

# OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 6 March 2002

The Council met at half-past Two o'clock

## MEMBERS PRESENT:

THE PRESIDENT

THE HONOURABLE MRS RITA FAN HSU LAI-TAI, G.B.S., J.P.

THE HONOURABLE KENNETH TING WOO-SHOU, J.P.

THE HONOURABLE JAMES TIEN PEI-CHUN, G.B.S., J.P.

DR THE HONOURABLE DAVID CHU YU-LIN, J.P.

THE HONOURABLE CYD HO SAU-LAN

THE HONOURABLE ALBERT HO CHUN-YAN

IR DR THE HONOURABLE RAYMOND HO CHUNG-TAI, J.P.

THE HONOURABLE LEE CHEUK-YAN

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

THE HONOURABLE ERIC LI KA-CHEUNG, J.P.

DR THE HONOURABLE DAVID LI KWOK-PO, G.B.S., J.P.

THE HONOURABLE FRED LI WAH-MING, J.P.

DR THE HONOURABLE LUI MING-WAH, J.P.

THE HONOURABLE NG LEUNG-SING, J.P.

THE HONOURABLE MARGARET NG

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

THE HONOURABLE JAMES TO KUN-SUN

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE HUI CHEUNG-CHING, J.P.

THE HONOURABLE CHAN KWOK-KEUNG

THE HONOURABLE CHAN YUEN-HAN, J.P.

THE HONOURABLE BERNARD CHAN

THE HONOURABLE CHAN KAM-LAM

THE HONOURABLE MRS SOPHIE LEUNG LAU YAU-FUN, S.B.S., J.P.

THE HONOURABLE LEUNG YIU-CHUNG

THE HONOURABLE SIN CHUNG-KAI

THE HONOURABLE ANDREW WONG WANG-FAT, J.P.

DR THE HONOURABLE PHILIP WONG YU-HONG

THE HONOURABLE WONG YUNG-KAN

THE HONOURABLE JASPER TSANG YOK-SING, J.P.

THE HONOURABLE HOWARD YOUNG, J.P.

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE YEUNG YIU-CHUNG, B.B.S.

THE HONOURABLE LAU KONG-WAH

THE HONOURABLE MIRIAM LAU KIN-YEE, J.P.

THE HONOURABLE AMBROSE LAU HON-CHUEN, G.B.S., J.P.

THE HONOURABLE EMILY LAU WAI-HING, J.P.

THE HONOURABLE CHOY SO-YUK

THE HONOURABLE ANDREW CHENG KAR-FOO

THE HONOURABLE SZETO WAH

THE HONOURABLE TIMOTHY FOK TSUN-TING, S.B.S., J.P.

THE HONOURABLE LAW CHI-KWONG, J.P.

THE HONOURABLE TAM YIU-CHUNG, G.B.S., J.P.

DR THE HONOURABLE TANG SIU-TONG, J.P.

THE HONOURABLE ABRAHAM SHEK LAI-HIM, J.P.

THE HONOURABLE LI FUNG-YING, J.P.

THE HONOURABLE HENRY WU KING-CHEONG, B.B.S.

THE HONOURABLE TOMMY CHEUNG YU-YAN, J.P.

THE HONOURABLE MICHAEL MAK KWOK-FUNG

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE LEUNG FU-WAH, M.H., J.P.

DR THE HONOURABLE LO WING-LOK

THE HONOURABLE WONG SING-CHI

THE HONOURABLE FREDERICK FUNG KIN-KEE

THE HONOURABLE IP KWOK-HIM, J.P.

THE HONOURABLE LAU PING-CHEUNG

THE HONOURABLE AUDREY EU YUET-MEE, S.C., J.P.

THE HONOURABLE MA FUNG-KWOK

**MEMBERS ABSENT:**

THE HONOURABLE LAU CHIN-SHEK, J.P.

THE HONOURABLE LAU WONG-FAT, G.B.S., J.P.

**PUBLIC OFFICERS ATTENDING:**

THE HONOURABLE DONALD TSANG YAM-KUEN, J.P.

THE CHIEF SECRETARY FOR ADMINISTRATION

THE HONOURABLE ANTONY LEUNG KAM-CHUNG, G.B.S., J.P.

THE FINANCIAL SECRETARY

THE HONOURABLE ELSIE LEUNG OI-SIE, J.P.

THE SECRETARY FOR JUSTICE

MR MICHAEL SUEN MING-YEUNG, G.B.S., J.P.

SECRETARY FOR CONSTITUTIONAL AFFAIRS

MR CHAU TAK-HAY, J.P.

SECRETARY FOR COMMERCE AND INDUSTRY

MR NICHOLAS NG WING-FUI, J.P.

SECRETARY FOR TRANSPORT

MR DOMINIC WONG SHING-WAH, G.B.S., J.P.

SECRETARY FOR HOUSING

MR JOSEPH WONG WING-PING, G.B.S., J.P.

SECRETARY FOR THE CIVIL SERVICE

MISS DENISE YUE CHUNG-YEE, G.B.S., J.P.  
SECRETARY FOR THE TREASURY

MR LAM WOON-KWONG, G.B.S., J.P.  
SECRETARY FOR HOME AFFAIRS

MR STEPHEN IP SHU-KWAN, G.B.S., J.P.  
SECRETARY FOR FINANCIAL SERVICES

MRS LILY YAM KWAN PUI-YING, J.P.  
SECRETARY FOR THE ENVIRONMENT AND FOOD

DR YEOH ENG-KIONG, J.P.  
SECRETARY FOR HEALTH AND WELFARE

MRS FANNY LAW FAN CHIU-FUN, J.P.  
SECRETARY FOR EDUCATION AND MANPOWER

MR LEE SHING-SEE, J.P.  
SECRETARY FOR WORKS

MRS CARRIE YAU TSANG KA-LAI, J.P.  
SECRETARY FOR INFORMATION TECHNOLOGY AND BROADCASTING

MS SANDRA LEE SUK-YEE, J.P.  
SECRETARY FOR ECONOMIC SERVICES

MR JOHN TSANG CHUN-WAH, J.P.  
SECRETARY FOR PLANNING AND LANDS

MR TIMOTHY TONG HIN-MING, J.P.  
SECRETARY FOR SECURITY

MR PATRICK LAU LAI-CHIU, J.P.  
ACTING HEAD, CENTRAL POLICY UNIT

**CLERK IN ATTENDANCE:**

MR RICKY FUNG CHOI-CHEUNG, J.P., SECRETARY GENERAL

## TABLING OF PAPERS

The following papers were laid on the table pursuant to Rule 21(2) of the Rules of Procedure:

Subsidiary Legislation/Instruments	<i>L.N. No.</i>
Matrimonial Causes (Amendment) Rules 2002.....	26/2002
Tax Reserve Certificates (Rate of Interest) (No. 3) Notice 2002 .....	27/2002

### Other Papers

- No. 64 — Estimates for the year ending 31 March 2003  
Volume IA - General Revenue Account  
Volume IB - General Revenue Account
- No. 65 — Estimates for the year ending 31 March 2003  
Volume II - Fund Accounts

## WRITTEN ANSWERS TO QUESTIONS

### Plan to Ban Installation of Hazardous Bull Bars on Vehicles

1. **MS MIRIAM LAU** (in Chinese): *Madam President, it is learnt that the Transport Department (TD) is planning to prohibit the installation of hazardous bull bars at the front of vehicles. In this connection, will the Government inform this Council:*

- (a) *of the number of traffic accidents involving vehicles installed with such bull bars in the past three years, together with the casualties involved;*
- (b) *of the types and number of vehicles to be affected by the plan to have their bull bars removed;*

- (c) *of the hazards posed to drivers and other road users by vehicles installed with such bull bars; and*
- (d) *whether there are bull bars available on the market that can safeguard the safety of both drivers and road users; if so, of the prescribed standards of their design and installation; whether the TD will approve the installation of this type of bull bars on vehicles?*

**SECRETARY FOR TRANSPORT** (in Chinese): Madam President, Regulation 36 of the Road Traffic (Construction and Maintenance of Vehicles) Regulations provides that "no mascot or other unnecessary attachment shall be carried by a motor vehicle in any position where it is likely to strike any person with whom the vehicle may collide unless the mascot or attachment is not liable to cause injury to such person by reason of any projection thereon".

In the past few years, there is a growing awareness of the potential danger of aggressive bull bars installed at the front of vehicles. A bull bar is not essentially designed for the protection of the driver against impact in an accident but designed for use in the more remote areas off road to shield against wild animals and minor accidents that would damage and strand the vehicle in wilderness.

Overseas research and experiments indicate that bull bars not meeting road safety standards or installed improperly would create adverse effects during impact and may defeat the effectiveness of the protection already provided by the design of vehicles during accidents. There are crumple zones in vehicles to cushion off and absorb the impact energy in accidents so that the least possible energy is transmitted to the drivers. Rigid bull bars, mostly installed on the vehicle chassis, may impair the function and effectiveness of the crumple zone in case of accidents, thus transmitting most of the impact energy onto the drivers, causing serious injury.

Research also shows that most pedestrian injuries are normally caused by frontal impact. Given that aggressive bull bars are often installed at the chassis and made of material harder than the vehicle fronts, they are more likely to inflict more injury on pedestrians than vehicles without such an attachment. Their higher position in the vehicle fronts also makes such bull bars particularly hazardous to young children, as the main heavy-duty cross bar is at head-height or above.

To enhance the safety of all road users, the Administration proposes to ban all aggressive bull bars fitted to the front of all vehicles. Bull bars which are considered non-aggressive or meet international standards will continue to be allowed in Hong Kong. We are seeking public views on the proposal and the consultation period will end in early April.

In the past three years, the average number of pedestrian casualties due to vehicle frontal impact in Hong Kong was over 2 500. Of these, about 30% were seriously injured and about 3% were fatal. The Administration does not keep separate statistics on whether the vehicles involved were installed with bull bars.

According to a cursory survey conducted by the TD, about 8 500 vehicles in Hong Kong are fitted with bull bars. This represents about 1.6% of the 530 000 licensed vehicles in Hong Kong. Breakdown of these 8 500 vehicles by vehicle types is as follows:

<i>Vehicle Type</i>	<i>Estimated Number with Front Bull Bars</i>
Passenger Car	5 000
Light Goods Vehicle	1 600
Medium and Heavy Goods Vehicle	1 900
Total	8 500

Our preliminary assessment is that a significant number of these bull bars falls into the aggressive category.

Not all bull bars are aggressive, however. There are bull bars of acceptable standards available in the market. They are usually more flexible and made of softer material such as plastics and polycarbonate meeting international or overseas standards. The TD is drawing up a list of type-approved bull bars in Hong Kong with reference to the international standards and will release the list for public information. The list will be updated from time to time to include new models. After-market bull bars will also be approved if the manufacturers can produce acceptable laboratory certificates which prove that the respective model is non-aggressive.



**Employment of Staff on Non-Civil Service Contract Terms**

2. **MR HUI CHEUNG-CHING** (in Chinese): *Madam President, regarding the employment of staff on non-civil service contract (NCSC) terms, will the Government inform this Council:*

- (a) *of the number of staff employed on NCSC terms and the gross amounts of their remuneration package, together with the number of staff whose contracts were renewed, in each of the past three years;*
- (b) *whether the department concerned will conduct an open recruitment exercise to fill a post which still has an operational need upon the expiry of the incumbent employee's contract;*
- (c) *of the mechanism in place to ensure that the employee is the most suitable person for the job when the department decides to renew the contract; and*
- (d) *whether, in deciding to retain a NCSC post or recruit the post-holder afresh, the department will re-set the recruit's remuneration package at the prevalent market level; if so, of the criteria for setting it?*

**SECRETARY FOR THE CIVIL SERVICE** (in Chinese): *Madam President, the Non-Civil Service Contract Staff Scheme is a standing scheme introduced in 1999 to enable the Heads of Department (HoD) to employ staff on fixed-term contracts up to three years outside the Civil Service to meet service needs which are short-term, part-time or under review. It replaced the previous arrangements on the employment of temporary staff on part-time or short-term basis. For example, in 1998-99, a total of 13 931 temporary staff were engaged by the HoD. When determining the employment package for NCSC staff, the HoD need to observe two guiding principles:*

- (i) *the package should be no more favourable than civil servants in comparable civil service ranks or ranks of comparable level of responsibilities; and*

- (ii) the terms and conditions must be no less favourable than those provided for under the Employment Ordinance (Cap. 57) even though the Employment Ordinance does not bind the Government and must fully meet the provisions of other employment legislation which binds the Government.

The HoD have been given discretion to determine the employment package and other employment-related matters for NCSC staff having regard to the two broad principals above and other guidelines drawn up by the Civil Service Bureau where applicable. NCSC staff are employed under fixed-term contracts for any duration up to three years, having regard to the service or operational needs. The employment relationship with an NCSC staff ends upon expiry of the contract. The offer of any further contract beyond the current contract is solely at the discretion of the HoD, subject to service needs and prevailing terms and conditions as may be offered. Apart from basic salaries and contract gratuities, NCSC staff are not entitled to any of the civil service job-related allowances.

Against the above background, my replies to the specific questions are as follows:

- (a) The number of NCSC staff fluctuates from time to time during a particular year because the length of their contracts may vary from weeks to three years. We do not keep statistics of the total number of NCSC staff engaged by the HoD on an annual basis. Departments are asked to provide statistics as at 30 June and 31 December each year. As at 31 December of 1999, 2000 and 2001, the number of NCSC staff engaged was:

	<i>31 December 1999</i>	<i>31 December 2000</i>	<i>31 December 2001</i>
Part-time	Not available	2 410	2 506
Full-time	Not available	6 635	11 244
Total	4 695	9 045	13 750

The total expenditure incurred by departments for the payment of salaries and gratuities to NCSC staff in 1999, 2000 and 2001

amounted to \$536 million, \$920 million and \$1,644 million respectively. In these three years, 2 474, 6 618 and 7 494 NCSC staff were offered further employment within one month after the expiry of their previous contracts.

- (b) The HoD recruit NCSC staff to perform specific tasks. If the service need remains after the expiry of the contracts of the NCSC staff, the HoD may decide whether there is a need to launch fresh selection exercises or whether to offer new contracts to any of these staff. The HoD may take into account a host of factors, such as their performance records, conduct and experience, job requirements, cost-effectiveness of conducting another selection exercise in making their conscious decisions.
- (c) If there remains operational needs to justify offering further employment of NCSC staff, the HoD will make reference to the records of performance and conduct of an incumbent as well as comments from his supervisors before deciding whether he should be offered further employment.
- (d) The employment relationship of an NCSC staff ends upon the expiry of the existing contract. In determining the remuneration package in new contracts, including new contracts for serving NCSC staff, the HoD will make reference to market conditions, practice in the industry, experience and qualification of the candidates, recruitment difficulties, and so on. But the maximum level of pay offered should not exceed the mid-point salaries of comparable civil service ranks or ranks of comparable level of responsibilities.

### **Recognition of Associate Degree Programmes**

3. **MR CHEUNG MAN-KWONG** (in Chinese): *Madam President, regarding associate degree programmes, will the Government inform this Council of:*

- (a) *the numbers and percentages of graduates of associate degree programmes admitted to local or overseas universities since the introduction of such programmes in Hong Kong and, among them, the extent to which their qualifications were recognized by the institutions or pegged with overseas institutions so that they were exempted from taking certain courses or their duration of study was shortened;*
- (b) *the countries or regions which recognize the associate degree programmes offered by the institutions in Hong Kong; and*
- (c) *the existing ordinances which regulate the prospectuses and advertisements relating to associate degree programmes, and whether these ordinances impose different requirements on the Federation for Continuing Education in Tertiary Institutions and private educational institutions in respect of the prospectuses and advertisements relating to their associate degree programmes; if so, of the details?*

**SECRETARY FOR EDUCATION AND MANPOWER** (in Chinese): Madam President,

- (a) Since the first batch of associate degree students will graduate in mid-2002, we do not have statistics on the number of these graduates admitted to local or overseas universities.
- (b) In the 2001-02 academic year, a total of six local institutions have offered full-time, self-financing associate degree programmes which fully meet the accreditation and quality assurance requirements. The qualifications awarded by 20 of these programmes are recognized by 108 overseas higher educational institutions as entry qualifications and for credits transfer arrangements. They include those in the United States, the United Kingdom, Canada, Australia, the Netherlands, mainland China and Macao.

- (c) At present, the institutions offering associate degree programmes include (1) universities, statutory educational or training bodies or their continuing education arms. Most members of the Federation for Continuing Education in Tertiary Institutions belong to this category; and (2) other educational bodies. Providers in the first category are regulated under their respective governing ordinances. Those in the second category are regulated under the Education Ordinance (Cap. 279). Section 86B(1)(b) of the Education Ordinance stipulates that an owner or a manager of a registered or provisionally registered school who publishes false or misleading advertisements concerning the school commits an offence, and is liable to a fine of \$100,000 upon conviction.

#### **Associate Degree and Higher Diploma Programmes**

4. **MR FREDERICK FUNG** (in Chinese): *Madam President, in respect of full-time associate degree and higher diploma programmes offered by post-secondary institutions, will the Government inform this Council:*

- (a) *of the tuition and number of places for full-time self-financing associate degree and higher diploma programmes offered by the post-secondary institutions in the last academic year broken down by programme types, and the unit cost for each type of programmes; and*
- (b) *whether it regularly assesses the effectiveness of the non-means-tested-loan scheme and the other financial assistance schemes for local post-secondary students; if it has, of the conclusions of the latest assessment?*

**SECRETARY FOR EDUCATION AND MANPOWER** (in Chinese): Madam President,

- (a) In the 2001-02 academic year, post-secondary education institutions which have met the Government's quality assurance requirements have provided a total of 6 879 full-time self-financing places at

sub-degree or above level. Of these, 3 840 are Associate Degree programme places and 2 809 are Higher Diploma (including Honours Diploma and Professional Diploma) programme places. The breakdown of the number of places by programme types and their tuition fee levels is set out at Annex 1.

The Government does not have information on the unit cost of self-financing Associate Degree and Higher Diploma places. Since all education providers of these courses are non-profit-making, and they are operating on a self-financing and cost-recovery basis, the tuition fee level can, to a large extent, reflect the unit cost of their programmes.

- (b) Eligible students of publicly-funded full-time post-secondary programmes can apply under the Local Student Finance Scheme for means-tested grants and loans to cover tuition fees and living expenses. They can also apply for the non-means-tested loans. In the 2001-02 academic year, the Government introduced the Financial Assistance Scheme for Post-secondary Students (FASP) to provide means-tested grants or low-interest loans, and non-means-tested loans for students studying self-financing post-secondary programmes.

The objectives of these student financial assistance schemes are to ensure that: (1) no student will be denied the chance of receiving education due to the lack of financial means; (2) public resources are used cost-effectively; and (3) the amount of assistance is adequate in helping students to cover their tuition fees and living expenses. We believe that these financial assistance schemes can achieve these objectives and can effectively address the needs of students with different economic background. We will also review the financial ceilings of the schemes annually.

Although the FASP has been implemented for less than one year, a significant number of students have benefitted from the scheme and the amount of assistance provided is substantial. Details are set out at Annex 2.

## Annex 1

## Breakdown of the Number of Places and Tuition Fee of Self-financing Post-secondary Programmes by Programme Type

<i>Programme Types</i>	<i>Associate Degree</i>		<i>Higher Diploma<sup>1</sup></i>		<i>Degree</i>	
	<i>Number of Places</i>	<i>Tuition Fee (HK\$)</i>	<i>Number of Places</i>	<i>Tuition Fee (HK\$)</i>	<i>Number of Places</i>	<i>Tuition Fee (HK\$)</i>
Arts and Social Sciences	590 (15.4%)	43,000- 50,000	405 (14.4%)	35,000	90 (39.1%)	42,000
Business and Administration	740 (19.3%)	42,000- 50,000	1 704 (60.7%)	31,000- 38,000	100 (43.5%)	42,000
Science and Information Technology	190 (4.9%)	43,000- 52,000	577 (20.5%)	31,000- 38,000	-	-
Education and Languages	-	-	123 (4.4%)	31,000- 35,000	40 (17.4%)	42,000
General Studies	2 320 (60.4%)	39,000	-	-	-	-
Total	3 840 (100%)	N.A.	2 809 (100%)	N.A.	230 (100%)	N.A.

## Annex 2

## Financial Assistance Scheme for Students Pursuing Local Self-financing Post-secondary Programmes

<i>Types of Assistance</i>	<i>Means-tested Grant or Loan</i>	<i>Non-means-tested Loan</i>
Total Applications	3 263	2 234
Approved Applications	2 781 (85%)	2 213* (99%)
Average Grant (HK\$)	37,728	N.A.
Average Loan (HK\$)	18,639	61,222
Total Amount of Assistance (HK\$)	55,000,000	135,000,000

Note: There are 21 applications being considered

<sup>1</sup> Including Higher Diploma, Honours Diploma and Professional Diploma

### Cessation of PRH Tenancy

5. **MR ALBERT HO** (in Chinese): *Madam President, regarding the cases in which Notices-To-Quit were issued by the Housing Department (HD) to recover the flats of public rental housing (PRH) from residents who were in breach of tenancy agreements, will the Government inform this Council of the following regarding each of the past three years:*

- (a) *the number of Notices-To-Quit issued by the HD and the reasons given therein; among these cases, the numbers of those in which tenancies were regranted and those in which the flats were eventually recovered;*
- (b) *the respective numbers of overruled and sustained cases, and a breakdown of these cases according to the respective reasons given by the relevant authority; and*
- (c) *the number of PRH households whose late appeals were not entertained and had to move out of their flats; and whether consideration will be given to amending the relevant provisions in the Housing Ordinance (Cap. 283) to extend the time limit for lodging appeals and to handle late appeals on a discretionary basis; if not, the reasons for that?*

**SECRETARY FOR HOUSING** (in Chinese): Madam President, a total of 7 470 notices-to-quit were issued to PRH tenants in the past three years (1999-2001), as follows:

<i>1999</i>	<i>2000</i>	<i>2001</i>
<i>2 536</i>	<i>2 350</i>	<i>2 584</i>

A breakdown of cases by reason is not available. Common reasons were breach of terms of tenancies, such as not paying rent, use of premises for illegal purposes (for example, storage of dangerous drugs, gambling, prostitution), unauthorized occupation and non-occupation. Notices-to-quit were also issued to tenants affected by the Comprehensive Redevelopment Programme after they were offered rehousing to other estates, tenants whose income and assets



exceeded stipulated limits, and tenants who were not eligible to stay in public housing flats after divorce.

In the past three years, 3 982 tenancies were reinstated, and 2 946 notices-to-quit were enforced, as follows:

	<i>1999</i>	<i>2000</i>	<i>2001</i>
Tenancies reinstated	1 293	1 275	1 414
Notices-to-quit enforced	1 121	936	889

[Note: These figures do not add up to the figures in the first paragraph due to the time lag between issuance of notices-to-quit and their subsequent reinstatement/enforcement.]

Tenants who have been issued notices-to-quit may appeal to the Appeal Panel on Housing established under section 7A of the Housing Ordinance (Cap. 283). The Appeal Panel heard 1 461 cases in the past three years, as follows:

	<i>1999</i>	<i>2000</i>	<i>2001</i>
Appeals heard	337	523	601
Notices-to-quit cancelled or amended	90	96	182
Notices-to-quit confirmed	247	427	419

Appeals are considered on the individual merits of each case, and a breakdown of appeals by reason in the past three years is not available. Common reasons leading to the cancellation or amendment of notices-to-quit by the Appeal Panel include breach of terms of tenancies for the first time and the breach in question was not serious, clearance of all outstanding rent arrears with tenants' undertaking to pay rents on time in future, and hardship which merited compassionate consideration.

The Housing Ordinance provides for tenants to lodge appeals with the Appeal Panel within 15 days of the issue of notices-to-quit. In the past three years, 133 appeals were received outside the statutory period with the result that the Appeal Panel could not hear them.

As notices-to-quit are delivered by hand, by registered mail, by notices affixed to doors of concerned flats, or by a combination of the above methods, the Government considers the current time limit appropriate.

## Outsourcing of Work by Architectural Services Department

6. **MISS CHAN YUEN-HAN** (in Chinese): *Madam President, the Architectural Services Department (ArchSD) plans to contract out its activities progressively with a view to outsourcing 90% of its new design work and 80% or even all its maintenance jobs within seven years. In this connection, will the Government inform this Council:*

- (a) *of the number of staff employed on non-civil service contract (NCSC) terms at present, with a breakdown by the expiry date of their contracts; and the estimated number of staff still being employed on such terms when the above outsourcing target is achieved;*
- (b) *of the respective estimated numbers of staff, on a yearly basis, still needed and being made redundant when the above outsourcing target is achieved, with a breakdown by grades; if such estimation is not available now, the reasons for that and when it can make such estimation and submit the relevant figures to this Council;*
- (c) *of the estimated number of staff required, on a yearly basis, for monitoring the contracting out works from now on until two years after the above outsourcing target has been met, with a breakdown by grades; if such estimation is not available now, the reasons for that and when it can make such estimation and submit the relevant figures to this Council; and*
- (d) *whether the ArchSD will offer the Voluntary Departure Scheme to its staff?*

**SECRETARY FOR WORKS** (in Chinese): *Madam President,*

- (a) *The ArchSD currently employs 32 of its staff on NCSC terms. A breakdown of their contract expiry dates is as follows:*

<i>Date of expiry of current contract</i>	<i>No.</i>
31 March 2002	1
31 March 2003	24
31 March 2004	7

(b) and (c)

The proposed 90% outsourcing for all ArchSD's new projects and 80% to 100% outsourcing for the ArchSD's maintenance works are the Government's ultimate targets. In implementing the outsourcing proposals, the Government will adopt a flexible and step-by-step approach. The Government will constantly review the progress of implementation of the outsourcing programme, having regard to the capability of the industry in taking on the increased works, effects on different grades of the ArchSD and the staffing arrangements, as well as the standard and quality of the outsourced works so as to work out the implementation details and the required manpower resources. The Government will conduct extensive staff consultation as the outsourcing programme progresses.

