

OFFICIAL REPORT OF PROCEEDINGS**Meeting of 25th February 1965****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR DAVID CLIVE CROSBIE TRENCH, KCMG, MC
HIS EXCELLENCY LIEUTENANT-GENERAL SIR DENIS STUART SCOTT
O'CONNOR, KBE, CB
COMMANDER BRITISH FORCES
THE HONOURABLE EDMUND BRINSLEY TEESDALE, CMC, MC
COLONIAL SECRETARY
THE HONOURABLE MAURICE HEENAN, QC
ATTORNEY GENERAL
THE HONOURABLE JOHN CRICHTON McDOUALL
SECRETARY FOR CHINESE AFFAIRS
THE HONOURABLE JOHN JAMES COWPERTHWAITTE, CMG, OBE
FINANCIAL SECRETARY
THE HONOURABLE KENNETH STRATHMORE KINGHORN
DIRECTOR OF URBAN SERVICES
THE HONOURABLE ALEC MICHAEL JOHN WRIGHT
DIRECTOR OF PUBLIC WORKS
DR THE HONOURABLE TENG PIN-HUI, OBE
DIRECTOR OF MEDICAL AND HEALTH SERVICES
THE HONOURABLE WILLIAM DAVID GREGG
DIRECTOR OF EDUCATION
THE HONOURABLE PATRICK CARDINALL MASON SEDGWICK
COMMISSIONER OF LABOUR
THE HONOURABLE DAVID RONALD HOLMES, CBE, MC, ED
DIRECTOR OF COMMERCE AND INDUSTRY
THE HONOURABLE JOHN PHILIP ASERAPPA
DISTRICT COMMISSIONER, NEW TERRITORIES
THE HONOURABLE DHUN JEHANGIR RUTTONJEE, CBE
THE HONOURABLE FUNG PING-FAN, OBE
THE HONOURABLE RICHARD CHARLES LEE, CBE
THE HONOURABLE KWAN CHO-YIU, CBE
THE HONOURABLE KAN YUET-KEUNG, OBE
THE HONOURABLE SIDNEY SAMUEL GORDON
THE HONOURABLE LI FOOK-SHU, OBE
THE HONOURABLE FUNG HON-CHU
THE HONOURABLE TANG PING-YUAN
THE HONOURABLE TSE YU-CHUEN, OBE
THE HONOURABLE KENNETH ALBERT WATSON, OBE
THE HONOURABLE WOO PAK-CHUEN, OBE
THE HONOURABLE GEORGE RONALD ROSS
MR ANDREW McDONALD CHAPMAN (*Deputy Clerk of Councils*)

MINUTES

The Minutes of the meeting of the Council held on 10th February 1965, were confirmed.

PAPERS

THE COLONIAL SECRETARY, by Command of His Excellency the Governor, laid upon the table the following papers: —

	<i>Subject</i>	<i>LN No</i>
Sessional Paper, 1965:—		
No 4—Annual Report by the Secretary for Chinese Affairs for the year 1963-64.		
No 5—Annual Report by the Director of Commerce and Industry for the year 1963-64.		
No 6—Annual Report by the Director of Medical and Health Services for the year 1963-64.		
Draft Estimates of Revenue and Expenditure with Explanatory Memoranda for the year ending 31st March 1966.		
Report of the Establishment Sub-Committee of Finance Committee for the year 1965-66.		
Report of the Public Works Sub-Committee of Finance Committee for the year 1965-66.		
Report on the Public Service 1965.		
Hong Kong Annual Report 1964.		
Annual Report of the Li Po Chun Charitable Trust Fund for the period 7th November 1963 to 31st August 1964.		
Emergency Regulations Ordinance.		
Emergency (Bank Control) Regulations 1965		20
Emergency Regulations Ordinance.		
Emergency (Bank Control) (Amendment) Regulations 1965		21
Summary Offences Ordinance.		
Summary Offences (Licences and Fees) (Amendment) Regulations 1965		23
Registration of Persons Ordinance 1960.		
Registration of Persons (Re-registration) (No 6) Order 1965		27

<i>Subject</i>	<i>LN No</i>
Registration of Persons Ordinance 1960.	
Registration of Persons (Cancellation of Registration and Identity Cards) (No 6) Order 1965	28
Emergency Regulations Ordinance.	
Emergency (Bank Control) (Amendment) (No 2) Regulations 1965	29
Urban Council Ordinance 1955.	
Urban Council (Election Petitions) Rules 1965	30
Registration of Persons Ordinance 1960.	
Registration of Persons (Re-registration) (No 7) Order 1965	31
Registration of Persons Ordinance 1960.	
Registration of Persons (Cancellation of Registration and Identity Cards) (No 7) Order 1965	32

He said:—As is customary on Budget Day these papers include the reports of two very hard-worked Sub-Committees of this Council, the Public Works and the Establishment Sub-Committees of Finance Committee, and there is a great deal of interest to be found in their reports. The Colony's Annual Report is also laid. This is a publication in which we take particular pride, and I hope honourable Members will find that in content, style and general presentation, it maintains the high standards of its predecessors. It is, however, to another paper that I would like. Sir, if I may, to draw special attention in a few brief remarks, and that is the 1965 Report on the Public Service.

The first report of this kind was laid on the table of this Council in September 1962. It aroused a good deal of interest and received, on the whole, favourable comment. The present report follows closely the lines of its predecessor and brings it up to date. It is our intention from now on to revise this report annually and to present it to Council at the beginning of each year's Budget Session. I hope honourable Members will agree that an occasion such as this seems a particularly appropriate one on which to present an account of the organization of the Public Service, a time when the draft estimates of public expenditure are under scrutiny and when the work of Government, both in the year just ending and in the year ahead, is the subject of special examination and review. I am sure honourable Members, and the public at large, will find this report useful, and will agree that the progress recorded in it reflects credit on all members of the Public Service.

ADDRESS BY HIS EXCELLENCY THE GOVERNOR

Honourable Members of the Legislative Council.

It is with pleasure that I address you for the first time at the start of our Annual Budget meeting when it is customary for this Council to review in some detail the affairs of the Colony. It would not be inappropriate perhaps to start with some observations on the work of Council during the past year; particularly since the year has seen a change of some importance in its constitution. For the first time. Unofficial Members now out-number ex-officio and official members by one, and the change clearly reflects the confidence which is reposed in this Council.

During the year 1964, 36 Ordinances were enacted; some of them of very considerable importance. Of these honourable Members will recall in particular the Banking Ordinance, the Legal Practitioners Ordinance, the School Medical Service Board Incorporation Ordinance, and the Television Ordinance.

But Council's work cannot of course be measured solely by the number and importance of the Ordinances passed. Work in the committees is continuous and heavy, especially in the Finance Committee and in the Public Works Sub-Committee, which has the onerous task of supervising expenditure on a large and complex Public Works programme. Moreover, honourable Members have also been serving on a number of other important committees as well as being continuously engaged in the heavy task of keeping in touch with public opinion.

To assist them in this latter duty, a small secretariat, headed by a senior ex-officer of the Hong Kong Government, has now been provided in an attempt to adapt the essence of the Ombudsman system, the introduction of which has from time to time been advocated here, to our own particular needs. There is, I think, a great deal of misunderstanding current about what an Ombudsman is. He is not a sort of super inspector-general, charged with the power to criticize generally the whole conduct of a Government's affairs. Nor does he comment officially on the general policies of his Government as reflected in the laws passed by the Legislature. That is solely the prerogative of the Legislature itself.

An Ombudsman's task varies in different countries, but generally speaking he advises members of the Legislature on the manner in which executive powers conferred by the Legislature are carried out by the executive; and he may call their attention confidentially to any ways in which current legislation works badly in detail. He is appointed because it is thought difficult for large legislatures to oversee such matters collectively. Here, this comparatively small Council can think oversee these matters collectively, provided they have the necessary facilities to investigate particular complaints in detail. This I hope

has now been made available, but if anything else is needed to assist honourable Members, consideration will certainly be given to arranging it.

The past year has seen one most useful debate on housing matters. We shall before long have an opportunity to debate the recent White Paper on Social Welfare policy, and I hope we shall have other similar debates in the future; for I believe that it is important that all major questions affecting this Council should be aired here before a line of action is finally settled.

The outstanding event of the past year has of course been the dramatic improvement in our water supply position. The series of typhoons which struck Hong Kong during 1964 brought very welcome rain with them; but basically it is the availability of water from Shek Pik, coupled with all the other measures which have been taken to exploit our own natural resources more fully, which has transformed our position. The agreement signed on 22nd April last with the People's Council of Kwangtung Province will also undoubtedly provide welcome protection against further severe droughts, and will improve the availability of supplies under normal conditions. We are happy to have been able to co-operate with the Kwangtung authorities in this mutually beneficial arrangement. For the rest, work on the Plover Cove scheme is proceeding satisfactorily and present indications are that the reservoir will be productive in 1968. Tenders have also been called for the supply of a large seawater distillation plant to be operated in conjunction with the incinerator now being built at Lai Chi Kok. This distillation plant will be larger than any single unit in the world built so far. It will produce a useful amount of water, and will help us assess the feasibility and the cost of this method of producing fresh water.

