yet to be paid out to the civil service (in respect of 1971-72) and this \$100 million to the expenditure estimate of \$3,657 million, there was an excess of expenditure over revenue of \$106 million.

"Although in the 11 years 1960-61 to 1971-72 we have underestimated revenue 10 times, I am fairly confident that this year we have not under-estimated it by more than a small margin, if at all."

As regards expenditure, the Financial Secretary said it had been over-estimated eight times in the last 11 years.

"However, the expenditure estimates are as realistic as we can make them, without cutting back arbitrarily, and this we have refrained from doing."

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COST OF CIVIL SERVICE ESTIMATED AT OVER \$1,186 MILLION
90,656 Permanent Posts And 7,809 Supernumerary Posts

The cost of the civil service for the next financial year starting on April 1, 1972, is estimated at over \$1,186 million.

The Financial Secretary, the Hon. C.P. Haddon-Cave said today the approved establishment on April 1 this year, if the Draft Estimates were approved, would be 90,656 permanent posts and 7,809 supernumerary posts - a 4.3 per cent increase on 1971-72.

Presenting his Budget proposals to the Legislative Council, he said civil service was one of the two main elements in the increase of \$384 million in recurrent expenditure for 1972-73, the other element being recurrent subventions.

He said civil service accounted for \$218 million of the \$384 million increase.

Of the \$218 million increase for civil service, he said, \$40 million was accounted for by new posts, \$41 million by incremental creep, and \$137 million by the new scales introduced as a result of the 1971 Salaries Commission's recommendations.

"The personal emoluments bill for the Education Department will eventually increase by about \$6 million in a full year if and when the new salary scales for teachers are agreed upon and implemented."

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STRONG RESERVE INSURANCE AGAINST REVENUE FALL-OFF

To Ensure Recurrent Services And Capital Expenditure Be Maintained

Government's primary aim must be to maintain day to day services such as the Police Force, hospitals, and schools should the Colony's trade and growth of revenue fall off.

The Financial Secretary, Mr. C.P. Haddon-Cave explained today that this is one of the main reasons for keeping a strong reserve position.

Mr. Haddon-Cave also emphasised that Hong Kong is free to invest its reserves either in Hong Kong or in London and also has complete freedom to spend them should the need arise.

Earnings of \$207 million from these investments this year financed no fewer than 34 of the 65 heads of expenditure.

The Financial Secretary when he presented his Budget proposals in the Legislative Council today said that Hong Kong enters 1972/73 in "a strong position" with a total reserve of \$3,923 million.

He explained that an estimated \$110 million for the appreciation of investments and a further \$913 million for the free surplus in the Exchange Fund added to the \$2,900 million in the General Revenue Account should bring the Colony's total reserve position at April 1 this year to \$3,923 million.

For this Hong Kong had to give thanks to the gilt edged market and careful management of the Colony's portfolio by the Crown Agents in London and the Accountant General acting within the broad guidelines laid down by the Exchange Fund Advisory Committee, one of the many advisory committees working quietly behind the scenes to provide the Administration with expert advice, he pointed out.

/This

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This \$3,923 million reserve would just about cover the outstanding expenditure commitment as at February 9 of \$3,424 million in Category A projects in the Public Works Programme.

Mr. Haddon-Cave went on to say that in considering Hong Kong's reserve position the main, and indeed the primary, determinant of incomes and hence of revenue yields, "is the economy's export performance over which we can exercise but a limited degree of control".

"This exposed external position means that we must maintain a strong reserve position in relation to annual expenditure," he added.

Revenue Fall

"Obviously, should our trade and hence the growth of our revenue ever slacken off seriously we must be in a position to maintain recurrent services and the level of capital expenditure either until the rate picks up again or, if this takes too long and our reserves are in danger of being rapidly depleted, until we can cut the rate of growth of expenditure methodically," he said.

To do this would not be easy, he added.

