



HONG KONG GOVERNMENT

INFORMATION SERVICES

DAILY INFORMATION BULLETIN

(Part 1)

Wednesday, February 24, 1971

NO TAX INCREASES IN BUDGET PROPOSALS

Repeal Of Two Taxes, Increases In Water Charges

Sir John Cowperthwaite, Financial Secretary, proposed no tax increases but the repeal of two taxes when he presented his Budget to the Legislative Council today. Water charges, however, both for fresh and salt water, would be raised.

The two taxes he proposed to repeal are:

- * Television licences, now \$36 a year, to be abolished completely from April 1, 1972, but in the meantime to require renewal of expiring licences for the period between their date of expiry and March 31, 1972, at appropriately adjusted fees.
- * Sunday cargo working fees. This was introduced in 1891 in the hope that it would end cargo-working on Sunday. With the passing of legislation providing four rest-days a month for all workers, the original purpose has gone, and the fee is an anachronism.

Proposals for increases in fresh water charges are:

- * from \$2 to \$3 per thousand gallons for domestic consumers.
- * from \$2 to \$4 for trade and industry.
- * from \$3 to \$4 for non-ocean-going ships.
- * from \$5 to \$7 for ocean-going ships.

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There will be no change in the water charge for the building industry at \$5 per thousand gallons.

Sir John proposed that these changes be brought into effect on July 1, but for shipping or building from April 1.

Charges for salt water for flushing purposes will be raised from 40 cents per thousand gallons to 70 cents, with effect from April 1 for bulk consumers, and from July 1 for others, based on fresh-water meter readings taken on or after the latter date.

In connection with water, the Financial Secretary said the Government must proceed at once to implement the High Island Water Scheme, now estimated to cost \$1,000 million.

But since the Scheme could not begin to produce any water until 1976, and would not reach full supply before 1979, the Government had concluded that it must set up desalting plants capable of producing 20 million gallons a day by 1974.

This would be a single-purpose plant, not linked with the production of electricity, and plans for the installation would begin immediately. He estimated the cost at \$190 million.

Sir John's final proposal was that the Revenue Equalisation Fund be wound up, and its assets transferred back to the General Revenue Balance. He described this as a "formal one rather than one with any substantial practical consequences."

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TELEVISION LICENCE FEES TO BE ABOLISHED

500,000 TV Set Owners To Benefit

Television licence fees would be abolished from April 1, 1972, Sir John Cowperthwaite, announced in the Legislative Council today.

The abolition is one of two tax repeals proposed by the Financial Secretary in his Budget speech.

Sir John said when he proposed the abolition of radio licence fees four years ago, it was the Government's intention to retain the television licence fee of \$36 a year as television was still something of a luxury for the few.

But Hong Kong's increasing affluence had changed the situation with "remarkable rapidity", and it was estimated that there were now more than 500,000 television sets in operation.

He said although efforts to reduce evasion had been meeting with substantial success, it was difficult to limit it to reasonable proportions. Revenue was estimated at \$8.4 million this year and just under \$9.1 million next year, or less than half the amount legally due.

At the same time, there had been a substantial increase in revenue from the royalty payable by the Television Broadcasts Limited although the revenue, at \$2.5 million, was small compared with that from licence fees.

The Financial Secretary said there had been a certain amount of public complaint about the arrangements made for abolition of radio licences because some unlucky people had just renewed their licences, while some lucky ones had licences that were about to expire.

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He therefore proposed this time to adopt the system used in Britain when radio licences were abolished there. This was to abolish them completely as from April 1, 1972, and in the meantime to require renewal of expiring licences for the period between their date of expiry and March 31, 1972, at approximately adjusted fees, so that all licences finally expire on the same day.

"This will also give parity of treatment between those with television licences of their own and those who pay on a monthly basis through their subscription to Rediffusion Television," he explained.

There would thus be some revenue in 1971-72. Possibly the estimate should be reduced from \$9.1 million to \$5 million -- but there would be no revenue after that.

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SUNDAY CARGO WORKING FEES TO BE ABOLISHED

\$700,000 Loss In Revenue A Year

Tax levied on ships working cargo on Sundays amount to about \$700,000 a year, and its abolishment as an "anachronism" is one of the two tax repeals Sir John Cowperthwaite, Financial Secretary, proposed today.

He told the Legislative Council when presenting his Budget that the tax was introduced in 1891 against a certain amount of opposition from business interests.

Its purpose was described by the then Governor, Sir William Des Voeux, as intended to have "the practical effect of putting an end to working cargo on Sunday." Sir William had "no desire to raise revenue from it."