A Water Resources Survey Unit has also been formed to prepare a comprehensive report on how to meet future demands. All our remaining natural resources, the use of salt-water, desalination, and even the re-use of water will be studied. The report will take about three years to complete, but interim reports will be submitted at regular intervals.

No one would be so bold as to claim that our water supply problems are now over, but the immediate picture is certainly much brighter. Ultimately, however, we will remain dependent on rains; and let us never forget that the effects of typhoons can be sad indeed. Last year's typhoons took a toll of 83 killed or missing and 411 injured. This is bad enough; but we must also remember the homeless and the farmers and fishermen whose lives were adversely and gravely affected by the storms.

I have already briefly mentioned our debate on housing policy. I do not propose to recapitulate the policy which was endorsed by Council at that debate. I do however think it very important that we should not fail to review annually the targets and the policies which were settled upon then. Until the back of the need for housing is broken, we must ensure that we keep our minds clear at all times on what we intend to do in the next ten years. Our 10-year programmes will inevitably have a certain momentum of their own which will make changes of immediate policy possible only within limits, and this increases the need to think well ahead to meet changing requirements. The annual review must therefore take into account such matters as the overall need for housing having regard to private development, the types of housing which are most appropriate, the proper balance in quantity which should be provided as between one type of housing and another, the proper definition of the categories of persons who should be eligible for housing, and other related matters.

There is also a need for some form of co-ordinating arrangements on housing, as was stressed in the report of Mr MCDOUALL'S Committee and commented upon during the debate on the White Paper in this Council. We must however be very careful indeed to see that any co-ordinating arrangements help matters and do not hinder them. Those who deal with the provision of housing on a day to day basis must be allowed to get on with the job without unnecessary hampering. I have it in mind therefore to set up a Housing Board of informed persons to conduct the annual review and advise on broad questions of policy and co-ordination. A number of details remain to be considered, and not the least of these is the difficult question of providing the permanent staff which the Board will certainly require. I am nevertheless hopeful that firm proposals can be formulated before very long.

Plans to put into effect the policies contained in the White Paper are now well under way. Drafting of the necessary new legislation is receiving priority, while departmental procedures to govern the licensed areas and the transit centres are at an advanced stage of planning. Investigation has produced a number of sites suitable for transit centres and licensed areas, although finding them is not easy.

Resettlement building continued apace during 1964, and by the end of December the Public Works Department had handed over 91 new resettlement blocks capable of housing 109,000 persons. The total number of blocks administered by the Resettlement Department is now 325. Site formation for another three estates continued, while work on a fourth has begun. It is hoped to start site formation work during the next financial year on three more estates in Kowloon. The whole programme when it is completed in 1970 will account for the 900,000 units mentioned in the White Paper.

The authorized population of the Resettlement Estates at the end of December was 626,865. By the end of the financial year the Resettlement Department hopes to have resettled 115,000 persons during the 12 months, excluding some 7,000-odd moved to new estates to relieve overcrowding in the old. The 14 cottage areas contained 74,734 authorized inhabitants. In addition it is estimated that about 36,916 unauthorized but tolerated persons were living in estates or cottage areas.

In spite of 12,500 people having been cleared from resite areas into estates, the population in these areas rose by 65% from 47,170 to 77,935 persons during the year. The increase is largely accounted for by the exodus of former inhabitants of condemned buildings of whom 28,628 were resited in 1964, a tenfold increase on 1963. Finding new sites for these resite areas and the provision of basic facilities, often at very short notice, has been no easy task. I trust that in the end private development will have the effect of reducing the potential burden of rehousing which is falling on the general tax payer instead of, as is the case now, substantially increasing it.

The Government low cost housing programme has now produced 9,902 flats, housing 46,035 people. During the year, a new and improved type plan has been evolved and the first estate with these improvements is now being built.

During 1964, the Housing Authority completed 5,685 flats, housing approximately 34,000 people. The total number of people housed in Housing Authority flats is now 128,342.

In the same period, the Housing Society has completed 2,948 flats to house 18,824 people. 7,030 flats to house 44,098 people were under construction at the end of the year and the Society has now completed 8,428 flats housing 51,660 people.

Figures of this size and complexity are difficult to grasp and it may be easier if I say that the total number of persons housed directly or indirectly with the aid of public funds is now of the general order of 1,000,000 persons; and, of course, we are contemplating housing a further 2 million people or more—and perhaps as many as 2 ½ million, depending on the proportion of children—in the next 10 years. We shall have many problems to face but I have good hopes that we shall achieve our aim.

I have already referred to the paper on Social Welfare matters which has been laid before Council. I do not propose to anticipate the debate on that paper, but I would like to take this opportunity of making one or two general observations on social welfare matters. Some of the comments which have been made on the Social Welfare

paper seem to have arisen from the misunderstanding that it contained a complete blueprint for the organization of social welfare services here. This was never intended to be so. The paper's chief aims, which were possibly not stated clearly enough, were to try to assess our fundamental obligations, having regard to Hong Kong's special circumstances; to consider priorities; and to suggest which aspects of social welfare work should be undertaken directly by Government, and which could most appropriately be undertaken by voluntary agencies with Government assistance. Some such demarkation is an essential first step towards the formulation of more detailed policies; and until then progress is difficult. Nevertheless, progress has of course been made. A Children's Reception Centre for 80 babies was opened last January, the Community Centre in Kwun Tong in February, and the Aberdeen Rehabilitation Centre in June; and there was a big expansion in Day Care Centres for children under school age run by the voluntary agencies. A most useful seminar on drug addiction was held, in which both Government and voluntary agencies participated.

Next, I would like to offer one or two thoughts on social work generally. In all cases the aim of the social services is the same; namely, to work actively to restore those in need of help to the maximum degree of self-sufficiency and self-respect, and to develop the best that is in them in the interests of human dignity; and, as a lesser but still important aim, to limit their dependence upon the community. The general concept of handicap is a useful one to remember, for the social services deal with persons who are in one way or another handicapped; physically, mentally or, just as important, and much wider in application, socially. We see the idea of handicap most clearly perhaps in the medical field, where we recognize that the sick man is temporarily handicapped, and must be cured as far as is possible. The same principles apply in essence throughout the remainder of the field of social services, although sometimes in less clear-cut form. One important specialized aspect for example deals with the integration of any who are socially handicapped by circumstances often beyond their control—such as disorientation due to migration—usefully and happily into the community; attempting to assist them, as necessary, to become co-operative and self-reliant members of the group. Nevertheless, as in the medical services, each problem requires a professional and clinical, yet humane, approach. It is proper that everyone, whatever their handicap, be so approached, and never regarded as recipients of charity as of right or as mere vessels for the exercise of good works.

The fostering of community spirit and group integration—one might call it helping people to feel at home and make friends—is a continuing mass task in a melting-pot such as Hong Kong is; but it is one in which progress can be made with time and patience. Similarly, the majority of physically or mentally handicapped individuals are

capable of being helped sufficiently to enable them to live a life of personal dignity, with perhaps some occasional specialized assistance. There are others whose condition, while it can often be improved, will never allow them to live alone without supervisory care and attention. We must accept to the fullest practicable extent the need to provide both types of handicapped persons with the care and assistance they need. What we must *not* do is encourage the continuance of what should be temporary states of dependence by alleviating immediate distress without at the same time tackling or ameliorating the root cause of that distress. In many cases of social handicap, the root cure lies in economic not social measures. Here, indeed, we can claim some real progress, since the number of people who had to look for relief and assistance during the last twelve months has gone down considerably; as has the number of small children abandoned by their parents.

A moment ago, I mentioned the need to accept our obligations to the handicapped to the fullest practicable extent. In so saying, I am by no means referring only to financial limitations. Of course the ability to pay is always one factor which has to be taken into account in considering whether or not improved facilities of any kind can be provided; but it is currently a common error here to think that much more could be done if only the Government would provide more funds. This overlooks the equally important factors of capacity and staff. Indeed, at this present time, the ability to organize new projects, construct the necessary buildings and so on, and to find the staff are quite as much a limiting factor on the more rapid extension of our social welfare services as is any immediate lack of money. The Financial Secretary has assured me that he has never in recent years had to turn down any worthwhile social welfare development within the terms of the approved policy, purely for lack of money; it has been the lack of capacity to spend money any faster, and lack of trained staff, which have limited the rate at which we have been able to progress; and thereby governed the rate at which money needed to be provided.

Let me now turn to the general subject of education and the Marsh/Sampson Report which will be coming before this Council in the context of the report of the Working Party which has been considering it. The Working Party has now completed its report which is under consideration. The proposals cover the whole field of education up to university level and they will obviously require very careful study. We must also I think now give thought to our existing educational aims, which were formulated some years ago and seem to me to require some review.

Here I would like to stress that the very considerable expansion of educational services which Hong Kong has been accustomed to in recent years, has not been frozen in any way during the course of these deliberations. In technical education, for example, we have taken a

number of basic policy decisions on training for industry and we are about to embark on several important projects. These latter include a Technical Institute and two major projects within the Technical College itself, where a workshop to provide facilities for training in wool technology, and classroom accommodation to serve this proposed workshop and the recently completed workshop block are to be built. These projects are being assisted by the Royal Hong Kong Jockey Club, the International Wool Secretariat and the local wool industry and should be completed by 1967.

