

OFFICIAL REPORT OF PROCEEDINGS

Meeting of 28th February 1968

PRESENT

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR DAVID CLIVE CROSBIE TRENCH, KCMG, MC
THE HONOURABLE THE COLONIAL SECRETARY
MR MICHAEL DAVID IRVING GASS, CMC
THE HONOURABLE THE ATTORNEY GENERAL
MR DENYS TUDOR EMIL ROBERTS, OBE, QC
THE HONOURABLE THE SECRETARY FOR CHINESE AFFAIRS (*Acting*)
MR PAUL TSUI KA-CHEUNG, OBE
THE HONOURABLE THE FINANCIAL SECRETARY
MR JOHN JAMES COWPERTHWAITTE, CMG, OBE
THE HONOURABLE ALEC MICHAEL JOHN WRIGHT, CMG
DIRECTOR OF PUBLIC WORKS
DR THE HONOURABLE TENG PIN-HUI, CMG, OBE
DIRECTOR OF MEDICAL AND HEALTH SERVICES
THE HONOURABLE ROBERT MARSHALL HETHERINGTON, DFC
COMMISSIONER OF LABOUR
THE HONOURABLE ALASTAIR TODD
DIRECTOR OF SOCIAL WELFARE
THE HONOURABLE TERENCE DARE SORBY
DIRECTOR OF COMMERCE AND INDUSTRY
THE HONOURABLE GEOFFREY MARSH TINGLE
DIRECTOR OF URBAN SERVICES
THE HONOURABLE KENNETH STRATHMORE KINGHORN
DISTRICT COMMISSIONER, NEW TERRITORIES
THE HONOURABLE DHUN JEHangIR RUTTONJEE, CBE
THE HONOURABLE KAN YUET-KEUNG, CBE
THE HONOURABLE FUNG HON-CHU, OBE
THE HONOURABLE TANG PING-YUAN, OBE
THE HONOURABLE TSE YU-CHUEN, OBE
THE HONOURABLE KENNETH ALBERT WATSON, OBE
THE HONOURABLE WOO PAK-CHUEN, OBE
THE HONOURABLE GEORGE RONALD ROSS
THE HONOURABLE SZETO WAI, OBE
THE HONOURABLE WILFRED WONG SIEN-BING, OBE
THE HONOURABLE ELLEN LI SHU-PUI, OBE
THE HONOURABLE JAMES DICKSON LEACH, OBE
DR THE HONOURABLE CHUNG SZE-YUEN, OBE

ABSENT

THE HONOURABLE WILLIAM DAVID GREGG, CBE
DIRECTOR OF EDUCATION

IN ATTENDANCE

THE DEPUTY CLERK OF COUNCILS
MR DONALD BARTON

MINUTES

The minutes of the meeting of the Council held on 14th February 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>
Subsidiary Legislation:—	
Holidays Ordinance.	
General Holidays Order 1968	9
Supreme Court Ordinance.	
The Rules of the Supreme Court (Amendment) Rules 1968	10
Supreme Court Ordinance.	
Supreme Court Fees (Amendment) Rules 1968	11
Fugitive Offenders Act 1967.	
Fugitive Offenders (Designated Commonwealth Countries) Order 1968	13
Fugitive Offenders Act 1967.	
Fugitive Offenders (Forms) Order 1968	14
Legal Aid Ordinance.	
Legal Aid (Amendment) Regulations 1968	15
Sessional Papers 1968 and associated paper:—	
No 8—Annual Report by the Commissioner of Police for the year 1966-67.	
No 9—Annual Report by the General Manager, Railway for the year 1966-67.	
No 10—Annual Report by the Director of Audit for the financial year ended 31st March 1967.	
Despatch No 282 of 21.2.1968 to the Secretary of State on the Report of the Director of Audit for the financial year ended 31st March 1967.	
Reports:—	
Draft Estimates of Revenue and Expenditure with Explanatory Memoranda for the year ending 31st March 1969.	

Subject

Report of the Establishment Sub-Committee of Finance Committee for the year 1968-69.

Report of the Public Works Sub-Committee of Finance Committee for the year 1968-69.

Report on the Public Service 1967-68.

Hong Kong Annual Report 1967.

ADDRESS BY HIS EXCELLENCY THE GOVERNOR

Honourable Members of the Legislative Council, when I spoke this time last year, I referred to 1966 as a year full of incident.* If I had been able to look ahead to 1967, I might have used some other term; but nevertheless let me say straight away that I propose to spend no time here in recounting the melancholy events of last summer. They are described in the review chapter of the Colony Annual Report which honourable Members have before them now, and repetition would serve no purpose. Let it suffice that our way of life was subjected to assault; that the overwhelming majority of the people of Hong Kong made it abundantly clear that they were not prepared to submit; and that this resolute spirit was reflected by people in all walks of life, from the Police who bore the brunt to the bus and tram drivers who carried on their work in spite of physical danger. I think honourable Members would agree with me that it is the ordinary men and women of the Colony that deserve special commendation. They had no spectacular or heroic part to play; but it was largely their determination to carry on in spite of dangers and difficulties that the situation was safely contained. Let us hope that from now on a more reasonable spirit will prevail in our community.

I will not conceal from honourable Members that this annual address becomes more and more difficult to compose as Hong Kong grows in size and in complexity. The point has now been reached when it is only possible to cover our last year's progress and our next year's hopes in the most general terms: for to refer to any one aspect is to have to omit many others of equal importance. So much is now going on in Hong Kong, and we are making extensive progress in so many fields, that it is really hopeless to expect to be able to encompass it all in one speech—even, I fear, an unduly long one.

All through last summer, of course, the ordinary work of Government continued unabated and the legislative programme in particular was exceptionally heavy. No less than 73 Ordinances were passed by

* 1967 Hansard, page 67.

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this Council, throwing an additional burden on honourable Members. As well as your work in this Council and on the many committees on which you serve, you have been called upon to consider and advise on numerous problems arising from last summer's events. Your responsibilities have been particularly onerous during 1967, and once again I must thank you all most sincerely for all the help you so willingly give, and for the invaluable part you play, in the administration of the Colony.

Last year's early summer drought was an added trial. The most exemplary patience was shown by everybody during this difficult period, in spite of the efforts that were made to stir up resentment. It was certainly a relief when typhoon Kate came to our rescue in August to give us much needed rain without undue damage. No one of course can guarantee that this will be the last major drought that the Colony will experience; but, with normal rainfall this year, the salinity at Plover Cove will be reduced to reasonable levels, and much better use can then be made of this new reservoir. The total usable capacity of some 30,000 million gallons provided by Plover Cove should then, in average conditions, see us over most of our difficulties. But we cannot rest content with that. The Director of Water Supplies has already been surveying the possibility of forming still more reservoirs in the New Territories. Feasibility reports are awaited on the practicability of raising the Plover Cove dam to increase capacity by some 10,000 million gallons; and further detailed studies on desalination are in hand.

Last year, also, we were naturally concerned about the possibility of events adversely affecting our economy. Contrary to what might have been expected however, the Colony's industry continued its remarkable growth. Our trading figures for 1967, when compared with 1966, show increases of some 17% in domestic exports, 14% in re-exports and 3% in imports. Textiles and clothing still account for over fifty per cent by value of domestic exports, and in this field the export of man-made fibres increased by more than a third. Our other major industries; toys, electronics and one of our newer ventures, hair wigs; have all showed substantial increases. There was a net increase of 819 registered and recorded factories, and a net increase of 19,800 persons employed in industry; while at the end of the year there were 4,000 vacancies for employment in industrial concerns.

These are remarkable figures by any standards. They are the more remarkable in that the corresponding trade figures for 1966 were themselves inflated by a rush of export declarations towards the end of that year.* Nevertheless, it would be only wise to sound a note of warning; for there will clearly in future be some adverse effects on

* 1967 Hansard, page 69.

our trade resulting from probable increases in the prices of raw materials, machinery and fuel and we have also to face increasing competition and the uncertainties that arise from protectionist pressures, which are already apparent in the USA and in Canada and Australia.

However, industry has already demonstrated its ability to adapt itself to external competition, by improving quality and by branching out into less competitive fields. In this they can rely on the backing of the organizations recently set up to assist our industrialists: I refer of course to the Trade Development Council, the Export Credit Insurance Corporation and the Productivity Centre, which are all now getting into their stride. The Federation of Hong Kong Industries and the Department of Commerce and Industry have also done much useful work towards eliminating faults in design and improving standards generally. But in the last analysis it is the work of the factory employees themselves that has been responsible for these excellent results, and our prospects of continued future success will always greatly depend on their support. Similarly our ability to provide them with the improving standards of living we have been able to provide in the last two decades, depends ultimately on the skill and hard work of the community.