The Financial Secretary said the proposal would relieve ships' crews rather than port workers, but it seemed doubtful if the tax had ever had much effect on the working of cargo on Sundays -- "certainly none for many years."

It had become virtually a tax for revenue purposes and, in fact, it was increased in 1962 with this in view, but the revenue was small, being about \$700,000 a year.

Now that legislation had been passed providing the right to four rest-days a month for all workers, the last vestige of the original purpose has gone and he felt that the tax should be removed as an anachronism -- "the more particularly as we have recently revised the fees payable by ships towards the services of the port."

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HIGH ISLAND WATER SCHEME TO BE IMPLEMENTED

Importance Of Interim Desalinisation Plant

Sir John Cowperthwaite, Financial Secretary, said today the Government had reached the conclusion that it must proceed at once to implement the High Island Water Scheme costing \$1,000 million and eventually providing 70 million gallons a day.

The cost included the necessary extension of the main trunk distribution system, and was \$300 million more than the Plover Cove reservoir in its extended form.

Sir John told the Legislative Council the Government's basic aim was to provide "a minimum of four hours every day from our own resources," and a supply system that would achieve this would, in practice, give the Colony a 24-hour a day supply in all reasonably normal circumstances.

Researches into the probable growth of demand and the possible sources of supply and into their significance for the basic aim made implementation of the High Island Scheme necessary -- but since the Scheme could not produce water until 1976, and would not reach full supply before 1979, there would be a period between 1974 and 1976 when the Colony would be in some difficulty in meeting the minimum supply criterion were rainfall to be significantly below normal.

"We have therefore come to the further conclusion that we must set up desalting plants capable of producing 20 million gallons a day by 1974, although the water so produced will cost more than twice as much as natural supplies at present," Sir John said.

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"This would be a single-purpose plant, that is, not linked with the production of electricity. It means proceeding to plan the installation immediately (incorporating the lessons we will have learnt from the small pilot plant being set up at present). The capital cost is estimated at \$190 million."

The Financial Secretary said there was a limit to the amount of single-purpose desalting plant that Hong Kong could economically use in its present system because of limitations of storage. This limit would be 60 million gallons a day, after High Island had been added to the system.

For the same reasons, there was a limit on the amount of water from China the Colony could usefully take on a regular contractual basis. But Hong Kong could "probably use more than we do now, and we shall be inviting the Chinese authorities to explore the possibilities with us."

Sir John continued: "Looking further ahead, we shall have to begin detailed discussions with the power companies about the possibility of dual-purpose plants for water production in the early 1980s. We shall, with High Island, have exhausted major conventional sources, although further minor schemes might still produce useful additions to supplies."

He explained that neither the proposal to proceed at once with High Island or that for the planning and installation of a desalting plant giving 20 million gallons a day had yet been formally put to the Legislative Council or its Finance Committee, though members were aware of them. He apologised if he appeared to be "jumping the gun," but detailed proposals would be presented as soon as possible.

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\$550 MILLION SURPLUS IN 1970-71

Financial Assets Total \$2,380 Million

The revised estimates of revenue and expenditure for 1970-71 showed at present a surplus of \$508 million, but Sir John Cowperthwaite, Financial Secretary, said today he believed the final figure would be about \$550 million.

He told the Legislative Council that preliminary accounts of the Exchange Fund for 1970 showed a surplus, after taking account of depreciation of investments, of \$134 million, so raising the free surplus in the Fund, or the excess of assets over 105 per cent of liabilities, to \$276 million.

This would bring Hong Kong's financial assets on March 31, 1971, to \$2,380 million.

Sir John drew the Council's attention to "one remarkable piece of evidence, not only of the growth of our wealth, but also of its wider distribution among the people."

The extra currency issued during the holiday season this year was \$615 million, compared with \$459 million last year, and \$305 million the year before.

"It is not surprising that prices go up at Chinese New Year," he commented.

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\$2,902 MILLION IN RECURRENT REVENUE ESTIMATED FOR NEXT FINANCIAL YEAR

Not "Pessimistic" Forecast, Says Sir John

Sir John Cowperthwaite, Financial Secretary, told the Legislative Council today the total estimate for recurrent revenue in the next financial year was \$2,902 million, or an increase of 8.7 per cent over the revised estimate for 1970/71.

"I do not think that this can be said to be a pessimistic forecast. Possibly the reverse might be alleged," he commented.

Earlier in his budget speech he referred to "a certain amount of pessimistic talk this year about our economic future," though more recent news of agreement reached with the European Economic Community on the Generalised Preference Scheme had helped to counteract it.

Even those who were prepared to confess a maintenance of, or even an increase in, the level of business activity had been "speaking anxiously of rising costs and squeezed profit margins."

