

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 28th February 1973****The Council met at half past Two o'clock**

[Mr PRESIDENT in the Chair]

PRESENT

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR CRAWFORD MURRAY MACLEHOSE, KCMG, MBE
THE HONOURABLE THE COLONIAL SECRETARY
SIR HUGH SELBY NORMAN-WALKER, KCMG, OBE, JP
THE HONOURABLE THE ATTORNEY GENERAL
MR DENYS TUDOR EMIL ROBERTS, CBE, QC, JP
THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR DONALD COLLIN CUMYNN LUDDINGTON, JP
THE HONOURABLE THE FINANCIAL SECRETARY
MR CHARLES PHILIP HADDON-CAVE, JP
THE HONOURABLE DAVID RICHARD WATSON ALEXANDER, CBE, JP
DIRECTOR OF URBAN SERVICES
THE HONOURABLE JAMES JEAVONS ROBSON, CBE, JP
DIRECTOR OF PUBLIC WORKS
THE HONOURABLE JOHN CANNING, JP
DIRECTOR OF EDUCATION
DR THE HONOURABLE GERALD HUGH CHOA, CBE, JP
DIRECTOR OF MEDICAL AND HEALTH SERVICES
THE HONOURABLE JACK CATER, MBE, JP
SECRETARY FOR INFORMATION
THE HONOURABLE DENIS CAMPBELL BRAY, JP
DISTRICT COMMISSIONER, NEW TERRITORIES
THE HONOURABLE PAUL TSUI KA-CHEUNG, CBE, JP
COMMISSIONER OF LABOUR
THE HONOURABLE IAN MACDONALD LIGHTBODY, JP
SECRETARY FOR HOUSING
THE HONOURABLE DAVID HAROLD JORDAN, MBE, JP
DIRECTOR OF COMMERCE AND INDUSTRY
THE HONOURABLE LI FOOK-KOW, JP
DIRECTOR OF SOCIAL WELFARE
THE HONOURABLE WOO PAK-CHUEN, OBE, JP
THE HONOURABLE SZETO WAI, OBE, JP
THE HONOURABLE WILFRED WONG SIEN-BING, OBE, JP
THE HONOURABLE MRS ELLEN LI SHU-PUI, OBE, JP
THE HONOURABLE WILSON WANG TZE-SAM, OBE, JP
THE HONOURABLE HERBERT JOHN CHARLES BROWNE, OBE, JP
DR THE HONOURABLE CHUNG SZE-YUEN, OBE, JP
THE HONOURABLE LEE QUO-WEI, OBE, JP
THE HONOURABLE OSWALD VICTOR CHEUNG, OBE, QC, JP
THE HONOURABLE ANN TSE-KAI, OBE, JP
THE HONOURABLE ROGERJO HYNDMAN LOBO, OBE, JP
THE HONOURABLE MRS CATHERINE JOYCE SYMONS, OBE, JP
THE HONOURABLE PETER GORDON WILLIAMS, JP
THE HONOURABLE JAMES WU MAN-HON, JP
THE HONOURABLE MRS MARY WONG WING-CHEUNG, MBE, JP

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR RODERICK JOHN FRAMPTON

Papers

The following papers were laid pursuant to Standing Order No 14(2): —

<i>Subject</i>	<i>LN No</i>
Subsidiary Legislation: —	
Road Traffic Ordinance.	
Road Traffic (Driving Licences) (Amendment) Regulations 1973	25
Civil Aviation Act 1949.	
Air Transport (Licensing of Air Services) (Amendment) Regulations 1973	28
Companies (Amendment) Ordinance 1972.	
Companies (Amendment) Ordinance 1972 (Commencement) Notice 1973	29
Dutiable Commodities Ordinance.	
Dutiable Commodities (Liquor) (Amendment) Regulations 1973	30
Fixed Penalty (Traffic Contraventions) Ordinance.	
Fixed Penalty (Traffic Contraventions) (Amendment) Regulations 1973	31
Telecommunication Ordinance.	
Rediffusion (Hong Kong) Limited (Amendment of Licences) Order 1973	32
Telecommunication Ordinance.	
Hong Kong Commercial Broadcasting Company Limited (Amendment of Licence) Order 1973	33
Television Ordinance.	
Television (Standards of Programmes) (Amendment) Regulations 1973	34
Labour Tribunal Ordinance 1972.	
Labour Tribunal Ordinance 1972 (Commencement) Notice 1973	35
Stamp Ordinance.	
Stamping and Denoting of Documents (Amendment) Regulations 1972 (Commencement) Notice 1973	36

Subject

Sessional Papers 1972-73: —

No 44—Hong Kong 1973: A review of 1972 (published on 28.2.73).