Other industries were affected in one way or another by last summer's events. The attendant overseas publicity caused some setback to tourism, but this has proved to be only temporary. The figures for the year showed a modest but satisfactory increase of some 4% in the number of persons visiting the Colony. On the other hand, both farmers and fishermen reacted quickly to the temporary shortages of imported foodstuffs. As a result, sales of locally produced pigs and vegetables, and the catches of marine fish, showed substantial increases. This increased prosperity had a stimulating effect on agriculture particularly: some 350 acres of fallow land have been opened up for farming and there are healthy signs of a move towards increased mechanization both in farming methods and in irrigation.

The hopes that I expressed last year for brighter prospects in the real estate market not unnaturally did not come to pass.* There were some signs of improvement up to May, but for the full year the total value of new private buildings was only \$577 million, compared with the record \$1,058 million during 1966. There was a considerable decrease in the number of plans of new buildings approved, but there was also a decrease in the number of vacant premises; and, as the demand catches up with the supply, we may, I hope, see some resurgence of building activity later in the year. Quite apart from land which is now available in the main urban areas, the development of Tsuen Wan has continued, and work has begun on the first stage of the "new town"

* 1967 Hansard, page 71.

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at Castle Peak Planning is also in hand for a similar, though smaller, development at Sha Tin: all-in-all, we are now reasonably well prepared with land for any immediate future needs.

Let me now turn to the vast subject of welfare in its widest sense. It is in this field that I am perhaps most conscious of the difficulties of adequate presentation in a speech such as this; and this year I am only going to be able to touch briefly on the highlights.

The millionth settler was installed in October, and during the year the population in resettlement estates and cottage areas increased by 114,000. The number of persons moved from the more crowded estates to more spacious quarters rose from 16,700 to 18,600.

The Housing Authority for its part now provides accommodation for just over 220,000 people in its estates and in the Low Cost Housing flats, and the Housing Society has provided for 101,673 people.

In education, we have continued to expand our primary school facilities, in pursuit of our current policy. The total enrolment in primary day schools rose during 1967 by 38,000 to 658,000; and almost all of this increase took place in low-fee government and aided schools.

Increases of this order in our primary enrolment are welcome, but they do place an increasing strain on our facilities for secondary and post-primary education. The expansion of our facilities for secondary education, in the main, were carried out through by voluntary agencies and 8,410 additional places were provided during the year. I should here like to pay tribute once again to the very valuable contribution the voluntary agencies are making over the whole field of education. Their efforts are however costing them a great deal of money at a time when the financial contributions they previously received from outside the Colony are being reduced. Their difficulties are appreciated, and ways and means are being studied of helping them.

We are also making certain changes, which have been generally welcomed, in the School Certificate Examinations. From now on each candidate will be awarded a Certificate of Education recording the standard he has achieved in each subject, instead of being required to pass in subjects from different groups or be judged a failure. I hope that these changes will encourage schools to diversify their curricula and broaden their courses of study.

In the medical field the measures taken to control infectious diseases have been increasingly effective. We have had only one case of cholera in 3½ years; and both diphtheria and poliomyelitis can be said to be under control. We are tackling measles next; but although the results

during the opening stages of the immunization campaign have been disappointing, I hope the response will improve once parents realize that there is certain to be another measles epidemic at the end of this year.

Increasing attention is now being paid to the prevention of tuberculosis and to the discovery and treatment of early cases of this disease among contacts. We are also conducting, in conjunction with the Medical Research Council of the United Kingdom and the Hong Kong Anti-Tuberculosis and Thoracic Diseases Association, a full assessment of the various methods of treatment to assess their respective therapeutic and practical values in the light of Hong Kong conditions.

As in other countries, the cost of operating the medical and health services has been steadily increasing year by year. Ironically, we are occasionally told we ought to have a free health service, when in fact we probably have the most nearly genuinely free health service of major proportions, for those who wish to use it, in the world; and one which provides a very good standard of treatment and care. The cost to the community of providing these services, including subventions, now amounts to nearly \$184 million annually.

The continuing shortage of Medical and Health Officers, and officers to staff ancillary medical services, remains a grave and difficult problem. As a temporary measure, doctors in the public service have been asked to work in the evening clinics on a paid sessional basis. Practitioners have also been recently permitted to be employed in clinics, although not possessing registerable qualifications.

As recommended by the Medical Clinics Advisory Committee, premises suitable for use as clinics are obtained from time to time from the Resettlement Department and the Housing Authority and offered first to registered practitioners. So far 36 units in the Resettlement Department and 8 units in Housing Authority estates have been so offered, while 11 units in Resettlement Estates have been allocated to and accepted by sponsors of mobile clinics.

A great deal has been said in recent months about the need for improved services to youth, and indeed they deserve all the help we can give them. It is easier, however, to expatiate on this need in general terms than to be specific about effective ways and means of filling it. These problems were the subject of a successful Youth Festival and Youth Conference sponsored by the Hong Kong Council of Social Service, which was held in November. This Conference also brought out how much is, in fact, already being done for children in Hong Kong: and, although it is not enough, it is far more than I can even hope to mention here. But one feature of youth work last year was most notable: this was the programme of summer activities for children,

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which was sharply expanded with the willing co-operation of the Royal Hong Kong Jockey Club, the Army, many schools and voluntary organizations, and, of course, Government Departments. These efforts resulted in some 250,000 children being catered for during the year, and plans are now in hand to extend these activities still further. Meanwhile the regular programmes of many youth organizations continue to develop—I wish I could say something about them all, but I just cannot. Instead, I would like to stress again what I have emphasized before, namely, that one of the main limiting factors in youth work is youth leaders. But while pleading for a greater number of interested and suitable people to come forward for this work, I would like here to pay a tribute to all those devoted men and women who are dedicating themselves to it already.

All last summer, people continued to patronize our community centres, youth centres, casework offices and other establishments with only occasional interruptions. A liberalization of our criteria for those in need of direct relief has led to increased assistance with this form of aid; and a modest start has been made on cash grants in substitution for rations, in those cases where this is most practical.

The Urban Council and the Urban Services Department have developed an additional 100 acres of recreational area, including 200 playgrounds and games pitches, during the past year. A particularly happy development is that, with the help of the Royal Hong Kong Jockey Club, work is now in progress on three large new swimming pools with more to be planned.

The City Hall celebrated its fifth anniversary in 1967. The popular concerts presented there by the Urban Council have proved so attractive that they are to be increased to one a fortnight. Planning is under way for permanent premises for the main Kowloon library. The new Rodney Block in the former dockyard will be used, when it becomes available, to house the City Hall Museum and the Art Gallery.

The Public Works Department has again had a busy year, with expenditure totalling about \$350 million on capital works. The Department was active on Government housing, schools, clinics and hospitals, social welfare projects of various kinds, and all the multifarious constructional works we have on hand at any one time. In particular, good progress was made on improving the Colony's road systems. The Lion Rock Tunnel is now in use and proving popular; the massive Garden Road complex is rapidly taking shape and so is the Waterfront Road, which will eventually further reduce congestion at the Roxy Roundabout.

New roads and transport systems take many years to plan and to construct, and planning is meaningless unless it's based on as reliable a data as is possible. It was with this problem in mind that in 1964 the Hong Kong Passenger Transport Sub-unit was set up jointly by the British Road Research Laboratory and the Hong Kong Public Works Department to carry out a survey of our traffic and transportation problems. At about the same time, consultants were appointed to advise on the form which future transportation systems should take. Later the same consultants were asked to prepare a Long Term Road Study. These three reports are complementary documents. The first two have been published* and are now being studied, and the last is now in draft form ready for printing.

In the years ahead we shall need a steady flow of accurate facts about our society and how it works. With this in mind, we established a new department of Census and Statistics in December. It has been set up initially on a modest basis, but I am sure that the department must grow if it is going to tackle a reasonable selection of the many tasks which we have in mind for it. Population and employment statistics are two fields in which an advance is certainly due.

Finally, before I go on to speak of our plans and hopes for next year, I should like once again to pay a tribute to the work of the Public Service during 1967. Certainly the events of the past year have demonstrated again how fortunate we are in the general calibre of our public servants. I should like here to express publicly my appreciation of the services they, and indeed many others in such concerns as the public utilities, have so willingly given, and the long hours that so many of them have cheerfully worked, to maintain the services our community needs.

And now for next year. We are all, I think, sensible of the fact that there is some room for improvement in labour conditions in the Colony. There are of course many firms that have an excellent record in the treatment of their employees, but further legislation is needed to ensure that improved general standards are observed. Honourable Members will recall that the Commissioner of Labour recently gave this Council an outline of the legislation that was under consideration, f The staff of the department is being strengthened: one officer arrived in the Colony this month to assume the duties of the new post of Adviser on Labour Legislation and we hope that the post of a second adviser on labour matters will be filled in the fairly near future. These appointments are not designed to lead to anything over-dramatic or far-reaching. What we are aiming at is a steady improvement geared to the real needs of Hong Kong, and taking into consideration the interests of both employers and employees.