"I am not wholly convinced by such talk," Sir John said, "and our estimates of recurrent revenue next year are based on the premise of a continued high level of growth, although at a rate rather less than in the last two years; and of course, for the Salaries and Profits Tax, it is 1970/71 experience that is reflected in 1971/72 tax yields."

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INCREASE OF \$18 MILLION IN RATES YIELD
Reason For Growth Of Only Five Per Cent

Rates in the next financial year would yield an estimated increase of \$18 million, or a little over five per cent.

"This may seem strange in a time of rising rents and rising production of new property," Sir John Cowperthwaite, Financial Secretary, said today.

But the reason for it was that, in deciding to introduce controls on rent increases last year and to use the staff of the Rating and Valuation Department to administer the scheme, the Government took, in effect, "a deliberate decision to forego the additional revenue which would have accrued from the routine revaluation planned for this year."

He said normally the Government revalued every two or three years, revaluing in alternate years on each side of the harbour. But it had had to postpone revaluations due both in 1970/71 and 1971/72, and it estimated that the loss in revenue in 1971/72 was about \$20 million, and in 1972/73 about \$40 million.

He hoped that the ordinary valuation processes could be resumed again in time for adoption of new valuations for the fiscal year beginning on April 1, 1973.

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INCREASE EXPECTED IN POSTAL REVENUE

Revision Of Structure Of Overseas Postal Charges

Sir John Cowperthwaite, Financial Secretary, said today Post Office revenue in the next financial year were estimated at \$25 million, or 15 per cent higher than in 1970-71.

But he told the Legislative Council the figure "exaggerated" the real increase in traffic on which the estimate was based, because the revised estimate of revenue this year had been adjusted for the postal strike in the United Kingdom -- "probably, with the prolongation of the strike, inadequately adjusted."

He went on: "I should like to mention here that we shall be revising the structure of our overseas postal charges next year, largely in consequence of certain developments which took place at the recent Congress of the Universal Postal Union, and also to bring our charges more closely into line with our obligations under the Union.

"Some rates are likely to go up and some down, but the net effect on Post Office revenue is unlikely to be substantial."

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FALL EXPECTED IN CAPITAL REVENUE

Significance Of Instalment Payments For Land

Capital revenues are expected to fall in the next financial year from \$310 million in 1970/71 to \$196 million, and a reduction in revenue from land sales is responsible for most of the difference.

Sir John Cowperthwaite, Financial Secretary, said today one reason for this was that a "substantial part" of the Government's land sales next year was likely to be either of major urban sites or of industrial sites -- and in both cases, payments by instalments instead of by way of lump sum were generally allowed.

Much of the industrial land would be in the New Territories, where most new leases involved a land exchange element.

One "interesting and important" feature of the extended use of instalment sales was the annual income from such instalments that the Government had been building up. Because of the different payments periods, it was difficult to give an "exact picture" -- but the total of annual instalment payments at present on government books was \$57 million a year.

On top of that, interest due on outstanding instalments amounted to \$19 million a year, credited to the Interest Head.

Sir John said these were "substantial" figures when one considered that total land sales amounted to \$42 million in 1967/68, and \$40 million in 1968/69.

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Total revenue in 1971/72, recurrent and capital, was thus estimated at \$3,098 million, which was \$117 million, or just under four per cent, more than the revised figure for the current year.

Sir John thought it was "interesting," and inadequately taken into account by those who criticised the Government's fiscal policies, that only some 60 per cent of its revenues came from taxes. The remainder came principally from sale of goods and services, rents and interest.

"Our financial strength and our continuing ability to finance the rapid growth of social services at low tax rates derives, at least in part, from these policies," he commented. "There is inadequate recognition of this -- in Hong Kong at least."

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\$3,000 MILLION REVENUE LIKELY

Sir John Reviews Remarkable Revenue Growth In 1970/71

Sir John Cowperthwaite, Financial Secretary, said today the total revised estimate of revenue for 1970-71 was \$2,981 million -- but there were grounds for believing it would reach \$3,000 million for the first time.

He told the Legislative Council this was "particularly remarkable" because revenue had reached \$2,000 million for the first time in 1968/69, just two years ago, "and we have had a not inconsiderable net reduction in taxation in the meanwhile."

It was a commonplace that every year Hong Kong's financial progress tended to be remarkable, but 1970-71 had perhaps been "the most remarkable in post-war years, both for the extraordinary growth of revenue, and for the fact that we are almost certain to overspend our original expenditure estimates."