No 45—Annual Report of the Li Po Chun Charitable Trust Fund for the period 1st September 1971 to 31st August 1972 (published on 28.2.73).

No 46—Report of University and Polytechnic Grants Committee of Hong Kong July 1970 to June 1972 (published on 28.2.73).

No 47—Annual Summary by the Director of Education for the year 1971-72 (published on 28.2.73).

No 48—Annual Report by the Director of Public Works for the year 1971-72 (published on 28.2.73).

No 49—Report of the Establishment Sub-Committee of Finance Committee for the year 1972-73 (published on 28.2.73).

No 50—Report of the Public Works Sub-Committee of Finance Committee (1972 Reviews leading to the 1973-74 Programme) (published on 28.2.73).

No 51—Draft Estimates of Revenue and Expenditure with Explanatory Memoranda for the year ending 31st March 1974 (published in 28.2.73).

Estimates of expenditure referred to a committee of the whole Council pursuant to Standing Order No 54(3) and also referred to the Finance Committee of the Council pursuant to Standing Order No 60(8).

Government business**First reading of bills****APPROPRIATION BILL 1973****STOCK EXCHANGES CONTROL BILL 1973**

Bills read the first time and ordered to be set down for second reading pursuant to Standing Order No 41(3).

Second reading of bills**APPROPRIATION BILL 1973**

THE FINANCIAL SECRETARY (MR HADDON-CAVE) moved the second reading of: —"A bill to apply a sum not exceeding four

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

thousand four hundred and eight million, five hundred and forty thousand, nine hundred dollars to the Public Service for the financial year ending the 31st day of March 1974."

He said: —Sir, I move that the Appropriation Bill 1973, which was published in an issue of the *Gazette Extraordinary* at 2 o'clock today, be read the second time.

Sir, in last year's budget speech I slightly over-estimated revenue and under-estimated expenditure when I predicted that the accounts for 1971-72 would reveal a surplus of \$700 million. In the event, the surplus for the year was \$640 million compared with my prediction of \$700 million. Revenue at \$3,541 million was 15% up and expenditure at \$2,901 million was 18% up on the previous year. And that year, 1970-71, was the year in which revenue increased by 24% and broke through the \$3,000 million barrier; and in which expenditure increased by 21% to reach nearly \$2,500 million.

In last year's budget speech I estimated revenue for 1972-73 at \$3,704 million and expenditure at \$3,657 million to yield a surplus of \$47 million. Although the revenue estimate took account of the several tax concessions and the increased charges for off-street parking, I noted at the time that the expenditure estimate excluded known commitments to be met in 1972-73 amounting to some \$176 million in respect of pay adjustments for the civil service and subvented organizations and the revised scheme of public assistance. Thus, theoretically, I was budgeting for a deficit of \$129 million, but I did not seriously consider this to be a likely outcome. How right I was!

The revised estimates of revenue and expenditure as shown in the Estimates for 1973-74 laid today are put at \$4,588 million and \$3,866 million respectively, yielding a surplus of \$722 million. In absolute terms this is the largest surplus ever experienced, but as a percentage of total revenue (16%) it is the lowest since 1968-69. However, on the basis of daily receipts and payments recorded by the Treasury up to a few days ago, I predict that the surplus will be rather higher than this at \$900 million, to bring the surplus to 19% of total revenue, or slightly above the average of the three years ending 1971-72. But, at this stage, it is difficult to know precisely which individual heads and subheads of revenue and expenditure to adjust to bring the difference between the revenue and expenditure figures into line with the estimate of the surplus based on the Treasury's accounts, although we do know that the revised estimate for stamp duty is too low by about \$100 million thanks to an even greater volume of activity at higher prices on the stock exchanges than assumed when the revised estimate was prepared on 23rd January, prior to going to print.

Now, Sir, before honourable Unofficial Members begin to sharpen their verbal knives for the debate on the second reading of this bill and my Official colleagues begin to dream up ways and means of spending this money, I have a number of defensive points to make.