In other fields of education, the total primary day-school enrolment is now about 550,000 and some 57% of these children are enrolled in Government and aided schools. In secondary education, enrolment for full-time secondary day schools has increased by about 37,000 in the past two years. Next year should see the provision of another 70,000 places for primary pupils, over 65% being in Government or aided schools, and also another 15,000 secondary places.

Encouraging progress has been made in providing education for the blind, the deaf and the physically handicapped. Over 80% of the teachers in these special schools have now been specially trained for this work. Wherever possible, physically handicapped children are being enrolled in Government primary schools. A useful start has also been made with training teachers for educationally sub-normal children.

Higher education is an aspect of education in which we shall have to continue to devote an increasing amount of effort. The University of Hong Kong has made good progress during the past year and the year was of course notable for seeing the installation of the first Vice-Chancellor of the Chinese University of Hong Kong, and the graduation of the first group of students. A steady expansion of the facilities available for higher education is no doubt desirable, but it is harder to determine the rate at which expansion should take place, and in what fields of study. This is now under review by the Special Committee on Higher Education, and I expect constant study will be needed to refine our knowledge continuously.

The formation of a University Grants Committee has in the past been advocated here, and as a result of Sir Edward HALE'S valuable advice, it is hoped to put forward concrete suggestions for such a Committee soon.

It is quite impossible to cover the whole vigorous field of education in Hong Kong on an occasion such as this; and I am conscious of the somewhat cavalier way in which I have been forced to treat the subject. I could not however conclude without a word of thanks and admiration to all those non-profitmaking organizations who are so active in this field, and to the private schools. While all of the latter are not of the

same quality, the best are doing very useful work for which we are grateful.

Turning now to our medical services, the general improvement in the public health has continued, as evidenced by the various vital statistics for 1964. An interesting feature of the year was that the number of births recorded was the lowest since 1959, and the birth-rate was down to 29.4 per thousand. The number of deaths was the lowest recorded since 1949, and infant, neonatal and mortality rates are now close to those of the developed countries.

Cholera fortunately made a comparatively light and brief visitation this year. The control and epidemiological measures which have now been built up in Hong Kong have aroused both interest and favourable comment in international circles. The incidence of diphtheria has continued to fall as a result of the persistent inoculation campaign, and the number of cases of poliomyelitis remains low due to the use and effectiveness of the oral vaccine.

Tuberculosis remains our major public health problem, although great advances have been recorded during the past years. A critical appreciation of our programme was made by experts from the Medical Research Council of the United Kingdom, and it is obvious that certain research projects are needed to help in solving this vast problem. The experts' recommendations are now being closely examined.

The past year saw the opening of 4 new health centres and the Queen Elizabeth Hospital Institute of Radiology. The Caritas Medical Centre in So Uk and the Seventh Day Adventist Hospital in Tsuen Wan were opened during the year, and these two institutions have added over 500 beds to the Colony's hospital services.

Four more health centres are at present under construction and next year will also see major additions to the Queen Mary Hospital. Planning has commenced on a large new Government hospital at Lai Chi Kok and on a further 4 health centres. As well as these new institutions, several essential additions to existing Government buildings are being planned. These Government projects will add some 1,700 hospital beds to the existing total.

The Medical Development Plan Standing Committee has, in twelve months since its inception since March 1964, reviewed and recommended the creation of other medical institutions by Government and voluntary agencies in twelve meetings. When all these projects come into operation an additional 4,500 hospital beds can be expected, and further proposals are in various stages of preliminary consideration.

Our capacity to speed up the rate of construction of medical institutions is again one of our major problems; and, as elsewhere, we

suffer from a continued shortage of medical officers. Recruiting for the new auxiliary nurses, who will be used to assist in the less acute wards of subsidiary hospitals, has been promising.

Enrolment for the new School Medical Service has been encouraging, with nearly 90,000 students now participating. No doubt the number of school children enrolled will steadily increase.

It is of course a great temptation for me to try to cover all the manifold events and activities of the past year, but this is clearly impossible in the time available, and I can only confine myself to the salient points. The Urban Council and the Urban Services Department have had a busy year, complicated by the typhoons. The cleansing division in particular have been through a literally tempestuous season, complicated by the general labour shortage. A fresh look has therefore been taken at the transport requirements of the Department to ensure a greater degree of flexibility during those periods when the demands on the service are exceptionally great, and advances have been made in modernizing methods of refuse collection and disposal.

During the year, another 84 acres of public space have been developed and put to use, bringing the total acreage to 343 for the urban areas and 176 for the New Territories. Six further additional recreational areas, totalling some 93 acres of land are well advanced.

The third year of the operation of the City Hall was another busy one. Any visitor who still thinks of Hong Kong as a cultural desert has only to walk into the City Hall and look at the programme for the next week to have his mistaken impression corrected.

As usual the Public Works Department have been at full stretch, hampered by typhoons in their endeavour to repair the damage and to keep up with a very large programme of building and engineering works. I would like to express my appreciation of all that the Department has managed to accomplish while being so gravely hampered by weather conditions.

Private building proceeded at great speed for the first eight months of the year, and the number of buildings which shewed signs of impending collapse as a result of demolition or piling works on neighbouring sites increased, partly as a result of this increased building activity. Nearly 35,000 people had to be dispossessed because of danger to their lives and a scheme had to be devised to advance part of their legal compensation to them. In September 1964 new legislation was passed which empowered the Building Authority to refuse to give approval for plans or consent to start work if he considers such work might endanger the adjoining property. This legislation resulted in effective control of the situation, but some 300 rebuilding proposals are held up as a result.

A working party on slum clearance is now studying the practical problems of putting into effect the large-scale urban redevelopment schemes which are so badly needed, as well as seeking a solution to the problems raised by the legislation to control danger to buildings.

As in all other cities, our traffic problems continue with us. The Passenger Transport Survey has commenced operations and will provide factual data on future needs. As a follow-up to this survey, consulting engineers will be appointed to consider the most efficient way of meeting unsatisfied travel demands. Meanwhile road works have been planned and constructed to improve the present situation. I should here like to pay a tribute to the work of the Public Transport Advisory Committee, whose advice has been most helpful to Government over a number of problems.

The Urban Services and the Public Works Department are certainly not the only departments which were greatly affected by last year's unusual number of typhoons. Indeed few departments were unaffected, and long hours of additional work had to be performed by, in particular, the Royal Observatory and the Marine Department prior to and during the typhoons; while the New Territories Administration and the Department of Agriculture and Fisheries, together with the Social Welfare Department and the voluntary agencies with whom they work, all had a heavy additional strain thrown upon them. At the height of the typhoons quite splendid work was done by the men of the Armed Services, the Fire Brigade, the Police and the public utilities. All carried out their often dangerous tasks with exemplary devotion to duty, and I cannot express in too strong terms my admiration for the splendid behaviour of all of them.

Sir Robert BLACK on this occasion last year reviewed the achievements of our economy over the six years since 1958 and commented, upon the changes in the pattern of our trade during this period. His general remarks are still valid a year later, and what he then said needs no substantial amendment. Our economy remained generally buoyant 1964; a buoyancy which was only checked slightly by the restraints building development to which I have already referred, and by the effects of the 15% surcharge on imports imposed by the United Kingdom. More recently the bank note crisis has had effects which are not at present calculable. During 1964 our domestic exports increased some 15.6% over 1963, while total imports increased by some 15.4%. These are remarkable figures, and compare with increases of 15.5% exports and 11.3% in imports between 1962 and 1963 and 12.9% for exports and 11.5% for imports between 1961 and 1962. Features of the economy were the increasingly strong demand for Hong Kong products the United States of America in spite of the high rate of exports already achieved; a slowing down in the rate of increase in trade with which cannot be attributed to the 15% surcharge as it was

already in evidence before the imposition of the surcharge; a regular and large increase of trade with the E. E.C. and E. F. T A. countries, although from a fairly low base, which indicates our dependence on the developed countries as markets; and our comparative failure to increase trade with South-East Asia, which is characteristic of our difficulties in increasing trade with developing countries generally, this is as their own light industries grow up and while they continue to have balance of payment problems.

The United Nations Conference on Trade and Development was the major event of the year in the international trade development field. Hong Kong was represented at this conference throughout but it is too early yet to determine what effect the new solidarity among the developing countries that the conference created will have.

The categorization arrangements negotiated in 1963 which restrict exports of cotton textiles, have not so far done any very great injury to our trade. They may, however, have more effect in the coming year. The agreement itself comes to an end on 31st December 1965 and the future is obscure; but it is unlikely to include unrestricted trade in cotton textiles. With the United States, we have reached an understanding about the application of restrictions up to October this year, but not without some difficulty. Additional restraint on exports of cotton textiles to Canada were accepted after negotiation and restrictions on exports to Germany were substantially eased. On the other hand the recent moves to impose restrictions by Italy have caused some concern. Negotiations with Italy are currently taking place.

The imposition of the 15% surcharge on imports by the United Kingdom naturally caused some considerable consternation here, as it did elsewhere in the world. It is at present still too early to judge the full effects of this measure. It appears likely however that it has resulted in shorter order-books and in some reduction of profit margins in Hong Kong. We have been assured that this measure is a temporary one only, and we must continue to hope that it will be wholly lifted again before too long in such a manner as to cause as little disruption to our trade as possible.