The estimate of revenue had been revised from the original figure of \$2,584 million to \$2,981 million. Actual revenue in 1969/70 was \$2,481 million, so that revenue had grown by \$500 million, or a fraction more than 20 per cent; and it would be recalled that there had been a reduction in taxation estimated to cost \$14 million in revenue.

"This absolute increase has never before been approached -- last year's \$399 million was the nearest -- while in percentage terms it has only been exceeded -- other than in years of substantially increased taxation -- in 1962/63," Sir John said.

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"1970/71 has indeed been very like 1962/63 in some respects. In addition to substantial increases in recurrent revenue, largely under the influence of an exceptional advance in economic activity, land sales played a major role in raising total revenue in both years, about doubling to \$208 million in 1962/63, and more than doubling to \$258 million this year."

Of the Salaries and Profits Tax, Sir John said the yield reflected the results of the previous financial year, and it was clear that that year had been economically even better than had been supposed. The estimate had been revised upwards by \$59 million to \$749 million, a figure \$126 million higher than the actual yield in 1969-70.

Part of this increase continued to arise from the growth of salaries.

"When we introduced a new allowance this year to relieve from tax anyone liable to pay less than \$100, we hoped to reduce very substantially the number of active salaries tax files. Instead, the number has gone up by 9,000," Sir John said.

The yield of duties had also increased significantly, except for tobacco, which was likely to have fallen slightly, due to a number of complex reasons such as fluctuations in the timing of payment of drawback on exports, and a transfer of consumption from imported to Hong Kong-manufactured cigarettes.

Sir John told the Council it was not possible to say what effect, if any, the advance of medical knowledge of the dangers of tobacco smoking had had.

But he thought it could be said, with Hong Kong's relatively low rate of duty, the Colony would not suffer such serious fiscal consequences as many other communities were there to be, for any reason, a significant reduction in smoking.

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\$1,000 MILLION FOR CIVIL SERVICE

Increased Momentum In Public Services' Expansion

The cost of the civil service for the next financial year would be slightly less than \$1,000 million -- an increase of \$108 million, or 12 per cent, over the original estimate for 1970-71, Sir John Cowperthwaite, Financial Secretary, said today.

He told the Legislative Council the figure understated the additional costs because "We have pruned the 1971-72 personal emoluments estimates even more carefully than last year's."

The true increase was nearer \$140 million, taking account of the salary award made with effect from April, 1970, and staff increases approved during the year.

Of the \$140 million, the cost of additional staff might be estimated at \$71 million a year, and the cost of the 1970 salary award at \$29 million a year, while the remaining \$40 million represented the "creep" in the cost of a relatively young and expanding civil service arising from the incremental structure of salary scales, and a tendency for "piecemeal upward regradings of departmental staff and improved fringe benefits."

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Sir John drew attention to the very large increase in the size of the civil service. For some years, the annual percentage increase in the size of the civil service had been kept in the region of three per cent after a period between 1960 and 1965 when it was increasing at nearer seven per cent.

This year, the increase was almost eight per cent, and this more rapid rise was due to two main factors. One was the increased momentum generally in the expansion of public services and in the demands being made on them, and the other was that the Government had made a determined effort this year to deal with an accumulated backlog of departmental requests for more staff, and to complete the reviews of the establishments of certain major departments.

Sir John hoped the rate of growth would fall again next year.

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\$610.8 MILLION ON EDUCATION

Not Including Cost Of Three Decisions Already Made In Principle

Government spending on education in the next financial year is estimated at \$610.8 million, compared with \$272 million five years ago.

But Sir John Cowperthwaite, Financial Secretary, said today the figure was "understated" because it did not include provisions for three decisions that had been made in principle, but whose detailed application had not been formally approved "so that it would not be entirely proper to ask the Council to vote funds for them in the context of the Estimates."

The first was the revised structure of teachers' salaries, which would cost about \$13 million a year initially.

The second was the new and extended programme of post-primary education, calculated to cost \$9 million in recurrent costs initially, plus \$10 million in capital subsidies.

The third was the formal decision already taken to provide primary education free, though the actual details of the scheme had not been fully agreed yet.

Sir John said it would probably cost initially \$14 million a year, including an additional subsidy to meet certain essential costs of school operation at present met from additional contributions by parents, not from the basic fees.

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It would also involve waiving \$23.5 million in outstanding loans made from the Development Loan Fund to the sponsors of primary schools. Though he did not think it was the original intention, Sir John said it had become the practice that sponsors repaid these capital loans from additional contributions levied on parents. The waiving of these loans did not affect the main accounts, but would reduce the assets of the Development Loan Fund.

"I cannot say that I myself am particularly happy to make this announcement, which extends free primary education beyond those who cannot afford to pay for it, and are not being asked to do so even now, to very many on whom primary school fees are no burden," Sir John commented.