* 1968 Hansard, page 24.

† 1968 hansard, pages 32-39

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Labour legislation, then, will, I expect, figure prominently in this year's legislative programme. Other legislation of particular interest which is being studied prior to consideration by Government, and which I hope it may be possible to present to Council for honourable Members' attention, will concern itself with the apportionment of Crown rent and premia, and with the voluntary management of subdivided buildings: these are matters of often frustrating complexity, but some progress on them is highly desirable. I hope also we shall be able to proceed once again with legislation dealing with dangerous drugs and poisons. Finally, I hope we shall be ready to come forward with legislation to implement the proposals, aired last summer in this Council, concerning Chinese customary marriages and related matters.* But here I must warn that, although all the progress possible is being made, it is still likely to be the end of the year at the very earliest before there will be anything concrete to put before honourable Members.

Much else of what we hope to do this year, naturally, will also require legislation, but the above are subjects of particular interest which I shall not be able to mention here again.

We shall of course be proceeding this year with all the many plans we have for improving the condition of our people. Jobs, housing, water, medical services, and education are still, and will be for a long time yet, their primary needs; our vast plans in these fields are not short-term and so they have a certain momentum of their own. We shall progress these plans as rapidly as the three eternal limiting factors of time, available effort, and money, permit.

New estates under construction or planned for 1968 will provide for a similar number of people as last year, but thereafter, as recommended by the Housing Board, it is proposed that the emphasis will move somewhat more towards Government Low Cost Housing. Resettlement is an emergency programme, and perhaps we can soon hope to make a few more moves towards the conversion of this programme into something more normal, acceptable and permanent. One such move is the approval given this year for a new design of a block in which the majority of the space will be allocated on the basis of 35 square feet for each adult. Another step is the possibility we are considering of converting some of the blocks of the older estates into self-contained flats.

In the aided low-cost housing sector, the Housing Authority plans to provide 14,700 flats in the next 6 years while the Housing Society has a programme of 6,000 flats.

* 1967 Hansard, pages 301-3.

The programme of estate welfare buildings in which voluntary agencies and Government departments can co-operate to provide coordinated services in newly developing areas, is well under way. Four such buildings will, I hope, be completed during the coming financial year; at Ham Tin, Tsz Wan Shan, Sau Mau Ping and Shek Lei. These will provide space for such services as nurseries, casework, children and youth group work, libraries, low cost medical clinics, and family planning clinics. Other projects which should begin to operate during the financial year will be the World Rehabilitation Fund Day Centre for disabled persons, the combined training centre and hostel for mentally defective adults and children, a new reformatory school, and an extension to the facilities for mentally defective children at the Po Leung Kuk.

Our educational plans will continue to adhere to the main intermediate aim of providing subsidized primary school places for all children requiring them by 1971: with 15-20% aided secondary school places for the primary school leavers. But next year I hope we shall be able to place rather more emphasis on technical education; and it is also proposed to proceed with plans to treble the number of places for physically and mentally handicapped children by 1971.

Our technical training needs will clearly require us to increase the present provision for the training of teachers of technical subjects, and it is intended that the new Technical Institute should be used for this purpose. Furthermore, all full-time students at Colleges of Education will receive at least two years training as from September 1968. The recently announced plans to provide an Educational Television Service for schools in 1969 should help considerably to raise standards of teaching.

In pursuance of our well-established medical plans, site formation has begun for the new Lai Chi Kok hospital, which will provide 1,316 beds for general, infectious and chronic patients; and on an adjacent site which might be used for a mental hospital with over 1,000 beds. A site is also being formed for a home for mental defectives at Siu Lam in the New Territories. Work this year will continue on a new convalescent block at Kowloon Hospital to make fuller use of that site; as will work on the programme of internal alterations to the Queen Mary Hospital. I expect that good progress will also be made during the year on bringing the Mount Kellett hospital into use as an infectious diseases hospital, on the Chai Wan Clinic and Maternity and Child Health Centre, and on the Tang Shiu Kin Hospital, following on the completion this year of the Castle Peak Clinic and the Yau Ma Tei Polyclinic. As has also recently been announced we hope, in cooperation with the Grantham Hospital, to make considerable advances in our facilities for heart surgery this year.

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Just over a month ago the acting Colonial Secretary announced Government's intention to introduce a scheme for District Officers in the urban areas.* A functionally based distribution of work is, I believe, the most efficient and the most economical way of providing services, but when the services provided becomes as numerous and as complex as they now have, some danger of lack of co-ordination, and lack of touch with those for whom the services are provided, can arise. It is in an effort to guard against this that we are appointing City District Officers; and I hope that substantial progress with the work of getting them into position and functioning will have been made by this time next year. This is an imaginative and an exciting scheme we are about to launch, and I am sure that honourable Members will join me in wishing it well.

This new development should not however be taken to mean that we have lost sight of the desirability of improving the structure of the Colony's local administration. The two schemes are quite different, although no doubt the City District Officers, once they are position will be a help in putting our plans for improving local administration into effect. We are continuing to work on these plans, but it cannot be denied that last summer's events, together with the uncertainties and additional commitments which have followed in their wake, have both delayed matters and to some extent created a new situation in which it has become necessary to take a fresh look at the proposals which were previously contemplated. I hope, however, that it will be possible to put comprehensive proposals before this Council, as a preliminary to the wider requirement of seeking the views of the general public, in the not too distant future.

This year, also, we will be considering further, as we have done with some success for many years, ways and means of giving our two main languages here, Chinese and English, as near equality of use and status as it is practically possible to do. Nobody in their senses would deny that this is desirable: but there are difficulties when we start talking about both as "official languages". If this means that both are to be acceptable as a medium of ordinary communication for official purposes, then both are to a very large extent official languages already. But if it means that, for example, the laws must be written in both languages, then there are practical difficulties. Nevertheless, short of this, and remembering that there will be circumstances in which one version or other must prevail when translations are made, we can, as I say, do a great deal towards producing a bilingual society. It is a process of taking numerous small and specific steps, not of making one sweeping gesture. We need to iron out the practical difficulties of using

* 1968 Hansard, pages 19-21.

both languages, without creating confusion, in as many selected circumstances as possible; and never overlook an opportunity of using both whenever it would be practicable and helpful to do so.

I have once again taken up too much of honourable Members' time, but I would like to mention just one other project which, again, I fear, has been something of a casualty of last summer's events. I refer to the need, which seems to me to be fairly acute, to revise and modernize the Standing Orders of this Council. I hope that by the time we meet again here at the 1969 Budget Session, we shall be doing so under improved Standing Orders. It is not that anything very radical in the way of changes in procedure are needed, but some of our procedures are I think you will agree, cumbersome and somewhat anachronistic, and could do with replacing.

And now let us hope for a 1968 free of unexpected distractions in which to make—as I am sure we can, given a chance—real uninterrupted progress with all our manifold plans for improving and raising the standards of living of our people. As a Government, this is and must always be our primary aim, and one which I am sure we can achieve with the continuation of that co-operation, help and support for which I am so grateful to honourable Members in particular, but also to the many others who give us so much help, support and practical advice.

And now, may I wish you every success in your deliberations during this coming year.

Before we proceed to Government business I will suspend the sitting of this Council until ten minutes past three.

* * *

Council resumed at 3.20 p.m.

**RESOLUTION REGARDING THE DRAFT ESTIMATES OF
REVENUE AND EXPENDITURE FOR 1968-69**

THE FINANCIAL SECRETARY moved the following resolution: —

Resolved that the draft Estimates of Revenue and Expenditure for 1968-69 be referred to a Select Committee composed of the Colonial Secretary (Chairman), the Financial Secretary and all the Unofficial Members.

He said:—Sir, the strength and stability of our economy and financial structure is clearly demonstrated by the slightness of the impact of last year's events on our public finances. Only the devaluation of

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sterling has had any serious effect and that mainly in one particular field.

Revenue was rather slow in coming in during the earlier months of the year and this has intensified the pattern by which revenue tends to be increasingly concentrated in the first half of the financial year. For revenue receipts began to accelerate from October onwards and soon made up the earlier lag. It is now clear that we are going to come very close to making our original estimate. The revised figure of revenue stands at \$1,878 million against an original estimate of \$1,886 million, a difference of only \$8 million or under ½%; and it could be that we get even closer. Taking into account the cut in fees and taxes amounting to \$11 million introduced in last year's Budget, the increase over the final results for 1966-67 which is represented by the revised estimate is 4%. In terms of recurrent revenue only the figure is 4.2%. This is a very different result indeed from some of the forecasts made in the middle of the year, forecasts made despondently by some and by some with misguided relish.