The revised estimate of revenue for this year at \$4,588 million represents a 30% increase on actual revenue in 1971-72. This is the highest rate of increase since 1949-50. The revised estimate exceeds my original estimate by \$884 million and, clearly, honourable Members are entitled to an explanation of what went wrong.

To begin with *recurrent revenue*: the revised estimate at \$3,876 million is \$456 million higher than the original estimate. Most of this is easily accounted for. *In the first place*, the revised estimate for stamp duty will exceed the original estimate by at least \$330 million, largely due to the persistently large volume of transactions on the stock exchanges. (And, as I have just said, even this figure—an excess of \$330 million—is almost certainly too low). Apart from duty on contract notes covering shares transactions, duty collected on assignments, bills of exchange and transfer deeds has also shown useful increases reflecting the buoyant state of the property and foreign exchange markets. *Secondly*, the revised estimate for earnings and profits taxes is expected to exceed the original estimate by \$38 million, for the increase on the revised estimate for 1971-72 is now expected to be 16% rather than the 11% I used in last year's budget speech. *Thirdly*, the revised estimate for fees, receipts and reimbursements is expected to exceed the original estimate by \$47 million, of which \$22 million is due to greater activity in the Companies Registry. *Fourthly*, I was guilty of under-estimating revenue from licences for drivers and vehicles by \$10 million, interest earnings by \$12 million and airport revenue by \$13 million.

As regards *capital revenue*: the revised estimate at \$712 million is no less than \$428 million higher than the original estimate. Of this increase, \$278 million is accounted for by the very high prices realized at this year's land sales and another \$122 million was received unexpectedly as a result of two leaseholders deciding to settle outstanding instalments on lots bought in earlier years in order to avoid interest payments. Another \$18 million is due to a higher than expected yield from estate duty.

The rate of growth of expenditure is such that, for the third consecutive year, actual expenditure is likely to exceed the original estimate. The revised estimate is \$209 million over the original estimate. This is partly accounted for by the cost of implementing the recommendations of the 1971 Salaries Commission and of introducing revised rates for public assistance; and partly by a certain amount of unforeseen expenditure arising, for example, from the rainstorms

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

in June. Furthermore, we have not restricted additional expenditure during the year on purely financial grounds: supplementary provisions approved up to 19th February amount to \$525 million to bring the total provision for the year to \$4,182 million, an increase of 14% on the original estimate. The difference between this figure and the revised estimate of \$3,866 million is the inevitable result of the time lag between authorizing expenditure and expenditure actually taking place. Another offsetting factor has been the level of expenditure on Public Works Non-Recurrent, which is likely to be \$75 million less than the original estimate, mainly because progress on major waterworks projects has not been up to expectation.

Before making the customary report to honourable Members on our likely financial position at the end of the current financial year, I should give notice of my intention to invite Finance Committee next month to appropriate \$500 million of this year's surplus under a new special expenditure subhead entitled "Mass Transit Railway Corporation: Equity Contribution" under Head 51 Miscellaneous Services. This sum would then be credited to a special fund established by resolution of this Council. The fund would appear as a liability in the Colony's Statement of Assets and Liabilities and withdrawals made for equity investment in the Mass Transit Railway Corporation. Until the fund is exhausted and has disappeared from the Statement of Assets and Liabilities, interest on the matching balance would accrue to General Revenue as would any cash dividends from the equity investment in the Mass Transit Railway Corporation. Although the capitalization of the Mass Transit Railway Corporation would have a high loan gearing, we intend that the equity element should consist of about \$1,500 million in the form of cash of which perhaps two thirds would be subscribed by the Government during the years of construction of Stages 1—4 and the other one third by the private sector later on. The Government's total equity position would also include expenditure incurred on the scheme to date and the value of Crown land assigned to the Corporation.

If Finance Committee approve supplementary provision of the sum I have suggested, the surplus this year carried forward to the General Revenue Balance will be reduced to \$222 million on the basis of the revised estimates for the year; or, more realistically, to \$400 million using my prediction of what the final outturn will be.