In fact, the planned increase in outsourcing is only part of the ArchSD re-engineering package. The Department will assume more strategic roles in future, including:

- (i) strengthening its professional roles as the Government's corporate adviser on public building development and maintenance matters;
- (ii) working with the industry to improve the design and maintenance of public buildings and in promoting higher standards in construction, site management and safety; and
- (iii) concentrating more on project management and supervisory functions in delivering and maintaining public buildings.

Additional manpower will be required to discharge the above functions. An inter-departmental working group has been set up to consider issues related to the staffing arrangements, for example, staff retraining and staff redeployment as well as other arrangements. While the working group is making progress, it will need some time to work out the detailed arrangements. Hence, figures on the manpower requirements for each grade of staff (including staff for monitoring the outsourced works) are not yet available.

- (d) As a result of the Government's commitment to increasing the spending on minor works in the next two years, the ArchSD will need extra staff to carry out the additional works. Thus there will not be any surplus staff in these two years. Beyond this timeframe and as more projects and works are outsourced, there will eventually be some surplus staff in the ArchSD. The Government will work out the appropriate arrangements to deal with the matter, including retraining and redeployment, and will explore all possible options. If warranted by circumstances, the Government will not rule out considering voluntary retirement. The Government is confident in making the most appropriate arrangements for staff, and has undertaken that there will be no forced redundancy arising from the re-engineering exercise.

### **New Provision on Working Hours of Security Guards**

7. **MR LEUNG YIU-CHUNG** (in Chinese): *Madam President, it is learnt that the Housing Department has implemented a policy which requires tender documents of all outsourcing property management contracts of the Department to specify that the security guards engaged should not work over eight hours in any 24-hour period. In this connection, will the Government inform this Council of:*

- (a) *the number of executed contracts containing such a provision;*
- (b) *the comparison, in terms of salary and benefits, between security guards engaged under the new provision and the previous arrangement; and*
- (c) *the measures in place to ensure that the security guards' salaries will not be adjusted downwards correspondingly with a reduction in their working hours upon the full-scale implementation of the new provision?*

**SECRETARY FOR HOUSING** (in Chinese): Madam President, the Housing Authority has entered into 23 security service contracts which specify the employment of security guards on three eight-hour shifts. Of these, 11

contracts commenced on 1 March 2002, and 12 contracts will commence on 1 April 2002.

Security services are carried out by Guards, Special Guards and Supervisors. Their average monthly salaries under three-shift contracts are \$4,796, \$5,120 and \$5,688 respectively. While there is a downward adjustment ranging from 10% to 19% of monthly salaries in comparison with previous two-shift contracts, hourly wages have increased by 22% to 35%. Details are as follows:

<i>Rank</i>	<i>Average monthly salary</i> <i>(Average hourly wage)</i>		<i>Adjustment</i>
	<i>Previous contracts</i>	<i>New contracts</i>	
Guards	\$5,330 (\$17.08)	\$4,790 (\$23.02)	-10.1% (+34.8%)
Special Guards	\$6,230 (\$19.97)	\$5,120 (\$24.62)	-17.8% (+23.3%)
Supervisors	\$6,975 (\$22.36)	\$5,688 (\$27.35)	-18.5% (+22.3%)

Working conditions and benefits comply with the Employment Ordinance, and differ among employment contracts for individual guards.

The monthly salaries of security guards vary in accordance with market demand and supply. The Housing Authority envisaged a reduction in salaries as a result of reduced working hours from 12 to eight for security guards. To ensure that guards on three shifts were reasonably paid, the Housing Authority implemented the following measures:

- (i) tenderers were required to put forward wage proposals, making reference to the general wage levels in the "Quarterly Report of Wage and Payroll Statistics" compiled by the Census and Statistics Department;
- (ii) a "two-envelope" scoring system was adopted for tender evaluation. Tenders would only be considered if workplan proposals (including

wage levels) were acceptable. The tender achieving the highest combined scores on workplan proposals and contract price would be awarded the contract;

- (iii) contractors would be required to enter into formal written employment contracts with security guards, stipulating employment conditions (such as salaries, working hours and rest days) so as to ensure that employees would not be exploited; and
- (iv) the Housing Authority would closely monitor the performance of contractors, including compliance with employment contracts.

These measures will continue to be taken by the Housing Authority.

### **Working Group to Tackle Family Violence**

8. **MISS CYD HO** (in Chinese): *Madam President, it has been reported that in the wake of recent family tragedies, the Secretary for Security indicated after the meeting of the Fight Crime Committee on 26 January 2002 that the Health and Welfare Bureau would set up a working group to lead a number of government departments, social service agencies and non-governmental organizations to formulate a multi-pronged policy, with a view to helping families in distress to resolve their problems. In this connection, will the Government inform this Council:*

- (a) *of the composition, terms of reference, financial resources, mode of operation and future work plan of the working group, as well as when it is expected to formally operate;*
- (b) *how the working group will work in collaboration with the Working Group on Combating Violence and the Committee on Child Abuse under the Social Welfare Department (SWD) to achieve synergy; of the avenues available to ensure that the working group can take on board and put into effect the views of other concerned groups;*
- (c) *whether the working group will conduct a policy research to identify causes of family tragedies and work out effective remedies; if so, of the details and specific timetable of such a research; if not, the reasons for that; and*

- (d) *whether it has considered expanding the terms of reference of the Working Group on Combating Violence and the Committee on Child Abuse with a view to replacing the above working group, so as to immediately commence the research on preventing family tragedies, formulate specific measures in this regard as well as avoid fragmentation of responsibilities and duplication of resources?*

**SECRETARY FOR HEALTH AND WELFARE** (in Chinese): Madam President, by way of background to the specific questions raised, I should like to restate that the Government's overall policy is to prevent and reduce the incidence of family violence and, if it arises, to deal with both the immediate and longer-term consequences using a multi-disciplinary approach.

In the light of recent trends, the Government has increased its efforts by providing more responsive, integrated and targeted assistance to those in need through a three-pronged approach. Existing services have been refocused and re-engineered whilst new initiatives have been rolled out to fill service gaps identified. The three-pronged approach involves the following:

- at the primary level, strengthening preventive work through large-scale public education, more targeted family education and early identification of families at risk through outreach efforts;
- at the secondary level, transforming existing Family Service Centres into Integrated Family Service Centres providing a full continuum of resource, support and counselling services; and
- at the tertiary level, establishing specialized service units to provide immediate crisis intervention.

As regards the specific questions raised:

- (a) Following the recent Fight Crime Committee meeting, it was decided that the Secretary for Health and Welfare would chair a task group to examine the issue of family violence. The focus of the work of the task force will be at a strategic level and involve examining if and how existing inter-departmental and inter-sectoral efforts to combat family violence can be

further co-ordinated and enhanced. The preparatory studies for the work of the task force are underway and it is envisaged that the task force will meet shortly.

- (b) Whilst the focus of the work of the task force will be at a strategic level, it will need to take account of the work already undertaken at the departmental level including the Working Group on Combating Violence and the Committee on Child Abuse under the SWD. The views of concerned groups are already reflected in these SWD committees and as such, will be reflected to the task force.
- (c) Depending on the discussions in the task force, there may be a need for subsequent studies on the issue of family violence and any other relevant matters as appropriate. If such a need is established, we will consider the appropriate structure for that work to be undertaken.
- (d) A multi-disciplinary strategy and a continuum of integrated services are already in place to address the issue of family violence. In addition to keeping a close watch on developments, the Government regularly examines its strategy and practical initiatives to look into possible areas of improvement. For example, the Working Group on Battered Spouses and the Working Group on Sexual Violence were amalgamated in October 2001 to form the Working Group on Combating Violence. This has provided an effective mechanism to advise the Government on matters relating to family violence and has enhanced co-ordination amongst the relevant parties.

### **Plan to Reduce Salaries of Civil Servants**

9. **MR CHAN KWOK-KEUNG** (in Chinese): *Madam President, it is reported that when meeting the civil service unions early last month, the Financial Secretary pointed out that the current public expenditure took up an excessively high proportion of the Gross Domestic Product (GDP), and civil servants would face a pay cut. In this connection, will the Government inform this Council:*



- (a) *of the Financial Secretary's purpose in mentioning to the civil service unions that civil servants would face a pay cut;*
- (b) *whether it will implement its decision on the pay cut in the face of objections from all or most of the civil service unions; and*
- (c) *of the time to announce the decision on the pay cut and its rate?*

**SECRETARY FOR THE CIVIL SERVICE** (in Chinese): Madam President, the Financial Secretary met with representatives of the civil service central consultative councils and key service-wide staff unions in January 2002 as part of the consultation process in preparing the 2002-03 Budget. At the meeting, the Financial Secretary explained that the Government of the Special Administrative Region is facing a serious budget deficit. Public expenditure is projected to account for 23% of the GDP in the coming financial year. In drawing up the proposals for the 2002-03 Budget, therefore, the Government will need to carefully consider all views and balance the interests of different sectors with a view to formulating measures that will be in the long-term interest of the community as a whole.

Under the existing mechanism, the Government will consider the results of the annual private sector Pay Trend Survey and other important factors, including the state of the economy, budgetary considerations, changes to the cost of living, the staff sides' pay claims and civil service morale, before deciding on the annual civil service pay adjustment. The results of the 2002 Pay Trend Survey will be known in May. We shall decide on this year's civil service pay adjustment then in accordance with the existing mechanism.

### **Waiting Time for Labour Tribunal Cases**

10. **MR TAM YIU-CHUNG** (in Chinese): *Madam President, it is learnt that this year's waiting time for Labour Tribunal cases, as measured from the date of appointment to the date of filing and from the date of filing to the date of hearing, is projected to increase by about 30% to 82% when compared with that in the previous two years. In this connection, will the Government inform this Council:*

- (a) *of the average number of cases dealt with by each day court and night court of the Tribunal in the past two years;*
- (b) *whether it has estimated the number of cases to be dealt with by the Tribunal this year; if so, of the growth in such number as compared to those in each of the past two years; and*
- (c) *whether it has planned to introduce measures, including the provision of more night courts, to shorten the waiting time for the Tribunal cases; if so, of the details; if not, the reasons for that?*

**CHIEF SECRETARY FOR ADMINISTRATION** (in Chinese): Madam President, we have consulted the Judiciary on the question and have received the following response:

The Judiciary's performance targets in terms of waiting times for the Labour Tribunal are as follows:

	<i>Targets</i>	<i>Waiting Time (Days)</i>		
		<i>2000 (Actual)</i>	<i>2001 (Actual)</i>	<i>2002 (Planned)</i>
From appointment to filing of a case	30	11	14	20
From filing of a case to first hearing	30	21	23	30

In the past two years, the Labour Tribunal was able to achieve actual waiting times way below the targets. In 2002, the Labour Tribunal would continue to strive to keep the waiting times as short as possible, and in any case, within the targets set.

Answers to the specific questions are as follows:

- (a) In the past two years, the average numbers of cases handled by each day court and each night court were:

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	2000	2001
Day court	705	782
Night court	385	319

The night courts would normally handle cases with less complexity on facts and law, those with a smaller number of parties per case and those requiring no interpretation.

- (b) The Labour Tribunal dealt with 9 611 cases in 2000 and 10 450 cases in 2001. The Judiciary estimates that the number of cases for 2002 would remain at the 2001 level. That notwithstanding, the Judiciary envisages that the proportion of cases with more complexity and with more number of parties per case will be on the rise. The Judiciary has therefore adjusted upward the planned waiting time for 2002.
- (c) The Labour Tribunal keeps its caseload and the average waiting times from filing to trial under close monitoring. Although the average waiting times have been within targets, the Labour Tribunal replaced one night court by a day court in October 2001, with a view to increasing the capacity of the courts to deal with trials and respond to the increased number of more complex cases, such as claims for compensation under section 32P of the Employment Ordinance (Cap. 57), and larger group cases. As explained under part (a), such cases are not suitable for night courts. The Judiciary will continue to monitor the situation.

### **Placement Work of Labour Department for Mainland Jobs**

11. **MR YEUNG YIU-CHUNG** (in Chinese): *Madam President, at the job centres of the Labour Department (LD), job seekers can register their applications for vacancies in the Mainland. It is learnt that the LD is designing a new website to provide more information to Hong Kong residents who intend to look for jobs in the Mainland. In this connection, will the Government inform this Council:*

- (a) *of the number of vacancies in the Mainland registered with the LD over the past five years, and the trades that offered most of these posts;*
- (b) *when the new website will be launched; and*
- (c) *of the reason for not considering expanding the contents of the LD's existing website in order to save resources?*

**SECRETARY FOR EDUCATION AND MANPOWER** (in Chinese): Madam President,

- (a) According to the registration records of the LD in 1999, 2000 and 2001, there were 1 160, 1 018 and 972 vacancies respectively put up by Hong Kong employers which required their local employees to travel to or work in the Mainland. These vacancies mainly came from the electronics manufacturing industry and import/export trades. Figures for the years before 1999 are not available.
- (b) To assist those who are interested in taking up employment in the Mainland, the LD plans to establish in April this year a special web page in its Interactive Employment Service Website which will provide the following information:
  - (i) contact telephone numbers and addresses of Hong Kong registered employment agencies that have business in the Mainland, and their fields of specialization;
  - (ii) first hand experience and views on employment opportunities in the Mainland shared by the Human Resources Managers of the Hong Kong Institute of Human Resources Management;
  - (iii) information on the Mainland's employment-related regulations gathered by the Office of the Government of the Hong Kong Special Administrative Region in Beijing, including the procedures for applying for employment permit and temporary residence and the taxation system; and

- (iv) registered vacancies put up by Hong Kong employers requiring local employees to travel to or work in the Mainland.
- (c) The special web page to be set up by the LD will be incorporated in the existing Interactive Employment Service Website to strengthen its content.

### **Lack of Toilet Facilities in MTR Stations**

12. **MR ALBERT CHAN** (in Chinese): *Madam President, the MTR Corporation Limited (MTRCL) plans to spend \$30 million to \$40 million to renovate the Central and the Kowloon Bay stations and extend the shop areas in these two stations, but it has no plans to install public toilet facilities for the convenience of the public in the stations. As some of the MTR journeys are rather long, the public has a genuine need for such toilet facilities, will the Government inform this Council whether it knows:*

- (a) *the MTRCL's specific measures and timetable to fully address the problem regarding the lack of public toilet facilities in existing MTR stations; and*
- (b) *if the MTRCL will reserve areas for installing public toilet facilities when building new stations or extending existing stations; if so, of the details; if not, the reasons for that?*

**SECRETARY FOR TRANSPORT** (in Chinese): Madam President, the MTRCL has advised that it has examined the possibility of providing toilets at existing MTR stations. The MTRCL considers that there are difficulties in installing toilets within the existing railway premises. The MTRCL is of the view that public toilets within MTR premises could become crime spots, as shown by overseas experience. Given the substantial passenger flow in the MTR system, the MTRCL also worries that the problems of keeping the toilets clean could spoil the station environment.

For passengers who have an urgent need for toilet facilities while they are travelling on the MTR, the MTRCL suggests that they should contact the station staff so that the use of internal staff toilets can be arranged.

Given the security and hygiene concerns, the MTRCL does not have plans to incorporate public toilet facilities when building new stations or extending existing stations.

The MTRCL will, however, strive to have toilets provided in the Public Transport Interchange (PTI) located next to new railway stations. For example, for Tseung Kwan O Line, all the PTIs built by the MTRCL are equipped with toilets. In addition, there are ongoing discussions between the MTRCL and the relevant government departments on locating public toilets near MTR stations.

### **Foodstuffs in Mainland Not Meeting National Standards**

13. **MR FRED LI** (in Chinese): *Madam President, it has been reported that the State General Administration of the People's Republic of China for Quality Supervision and Inspection and Quarantine (AQSIQ) has recently announced that 17 types of foodstuffs in the Mainland were found to contain preservative, additive and bacteria contents exceeding the prescribed national safety standards. In this connection, will the Government inform this Council:*

- (a) *whether it knows the types and brands of those foodstuffs;*
- (b) *whether it has approached the AQSIQ for information concerning the inspection of those foodstuffs;*
- (c) *whether those foodstuffs are sold in Hong Kong; if so, of the actions it has taken to ensure public health; and*
- (d) *of the upper limits prescribed by the Mainland and Hong Kong for the use of three common food preservatives and additives (that is, benzoic acid, sorbic acid and saccharin sodium), and if the standards prescribed by the Mainland are more stringent, whether it will amend the regulations concerned to keep in line with those standards; if not, of the reasons for that?*

**SECRETARY FOR THE ENVIRONMENT AND FOOD** (in Chinese):  
Madam President,

(a), (b) and (c)

The Food and Environmental Hygiene Department (FEHD) had made an inquiry with the ACSIQ regarding the report. According to information provided by the ACSIQ, the inspection they conducted was confined to foodstuffs for internal consumption. None of those foodstuffs were sold in Hong Kong.

(d) The Codex Alimentarius Commission under the United Nations has just set a limit of 2 000 parts per million for use of benzoic acid in preserved vegetables several months ago. However, the standards for sorbic acid and saccharin sodium in preserved vegetables are still being discussed. The proposal at this stage is that the upper limits for use of these two types of food additives in preserved vegetables should be 2 000 parts per million.

The Preservatives in Food Regulations (Cap. 132 sub. leg.) provide for the limits of 250 parts per million and 1 000 parts per million for the use of benzoic acid and sorbic acid in preserved vegetables respectively. Many European and North American countries have similar standards in place. The limit for both substances is 500 parts per million in the Mainland.

Regarding saccharin sodium, the limit for its use in preserved vegetables in the Mainland is 150 parts per million. In Hong Kong, saccharin sodium is an artificial sweetener permitted for use as a food additive. In practice, only a small amount of saccharin sodium is needed to achieve the desired result. Excessive use will noticeably change the taste of food. The use of a small amount of saccharin sodium in food has been confirmed to be safe. Taking these factors into consideration, the current legislation in Hong Kong has not stipulated specific limits for the use of saccharin sodium.

We will follow the Codex discussions closely and will make reference to the latest international standards in deciding whether we need to amend current standards or stipulate new standards in the law.

**Budget Deficits of Hospital Authority**

14. **MR LAW CHI-KWONG** (in Chinese): *Madam President, it is reported that the Hospital Authority (HA) has projected a deficit of \$220 million in the current financial year, which would have to be made up by the HA fiscal reserves. In this connection, will the Government inform this Council whether it knows:*

- (a) *the increase in annual funding received by each hospital under the HA over the past three years, with particular reference to the funding received for the increase in new beds, facilities and services; and the deficit in expenditure in each of the past three years and the amount made up by the HA fiscal reserves for such deficits;*
- (b) *the estimated expenditure of the HA and the five HA hospitals with the most serious deficits by the end of the current financial year; and among such expenditure, the items with substantial discrepancies between the actual expenditure and the approved estimates and the items not listed in the approved estimates, and the amount involved in such items;*
- (c) *given that at present public expenditure by government departments involving \$10 million or more are subject to the approval of the Legislative Council for amendment to the approved estimates of expenditure or new proposals, the monitoring mechanism adopted by the HA and its hospitals to amend the approved estimates of expenditure or propose new items of expenditure, and the monitoring details;*
- (d) *whether the Chief Executive of HA (CE/HA) is empowered to allocate funding to respective hospitals to made up the deficit; if so, of the ceiling for such allocation;*
- (e) *the terms of reference of the Finance Committee (FC) and the Hospital Governing Committee (HGC) under the HA in monitoring the fiscal management of the HA and its hospitals; and*
- (f) *which the HA meetings are open to the public, and whether the HA will consider opening to the public all meetings of the HA and its committees at which the HA's fiscal management and financial allocations are discussed?*



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

- (a) The actual expenditures of the HA and its hospitals in 1999-2000 and 2000-01, as well as their respective approved budgets and projected expenditures in 2001-02 are at Annex A.

The HA manages its budget from the perspective of the entire organization as a whole, instead of on individual hospital basis. This is because the respective budget of individual hospitals does not cover expenditures on certain activities of the hospital concerned which are provided by the HA centrally. These activities include drug procurement, laundry services, legal services, information technology services, training of staff, and so on. The HA Head Office also maintains a central pool of doctors, nurses and allied health staff for deployment to hospitals for provision of health care services on a need basis, and the pool is funded centrally.

The HA did not experience any budget deficit in 1999-2000 and 2000-01. For 2001-02, the HA estimates that there would be a deficit in the region of \$227 million or 0.75% of its total budget. The HA will use its reserves to cover the projected budget deficit.

The emergence of budget deficit in 2001-02 is mainly due to the higher than expected increase in service demand for public hospital services in 2001-02 as illustrated below, the need to meet the annual salary increment built into the pay scales of the HA staff, and the development and advances in medical technology. The latter has resulted in the introduction of new and expensive drugs for the treatment for conditions which hitherto are not amenable to medication, drugs which have been shown to be effective in the treatment of HIV-AIDS, as well as drugs that can enhance the effectiveness of treatment, such as anti-psychotic drugs and cancer drugs.

<i>Hospital Service Activities</i>	<i>Original Estimated Activities in 2001-02</i>	<i>Current Estimated Activities in 2001-02</i>	<i>Increase (%)</i>
Number of General In-patients Discharged	887 500	892 400	0.6%
Number of General Day Patients Discharged	288 900	303 400	5.0%
Attendance at Accident and Emergency Department	2 434 000	2 594 700	6.6%
Attendance at Specialist Out-patient Clinics	8 140 200	8 332 800	2.4%

Another factor that contributes to the HA's budget deficit is the implementation of the Enhanced Productivity Programme (EPP). Prior to the introduction of the EPP by the Government, the HA has already achieved 11% savings through the HA's own productivity enhancement initiatives. On top of this, the HA has achieved another 1% savings in 2000-01 and has to achieve another 2% in 2001-02 under the EPP. The measures currently in use in improving productivity can only provide limited scope for the HA to further economize. The HA is now developing new strategies to achieve further productivity gains, for example, through rationalization of services, and implementation of new cluster-based management through its five mega-clusters. However, it will take some time to realize the savings arising from the implementation of these new initiatives.

- (b) The estimated expenditure of the HA and the five hospitals with the most serious deficit in 2001-02 is at Annex B.

At present, the budgets for individual hospitals are determined using the historical resources allocation method, that is, based on the operations and scope of services of the hospital concerned in the past year. Under the historical resources allocation approach, the budgets for some of the hospitals may not match with their expenditure requirements to cope with population growth or increase in service demand. As such, the budgets for such hospitals may not be sufficient to meet their expenditure requirements. As an interim measure and pending the finalization of a long-term resources allocation model by the HA, hospital expenditure may be allowed to exceed the historical budget allocation if the CE/HA is satisfied that the hospital management has taken appropriate measures to control its expenditure and that the budget deficit is justified on the grounds of real service needs, and taking into consideration the total requirements within the cluster which the hospital belongs.

The budget deficit of the HA and the five hospitals with the most serious deficits in 2001-02 is mainly due to the increase in expenditures of two major items, namely personal emoluments (which accounts for about 80% of the HA's total expenditure) and drug costs (about 8% of the HA's total expenditure). The increase in personal emoluments is mainly caused by the additional cost to meet the annual salary increment built into the pay scales of HA staff. In addition, the low staff turnover rate in public hospitals also results in a higher staff cost. The increase in drug costs is mainly due to the use of new and expensive drugs as explained in part (a) above, as well as increase in service demand.

- (c) Following the formulation of the Annual Plans of the HA and individual hospitals, the hospital budgets are developed taking into account the addition and changes in the provision of hospital services. Budgets for individual hospitals may have to be revised in the context of a comprehensive Annual Planning exercise when the CE/HA will agree with each hospital its annual budget as well as expected service delivery and performance targets. Individual

hospital budgets are endorsed by their respective HGC. The expenditure and targets of individual hospitals will be closely monitored by the CE/HA and the HGCs.

The HA's budget, which is the aggregate of all estimated expenditures of all the HA hospitals, will then be submitted to the HA FC and the HA Board for approval. The CE/HA has to manage the approved budget of the HA and contain actual expenditure within the approved planned budget estimate. Individual hospitals will need to report any major deviations from their financial projections to the HGCs and the HA Head Office.

During the course of a financial year, there may be budget movements and transfers between hospitals pursuant to the implementation of the Annual Plan targets related to rationalization of services. The CE/HA has the discretion to approve these budget movements so long as they are in line with the Annual Plan and provided that the variation is within the limit of the approved planned budget estimate. Where the variation would result in the total budgeted expenditures exceeding the approved planned budget estimate of the HA, the approval of the FC and the HA Board has to be obtained.

For the monitoring purpose, a monthly financial report on the overall expenditure position of the HA against the approved planned budget estimate is submitted to the FC and the HA Board.