I would not wish, however, to claim a great deal of credit for the unusual accuracy of the original revenue estimates, as the separate estimates for the various sources of revenue were substantially less accurate than the sum of the parts, excesses and deficiencies cancelling each other out. The estimate of \$75 million for land sales proved over-optimistic and the revised figure is \$34 million less. Again, tobacco revenue is now estimated at \$16 million below the original figure, although the substantial degree of forestalling in anticipation of a change in duty which has taken place may reduce this deficiency. As I have explained before, this is a particularly difficult tax to estimate because of the large export trade; but there was an additional complication this year, for the procedures for assessing and paying drawback on exports were substantially speeded up, reducing the amount of duty-paid tobacco awaiting drawback by some \$7 or \$8 million. This is, of course, a once-for-all effect which must have been very welcome to our cigarette manufacturers. On the other hand, the growth of net tobacco revenue continues to disappoint. It is not clear to what extent this is due to medical advice or to the increase in duty two years ago.

On the other side there was a particularly large windfall gain in the shape of premia for taxi concessions which produced \$25½ million; this has been treated as capital revenue. Another substantial gain was in Salaries Tax. This is partly because we have under-estimated the growth of salaries and partly because a special effort has been made to catch up with a substantial backlog of cases which had accumulated for a number of reasons. The number of active Salaries Tax files has more than doubled to 74,000 during this financial year and the revised estimated yield is now \$25 million over the original

estimate. For Salaries and Profits Tax as a whole the estimate has been revised upwards by \$35 million. This, of course, relates for the most part to Salaries and Profits earned in the year 1966-67, not this year.

I spoke last year of the special efforts we were making to suppress evasion, and I was taken to task on this matter by my honourable Friends Mr WONG and Mrs LI.* The new special investigation section has been very successful and has already brought in an extra \$1 million in revenue this year. Under-statement of chargeable income in the cases uncovered has been of the order of \$10 million or an under-statement of between 50% and 60% on average. This is not the only beneficial result of these activities; success in dealing with defaulters is clearly having an effect on other potential defaulters.

But the Inland Revenue Department is working under severe handicaps in this field because of the lack of teeth in the Ordinance. This lack of teeth stems to some extent from the schedular nature of the tax which gives only partial and intermittent glimpses of the financial situation of individual taxpayers. The Inland Revenue Ordinance Review Committee, which has continued its work during the year, has made some proposals for improving the situation in a first part of its Report which has already been submitted. This will not be published until their full report, which is virtually complete, is ready; but it has been made available for study by those professional and commercial bodies which submitted suggestions to the Committee. It may well be that the Committee's suggestions will not find favour with all, but we are approaching a situation when we must decide whether we will do more harm to our economy by accepting widespread evasion and having in consequence to raise the rate of tax, or by introducing measures which may offend the susceptibilities of some but will help to keep the rate down. Let me hasten to add that the Committee's recommendations do not extend to anything in the nature of a full income tax.

We have not had the very high rate of natural growth of revenue to which we had become accustomed in the early 1960's but I warned two years ago that we could no longer look forward to this but must expect a lower rate of revenue growth. But I think I may claim, therefore, that, in respect of revenue, we have had a pretty satisfactory year in all the circumstances.

The picture for expenditure this year is very different, for we have spent much less than we budgetted for. Let me say at once that, in spite of certain speculative press comments to the contrary, I did not cut the budgetted allocations of any department during the course of the year. The reasons for under-spending are quite otherwise. The original total estimate was \$1,923 million of which \$692 million was for

* 1967 Hansard, pages 187 and 195.

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personal emoluments including pensions, \$672 million for other recurrent expenditure and \$559 million for special expenditure (of which \$461 million was Public Works). The revised total estimate is only \$1,804 million (or \$119 million less than the original), of which \$678 million is personal emoluments, \$658 million other recurrent expenditure and \$468 million special expenditure (of which \$354 million is Public Works). The figure for special expenditure includes \$30 million of emergency expenditure, mainly for the Police Force. I apologize for these figures.

The revised personal emoluments estimate shows a decrease of \$14 million. This is a very much smaller shortfall than usual. I said last year that we were going to try to devise some means of forecasting this expenditure more accurately and we appear to have achieved it. But there have been a number of unbudgetted increases, notably the extra \$100 a month paid to Police Rank and File from November onwards, which cost about \$5 million, and certain late pension adjustments deriving from the 1964 Salaries Revision.

The estimated shortfall of \$14 million in other recurrent expenditure is also unusually small, particularly as \$21 million looks like being under-spent in the Education vote, largely because of delays in schools coming into operation; but it is quite possible that the final shortfall will be greater. One influence in this direction has certainly been the temporary diversion of manpower and resources to the emergency.

But it is in the case of capital expenditure that the greatest under-spending has taken place and this is largely in the field of Public Works where the, revised estimate is \$105½ million or 23% below the original. My honourable Friend the Director of Public Works will no doubt have an opportunity later in this Budget session to give members a full account of how this has come about, but I should like to offer a brief explanation now.

The main factor was undoubtedly the very substantial drop in tendered prices, particularly for marine works and for buildings, due no doubt to the much more competitive conditions in the construction industry. I might give one example of this, where I myself fell into a trap of my own making. It is one which will be of particular interest to my honourable Friend Mr Ross as it involves the Aldrich Bay typhoon shelter.* The original estimate a few years ago was \$14 million, but I was persuaded that we should proceed to the tender stage, without, however, taking a final decision about going ahead, because it was said to be possible that a very favourable price might be quoted. I agreed

* 1967 Hansard, page 175.

because I did not expect a price so low that my doubts about the justification of carrying out this scheme would be overcome thereby. The lowest tender was, in the event, only \$6 million as against \$14 million and I was on the spot; so that, although, even at this price, I myself have some lingering doubts about the scheme in the light of the discussions going on about containerization, even I was eventually persuaded that we should go ahead, and the tender has been accepted.

This is just one particularly striking example, but it may be estimated that, of the total under-expenditure of \$105½ million, something between \$30 million and \$35 million is probably due to lower prices, although it is not possible to estimate this with any great accuracy.

The second influence has been the emergency which affected works in progress quite substantially at times, with curfews, transport difficulties and, latterly, restrictions on the movement of explosives. There were also some shortages of building materials.

There were some other factors, too, including over-optimistic estimating in a few cases, but I will not go into them in detail.

The overall surplus on this year's working is, therefore, estimated now at \$74 million. As the original estimate was a deficit of \$37 million, the swing from deficit to surplus is \$111 million.

There remains the Development Fund. Expenditure from the Fund this year is now estimated at \$26 million below the original estimate, largely due to a shortfall of \$8 million in loan funds drawn by the Housing Authority and to \$9 million underspent on Civil Servants' Housing Schemes. As the revenue estimate is virtually unchanged at \$38½ million and the deficit is now only \$14 million, it has not been necessary during the year to make the proposed transfer of \$20 million from the Exchange Fund surplus. The Development Fund should start the 1968-69 financial year with available assets amounting to \$19 million against outstanding commitments of \$175 million.

But before we proceed to rejoice over much at this result, there are two reservations I must make.

Firstly, previous swings from estimated deficits to actual surplus of this or greater magnitude have come about, not only in consequence of under-spending, but also, and to a substantial extent, in consequence of upsurges of revenue. This year it is solely the consequence of under-spending—although on the credit side is the element of under-spending due to lower prices.

The second point concerns the effect of the devaluation of sterling on our public capital funds, in the General Revenue Balance, the Exchange Fund and elsewhere. The financial results I have announced

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have taken no account of losses from this cause. We have already written off, in our November accounts, the sum of \$38 million in respect of losses on the General Revenue Balance. It will be necessary to add to this the writing-off of further sums in respect of the coinage funds, part of which is held in sterling, and of various other minor funds. I estimate that the final total loss on Government's general account will be of the order of something under \$50 million but it is not yet possible to give a final figure for this.

I may add here that it seems likely that there will also be a substantial loss or revaluation of investments on their annual revaluation at the end of this financial year. This, too, is connected with Britain's financial difficulties, reflecting the present high level of Bank Rate, but, unlike devaluation losses, these losses will eventually be recovered as all stocks held are dated stocks.

But much more serious is the effect of the devaluation of sterling on the surpluses in the Exchange Fund which we have earmarked in the past to meet the expected deficits generated by our programmes of social and economic development. At 1st January, 1967, the legally disposable surplus in the fund was \$426 million. Sterling devaluation has cost the Fund, both by way of additional sterling cover to meet the Fund's Hong Kong dollar obligations to holders of Hong Kong banknotes, and by way of meeting the exchange losses of the authorized exchange banks in view of their role as holders of part of our foreign exchange reserves, sterling devaluation has cost the Fund about \$400 million—although this, too, cannot yet be accurately determined. I estimate that the amount of legally disposable Exchange Fund surplus, taking into account both this loss and the Fund's earnings since the beginning of 1967, is now only of the order of \$150 million.