This has been a year of blueprints for the Department of Commerce and Industry. The Department has at present on its hands the initiation of action on a trade promotional organization whose purpose would be to co-ordinate the activities of all organizations engaged in export promotion and commercial public relations overseas. The Department has also been much concerned with the decision to set up an autonomous Export Credit Insurance Organization, and with the preliminary steps to set up a Productivity Council and Productivity Centre as was proposed by the Working Committee on Productivity whose report has been accepted.

I have already made some mention of the work of certain sections of the Civil Service, but before I conclude I would like to pay tribute to the work done during the year by the Service as a whole. There has been some dissatisfaction in sections of the Service over lagging pay scales but on the whole the Service has nevertheless put forward its views with good sense and restraint. The Salaries Commission which has been appointed will be reviewing all these matters; and in the meanwhile the Service has continued to do its duty with diligence and fidelity. I am sure honourable Members would wish to join me in thanking them for their year's work.

In spite of the necessity to continue unrelentingly our struggle against those twin evils in our midst, the drug traffickers and the triad societies, peace and good order have in general been well maintained during 1964. There was some increase in reported serious crime during the last year, but I emphasize that this was an increase in *reported* crime and not necessarily an increase in the actual commission of crime. The opening of our new Police Stations has undoubtedly encouraged more people to bring crime to the attention of the Police, and this is all to the good. The only real cloud has been some increase in misbehaviour by a small fraction of our young people; this is regrettable, but let us remember how few it is who misbehave while how great is the majority of bright eager youngsters who grace the coming generation. Let us therefore not blame youth for the actions of a few youths.

Without peace and good order this community cannot thrive, and I am glad to be able to pay tribute to the twin factors by which orderliness is secured—the excellent good sense of our people and the unremitting efforts of the Police, whose firm calmness, sometimes in the face of very considerable provocation, is the shield behind which all progress is made.

The year that has passed, then, has been a peaceful and prosperous one for Hong Kong, and one in which many solid advances have been made. The foundations have also been laid for further progress in a number of important fields; and I am wholly confident that 1965 will similarly see another year of steady advance. (*Applause*).

RESOLUTION REGARDING THE DRAFT ESTIMATES OF REVENUE AND EXPENDITURE FOR 1965-66

THE FINANCIAL SECRETARY moved the following resolution:—

Resolved that the draft Estimates of Revenue and Expenditure for 1965-66 be referred to a Select Committee composed of the Colonial Secretary (Chairman), the Financial Secretary and all the Unofficial Members.

He said: —Your Excellency, the Estimates had been virtually completed and this speech drafted before the recent banking difficulties came on us immediately after Chinese New Year. Such events inevitably leave some scars and, although I am confident that they will heal quickly and Government will do all it can to assist, they could meanwhile have some effect on next year's revenue. It is not possible, however, even to hazard a guess at what this effect might be and I have left this speech and the Estimates very largely as they were. There would in any case be no question of altering the expenditure estimates.

As to the banking situation, I shall confine myself to-day to the comment that the rapid recovery of confidence demonstrates the basic strength of our economy and the good sense of the people.

I begin as usual with the final results of the last financial year, that is, 1963-64. The revised estimates forecast a surplus of \$39 million but I said at the time that I thought it would be nearer \$75 million. It finally turned out at \$98 ½ million, to which should be added a \$4 million appreciation in the value of investments, making a total of \$102 million, and bringing reserves represented by the General Revenue Balance and Revenue Equalization Fund, up to almost exactly \$900 million. Public accounts for the year are, however, incomplete without inclusion of the Development Loan Fund, in which there was a deficit of \$44 million during the year. The final surplus on Government account was therefore \$58 million.

During the current year revenue has followed its familiar course of exceeding the estimates on most heads. This is because, while I budgeted for a reasonable rate of growth, we have continued to achieve our recent abnormal rate. The revised estimate is now \$1,497 million, compared with the original estimate of \$1,382 million. This represents an increase in revenue over the previous year of roughly 12%; a year ago it was 15% and the year before 10%. This is remarkably steady growth at a high level and it has been manifest in almost all heads representing economic activity and levels of consumption.

There is one exception in tobacco where special circumstances have reduced net revenue by about \$7 million below the level which otherwise would have been reached. There was, until this year, a thriving export trade in cigarettes to Sabah. Under our revenue system duty is paid on raw tobacco when it reaches the factory in Hong Kong, but an appropriate refund is made at a later date when the finished cigarettes have been exported and have reached their destination. This time-lag meant in effect that the tobacco industry was lending us a considerable sum of money interest free. Early this year, however, the trade very nearly completely dried up and the effect was that we had to repay this "loan" out of current revenue. The estimate has

been revised downwards by less than this amount, from \$101½ million to \$97 million.

On the other hand, the results of the Earnings and Profits Tax show that business prosperity in 1963 was even greater than we had supposed. The revised estimate is \$312 million, which is \$33 million over the original estimate or \$43 million (that is 10%) over last year's collections. Stamp duty too has done unusually well, the revised estimate at \$80 million being 15% over 1963-64; it does not yet seem to have been affected by the difficulties recently caused in the property market by the problem of dangerous buildings.

Revenue from land has been steady but may not quite reach the estimate of \$154½ million. This is partly because we have postponed the sale of the valuable lot beside the Middle Road carpark in Kowloon. As the upset price is \$35 million or two and a half times the highest figure ever paid for a lot at any previous auction, we have thought it advisable to reconsider the period of payment allowed. The original proposal was that the normal immediate payment terms would apply, but it is now thought that payment by instalments would be more appropriate. Even, therefore, if we manage to revise the terms and put the lot up for sale before the end of this financial year, which is unlikely only a first instalment will be received.

For expenditure the revised estimate is \$1,489 million compared with the original estimate of \$1,496 million. This appears on the surface to be very close estimating but it would be dishonest if I were to claim credit for it. It happens that this year the various mis-estimates have more nearly cancelled each other out than has been normal recently. The main factor in the direction of increased expenditure has, of course, been the various temporary and permanent salary awards, some of which were retrospective to July 1963. These amounted during the year to approximately \$48 million and helped to raise recurrent expenditure to a level close to 19% over the previous year—a very significant increase, the largest for many years, although there is an element of carry-over from the previous year by reason of the retrospectivity of some of these awards and the final expenditure figure may be rather lower than the revised estimate. In this context, it is perhaps noteworthy that the only full post-war year in which we have experienced a deficit on ordinary account was 1959-60 which bore the burden of the salary awards arising from the 1959 Salaries Commission.

My honourable Friend the Director of Public Works has had bad luck in the first year for which he has been responsible for estimating expenditure on Public Works Non-Recurrent, as progress was badly affected by the many typhoons. The shortfall from the original estimate of \$563 million is \$63 million, for \$30 million of which, he estimates, typhoons were responsible. The main shortfalls were in engineering

(including waterworks) rather than architecture; the Architectural Office itself having spent close to its target.

The originally estimated deficit of \$114 million on ordinary account has thus become an estimated surplus of \$8 million, but experience suggests that the final figure may be rather higher. This swing of some 4% from estimated deficit to surplus is in accordance with the optimism I myself expressed at Budget time last year, although for a variety of reasons it is considerably smaller than in recent years.

The estimated deficit of \$66 million in the Development Loan Fund has now been reduced to \$46 million, partly owing to a disappointing rate of expenditure on housing.

The revised estimate on overall account is therefore a deficit of \$38 million.

These figures are however likely to be fairly severely affected by depreciation of our investments which is probably heavy but cannot yet be calculated. This is a loss which will, of course, reverse itself in due course; all investments are in dated stock.

That completes the revised estimates for the current year, and it is now time to consider next year, 1965-66. The Draft Estimates have been in the hands of honourable Members since last week—although I do not know how the Government Printer managed to get them there. We set him an even more difficult task than usual this year because for various reasons we were constantly behind schedule and there were an unusual number of late adjustments. I have to express my gratitude too, to Mr. HENDERSON who was responsible for putting the Estimates together. This is the first time he has undertaken the task and he carried it out, not only efficiently, but also imperturbably.

The estimate of revenue next year at current tax rates is \$1,626 million compared with this year's revised estimate of \$1,497 million. The differences between the various elements in these figures is shown on page 227 of the Memorandum on the Draft Estimates.

The estimate of recurrent, as opposed to capital, revenue, which is \$1,393 million, is some 7½% over the revised recurrent estimate for 1964-65. This is a slightly higher estimate of a reasonably normal rate of growth than I have assumed in previous years, but it is still rather below the growth rate of about 12% we have experienced recently. As there are signs that we have taken up much of the previous slack in the economy, at least as represented by labour, and face, in this respect, a new economic situation, it would be even more imprudent than before to count on maintaining the same percentage growth.

I take the opportunity at this point of drawing attention to a new statistical table which has been added to the Memorandum on Estimates as Appendix A at page 255, showing in convenient form the

growth of revenue and expenditure in post-war years; we have grown; so accustomed since 1960-61 to rapid growth that we tend to take it rather too much for granted; it has not always been so.