A cutback of plans for a steady expansion of recurrent services could only be achieved at a social and administrative cost; and to slow down expenditure on capital works would probably be costly in the sense that nugatory expenditure would be involved, he said.

In addition, this would be difficult to organise, not only because of the problem of selecting the projects to be slowed down, but also because of the sheer size of the Public Works Programme, he added.

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NEW SYSTEM FOR ASSESSING TAX

Among Financial Secretary's Proposals For 1973-74

The Financial Secretary, Mr. C.P. Haddon-Cave, today proposed a system of assessing tax for the current year on the actual income or profits earned in that year.

He announced this and one other tax proposal for 1973/74 when he presented his Budget in the Legislative Council.

"The target date for the changeover will be April 1, 1973," he said.

He informed Members of the Council that a Bill to change the basis of assessment to a current year basis would be drafted and introduced into the Council within the next two or three months.

Mr. Haddon-Cave said the switch over from the present in exact and artificial basis of assessing tax for the current year with reference to income or profits earned in a preceding period to the proposed system concerned the last remaining major recommendation of the 1968 Report of the Inland Revenue Ordinance Review Committee.

This particular recommendation was not included in the Inland Revenue Ordinance (Amendment) Bill 1971 because of opposition from several trade and accounting bodies as regards the application of this recommendation to profits tax, he added.

The income of the year ending March 31, 1973 would be used provisionally to calculate the tax payable for the year 1973/74. This would only be a provisional payment and not the tax assessment for that year, he said.

/The Financial

The Financial Secretary explained that when the income for the year 1973/74 was returned a year later the tax assessment would be made and the provisional payment set off against the tax assessed.

"An important feature of the transitional arrangements is that it is proposed to drop out of charge the incomes of most taxpayers for the year ending March 31, 1975. That is to say, if a taxpayer's income for this year exceeds the income for the year ending March 31, 1972, by no more than 15 per cent the excess will be disregarded."

He added that amounts in excess of this 15 per cent margin would be liable to tax, but the Commissioner of Inland Revenue would arrange payment of the additional tax by instalments.

No Actual Loss

There would be no actual loss in terms of the total collection in 1973/74 under the new system compared with what the collection would have been in 1973/74 under the present system.

In 1974/75, the second year after transition and subsequent years, a new feature of the taxpayer's annual notice of assessment would be the adjustment required when tax assessed for a year was more or less than the provisional tax paid, he said.

Except in the case of permanent cessation of employment a taxpayer would receive only one salaries tax assessment notice each year, he added.

"If a taxpayer can show that his income has been substantially reduced during the year, he will be able to apply for a stand over of tax."

Under the present artificial preceding year basis of assessment the taxpayer could not claim relief for a reduction in income and had to pay tax out of his current year's income computed on the preceding year's income, Mr. Haddon-Cave explained.

"This can cause difficulty where a bonus payment in the current year is considerably less than that for the preceding year," he said.

CUT IN SALARIES TAX RATES PROPOSED

To Ease Burden On Middle Income Group

The reduction in the rates of salaries tax proposed by the Financial Secretary today will bring relief to people in the middle income group, particularly those with annual gross assessable incomes of between \$40,000 and \$80,000.

In announcing this tax concession in the Legislative Council, the Hon. C.P. Haddon-Cave said the tax burden on this group was out of proportion to the burden borne by the lower income groups who, quite rightly, get off very lightly indeed. It was also out of proportion to the higher income groups who enjoy the reducing impact of the low standard rate.

The Financial Secretary proposed to reduce the rates specified in the Second Schedule to the Inland Revenue Ordinance so that the first step would be 2.5 per cent or one-sixth of the standard rate and each of the eleven steps thereafter up to the maximum marginal rate of 30 per cent would likewise be a multiple of 2.5 per cent. Thus an even gradation of the tax structure would be achieved.