Sir, we entered the current year with a very strong fiscal reserve position: at 1st April, 1972 the General Revenue Balance stood at \$2,916 million to which we were then able to add \$913 million for the free surplus in the Exchange Fund, that is the excess of assets over 105% of liabilities. The funds available to us, therefore, for spending

if need be at 1st April last amounted to \$3,829 million, representing 105% of estimated expenditure for 1972-73 (\$3,657 million) or 110% of the unspent balance of approved Public Works Non-Recurrent projects at the time (\$3,477 million).

But external factors beyond our control weakened our financial position during 1972. Our fiscal reserves at 1st April 1972 amounted, as I have just said, to \$3,829 million of which about \$1,100 million was held with our bankers in Hong Kong and the balance was held abroad, mainly in sterling investments and formed part of the Colony's overseas reserves which amounted at that time to £ 768 million. The gilt edged market weakened in the middle of 1972 and prices have not yet recovered to the relatively high levels ruling at the end of March. This general hardening of interest rates in London means that, when the Accountant General revalues our investments at the end of this financial year, there will be, if the market does not improve before then, a book loss of about \$190 million compared with last year's gain of \$72 million.

But, for two reasons, a much more serious factor was the floating of sterling. *First*, the resultant changes in the foreign exchange value of the Hong Kong dollar have caused an additional reduction of \$295 million in the book value of our investments. Thus the General Revenue Balance, before taking into account this year's surplus, becomes \$2,431 million. *Secondly*, last year in estimating that our total fiscal reserve position at 31st March 1972 would be about \$3,800—\$3,900 million, I took into account the free surplus of \$913 million in the Exchange Fund. However, the weakness of the gilt edged market and our obligation to make compensation payments to the banks under the Exchange Fund Guarantee Scheme for the losses in Hong Kong dollar terms incurred by them on their sterling investments means that the whole of this \$913 million has been wiped out.

Thus I estimate that our fiscal reserves at the end of this financial year will amount to \$2,831 million, a decline of \$998 million on the position at 31st March 1972, but remember that \$500 million for the Mass Transit Fund is to be charged against this year's revenue. This estimate of our fiscal reserves at the end of this year represents 64% of estimated expenditure in 1973-74 (\$4,409 million) or 61% of the unspent balance of approved Public Works Non-Recurrent projects (\$4,615 million). I do not regard these much reduced percentages with composure.

So much for our present financial position. But, before coming to next year's estimates, I must review our economic prospects as I see them. Among the several papers laid before honourable Members today are a technical study of the Gross Domestic Product for the six years 1966-71 prepared by the Census and Statistics Department using the expenditure method and a booklet entitled Economic Background

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

to the 1973-74 Budget dealing mainly with the period 1966-72 in terms of the overall performance of the economy, foreign trade, investment, employment and money and prices. The GDP series will be revised and updated annually and laid on budget day and, eventually, the expenditure method of calculation will be cross-checked with detailed estimates of production and income. If honourable Members and the public at large find the economic background booklet helpful, we shall endeavour to publish it annually on budget day too: this year's version is something of an experiment and we would welcome suggestions for its improvement.

One advantage of laying these two papers on budget day is that I can take the past largely as read. This permits me to concentrate on predicting the future, a dangerous pastime and I know that honourable Members will find it difficult to be charitable when I am proved wrong.

In last year's budget speech I predicted that the Gross Domestic Product would increase in 1972 by about 10% (in money terms), that is by about the same percentage as in 1971. In fact, I was not optimistic enough. The Census and Statistics Department's provisional estimate for Gross Domestic Product in 1972 is just short of \$23,000 million, a 17% increase on 1971. Imports grew by only 7%, but domestic exports grew at the same rate as in 1971 (11%) and so did total exports (13%) and fixed capital formation grew by 17%. Moreover, the levels of activity in the finance and services sectors rose substantially.

Turning now to 1973, I predict that the Gross Domestic Product will again increase by about 17% to nearly \$27,000 million. This is itself based on several predictions: the first is that the value of domestic exports will increase by about 10% and total exports by about 13% and that imports will increase by 8% (rather more than the 7% experienced in 1972). The second prediction is that gross domestic capital formation will increase by 23% to nearly \$7,000 million: this will be about 25% of the predicted GDP, or roughly similar to 1971 and 1972 and a much healthier proportion than the average of 18% in the previous three years 1968-70. The third prediction is that private and Government consumption expenditure will both increase by about 11%.