One of the most notable increases is in the estimated yield from Rates, from \$164½ million this year to \$193 million next year. This is due to two causes. Firstly, the Rating and Valuation Department has at last found staff and time to undertake the overdue revaluation of existing property, the first in Kowloon for four years and in Hong Kong for three years. Secondly, the rate of completion and occupation of new tenements has accelerated remarkably in the last two years. It is estimated that about 30,000 new tenements will come on to the books next year.

Land sales remain the most difficult head of revenue to estimate with accuracy. It is particularly difficult for next year because it should see the sale of the ex-Naval Dockyard and payment of the first instalment for it. The figure of \$191½ million which I have inserted is \$46½ million more than this year's figure.

The estimate of Earnings and Profits Tax is \$330 million. This may appear to be on the low side as it is only \$18 million more than the revised estimate for this year. But, apart from the probability that some profits have been adversely affected by the 15% surcharge on imports into Britain, the estimate reflects proposals, which I had hoped to bring to this Council before to-day, for a generous increase in depreciation allowances for industry. These are estimated to have the effect of reducing next year's yield from Profits Tax by about \$5 million below what they would otherwise have been; this is, of course, a postponement of tax, not a permanent remission. I should perhaps have kept it up my sleeve as a quid pro quo for the time when it becomes necessary to increase the standard rate of tax; but I do not like tactics of that sort.

Expenditure, on the other hand, is estimated at \$1,709 million compared with a revised estimate of \$1,489 million for this year; this year's revised figure is 14.8% over actual expenditure in 1963-4 and next year's is 15% over this year's.

There is one special uncertainty this year; I refer to the effects of any salary awards which may be made as a result of recommendations by the Salaries Commission which will begin its work soon. It is impossible to make a guess at this and the estimates include no allowance for it.

Without in any way suggesting what the Commission's conclusions may be, there is one general point I should like to make in this connexion. I have already mentioned, when speaking about the revenue estimates, the new situation we find ourselves in now that much of the

slack in the economy has been taken up. In a sense we are at a dividing line in our economic progress, in that from now on our progress depends rather on making more productive use of resources already employed than on bringing idle resources into production. If, as I hope, our progress continues, we shall inevitably find that those parts of our social and economic life where increased productivity is most difficult to attain, that is, in general the service industries, will become more and more expensive as increasing productivity in other fields causes, or allows, wages to rise. This is a normal process of development. Government is itself largely, although by no means entirely, a service industry and if we are to match the growth of the private sector of the economy with an adequate growth of public services, we shall find ourselves having to compete increasingly in the market for labour, as well as for other resources, and we can expect, I am afraid, a more and more expensive Government. And it will become increasingly difficult to decide the proper priorities between public and private development.

I do not propose to attempt to analyse in detail to-day the composition of these expenditure estimates. They represent, as I have said, the cost of continuing to expand public services on the lines of agreed policies and aims, many of which were commented on by Your Excellency earlier this afternoon, and there is nothing very new or very noteworthy, except the general rate of expansion and its order of magnitude. The printed Estimates themselves contain, however, in Appendices C to G analyses of expenditure on Education, Medical and Health Measures, Housing, Social Welfare and Security Measures which are worth studying. The comparisons between last year, this year and next year are distorted to some extent by retrospective salary adjustments this year and too much should not be read into the slightly reduced comparative rate of spending next year on some of these as measured by the percentage of total public expenditure devoted to a particular purpose. In any event, I have myself never been easily convinced by arguments based on these percentages. Indeed, I sometimes suspect that some of Government's critics believe that you can increase one percentage without reducing any other.

The Establishment Sub-Committee, now under the able chairmanship of my honourable Friend Mr. RUTTONJEE, has once again done valuable service in scrutinizing proposals for additional posts. Their report is already in the hands of honourable Members. It shows that a large number of posts has been created during the course of the year, rather than in specific connexion with the budget process. We are in something of a quandary here. The important principle of the annuality of the Budget requires that extra-budgetary creation of new posts should be kept to a minimum; but our rapid development and the ever-changing problems of government make it desirable to adopt

as flexible an approach as possible; and, of course, it also helps if the load of scrutiny can be spread over the year rather than concentrated in the months before the Budget. We try therefore to steer a sensible course between these two extremes.

The estimate for Public Works Non-Recurrent is \$569 million compared with an original estimate of \$563 million for this year and a revised one of \$500 million (including \$16 million spent on emergency water). The Public Works estimate represents what my honourable Friend the Director of Public Works believes he can physically accomplish next year on the basis of the priorities recommended by the Public Works Sub-Committee and I believe he has scrutinized them most rigorously to ensure that they are as realistic as possible. The Subcommittee carried out three reviews during the year and its report of these reviews is in the hands of honourable Members.

The total figure of \$569 million includes \$247 million of work to be done by the Architectural Office; and this includes an increase in spending on Resettlement Housing from \$106 million to \$121 million. If all goes well, particularly the provision of sites, this figure might well be higher. The Waterworks total is \$161½ million compared with \$160 million this year and other engineering is \$113½ million compared with \$90 million.

There is one new item I should refer to in this connexion, although it is not included under the Public Works head. A first instalment of \$24 million from the £6 million contribution to the Services Building Programme agreed last year is included under Head 35, Miscellaneous Defence Measures.

I spoke last year of the difficulty of expanding our public works activities at a time when a high level of spending in private building was keeping the building industry at full stretch and even speculated on the desirability of restricting private development, for example, by licensing, in order to leave adequate room for the achievement of an expanded public programme. Last year private building received something of a check as a consequence of the problems caused by dangerous buildings but, in effect, this slowed down the rate of increase, rather than cut it back. While sympathising with individuals adversely affected by these problems, I do not like to contemplate the public problems which might have been created if there had not been this fortuitous check and all the vast volume of private plans, stimulated and accelerated by the shadow of the forthcoming new building regulations, had gone ahead.

Last year, too, I consoled myself with the thought that the construction industry had shown, in the past, a remarkable ability to expand under the stimulus of demand. But here, again, I have had to

revise my opinion substantially by reason of this new factor of labour shortage. Mechanization is progressing rapidly in certain parts of this field but there are limits to it; and, even with the present check to private building, wages in the construction industry are still rising and drawing others up with them. I am not sorry to see rising wages in our export industries, as these expand, because the rise cannot in general outstrip export demand; indeed, I welcome them as an indication that we are improving both our terms of trade and our productivity; but a rise induced by the demands of the domestic building industry is dangerous, particularly if temporarily stimulated by short-term factors, because it is not subject to the discipline of overseas demand and the need to maintain our competitive position. An overstrained construction industry is therefore a potential short-term danger to the balance of our economy. Government has a difficult choice between adding to the strain and failing to provide badly needed public services.

As there are critics who accuse me of confusing capital and recurrent accounts, and because it is in any case of some significance for what it shows, I should like to draw special attention to Appendix B of the Estimates. This Appendix, which is not new, but does not get the attention it deserves, contains a Comparative Statement of Recurrent and Capital Income and Expenditure back to 1961-62. The most significant feature is probably that, on the revised estimates for this year, only 68% of recurrent income is being spent on recurrent expenditure, leaving \$404 million as a contribution to capital expenditure. For next year the estimated figures are 73% and \$384 million. We therefore still have a fairly substantial margin for the expansion of recurrent commitments.

There is one further matter for which provision has not been made in these Estimates. It concerns the Government Lottery. I am the first to admit that the present arrangements for utilizing it and, more particularly, demonstrating how it has been utilized, are not really satisfactory; although, both for this year and for next year, I have accepted in full the advice of the Social Welfare Advisory Committee on the appropriate level of Social Welfare Subventions and these have in two years grown from \$4.7 million to \$6.2 million a year. The main problem has been to devise a system whereby the proceeds of the lottery would go to meet a special purpose which could rely virtually wholly on the lottery and eschew other sources of public funds; so as both to avoid the confusion that would arise from the provision of funds for a particular purpose from a multiplicity of sources and to demonstrate clearly and unequivocally the purposes for which the lottery proceeds had been used or were to be used. In consultation with the Social Welfare Advisory Committee, a scheme has been worked out which goes a long way to meet this criterion, although I myself regard it as considerably less than perfect. In effect the proceeds would go

in future into a special fund from which money would be allocated for social welfare capital projects; I stress the word *capital*. I will not go into the scheme's refinements to-day as I hope to bring it before Council at an early date for approval. But, if approved, it will require the voting, out of general revenue into a special fund, of the surplus which would have accumulated to date if the proposed system had been in force from the beginning. This will be of the order of \$7 million plus next year's estimated revenue of \$4 million.

The estimated deficit on ordinary account next year is therefore \$83 million, the smallest for quite a number of years. As I have assumed a rather greater growth in revenue than either my predecessor or myself have assumed in recent years; and as there are, as I have shown, possible sources of spending not yet taken into account, I am not so optimistic as I have been before that it will in fact turn into a surplus.

The Development Loan Fund will, it is estimated, show a deficit of \$38 million during the year, thus increasing the estimated deficit on overall public account to \$131 million. At the end of the year 1965-66 the Fund's cash resources will have fallen to about \$8 million and it will be necessary to make a further transfusion from the disposable surplus of the Exchange Fund. I do not yet have a figure for that surplus as it stood at the end of 1964 but it has probably not grown much from the figure of \$248 million I quoted last year because its revenue from interest has been partly offset by depreciation of the value of its investments. These, like the investments of our General Revenue Balance, are all in dated stock. The excess of current commitments of the Development Loan Fund over its present liquid assets is \$175 million. One big addition during the year was an increase in the funds set aside for Educational Loans from \$52 million to \$110 million.