I should add that the total cost to public funds from the devaluation of sterling is limited to about \$450 million only because we revalued the Hong Kong dollar by only 10% against sterling, not by the full 16% which would have been necessary to maintain our own previous gold parity. Had we revalued the whole way, the cost to official funds would have been of the order of \$750 million.

Unfortunately there is no internationally recognized obligation on a country to compensate the holders of its currency for losses caused by its devaluation, whatever the circumstances or the effects. It is true that we have enjoyed higher interest rates on our reserves in sterling than we would have enjoyed in dollars, and certainly more than in gold which would have created no surplus in the absence of any general change in its value. But, because of the fairly recent build up of our official and bank reserves, we have not held our sterling in general long enough for the higher interest rates to have wholly offset our losses.

I will be reverting later to the longer-term aspects of this subject.

All in all therefore, we are likely to go into the next financial year with reserves of the order of \$1,000 million compared with \$1,300 million at the same time last year. Of this, about half is deposited with banks in Hong Kong and half is held abroad.

It is now time to turn to the prospects for 1968-69. The printed Draft Estimates have been in the hands of honourable Members since last week. Their three hundred and eleven pages contain a mass of material which I cannot possibly recount in detail today. They are in the usual form, except that in the case of Public Works Non-Recurrent, we have adopted the suggestion of my honourable Friend, Mr WATSON, and introduced a new column showing revised estimates of this year's spending on each project. These have not been totalled for the various sections but this omission will be rectified in the final printed version.

The main difficulty in estimating revenue for next year, is, as usual. Salaries and Profits Tax, the more particularly the profits tax side. Tax will be assessed next year on this year's results and, while there are quite clearly a number of business sectors, mostly internal, which have done worse than usual, I am always suspicious of general complaints that business is very bad. Businessmen so often shyly confess a few months later that things were not really so bad after all. This is, I suspect, one facet of our well-known resilience; it is really stability. There is, however, still some reservoir of Salaries Tax to collect as an offset against a probable drop in the yield of the other taxes and we have accordingly put the total yield at \$485 million compared with the revised figure of \$487 million this year. This may prove slightly pessimistic.

In the field of the various taxes on consumption we have assumed a continuation of recent rates of growth while the estimate for land sales has been put at \$40 million, roughly this year's revised estimate.

With the continued expansion of resettlement and low-cost housing and with fees coming in from such new establishments as the Kennedy Town abattoir, there should be a substantial yield in increased revenue from this kind of investment of public funds although, of course, the revenue from them is not net; for in almost all cases there is a corresponding, although smaller (I hope), increase on the side of recurrent expenditure.

Total revenue is therefore estimated at \$1,952 million or 4% above the revised estimate for 1967-68. For recurrent revenue only the percentage increase is 5%. It will be recalled that for this year compared with last year these figures are now estimated at 4% and 4.2% respectively.

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The expenditure estimates have not been easy to compile this year as, especially in some of the bigger departments, the emergency interfered to some extent with their preparation and examination, and also generated an unusual volume of last minute requests.

When I asked Heads of Departments this year to prepare their expenditure estimates, I asked them to be specially careful in their submissions because of the financial uncertainties at that time; and I asked them also to consider, in respect of major schemes of expansion, whether, in the light of rather tighter priorities, any of them could be postponed or reduced in scope. I did not, let me make it quite clear, *require* them to make any cuts, either of general scope or in particular fields. The need for such, shall I say, ruthless action, has fortunately not come. Some Heads of Departments have clearly heeded my request; others, I am afraid, have gone ahead much as usual, some, admittedly, because they were clearly justified in doing so or could not help it; others, I am afraid, because of the general high priority they consider all their departmental schemes and activities deserve—and, of course, one must admit that it is difficult for any individual Head of Department to relate his work, in terms of priority, to that of others. This is the perennial problem of financial administration, although it is, of course, eased somewhat by the existence of agreed policies and programmes of expansion in various fields. There are still, however, substantial gaps in this structure of policies and programmes and that there always will be, I suppose, so long as new needs and aspirations continue to arise.

The total estimate of expenditure is \$1,965 million or an increase of 9% over 1966-67, including emergency expenditure in that year; excluding it, the figure is just under 11%. I am just a little sorry that the total has not reached the \$2,000 million mark for the first time; the first year in which we spent \$1,000 million was 1962-63, just six years ago, after my first Budget.*

Personal Emoluments are up from a revised figure of \$678 million this year to \$743 million next year. This is a very big jump, particularly in a year when there has been no general increase in salary scales (although the additional Police allowance is responsible for over \$7 million of the increase). With our incremental salary system there is a fairly significant inbuilt growth in cost, while the burden of pensions, which is concealed (although we are very conscious of it) in a young and growing service, is beginning to show itself in actual expenditure; this year's estimate for pensions is \$7½ million higher than last year's at \$49 million. They are now a significant element in the cost of the public service.

* 1962 Hansard, pages 43-59.

I had hoped that this year we could reduce the rate of growth of numbers in the public service very substantially below the rate in recent years, but this hope has not been fully realized, although it will be seen from Appendix B of the report of the Establishment Sub-Committee that, at 2,130 extra posts or an increase of 2.9%, the growth is lower both absolutely and relatively than in any other post-war year. I am grateful for the part the Sub-Committee has played in achieving this.

Other recurrent costs have gone up by \$75 million, from \$658 million to \$733 million. In part this reflects, like personal emoluments, the rapid growth of Government activity in its many fields, the fruition of plans which have been maturing in some cases over several years, sometimes spectacular such as abattoirs or major hospitals, more often just a gradual, almost unnoticed, growth in activities to meet public needs and demands. A good example of this is to be found in the Public Works Recurrent Head, because this Head reflects maintenance costs over a wide range of different services. If we build hospitals or offices or roads, the buildings must be maintained, air-conditioning plants must be serviced, roads must be resurfaced and so on. The estimate under this Head is \$100 million compared with a revised figure of \$90½ million this year. These figures, in fact, understate the increase by \$5½ million as this year's figures include a substantial sum for extraordinary repair work left over from the rains of June 1966. Four years ago in 1963-64 we were spending only \$48 million.

Of course, as the converse of what I said about revenue, a significant element of increased expenditure is reflected, either wholly or partly, in increased revenue. One new substantial element in this offset expenditure comes under Head 35, Miscellaneous Defence Measures. Under the new defence arrangements, we have taken over maintenance of all service works, rather more than half of it on a reimbursable basis. The cost of work done on this basis is included in the expenditure estimates (including some concealed costs in the Public Works Department estimates which it is not worthwhile trying to isolate for purposes of the Estimates). Reimbursement is shown in subhead 3 of Head 6 at \$6.2 million. There is a similar but less significant arrangement for certain service capital works.

There are a few special figures to which I might draw Members' attention.

The new Universities expenditure Head—Head 78—includes for the first time the totality of our expenditure on Universities, other than certain scholarships and bursaries under the control of the Director of Education. The total sum it is proposed to provide next year is \$68 million which, if one counts all non-recurrent Public Works as one head, makes the Universities the sixth biggest head in the whole of the expenditure estimates—a rather sobering thought in terms of expansion of higher education.

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I should add that for a proper comparison of the total Education Department estimate of \$289 million for 1967-68, it is necessary to reduce that year's revised estimate to \$253 million by excising the residual amount provided therein for the Universities; this gives an increase of \$36 million or 14% over 1967-68 for educational expenditure. It is true that it is an increase of only \$16 million compared with this year's original estimate; I have already referred to the probable underspending this year.

There is one minor educational matter on which I had hoped to be in a position to make a concrete proposal to-day. It is in connexion with the cost of primary school attendance. We have arrangements for the remission of fees for up to 20% of aided school places. These fees vary from \$10 to \$50 a year. But the schools do not provide text books and stationery, for which even the child who has been granted remission of fees may have to pay up to \$30 a year. We are considering the idea of extending assistance to non-fee paying children to cover these additional expenses. Their need is clearly greatest within the already aided category.

Medical expenditure continues to grow fast, the main, but not the only new developments being the re-opening of Kowloon Hospital and the opening of 457 new beds in the Queen Mary Hospital. The total recurrent estimate for Department and Subventions is up from a revised figure of \$167 million to \$189 million, an increase of \$22 million or 13%.

Social Welfare expenditure is again up significantly, departmental estimates being \$2 million higher than this year's revised figures; and subventions (on which again we had the valuable advice of the Social Welfare Advisory Committee) being up by nearly another \$2 million a total increase of 18%. One of the reasons for the increase is the introduction of new criteria for relief of destitution which has both increased the amount of relief given to each family and allowed more families to qualify. A problem we are facing in the Social Welfare field is the reduction in the flow of foreign contributions. It seems to me that we cannot afford to provide subsidies merely to replace all such funds but must continue to be selective and ensure that the projects we support fit into our own plans in terms of aims and priorities.