The Census and Statistics Department is at present doing further work on the estimates of Gross Domestic Product for the years 1966-72 with a view to establishing the real rate of growth we have achieved, that is to say the rate of growth after discounting price increases. It seems that a little more than half of the average annual growth rate of 13% over this period represented real growth. Thus real incomes

have increased by about 7% annually and as population has increased by only 2% annually, real income *per capita* has increased by around 5% a year.

In the last 12 months or so, we have witnessed some extraordinary events in the monetary sector: the money supply rose by much more than the Gross Domestic Product—in fact by 44% compared with 17%. The factors lying behind this are complex, but probably the most important were the effects flowing from the floating of sterling in June 1972 and the subsequent linking of the Hong Kong dollar with the US dollar. One of the consequences of these two related developments was that large balances which would, hitherto, have been invested overseas were retained in Hong Kong. The banks also increased their lending by \$5,900 million or by 50% to \$17,700 million; and the proportion of their loans and advances to deposits increased from 63% at the end of 1971 to as much as 72% at the end of 1972 on a much higher level of deposits (\$24,600 million, representing a 31% increase on December 1971). Specified liquid assets as a percentage of total deposits fell from 53% to 46%, but this is still well above the statutory minimum of 25%. A substantial proportion of the increase in advances of \$5,900 million was for trading on the stock exchanges and to finance land and real estate transactions. Partly as a result of this expansion of bank credit, prices of shares and property have been driven up to very high levels.

In the course of the coming year I would hope, and expect, that the rise in the money supply will be slowed down and I am currently examining ways in which this might be encouraged within the framework of Hong Kong's normal monetary arrangements. If so, this should help to ease the pressure on the property and stock markets. In this context, I welcome the recent announcement by the Exchange Banks' Association of an increase in deposit rates and in the rate for loans against shares.

One point however, should be made: the somewhat frenetic activity on the stock exchanges and in the real estate market has not had a great deal of effect on the normal workings of the economy. The consumer price index increased by 5% in 1972, only 1½% more than in 1971, the same as the increase in 1969 and 1% less than in 1970. As consumer prices are heavily influenced by imports, especially imports of food, this can only be described as a good performance considering that it took place over a period that saw the Smithsonian settlement of exchange rates and the floating of sterling. But let me say this: whilst I can see no evidence that the manufacturing or any other sector of the economy is being hindered by a shortage of credit facilities, I would not wish to sound complacent about the implications of some aspects of present trends for the longer term growth prospects of the economy as a whole.

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

At this point I can already hear some honourable Members thinking "But what about rents?" Here I must admit that rents have not been anything like as stable as other prices. This has resulted from a shortage of accommodation in relation to demand and we are in this respect still suffering from the slowing down of construction activity in the late sixties which stemmed from the events of 1965-67. From now on, new accommodation will be coming onto the market at a more rapid rate and this should lead to a slowing down of rent increases. This can be seen in the case of industrial rents where the average increase in 1972 was less than 3½% due to a good supply of additional floor space becoming available during the year. In the case of private domestic accommodation, there has been no easing of the level of rents and this, in some measure, is due to completions being fewer than expected in 1972. The prospect for 1973 is for 30,000 units to be completed (compared with 20,000 in 1972 and 12,000 in 1971) and I think that the level of rents in this sector should at least stabilize in the course of the coming year.

Finally, there is the question of our foreign exchange position and reserves. I need not in this speech repeat what I said on this subject on 13th December last and I shall await another opportunity to offer honourable Members an assessment of the events of a fortnight ago, but I will say this: in a world of currency and trade uncertainties Hong Kong can only live dangerously; so, to survive, we must maintain large international reserves as a cushion against possible trouble; and, so far as is practicable, we should spread our risks. But the history of the past 15 months or so has demonstrated that the only practicable alternative home for the greater part of our overseas reserves, the US dollar, is as vulnerable to currency uncertainties as is sterling. Again, we must recognize, in conditions where we have been earning very high interest rates on the investment of our reserves, that these high rates are only paid because of the greater risks of inflation and of changes in exchange rates than was the case in the past. So, to that extent, our reserves were artificially inflated before the floating of sterling by the high interest rates that they had earned over the four and a half years since the devaluation of sterling in November 1967.