As honourable Members will no doubt have surmized already, it is not my intention, in the light of these estimates to propose any increase in taxation this year. There are, however, two public services of a semi-commercial nature for which it is proposed to introduce higher charges during the year; these are sand and water. And there are two proposed tax changes which have already been publicly referred to. I shall deal with the former two first.

My predecessor raised the price of sand from \$8 to \$10 a cubic yard in 1961. This was quite frankly with the purpose of making a substantial profit and raising revenue. Since then, in order to conserve our own reserves of sand, which have been dwindling fast as building construction has grown, we have come to rely at present almost wholly on sand from more distant Chinese sources and this has raised the cost of sand to an extent that has not only absorbed the profit but now results in a slight loss. It is intended therefore to increase the price with effect from to-morrow by \$1 to \$11 a cubic yard. This is to cover

costs, not to raise revenue, although it will in fact bring in another \$1½ million. I understand that the effect on the cost of building is calculated to be less than 0.2%.

I have been threatening an increase in water charges for some time and I fear that the time has now come with the end of the emergency and the bringing into full operation of the Shek Pik scheme.

Our aim in recent years has been to make the Water Undertaking pay for itself over the years on the basis of a redemption period of 50 years for dams, catchwaters and similar permanent works and 25 years for plant and machinery, at an assumed rate of interest of 3½% for capital invested up to March 1960, and 5% thereafter. The value of land is not taken into account except that, where it has been resumed, the cost of resumption is included in the capital cost of a scheme. Rates are not charged, nor profits tax, the aim in any case being not to make a commercial profit but to break even after charging interest and depreciation.

Charges for water are in two parts. First, 2% out of the 17% rate charged under the Rating Ordinance on the annual value of property is credited to the Water Undertaking. This is regarded as a basic charge, both in consideration of the availability of a water supply and as a contribution towards the cost of water used for community purposes. The rate is 1% when only unaltered water is supplied and nil when there is no public water supply. There are, however, areas in the New Territories at present which enjoy a public water supply but are not yet charged with rates. The contribution from rates has been about 35% to 40% of total water revenue in recent years.

Secondly, there is a charge for actual water consumed. The general charge was raised from 50 cents a thousand gallons to 80 cents in 1946; and again to \$1 in 1960. The special charge for water used for shipping and construction purposes was raised from \$1 per thousand gallons to \$1.20 in April 1946 and to \$2 in October 1946; it was raised again to \$3 in 1960. Differential charges are not made for filtered and unfiltered water.

The unit cost of water has been rising in recent years (in 1962-63 it was about \$1.50) but the rapid increase in total rateable value made it possible to hold the basic price at \$1 a unit until now without incurring a loss.

Annual proforma accounts are published with the Estimates. There was a net surplus in 1962-63 of \$2.2 million out of a total revenue of \$40.7 million and accumulated surpluses at 31st March 1963, were \$9.8 million. But the situation has now changed. In 1963-64 (the accounts for which are in the draft Estimates at pages 264 to 267) the drought, by reducing the amount of water available for sale, caused a

deficit of \$5½ million, although only \$1 a thousand gallons (about \$3 million in all) of the cost of importing water has been charged in the accounts out of a total emergency expenditure that year of \$44 million; it is proposed to write-off the rest and make no attempt to recover it from water charges. In 1964-65, in spite of our having enjoyed a 24-hour supply for most of the year, and although, again, only \$1 a thousand gallons will be charged for imported water out of emergency expenditure of \$16 million, the bringing into the accounts for the first time of capital charges for Shek Pik is likely to produce a loss of the order of \$10 million. It is furthermore clear that our further extensive schemes for increased water supplies will lead to further increases in the unit cost of water which are most unlikely to be offset by future increases in the revenue derived from the 2% rate.

It is very difficult indeed to make accurate estimates of unit costs because a substantial element of cost, that is, capital charges, is fixed, whereas the amount of water available for sale depends on variable and uncertain factors, principally, of course, the amount and, most important, the timing of rainfall during the year. This uncertainty may decrease in future when we have the excess storage capacity which is to be provided at Plover Cove but in present circumstances we have to rely on very approximate estimates.

Costs have been estimated up to the end of 1970, on the same financial basis as at present, and on the following assumptions: —

Firstly, an average rainfall of 65 inches, compared with the past long-term average of 85 inches;

Secondly, the continuation of the present contract for the supply of water from China;

Thirdly, desalinization of six million gallons a day for 200 days a year from 1966 onwards;

Fourthly, a 12½% a year increase in rateable values;

Lastly, universal individual metering, except for existing buildings which it would be too expensive to convert.

It may be asked why a lower than average rainfall has been used. There are two reasons. First, we are acutely conscious from our recent experiences of the importance of the timing of rainfall during the year. The average 85 inches, if it falls at the wrong time, as it often will, gives us less than the theoretical quantity of utilizable water and, with our relative lack of storage from one year to another, this shortfall cannot be made up if and when it finally does fall at the optimum time. It is therefore safer to use a lower figure and assume an average incidence for it. The second point is that a normal 85-inch year plus

water from China under the new contract would produce more water than we could in any event consume, during the earlier years, at least, of the period we are considering.

As to desalinization, a final decision has not yet been taken on the size of our experimental plant but a variation of this factor will not significantly affect the calculations.

The unit cost of water will tend to rise over the period as new and probably more expensive sources of supply, including desalinization, come into use. On the assumptions I have outlined the average unit cost to the end of 1970 has been calculated at \$2.50 per unit, while the final cost in the year 1970 itself would be \$2.80. Rates are calculated to bring in 64 cents a unit on average and 67 cents a unit in 1970, leaving \$1.86 on average, and \$2.13 in 1970, to be met from the charge for water used.

The financial basis used for calculating costs tends, however, to understate them in practical terms. The present redemption periods of 50 years for permanent works and 25 years for plant, although not excessive in relation to the life of the assets, are unrealistically long in relation to the period of any loan which we could conceivably raise for the purpose. Also the assumed rate of interest is unrealistically low. Although it is true that at present funds are being provided wholly from revenue and reserves, recourse to loan finance may well be necessary before the end of the period under review. If a redemption period of 20 years were taken, with interest still at 5%, the average cost to be met from the water charge would be \$2.36 instead of \$1.86, and the final cost in 1970 would be \$2.83 instead of \$2.13.

Additionally, if costs were reckoned on the financial basis we allow in general to private enterprise public utilities, *i.e.*, a reasonable rate of return on the capital employed (about \$850 million at present and growing rapidly), the comparable average cost per unit would be of the order of \$5.

It appears from these calculations that a basic rate of not less than \$2 a unit and not more than \$2.50 a unit would not be unreasonable. After consideration of all the factors involved we have concluded that the lower rate of \$2 should be charged; and it is intended to bring the new rate into force for all meter readings from 1st July onwards. As meters are read quarterly, this delay is necessary in order to ensure that no one is charged at the new rate for any water consumed prior to this announcement; although some people will be luckier than others in the length of time they continue to enjoy the old price. Changes in the price of water are made by the Governor in Council by Regulation.

It will be of interest that, on a cash flow basis, a rate of \$2 will contribute some \$300 million to planned investment in the Water Undertaking over the years 1965/70 which is at present estimated at \$860 million. I must emphasize that cash flow does not mean profits; I have already explained that the intention is to make no profit.

It should also be noted that, as the price is being fixed on the basis of average costs over a period and costs are rising, there will be a profit in the earlier years which will be absorbed by losses in the later years. As the proforma accounts are published annually, it will be possible for the public to verify that profits are in fact used in this way; while accumulated profits have the effect in the meantime of reducing interest charges. Unless there is any very significant and unexpected development in the next few years, it is our firm intention to keep the price at no more than \$2 up to the end of 1970.

Another point relates to Chinese water. From 1st March the price of this water delivered at the border goes up from 23.4 cents to \$1.06 a unit, and \$16 million has been provided for this in subhead 21(6) of the Public Works Recurrent head in the Draft Estimates. I must emphasize that the revised charge of \$2 a unit for water supplied to households does not imply that we are going to make a profit out of Chinese water. To the basic cost of \$1.06 must be added the cost of pipes, pumping, filtering, treating, service reservoirs, etc., which are estimated to bring the cost at the consumer end up to approximately \$2.00 a unit.

The next point is charges for water in Resettlement Estates. It is not proposed to make any immediate change in these but some adjustment must eventually be made as occupiers of these estates consume an increasingly large proportion of total water supplied. The matter requires very careful consideration and will be considered at an early date in the context of a general review of rents.

For shipping and construction it is proposed to increase the present charge from \$3 to \$5 a unit except that the charge to small craft such as junks and sampans will remain at \$3; they pay no rates but much of their usage of water is domestic rather than commercial.