- (d) The CE/HA has the authority to re-distribute resources among hospitals within the limit of the approved planned budget estimate. He will need to seek the approval of the FC and the HA Board if the total budgeted expenditures exceed the approved planned budget estimate.
- (e) The terms of reference of the FC insofar as the monitoring of the fiscal management of the HA and its hospitals is concerned are as follows:

- (i) to advise and make recommendations on the financial aspects of the HA Corporate Plan and Annual Plan;
- (ii) to advise and make recommendations on the financial planning, control, performance, monitoring and reporting aspects of the HA;
- (iii) to advise on policy guidelines for all financial matters, including investment, business and insurance;
- (iv) to advise and make recommendations on the resource allocation policies; and
- (v) to monitor the financial position of the HA.

As for the monitoring role of the HGCs, the Hospital Authority Ordinance bestows upon the HGCs the responsibility to oversee the management of hospitals with a view to optimizing the utilization of hospital resources to ensure that public hospitals provide hospital services of the highest possible standard within the resources obtainable.

- (f) Since 1998, the HA Board meeting has been opened to the public to enhance the transparency and public accountability of the HA's work. Issues such as the HA's Annual Plan, planning for new hospitals and facilities, development of medical services and community development programmes, will be discussed at the HA Board meetings. In addition, papers prepared for discussion at the HA Board and its functional committees, including the FC, as well as minutes of meetings are available in the HA's web site for public information. However, papers and discussions on sensitive issues, such as the HA's proposed budget estimate, have to be kept confidential. That said, for budget estimates, the HA publishes the finalized budget for each hospital in its Annual Plan.

## Annex A

Expenditure of the HA Hospitals for the period 1999-2000 to 2001-02

<i>Hospital</i>	<i>1999-2000 Actual Expenditure \$M</i>	<i>2000-01 Actual Expenditure \$M</i>	<i>2001-02 Budget Alloation@ \$M</i>	<i>2001-02 Projected Expenditure@ \$M</i>	<i>2001-02 Projected Variance \$M</i>
Alice Ho Miu Ling Nethersole Hospital	744.8	765.1	785.2	801.1	(15.90)
Bradbury Hospice	35.8	35.5	38.8	36.8	2.00
Caritas Medical Centre	1,036.5	1,011.7	1,026.7	1,040.7	(14.00)
Castle Peak Hospital	568.2	560.1	601.1	591.9	9.20
Cheshire Home - Chung Hom Kok	44.8	60.0	66.4	62.9	3.50
Cheshire Home - Sha Tin	85.3	83.1	88.1	86.0	2.10
Duchess of Kent Children Hospital	127.8	126.3	131.0	129.3	1.70
Fung Yiu King Hospital	110.2	109.8	118.5	116.8	1.70
Grantham Hospital	427.5	423.9	435.4	444.1	(8.70)
Haven of Hope Hospital	256.3	252.0	269.9	268.0	1.90
Hong Kong Buddhist Hospital	178.8	177.5	186.4	178.0	8.40
Hong Kong Eye Hospital	143.4	150.0	161.1	159.9	1.20
Kowloon Hospital	555.5	600.0	681.5	664.8	16.70
Kwai Chung Hospital	661.7	661.1	724.7	723.7	1.00
Kwong Wah Hospital	1,464.4	1,485.3	1,522.9	1,546.0	(23.10)
Maclehose Medical Rehabilitation Centre	74.0	72.7	80.9	75.2	5.70
Nam Long Hospital	97.4	96.9	100.7	101.5	(0.80)
North District Hospital and Fanling Hospital*	620.8	674.9	789.4	788.6	0.80
Our Lady of Maryknoll Hospital	264.4	271.0	283.1	282.1	1.00

<i>Hospital</i>	<i>1999-2000 Actual Expenditure \$M</i>	<i>2000-01 Actual Expenditure \$M</i>	<i>2001-02 Budget Alloation@ \$M</i>	<i>2001-02 Projected Expenditure@ \$M</i>	<i>2001-02 Projected Variance \$M</i>
Pamela Youde Nethersole Eastern Hospital	1,714.2	1,809.0	1,868.0	1,921.0	(53.00)
Pok Oi Hospital	290.2	275.0	288.4	280.3	8.10
Prince of Wales Hospital	2,200.3	2,220.8	2,175.6	2,318.6	(143.00)
Princess Margaret Hospital	1,729.2	1,724.4	1,887.5	1,851.9	35.60
Queen Elizabeth Hospital	2,709.7	2,641.9	2,719.3	2,718.0	1.30
Queen Mary Hospital	2,182.8	2,199.6	2,330.4	2,318.1	12.30
Ruttonjee Hospital and Tang Shiu Kin Hospital*	679.7	658.6	692.7	697.8	(5.10)
Shatin Hospital	340.6	342.1	365.9	362.9	3.00
Siu Lam Hospital	107.6	104.9	109.3	108.2	1.10
St. John Hospital	55.7	55.7	60.5	59.2	1.30
Tai Po Hospital	225.8	280.1	369.8	336.7	33.10
Tsan Yuk Hospital	212.3	198.0	164.7	163.0	1.70
Tseung Kwan O Hospital	24.8	393.3	585.4	581.4	4.00
Tuen Mun Hospital	1,908.7	2,036.2	1,998.9	2,094.2	(95.30)
Tung Wah Eastern Hospital	275.4	387.2	285.4	274.7	10.70
Tung Wah Hospital	403.5	266.6	399.5	395.8	3.70
United Christian Hospital	1,536.4	1,640.3	1,805.8	1,789.7	16.10
Wong Chuk Hang Hospital	78.7	78.5	82.0	80.9	1.10
Wong Tai Sin Hospital	280.7	283.4	293.3	293.2	0.10
Yan Chai Hospital	845.8	848.5	872.4	876.7	(4.30)

Note @ Figures represent position after 2001-02 Annual Pay Adjustment

\* Hospital under joint management

## Annex B

Expenditure of the HA and the Five Hospitals with the Most Serious Deficit in 2001-02

<i>Hospital</i>	<i>Budget Allocation</i>	<i>Projected Expenditure</i>	<i>Projected Deficit</i>
	<i>\$M</i>	<i>\$M</i>	<i>\$M</i>
HA Total	30,241.5	30,468.7	227.2
of which:			
Alice Ho Miu Ling Nethersole Hospital	785.2	801.1	15.9
Grantham Hospital	435.4	444.1	8.7
Pamela Youde Nethersole Eastern Hospital	1,868.0	1,921.0	53.0
Prince of Wales Hospital	2,175.6	2,318.6	143.0
Tuen Mun Hospital	1,998.9	2,094.2	95.3

### Traffic Congestion Caused by Loading and Unloading at HKCEC

15. **MR ABRAHAM SHEK:** *Madam President, it is noted that on the day before a major conference or exhibition is held at the Hong Kong Convention and Exhibition Centre (HKCEC), there are always large numbers of lorries loading and unloading in its vicinity, causing serious traffic congestion. In this connection, will the Government inform this Council:*

- (a) of the measures in place to ease the aforesaid traffic congestion; and*
- (b) whether it will consider restricting the loading and unloading of lorries in the vicinity of the HKCEC to late night or off-peak hours on the day before a conference or exhibition is held?*

**SECRETARY FOR TRANSPORT:** Madam President, we take active measures to alleviate traffic congestion in the vicinity of the HKCEC. The Transport Department (TD) and the traffic police have looked into the matter in consultation with the HKCEC and the following congestion relief measures are being implemented:



- (a) the HKCEC will alert the traffic police of any major event to be held at the Centre about one week in advance so that the latter would strengthen resources to manage traffic as necessary;
- (b) no arrival/departure to/from the HKCEC for move-in/out operations between 4.30 pm and 8.00 pm on weekdays is allowed. The traffic police will strictly enforce this restriction by setting up check-points in the vicinity. The HKCEC will also inform the event organizer of such traffic arrangements;
- (c) the arrival time of delivery trucks to the HKCEC will be closely managed by the HKCEC. The HKCEC will divide the exhibition area into different zones and assign specific timeslots for deliveries to exhibition booths on a zonal basis. The traffic police will render assistance to ensure deliveries arrive at the specified timeslots;
- (d) adequate publicity will be arranged by the traffic police to advise the public of the traffic situation. When heavy traffic in the vicinity of the HKCEC is anticipated in association with a major event, traffic advice will be broadcast on radio; and
- (e) the TD will closely monitor the traffic condition in the local area. The TD's Emergency Traffic Control Centre will be activated when necessary.

Moreover, lorry parking spaces will be reserved at the Tamar Site as a temporary marshalling area for lorries waiting to access the HKCEC. In the longer term, the Administration plans to provide a marshalling area for lorries in the vicinity of the HKCEC following completion of the future Wan Chai Development Phase II.

Loading and unloading of lorries during the evening peak hours on weekdays are already prohibited. The suggestion to further restrict loading and unloading of lorries to late night may not be feasible in view of the scale of deliveries and tight schedule of exhibitors, especially those from overseas. The TD will continue to monitor the traffic situation closely with the parties concerned and keep the matter under review.

**Online Payment Agency Service**

16. **MR SIN CHUNG-KAI** (in Chinese): *Madam President, it is learnt that a United States company offers an online payment agency service, in which a client registered with it first transfers money from his/her bank account or in the form of credit card debits to his/her account held with the company which then transfers the payment through e-mail according to the clients' instruction to a designated payee; the payee can then receive the payment in his/her account via e-mail links provided that he/she also holds an account with the company. In this connection, will the Government inform this Council whether:*

- (a) *transactions made between individuals and businesses in the above mode are recognized by the laws of Hong Kong;*
- (b) *it knows if such transactions are recognized by the United States Government; and*
- (c) *the Government will conduct a study regarding the problems (such as money laundering) involved in such mode of payment?*

**SECRETARY FOR FINANCIAL SERVICES** (in Chinese): Madam President,

- (a) The choice of the mode of payment in Hong Kong for any transaction is a matter of contract between the parties concerned. The use of online payment agency services is known in Hong Kong. There are no laws in Hong Kong which specifically prohibit such mode of payment.
- (b) It is not appropriate for us to give an opinion on United States laws concerning the standing of such online payment agencies and their transactions. Nevertheless, it appears that the control and regulation of those agencies under United States State, United States Federal, and international financial services regulations are not uniform. Some States in the United States require the registration of the agencies as money transmitters, and the requirements differ from State to State, and the extent of compliance also varies with the States and the agencies concerned.

- (c) Our existing regime primarily covers the legislative enforcement and preventive aspects of computer-related crimes. The Interdepartmental Working Group on Computer-related Crime, convened under the direction of the Security Bureau, has made a number of recommendations to deal with these aspects. The recommendations are designed to increase our effectiveness in detecting, preventing and prosecuting computer-related crimes. The recommendations are in the process of implementation.

As far as money laundering is concerned, if a fund transfer involves or is arranged through the banking system, the bank concerned should process such transaction in accordance with established suspicious transaction reporting requirements or anti-money laundering guidelines (including guidelines on customer identification and keeping of transaction records) as stipulated by the Hong Kong Monetary Authority.

As to electronic financial transactions, the Financial Action Task Force on Money Laundering (FATF) is reviewing its 40 Recommendations that cover ways to strengthen customer identification and to handle suspicious electronic financial transactions. As a member of FATF, Hong Kong is participating in the review.

### **Traffic Safety at Toll Collection Areas of Road Tunnels**

17. **DR RAYMOND HO** (in Chinese): *Madam President, as the directional signs of traffic lanes vary at different toll tunnels in the territory and some are even ambiguous, drivers might be misled and get in wrong lanes, resulting in traffic accidents. Besides, most of the toll tunnels have no underground pedestrian links, posing safety hazard to tunnel staff going between toll booths and the administration buildings. In this connection, will the Government inform this Council:*

- (a) *of the respective numbers of complaints received by the authorities about ambiguous directional signs of toll lanes and traffic accidents attributable to such ambiguous signs in the past three years;*

- (b) *whether it knows if the tunnel management companies concerned have considered improving the directional signs for toll collection; if this has been considered, of the details; and*
  
- (c) *whether it knows if the tunnel management companies concerned have any plans to provide underground pedestrian links for tunnels which have no such facilities at present; if there are such plans, of the details; if not, the reasons for that?*

**SECRETARY FOR TRANSPORT** (in Chinese): Madam President, in the past three years, the Transport Department (TD) has received nine complaints about directional signs and road markings for toll lanes at tunnels. During this period, 2 845 accidents occurred at the toll plazas of the 10 tolled tunnels in Hong Kong. We do not have a breakdown of statistics on the number of accidents at tunnels due to "ambiguous directional signs".

The traffic aids for tunnels are considered generally adequate. Directional signs for toll collection are provided to channelize the vehicles to the various toll lanes. Improvements to existing traffic signs and road markings are made from time to time to further enhance safety for motorists and tunnel staff. Such enhancement measures include the provision of: (i) additional traffic aids to inform motorists of the locations of autotoll lanes; (ii) yellow traverse lines road markings to remind motorists to reduce speed on approaching the toll booths; and (iii) additional traffic aids to alert motorists to reduce speed on approaching the toll booths.

Underground access to the toll booths for use by tunnel staff are provided at Tseung Kwan O Tunnel, Aberdeen Tunnel and Tai Lam Tunnel. Footbridges for tunnel staff to cross the toll plaza areas are provided at Western Harbour Crossing, Eastern Harbour Crossing, Cross Harbour Tunnel and Tate's Cairn Tunnel.

Currently no pedestrian subway or footbridge is provided at Lion Rock Tunnel and Shing Mun Tunnels. Site constraints at the two tunnels make the

provision of subways directly from the administration building to the toll booth area difficult. The TD will examine the feasibility of providing footbridges for the tunnel staff at both tunnels.

All tunnel companies have further issued guidelines to their staff on how to perform their duties in a safe and efficient manner. Depending on their duties, tunnel staff are provided with reflective vests, white sleeves and flashing torches and vehicles to ensure their safety whilst on duty. Prior to each shift, staff will also be briefed by their supervisors on matters they need to attend to, including a reminder on strict observance of the established safety rules and procedures at the toll plaza.

### **Long Working Hours of Public Hospital Doctors**

18. **MISS EMILY LAU** (in Chinese): *Madam President, in August last year, the Hospital Authority (HA) conducted a follow-up audit survey on the working hours of public hospital doctors. The findings of the survey revealed that only 60% of the 90 departments audited could grant one rest day every week to doctors. In this connection, will the executive authorities inform this Council whether they:*

- (a) *have assessed if the HA has violated the provision of the Employment Ordinance (Cap. 57) that employers shall grant not less than one rest day in every period of seven days to their employees;*
- (b) *have evaluated the adverse effects of excessively long working hours of public hospital doctors on their ability to properly diagnose and treat patients; and*
- (c) *have reviewed and examined the measures that should be taken to change the current situation in which the majority of health care services are provided by the public health care system, with a view to alleviating the workload of public hospital doctors; if so, of the details?*

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

- (a) Long working hours of doctors is a long-standing problem encountered not just in Hong Kong but in many health systems worldwide. Due to the nature of hospital operation which requires provision of round-the-clock services for patients 365 days a year and the organization of medical work, hospital doctors adopt work schedules that extend beyond normal working hours in order to provide continual medical attention to in-patients and patients admitted on emergency basis. The work arrangements can be broadly divided in the following three categories:
- (i) departments which operate in a mode where the workload is relatively constant in a 24-hour period (such as the Accident and Emergency Department which receives patients with medical emergencies on a 24-hour basis), necessitating doctors to work in shifts;
  - (ii) "support" clinical departments, such as pathology or radiology, where the main work load is encountered during office hours. To cater for the work load during the night and "non-work" days, doctors are scheduled to work during "off hours" on an on-call basis; and
  - (iii) "direct patient-care" clinical departments, such as medicine, surgery, and orthopaedics, which operate during day time and continue into the night to provide continuity of care to patients. The work load of these departments during the night varies considerably depending on whether the department is admitting emergency patients, and on the medical conditions of the in-patients already under their care. To meet the medical work needs during "off hours", doctors are rostered to be on-call and are required to be either "on-site" or are available to be accessed. Most of the hospital departments are under this category.

Working hours of doctors will also be affected by the wastage of doctors, the need to train specialists, and increased specialization due to advancement in medical technology resulting in on-call needs for the respective subspecialties.

To address the problem of the high wastage rates of public hospital doctors and the conditions of work of doctors, a number of initiatives have been implemented. On the recommendation of the Standing Commission on Civil Service Salaries and Conditions of Service in 1990, we have increased the starting pay of the medical officer rank by one point and the maximum pay by two points in recognition of the special characteristics of the medical services, the requirement to work irregular and unsocial hours and the problem of retaining experienced staff in the public service. When the HA was set up in 1991, in order to address the very high wastage rate, the terms of doctors working in the then subvented hospitals had also been enhanced to bring them on par with those working in the Civil Service. Since 1989, a fixed-rate honorarium has also been granted to doctors who are consistently required to work unusually long hours to attend on-call duties to compensate for the substantial amount of overtime work performed by them.

While the Employment Ordinance provides an employee employed under a continuous contract with not less than one rest day in every period of seven days, it also allows an employee to work voluntarily for his employer on a rest day. Whereas at present some doctors working in the HA may not have weekly rest days, their duty schedules are worked out by the clinical departments of hospitals in discussion with the doctors. In so doing, a balance is struck between improved working conditions against the need for patient care, professional standards and adequacy of supervision of doctors undergoing training for specialization. In this connection, we fully appreciate the fine tradition and culture of the medical profession, the devotion of public doctors and the sacrifices they have made in giving up their leisure time for the provision of quality health care

service to the public, and amid increasing demand and public expectations of public hospital services. We recognize that improved working conditions of doctors, including adequate rest, is essential for the provision of quality patient care. In this regard, the HA is making active efforts to provide doctors with one rest day per week.

- (b) We fully recognize that improved working conditions, such as adequate rest, is essential for the provision of quality patient care. The physical well-being of its employees, including doctors, is always the prime concern of the HA. In this connection, the HA is committed to tackling the problem of long working hours of public doctors. To prevent doctors from working excessively long hours, the HA has issued guidelines to all public hospitals on the work hour arrangements of doctors and conducts regular audit reviews on doctors' working hours. The HA has also taken the following specific measures to address the problem of long working hours of public hospital doctors:
- (i) The HA has pledged in its 2001-02 Annual Plan to reduce front-line doctors' work hours by recruiting more doctors to relieve the work of busy departments, better arrangement of on-call duties and provision of rest periods after long hours of work;
  - (ii) Hospital management is required to report on the call frequency, statutory holiday and rest day arrangements, as well as the post-call compensatory off arrangement in regular management meetings;
  - (iii) Individual hospitals have made continuous efforts to enhance the communication process between supervisors and front-line doctors to come up with mutually agreed arrangements on the provision of weekly rest days, and appropriate rest to doctors who have worked a stretch of excessively long working hours; and



- (iv) The HA recruited 312 doctors in 2000-01 and another 303 doctors in 2001-02 to alleviate the workload of doctors. The total number of doctors in the HA has increased by around 12% since March 2000. In 2002-03, the HA will recruit at least 270 doctors to further address pressure areas in different hospitals.
- (c) We have, in our consultation document on health care reform, set out reform proposals for the system of health care service delivery and the fee restructuring option. These proposals, when implemented, will not only improve the health system, but will also have an impact on the workload of the public system and of doctors working in the system. For the delivery of health care service, we shall strengthen preventive care, reorganize primary medical care, develop a community-focused, patient centred and knowledge based integrated health care service, and improve public/private interface. These proposals should facilitate a more efficient and effective distribution of work between the different levels and sectors of health care provision. As for fee restructuring, we shall carry out a full-scale review of our fee structure so as to better target our subsidy to lower income groups and to medical services which carry major financial risks to individuals, as well as to influence appropriate use of medical services.

It has always been our policy to maintain a viable private medical sector to complement the public sector. A dual system will provide patients with more choices of care. At present, the private sector provides 85% of the primary medical care and a substantial amount of out-patient specialist care, while the public sector provides for 94% of the in-patient services in Hong Kong. We believe the private sector can contribute more in the provision of hospital service. The fee differential between the public and private sectors is one of the factors affecting the equilibrium between the public sector and private sector. In the context of the health care reform, we are working on solutions to address the issue through improvement of the public/private interface. We aim to come up

with solutions which can influence the distribution of workflow between the public and private sectors. In this connection, the Administration has set up two dedicated working groups with representatives of private medical practitioners and private hospitals respectively to explore proposals to achieve better collaboration between the public and private sectors. In parallel, the HA has developed referral protocols and shared patient information with private practitioners to facilitate an effective transfer of patients between the public and private sectors.

### **Hill Fires in Country Parks**

19. **MR LAU KONG-WAH** (in Chinese): *Madam President, regarding hill fires in country parks in Hong Kong, will the Government inform this Council:*

- (a) *of the respective numbers of hill fires in country parks each month in the past five years, as well as the five country parks with the most frequent hill fires;*
- (b) *of the total area of vegetation in country parks destroyed by hill fires in the past five years, as well as the amount and cost of replanted vegetation; and*
- (c) *of the time normally taken by the Fire Services Department or the Agriculture, Fisheries and Conservation Department (AFCD) to arrive at the scene after receiving a hill fire report, and the criteria adopted for deciding whether a helicopter should be dispatched to assist in putting out the fire?*

**SECRETARY FOR THE ENVIRONMENT AND FOOD** (in Chinese):  
Madam President,

- (a) The number of hill fires in country parks in the past five years are as follows:

<i>Year</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
<i>Month</i>					
January	16	6	21	11	2
February	5	2	47	14	14
March	6	2	3	11	12
April	1	27	55	2	3
May	0	0	0	0	0
June	0	0	0	0	0
July	0	0	0	0	0
August	0	0	0	0	0
September	0	0	1	8	1
October	4	27	32	14	32
November	7	17	16	3	27
December	5	10	18	2	15
Total	44	91	193	65	106

During this period, the five country parks with the highest number of hill fires are Tai Lam Country Park, Pat Sin Leng Country Park, Tai Mo Shan Country Park, Plover Cove Country Park and Sai Kung West Country Park.

- (b) According to the information of the AFCD, the total area of land within country parks affected by hill fires (mostly grassland) in the past five years and the number of trees destroyed are as follows:

<i>Year</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
<i>Area affected/ No. of trees destroyed</i>					
Estimated area of land damaged by hill fires in country parks (hectare)	307	522	1 680	297	395
Estimated number of trees destroyed	3 355	48 750	73 710	4 370	20 615

The AFCD has not specifically collected information on the number of trees replanted in place of the ones destroyed by hill fires.

However, the department carries out tree-planting programmes in country parks every year. In this regard, the number of trees planted over the past five years and the approximate cost incurred are as follows:

	<i>Year</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
<i>No. of trees planted/</i>						
<i>Cost involved</i>						
Approximate number of trees planted		334 200	493 000	660 000	648 000	950 000
Approximate cost (\$million)		6.0	8.2	11.5	10.8	14.5

- (c) Generally speaking, hill fires within country parks are mainly dealt with by the AFCD. Normally, it will take the department about 15 to 45 minutes to arrive at the scene from receiving a hill fire report. The time required is mainly affected by a number of factors, including the location of the fire incident (for example, its distance from vehicular access and whether the site is accessible from a footpath), topographical conditions, and the location of the duty fire-fighting team.

Upon arrival at the scene, the AFCD's fire-fighting team will immediately assess the intensity of the fire. If the team considers that the fire is very intense, shows signs of spreading rapidly, or is likely to affect residential areas, public utilities, or woodland, or pose a threat to public safety, they will request the Government Flying Service to send helicopters to assist in fighting the fire and seek the assistance of the Fire Services Department if necessary.

### **Primary One Admission System**

20. **MR CHEUNG MAN-KWONG** (in Chinese): *Madam President, it is learnt that some schools consider that the Education Department (ED)'s primary one allocation mechanism, which makes use of computer programmes, lacks transparency, rendering it impossible for schools to know about parents' choices*

*of schools for their children. The Government has implemented the new primary one admission (POA) system since the beginning of this school year, and the percentage of centrally allocated places has increased from the previous 35% to 52.8%, further exacerbating the problem of the lack of transparency in the allocation of places by computer programmes. In this connection, will the Government inform this Council:*

- (a) whether the current specific arrangements and procedures for the allocation of places by computer programmes involve human factors or administrative procedures which may cause schools to admit fewer students than it should have admitted according to the actual choice of the parents, and thus resulting in these schools operating fewer Primary One classes;*
- (b) how it can ensure the allocation of places by computer programmes is done in a fair and impartial manner; whether the Government will allow school representatives to observe the procedures of the allocation of places by computer programmes; if so, of the details; if not, the reasons for that;*
- (c) whether it has any specific measures in place to enhance the transparency of the allocation of places by computer programmes; if so, of the details; if not, the reasons for that; and*
- (d) whether it will consider, after the parents have made their choices, providing individual schools with information on the numbers of parents who have chosen the schools and placed them in their first 10 choices, so as to enhance the transparency of the mechanism; if so, of the details; if not, the reasons for that.*

**SECRETARY FOR EDUCATION AND MANPOWER** (in Chinese): Madam President:

- (a) The existing POA system comprises two categories of central allocation places. 10% of these central allocation places are open to all applicants irrespective of school nets, and each applicant may choose up to three schools. The remaining 90% of the central allocation places are restricted to applicants residing in the same

POA net as the schools, and each applicant may choose not more than 30 schools within the school net.