The effect of this recasting of the schedule, so far as personal allowances are concerned, will be to push up the point at which net chargeable income reaches the standard rate; in the case of a single man, from \$54,000 to \$62,000; in the case of a married man, from \$61,500 to \$69,000; and in the case of a married man with two children, from \$65,500 to \$73,000.

Explaining this tax concession, Mr. Haddon-Cave said: "This proposal seeks to recognise that, with the inflation of incomes in recent years, the 30 per cent rate is catching people it was never intended to catch."

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A married man with two children will be afforded relief over a range of net chargeable income extending from \$5,000 to \$70,000: at \$5,000 the relief will be \$12.50 or 9.1 per cent of his present tax liability; at \$35,000 the relief will be \$425 or 10.8 per cent of present tax liability; at \$55,000 the relief will be \$1,125 or 12 per cent of present tax liability; and at \$70,000 the relief will be \$450 or 3.4 per cent of present tax liability.

The cost of the proposed salaries tax concession to the revenue in 1972/73 will be \$7.1 million. This will eventually increase to about \$9.5 million when all assessments in a year are made on the basis of the revised schedule.

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MAXIMUM RATE OF ESTATE DUTY

Reduction From April 1 Proposed By Financial Secretary

The Financial Secretary, the Hon. C.P. Haddon-Cave proposes a reduction in the maximum rate of estate duty from 20 per cent to 15 per cent.

This is one of the four tax concessions announced by Mr. Haddon-Cave when he presented his Budget for 1972-73 in the Legislative Council today.

The Financial Secretary said he would be introducing a bill into the Legislative Council to reduce the maximum rate of estate duty in respect of deaths occurring on or after April 1, 1972.

At the same time, the present 14 steps ranging from \$200,000 to \$2,000,000 will be amended to eleven steps ranging from \$200,000 to \$1,000,000.

The new scale will provide worthwhile relief to all estates exceeding \$300,000: for example, the rate applicable to estates of \$500,000 will be reduced from ten per cent to seven per cent representing relief of \$15,000 in duty.

Mr. Haddon-Cave said it would also help to discourage Hong Kong residents from taking avoidance action by transferring assets overseas before death.

The Financial Secretary said the annual cost to revenue was very difficult to estimate, but was likely to be between \$1.5 million and \$3.5 million. For 1972-73 he was assuming it would be \$3 million.

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PROPOSAL TO ABOLISH DUTY ON METHYL ALCOHOL

Financial Secretary And His Budget

The Financial Secretary, Mr. C.P. Haddon-Cave, proposed today to abolish the duty on methyl alcohol as from 6 p.m. today.

He made the announcement when he presented his Budget in the Legislative Council.

Methyl alcohol was taxed \$7.50 per gallon, and in addition 28 cents for every one per cent by which the strength by volume exceeds 25 per cent.

"The need for such a duty arose originally from an epidemic of cases of adulteration of liquor with methyl alcohol, a dangerous poison, causing deaths and injuries," Mr. Haddon-Cave said.

It had been considered necessary to remove the financial inducement to use methyl alcohol for adulteration of liquor by subjecting it to duty at the same rate as for methyl alcohol, he added.

"When introducing this resolution in 1957, Mr. Clarke emphasised that the purpose of the resolution was not to increase revenue but to protect the public."

The view shared by the Secretary for Home Affairs, the Director of Medical and Health Services, the Director of Urban Services and the Director of Commerce and Industry, that the likelihood of methyl alcohol being used for the manufacture of liquor rather than for duplicating fluids, printers' ink, and such products was no longer of real concern, he said.

The loss of revenue by abolishing duty on methyl alcohol would be about \$100,000 a year, he added.

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UNDERGROUND RAILWAY IS NO PANACEA FOR

HONG KONG'S WORSENING TRAFFIC PROBLEM

Road Congestion Will Still Have To Be Tackled

The Financial Secretary, Mr. Philip Haddon-Cave, made it clear in his Budget speech in the Legislative Council today that, even if the underground railway is built, it will certainly not be a panacea.