As might be expected the estimates for the recurrent cost of the Police Force, including auxiliaries, is substantially up, from a revised figure of \$122 million this year to \$138 million next year, an increase of \$16 million or 13%.

I may add that this year, because of the conditions under which the estimates were prepared, an unusual number of important decisions have had to be deferred until we have more leisure after the Budget

session. In some cases provisional figures have been entered in the Estimates but funds will not be released until a decision has been reached. In other cases no provision has been made and, if a decision is reached to go ahead, it will be necessary to apply for supplementary provision. But the matters still at issue are, as a total, of insufficient magnitude to distort the estimates significantly. They will be drawn to the attention of the Select Committee.

The estimate for non-recurrent expenditure other than Public Works, totals \$124 million, compared with a revised estimate this year of \$84 million and an original estimate of \$99 million; these last two figures exclude the \$30 million emergency expenditure. A general reason for this increase is manufacturers' delays in the delivery of equipment which has necessitated an unusually large volume of revotes, as may be seen from a study of the Draft Estimates.

The main increase under specific heads is for the Universities, where the start of work on the new Chinese University site at Sha Tin is mainly responsible for the increase of \$15 million in the proposed provision compared with this year's.

There is also a significant increase of \$8 million in the Education vote which is largely for grants for school construction. I should add that a further increase of \$5 million in the estimate for Educational Loans is shown in the Development Loan Fund estimate.

One other proposal I might mention relates to the Urban Council's block vote for the provision of minor urban amenities such as playgrounds. This year's vote is \$2 million but it is proposed that next year, in addition to a repetition of the provision of \$2 million made this year, an additional special allocation of \$2 million should be made to enable the Urban Council to carry out some of the stockpile of new minor schemes which they have in hand. In recent years it has proved difficult to spend the sums provided for this purpose within each financial year because revotes cannot be made in the case of this type of vote, but we have introduced new financial procedures which have largely solved this problem and I am assured that the full \$4 million can be spent. I should stress that this vote is for minor projects only; major urban amenity schemes are provided for in Head 61, Public Works Non-Recurrent—Buildings. Next year's estimate for these is \$7½ million compared with a revised estimate of only \$1½ million for this year.

While speaking of amenities, I might mention the question of an Indoor Stadium. My honourable Friend the Chairman of the Urban Council informed the Urban Council recently that, while Government was unlikely to be prepared to undertake the provision of a Convention Centre or Exhibition Hall, it was considering the possibility of constructing an Indoor Stadium. Since then, as so often happens, this bit of information has tended to grow into a story that Government has made

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a firm decision to build one. That is not so; for one thing the proposal has not yet been presented to this Council and approved, either in terms of financial provision or of public works priority. But it is our intention to put a proposal before this Council and, if it is approved in principle, to set up a Working Committee to steer the project through to fruition. I should add that, while we are convinced that such a stadium is very desirable, we hope that a reasonably simple stadium at reasonable cost will be possible. Over-ambitious or extravagant ideas are apt to kill or at least seriously delay a project of this kind. It must, I suggest, be designed for the use of the 'people as a whole, not for narrow special interests, and, while uncomplicated, be adaptable to the widest variety of uses. Rather a tall order, perhaps, for the architects.

The estimates for Public Works total \$365½ million which is \$11½ million in excess of this year's revised estimate. This slightly understates the increase, as this year's figure includes the last instalment of \$4 million for the Naval Dockyard. The breakdown sum between Buildings, Engineering and Waterworks is much as usual, with some increase in Buildings and Engineering and a decrease in Waterworks. As there is likely to be a higher proportion of contracts in operation next year let at to-day's reduced tender prices, it is probable that in terms of actual production the increase will be greater than the financial figures suggest.

Apart from the price aspect, the rate of expenditure on Public Works is still affected by the temporary lull in major waterworks schemes. Next year's total Waterworks estimate is only \$76 million compared with a record of \$174 million in 1964-65, when work on the Plover Cove scheme was at its peak. It is unlikely that expenditure on waterworks will reach really high levels again before 1971-72.

Another factor in the generally lower level of expenditure compared with recent years is the considerably reduced expenditure on land development. We now have a good stock of land available and no new large-scale development scheme is required with any urgency for the time being, although we are proceeding with the first stage at Castle Peak.

I should add that large-scale water and land development schemes are normally carried out by consulting engineers; the present reduced level of total expenditure, therefore, does not mean that my honourable Friend the Director of Public Works' staff are being any less productive than usual, particularly when one takes into account lower tender prices.

Total estimated revenue next year being \$1,952 million and total estimated expenditure being \$1,965 million we have a budgetted deficit of \$13 million. Briefly, compared with last year's revised figures, these

draft estimates propose an increase in expenditure of \$162 million, of which \$87 million will be met by moving from a surplus of \$74 million to a deficit of \$13 million, and \$75 million will be met by increase in revenue receipts at present tax rates.

The Development Loan Fund estimates put expenditure at \$77 million against a revised figure of \$52½ million this year; and revenue at \$41 million compared with \$38½ million this year. The Fund's estimates, therefore, show a deficit of \$36 million to add to the estimated deficit of \$13 million on general revenue account, or a total estimated deficit on public account of \$49 million compared with an original estimate of \$77 million this year. If the estimates for the Fund prove accurate, the Fund itself will require topping up during the year to keep it out of the red. The printed estimates show a transfer of \$20 million from the Exchange Fund for this purpose, but I have a suspicion that it may not be required.

Like this year's, the budgetted deficit is unusually small. It is not my intention therefore to propose any increase in taxation this year. I have considered whether it was possible to follow last year's example and reduce or eliminate some minor tax or fee where the burden appeared particularly inequitable or harsh. I am afraid that I have not found anything of this nature and I do not think that I would be justified, in the light of our future prospects, in proposing the reduction of any of the existing levies merely for the sake of reducing taxation as such, much as I should like to do so. I think it almost requires as much courage to reduce taxes as to increase them.

When I say that I have not found any tax or fee where the burden appears particularly inequitable or harsh, I am deliberately excluding a number of anomalies in the Inland Revenue Ordinance to which this description might possibly be applied. I have already mentioned the Inland Revenue Ordinance Review Committee whose full report is expected soon. The Committee, which has considered representations from many bodies, will be proposing amendments to give relief in a number of cases where that can be afforded within the limits imposed by the nature of our tax; as well, of course, as amendments to tighten up loopholes within the same limitations.

While this year's results and next year's estimates are on the whole gratifying, looked at, at least, in isolation and in the short term, I am afraid that I must follow them up with some cautionary reservations in case any feeling should be spread abroad that in the light of the results we can go on some unrestricted spending spree; some critics, of course, do not even need such an excuse. And I must assure you that these are more than the cautionary words traditional to Financial Secretaries in Budget speeches.

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In the first place, I find it rather alarming that, in a year when we have been making particular efforts to keep the increase in recurrent expenditure within reasonably narrow bounds, the estimates of recurrent expenditure show an increase of \$140 million or 10½% over this year's revised estimates. It is true that a part of this reflects activities which are, to greater or lesser extent, recovered in additional revenue and that it would have been possible to omit or reduce a number of proposed provisions; yet a very substantial part of this increase was unavoidable, partly because of incremental salary scales, but very much more by reason of the fruition of schemes of development already in the pipeline. I do not think that there has ever been full public recognition of the magnitude of the programme of social development on which we are engaged. The tendency is merely to point out the existing, and admitted, deficiencies and ignore the great progress that has already been made and the very large increase in expenditure which is involved, as well as the agreed development plans and their future cost; I stress, their future cost. It seems that we have only to announce a scheme of development in any sphere of public service, for it to be taken at once for granted and very quickly forgotten, particularly in terms of future cost. Unfortunately I cannot forget, for it is I who have to find the money when it is needed.

But the point I really want to make is the extent of the built-in increase, and again I stress, increase, in expenditure which we could not, without great waste, suddenly decelerate or reverse if we were to find ourselves beset by financial stringency for any cause. This is a natural phenomenon in any rapidly developing society and one which is often not adequately recognized. Britain itself is experiencing exactly this difficulty at the present time.

My second point is that the balancing of our accounts this year and next in spite of this rapid increase in recurrent expenditure does not arise to any very substantial extent from an increase in our wealth or in our income, but from a largely fortuitous and temporary reduction in our spending on capital public works. We will have spent \$354 million on these this year and will spend \$360½ million next year, but in the four years 1963-64 to 1966-67 we spent on average \$502 million, with a peak of \$587 million in 1965-66. While with lower tender prices we may never reach quite this level again in the foreseeable future, I would hope and expect that we should in the not distant future reach a much higher level than at present.