There might be very good grounds for universal compulsory primary education, but he saw none for universal free education, even if that education was compulsory. There was no principle that he was aware of which laid down that it was proper to levy compulsory taxes but not compulsory fees, so long as there was adequate provision to avoid hardship for those with low incomes.

"I hope that we shall be able to do something to limit free primary education, and possibly, for that matter, heavily subsidised primary education, to the schools which do not cater for the affluent," Sir John said. "This is generally the situation in other countries with free primary education. Our system has been **distorted** by its historical development."

On the Polytechnic, he said there was no financial provision for it "other than for the expenses of the Planning Committee."

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But he drew attention to the estimates for the universities, totalling \$131 million.

"Ten years ago, expenditure was \$13 million, or one-tenth of that sum," he commented.

"It is true that next year will be the peak year for capital spending at the Chinese University's new site, but even so it seems to me that the cost of a university place is now disproportionate to the means of our community (and to the cost of other forms of education) and will stunt the future growth of our universities."

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COST OF MEDICAL SERVICES

Need To Consider More "Realistic" Hospital Charges

Sir John Cowperthwaite, Financial Secretary, said today the cost of medical services was also "growing rapidly," though not so rapidly at present as that of education -- because no large new schemes were coming to fruition.

But costs were going to rise even more rapidly as present projects matured.

He told the Legislative Council it seemed to him, looking at future developments and their cost, that Hong Kong was reaching the point where the Colony could "no longer provide a virtually free non-contributory public health service, at high standards, on the basis of a low-tax structure."

At present, for example, the daily rate charged in government hospitals did not even cover the cost of the raw foodstuffs. With Hong Kong's growing affluence, it "must consider urgently a more realistic charging system for hospitals, government as well as subsidised."

"We already have a professional body of medical social welfare workers with the expertise and authority to ensure that no hardship arises. The alternative is going to be higher direct taxes," Sir John said.

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INCREASE IN SOCIAL WELFARE SUBVENTIONS

From \$12.7 Million To \$16.2 Million

The amount proposed for social welfare subventions in the next financial year has been increased to \$16.2 million from this year's \$12.7 million -- about 28 per cent.

Sir John Cowperthwaite, Financial Secretary, told the Legislative Council today this increase had been budgetted for, even though voluntary agencies were being relieved of some of their case-load by the Public Assistance Scheme.

The estimates provided for a sum of \$17 million for the first full year of the expanded Public Assistance Scheme at present assistance levels. The amount was "not a limiting figure."

Additionally, the increased staff required in both the Social Welfare Department and the Post Office involved annual expenditure of about \$4 million.

Sir John said once the Scheme was well underway, it would be "timely to review the levels of assistance in the light of present circumstances."

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HONG KONG'S CONTRIBUTION TO DEFENCE

Future Level Under Consideration

Sir John Cowperthwaite, Financial Secretary, told the Legislative Council today the present agreement on the Defence Contribution expired on March 31 this year, and its future level was "under consideration at present."

He explained that a decision had been delayed because "there was no basis for consideration of the appropriate level until Her Majesty's Government had reached decisions on Far Eastern defence dispositions."

In the meantime, the estimates had been prepared on the basis of the present agreement.

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SURPLUS OF \$162 MILLION NEXT YEAR

No Deficit Despite Large Increase In Expenditure

The difference between the draft estimates of revenue and expenditure in the next financial year produced a surplus of \$162 million, but this was likely to be reduced "substantially" -- though not eliminated -- when certain additional costs were finally determined.

Sir John Cowperthwaite, Financial Secretary, told the Legislative Council today the Government was fortunate in that it could budget for an unusually large increase in expenditure "without incurring a deficit."

He continued: "I have considered, however, whether I have detected, in our financial experience, a causal connection, or at least a **correlation**, between years of prosperity and increased revenues on one hand, and budgetary deficits on the other.

"For both our deficits in recent years, that is, in 1959/60 and 1965/66, have come after a series of unusually prosperous years, which have perhaps led us.....into rather more spendthrift ways. There is, as it happens, a similar correlation, or coincidence, between Salaries Commissions and deficits."

But he was not "too concerned" about those correlations, in the short term at least, as Hong Kong remained careful not to allow recurrent spending to "catch up with recurrent revenues by quite a wide margin." He had frequently stressed the importance of the ratio between them.

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In the last ten years, the ratio had varied between 65 per cent in 1963/64 and 75 per cent in 1968/69. In the 1971/72 estimates, it was 74 per cent. Also, as there tended to be a time-lag between revenue growth in times of increasing prosperity and the growth of public spending, Hong Kong tended to accumulate surpluses during that period which enabled it "to look at deficit spending on capital works with some equanimity."