"The problem of congestion from the growing numbers of vehicles on the roads, particularly private cars, will still have to be tackled," he pointed out.

It was also a fact that an underground railway could not be provided by simply waving a magic wand "for there are simply enormous problems to be overcome before a start can be made."

Mr. Haddon-Cave said even the first stage of the underground railway scheme - the so-called Initial System - would take at least six years to build and would involve formidable engineering and technical problems.

"During this period also the building works will add to, rather than relieve, congestion on the roads, while traffic volumes will still be increasing year by year.

"Finally, there are the problems involved in financing the project, that is to say, of raising very large sums of money to be paid off over periods of time which are long indeed by the normal standards of Hong Kong."

/Continuing,

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Continuing, the Financial Secretary said: "So there is no doubt that the underground railway is a complex and difficult project and the Government certainly cannot at this stage say whether it will or will not be built.

"What can be said, however, is that other aspects of Hong Kong's growing traffic and transport problem will need to be tackled resolutely in the coming years and I must give due warning that unpopular measures will before long be necessary and will have to be adopted for the good of the community as a whole."

Restraints Policy On Private Motorists

Earlier, the Financial Secretary had said that Government could not be content with a restraints policy on private motorists alone to cope with the movement problems of the 1970s and 1980s.

"We are pushing ahead with a road reconstruction and development programme; and we are considering very carefully the proposal for an underground railway."

Since the summer of 1971, a small working group of Government officers, most closely concerned, had been meeting regularly to examine every aspect of this proposal and to consider it in the context of an overall traffic and transport policy for Hong Kong.

"The group has just completed the first draft of a memorandum for Executive Council and this is now being considered in the Colonial Secretariat."

Because of this, Mr. Haddon-Cave explained, he could not say a great deal more about transport policy at the present time.

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FINANCIAL SECRETARY ANNOUNCES NEW RESTRAINTS POLICY ON PRIVATE MOTORISTS

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Peak Hour Congestion Caused By Commuters: Mr. Haddon-Cave

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Problem of Traffic Congestion Getting worse

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Despite all efforts at road building and improvements, on which more than \$400 million have been spent in the past eleven years, the problem of traffic congestion is getting worse, the Financial Secretary, Mr. C.P. Haddon-Cave said today.

In his Budget speech in the Legislative Council, the Financial Secretary warned that unless something was done to contain the growth rate of vehicles, "we shall face more and more severe traffic congestion in the urban areas as time goes on."

He said this problem of congestion arose from the "increasing prosperity" of the community coupled with the fact that demand for transport always tended to increase more rapidly than incomes. Income per head, at current prices, was getting on for twice what it was in 1961.

The problem was not peculiar to Hong Kong and was present in most large cities around the world. "But it is becoming especially acute in Hong Kong because of our high densities and our peculiar geographical circumstances."

Mr. Haddon-Cave said that, even to begin to cope with the problem, Hong Kong must have a traffic and transport policy which recognised that there was only a given amount of road space available in relation to the increasing numbers of vehicles demanding to use it.

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"This increasing demand must somehow be restrained and those vehicles which use road space inefficiently must be made to accept a greater part of the cost of the congestion they cause in relation to efficient users, such as large double decker buses.

"In other words, whether we like it or not, we shall be forced into a policy of restraints, whether by fiscal means or other means, on the inefficient and less necessary use of road space in order to prevent the system clogging up."

The Financial Secretary told Council that one of the most difficult problems facing Hong Kong at the present time was what to do about the ever-increasing volume of traffic on the roads.

Increasing Strain

He quoted statistics to show the growth of vehicles using the road system.

In 1961, there were about 56,000 motor vehicles of all kinds in the Colony, of which 36,000 were private cars. "Now the numbers have tripled to over 166,000 and 107,000 respectively."

The number of goods vehicles had also roughly trebled during this period and public transport trips had doubled.