The estimated increase in total revenue next year is 4% and in total expenditure 9%; in recurrent terms the figures are 5% and 10½%. That in itself tells the story of our present trend, a trend we have indeed been following for a number of years now. An important consideration

in this context, a yardstick I have frequently referred to in the past, is the ratio of recurrent expenditure to recurrent revenue. In 1965-66 the ratio was 68%, in 1966-67 it was 67% (after a substantial increase in taxation), but in 1967-68 that is this year it looks like being as high as 74% and the estimate for 1968-69 is 79%. We have again prepared a Forecast of Revenue and Expenditure over a five-year period based on existing plans of expansion, this time for the years 1967-68 to 1971-72. This suggests that by 1971-72 the ratio I have referred to may have risen as high as 84%. In other words, the cushion on which we must rely to continue our present level of recurrent expenditure even in depression is being rapidly eroded.

Again, our celebrated reserves are becoming a smaller and smaller proportion of annual expenditure. Five years ago they were about ten months' expenditure; for next year they are only six months'.

Another point which arises from the Five-Year Forecast is the estimated total deficit at present tax rates over the five-year period. Last year's exercise, for a five-year period one year further back, suggested a total deficit for that period of \$661 million against total reserves then of \$1,175 million. The deficit now, one year further on, has increased to \$796 million against reserves of only \$1,000 million.

This leads me on to the question of reserves and the connected question of the future use of the Exchange Fund, the surplus of which, over the 105% statutory cover for the banknote issue, we have always regarded as available to be creamed off for other public purposes; we, in fact, transferred \$80 million from it to the Development Loan Fund three years ago. I have already told you that sterling devaluation has cost us \$400 million of this surplus for the protection of the value of the Hong Kong dollar (as well as \$50 million from general reserves) and that at the beginning of the next financial year this statutory surplus should stand at about \$150 million only. The question that faces us is whether or not we can, from now on, regard this surplus, and future accruals to it, as available for any other purpose than its basic one of protecting the security of and the value of the currency; for this must be a paramount aim of financial policy. There is no doubt that with our almost total reliance on international trade, the unusual volume of our international transactions in relation to our national income, the high proportion of non-resident funds in our bank deposits and our importance as a financial centre, there is no doubt that in the light of all these factors, no matter how well able we may be to pay our way currently in the world (and I have no doubts about that), unusually strong reserves of foreign exchange are essential. Without them we could not, with the ease with which we did, have weathered the capital outflow of last summer (now steadily returning, as are banknotes into tills of the banks); nor sterling's devaluation, which not only presented an immediate problem of great difficulty but posed a future problem

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of how best and most cheaply to protect our currency in a world of potentially changing exchange rates.

In our recent adjournment debate* on the devaluation of sterling, I said that we would have to take a close look at our future monetary arrangements; this we are doing but it is not a simple matter nor one which is entirely in our own power. It will certainly take time. I regret that I am not in a position at present to speak at greater length or with more precision on this delicate subject. Not knowing, therefore, exactly what these future arrangements may be, I am unable to venture a guess as to whether we shall be able to economize on exchange reserves and spend future Exchange Fund surpluses; or will have to build up and maintain substantial additional reserves in the Exchange Fund for the protection of the currency, foregoing the immediate benefits which might be secured by spending them. In this sense, however, of the future use of the surpluses generated by the Exchange Fund, the matter is not an urgent one, for we shall not require to draw on these reserves substantially, so far as I can see, for two or three years—the general revenue reserves can take the first strain. In the meantime, for the purposes of the Five Year Forecast, we have assumed that the existing surplus of about \$150 million will be available for fiscal purposes but that only half of future accretions will be so available. I have hopes that we can do better than that in the event.

To return to our celebrated fiscal reserves, quite apart from their being already hypothecated along with all future revenues at present tax rates to existing development programmes, they have already been spent in theory several times over by persons advocating their own pet and usually very expensive schemes of expansion of public spending. This, of course, absolves such people from the unfortunate necessity of proposing unpopular methods of finance for their pet scheme such as taxation; that is left to me. I have read recently one particularly elastic proposed use, that the externally held portion of the reserves be stretched to guarantee the borrowing of the \$4,500 million which would be required for the suggested Underground over the next eighteen years, even on the very unrealistic assumptions about terms of finance used by the consultants.

Increasingly of late such persons have been confidently tapping for their purposes another painless source of funds for their purposes—the World Bank. It seems that all one has to do is to ask and it will be freely given. I am afraid that this is just as much an illusion as is the infinite elasticity of our own reserves. Projects have to meet a number of criteria before they have a chance of qualifying for Bank

* 1967 Hansard, pages 494-502.

loans. One criterion is that the country applying must not only be credit worthy but must also be in need of credit from the Bank.

A Bank team made an economic survey of Hong Kong in late 1966. Their report is, I am afraid, a private document of the Bank's and is not available for general publication, although honourable Members have had an opportunity of studying it. I am myself gratified by one feature of the Report, a general endorsement of the soundness of our financial policies and the efficiency of our fiscal administration. But the main conclusion was, I am afraid, the same as that of the 1961 team, that, while we are eminently credit-worthy, we had no need of credit at that time.

Much has, of course, happened since late 1966. One point is that the team took what I and my Colleagues regarded as an over-optimistic view of the extent of the revenue likely to be generated automatically, at present tax rates, by our future economic growth. The final results for 1966-67 and the results for 1967-68 show that possibly by chance we were more realistic in our own forecasts, even if one believes, as I do not, that last summer's events had a substantial effect on revenue. It is possible, therefore, although there can be no guarantee of this, that a re-assessment of our position and prospects by the Bank would lead them to look more favourably on an application for a loan. The Bank has already indicated that it is prepared to review the findings of the Survey at any time and two staff members, one of whom was on the 1966 Mission, are arriving in Hong Kong tomorrow on a short visit to bring the Bank up-to-date on developments.

All the financial trends and developments I have outlined tend to the conclusion, that in spite of our present gratifying results, we are not going to find the future development of our public services as relatively painless as they have been in the past; and that, even taking into account a degree of untapped taxable capacity (which should not be exaggerated), there is not much margin for expanding our planned development on to a much more lavish scale, either in terms of costs or of benefits, at least on the basis of nearly universal subsidy which we have tended to adopt during the post-war years, largely inadvertently.

I must apologize if I have disappointed listeners in that, while I have made it clear that we do not mean to be deflected from the steady course of expansion we are already embarked on in the many fields of public service, I have not also announced to-day any dramatic new programmes of action or any sudden and far-reaching switches in direction or priority in the spending of public money.

I do not propose to discuss to-day the merits of, or the need for, anything of this kind but only to explain that anyone who expected this in the context of the Budget radically misunderstands its nature

[THE FINANCIAL SECRETARY]

and function. It is not the occasion for proposing ambitious new schemes; indeed, I would consider it most unreasonable and disrespectful towards this Council were I to confront honourable Members with extensive new spending projects which they had never previously had a chance to consider and demand that they make up their minds at once whether or not they were prepared to vote the funds required to carry them out.

The process of putting together, agreeing and carrying out important policies and programmes of action is not a staccato one, brought into play only for the Budget session and in a kind of vacuum. It is a continuous process in which this Council has a sustained and constructive role to play. One has only to look, for example, at the report of the Public Works Subcommittee of Finance Committee to see this process in operation.

We could, I suppose, keep under wraps all major decisions involving increased spending which are reached during the course of the year and unveil them all to-day in one grand dramatic gesture. But we should be very rightly condemned were we to do so once we have come to decision's such as, for example, those on Educational Television or City District Officers.

The truth is, as I have said more than once before, that there is little scope for influencing significantly the shape or form of any one year's expenditure in the context of that year's Budget. The expenditure estimates flow from a multiplicity of decisions already taken, some during the previous year, some years ago. There is some small scope for minor new proposals (like the one I have made on Urban Council amenities) and for variations in timing and priorities; and there is some scope for argument with Heads of Departments and outside agencies about what funds or staff they need to carry out their agreed policies; but all this is really very little relative to total spending.

The object of the annual estimates, apart from the opportunity it gives this Council to carry out its primary duty of controlling public expenditure, is to take stock year by year of the budgetary effects of agreed policies and programmes of action in the public sphere, to look at our probable revenues and make proposals about how the year's spending should be financed, for example, by running down reserves or by imposing additional taxation; and generally to ensure that we are not in danger of living beyond our means or over-stretching the public demand on our resources and that our priorities continue to be about right on a dynamic rather than a static basis.

When commenting on the fact that most of the \$140 million increase in recurrent expenditure estimated for next year was virtually

unavoidable without dislocation of public services, I referred to the generally unrecognized scale of magnitude of the inbuilt growth in future expenditure which is implicit in our existing plans of expansion. There is an ever-present danger here that we must not overlook.