At the Central Allocation stage, the number of Primary One classes which a primary school may operate is primarily based on the school's class structure in the preceding year. Other relevant factors are the supply of and demand for Primary One places within the school net, parental choices, the number of classrooms available, the optimum class structure for the school as well as the number of children already admitted by the school during the "Discretionary Places Admission" stage. Based on the result of a computer analysis of the actual choices made by parents during the Central Allocation stage, the ED would work out the number of children to be allocated to each primary school. As a matter of principle, if the number of children which has been allocated to a particular class of a school is less than that for a normal class and at the same time, there are still unfilled places in the other schools of the same school net, the school may not be allowed to operate that particular class. For example, if there are 96 children in a school net, the school net would need to provide three Primary One classes altogether. If there are only two schools in the school net, and 40 children have chosen School A while 56 children have chosen School B at the Discretionary Places Admission and the Central Allocation stages, then School A would operate only one class whereas School B would operate two classes.

In late February each year, parents of children requiring central allocation would be invited in writing to submit applications in March regarding their choices of schools. The ED would conduct computer analysis of parents' choices and arrive at a view in May on the number of Primary One classes for individual schools and notify the schools accordingly. Central allocation of places by computers would then be conducted for these applicants.

- (b) During the process of central allocation, the computer would first assign a "Random Number" to each applicant. If the Primary One places of a school are oversubscribed, then the places concerned will be allocated on two bases. First, parents' choices; that is, the computer would first process the first choices of all the applicants.

If the number of first-choice applications for a school exceeds the number of places available, then the computer would process the second choices of these parents, and so on. The second basis of allocation is the "Random Numbers" of the applicants and this would apply only when the demand for places in the schools concerned exceeds the number of places available. The entire allocation process is computer-run and operates without any interference until all the applicants are allocated a place. To ensure fairness and equity of the allocation process, changes to the allocation results and re-run of the allocation programme would not be allowed. The computer processing would also be closely monitored by experts.

As the entire allocation process is computerized, schools would not be able to see how the system inside the computer works. Hence, observing the computer allocation process would not help enhance transparency. The ED would be happy to explain the details of the allocation process to those schools which wish to have a better understanding of it.

- (c) The ED has always adopted various means to explain the POA system to schools and parents; for example, through seminars and publicity leaflets. This year, the ED has produced a VCD for distribution to parents and schools. The VCD explains the details of the computerized central allocation process. In the "Report on Primary One Admission" published by the ED each year, detailed information such as the number of discretionary places allocated in each school net, the demand for and supply of places for central allocation and the number of places eventually allocated, as well as an analysis of applicants choices *vis-a-vis* the schools to which they have been allocated, is provided. In addition, the ED would also report regularly to the Primary One Admission Committee on the progress of the allocation exercise and consult members where appropriate. The chairman and the majority of the members of the Committee come from different types of primary schools and kindergartens.
- (d) Since Primary One places are allocated on the basis of the supply of and demand for such places in the school nets, parental choices as

well as the "Random Numbers" of the applicants, there are bound to be discrepancies between the number of applicants who have chosen the schools as among their first 10 choices and the number of students eventually allocated to the schools concerned. Therefore, such information cannot provide schools with any meaningful reference. Nevertheless, the ED would provide individual schools with such information if they so request.

## **BILL**

### **First Reading of Bill**

**PRESIDENT** (in Cantonese): Bill: First Reading.

### **APPROPRIATION BILL 2002**

**CLERK** (in Cantonese): Appropriation Bill 2002.

*Bill read the First time and ordered to be set down for Second Reading pursuant to Rule 53(3) of the Rules of Procedure.*

### **Second Reading of Bill**

**PRESIDENT** (in Cantonese): Bill: Second Reading.

### **APPROPRIATION BILL 2002**

**FINANCIAL SECRETARY** (in Cantonese): Madam President, I move that the Appropriation Bill 2002 be read a Second time.

2. This is my maiden Budget. I feel honoured, but also under some pressure. Honoured because, under the leadership of the Chief Executive, I can serve the people of Hong Kong by working together with Members of this Council, the community and my colleagues in the Civil Service to map out the future economic development of the Hong Kong Special Administrative Region and



manage its public finances. I feel pressured because Hong Kong must overcome the difficulties spawned by the current economic downturn, and because I must address the structural problem of our public finances.

3. Since I took office 10 months ago, the views expressed by our citizens, along with surveys conducted by the media and academic institutions, have consistently indicated that the public are most concerned about how we are going to revive the economy and improve employment prospects. The public expect me to identify the directions for economic development and to work with the community to sustain our prosperity. They also expect the Government to introduce further relief measures in this time of economic difficulty.

4. During this period, I also met with representatives of the local and international financial sectors. All were most concerned about Hong Kong's fiscal deficit problem. I am fully aware that, due to the externally-oriented nature of the Hong Kong economy and our linked-exchange-rate system, keeping public finances sustainable is of paramount importance. The economic crisis in Argentina and the social unrest this has triggered are the results of overborrowing brought about by persistent fiscal deficits and price rigidity. To safeguard Hong Kong against any such crisis, we must implement effective measures to restore fiscal balance within a reasonable period of time.

5. As I prepared this Budget, I received many valuable suggestions from Members of this Council and the media. I also met with members of the public and various sectors, including the financial sector, labour groups and academia. My heartfelt thanks go to everyone.

6. I will begin my analysis with an overview of the economy. Our economy underwent a downward adjustment in 2001 with a growth of only 0.1% in real terms, much lower than the 10.5% real growth in 2000. Deflation continued, with the Composite Consumer Price Index falling by 1.6% last year. In the quarter ended 31 January 2002, the seasonally-adjusted unemployment rate rose to 6.7%, its highest since the 1980s. (Charts 1 to 3)

7. The major economies of the world, including the United States, the European Union and Japan, are all experiencing economic slowdown. It is the first time since the 1970s that a synchronized global economic downturn has occurred. The United States economy was already showing signs of slowing down by early 2001 and has worsened following the events of "September 11".

The European Union economy, though slightly better than that of the United States, remains sluggish. Japan has been mired in economic recession for 10 successive years. Under such conditions, Hong Kong's economy is inevitably affected. Fortunately, the economy of the Mainland of China, the brightest spot in the global economy, has supported ours in this time of economic difficulty.

8. Initial signs are that economic conditions in the United States are improving. However, the United States and other major economies have accumulated massive excess capacity, which can scarcely all be absorbed over a period of a few quarters. The global economy, in my view, will experience low inflation and low growth for some time to come.

9. In common with other places in Southeast Asia, Hong Kong experienced a bubble economy in the years up to and including 1997. This was the result of various factors, including the restriction on land supply and the effect of negative real interest rates brought about, against the background of the linked-exchange-rate system, by low interest rates in the United States and a high inflation rate in Hong Kong. Following the outbreak of the Asian financial crisis, this bubble burst.

10. Meanwhile, globalization is leading to closer economic ties throughout the world. Increasing trade flows magnify comparative advantages among different areas and accelerate international division of labour. For Hong Kong, globalization in general, and integration with the Mainland economy in particular, have thrown down the gauntlet of economic restructuring.

11. Since the opening up of the Mainland in the 1980s, Hong Kong enterprises, leveraging the low costs there, have expanded their scale of production and enhanced their competitiveness. Our domestic economy has upgraded itself in tandem. Support services for Hong Kong and the Mainland replaced manufacturing industries as the fastest-growing sector. The South China region has now evolved into one of the world's most important production bases. Since the mid-1990s, service industries on the Mainland have also been developing apace. During this period, the bubble economy emerged in Hong Kong, giving rise to high operating costs here. Some Hong Kong service industries started to move northwards as well. Moreover, after reunification, Hong Kong residents, in increasing numbers, travel across the boundary to spend, affecting Hong Kong's domestic consumption.

12. In the process of economic integration, the price differential between Hong Kong and the Mainland will inevitably narrow gradually. In economics, this is called "factor price equalization". The price of tradable products adjusts swiftly due to relatively free trade between the two places. The adjustment of non-tradable factors such as land and labour is slower. "Factor price equalization", however, does not mean that price levels between Hong Kong and the Mainland will be exactly the same, just as New York, London and Tokyo have relatively higher prices than their neighbouring areas. We can foresee that prices in Hong Kong will generally remain higher than those in the Mainland. The magnitude of this price differential will hinge largely on our ability to provide high-value services and goods.

13. As the bursting of the bubble economy coincided with economic restructuring, Hong Kong has experienced heavy deflationary pressure. Property prices have dropped from their peak by more than half. Labour costs are being trimmed through pay reductions and layoffs.

14. In the face of persistent deflation, there are some who have suggested abolition of the linked-exchange-rate system. I must reiterate that the Government has no intention of making any change.

15. As we undergo economic restructuring, we must consider what are our strengths and play to the best of them.

16. Our strengths lie in the following four areas:

- first, our geographic location. Hong Kong is at the centre of Asia. Our hinterland, the Mainland, is the fastest-growing economy in the world. Other cities cannot claim this advantage;
- second, our institutional strengths. These include "one country, two systems", the rule of law, a level playing field, clean government, the free flow of information, a simple and low tax regime, and an efficient and effective market-regulatory system. These institutional strengths, developed over many years, have deep roots;
- third, our talent. Hong Kong is rich in talent in fields such as business, management, and professional services, as well as some

aspects of scientific research and education. These individuals are biliterate and trilingual, and familiar with both Chinese and Western cultures, management, business operations, mindset and practices; and

- fourth, our strong business base. Over the years, many leading enterprises have built up a strong presence in Hong Kong. They complement and support each other, and create a clustering effect that helps attract more high-value-added business activities to Hong Kong.

17. But several challenges also confront our economy:

- first, our costs are relatively high so we need to develop high-value-added businesses;
- second, we need to upgrade the quality of our manpower further and increase the number of talented individuals, to meet the needs of our changing economy; and
- third, we need to enhance economic ties with our neighbouring region, particularly the Mainland, to maintain Hong Kong's status as a regional financial and commercial centre.

18. Since our costs are higher than those of our neighbours, low-skilled and labour-intensive industries are no longer competitive. Hong Kong cannot rely on them to provide the impetus for economic development. We need to focus on high-value-added economic activities. High added value is not the same as high technology. High-value-added activities exist in every sector. Of the many economic sectors in Hong Kong, I believe four are of particular importance, as they can foster the development of other sectors, give impetus to our economy, and create employment. These four areas are financial services, logistics, tourism and producer and professional services.

19. To start with, I will talk about financial services. As an international financial centre, Hong Kong has a considerable edge. We are renowned for our business in foreign exchange, securities and banking. To develop further, our financial market needs to concentrate on two important areas.

20. The first is to increase liquidity. The Government will work together with the Hong Kong Monetary Authority, the Securities and Futures Commission, Hong Kong Exchanges and Clearing Limited and the financial services sector to attract more financial product issuers to Hong Kong, as well as capital and investors from the Mainland and overseas. We are now streamlining procedures and lowering associated costs for the issuance of financial products, so as to facilitate market development and the introduction of new products. For example, we are simplifying procedures for retail bond issues, and reviewing issuance and listing fees for derivatives.

21. Second, we need to enhance our market system further. We will continue to modernize our financial system and make it more user-friendly for investors, issuers and intermediaries through regular reviews. We will ensure efficient and effective regulation in line with international standards in order to maintain our edge in the region. The Securities and Futures Bill, which is in its final legislative stage, will introduce a series of measures to streamline the licensing system for intermediaries, increase market transparency, maintain a level playing field and facilitate product innovation. When preparing the associated subsidiary legislation, we will continue to consult the public and the industry to ensure that such legislation is user-friendly.

22. Next is logistics. Hong Kong's logistics industry enjoys many advantages. We have the world's busiest container port, which handled nearly 18 million TEUs (20-foot-equivalent units of containers) last year. The volume of international freight handled at Hong Kong International Airport was also the highest in the world, last year amounting to nearly 2.1 million tonnes. The further development of our logistics industry depends on increase in speed and efficiency, as users often value these attributes more than cost. In this respect, thanks to the efforts of the freight transport sector, the Airport and the government departments concerned, the transshipment time through Hong Kong of cargo shipped from the rest of the world to the Pearl River Delta has been reduced from two days to less than 24 hours. Moreover, Phase 2 extension works at Lok Ma Chau Control Point are in full swing. The Shenzhen Western Corridor, targeted for completion in 2005, is also under active planning, and upon completion will increase the capacity for vehicular cross-boundary trips by 44 000 a day. Apart from enhancing infrastructure, the Government is re-engineering the customs process to speed up clearance, for instance by introducing "one-stop" arrangements on a trial basis for trucks crossing via Lok Ma Chau Control Point. The Logistics Development Council is studying the use of information technology to establish a common platform to facilitate data

exchange among participants in the logistics industry, including consignors, transport companies, the Customs and Excise Department, banks and container terminal operators.

23. To foster the further development of our logistics industry, we have to expand Hong Kong's cargo catchment area and we will encourage logistics services providers to do so. We also need to develop high-value-added logistics parks in order to attract enterprises to use Hong Kong to support low or even zero-inventory modes of production in the region.

24. Now I will turn to tourism. Last year, over 13.7 million visitors came to Hong Kong, with those from the Mainland registering strong growth of over 17%. With the rebound of tourism in Asia, Hong Kong will remain the first choice for many. To promote tourism, we must develop more attractions and improve our facilities. We must also develop different types of tourism, such as business tourism linked with exhibitions and conferences, and family, ecological and cultural tourism.

25. In addition to our existing first-class convention and exhibition facilities, we plan to build a new international exhibition centre at the Airport. Upon its completion, this new facility will attract many more business visitors to Hong Kong. Meanwhile, Ocean Park is introducing new attractions, and the construction of Hong Kong Disneyland is progressing well. These theme parks, as well as the proposed Tung Chung cable car project on Lantau Island, will help cater for family tourism. Hong Kong is endowed with scenic country parks, hiking trails and nature conservation areas. They provide a good foundation for the development of ecotourism. We are also well-equipped to promote cultural tourism. As the city where East meets West, Hong Kong has attractions as diverse as Temple Street and Lan Kwai Fong, or Wong Tai Sin Temple and Murray House, which form strong and colourful contrasts. The concept plan for an exciting new cultural zone in West Kowloon has been selected through international competition. We will soon start detailed planning for its early construction, to provide new attractions for local residents and tourists alike. Alongside these, we have one of the greatest attractions of all: our fine cuisine. China has a venerable culinary tradition and Hong Kong enjoys a reputation as a gourmet paradise. We need to make every effort to retain that accolade.

26. Together we must welcome our visitors with hospitality, courtesy and sincerity. I am pleased to note that improvements are taking place. Every citizen, shop and restaurant is a Tourism Ambassador for Hong Kong. We

must give our guests a value for money experience so that they will all want to come back again, and tell their relatives and friends that Hong Kong is a uniquely vibrant and charming destination.

27. Promoting inbound tourism does not merely bring economic benefits: it also helps us to rediscover Hong Kong's attractiveness. Tourism enriches the flavour of Hong Kong, and encourages us to cherish our heritage and develop our cultural traditions.

28. Another force driving economic development is producer and professional services. As the Mainland, our hinterland, opened up, this permitted our industries to expand their production base and increase their competitiveness. In this process, our industries have moved up the value chain, from a low-value-added and labour-intensive production mode to a high-value-added and technologically-based one. That is why we have, in recent years, witnessed rapid expansion in producer services such as import and export, transportation and warehousing, trade financing, insurance, accreditation and testing, research and development, product design and market research and promotion. In addition, Hong Kong has a steadily-growing professional services sector, including legal, accounting, engineering, advertising, consultancy, public relations and design services, which provide services to clients in Hong Kong, the Mainland, and throughout the world.

29. To advance further up the value chain, enterprises in Hong Kong need to devote more resources to research and development, become more innovative and make wider use of technology, especially information technology, to add value to their services. Such research and development work includes helping the manufacturing industry to introduce more sophisticated and efficient production techniques to enhance productivity and competitiveness. One way is by accelerating the evolution of the production mode from Original Equipment Manufacturing to Original Design Manufacturing and thence Original Brand Manufacturing by means of design and product innovations and use of new materials. Such activities can generate many other high-value-added industries and businesses, for example the design of integrated circuits.

30. We have set up steering committees to promote development in each of these four important economic sectors. I have been overseeing their work personally and will see to it that good progress is made. In Hong Kong, there are many other industries with good potential, such as applied technology,

Chinese medicine, film, music, publishing, fashion and construction. Their concerted efforts will give further impetus to our economy.

31. Apart from the more externally-oriented economic sectors that I have just mentioned, economic activities in the local community closely linked to our daily life are also important. This local community economy covers a wide range of activity, including cultural, recreational, sports, social and personal services; and there are many different types of players, such as small traders, local domestic helpers and fitness instructors. Development of the local community economy can promote domestic consumption, create employment opportunities and highlight Hong Kong's unique characteristics. I will chair an inter-bureau working group to promote the development of the local community economy.

32. Everyone in Hong Kong, whatever his or her particular walk in life, must seek to excel. Being ahead of the game helps to improve economic efficiency and increase market share. It also assists us to overcome our higher costs, and allows us to maintain and enhance our standard of living. We already command a leading position in the region in fields such as financial services, logistics, tourism and pop culture. We have to keep up this good work to stay ahead of the competition. In other areas where we enjoy competitive advantages but have not yet taken a lead, we must work harder to reach that goal.

33. The key to success in business is either a competitive price or product differentiation. With our cost, we have to use the latter. This calls for market-driven, customer-oriented services and products delivered or made with quality, speed and creativity. Such attributes are essential for both high- and low-technology industries. Let me cite a few examples by way of illustration. Our restaurants enjoy worldwide renown for their quality and creativity: Hong Kong cuisine is now a synonym for fine dining. Our pop music and movies are now in demand throughout Asia, another example of success through creativity. Our garment industry is distinguished by speed and quality. I believe all of us, irrespective of age, occupation or academic qualifications, and all our businesses, regardless of scope or scale, can harness these attributes of quality, speed and creativity.

34. Hong Kong has good human resources, but we still need to train and attract more talent. That is the second challenge we have to overcome.



35. We are now taking action on two fronts. The first is to improve the quality of our basic education, enhance higher education and promote lifelong learning in the community. We need more talented individuals who are biliterate and trilingual, innovative, adaptable and have the ability to think critically and communicate. Indeed, most people in Hong Kong strive to improve themselves and enhance their personal worth. The Government will continue to invest heavily in education and training and help those in financial difficulties to pursue further studies through subsidies and loans. Nevertheless, it is also reasonable for those who can afford it, to pay their own expenses in the pursuit of lifelong learning.

36. The second important task is to attract to Hong Kong individuals with the right knowledge and skills or who have entrepreneurial spirit. Some believe that the admission of outside talent would deprive local people of employment. The reality is quite the opposite. Outside talent gives impetus to our economic development and this in turn creates more jobs. The keen competition among the developed economies in America and Europe for talent from all over the world is a testament to this.

37. Whether such talent is prepared to come to Hong Kong depends on many factors, including the living environment, town planning, potential for self-fulfillment and cultural diversity. But the crucial element is the Government's admissions policy. Last October, the Chief Executive announced in his policy address that the Government was reviewing its immigration policy with a view to relaxing restrictions on the entry of overseas investors. He has recently suggested the need to conduct a comprehensive study of Hong Kong's admissions policy. These initiatives are intended to facilitate the steady economic restructuring of Hong Kong.

38. I now come to the economic flows between Hong Kong and its hinterland. As a regional financial and commercial centre, Hong Kong must maintain a smooth flow in both directions of economic activity with its neighbouring areas, in particular the Mainland. Our interaction with other economies generally does proceed smoothly. With the Mainland, however, the flows, in particular those of people, goods, capital, information and services, still need improvement. This is the third challenge we face.

39. As regards the flow of people, the quota system for the Hong Kong Group Tour Scheme was abolished on 1 January this year, following discussions

between the Government of the Hong Kong Special Administrative Region and the Central People's Government. There are now 67 mainland travel agencies organizing tours to Hong Kong, as against four in the past. The Central People's Government has also simplified the procedures for mainland visitors to come to Hong Kong on business.

40. I have already touched upon the subject of goods and capital flows earlier in my speech. In the field of information, Hong Kong is the telecommunications and broadcasting centre for the region. We have readily-available information on economic developments in the Mainland. We are the natural base for analysts and investors interested in China. This creates a clustering effect. We need to reinforce our advantage in the field of information through upgrading both hardware and software.

41. As for services, the Government will continue to promote closer connections between these industries in both places. Our professional services, such as accounting and banking, have gained a foothold in the Mainland. I am now holding discussions with officials of the Central People's Government on a Closer Economic Partnership Arrangement with the Mainland. Such an arrangement will greatly enhance the flow of goods and services between the two places.

42. Let me now turn to the Government's role in the economy. I am a firm believer in market economy. I believe the market can allocate and utilize resources more effectively and has greater capacity to foster creativity, provide economic impetus and create employment opportunities. It can do this better than the Government. Some may have the impression that, to maintain Hong Kong's economic freedom, the Government should be passive and distance itself from the economy. I disagree. I am of the view that the Government should have a clear vision of the direction of economic development and be a proactive market enabler. This role includes:

- first, maintaining an institutional framework conducive to market development, including reinforcing our institutional strengths, such as the rule of law, the low and simple tax regime, the level playing field, law and order and the business-friendly environment. The Government should review the regulatory and supervisory framework at regular intervals to ensure that it remains user-friendly, effective and up-to-date;

- second, providing that infrastructure in which the private sector will not invest;
- third, providing an appropriate environment and the resources required to raise the quality of our human capital. That includes investing in education and attracting outside talent to Hong Kong;
- fourth, securing more favourable market access for our local enterprises through multilateral and bilateral economic and trade negotiations and participation in relevant economic and trade organizations. The Government in conjunction with the appropriate organizations should also assist local enterprises to promote their products outside Hong Kong; and
- fifth, considering the need to take appropriate measures to secure projects beneficial to our economy as a whole when the private sector is not ready to invest in them.

43. Apart from the foregoing, the Government should also provide a "safety net" for the community. While economic activities are the lifeline of society, a caring community based on mutual concern and support is equally important. The Government will continue to take care of the basic needs of those who are disadvantaged or in hardship. Their well-being will not be neglected.

44. I now turn to the economic forecast for 2002 and our medium-term (from 2002 to 2006) prospects. I believe that the European Union and United States economies will recover in the foreseeable future and that the Mainland will maintain its high economic growth. In the light of the more favourable external factors and our sustained efforts to move up the value chain, the outlook for Hong Kong is bright in the medium and long term.

45. I am forecasting a Gross Domestic Product (GDP) growth of 1% in real terms for 2002, and real trend growth of 3% over the medium term. As the excess capacity within the global economy has yet to be digested and local deflationary pressure will remain, I forecast a fall of 1.5% in the GDP deflator for 2002 and 0.4% trend growth over the medium term.

46. While the medium- and long-term outlook is promising, it will take time for our economy to recover. Economic restructuring will continue for some

time. In the light of these factors, coupled with the pressure of deflation, I expect that, in the short term, the unemployment rate will increase further.

47. Now I shall focus on public finances. As in the past, the Government will continue to follow the guiding principle of prudent management of public finances. Article 107 of the Basic Law stipulates that the Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its GDP.

48. Two weeks ago, the Task Force on Review of Public Finances published its findings. The Task Force concluded that our public finances are confronted with structural problems. On the revenue side, consolidation in the property market has resulted in a structural diminution in revenue from land premiums, profits tax from the banking and property sectors, and stamp duty on property transactions. The investment income from our fiscal reserves will also suffer a structural reduction, as successive years of fiscal deficits result in a rundown of the reserves, and as the anticipated rate of return on investment income is likely to drop alongside low inflation in the years ahead.

49. On the expenditure front, the Task Force pinpointed price rigidity in government expenditure, which is particularly severe in times of deflation. Over the past three years, the general price level of the economy has fallen by 12%, whereas the price of government expenditure has remained basically unchanged. Furthermore, our ageing population will increase the demand for social security payments. In the recent years of economic downturn, the Government has also consciously embraced counter-cyclical fiscal policies. As the economy recovers, measures to redress these will have to be taken. Otherwise, our fiscal policies would be out of line with the economy, and this would exacerbate the structural problem in our finances.

50. The Task Force was of the view that, were the prevailing revenue and expenditure policies to continue, the Government would face ongoing and persistent fiscal deficits. It estimated that the fiscal reserves would be depleted by 2008-09. Obviously, this scenario is unacceptable.

51. Later on, I will propose measures to restore fiscal balance. Let me first discuss four issues concerning the management of public finances, namely public expenditure as a share of the economy, basis for comparison of growth in

expenditure and the economy, consolidated and operating balances, and purpose and level of fiscal reserves.

52. Firstly, on the share of public expenditure in the economy. The share of public expenditure in the economy averaged around 16% in the mid-1980s, about 17% in the mid-1990s, but rose to 22% in 2001-02. This is due to the fact that, in the face of economic downturn since 1998, the Government has consciously adopted a counter-cyclical fiscal policy, by keeping expenditure growth above the trend growth of the economy. In addition, due to rigidity in the prices of public expenditure, they have continued to rise despite deflation in the economy.

53. The growing share of public expenditure in the economy consumes scarce resources that could otherwise be used by the private sector more efficiently. To maintain Hong Kong's competitiveness, we must contain public expenditure as a percentage of GDP. My target is to reduce this share to 20% of GDP or below by 2006-07.