He said: "Despite all our efforts at road building and improvements - and we spent \$422 million in the eleven years ending 1971/72 and we have \$475 million worth of expenditure still to come on projects currently in hand - and despite also the adoption of better traffic management techniques, the evidence of the increasing strain being placed on our road system is there for all to see.

/"Furthermore

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"Furthermore, the number of new vehicles being registered each year is increasing at a rate of almost 15 per cent; and there is no sign as yet of any slackening in this rate of growth.

"So the problem is getting worse and unless something is done to contain it, we shall face more and more severe traffic congestion in the urban areas as time goes on."

The Financial Secretary said that, despite Hong Kong's general financial position at the moment, Government could not afford to delay the introduction of a restraints policy on the private motorist.

Peak Hour Congestion

"And we believe we should begin now with a new parking policy, for a large part of the congestion at peak hours is caused by commuters who then take up parking spaces all day."

Mr. Haddon-Cave said that charges for the 3,600 spaces in Government multi-storey car parks in the central urban areas had remained unaltered since 1966. A further 900 spaces were under construction.

"At present they do not even recover historical costs, let alone historical costs and recurrent expenses, let alone equate the demand for spaces with their supply.

"As a consequence, there is no control of priorities and there is additional congestion as drivers search for scarce parking spaces. Certainly, present charges do not achieve the established policy objective of a fifteen per cent vacancy at peak hours.

"These car parks are filled day after day with cars driven in by commuters in the morning and drive out after work in the evening."

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During the day, only a few short-term parkers could utilise these facilities because they were always full with commuter vehicles. The same applied to open air car parks which provided at present about 1,000 spaces.

The proposed increased car parking charges, the Financial Secretary said, should be so constructed as to load more of the increased charges on to the commuter whose demands added to the congestion on the roads at certain times of the day.

Amending Legislation

Mr. Haddon-Cave told Legislative Council that appropriate amendments to the Road Traffic (Parking and Waiting) Regulations and the Road Traffic (Temporary Car Parks) Regulations would be made shortly.

"They should increase revenue by at least \$3 million a year," he said.

The Financial Secretary then went on to say that the increased parking charges was only a "modest beginning to what is going to be a continuing process."

Given the physical limitations on the provision of parking facilities in the urban areas, it was reasonable to require the motorist to pay a higher price than at present for those parking spaces which could be provided.

"We certainly cannot guarantee, therefore, that these charges will not be raised again in future years; indeed, it is probable that they will be."

/Mr. Haddon-Cave

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Mr. Haddon-Cave turned to the subject of on-street parking and remarked that charges for on-street parking would also need to be raised. In the down town areas at present, there were 18,000 free on-street parking spaces and 3,000 free spaces for goods vehicles, compared with 7,000 metered spaces.

More Meters Ordered

More meters were on order and the aim would be progressively to extend meter charging to all parts of the urban areas where on-street parking could be permitted, to extend the hours of operation and to charge the appropriate rate in each area according to demand.

"In due course, this should ensure that parking spaces, whether on the street or in multi-storey or open air car parks, are available for those who wish to park and to pay for the privilege."

This policy, the Financial Secretary said, would also provide a tariff base which should encourage the building of car parks by private developers and land would be made available for this purpose.

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PROPOSED REDUCTION IN RATES FOR PREMISES

From 17 per Cent to 15 Per Cent As From April 1, 1973

The Financial Secretary, Mr. C.P. Haddon-Cave, today proposed for 1973/74 a reduction from April 1, 1973 in the present rate charge for premises from 17 per cent to 15 per cent.

He said that with the general increase in rentals since the last valuation list had been prepared, most assessed values were likely to increase, some very substantially, as a result of the revaluation to be carried out this year.

Assuming average increases in rateable values of say 25 to 30 per cent for domestic premises, he explained, the reduction in the rate would bring the increased rates that would otherwise have been payable down to around 32 per cent.