But there was one catch, in that some \$150 million a year of the Colony's present revenue from interests depended on the maintenance of its surplus funds unspent.

"Not that this revenue would all disappear if we invest in works which produce revenue directly or indirectly," he commented. "And, of course, we have not in the post-war years experienced any long period of serious time-lag in the opposite direction."

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EXPENDITURE FORECASTS UP TO 1974/75

Innovation In Draft Estimates

Sir John Cowperthwaite, Financial Secretary, today drew the attention of the Legislative Council to an innovation in the draft estimates which included in the appendices forecast figures of estimated expenditure annually up to 1974/75.

These forecasts showed an increase in recurrent expenditure from \$2,152 million next year to \$2,813 million in 1974/75 -- an increase of 30 per cent in three years.

Capital expenditure was forecast to increase "slightly faster," from \$784 million next year to \$1,068 million in 1974/75. Total expenditure in 1974/75 was forecast at \$3,881 million. These figures excluded the operations of the Development Loan Fund and the Lotteries Fund.

Sir John stressed that the figures were "merely forecasts," not proposals for the actual appropriation of funds. They had been compiled for some years in the unpublished Five Year Forecasts of Revenue and Expenditure.

He asked the public's "indulgence" for not including the forecasts of revenue also. That was "an exercise in crystal-gazing" which he should not like "to put on public exhibition" for a number of reasons.

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The expenditure estimates, while likely to be substantially different in actual outcome -- possibly higher as new ideas and policies emerged, possibly lower if achievement fell behind intention -- had a much sounder basis in fact as they were compiled from actual -- and in some cases approved -- plans of expansion.

Sir John hoped they would serve to illustrate his "often-repeated contention" that critics underestimated the built-in growth in Hong Kong's planned expansion "by looking only at the year's estimates, and ignoring the seeds of future expenditure."

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EXPENDITURE ESTIMATE FOR NEXT FINANCIAL YEAR

\$2,936 Million, Or 18.7 Per Cent Higher Than This Year

The total estimate of expenditure in the next financial year beginning on April 1 is \$2,936 million -- \$463 million, or 18.7 per cent, higher than the revised estimate for 1970/71.

Sir John Cowperthwaite, Financial Secretary, told the Legislative Council today this was "an unusually large increase," particularly coming on top of an increase of about \$400 million in actual expenditure this year compared with the last.

He said the increase reflected factors such as rising costs, both of staff and of material things -- rising costs being a consequence of the same economic developments that had caused "even sharper growth of revenue in the recent past."

Another, and probably more important, factor was the "maturing of plans long in the pipeline."

He had for years tried to explain that the Government's plans must not be judged by one year's estimates of expenditure, but by the -- in the short term -- "largely irreversible plans of expansion in nearly all fields of government activity."

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He thought it was true that Hong Kong's present economic prosperity and financial strength had led both government departments and subvented organisations to "think more largely." Financial restraints did tend to loosen in such circumstances, and it became more difficult for a Financial Secretary "to say about any single relatively modest increase in expenditure, and some not so modest, that we cannot afford it."

The principal field for the proposed heavier outlay in the next financial year was expenditure on public works, planned to go up from a revised figure of \$396 million this year to \$530 million in the next.

Sir John explained that this was partly due to the greater incidence of increased costs as old contracts were completed, and new ones let, though the full effect of price increases would not even then be felt. Also, two major projects -- the Kai Tak runway extension and the raising of the Plover Cove Dam -- were getting properly into their stride.

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POLICY ON WATER CHARGES

Financial Secretary Reviews Situation

Sir John Cowperthwaite, Financial Secretary, told the Legislative Council today that the present price of water had to be substantially raised if the Government was to continue its present practice of pricing water so as to recover costs.

"I must say that we must continue our present practice because the supply of water cannot be regarded as a social service," he said when presenting his Budget proposals.

Giving the background to his decision to raise the cost of fresh water from July 1, and salt water for flushing to bulk consumers from April 1, and others from July 1, he said it was "characteristic of water that each new source tends to be more expensive than the last, both because the available sites are less economical and because the cost of capital has been rising."

He continued: "Our present internal supply system produces water at a cost of \$1.45 per thousand gallons treated and delivered to service reservoirs; Chinese water costs \$2 at the same point. High Island will cost a little over \$2, while desalted water from the proposed single-purpose plant will cost between \$4 and \$5.

"To these costs must be added distribution and other operating costs and the loss in the distribution system, which together add about \$1.50. Furthermore, these unit costs relate to the optimum situation where the capacity of the system is being fully utilised."