54. Secondly, the basis for comparison of growth in expenditure and the economy. Government expenditure and economic growth can be measured in both real and money (or nominal) terms. In a nutshell, our recurrent revenue and expenditure are accounted for in money terms, whereas "real" is an economic concept, referring to value after discounting price movement.

55. Price movement in government expenditure does not follow that of the economy. This is mainly attributable to the higher wage content of government expenditure. Wages tend to increase faster than the general price level in the economy, which means that the price of government expenditure grows faster than the general price level. Government expenditure also includes pension and social security payments, and these have not adjusted downwards with the general price level in times of deflation. The differential between the government expenditure price level and the general price level thus widens further. Over the past decade, the government expenditure price level has risen by 72% but the general price level only by 29%. As a result, although in real terms the growth in government expenditure has been broadly in line with GDP growth, it has overshot in money terms. From 1998-99 to 2001-02, government expenditure recorded a cumulative growth of 17% in money terms, while GDP registered a cumulative fall of 5%.

56. As both government revenue and expenditure are accounted for in money terms, I shall strive to control the growth of government expenditure in money terms, in addition to controlling it in real terms.

57. I will now come to consolidated and operating balances. Government revenue and expenditure can be measured on two levels. One is the Consolidated Account, which comprises all revenue and expenditure, including recurrent and capital revenue and expenditure. The other is the Operating Account, which, put simply, includes only recurrent revenue and expenditure. It is important to achieve a balance in both accounts, but for investors and international rating agencies, the operating balance sometimes is even more important.

58. Investment income from the fiscal reserves has been a major source of revenue for the Operating Account, contributing on average 13% in each of the past four years. This income source is expected to decrease as a result of the declining fiscal reserves and the lower return on their investment. Accordingly, we should focus not only on the deficit or surplus after taking investment income into account, but also on that before its inclusion. Let me illustrate this point with reference to daily family financial management. The recurrent revenue of the Government can be compared to the wage income of a family, the fiscal reserves to a bank deposit, and investment income to interest earnings. Generally speaking, a family's operating account is balanced when the wage income is adequate to cover its daily expenses. If a family has to draw on interest earnings to meet its daily expenses, then it has to be very much on the alert because interest earnings, being susceptible to interest rate movements, are not stable. If its income is insufficient to cover daily expenses and the family has to draw on the principal of the deposit, I am afraid that it will have to survive on debt once the deposit is depleted.

59. In seven out of the past 10 years, the Government has run a capital account deficit. Capital expenditure is mainly on infrastructural projects, and is principally funded by land premiums. As Hong Kong's property sector undergoes consolidation, land premiums in future will likely be inadequate to meet capital expenditure. Although the Government can sell some of its assets, this cannot provide a stable source of revenue in the long term. Therefore, to ensure consolidated balance, we need to achieve surpluses in the Operating Account over the longer term to finance a part of capital expenditure.

60. We have had operating deficits for four consecutive years since 1998-99. In three of the past five years, the Consolidated Account has also recorded a deficit. This cannot go on forever. My target is to achieve consolidated and operating balances by 2006-07. (Charts 4 to 5)

61. I wish to talk on fiscal reserves now. During my Budget consultations, I heard suggestions for the Government to revise the target level of fiscal reserves in the light of the prevailing conditions of the economy and public finances.

62. In the wake of the Asian financial crisis, the Hong Kong Monetary Authority has implemented a series of measures to reinforce the stability of the Hong Kong Dollar exchange rate. In addition, the accumulated surplus of the Exchange Fund has now reached \$300 billion. These developments have greatly enhanced the Exchange Fund's ability to maintain exchange rate stability. I see no further need to link the level of fiscal reserves to money supply. In my view, it should be sufficient to have fiscal reserves equivalent to around 12 months of government expenditure to meet operating and contingency requirements. Although it is no longer necessary to link the level of fiscal reserves to money supply, the Government's fiscal reserves will continue to be placed with the Exchange Fund, thereby providing even more resources for the Exchange Fund to maintain the stability of the Hong Kong Dollar and our monetary system.

63. Let me now elaborate on the Government's plan to solve the deficit problem in the medium term. First, I forecast a consolidated deficit of \$65.6 billion for 2001-02 (equivalent to 5.2% of GDP), far larger than the original estimate of \$3 billion. This is due mainly to revenue from land premiums and investment income from our fiscal reserves falling far short of our original forecasts. Furthermore, the secondary offering of Mass Transit Railway shares originally planned for this financial year has been postponed to the next because of changes in investment market conditions. I estimate the fiscal reserves to be \$369.8 billion by 31 March this year, roughly equivalent to 19 months of government expenditure.

64. Earlier, I set three targets for our public finances in 2006-07:

- first, restore balance in the Consolidated Account;
- second, attain a balanced Operating Account; and
- third, reduce public expenditure to 20% of GDP or below.

I aim to achieve these targets step by step through reducing the growth of government expenditure and modestly raising revenue. I believe this is a practical strategy commensurate with our economic condition.

65. Having regard to the current state of our economy, I have decided to allow government expenditure in 2002-03 to grow by 2% in real terms over the original estimate for 2001-02, or 7.7% over the revised estimate, higher than the forecast economic growth of 1% in real terms for 2002.

66. From 2003-04 to 2006-07, I will reduce the real growth in government expenditure to an average of 1.5% each year, lower than the forecast economic growth rate. I believe Hong Kong's economy should have picked up by then and such a reduction will be necessary to restore fiscal balance in the medium term.

67. I have mentioned earlier that it is necessary to control the growth of government expenditure in money terms. Personnel-related expenses account for 70% of government operating expenditure. Given our serious fiscal position, I have assumed in the Medium Range Forecast, for financial planning purposes, that civil service pay will be cut by 4.75% and the salary-related portions of subventions to the various organizations will also be reduced by the same rate. This assumed 4.75% pay cut has taken into account the respective cumulative pay rises for civil servants of different ranks since July 1997.

68. Under the existing mechanism, the Government will consider, among other things, the results of the private sector pay trend survey and its own budgetary position before deciding on an annual civil service pay adjustment. We will continue to adopt this mechanism and make a final decision after the outcome of this year's survey is known in May. Any decision on a civil service pay cut needs to go through the legislative process before it can be implemented. Assuming that the pay cut takes effect from 1 October this year and that the level of reduction is 4.75%, the Government will achieve savings of about \$3 billion in 2002-03 and about \$6 billion in a full year.

69. Last month, I met with representatives of the civil service central consultative councils and a number of civil service staff unions. I appreciate their position. I believe many colleagues in the civil service and the subvented organizations understand that we are facing a serious fiscal situation and that persistent fiscal deficits will adversely affect Hong Kong as a whole. In fact, many colleagues told me that they were willing to stand by the rest of the community in this time of difficulty and share the burden.



70. In addition, we will stringently contain the growth of the Civil Service in all ranks. Last year, the Government proposed to reduce the civil service establishment to around 181 000. Thanks to the efforts of all departments and grades, we will achieve this target as scheduled in 2002-03.

71. We will also review the demand for services and our priorities for the deployment of resources. Departments will streamline procedures, simplify structures and economize on manpower in order to release resources to meet additional needs. Furthermore, we will make use of market forces and strengthen our co-operation with the private sector to provide better and more efficient services to the public through various means.

72. Assuming that civil service pay is cut from 1 October this year, government expenditure in 2002-03 will increase in money terms by 0.6% over the original estimate, or 6.2% over the revised estimate, for 2001-02. Average annual growth of government expenditure from 2003-04 to 2006-07 will be 1% in money terms. With the foregoing measures for controlling expenditure, I am confident that public expenditure will fall to 20% of GDP in 2006-07. (Chart 6)

73. Now, let me come to the revenue proposals for 2002-03. Nevertheless, in order to restore fiscal balance in the medium term, we need to increase revenue in addition to controlling the growth of government expenditure.

74. Under the present economic conditions, I consider it inappropriate to make any major changes on the revenue front in 2002-03. My only tax increase proposal is a modest increase in the duty rate on wine. I also propose to reduce the quantities of duty-free tobacco and still wine that local residents may bring back to Hong Kong. These two proposals have no bearing on livelihood and will not hinder economic recovery.

75. I propose to increase the duty rate on wine from 60% to 80%. I estimate that this will generate additional revenue of \$70 million in a full year. This proposal will have only a mild effect on the retail prices of wine, as the level of duty is determined on the basis of ex-factory prices. The new duty rate became effective at 2.30 pm today in accordance with a Public Revenue Protection Order signed by the Chief Executive and published in the Gazette. We will introduce the related legislation into this Council as soon as possible.

76. I propose to cut by 40% the quantities of duty-free tobacco that Hong Kong residents may bring back. The new duty-free quantities will be 60 cigarettes or 15 cigars or 75 grammes of tobacco. For duty-free still wine, the quantities that Hong Kong residents may bring back will be cut by 25%, from one litre to 750 millilitres, the standard size of a bottle of wine. I estimate that this proposal will generate additional revenue of about \$330 million in a full year.

77. With the foregoing measures to control expenditure and increase revenue and the assumed 4.75% civil service pay reduction, we would not yet be able to restore balance in the Operating Account in 2006-07. We still need to increase recurrent revenue or reduce recurrent expenditure by \$2 billion from 2003-04 onwards, with another \$3.5 billion required from 2004-05 onwards and a further \$3.5 billion from 2005-06 onwards. (Chart 7)

78. To achieve overall fiscal balance in 2006-07, we also need to increase capital revenue (for example, by the sale of government assets) or reduce capital expenditure by \$20 billion over the medium term.

79. Having considered the views of various sectors of the community, I propose to introduce a Boundary Facilities Improvement Tax. Many Members of this Council and citizens agree that it is in principle justifiable to impose a tax at a modest level on passengers departing from Hong Kong through land crossings. At present, passengers departing through Hong Kong International Airport or people leaving by sea for the Mainland and Macao through our marine ferry terminals are required to pay a flat-rate tax or fixed fee to the Government. As our economic links with the Mainland strengthen, we will allocate substantial resources to improve our land crossing facilities to remove constraints on the flows of people and trade between the two places. The collection of a Boundary Facilities Improvement Tax at a reasonable rate will help finance the improvement of boundary facilities.

80. The Government will look into the details of implementation, including appropriate exemption arrangements, for the Boundary Facilities Improvement Tax. We aim to introduce a bill into the Legislative Council in 2002-03 so that this tax can come into effect in 2003-04. Assuming that the Boundary Facilities Improvement Tax is set at \$18, it can generate an estimated additional revenue of approximately \$1 billion a year.

81. Apart from the Boundary Facilities Improvement Tax, the Government has to consider other options for raising additional revenue or reducing expenditure to make up the shortfall that I mentioned earlier.

82. As regards increasing revenue, the Advisory Committee on New Broad-based Taxes has recently released its report. I would like to express my sincere thanks to Mr Moses CHENG, Chairman of the Advisory Committee, and all its members for their work. The report's recommendations include the introduction of a Goods and Services Tax and a Land and Sea Departure Tax (akin to the Boundary Facilities Improvement Tax), an increase in rates, and a reduction in personal allowances under salaries tax. Apart from these recommendations, the Government will consider other options for raising additional revenue. The Government is considering how to tackle illegal soccer betting more effectively, including options that may bring additional revenue to the Treasury.

83. I understand the community's concern about the recommendation for a Goods and Services Tax. The Chief Executive and I have stated clearly that the Government will not introduce such a tax while there is a downswing in the economy. Nevertheless, the Government will continue to study the details of a Goods and Services Tax for implementation as and when necessary.

84. Let me now focus on the expenditure estimates for 2002-03. These estimates have taken into account the assumed 4.75% civil service pay reduction and the corresponding reduction in subventions for salary-related expenses to subvented organizations.

85. I have earmarked adequate resources to implement the Chief Executive's vision for Hong Kong, including the policies and performance pledges announced in his policy address last October.

86. In 2002-03, total recurrent government expenditure will amount to \$204.9 billion, an increase of 5% in real terms over the revised estimate for 2001-02. Recurrent expenditure for Education is estimated to be \$49.3 billion, an increase of 8%; for Health \$32.4 billion, an increase of 4%; for Social Welfare \$32.1 billion, an increase of 9%; for Support \$28.4 billion, a decrease of 2%; for Security \$24.8 billion, an increase of 2%; for Infrastructure \$11.8 billion, an increase of 4%; for Environment and Food \$9.0 billion, an increase of 10%; for Economic \$8.8 billion, an increase of 12%; for Community and External Affairs \$7.6 billion, an increase of 3%; and for Housing \$0.6 billion, a decrease of 1%.

87. Government capital expenditure in 2002-03 is estimated to be \$49.4 billion, representing an increase of 21% in real terms over the revised estimate for 2001-02. This is due mainly to provisions for setting up the Continuing Education Fund, support for small and medium enterprises and increased spending on capital works. Expenditure on capital works is estimated to be \$28.5 billion, an increase of 15% in real terms over the revised estimate for 2001-02. From 2003-04 to 2006-07, expenditure on capital works will be in the range of \$25 to \$30 billion per year, depending on progress of individual projects.

88. In the course of Budget consultations, Members of this Council and many citizens expressed the hope that the Government would show concern over the community's hardship in this time of economic difficulty. The Chief Executive and I both agree that, the Government's overall financial position permitting, we will provide some one-off concessions related to people's livelihood.

89. In his policy address last October, the Chief Executive decided to ease the burden on all ratepayers by reducing the amount of rates payable in 2002. The maximum amount to be waived for each rateable tenement is \$2,000. To provide further relief to our citizens, especially middle-income earners, I have decided to raise the maximum amount to \$5,000. The previous concession of \$2,000 reduced the load on ratepayers by \$5 billion. With an increase in the concession to \$5,000, their burden will be reduced by another \$2.6 billion.

90. I propose to waive water and sewage charges for domestic households for one year, subject to maximum amounts set at \$800 and \$200 respectively. As for non-domestic consumers, I also propose to waive their water and sewage charges for one year, subject to maximum amounts set at \$3,200 and \$800 respectively, so as to help reduce the operating cost of the industrial and commercial sectors. As some premises still use fresh water for flushing, I also propose to waive such flushing charges for one year, subject to a maximum amount set at \$800. Currently, operators in 30 specified trades are required to pay a trade effluent surcharge. I propose to reduce this surcharge by a flat rate of 30% for one year. The foregoing concessions will cost about \$1.3 billion.

91. To help further reduce the operating cost of businesses, I propose to waive the business registration fee for one year. This proposal will cost about \$1.3 billion.

92. The duty concession for ultra low sulphur diesel is due to expire on 31 March this year. In view of the operating difficulties of the transportation industry, I propose to extend this concession, for the third time, for another year to 31 March 2003, maintaining the duty rate of ultra low sulphur diesel at \$1.11 per litre. This proposal will cost \$1.2 billion.

93. To avoid adding to the burden of the community, I have decided to freeze government fees and charges up to the end of March next year. However, this measure will not apply to fees and charges levied by trading funds, nor to services provided at full cost to certain public entities. Nor will it apply to any new fees that are in the pipeline.

94. With the implementation of the above concessions:

- about 85% or more than 2.3 million ratepayers will pay no rates for one year;
- about 80% of households and business consumers will pay no water and sewage charges for one year;
- each of the 15 000 or so businesses currently required to pay the trade effluent surcharge will on average pay \$4,000 less;
- over 600 000 business operators will be exempted from the business registration fee for one year; and
- the transportation industry will continue to benefit from the duty concession for ultra low sulphur diesel.

95. These extensive concessions will benefit the general public and the business community alike. The total cost of these concessions will amount to \$6.4 billion.

96. Implementation of the proposed concessions on water and sewage charges, the trade effluent surcharge, the business registration fee and the duty on ultra low sulphur diesel is subject to the passage of subsidiary legislation. We will introduce the subsidiary legislation into this Council as soon as possible. I hope that Members will support these proposals.

97. Apart from my proposal to raise the maximum amount of rates to be waived to \$5,000 for each rateable tenement in 2002, the recently-completed revaluation exercise has also indicated that average rateable values fell by 6% last October compared with a year earlier. The burden of rates payments on citizens has thus been further alleviated.

98. In this time of high unemployment, the lack of jobs for young people aged between 15 and 24 is of particular concern to us. When the economy is sluggish, as such people generally have little or no working experience, it is difficult for them to secure employment.

99. To assist them to raise their employment prospects, I have decided to allocate a one-off sum of \$400 million for the implementation of a two-year scheme to provide on-the-job training for about 10 000 young people. Training periods will range from six to 12 months, depending on the needs of individual industries. During this time, the trainees will acquire knowledge and skills relating to their chosen industry. Upon completion of their training, they will receive a certificate which will enable them to continue their studies or find employment. For the period of training, we will provide a monthly subsidy to employers who will be required to pay the trainees' wages. We will work out details of the programme with the relevant industries and training institutions. I urge the business sector to participate actively in the scheme.

100. Total expenditure for 2002-03, including the expenditure initiatives which I have announced today and assuming that civil service pay is reduced by 4.75% and subventions to the various organizations are reduced correspondingly, will amount to \$259.8 billion. I estimate that, after implementation of my revenue proposals, total revenue will be \$214.6 billion. The consolidated deficit will be \$45.2 billion, equivalent to 3.6% of GDP. The operating deficit will be \$62.0 billion before, and \$49.3 billion after, inclusion of investment income from the fiscal reserves. At 31 March 2003, the fiscal reserves are forecast to be \$325.6 billion, equivalent to 15 months of government expenditure.

101. When all the foregoing expenditure-control and revenue-raising measures are implemented and when we have taken further measures to make up the shortfall as targeted, the Government will achieve operating and consolidated balances in 2006-07, at which time the fiscal reserves are forecast to be \$271.2 billion, equivalent to 12 months of government expenditure. (Charts 8 to 9)

102. Madam President, it has been my great honour to lead the preparation of this Budget. Over the past 30 years, I have often travelled on business. Whenever I was away, however, I longed to return to Hong Kong, my home town. In Hong Kong we have the wonton noodle, "daipaidong" tea, and noisy but lively tea houses, plus the flourishing mass media. Also, the night scenes that surround our harbour are so colourful, dazzling and enchanting, found in no other place in the world. So many lights. I see each light as a symbol of the energy and brilliance of this great city.

103. We have all grown up in Hong Kong. Many of you may still remember the days of water rationing, when we had to queue up in the street, bucket in hand, waiting for our turn, and the times when the whole family had to assemble plastic flowers or put stickers on toys to make ends meet. We have moved on past all those times now.

104. Hong Kong is vibrant and dynamic. With determination and hard work, we can achieve our goals. The Hong Kong that we treasure is caring, full of mutual respect, very free and a great believer in diversity. Today we are in the rough. It is high time for all of us to pitch in. I believe that this is the wish of Members, my government colleagues, the media and citizens outside this Chamber. In these difficult times, I see many people rising to the challenge, working harder and holding their heads up high. I am confident that we will scale new heights.

105. Compared with so many other places, Hong Kong has a promising future. This is founded on the strength and prosperity of our hinterland. Since the reunification in 1997, we are no longer separated from our Motherland by an accident of history. With the implementation of "one country, two systems", we will continue to help build our nation. Hong Kong has always been an energetic, free, liberal and enterprising city. History made us the pearl of the convergence between East and West. As we forge ahead, we have a special role to play at the vanguard of our Motherland's integration with the rest of the world.

106. I look forward to working with Members of this Council, my government colleagues and the whole community, to revitalize our economy and to contribute to Hong Kong and our nation.

107. In closing, I would like to share with you the following familiar lyrics:

"Of one mind in pursuit of our dream  
All discord set aside  
With one heart on the same bright quest  
Fearless and valiant inside

Hand in hand to the ends of the earth  
Rough terrain no respite  
Side by side we overcome ills  
As the Hong Kong story we write".

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That the Appropriation Bill 2002 be read the Second time.

**PRESIDENT** (in Cantonese): In accordance with the Rules of Procedure, the debate on the Second Reading of the Appropriation Bill 2002 is now adjourned, and the draft Estimates are referred to the Finance Committee for examination before the debate on the Bill resumes.

### **MEMBERS' MOTION**

**PRESIDENT** (in Cantonese): Members' motion. Proposed resolution under the Interpretation and General Clauses Ordinance to extend the period for amending the Drug Dependent Persons Treatment and Rehabilitation Centres (Licensing) Ordinance (10 of 2001) (Commencement) Notice 2002.

### **PROPOSED RESOLUTION UNDER THE INTERPRETATION AND GENERAL CLAUSES ORDINANCE**

**MRS SELINA CHOW** (in Cantonese): Madam President, I move that the motion, which is printed under my name on the Agenda, be passed.

At the meeting of the House Committee on 1 March 2002, Members decided to form a Subcommittee to study the Drug Dependent Persons Treatment



and Rehabilitation Centres (Licensing) Ordinance (10 of 2001) (Commencement) Notice 2002 tabled before the Council on 6 February 2002.

In order to give the Subcommittee sufficient time to hold meetings and to report to the House Committee the results of its deliberations, I hereby move in my capacity as Chairman of the Subcommittee a motion to extend the scrutiny period of the said subsidiary legislation to 13 March 2002.

Madam President, I urge Members to support this motion.

**Mrs Selina CHOW moved the following motion:**

"That in relation to the Drug Dependent Persons Treatment and Rehabilitation Centres (Licensing) Ordinance (10 of 2001) (Commencement) Notice 2002, published in the Gazette as Legal Notice No. 20 of 2002 and laid on the table of the Legislative Council on 6 February 2002, the period for amending subsidiary legislation referred to in section 34(2) of the Interpretation and General Clauses Ordinance (Cap. 1) be extended under section 34(4) of that Ordinance to the meeting of 13 March 2002."

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That the motion moved by Mrs Selina CHOW be passed.

**PRESIDENT** (in Cantonese): Does any Member wish to speak?

(No Member responded)

**PRESIDENT** (in Cantonese): I now put the question to you and that is: That the motion moved by Mrs Selina CHOW be passed. Will those in favour please raise their hands?

(Members raised their hands)

**PRESIDENT** (in Cantonese): Those against please raise their hands.

(No hands raised)

**PRESIDENT** (in Cantonese): I think the question is agreed by a majority respectively of each of the two groups of Members, that is, those returned by functional constituencies and those returned by geographical constituencies through direct elections and by the Election Committee, who are present. I declare the motion passed.