The question also arises whether industry should be given any special terms and I have given most anxious consideration to this point. Unfortunately, water is the opposite of electricity in its relationship to bulk users; a high base load tends to increase rather than reduce costs, and in many countries industry is in fact charged more than the domestic consumer. We must also do nothing to encourage waste of water in the factory any more than in the home. I have been unable therefore to find any justification for not charging the full basic cost of \$2 a unit and I believe in any event that it will not prove a burden. I believe also that there is already a hidden subsidy to bulk users in

our charging practice, in that on average the rates they pay under the Rating Ordinance are much lower in relation to their consumption of water than is the case with other consumers, and they probably therefore do not pay their full share of the cost.

There have been suggestions in recent years that differential rates might be charged against large and in favour of small consumers; or higher rates in winter than summer. These proposals have been given careful consideration but we have reached the conclusion that they should be rejected. One point is that the basic charge now proposed is very much lower than we had at one time thought might be necessary to impose and is unlikely to cause any hardship (averages are of limited significance but for the average tenement floor in multiple occupation it is estimated to represent an increase of about \$4 to \$5 a month). The basic difficulty, however, is that, quite apart from the problem of centrally metered buildings, it is impossible to distinguish between large users who consist of one family in a luxury flat and large users who consist of many families in an over-crowded tenement floor. It would be possible to find a rough and ready solution to this problem in an increase in the water rate charged under the Rating Ordinance offset by a reduction in the metered charge; but I myself tend to the view that in present circumstances the contribution from rates is already rather on the high side.

As to differential rates for summer and winter, two points arise, Firstly, at present average costs it would be difficult to justify raising charges in the normal winter high enough to have any significant deterrent effect on consumption. Secondly, now that we are to have a regular non-seasonal supply from China and have improved storage capacity, shortages are no more unlikely to arise in summer than in winter; for example, we have been enjoying a 24-hour supply throughout the present winter but, if rain is delayed this summer, we might conceivably have to go on to reduced hours then.

I have already been speaking at rather disproportionate length about water but I have one more water topic to discuss, that is, metering. As members are aware, the Water Authority have not in general allowed individual metering in new multi-storey blocks built in recent years. This policy has now been reviewed. The arguments in favour of individual metering are firstly, an inducement to economize in consumption, although at the new rate proposed there will not be a great inducement; secondly, the provision of a basis for rationing in emergency; and thirdly, fairness between tenants and prevention of disputes; at present tenants are not in control of their own water bills. Against these advantages there are the following difficulties or disadvantages. First there are already a considerable number of multi-storey buildings without individual metering where the cost of converting the pipe system to metering would be excessive. This, and the fact that many tenement

floors are occupied by a number of families, would make it difficult at present to devise a perfectly equitable system of rationing in emergency. Secondly, there would be some additional cost to developers in installing suitable piping in new buildings, although, except in the case of higher class flats where there is a separate hot-water system, this would not be substantial. Finally, it is estimated that compulsory individual metering would cost \$4½ million a year in capital and, allowing for maintenance, would add eight to nine cents a unit to the cost of water. It might be argued that this money would be better spent on additional water supplies.

Weighing up all these pros and cons we have come to the conclusion that the right answer is compulsory individual metering of each separate flat or tenement floor in new buildings, and it is the intention that the Water Authority use his powers under the Ordinance to enforce this.

The cost calculations I quoted earlier already include the cost of universal metering. Consideration has also been given to the question whether we should return to the pre-1949 system of charging a quarterly meter fee. The annual cost of metering is estimated at \$30 a meter. To impose a charge of this magnitude would bear very heavily on small consumers. On the other hand, a charge of, say, \$8 a year, which might be reasonable, would have only a very small effect on the cost of the water supply itself; too small to be easily reflected in a reduction in the basic charge. Furthermore, compulsory individual metering is being introduced as much in the general interest of the community as of the individual consumer. We have therefore concluded that no meter fee should be charged.

It is estimated that the increased charge will bring in about \$24 million in extra revenue next year. This increase is not in the Estimates as they stand. With it and the increased charge for sand, the estimated deficit on ordinary account will be reduced to \$58 million or, including the Development Loan Fund, reduced to \$96 million.

The first of the already known tax proposals I have referred to is the tax on hotel accommodation, designed to make a contribution to the funds required for the promotion of tourism. The Bill is in an advanced stage of drafting and the rate now proposed is 2%. It is estimated that in a full year the yield would be \$1,350,000 and, while I cannot say exactly when the tax is likely to come into effect and, therefore, what the yield will be in the next financial year, a subvention of \$4,350,000 for the Tourist Association is proposed, as compared with \$3,500,000 last year, part of which was granted in consideration of the decision to Introduce this tax. I shall be making proposals later as to the future relationship of the total subvention to the tax yield.

The second set of tax proposals is in respect of the Inland Revenue Ordinance. When I moved the second reading of the Inland Revenue Ordinance (Amendment) Bill on 16th September, 1964, I said that I proposed later in the year to introduce further amendments designed to give statutory sanction to some of the, at present, extra-statutory concessions to tax-payers allowed by the Commissioner. The Bill is in draft but is still the subject of consultation with professional associations. It seems that it is just as difficult to get general agreement to amendments to this Ordinance when they are in favour of the tax-payer as when they are against him. As well as legalizing certain extra-statutory concessions, the Bill includes certain other amendments in favour of the tax-payer. I have already mentioned the proposed increase in depreciation allowances. There are also some administrative amendments. But there are in addition two proposed amendments which are against the tax-payer and it is desirable that I mention them now as it is proposed that they should apply to the year 1965-66. One of these brings to tax certain payments made after termination of employment. There is some evidence that tax is being avoided by deliberate postponement of remuneration. The second concerns depreciation on industrial buildings. It is proposed in future not to grant a balancing allowance on demolition of such buildings where they are demolished for purposes not connected with the owner's business. This is aimed at cases where a building is demolished in order to make possible the realization of the full development value of the land for other purposes, by sale or otherwise. At present a balancing depreciation allowance is granted although the destruction of the asset is unconnected with and does not arise in the course of the business on the profits of which tax is chargeable. This is not reasonable.

I should like next to take my opportunity to-day to try to dispel some misconceptions which seem to be prevalent about the powers and purposes of a Financial Secretary in the making of our budgets. It appears that many people are under the impression that he sits at his desk and with dictatorial ruthlessness slashes away at requests by Departments for the funds they consider necessary for the carrying out of their policies and purposes, and so, fashions the shape of the year's public services to his own conservative view of the prudent extent of public expenditure. It does not happen at all like that. I doubt if I can influence the amount of the year's estimate of expenditure by more than a very few million dollars. The estimates, year by year, flow, not from my arbitrary judgement, but from a multiplicity of decisions continuously being taken by Government as a whole on the desirable, and possible, rate of priorities of expansion of our public services, mostly in the shape of long-term programmes or objectives. I do not say that I am not without influence—for good or ill—on these decisions but mine is only one voice among many; and not always, I like to think, on the illiberal side. These programmes and objectives are always under review and

are constantly changing. For example, we have just recently laid down new programmes and targets for resettlement housing and have for some time been going through a rather painful process of producing a new policy of educational expansion.

What I *do* attempt to do is to ensure that, while agreed policies are put into effect efficiently, this is done with all due economy; to ensure that the estimated expenditure for the year is realistic in relation to a department's ability to spend (but without thereby imposing a brake on its planned activities); and, particularly but not only for the longer term, to ensure, so far as one can foresee these things, that we do not pitch our aim so high, in terms either of quantity or quality, that we are unlikely to be able to reach our goal without imposing excessive strains on the economy or killing those geese which have been such prolific layers of golden eggs in recent years, and which it must also be the aim of financial policy to foster.

As I have said on many previous occasions it is the question of standards of quality that worries me most; the question whether we shall not find that we have been aiming at so high a standard that we can provide only a part, in quantitative terms, of what we should provide. This is a particularly difficult question in a community where there are such variations in living standards and where the decision-makers, in government and outside, are themselves familiar generally with high standards. How often we hear that something we have done is the best in Asia, the best in the Commonwealth, the best even in the world? We can afford a few things of this nature to take pride in, increasingly so indeed, but not as a general standard. I should like here to repeat a phrase from this year's budget address by my colleague the Finance Minister of Malaysia who clearly has the same pre-occupations on his mind. He said: "We are still inclined to adopt the standards of the past which catered for the few rather than the many. "

It is with this problem largely in mind that we conduct the exercise we know as the Five Year Forecast of Revenue and Expenditure. The actual figures in it are, of course, of a high degree of unreliability but it is of some use, I believe, as an indication whether or not the general order of magnitude and general direction of our expansion of public services is, on reasonable assumptions, an attainable one. I regret that we have not yet been able to complete this exercise this year, although much work has been done. It has been a particularly difficult task on this occasion because there has been even more uncertainty than usual about plans and prospects.

I should like now to say a few words on one other topic—housing. I have been, at least by implication, under heavy attack in the shape of allegations that I have starved the Housing Authority of adequate funds.

This pains me because, as a member of the Executive Committee of the Housing Society for six years I can claim to know something of the problem of housing; and also because, realizing the difficulties of operating from hand to mouth, I myself took the lead in 1962 in having long-term programmes of finance drawn up by both Authority and Society, designed to produce housing for some 30,000 persons a year; and also secured the promise of a regular allocation of funds for these programmes so that they could plan with confidence years in advance. These programmes were not, of course, intended to be immutable and it was the intention to review the availability of public funds from time to time.