Sir, it is against this fairly hopeful economic background that the Draft Estimates of Expenditure must be considered. To deal first with the presentation of the Estimates: for the past three years, the Finance Branch has been concentrating on building up the interleaved Memorandum Notes. This year the right hand pages of the Estimates have been re-designed to make easier reading and the Government Printer, to whose staff I am once again greatly indebted, has re-set them on

slightly smaller sheets. The result is a "new look" which I hope will be acceptable to honourable Members.

Of greater importance, in the sense that they have budgetary significance, are the changes in the presentation of the estimates of special expenditure. These changes are explained in full in paragraphs 13 to 15 of the General Memorandum Note on page 31. In previous years, in respect of departmental special expenditure, we have sought provision for each item of equipment regardless of whether the full amount would be spent during the year. In practice, extended delivery dates have caused expenditure to be postponed; and, in consequence, over the past six years, departmental special expenditure has been about two-fifths underspent. To achieve more accurate estimating, this year we have added a "Commitment" column to indicate the total amount of money required and have included in the "Estimates 1973-74" column only sufficient provision within the commitment to cover expenditure in the financial year. In approving the estimates of the amounts required during the year, it will be assumed that honourable Members have also accepted the commitments behind them. Certain consequential changes to the powers to authorize supplementary provision delegated to the Governor will be necessary, to enable provision to be increased up to the full amount of the commitment should this prove necessary, without bothering Finance Committee. With Your Excellency's permission, I intend to introduce an appropriate resolution into this Council next month.

The Estimates are again accompanied by a simple budget booklet, in both English and Chinese, designed by the Information Services Department and an abstract containing the opening statements on our financial position (pages 3 - 8 of the Estimates) and the statistical analyses of revenue and expenditure contained in the green pages at the end of the Estimates.

For the preparation of the Estimates I must once again express my deep appreciation to all members of the Finance Branch who have worked long hours for many weeks to get them ready on time and to heads of departments and their staff for their very willing co-operation.

The Draft Estimates provide for expenditure of \$4,409 million. This amounts to an increase of \$752 million, or 21% over the original estimate for 1972-73 and \$543 million, or 14% over the revised estimate. In other words, we are intending to maintain the trend of substantial annual increases since 1969-70 to which I referred in my budget speech last year; and I think we can still afford to do so without modifying our fiscal policies with all the risks that that would entail for the maintenance of a high growth rate of the economy.

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

At \$3,040 million, the increase proposed for *recurrent expenditure* is \$299 million, or 11% more than the revised estimate for the current year. Average recurrent expenditure in the three years ending 1970-71 was \$1,685 million and will rise to \$2,642 million in the three years ending 1973-74, or by 57%. This compares with 52% derived from the comparison between the three years ending 1969-70 and the three years ending 1972-73.

In last year's budget speech, I predicted that recurrent expenditure in 1972-73 would reach "the dangerously high level" of 73% of recurrent revenue. I said we should aim to keep 30% of recurrent revenue available to finance the deficit on capital account as defined in Appendix III of the Estimates. When the accounts are closed for this year, I expect the proportion to be a healthier 69-71%. Recurrent expenditure provided for in 1973-74 is also 71% of estimated revenue and so I am hopeful that we are hitting our aim at keeping 30% of recurrent revenue available for capital expenditure.

Two elements have been removed from the Draft Estimates for 1973-74. The *first* is provision for expenditure on Annually Recurrent Other Charges for the Urban Services Department, other than for its New Territories Division. I estimate that, had the Urban Council not been financing its own expenditure in 1973-74 from the new Urban Rate, an additional \$17 million would have to be added in.

The *second* element is \$22 million in respect of recurrent expenditure on resettlement and low cost housing, now to be financed largely from the Development Loan Fund as a result of broadening the scope of the Housing Authority. I should interpolate at this point that the complexities involved in putting together the different expenditure systems of resettlement and low cost housing hitherto met from General Revenue, and of Housing Authority estates hitherto financed from the Development Loan Fund, have not yet been fully resolved. The main difficulty is that, while rents from Housing Authority and low cost housing estates have been designed to cover full costs (that is to say, recurrent expenses and amortisation and interest, on capital costs, including land at concessionary values), rents from resettlement estates hardly cover recurrent expenditure; and the Resettlement Department has been undertaking certain activities, such as squatter clearance and control. In these circumstances, the new Housing Authority will need some direct help from General Revenue, at least for some years to come. I have allowed for this by including \$64 million for Annually Recurrent Other Charges under Head 39 Housing Department.