#### **NEXT MEETING**

**PRESIDENT** (in Cantonese): I now adjourn the Council until 2.30 pm on Wednesday, 13 March 2002.

*Adjourned accordingly at twenty-seven minutes to Four o'clock.*

Chart 1

The Hong Kong economy underwent a downward adjustment in 2001

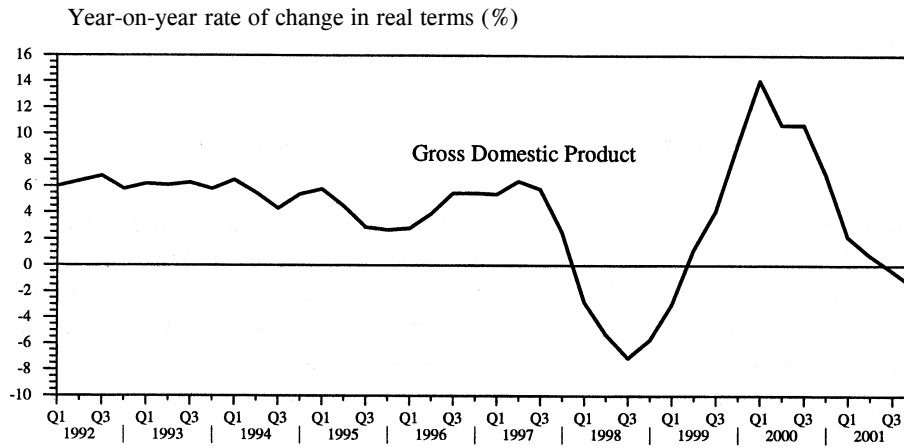


Chart 2

Unemployment increased

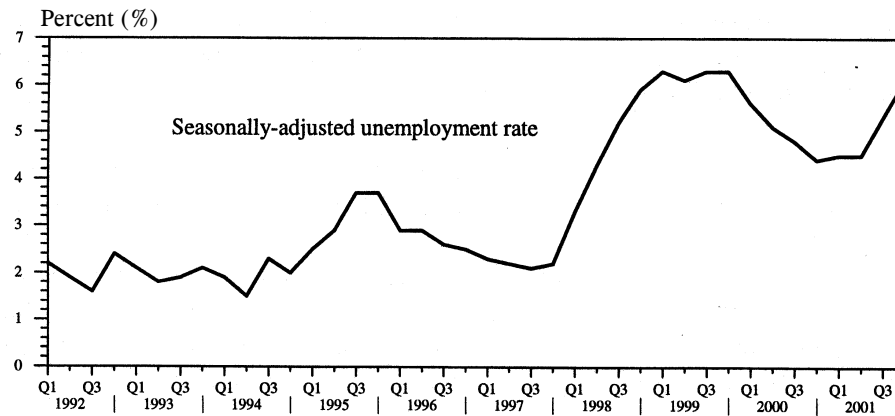


Chart 3

Deflation continued

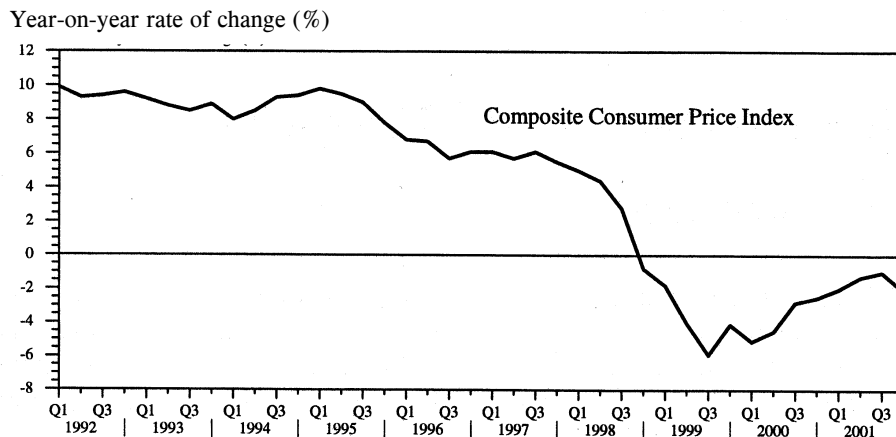


Chart 4

Four consecutive years of operating deficits

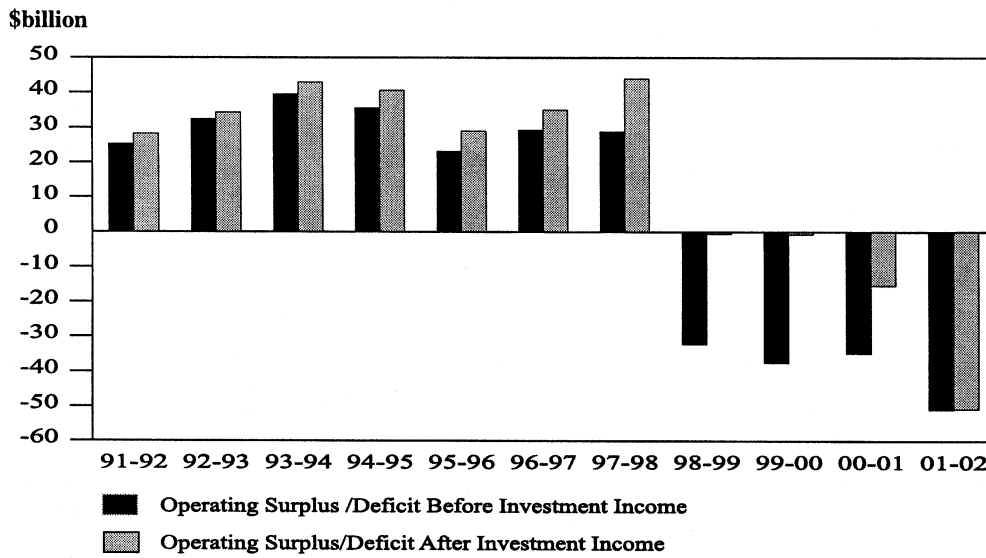


Chart 5

Consolidated deficits in three of the past five years

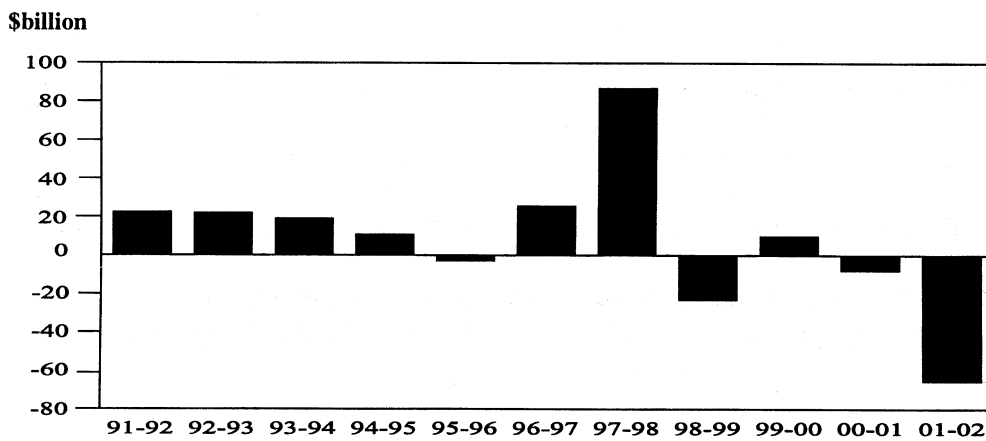


Chart 6

Public/Government expenditure as a percentage of GDP

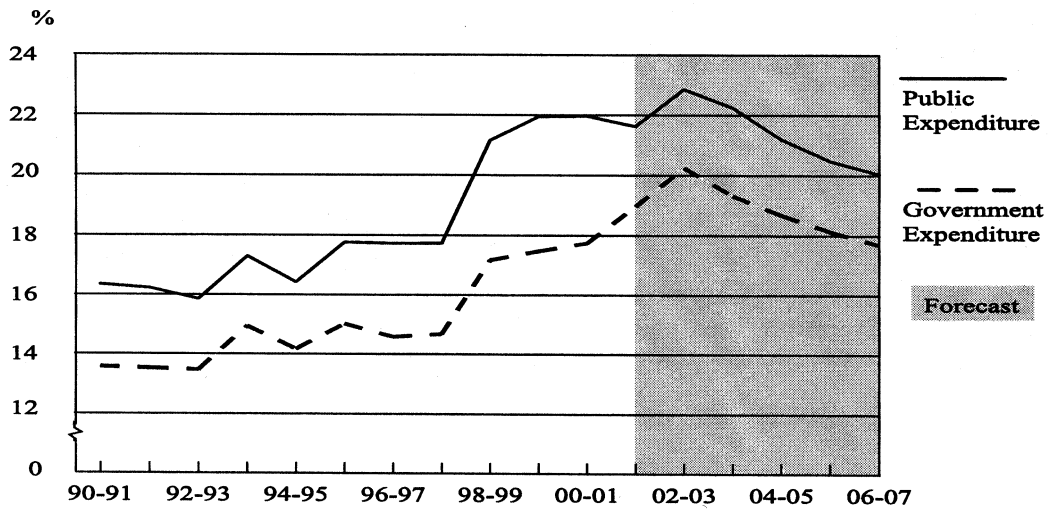


Chart 7

The shortfall

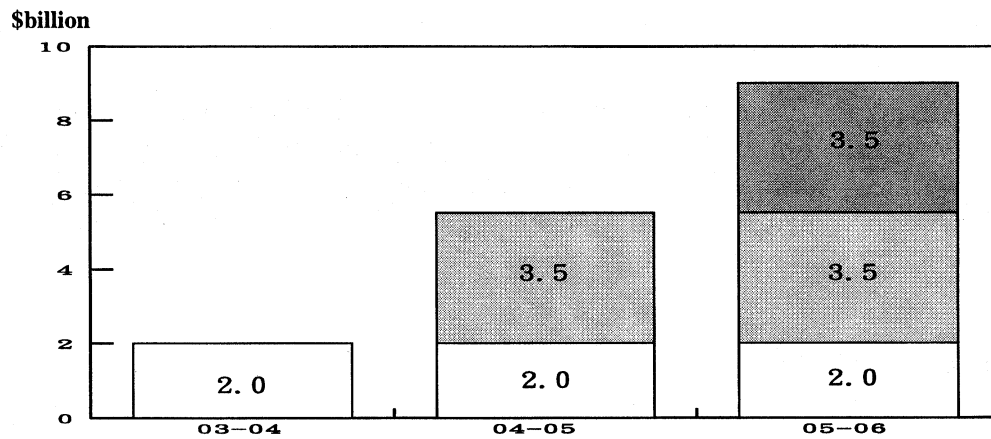


Chart 8

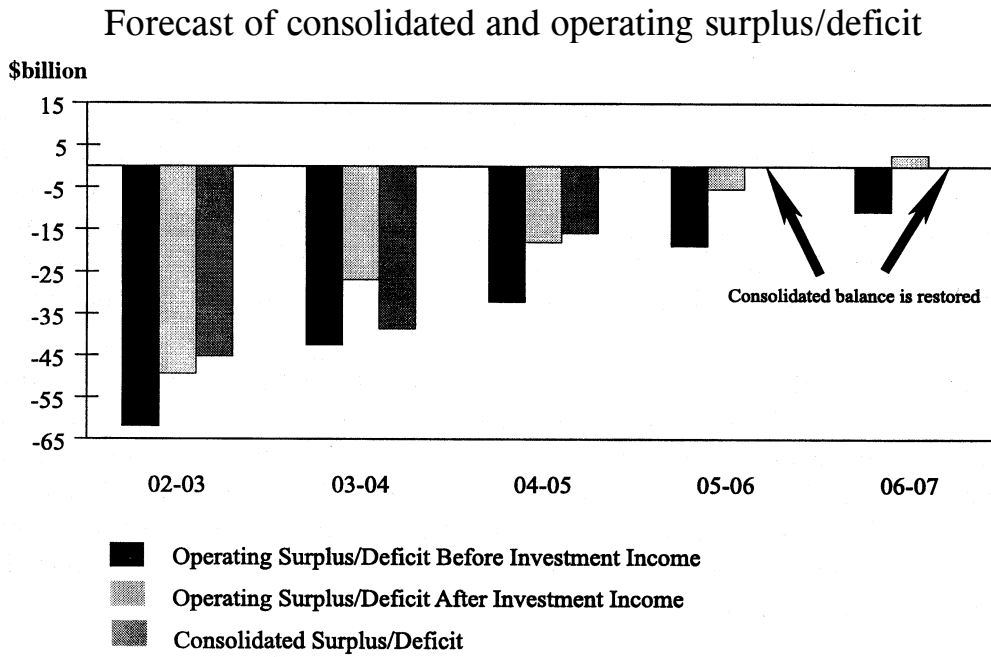
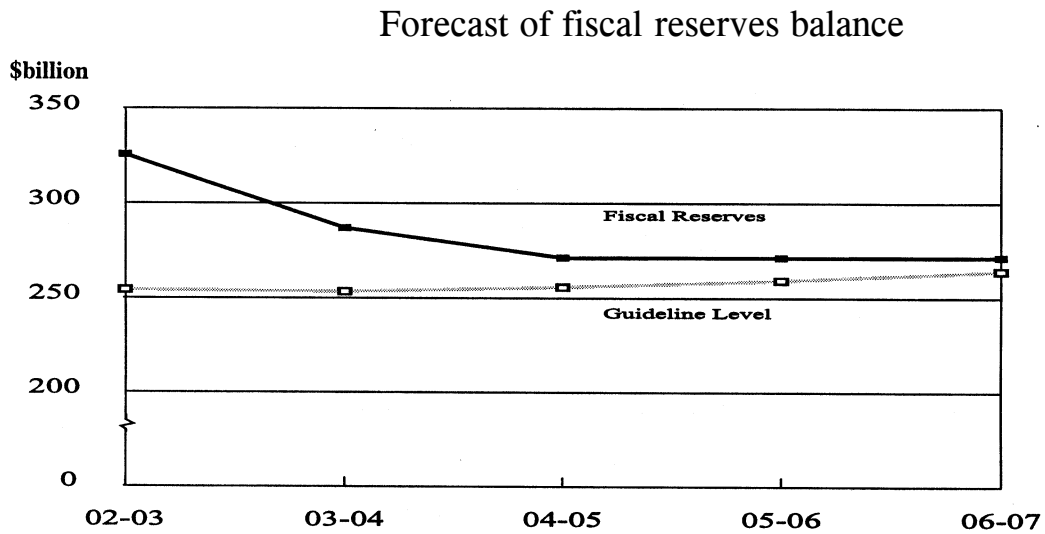


Chart 9



*Supplement***Adjustments to Quantities of Duty-Free  
Tobacco and Alcoholic Liquor that Local Residents  
May Bring in on Return from Abroad**

	<b>Present duty-free quantity</b>	<b>Proposed duty-free quantity</b>
Tobacco	100 cigarettes, or 25 cigars or 125 grammes of other manufactured tobacco	60 cigarettes, or 15 cigars or 75 grammes of other manufactured tobacco
Alcoholic liquor	1 litre of still wine	750 millilitres of still wine

*Supplement*

**Effect of the General Revaluation on Rates  
on Main Property Classes**

<i>Property Type</i>	<i>2002-03</i>		
	<i>Average Reduction in Rateable Value<sup>(6)</sup></i>	<i>New Average Rates Payable<sup>(7)</sup> (Before Concession)</i>	<i>Savings</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises <sup>(1)</sup> (Private)	-7	256	-20
Medium Domestic Premises <sup>(1)</sup> (Private)	-6	597	-37
Large Domestic Premises <sup>(1)</sup> (Private)	-4	1,461	-62
Public Domestic Premises <sup>(2)</sup>	-8	144	-12
<b>All Domestic Premises<sup>(3)</sup></b>	-7	269	-19
Shops and Commercial Premises	-5	1,476	-82
Offices	-7	1,219	-85
Industrial Premises <sup>(4)</sup>	-9	642	-64
<b>All Non-domestic Premises<sup>(5)</sup></b>	-5	1,470	-79
<b>All Properties</b>	-6	438	-27

(1) Domestic units are classified by relation to saleable areas as below:

Small domestic	up to 69.9m <sup>2</sup>	(up to 752 sq. ft.)
Medium domestic	70m <sup>2</sup> to 99.9m <sup>2</sup>	(753 sq. ft. - 1,075 sq. ft.)
Large domestic	100m <sup>2</sup> and over	(1,076 sq. ft. and above)

(2) Including Housing Authority and Housing Society rental units

(3) Including car parking spaces

(4) Including factories and storage premises

(5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools, car parking spaces

(6) The rateable values for 2002-03 reflect the changes in open market rental values from 1 October 2000 to 1 October 2001

(7) The effects of rates concession in 2002 have not been taken into account



Supplement

**Effect of The General Revaluation on Government Rent  
on Main Property Classes**

<i>Property Type</i>	<i>2002-03</i>		
	<i>Average Reduction in Rateable Value<sup>(6)</sup></i>	<i>New Average Rent Payable</i>	<i>Savings</i>
	<i>%</i>	<i>\$ per month</i>	<i>\$ per month</i>
Small Domestic Premises <sup>(1)</sup> (Private)	-8	143	-12
Medium Domestic Premises <sup>(1)</sup> (Private)	-6	317	-20
Large Domestic Premises <sup>(1)</sup> (Private)	-5	658	-35
Public Domestic Premises <sup>(2)</sup>	-8	87	-8
<b>All Domestic Premises<sup>(3)</sup></b>	-7	153	-12
Shops and Commercial Premises	-5	829	-43
Offices	-4	1,255	-50
Industrial Premises <sup>(4)</sup>	-9	381	-37
<b>All Non-domestic Premises<sup>(5)</sup></b>	-5	798	-39
<b>All Properties</b>	-6	243	-16

- (1) Domestic units are classified by relation to saleable areas as below:
- |                 |  |                               |
|-----------------|--|-------------------------------|
| Small domestic  | up to 69.9m <sup>2</sup>               | (up to 752 sq. ft.)           |
| Medium domestic | 70m <sup>2</sup> to 99.9m <sup>2</sup> | (753 sq. ft. - 1,075 sq. ft.) |
| Large domestic  | 100m <sup>2</sup> and over             | (1,076 sq. ft. and above)     |
- (2) Including Housing Authority and Housing Society rental units which are subject to Government rent
- (3) Including car parking spaces
- (4) Including factories and storage premises
- (5) Including miscellaneous premises such as hotels, cinemas, petrol filling stations, schools, car parking spaces
- (6) The rateable values for 2002-03 reflect the changes in open market rental values from 1 October 2000 to 1 October 2001

*Supplement***Economic Performance in 2001**

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2001 :

	(%)
(i) Growth rates in real terms of :	
Private consumption expenditure	2.0
Government consumption expenditure	5.1
Gross domestic fixed capital formation	2.1
<i>of which :</i>	
building and construction	-2.5
real estate developers' margin	-1.9
machinery and equipment	5.2
Total exports of goods	-3.0
domestic exports	-11.0
re-exports	-2.0
Imports of goods	-2.4
Exports of services	3.5
Imports of services	0.1
<b>Gross Domestic Product (GDP)</b>	<b>0.1</b>
<i>Per capita GDP</i>	-0.7
<i>Per capita GDP at current market prices</i> HK\$187,700 (US\$24,100)	
(ii) Rates of change in :	
<b>Composite Consumer Price Index</b>	<b>-1.6</b>
<b>GDP Deflator</b>	<b>-0.5</b>
<b>Government Consumption Expenditure Deflator</b>	<b>2.1</b>

*Supplement*

2. Annual growth rates in real terms of domestic exports and re-exports in the last three years :

	<i>Domestic exports</i> (%)	<i>Re-exports</i> (%)
1999	-7	5
2000	8	18
2001	-11	-2
<i>Share in the value of total exports of goods in 2001</i>	10	90

3. Annual growth rates in real terms of retained imports in the last three years :

	<i>Retained imports</i>			
	<i>Total</i> (%)	<i>Foodstuffs and consumer goods</i> (%)	<i>Raw materials and semi-manufactures</i> (%)	<i>Capital goods</i> (%)
1999	-12	-12	-11	-25
2000	17	12	17	38
2001	-3	8	-16	5

4. Annual growth rates in real terms of exports and imports of services in the last three years :

	<i>Exports of services</i> (%)	<i>Imports of services</i> (%)
1999	6	-3
2000	14	2
2001	3	0*

\* Change of less than 0.5%.

*Supplement*

## 5. Hong Kong's visible and invisible trade balance in 2001 :

	(HK\$Billion)
Total exports of goods	1,481.0
Imports of goods*	1,570.8
Visible trade balance	-89.8
Exports of services <sup>#</sup>	335.8
Imports of services <sup>#</sup>	178.9
Invisible trade balance <sup>#</sup>	156.8
Combined visible and invisible trade balance <sup>#</sup>	67.1

\* Including an estimate of imports of gold for industrial use.

# Preliminary figures.

## 6. Annual averages of the unemployment and underemployment rates in the last three years :

	<i>Unemployment rate</i> (%)	<i>Underemployment rate</i> (%)
1999	6.2	2.9
2000	4.9	2.8
2001	5.1	2.5

## 7. Annual rates of change in the Consumer Price Indices in the last three years :

	<i>Composite CPI</i> (%)	<i>CPI(A)</i> (%)	<i>CPI(B)</i> (%)	<i>CPI(C)</i> (%)
1999	-4.0	-3.3	-4.7	-3.7
2000	-3.8	-3.0	-3.9	-4.5
2001	-1.6	-1.7	-1.6	-1.5

*Supplement***Economic Prospects for 2002**

Forecast rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2002 :

	(%)
(i) Growth rates in real terms of :	
Private consumption expenditure	-0.5
Government consumption expenditure	4
Gross domestic fixed capital formation	-5.1
<i>of which :</i>	
building and construction	-3.2
real estate developers' margin	-4
machinery and equipment	-6.4
Total exports of goods	0
domestic exports	-4
re-exports	0.5
Imports of goods	-0.7
Exports of services	4.5
Imports of services	0.5
<b>Gross Domestic Product (GDP)</b>	<b>1</b>
<i>Per capita GDP</i>	-0.1
<i>Per capita GDP at current market prices</i> HK\$184,800 (US\$23,700)	
(ii) Rates of change in :	
<b>Composite Consumer Price Index</b>	<b>-2.8</b>
<b>GDP Deflator</b>	<b>-1.5</b>
<b>Government Consumption Expenditure Deflator</b>	<b>-0.5</b>

**MEDIUM RANGE FORECAST 2001–2002 TO 2006–2007****INTRODUCTION**

The *Medium Range Forecast* (MRF) is a projection of expenditure and revenue for the forecast period based on the forecasting assumptions and budgetary criteria outlined in Section I of this Appendix.

- 2 The MRF is presented in three sections:
  - (I) Forecasting assumptions and budgetary criteria.
  - (II) The MRF for 2001–2002 to 2006–2007.
  - (III) Relationship between Government Expenditure, Public Expenditure and GDP in the MRF.
- 3 Government's contingent liabilities at 31 March 2001 and an estimate at 31 March 2002 and 31 March 2003 respectively are provided in Section IV of this Appendix as supplementary information to the MRF.

Appendix A—Contd.

## SECTION I - FORECASTING ASSUMPTIONS AND BUDGETARY CRITERIA

4 A number of computer based models are used to derive the MRF. These models reflect a wide range of assumptions about the factors determining each of the components of Government's revenue and expenditure. Some are economic in nature (the general economic assumptions) while others deal with specific areas of Government's activity (the detailed assumptions). These are supported by studies of historical and anticipated trends.

### General Economic Assumptions

#### *Growth in Gross Domestic Product (GDP)*

5 There is a clear link between many of Government's major revenue sources and economic growth. For planning purposes the medium range assumption as to *trend* annual GDP growth for 2002 to 2006 has been set at 3% in real terms.

#### *Inflation*

6 Over the forecast period of 2002 to 2006, the *trend* annual inflation in the economy, measured by the GDP deflator, is assumed to be 0.4%. The *trend* annual inflation in local consumption terms, measured by the Composite Consumer Price Index, is assumed to be 0.3%.

#### *Methodology*

7 In arriving at the yearly forecasts, account is taken of short-term fluctuations from the trend forecasts.

### Detailed Assumptions

8 A wide range of detailed assumptions relating to developing expenditure and revenue patterns over the forecast period are taken into account. These include:

- estimated cash flow of capital projects.
- forecast completion dates of these capital projects and their related recurrent consequences in terms of staffing and running costs.
- estimated cash flow arising from new commitments resulting from policy initiatives.
- the expected pattern of demand for individual services.
- the trend in yield from individual revenue sources.
- new revenue measures in the 2002 Budget.

### Budgetary Criteria

9 In addition to the above forecasting assumptions there are a number of criteria against which the results of forecasts are tested for overall acceptability in terms of budgetary policy. Any significant breach of important budgetary criteria results in a review and adjustments, where necessary, of the expenditure and revenue projections.

10 The following are the more important budgetary criteria:

#### *Budget surplus/deficit*

The Government aims to achieve balance in consolidated and operating accounts by 2006-2007. In the longer term, the Government needs to achieve an operating surplus to partially finance capital expenditure.

#### *Fiscal reserves*

The Government aims to maintain the level of reserves at around 12 months of total government expenditure.

#### *Total expenditure growth*

The general principle is that, over time, expenditure growth should not exceed the growth of the economy, taking into account both real and nominal terms. The Government aims to keep public expenditure at or below 20% of GDP by 2006-2007.

#### *Capital expenditure growth*

By its nature some fluctuations in the level of capital expenditure are to be expected. However, over a period the aim is to contain capital expenditure growth within overall expenditure guidelines.

#### *Revenue policy*

Account is taken of the need to maintain over time the real yield from fees and charges, fixed duties etc. and to review periodically the various tax thresholds in the light of inflation.

Appendix A—Contd.

## SECTION II - THE MRF FOR 2001–2002 TO 2006–2007

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

Operating Account

Table 1

	Revised Estimate	Forecast				
	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
	\$m	\$m	\$m	\$m	\$m	\$m
Operating revenue (Note b)	150,660	149,400	167,920	180,580	196,580	208,940
Less : Operating expenditure (Note c)	201,530	211,360	210,440	212,790	215,550	219,760
<b>Operating surplus/(deficit) before investment income</b>	<b>(50,870)</b>	<b>(61,960)</b>	<b>(42,520)</b>	<b>(32,210)</b>	<b>(18,970)</b>	<b>(10,820)</b>
Investment income (Note b)	180	12,640	15,650	14,190	13,660	13,610
<b>Operating surplus/(deficit) after investment income</b>	<b>(50,690)</b>	<b>(49,320)</b>	<b>(26,870)</b>	<b>(18,020)</b>	<b>(5,310)</b>	<b>2,790</b>

Capital Financing Statement

Table 2

	Revised Estimate	Forecast				
	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
	\$m	\$m	\$m	\$m	\$m	\$m
Capital revenue other than MTR share offer (Note d)	22,780	36,440	38,470	39,460	40,680	41,860
MTR share offer and sale of other government assets (Note d)	—	15,000	—	10,000	10,000	—
Less : General Revenue Account capital expenditure (Note e)	2,160	4,160	3,680	3,770	3,860	3,970
: Expenditure on capital projects (Note f)	29,620	34,360	34,570	35,120	35,680	36,260
: Loans and investments (Notes g)	6,010	9,370	12,620	8,860	6,240	4,850
: Aid for disaster relief (Note h)	10	—	—	—	—	—
: Expenditure for innovation and technology (Note i)	360	560	580	690	720	720
<b>Capital financing surplus/(deficit) before investment income</b>	<b>(15,380)</b>	<b>2,990</b>	<b>(12,980)</b>	<b>1,020</b>	<b>4,180</b>	<b>(3,940)</b>
Investment income (Note d)	440	1,120	1,180	1,130	1,190	1,200
<b>Capital financing surplus/(deficit) after investment income</b>	<b>(14,940)</b>	<b>4,110</b>	<b>(11,800)</b>	<b>2,150</b>	<b>5,370</b>	<b>(2,740)</b>

Consolidated Reserves

Table 3

	Revised Estimate	Forecast				
	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
	\$m	\$m	\$m	\$m	\$m	\$m
Fiscal Reserves at 1 April	430,280	369,760	325,580	286,910	271,040	271,100
Operating surplus/(deficit) (per Table 1)	(50,690)	(49,320)	(26,870)	(18,020)	(5,310)	2,790
Capital financing surplus/(deficit) (per Table 2)	(14,940)	4,110	(11,800)	2,150	5,370	(2,740)
<b>Consolidated surplus/(deficit)</b>	<b>(65,630)</b>	<b>(45,210)</b>	<b>(38,670)</b>	<b>(15,870)</b>	<b>60</b>	<b>50</b>
Write-back of provision for loss in investments with the Exchange Fund	5,110	1,030	—	—	—	—
<b>Fiscal Reserves at 31 March (Note j)</b>	<b>369,760</b>	<b>325,580</b>	<b>286,910</b>	<b>271,040</b>	<b>271,100</b>	<b>271,150</b>
As number of months of Government Expenditure	19	15	14	13	13	12



## Appendix A—Contd.

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

- (i) The Medium Range Forecast, like Government's Accounts, is prepared on a cash basis and reflects forecast receipts and payments, whether or not they relate to recurrent or capital transactions.
- (ii) The Medium Range Forecast includes the General Revenue Account and the Funds (the Capital Works Reserve Fund, the Loan Fund, the Capital Investment Fund, the Disaster Relief Fund, the Civil Service Pension Reserve Fund, the Land Fund and the Innovation and Technology Fund).