It is with this last point in mind that we also attempt an annual forecast of revenue and expenditure five years ahead, in spite of its very great margins of error, because one year's estimates give inadequate advance warning. This is not a wholly negative approach, for the annual Budget not only fulfils the immediate purpose of regulating authoritatively our taxing and spending for the year ahead but also, in conjunction with the longer term forecast, helps us to assess what scope there is likely to be, and on what conditions, for further expansion of public services, within our means.

I am known for my opposition to state planning of the economy; but planning, so far as that is practicable, the state's own exercise of its compulsory powers of appropriating and spending the resources of the community is a very different matter.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

PUBLIC HEALTH AND URBAN SERVICES (AMENDMENT) BILL 1966

MR G. M. TINGLE moved the withdrawal of:—"A Bill to amend the Public Health and Urban Services Ordinance 1960."

He said:—Your Excellency, when I moved the First reading of this Bill at the meeting of Council on 26th October, 1966,* I said that clause 3 seeks to amend section 86 of the Public Health and Urban Services Ordinance so as to remove an anomaly whereby a person found guilty of selling prohibited or restricted foods may, though found guilty, claim for the return of the food or any other paraphernalia seized, or may claim compensation in lieu thereof.

It has since been pointed out that goods seized under section 86 are disposed of either because they are perishable or because they have become Crown property. They are not disposed of under that particular section because they have been dealt with unlawfully, that is, sold unlawfully. Section 59 is intended for such cases.

Whilst the possibilities of amending section 59 to provide for the necessary administrative arrangements are being studied, it is desirable

* 1966 Hansard, page 407.

[MR TINGLE]

that the other matter with which the Bill now before Council is concerned should go forward. This other matter concerns giving to the Governor in Council power to make regulations prescribing or providing for the payment of fees for the inspection of animals or carcasses in private slaughterhouses in the New Territories. If honourable Members will agree to the withdrawal of the present Bill, such provisions in regard to slaughterhouses will be re-introduced separately at the next convenient opportunity.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

HAWKER CONTROL FORCE (AMENDMENT) BILL 1966

MR G. M. TINGLE moved the withdrawal of:—"A Bill to amend the Hawker Control Force Ordinance 1960."

He said:—Sir, the provisions of section 30 of the Hawker Control Force Ordinance are, in relation to goods seized by members of the Hawker Control Force, identical with those in section 86 of the Public Health and Urban Services Ordinance.

This Bill* was intended to remove, in relation to the Hawker Control Force Ordinance, the anomaly which was thought to exist in relation to the Public Health and Urban Services Ordinance.

My observations on moving the withdrawal of the Public Health and Urban Services (Amendment) Bill 1966 apply equally in the case of this Bill. †

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

JUSTICES OF THE PEACE (MISCELLANEOUS AMENDMENTS) BILL 1968

THE ATTORNEY GENERAL moved the First reading of:—"A Bill to amend various laws conferring powers on justices of the peace."

He said: —Sir, formerly, police officers and prison officers were as a matter of course appointed as justices of the peace on reaching the rank of superintendent. However, this practice has been discontinued

* 1966 Hansard, pages 408-9.

† 1968 Hansard, pages 69-70,

in recent years because it is considered inappropriate that police officers should be appointed to what is essentially a judicial office.

Although this objection does not apply to the same extent to prison officers, the practice of appointing them as justices automatically on reaching a specified rank has not been followed for some time. It is not intended to bar prison officers from appointment in future if they are suitable for it, but they will not be automatically appointed on the attainment of any rank.

The decision not to appoint any police officers, and only selected prison officers, as justices has meant that alternative provision needs to be made to enable senior police and prison officers to exercise, in their capacity as such, certain powers which they previously held in their capacity of justices of the peace, and this Bill provides accordingly.

Under the Gambling Ordinance, police officers are empowered, if so authorized by the warrant of a justice, to enter a gaming house and seize gaming implements. The Bill proposes that such authorization should in future be given by assistant superintendents of police or above, if they have reason to believe that a place is being used as a common gaming house. Such warrants are frequently required at short notice, particularly at night and it would cause great inconvenience, both to police and justices, if the latter had to be approached for warrants in all such cases.

The amendment proposed to section 13 of the Criminal Procedure Ordinance will enable senior prison officers to take a recognizance, when an accused is admitted to bail by a court. This power, which is a convenience to prisoners, is at present exercised by prison officers in their capacity as justices.

The Bill also provides for the Police Force and the Hong Kong Auxiliary Police Force Ordinances to be amended to allow for the oath of regular or auxiliary police recruits to be taken by senior regular or auxiliary police officers, as the case may be.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a First time.

Objects and Reasons

The "Objects and Reasons" for the Bill were stated as follows: —

In the past, certain police officers and officers of the Prisons Department have been appointed justices of the peace by virtue of their office so as to enable them to exercise certain

[*Objects and Reasons*]

statutory powers or perform certain statutory functions which may at present be exercised or performed only by justices of the peace.

2. The Government has accepted a recommendation that these officers should no longer be appointed justices of the peace solely by virtue of their office.

3. This makes it necessary to make new provision in relation to certain matters which have hitherto been within the jurisdiction of these officers by virtue of their appointment as justices of the peace.

4. This Bill seeks to amend four Ordinances for the purpose.

- (a) Section 16 of the Gambling Ordinance empowers police officers authorized by warrant of a justice of the peace to enter a common gaming house and seize implements of gaming and gambling. It is proposed that warrants to enter common gaming houses should in future be issued by police officers of or above the rank of assistant superintendent. To this end, section 16 of the Gambling Ordinance will be considerably revised, but no other change of substance will be made. Consequential amendment to other sections of the Gambling Ordinance is also necessary.
- (b) Where an accused person is admitted to bail by the Supreme Court or a judge under section 13 of the Criminal Procedure Ordinance, the recognizance may if the Court or judge so directs be taken before a magistrate or justice of the peace. This section is to be amended so that the recognizance may also be taken before the Commissioner of Prisons or certain other senior officers of the Prisons Department.
- (c) The Police Force Ordinance will be amended so that the oath or declaration of office to be taken by a person joining the Police Force may be taken before a gazetted police officer.
- (d) The Hong Kong Auxiliary Police Force Ordinance will be amended so that the oath or declaration of office to be taken by a person joining the Auxiliary Police Force may be taken before certain officers of the Police Force or the Auxiliary Police Force.

DENTISTS REGISTRATION (AMENDMENT) BILL 1968

DR TENG PIN-HUI moved the First reading of:—“A Bill to amend further the Dentists Registration Ordinance.”

He said:—Your Excellency, the main purpose of the Bill is to bring the Dentists Registration Ordinance into line with similar provisions in the Medical Registration Ordinance.

Clause 2 of the Bill seeks to amend section 2 of the principal Ordinance to provide for the inclusion of the definitions “Chairman”, “complainant”, “Legal Adviser” and “Secretary”. It is further sought to amend section 2 of the Ordinance by deleting the words “paragraph (f)” from the definition of “due inquiry” and substituting therefor the words “paragraph (h)”, consequent upon the rearrangement of the paragraphs of section 29 which is sought in clause 5 of the Bill.

Clause 3 also seeks to amend section 3 of the Ordinance by deleting the words “paragraph (i)” from subsection (1) and substituting therefor the words “paragraph (l)”. This amendment is also necessary because of the rearrangement of the paragraphs in section 29.

In clause 4 of the Bill it is sought to amend section 18 of the Ordinance to clarify the basis on which the Council may take action under that section.

There are no implications in the amendments contained in clauses 2, 3 and 4 as these are consequential amendments.

Clause 5 of the Bill seeks to amend section 29 of the Ordinance to enable new regulations to be made so as to cover, in more detail than at present, the arrangements for the handling of complaints or information laid against registered dentists particularly in respect of the membership of the Preliminary Investigation Committee, and also to make new regulations prescribing the duties of the Secretary of the Council.

The amending clauses of this Bill have been considered by the Dental Council of Hong Kong which has offered no objections and has recommended that these amendments be approved.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a First time.

Objects and Reasons

The “Objects and Reasons” for the Bill were stated as follows: —

This Bill seeks to amend sections 2, 3, 18 and 29 of the principal Ordinance. The purpose of the Bill is to bring the principal Ordinance into line with similar provisions in the Medical Registration Ordinance.

**SCHOOL MEDICAL SERVICE BOARD INCORPORATION
(AMENDMENT) BILL 1968**

DR TENG PIN-HUI moved the Second reading of:—“A Bill to amend further the School Medical Service Board Incorporation Ordinance.”

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read the Second time.

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

Clauses 1 and 2 were agreed to.

Council then resumed.

DR TENG PIN-HUI reported that the Bill before Council 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 the Third time and passed.

ADJOURNMENT

THE COLONIAL SECRETARY moved the adjournment.

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

NEXT MEETING

HIS EXCELLENCY THE GOVERNOR:—Council will now adjourn. The next meeting will be held on 13th March.