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He estimated that over the period from 1971 to 1976, approximately up to the time when High Island should begin to supply, assuming a seven per cent increase in actual consumption annually, the price of water would have to be about \$3.40 a thousand gallons to cover costs. That was after taking into account the yield from two per cent of Rates, and it also included a small element to eliminate the accumulated deficit.

Above a fairly small minimum amount, he described water as "the provision of a commodity of which consumers may choose to purchase more or less," and they should, therefore, "pay the appropriate price (on a non-profit basis) for what they choose to consume, the more particularly as a continuity of supply to meet their demands requires the investment of large amounts of the community's capital."

"I am not suggesting that we should price water so as to reduce these calls on the community's capital, and I do not think the proposed new charges will have any effect on the level of consumption," he commented.

He believed there were "clear and sound grounds" for tempering the increase to domestic consumers, and raising the price to commercial consumers by a higher amount, and there were a number of reasons for this.

- * It was the Government's policy to endeavour to ensure that industrial demand was as fully met as possible, even when domestic supplies were severely restricted.
- * The demand of trade and industry was rising, and had been for some years, more rapidly than domestic demand. It was forecast that between 1969 and 1981, the latter would rise only from 75 million gallons a day to 125 million gallons a day, or 4.1 per cent a year, but the former from 42 million gallons a day to 196 million gallons a day, or 13.7 per cent a year, more than three times as fast.

/* It would

- * It would be bad economic policy to encourage the growth of industries dependent on large consumption of water by pricing water unrealistically, leading to the need to invest yet more public capital in even more expensive supply schemes.
- * Trade and industry in general made a smaller contribution to water revenue by way of rates in proportion to water consumed than did domestic consumers.

Sir John said a factory using 500,000 gallons a day -- the Colony already had some of those -- involved the Government in the outlay of about \$7/\$8 million in public capital investment to give it its water supply alone.

He then proposed that the price per thousand gallons be increased to \$3 for domestic consumers, to \$4 for trade and industry and for non-ocean-going ships, to \$7 for ocean-going ships, but remain unchanged at \$5 for the building industry.

"We do not believe that the domestic increase will cause any hardship, nor that the commercial increase will inhibit industrial development except, perhaps, of a kind which we cannot afford in any case," Sir John said.

"A six-member family in a resettlement estate at present incurs an average bill of \$4.50 a month. The increase will be \$2.25 a month, assuming, that is, they do not reduce consumption.

"As to industry, when the charge was increased to \$2 in 1966, it was estimated that for the dyeing and finishing industry (generally the biggest industrial user) the increase was less than one per cent of the sales value of finished cloth."

On that basis, the proposed increase would add substantially less than two per cent, taking into account developments in the industry. He commented that the generality of industry would be affected "very much less than this."

/The proposed

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The proposed changes would be brought into effect from meter readings taken from July 1 onwards. As meters were read quarterly, this meant that no one would pay the new charge for any water consumed prior to the announcement of the change, though some would enjoy water at the present rate rather longer than others.

He felt that a "crash" meter-reading programme over a limited period was no longer feasible with 418,000 meters in use. This delayed introduction would not apply to shipping or building. Special supply and charging arrangements were in force for them, and it was proposed to apply the new rates from April 1.

On the assumption that the new rates would have no effect on consumption, including the rate of increase in consumption, they would bring in additional revenue from water in 1971/72 of \$66 million, if applied for the full year, equally divided between domestic and commercial users. The delayed start would reduce that to \$44 million, but Sir John proposed to increase the estimate by ~~\$10~~²⁴ million only.

He continued: "The price of water is set by the Governor in Council by regulation. The appropriate amendment to the First Schedule of the Waterworks Regulations will be made at an early date.

"I can give an assurance that these charges will not be increased again before the end of 1976, and I have hopes that we will be able to maintain them for a further four or five years thereafter, unless there is an extraordinary increase in operating costs or demand falls well below forecast levels."

/He noted

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He noted that though it was not ~~the~~ the Government's reason for proposing higher charges, the increased rates should bring in about \$700 million to \$750 million net in terms of cash flow during the period 1971/72 and 1975/76. Of that, about half would come from the increase in charges.

During the same period, capital expenditure on waterworks was estimated at \$1,350 million, of which the Government would have to find nearly half from other sources.

Sir John then said it had also become necessary to consider the level of charges for salt water for flushing purposes. The present rate was 40 cents per thousand gallons, and had been since a supply was first given in 1959.

As salt water could not be metered in the normal way, because of corrosion, the application of that price for bulk consumers depended on periodic assessment based on test metering, and in the case of domestic premises, on an **arbitrarily** assumed ratio between fresh and salt water consumption.