*(b) Operating revenue*

- (i) Operating revenue is defined in Appendix C.
- (ii) For the purpose of the Medium Range Forecast, the investment earnings of the balance of the General Revenue Account which is credited to revenue head Properties and Investments and the investment earnings of the Land Fund are consolidated and shown separately under Investment Income in Table 1. The rate of return on investment earnings is assumed at 4% in 2002-2003 and 5.5% in 2003-2004 to 2006-2007.
- (iii) The level of operating revenue in 2002-2003 has taken into account the revenue concession and revenue-raising measures in the 2002 Budget.

*(c) Operating expenditure*

- (i) Operating expenditure is defined in Appendix C.
- (ii) The operating expenditure in 2001-2002 to 2006-2007 includes provision for some major expenditure items which are one-off in nature. They include compensatory payments and commuted pension gratuity payments under the Voluntary Retirement Scheme and the Voluntary Department Scheme introduced in 2000-2001 and forecast to amount to \$12.5 billion (\$5.8 billion in 2001-2002, \$3.3 billion in 2002-2003, \$1.3 billion in 2003-2004, \$0.7 billion in 2004-2005, \$0.7 billion in 2005-2006 and \$0.7 billion in 2006-2007), and total commitments of \$7.1 billion for funding the various funds/schemes announced in the 2001 Policy Address (the \$5 billion Continuing Education Fund, the \$1.9 billion funds to support small and medium enterprises, the \$0.1 billion Community Investment and Inclusion Fund, and the \$0.1 billion fund for supporting the comprehensive development of professional services).
- (iii) The level of operating expenditure in 2002-2003 to 2006-2007 has assumed a 4.75% reduction in the salaries of the civil service and the salary-related portion of recurrent subventions to take effect from 1 October 2002. This assumed salary reduction, if implemented, will save about \$3 billion in 2002-2003 and \$6 billion in a full year in subsequent years.

*(d) Capital revenue*

- (i) The breakdown of capital revenue to the various General Revenue Account and the Funds is —

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
	\$m	\$m	\$m	\$m	\$m	\$m
General Revenue Account	4,830	19,720	4,960	14,470	14,460	4,380
Capital Works Reserve Fund	10,080	25,650	26,560	27,620	28,820	30,080
Capital Investment Fund	2,820	2,200	2,150	2,200	2,220	2,220
Civil Service Pension Reserve Fund	0	480	690	730	770	810
Loan Fund	5,470	4,330	5,060	5,370	5,430	5,430
Innovation and Technology Fund	20	180	230	200	170	140
<b>Total</b>	<b>23,220</b>	<b>52,560</b>	<b>39,650</b>	<b>50,590</b>	<b>51,870</b>	<b>43,060</b>

- (ii) For the purpose of the Medium Range Forecast, the investment earnings on the balances of the Funds other than the Land Fund are shown separately under Investment Income in Table 2. The forecast receipts of \$15 billion in 2002-2003 from the second tranche of MTR Corporation Limited share offer, and the assumed receipts of \$10 billion each in 2004-2005 and 2005-2006 from sale of government assets, which are to be credited as capital revenue to the General Revenue Account, are also shown separately in Table 2.
- (iii) For the purpose of the Medium Range Forecast, the annual land premia included under the Capital Works Reserve Fund for 2002-2003 to 2006-2007 are assumed at 2% of GDP.

## Appendix A—Contd.

**Notes on the Medium Range Forecast —Contd.***(e) General Revenue Account capital expenditure*

This comprises expenditure chargeable to the General Revenue Account in respect of purchase of equipment and works of a minor nature.

*(f) Expenditure on capital projects*

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

*(g) Loans and investments*

- (i) These comprise loans made from the Loan Fund, including loans to schools, teachers, students, housing loans, and loans under the special finance scheme for small and medium enterprises, and advances and equity investments made from the Capital Investment Fund mainly to Trading Funds and statutory bodies.

- (ii) The forecast of payments from the Loan Fund is —

2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
\$m	\$m	\$m	\$m	\$m	\$m
5,670	3,810	4,030	3,270	3,290	3,300

- (iii) The forecast of payments from the Capital Investment Fund is —

2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
\$m	\$m	\$m	\$m	\$m	\$m
340	5,560	8,590	5,590	2,950	1,550

*(h) Aid for disaster relief*

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

*(i) Expenditure for Innovation and Technology*

This comprises expenditure chargeable to the Innovation and Technology Fund to finance projects to help promote innovation and technology upgrading in manufacturing and service industries.

*(j) Fiscal reserves*

The fiscal reserves represent the accumulated balances of the General Revenue Account and the Funds.

## Appendix A—Contd.

## SECTION III - RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE, PUBLIC EXPENDITURE AND GDP IN THE MRF

12 For monitoring purposes, the Government's own expenditure is consolidated with the expenditure of some other public bodies such as the Housing Authority in order to compare total public expenditure with the size of the economy. The results are set out in Table 4.

Government Expenditure and Public Expenditure in the Context of the Economy

Table 4

	Revised Estimate	Forecast				
	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
	\$m	\$m	\$m	\$m	\$m	\$m
Operating expenditure	201,530	211,360	210,440	212,790	215,550	219,760
Capital expenditure	37,820	42,890	42,860	42,850	43,550	44,250
<b>Total government expenditure</b>	<b>239,350</b>	<b>254,250</b>	<b>253,300</b>	<b>255,640</b>	<b>259,100</b>	<b>264,010</b>
Add: Other public bodies	33,800	32,930	38,540	34,590	33,510	34,990
<b>Total public expenditure (Note 1)</b>	<b>273,150</b>	<b>287,180</b>	<b>291,840</b>	<b>290,230</b>	<b>292,610</b>	<b>299,000</b>
<b>Gross Domestic Product (calendar year)</b>	<b>1,262,590</b>	<b>1,256,210</b>	<b>1,311,480</b>	<b>1,369,190</b>	<b>1,429,430</b>	<b>1,492,330</b>
<b>Growth in GDP (Note 2)</b>						
Money terms	-0.3%	-0.5%	4.4%	4.4%	4.4%	4.4%
Real terms	0.1%	1.0%	3.5%	3.5%	3.5%	3.5%
<b>Growth in government expenditure</b>						
Money terms	+6.5%	+6.2%	-0.4%	+0.9%	+1.4%	+1.9%
Real terms	+5.7%	+7.7%	+0.4%	+0.5%	+0.9%	+1.5%
<b>Growth in public expenditure</b>						
Money terms	+2.1%	+5.1%	+1.6%	-0.6%	+0.8%	+2.2%
Real terms	+1.7%	+6.5%	+2.2%	-0.9%	+0.4%	+1.8%
<b>Government expenditure as a percentage of GDP (Note 3)</b>	<b>19.0%</b>	<b>20.2%</b>	<b>19.3%</b>	<b>18.7%</b>	<b>18.1%</b>	<b>17.7%</b>
<b>Public expenditure as a percentage of GDP (Note 3)</b>	<b>21.6%</b>	<b>22.9%</b>	<b>22.3%</b>	<b>21.2%</b>	<b>20.5%</b>	<b>20.0%</b>

*Note 1* Public expenditure comprises government expenditure (i.e. all expenditure charged to the General Revenue Account and financed by the Government's statutory funds excluding Capital Investment Fund), and expenditure by the Trading Funds, the Housing Authority and the Lotteries Fund. But *not* included is expenditure by those organisations, including statutory organisations, in which the Government has only an equity position, such as the Airport Authority, the MTR Corp Ltd and the Kowloon-Canton Railway Corporation. Similarly, advances and equity investments from the Capital Investment Fund are excluded as they do not reflect the actual consumption of resources by the Government.

*Note 2* Over the period 2002 to 2006, the forecast trend nominal growth in GDP is 3.4% and the trend real growth in GDP is 3%.

*Note 3* Caution should be exercised in interpreting these percentages as government expenditure and public expenditure are estimated on a fiscal year basis while the GDP is estimated on a calendar year basis.

## Appendix A—Contd.

13 Table 5 shows the sum to be appropriated in the 2002 Budget analysed between operating and capital expenditure and after including expenditure from the Funds and other public bodies. It also shows the derivation of public expenditure for 2002–2003 given in Table 4.

14 Table 5 also illustrates the effect of the Budget revenue measures on the overall surplus/deficit position for 2002–2003.

**Relationship between Government Expenditure  
and Public Expenditure in 2002–2003**

Table 5

Components of expenditure and revenue	Appropriation	Government expenditure and revenue			Public expenditure
		Operating	Capital	Total	
	\$m	\$m	\$m	\$m	\$m
<b>Expenditure</b>					
General Revenue Account:					
Recurrent account	207,830	207,830	—	207,830	207,830
Capital account					
Plant, equipment and works	2,760	—	2,760	2,760	2,760
Other non-recurrent	6,480	6,480	—	6,480	6,480
Subventions	1,400	—	1,400	1,400	1,400
	218,470	214,310	4,160	218,470	218,470
Transfer to Funds	21,020	—	—	—	—
Capital Works Reserve Fund	—	—	34,360	34,360	34,360
Loan Fund	—	—	3,810	3,810	3,810
Innovation and Technology Fund	—	—	560	560	560
Trading Funds	—	—	—	—	3,570
Lotteries Fund	—	—	—	—	1,370
Housing Authority	—	—	—	—	28,150
	239,490	214,310	42,890	257,200	290,290
<i>Less: Assumed salary reduction</i>	—	(2,950)	—	(2,950)	(3,110)
	239,490	211,360	42,890	254,250	287,180
<b>Revenue (before Budget revenue measures)</b>					
General Revenue Account:					
Taxation		127,100	1,610	128,710	
Other revenue		30,950	3,110	34,060	
		158,050	4,720	162,770	
MTR share offer		—	15,000	15,000	
Land Fund		10,090	—	10,090	
		168,140	19,720	187,860	
Capital Works Reserve Fund		—	25,650	25,650	
Capital Investment Fund		—	2,200	2,200	
Civil Service Pension Reserve Fund		—	480	480	
Disaster Relief Fund		—	—	—	
Loan Fund		—	4,330	4,330	
Innovation and Technology Fund		—	180	180	
		168,140	52,560	220,700	
<b>Surplus/(deficit) before Budget revenue measures</b>		(43,220)	9,670	(33,550)	
<i>Less: Effect of Budget revenue measures</i>		(6,100)	—	(6,100)	
<b>Surplus/(deficit) after Budget revenue measures</b>		(49,320)	9,670	(39,650)	
<i>Less: Advances and equity investments from the Capital Investment Fund<sup>(1)</sup></i>		—	(5,560)	(5,560)	
<b>Consolidated surplus/(deficit)</b>		(49,320)	4,110	(45,210)	

(1) Advances and equity investments from the Capital Investment Fund are excluded from government expenditure (see also Note 1 to Table 4).

## Appendix A—Contd.

**SECTION IV - ESTIMATES OF CONTINGENT LIABILITIES**

15 The Government's contingent liabilities are \$20,045 million at 31 March 2001 and estimated to be \$18,600 million at 31 March 2002 and \$24,000 million at 31 March 2003, comprising —

	2000-2001 \$m	Estimate 2001-2002 \$m	Estimate 2002-2003 \$m
Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance	8,889	9,500	11,000
Litigation	4,788	4,800	4,700
Possible capital subscriptions to the Asian Development Bank	1,763	1,800	1,800
Guarantees provided under the Special Finance Scheme, the Self-employment Business Start-up Assistance Scheme and the SME Business Installations and Equipment Loan Guarantee Scheme for Small and Medium Enterprises	4,605	2,500	6,500
Total	20,045	18,600	24,000

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## Appendix B—Contd.

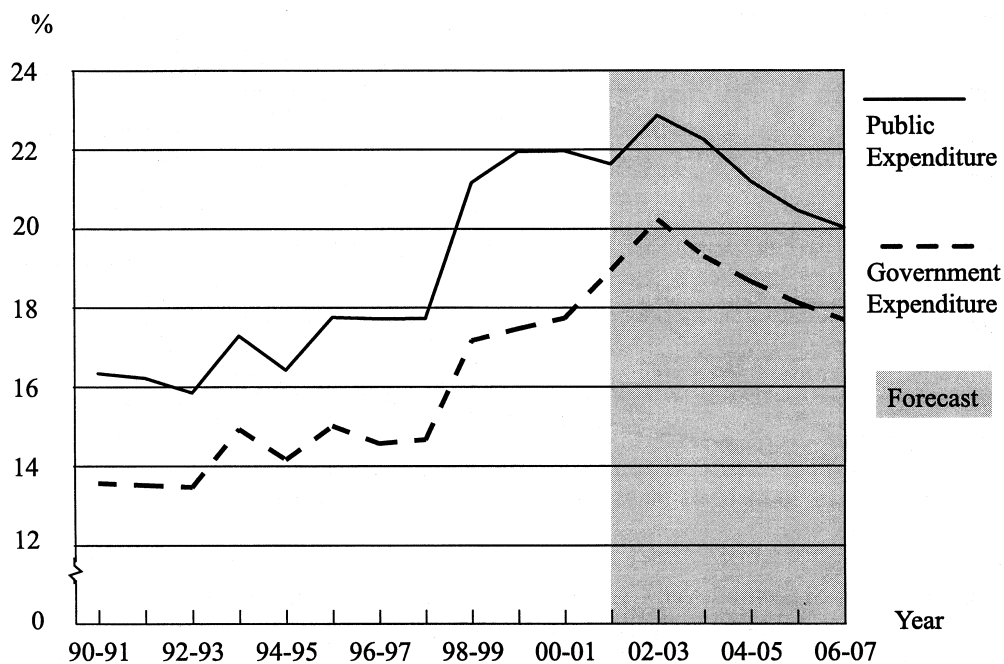
SECTION I - THE ESTIMATES <sup>(Note)</sup> IN THE CONTEXT OF THE ECONOMY

## Relationship between Government Expenditure, Public Expenditure and GDP in 2002-2003

	(All figures in \$million at 2002-2003 prices)	
	Government Expenditure	Public Expenditure
General Revenue Account		
• Operating	211,360	211,360
• Capital	4,160	4,160
	215,520	215,520
Capital Works Reserve Fund	34,360	34,360
Loan Fund	3,810	3,810
Innovation and Technology Fund	560	560
	254,250	254,250
Trading Funds		3,520
Lotteries Fund		1,370
Housing Authority		28,040
		287,180
GDP		1,256,210
Government Expenditure as a % of GDP		20.2%
Public Expenditure as a % of GDP		22.9%

Note : The 2002-2003 expenditure estimates in this Appendix have assumed a 4.75% reduction in the salaries of the civil service and the salary-related portion of recurrent subventions to take effect from 1 October 2002.

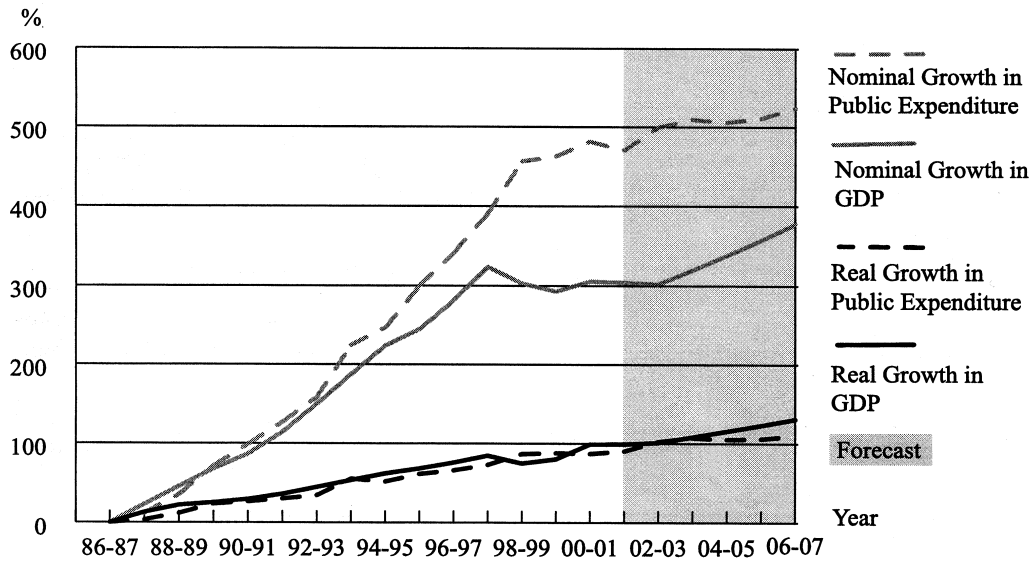
Public/Government Expenditure as a Percentage of GDP



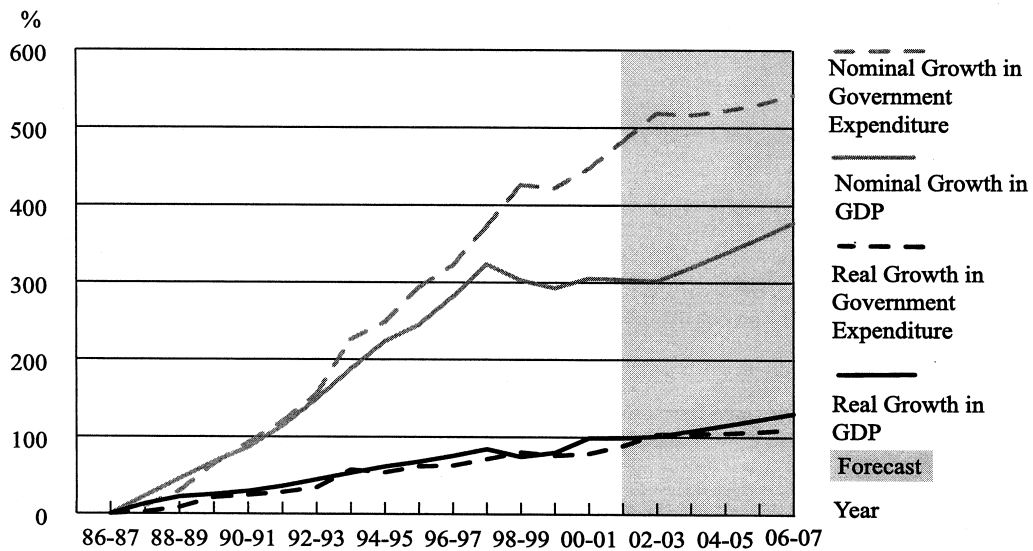


Appendix B—Contd.

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



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



Appendix B—Contd.

## SECTION II - ANALYSIS OF RECURRENT PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

## Recurrent Public Expenditure - Year on Year Change

	2001-2002 Revised Estimate	(All figures in \$million)			
		2002-2003 Estimate	Increase	% Increase/Decrease in Nominal Terms	% Increase/Decrease in Real Terms (see Note)
<b>Education</b>	46,380	49,315	+2,935	+6.3	+8.0
<b>Health</b>	32,030	32,450	+420	+1.3	+3.6
<b>Social Welfare</b>	29,640	32,125	+2,485	+8.4	+9.0
<b>Support</b>					
• Central Management of the Civil Service	18,800	18,170	-630	-3.4	-3.3
• Others	10,360	10,260	-100	-1.0	+0.5
	29,160	28,430	-730	-2.5	-1.9
<b>Security</b>	24,900	24,810	-90	-0.4	+1.8
<b>Housing</b>	12,615	12,235	-380	-3.0	-1.8
<b>Infrastructure</b>					
• Water Supply	5,380	5,505	+125	+2.3	+2.6
• Buildings, Lands and Planning	3,225	3,330	+105	+3.3	+5.3
• Transport	2,985	3,105	+120	+4.0	+5.5
	11,590	11,940	+350	+3.0	+4.1
<b>Economic</b>	11,095	11,825	+730	+6.6	+8.3
<b>Environment and Food</b>	8,345	9,005	+660	+7.9	+9.6
<b>Community and External Affairs</b>					
• Recreation, Culture and Amenities	5,650	5,660	+10	+0.2	+1.4
• District and Community Relations	1,815	1,910	+95	+5.3	+6.4
	7,465	7,570	+105	+1.5	+2.6
<b>Total Recurrent Public Expenditure</b>	213,220	219,705	+6,485	+3.0	+4.5

Note : As the above 2002-2003 estimate has included assumptions on price changes for various expenditure components (e.g. operating expenses, plant and equipment, etc.) and an assumed reduction of 4.75% in salaries for the civil service and salary-related portion of recurrent subventions, the % increase/decrease is calculated after adjustment to bring the expenditure figures for 2001-2002 and 2002-2003 to the same price level.

## Appendix B—Contd.

**Recurrent Public Expenditure - Commentary on the Changes**

Recurrent public expenditure is expected to grow by \$6,485 million, or 4.5% in real terms over the revised estimate for 2001-2002. Within this overall growth, recurrent government expenditure will increase by \$6,925 million, or 5.0% in real terms over the revised estimate for 2001-2002. This level of year-on-year growth in recurrent government expenditure is partly attributable to expenditure in 2001-2002 being lower than the original estimate, reflecting significant efforts on the part of Controlling Officers to control costs. The growth in recurrent government expenditure in 2002-2003 over the original estimate for 2001-2002 will be \$1,895 million, or 2.4% in real terms.

The significant changes in recurrent public expenditure in real terms by policy area groups are:

**Support (-1.9%)**

The decrease mainly reflects the reduced requirement on pension payment under the Voluntary Retirement Scheme due to the decreased number of officers retiring in 2002-2003 as compared to 2001-2002 as the scheme tapers off.

**Housing (-1.8%)**

The decrease reflects the reduced expenditure of the Housing Authority.

**Infrastructure (+4.1%)**

The increase mainly arises from additional spending on stepped up efforts to remove unauthorised building works and structures; on large scale clearance operations; on operation and maintenance of additional waterworks installations; and on road maintenance and management of public transport interchanges.

**Economic (+8.3%)**

The increase mainly arises from the provision of recurrent funding to expenditure initiatives on employment/training.

**Environment and Food (+9.6%)**

The increase reflects additional spending on monitoring food safety; on managing construction and demolition materials; on enhancing waste reduction and recovery; on enhancing cleanliness of Hong Kong; and on operating new sewage treatment facilities.

**Community and External Affairs (+2.6%)**

The increase reflects the additional provision on district and community relations; management of more major recreation, culture and amenities facilities; active planting in urban area and countryside; and grants to organise youth development programmes.

The major improvements in services in 2002-03 in Education, Health, Social Welfare and Security policy area groups are detailed on pages 21 and 22.