I cannot myself be held responsible if the Authority then decided to concentrate its plans mainly on one very large estate which could not begin to produce much completed accommodation for a number of years. And I must point out that when, not long afterwards, the Authority produced revised plans calling for roughly twice the money already promised, they did so without consulting me about the possible availability of public funds. They have, of course, no obligation to do so as they are not necessarily restricted to public funds as a source of finance.

Mention has also been made in this context of the possibility of "virement" between housing schemes. By virement I presume what is meant is variation of the timing of schemes so as to ensure as continuous a flow of housing as possible. There is no reason why this should not be done under present arrangements and I agree that it would be useful, provided it does not have the effect of sterilizing land for any undue length of time.

Last year, when the latest Authority plan was produced, the situation had in fact become very uncertain because proposals were then under consideration for a very substantial increase in the expenditure of public funds on Resettlement and Low Cost Housing. When Government was considering the proposals of the McDouall Committee for a increase in the Resettlement target from 100,000 adults to 130,000 adults a year and in the Low Cost Housing target from 20,000 to 30,000 a year, I warned that this might mean that no additional funds could be made available for other types of housing and that a decision to proceed was tantamount to a decision to give first priority to the categories. When the Urban Council then proposed an increase from 130,000 to 150,000 a year and it was decided to accept this revised proposal, I repeated my warning with greater force; except that I add that, if the "rent in advance" scheme were really successful, the prospects of providing further public funds for other forms of housing would improved. I should add that I thought that the decision was, in the circumstances, the right one.

A further factor which must now be taken into account is the possibility of Government embarking on slum clearance or urban renewal schemes, although I would hope that these would be financially self-supporting in the fairly short term. Furthermore, we have undertaken to contribute \$16 million to the home-ownership mortgage scheme and have tentatively promised a further \$16 million. Total commitments for housing of all kinds over the next five years are \$1,400 million.

I have, however, promised, as soon as the Five Year Forecast of Revenue and Expenditure is ready, to look into the possibility of further funds for Housing Authority and Housing Society and I shall do so; but I can promise nothing at this stage.

I should, however, like to use my opportunity here to-day to make a few further remarks on public housing policy. They will not, I am afraid, be generally popular remarks but it is part of the duty of a Financial Secretary to say unpopular things.

I sympathize very much with a view expressed during the recent Housing Authority debate that there should be one standard of construction for public housing, rather than several standards related to distinctions of class or wealth. It is indeed, I think, a truism; certainly I myself know of nowhere else where such distinctions apply. There is generally one and the same basic standard of housing at any given time; to which a man, in certain circumstances, has a claim. We have three, if not more, standards. It may, of course, be argued that, if it is accepted that there should be one standard, that standard should be the best. Unfortunately I do not think we can afford the best of our existing standards as a general standard, at present at least; but I have been very happy to see the gradual development of the design of Resettlement Housing until it differs now only in minor respects from Government Low Cost Housing, the main difference now being in the density of occupation rather than the quality of the accommodation. Probably the retention of this distinction is inevitable for a time until we have more nearly housed all those who must be resettled.

One of my difficulties about differential public housing standards arises from the fact that all public housing is subsidized by concessionary grants of land, by low interest rates and by long capital redemption periods; and in consequence the more expensive the accommodation that is built or the lower the densities of occupation, the higher, other things being equal, the subsidy to each individual; that is, the better off a family is the higher the subsidy it tends to receive; which is surely absurd. I have wondered how to solve this problem. One way would be to charge a commercial rent for any building cost, or land occupied, in excess of the minimum standard, so that each occupant would pay the same rent for basic accommodation, subsidized to whatever may be regarded as the appropriate extent, and a market rent for the surplus.

The second point I should like to make is that it is unrealistic to think in terms of mass public housing at subsidized rents, even if confined to one basic standard (mass Resettlement housing is an emergency solution to a special problem). We must continue to rely very substantially on new private housing, both because we are most unlikely to have the resources to do otherwise, and because we must not create a situation where a large part of the population has the privilege of having its housing subsidized from public revenue to which the less fortunate minority also contribute.

An adequate field must therefore be left open to private enterprise housing; and government subsidized housing must not be allowed to depress rents below the level to which, with supply and demand in reasonable equilibrium, commercial rents might fall without inhibiting further private development. This day may seem far away at present but we must bear it in mind.

This leads me to suggest that it is time to re-appraise the role of the Housing Authority and Housing Society. There appears to be a tendency to take the view that their aim should be to build as much housing as they physically can, irrespective of what may be happening in the private field; and that priority must be given to the provision of public funds for this purpose. I do not think I can subscribe to this view myself. Before the Housing Ordinance was passed in 1954 to help to solve the problem, as it was seen then, of housing 600,000 people, there was no resettlement building except an emergency scheme at Shek Kip Mei; and private enterprise housing was at very low volume. To-day the situation is very different. Government and its associated agencies have housed close to a million persons already and Government itself is proceeding to build in six years, Resettlement housing for 900,000 adults and Low Cost Housing for 170,000 adults; these alone represent a total of about 1,400,000 individuals, if one includes children. Private enterprise, for its part, has housed over 800,000 people in the last nine years and completed nearly 21,000 flats and tenements in the financial year 1963-64, and 30,000 in the calendar year 1964, although, of course, this must be reduced by the number demolished tenements. Of the latter figure, 28,000 were tenement floors and small flats. There is no sign yet that this flow of private housing is diminishing.

This is a very different situation from the one facing us in 1954 and in its light the present programmes for which Government has promised finance to Authority and Society for housing 30,000 adults a year do not seem so very inadequate or inappropriate. It appears to me therefore that the role of these agencies is not necessarily to build to the maximum they physically can. Government cannot take over responsibility for housing the whole of the population, although it is already responsible for a public housing programme that is without

parallel in relative size anywhere in the free world. A reasonable role must continue to be left to private enterprise. I would suggest, therefore, that the role of the housing agencies must be to build only enough, taking into account the Resettlement and Low Cost Housing programmes, to bring down commercial rents as quickly as possible to reasonable levels, without at the same time inhibiting the continuing production of accommodation by private enterprise; and that, if they are to avoid this latter danger, they must charge rents at least for their better than standard housing closer to the long-term commercial rate; a policy which would, of course, also make possible a greater volume of housing with the same volume of public funds and generally have more equitable effects. I admit, however, that the long-term commercial rent is not easy to assess.

I do not suggest, however, that physical production of houses is the only role of the Authority and the Society. They have a valuable part to play, and have been playing it with success, in experimenting in new forms of housing and in propagating better management practices. I am second to none in my admiration for what has been achieved in these fields.

In spite of all I have said, I shall endeavour to find more money for these agencies, although I can promise nothing at this stage, for we must look at not only the extent of our means but at our priorities for using them. But there is one more point. It is unlikely that any further funds we may be able to make available will be on the same generous terms as before. In particular, the money already granted to the Housing Authority was intended to constitute a permanent revolving fund which would very soon make the Authority independent of further grants. The fund has been revolving in a sense, it is true, but it has been growing too; and although it has grown to \$230 million already, the Authority's plans call for a more than doubling of this capital sum over the next few years. I doubt if any additional funds we might find ourselves able to make available could properly be granted as a permanent addition to this fund.

I am afraid that in making some of these remarks on housing I have strayed into the field properly reserved for the new Housing Board which Your Excellency spoke of earlier. I apologize to that Board for this in advance of its creation; but I felt that, in view of recent public controversy on the financial aspects of these matters, I was entitled to express some of my views.

That concludes. Sir, what I have to say in introduction of this Budget and I beg to move the Resolution. (*Applause*).

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

DANGEROUS DRUGS (AMENDMENT) BILL 1965

DR TENG PING-HUI moved the Second reading of a Bill intituled "An Ordinance to amend the Dangerous Drugs Ordinance."

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a Second time.

Council then went into Committee to consider the Bill clause by clause.

Clauses 1 to 4 were agreed to.

Council then resumed.

DR TENG PING-HUI reported that the Dangerous Drugs (Amendment) Bill 1965, had passed through Committee without amendment and moved the Third reading.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a Third time and passed into law.

**DIRECTOR OF THE UNIVERSITIES SERVICE CENTRE INCORPORATION
BILL 1965**

MR FUNG PING-FAN moved the Second reading of a Bill intituled "An Ordinance to provide for the operations of the Universities Service Centre for the incorporation of the Director thereof and for other purposes connected therewith."

MR R. C. LEE seconded.

The question was put and agreed to.

The Bill was read a Second time.

Council then went into Committee to consider the Bill clause by clause.

Clauses 1 to 8 were agreed to.

Council then resumed.

MR FUNG PING-FAN reported that the Director of the Universities Service Centre Incorporation Bill 1965, had passed through Committee without amendment and moved the Third reading.

MR R. C. LEE seconded.

The question was put and agreed to.

The Bill was read a Third time and passed into law.

ADJOURNMENT

HIS EXCELLENCY THE GOVERNOR:—That concludes the business for lay, gentlemen. When is it your pleasure that we should meet again?

THE ATTORNEY GENERAL:—May I suggest Thursday, 11th March,

HIS EXCELLENCY THE GOVERNOR : —Council stands adjourned until Thursday, 11th March.