When presenting his Budget in the Legislative Council, he announced his intention to put to the Council for consideration later this year a resolution under Section 29 of the Rating Ordinance providing for a reduction in the present rate charge.

He said that such a resolution would, on present figures, reduced the forecast revenue from rates by \$55 million to \$60 million.

He said lower rate charges for tenements in the urban areas where only an unfiltered mains water supply was available or where no mains water supply was available would be provided for in this resolution at 14 per cent and 13 per cent respectively.

In those parts of the New Territories, mainly Tsuen Wan and Kwai Chung, presently assessed to rates, the standard rate was 11 per cent, he added.

He explained that this lower rate charge was determined in 1954 when legislation had been introduced to bring those areas into rating and had been related, in a general way, to the local government type services then available.

/"Having regard

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"Having regard to the rapid development in these areas since then, there is a very strong case for bringing the rate up to that applicable in the urban areas proper; but for the moment I propose that no such change should be made and, therefore, the rate will remain at 11 per cent," he said.

He added that eventually the rate should be in line with that applicable in the urban areas.

"But this latter objective can best be achieved by a phased programme so as not to disrupt unduly landlord and tenant relationships."

Other Areas In N.T.

"I hope that a start can also be made to bring other areas in the New Territories into rating with effect from April 1, 1974 benefiting the revenue by about \$4 million to \$5 million; the areas I have in mind are Tai Po, Yuen Long, Clearwater Bay Road and Tsing Yi," the Financial Secretary said.

Whilst he believed Government could afford to make a concession in the rate charge applicable with effect from 1973/74 in view of the increased assessed values resulting from this year's revaluation, this did not mean that the new rate could remain unchanged for yet another 40 years.

He pointed out that as a result of the downward revaluations of 1967/68 and 1969/70, the total of rateable values and thus the growth of revenue from rates had been rather less than previously.

"We were able to accept this in the general financial situation then prevailing but should there be any downturn in rents which is reflected in the revaluation scheduled for 1975/76 resulting in a slower growth of revenue from rates, we may have to consider raising the rate charge again."

/"I hope

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"I hope not; but by that time the Urban Council will be taking a share of the general rate to help cover expenditure on the functions it is to assume and I cannot forecast the Council's view of their needs. And I should add that the changes I am now considering will obviously have no effect on the arrangements for the Urban Council envisaged in the White Paper," he said.

At present, rates charges on unoccupied premises were refunded; but there were two compelling arguments in favour of charging at least a proportion of the rate on unoccupied premises, Mr. Haddon-Cave said.

First, they enjoyed various services (the Fire Services, for example) to the same extent as those occupied; and secondly, the administrative cost of actually refunding rates paid and inspecting vacant premises was fairly substantial, he pointed out.

Dual Liability

"While rates are basically a charge on the occupation of premises, in Hong Kong there is a dual liability, and I cannot see why a landlord, even when premises are vacant, should not make some contribution to local services."

"I propose, therefore, that Section 32 of the Rating Ordinance should be amended to provide that with effect from April 1 1973, only one half of the rate charged on unoccupied premises be refunded," he said.

"This would save the revenue about \$1.25 million even at the present time," the Financial Secretary said.

He added that as a side effect, the charging of rates on unoccupied premises might deter landlords from keeping domestic premises vacant.

/Most assessed

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Most assessed values were likely to increase even if there were a tendency for rents to decline this year; and the 1972 Property Review indicated there might well be some downturn in rents, particularly for flatted factories and also perhaps for large flats, he added.

He pointed out that there were a fair number of shop premises vacant at the present time, but rents for shops generally showed little sign of falling.

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FULL TEXT OF FINANCIAL SECRETARY'S SPEECH

Distributed Separately In Press Boxes

Note to Editors: Copies of the full text of the Financial Secretary's Budget Speech are distributed separately in the Press Boxes, G.I.S. this evening.

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Release time: 10.00 p.m.