**Recurrent Public Expenditure - Growth in Major Policy Area Groups**

The key improvements contributing to the real growth in recurrent public expenditure in **Education, Health, Social Welfare and Security** are detailed below:

**Education (+8.0%)**

- Additional resources to support curriculum reform, including 249 additional primary school teachers for five years to serve as curriculum leaders
- Native-speaking English Teachers and English Language Teaching Assistants for primary schools
- IT Co-ordinators for primary and secondary schools in the next two school years
- Cash grants to strengthen student guidance service in primary schools
- Operating about 40 more primary schools on whole-day basis
- Improving and rationalising various student financial assistance schemes
- Implementing financial assistance schemes for students to support the expansion of post-secondary education
- Enhancing the Kindergarten Subsidy Scheme to encourage kindergartens to recruit more qualified kindergarten teachers
- Additional training places for serving kindergarten principals and child care centre supervisors
- Enhancing school-based educational psychology service for primary schools
- Extending the Smart Teen Challenge Project to more students for four school years
- Strengthening the support for subject-related teacher organisations

**Health (+3.6%)**

- Opening net 166 additional hospital beds
- Opening 80 additional day hospital places
- Employing 1 000 additional care assistants to strengthen extended care service in hospitals
- Introducing an intensive rehabilitation and treatment programme for psychiatric patients to facilitate their early integration into the community
- Launching an adolescent health programme, developing a cervical screening programme, piloting a men's health programme, and implementing a parenting programme
- Opening a Primary Health Care Centre in Fanling with a maternal and child health centre, a child assessment centre, a school dental clinic, and an integrated day treatment centre

**Social Welfare (+9.0%)**

- An additional 2 702 subsidised residential places, 10 social centres (including 6 in multi-service centres), 3 multi-service centres, 280 day care centre places and enhanced home and community care services for the elders
- An additional 185 residential places, 135 day places, 40 early education and training centre places, 40 special child care centre places and 13 additional home-based training teams for the disabled
- An additional 500 day nursery places, 2 occasional child care units, 90 foster care places and 1 refuge centre for women
- An additional 12 integrated teams for young people
- 47 additional speech therapists for pre-school disabled children
- 3 additional school social workers for new schools, 150 peer counsellors and 154 Understanding the Adolescent Projects in secondary schools
- Additional time-limited jobs to strengthen various services including those under the Promoting Self-reliance Strategy, services for the elders, family and child services and rehabilitation services

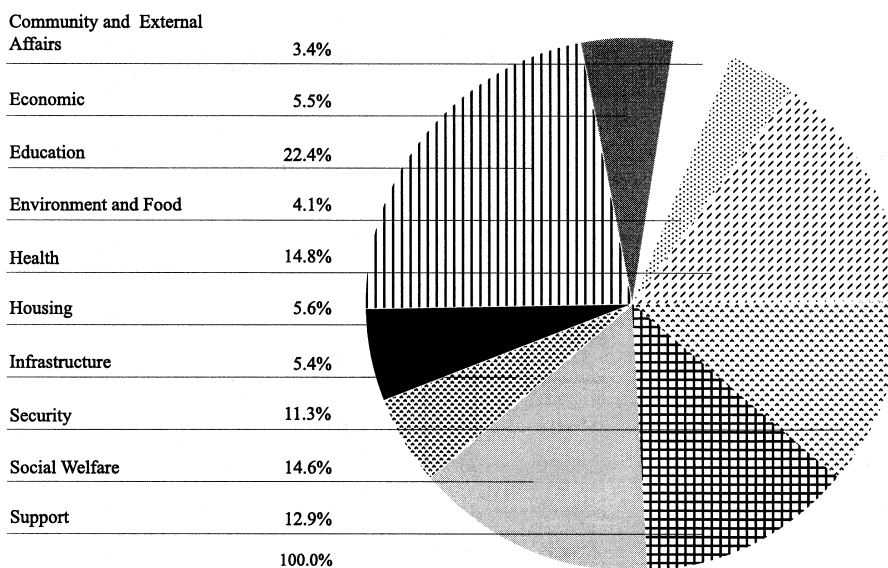
## Appendix B—Contd.

**Security (+1.8%)**

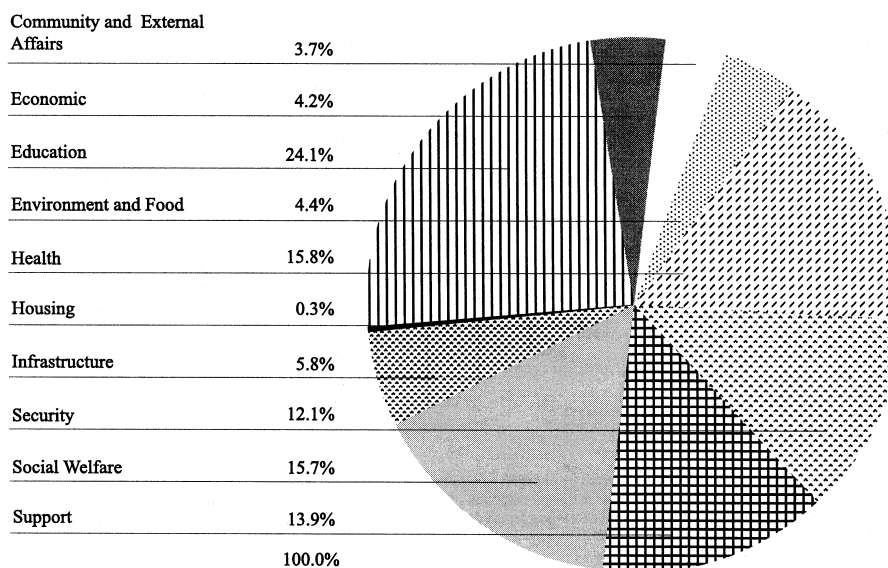
- 133 additional police officers for strengthening operational front-line capability and traffic enforcement in new towns and new infrastructures
- 19 additional police officers for strengthening crime detection capability
- 127 additional fire fighting and ambulance officers for manning new fire stations, ambulance depots and fire motorcycles
- 50 additional ambulance officers for implementing full paramedic ambulance service
- 11 additional staff in Fire Services Department for implementing the Railway Development Strategy and formulating the fire services requirement for Hong Kong Disneyland
- 33 additional staff in Independent Commission Against Corruption for enhancing investigative capability, strengthening information technology support services and improving the handling of case properties
- 121 additional customs officers for manning customs facilities at Container Terminal No. 9 and for facilitating cross boundary traffic at Lok Ma Chau and Lo Wu Control Points
- 10 additional staff in Correctional Services Department for implementing the new Rehabilitation Centres Programmes for young offenders
- 10 additional correctional services officers for strengthening escort service to implement the proposal of shortening the maximum remand period from eight to three days
- 93 additional immigration officers for strengthening immigration control at boundary control points
- 30 additional staff in Immigration Department for implementing the new Registration of Persons System which supports the issue of smart identity card
- 32 additional staff in Immigration Department for implementing Phase I of the updated Information Systems Strategy

Appendix B—Contd.

## Percentage Share of Expenditure by Policy Area Group - Recurrent Public Expenditure



## Percentage Share of Expenditure by Policy Area Group - Recurrent Government Expenditure



## Appendix B—Contd.

## SECTION III - ANALYSIS OF TOTAL PUBLIC/GOVERNMENT EXPENDITURE BY POLICY AREA GROUP

## Total Public Expenditure - Year on Year Change

	<i>(All figures in \$million)</i>				
	2001-2002 Revised Estimate	2002-2003 Estimate	Increase	% Increase/Decrease in Nominal Terms	% Increase/Decrease in Real Terms (see Note)
<b>Education</b>	52,600	61,395	+8,795	+16.7	+18.5
<b>Support</b>					
• Others	14,960	16,870	+1,910	+12.8	+14.1
• Central Management of the Civil Service	20,750	19,580	-1,170	-5.6	-5.4
	<u>35,710</u>	<u>36,450</u>	<u>+740</u>	<u>+2.1</u>	<u>+2.8</u>
<b>Health</b>	34,015	34,410	+395	+1.2	+3.4
<b>Social Welfare</b>	30,730	33,740	+3,010	+9.8	+10.4
<b>Housing</b>	33,185	28,735	-4,450	-13.4	-13.0
<b>Security</b>	28,065	28,600	+535	+1.9	+4.0
<b>Infrastructure</b>					
• Buildings, Lands and Planning	10,840	10,590	-250	-2.4	-1.8
• Water Supply	7,765	7,435	-330	-4.3	-3.8
• Transport	6,335	7,365	+1,030	+16.4	+17.3
	<u>24,940</u>	<u>25,390</u>	<u>+450</u>	<u>+1.8</u>	<u>+2.4</u>
<b>Economic</b>	14,100	17,140	+3,040	+21.6	+23.5
<b>Environment and Food</b>	11,330	12,480	+1,150	+10.2	+11.7
<b>Community and External Affairs</b>					
• Recreation, Culture and Amenities	6,525	6,470	-55	-0.8	+0.4
• District and Community Relations	1,950	2,370	+420	+21.4	+22.6
	<u>8,475</u>	<u>8,840</u>	<u>+365</u>	<u>+4.3</u>	<u>+5.5</u>
<b>Total Public Expenditure</b>	<u>273,150</u>	<u>287,180</u>	<u>+14,030</u>	<u>+5.1</u>	<u>+6.5</u>

Note : As the above 2002-2003 estimate has included assumptions on price changes for various expenditure components (e.g. operating expenses, plant and equipment, etc.) and an assumed reduction of 4.75% in salaries for the civil service and salary-related portion of recurrent subventions, the % increase/decrease is calculated after adjustment to bring the expenditure figures for 2001-2002 and 2002-2003 to the same price level.

**Total Public Expenditure - Commentary on the Changes**

Total **public expenditure** is forecast to grow in 2002-2003 by \$14,030 million, or 6.5% in real terms over the revised estimate for 2001-2002. Within this, **government expenditure** will grow by \$14,905 million, or 7.7% in real terms. The growth in government expenditure comprises growth in recurrent expenditure of \$6,925 million or 5.0%, and growth in capital expenditure of \$7,980 million or 20.5%. Expenditure from the Capital Works Reserve Fund, which makes up the majority of capital expenditure, is forecast to grow by \$4,740 million or 16.3% in real terms.

The significant changes in capital expenditure contributing to the growth in total public expenditure are:

**Education (+\$8,795 million)**

Capital spending on Education will rise by \$5,860 million, or 97% in real terms, reflecting provision for the setting up of the Continuing Education Fund, additional loans to students pursuing higher education and additional loans to post-secondary education providers, and additional expenditure on the continuing programme of school-building and improvement works, University Grants Committee - funded building projects, capital payments to subvented primary and secondary schools for maintenance, repairs and minor improvement works, and enhancement to the information technology infrastructure for schools and the Education Department.

**Support (+\$740 million)**

Capital spending in this policy area group is forecast to rise by \$1,470 million or 23.7% in real terms. The increase reflects additional provision for various minor works for items in Category D of the Public Works Programme.

**Health (+\$395 million)**

Capital spending on Health is forecast to reduce by \$25 million, reflecting the near completion of a number of redevelopment hospital projects in 2002-2003.

**Social Welfare (+\$3,010 million)**

Capital spending on Social Welfare is forecast to rise by \$525 million or 48.6% in real terms. The increase reflects additional spending under the Lotteries Fund for various social welfare non-recurrent grants.

**Housing (-\$4,450 million)**

The reduction mainly reflects the forecast capital expenditure of the Housing Authority in 2002-2003.

**Security (+\$535 million)**

Capital spending on Security is forecast to rise by \$625 million or 21.9% in real terms. This reflects the planned expenditure on the redevelopment of Police Headquarters, and on implementation of the HKSAR Identity Card Project and an updated Information Systems Strategy for the Immigration Department.

**Infrastructure (+\$450 million)**

Capital spending on Infrastructure is expected to rise by \$100 million or 1.0% in real terms. This arises mainly from increased expenditure on supporting infrastructure works for Hong Kong Disneyland, Container Terminal No.9 and road works.

**Economic (+\$3,040 million)**

Capital spending in this policy area group will rise by \$2,310 million or 79.6% in real terms, reflecting additional funding support for innovation and technology, including planned expenditure on the Science Park at Pak Shek Kok; funding for 4 new funding schemes for small and medium enterprises; and additional provision to Skills Upgrading Scheme.

**Environment and Food (+\$1,150 million)**

Capital spending in this policy area group will increase by \$490 million or 17.5% in real terms. This reflects provision for new and improvement works for market complexes and various sewerage and sewage treatment works.

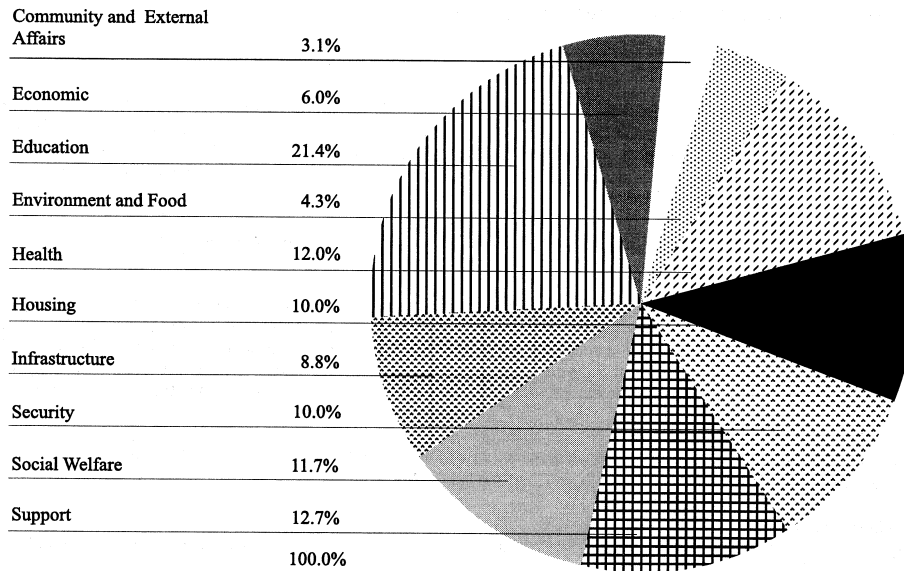
**Community and External Affairs (+\$365 million)**

Capital spending in this policy area group will rise by \$260 million or 26.8% in real terms, reflecting additional provision for leisure and cultural facilities; and for restoration of historical buildings.

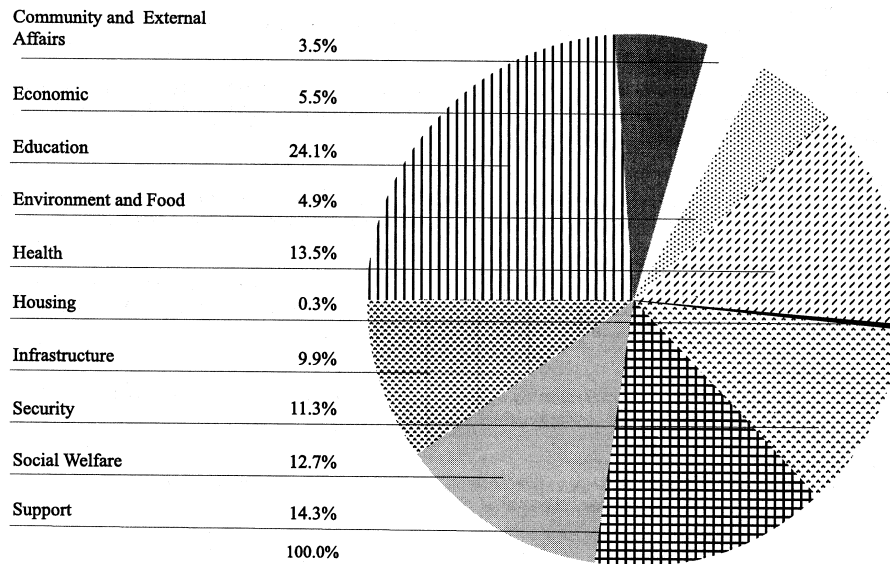


Appendix B—Contd.

Percentage Share of Expenditure by Policy Area Group - Total Public Expenditure



Percentage Share of Expenditure by Policy Area Group - Total Government Expenditure



## Appendix B—Contd.

**SECTION IV - MAJOR CAPITAL PROJECTS TO BEGIN IN 2002-2003**

Funds allocated for capital projects to start in 2002-2003 include:

	<i>\$million</i>
<b>Infrastructure</b>	<b>14,923</b>
—Tsuen Wan Road upgrading	
—Investigation, design and construction of the remaining associated infrastructure and landscaping works for the Hong Kong Disneyland on Lantau Island	
—Central Reclamation phase III - engineering works	
—Development at Anderson Road	
—Drainage improvement - Northern Hong Kong Island, West Kowloon, Tsuen Wan, Kwai Chung and Tsing Yi	
<b>Education</b>	<b>12,110</b>
—Construction of additional primary, secondary and special schools	
—School Improvement Programme, Final Phase	
—Teaching facilities and student hostels for universities	
—Education resource centre at Kowloon Tong	
<b>Environment and Food</b>	<b>836</b>
—Central, Western, and Wan Chai West sewerage, stage 2 phase 2 works	
—Yuen Long and Kam Tin sewerage, stage 3	
<b>Community and External Affairs</b>	<b>819</b>
—International Wetland Park and Visitor Centre in Tin Shui Wai-phase 2 works	
—Kowloon Bay Recreation Ground	
—Joint-user building at Rock Hill Street, Kennedy Town	
<b>Economic</b>	<b>714</b>
—Applied Science and Technology Research Institute	
<b>Health</b>	<b>590</b>
—Establishment of a Radiotherapy Centre and redevelopment of the Accident and Emergency Department in Princess Margaret Hospital	
<b>Security</b>	<b>171</b>
—Improvements to Lo Wu Terminal Building and Lo Wu Footbridge	

Appendix B—*Contd.***SECTION V - TRENDS IN PUBLIC EXPENDITURE : 1997-1998 TO 2002-2003****Introduction**

The section presents trends in public expenditure over the period 1997-1998 to 2002-2003. This analysis is expressed in public expenditure terms and includes expenditure by the Trading Funds, the Housing Authority, the Lotteries Fund and the previous Provisional Urban Council and Provisional Regional Council (up to 31 December 1999). It shows the actual and estimated recurrent and total expenditure during this period and expresses this in terms of ten main policy area groups. Where appropriate, policy area groups are further analysed by policy areas.

2 Details of the individual heads of expenditure contributing to a particular policy area are provided in an index in Volume I of the 2002-2003 Estimates. This index further provides details by head of expenditure of individual programmes which contribute to a policy area.

3 The analysis provided in this section shows how resources have been and will, in 2002-2003, be allocated to different policy area groups. Where appropriate, historical figures have been adjusted to comply with the current classification of expenditure.

## Appendix B—Contd.

## Recurrent Public Expenditure by Policy Area Group 1997–1998 to 2002–2003

Policy Area Groups	Actual				Revised Estimate	Estimate
	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002	2002–2003
	%	%	%	%	%	%
<b>Education</b>	21.2	21.8	22.0	22.3	21.8	22.4
<b>Health</b>	15.1	15.3	15.3	15.4	15.0	14.8
<b>Social Welfare</b>	11.8	13.5	13.7	13.8	13.9	14.6
<b>Support</b>	13.4	11.9	12.2	12.7	13.7	12.9
<b>Security</b>						
Internal Security	10.1	9.7	9.4	9.3	9.0	8.7
Other	1.6	1.7	1.8	1.6	1.6	1.6
Immigration	1.1	1.1	1.1	1.1	1.1	1.0
	12.8	12.5	12.3	12.0	11.7	11.3
<b>Housing</b>	6.6	6.3	6.0	5.8	5.9	5.6
<b>Economic</b>	5.8	5.4	5.2	5.2	5.2	5.5
<b>Infrastructure</b>						
Water Supply	2.6	2.6	2.6	2.6	2.5	2.5
Buildings, Lands and Planning	1.4	1.4	1.5	1.4	1.5	1.5
Transport	1.4	1.4	1.5	1.4	1.4	1.4
	5.4	5.4	5.5	5.4	5.4	5.4
<b>Environment and Food</b>	4.3	4.2	4.2	4.0	3.9	4.1
<b>Community and External Affairs</b>						
Recreation, Culture and Amenities	2.9	2.9	2.8	2.6	2.6	2.5
District and Community Relations	0.7	0.8	0.8	0.8	0.9	0.9
	3.6	3.7	3.6	3.4	3.5	3.4
	100.0	100.0	100.0	100.0	100.0	100.0
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Total Recurrent Public Expenditure</b>	172,419	187,857	195,272	198,619	213,220	219,705

Appendix B—Contd.

**Total Public Expenditure by Policy Area Group 1997–1998 to 2002–2003**

Policy Area Groups	Actual				Revised Estimate	Estimate
	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002	2002–2003
	%	%	%	%	%	%
<b>Education</b>	20.0	18.2	18.7	19.2	19.3	21.4
<b>Support</b>	12.9	11.1	11.6	11.6	13.1	12.7
<b>Health</b>	11.9	11.8	11.8	12.2	12.5	12.0
<b>Social Welfare</b>	9.3	9.9	10.2	10.5	11.2	11.7
<b>Housing</b>	10.5	14.6	17.0	15.9	12.1	10.0
<b>Security</b>						
Internal Security	8.0	7.3	7.5	7.8	8.0	7.8
Other	1.3	1.3	0.8	1.4	1.4	1.3
Immigration	0.8	0.8	1.3	0.8	0.9	0.9
	10.1	9.4	9.6	10.0	10.3	10.0
<b>Infrastructure</b>						
Buildings, Lands and Planning	3.2	3.1	3.0	3.2	4.0	3.7
Water Supply	2.7	3.1	3.1	3.0	2.8	2.6
Transport	3.1	2.5	2.4	2.4	2.3	2.5
	9.0	8.7	8.5	8.6	9.1	8.8
<b>Economic</b>	7.3	8.0	4.6	4.7	5.2	6.0
<b>Environment and Food</b>	5.6	5.0	4.6	4.2	4.1	4.3
<b>Community and External Affairs</b>						
Recreation, Culture and Amenities	2.8	2.7	2.8	2.4	2.4	2.3
District and Community Relations	0.6	0.6	0.6	0.7	0.7	0.8
	3.4	3.3	3.4	3.1	3.1	3.1
	100.0	100.0	100.0	100.0	100.0	100.0

	\$m	\$m	\$m	\$m	\$m	\$m
<b>Total Public Expenditure</b>	234,780	266,448	269,484	267,507	273,150	287,180

## Appendix B—Contd.

## SECTION VI - KEY TO CLASSIFICATION OF EXPENDITURE

## Index Of Policy Area Groups

<b>Policy Area Group</b>	<b>Description by Policy Area</b>	<b>Reference (Note)</b>
Community and External Affairs	District and Community Relations	19
	Recreation, Culture, Amenities and Entertainment Licensing	18
Economic	Air and Sea Communications	3
	Commerce and Industry	6
	Employment	8
	Financial Services	1
	Information Technology, and Broadcasting	17
	Posts, Power, Competition Policy and Consumer Protection	4
	Public Safety	7
	Travel and Tourism	5
Education	Education	16
Environment and Food	Environmental Hygiene	32
	Environmental Protection and Conservation	23
	Agriculture, Fisheries and Food Safety	2
Health	Health	15
Housing	Housing	31
Infrastructure	Buildings, Lands and Planning	22
	Transport	21
	Water Supply	24
Security	Immigration Control	10
	Internal Security	9
	Administration of Justice	12
	Anti-Corruption	13
	Legal Administration	11
	Legal Aid	20
Social Welfare	Social Welfare	14
	Women's Interest	33
Support	Central Management of the Civil Service	26
	Complaints Against Maladministration	30
	Constitutional Affairs	28
	Intra-Governmental Services	27
	Revenue Collection and Financial Control	25
	Support for Members of the Legislative Council	29

*Note* : The Policy Area Reference corresponds with that used in the Index of Policy Areas in the Estimates of Expenditure.

## Appendix C

## GLOSSARY OF TERMS

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

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**Capital expenditure.** All expenditure charged to the Loan Fund, the Disaster Relief Fund, the Capital Works Reserve Fund and the Innovation and Technology Fund plus expenditure from General Revenue Account on plant, equipment and works and capital subventions, excluding transfers to Funds. It does not include advances and equity investments made from the Capital Investment Fund.

**Capital revenue.** All revenue credited to the Funds and the exceptions listed under *operating revenue*.

**Consolidated surplus/deficit.** *Surplus/deficit* after advances and equity investments from the Capital Investment Fund.

**Fiscal reserves.** The accumulated balances of the General Revenue Account and the Funds.

**Funds expenditure.** Expenditure charged to the Capital Works Reserve Fund, the Loan Fund, the Disaster Relief Fund, the Capital Investment Fund and the Innovation and Technology Fund, excluding transfers from the Funds.

**Funds revenue.** All receipts, except transfers from General Revenue Account, which are credited directly to the Funds. These comprise —

*Capital Works Reserve Fund*

donations for projects  
land premia  
investment income  
recovery from MTR Corp Ltd  
recoveries from Trading Funds

*Loan Fund*

loan repayments received  
interest on loans  
interest on balances

*Capital Investment Fund*

repayments received  
dividends  
interest  
interest on balances

*Disaster Relief Fund*

investment income

*Civil Service Pension Reserve Fund*

investment income

*Innovation and Technology Fund*

loan repayments received  
investment income

**General Revenue Account expenditure.** All expenditure charged to General Revenue Account in accordance with the Appropriation Ordinance, excluding transfers to the Funds.

**General Revenue Account revenue.** All receipts credited to any of the revenue heads, excluding transfers from the Funds.

## Appendix C—Contd.

**Government expenditure.** The aggregate of *operating expenditure* and *capital expenditure*. It is not the same as *public expenditure*.

**Government revenue.** The aggregate of *Funds revenue* and *General Revenue Account revenue*, including forecast receipts in 2002-2003 from the MTR share offer.

**Operating expenditure.** All expenditure from General Revenue Account charged to any of the subheads listed in the Estimates under 'Recurrent Account', plus Other Non-Recurrent expenditure.

**Operating surplus/deficit.** The difference between *operating revenue* and *operating expenditure*.

**Public expenditure.** *Government expenditure* plus expenditure (recurrent and capital) by the Trading Funds and the Housing Authority ; and payments from the Lotteries Fund.

**Operating revenue.** This comprises all receipts to be credited to General Revenue Account under any of the following revenue heads, namely —

- Duties
- General Rates
- Internal Revenue
- Motor Vehicle Taxes
- Fines, Forfeitures and Penalties
- Royalties and Concessions
- Properties and Investments
- Loans, Reimbursements, Contributions and Other Receipts (excluding transfers from Funds)
- Utilities
- Fees and Charges

except the following —

- disposal proceeds of government quarters
- estate duty
- taxi concessions
- recovery from Housing Authority under current financial arrangement
- donations
- repayment of loans and advances

which are treated as *capital revenue*.

The forecast receipts in 2002-2003 arising from MTR share offer are treated as *capital revenue*.

**Surplus/deficit.** The difference between total *Government revenue* and total *Government expenditure*.