Originally, the rate was fixed on a rather arbitrary assessment of costs at a time when the Government had no experience of salt water supply. The assessment erred on the conservative side, as the Government did not wish to discourage the adoption of what was then an unfamiliar system.

There was no danger of discouragement now, but Sir John said it had been clear for some time that the system was losing heavily. The annual deficit was now of the order of \$7 million to \$8 million, and increasing each year.

/Accordingly,

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Accordingly, he proposed to increase the basic charge for salt water from 40 cents to 70 cents per thousand gallons, and to apply the new rate on the basis of an assumed consumption of one unit of salt water to one of fresh.

It was intended that the new rate would apply to the assessed consumption of bulk consumers from April 1, and for others, it would apply to bills based on fresh water meter readings taken on or after July 1. The increase in revenue on a full-year basis next year would be \$9 million, but the actual increase next year was put at \$6 million.

Sir John said the effect of that, taken with the increase in the price of fresh water, would be to increase the cost of all water supplies to the domestic user who had salt-water flushing by 76 per cent. For the resettlement family referred to earlier, the total increase would be not \$2.25 a month but \$3.24.

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REVENUE EQUALISATION FUND

Transfer Back To General Revenue Balance

Sir John Cowperthwaite, Financial Secretary, today proposed to wind up the Revenue Equalisation Fund and transfer its assets back to the General Revenue Balance -- but it was a formal proposal, without any substantial practical consequences, and would require a resolution of the Council.

The Fund was established in 1953 after a resolution had been passed by the Legislative Council specifically for the purpose of meeting any serious shortage of revenue for a particular year, or for meeting any non-recurrent increase in expenditure in any particular year.

It was then proposed gradually to build up this Fund up to the level of one year's revenue, and as a first step, to transfer to it from the General Revenue Balance the sum of \$100 million.

Sir John said since then only \$38 million has been added, and nothing at all since 1960, so that the Fund was very far short of the original target of one year's revenue.

"Indeed, our total financial reserves at present, which many criticise as excessive, amount to only eight months' revenue," he commented.

But whatever the situation might have been in 1953, he did not think that an accounting device of this kind could influence in any way the effect on the Colony's credit of temporary deficits. What would influence it in those circumstances was Hong Kong's overall reserve position whatever name was given to the fund in which the assets were held.

Sir John said with financial reserves of the present size and with Hong Kong's comparatively large reserves of taxable capacity, "deficit years, within limits, would have no effect on the credit, and indeed, deficit budgets were now commonplace, if not fashionable."

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EXPENDITURE EXCEEDS ORIGINAL ESTIMATE

Financial Secretary Reviews "Exceptional" 1970/71 Figures

Sir John Cowperthwaite, Financial Secretary, said today actual expenditure in 1970/71 would exceed the original estimate -- an exceptional situation.

He told the Legislative Council the revised figure was \$2,473 million, or \$80 million higher than the original. He was not sure that the revised figure would in fact be reached, but expenditure would not fall more than \$40 million short of it. He gave a number of factors for this "closer than usual" estimate.

One was the considerable effort made to remove any "surplus fat" from departmental estimates, and another was the general civil service salary award of six per cent for Scale I staff, and four per cent for others, extended as usual to the aided schools and certain subvented bodies. The general upward movement of prices had also affected departmental spending, most noticeable in the field of capital public works, where the revised estimate was \$45 million above the original.

He believed this increase did represent some acceleration of work, and also higher tender prices, but not the full current increase in tendered prices.

Certain continuing contracts entered into in the earlier months of the current financial year had been at rates lower than would be tendered today.

The Public Works programme had not yet felt the full effects of the "inflation of building costs we have recently experienced with the increased strain being put on the industry by private developers."

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AMENDMENT IN ESTIMATED 1971/72 SURPLUS

Drop From \$162 Million To \$157 Million

Sir John Cowperthwaite, Financial Secretary, told the Legislative Council at the end of his Budget speech that the estimated surplus for the next financial year would be amended from the figure of \$162 million in the printed Draft Estimates to \$157 million.

He said this took into account the additional expenditure on education, to which he had referred, but not to any possible variation in the defence contribution, and the proposed changes in taxes and water charges.

Note to editors: Copies of the full text of the Financial Secretary's Budget speech are distributed separately in the Press boxes, Government Information Services, this evening.

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APPROPRIATION BILL 1971/72

Note to editors: Copies of a Gazette Extraordinary containing the Appropriation Bill 1971/72 and the full text of the Financial Secretary's Budget speech are distributed separately in the Press Boxes, Government Information Services, this evening.

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