To complete the picture, I should remind honourable Members that the staff for the Urban Services Department, as the executive arm of the Urban Council, and of the Housing Department, as the executive

arm of the Housing Authority, will be on the establishment of the public service and paid from General Revenue. Provision for their salaries is thus included in the Estimates, against reimbursements. I should sound, I think, a word of warning here against the proliferation of semi-independent bodies financed from hypothecated revenue. The small size of Hong Kong and its concentrations of people are conducive to a centralized budgetary and payments system without impeding development. Quite the contrary: central financial control allows for maximum flexibility in the use of financial resources. Splitting off certain Government activities to place them under the responsibility of statutory bodies with their own sources of revenue tends to reduce this flexibility.

As for the current year, the two main elements in the increase of \$299 million in recurrent expenditure for 1973-74 are civil service emoluments (\$142 million) and recurrent subventions, including grants to the universities and the Polytechnic (\$88 million).

The *civil service* is likely to start the coming financial year with an establishment of almost 105,000 posts (after eliminating double-counting of supernumerary posts held against permanent ones). This represents a 6.5% increase on the establishment of a year ago. Two thirds of the increase was approved by supplementary provision during the current year. The remaining one third of the increase is in respect of posts now before most honourable Members for the first time, although the Establishment Sub-Committee of Finance Committee have, as usual, scrutinized them with care. The five year moving average of the growth of the approved establishment starting with the five years ending 1964-65 as a base, after dropping from 6.3% to 4.7% in the five years ending 1970-71, is now clearly on the increase, having risen to 6.7% for the five years ending 1973-74.

The cost of the establishment for 1973-74, after taking the recruitment situation into account, is \$1,371 million, an increase of \$142 million, or 11.5%, over the revised estimate for this year. Last year, I predicted that Personal Emoluments as a percentage of total recurrent expenditure would rise to 50% or so if the recommendations of the 1971 Salaries Commission enabled all vacant posts, accounting for 10-11% of the establishment, to be filled. In fact, in terms of both the revised estimates for 1972-73 and the Draft Estimates for 1973-74, expenditure on Personal Emoluments is estimated at 48% of recurrent expenditure. The proportion of vacant posts, I fear, continues at 11% and, in an expanding service, the system of incremental scales means that the actual annual cost tends to be less than a costing based on the mid-points of the scales. On the basis of mid-points, the theoretical cost of the public service at a full establishment would be \$1,542 million, which would bring expenditure on personal emoluments up to 51% of total recurrent expenditure.

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

Compared with the moving averages for the five years ending 1964-65, 1970-71 and 1973-74 I have just quoted for the growth of the civil service (6.3% to 4.7% to 6.7%), the moving averages for increases in the cost of the service are 13.4% to 11.8% to 13.9%. These figures speak for themselves.

The total provision of \$737 million required for *subventions* represents an increase of \$88 million, or 14%, over the revised estimate for this year. Nearly a quarter of annually recurrent expenditure goes to assist non-Government bodies to provide services of various kinds including universities, schools, hospitals and other social services, and economic services including the Productivity Centre, the Trade Development Council and the Tourist Association. The growing importance of subventions has caused us, stimulated also by the comments of the Director of Audit, to look at the methods of administering them. An interdepartmental working party has examined medical subventions and my honourable Friend the Director of Medical and Health Services has introduced administrative improvements in consequence. So as to improve the level of assistance, we have also changed the way in which hospitals subvented on a cost-per-bed basis are assisted as explained in the Memorandum Note on Head 76 Subventions: Medical. In the coming year, the working party will be looking at social welfare subventions and, if time permits, education subventions in the context of the unified code of aid to be introduced for the coming academic year. For some time now, I have been concerned at the amount of work involved in processing social welfare subventions by the Social Welfare Department, by the Social Welfare Advisory Committee and by the Finance Branch of the Secretariat. I have put certain proposals for changing present procedures to my honourable Friend the Director of Social Welfare. These proposals should reduce the amount of work involved and I hope to be able to put them to Finance Committee during the year with a view to introducing them in time for the Draft Estimates for 1974-75.

At \$1,369 million, the estimate of capital expenditure for 1973-74 is \$244 million higher than the revised estimate for 1972-73 and is getting close to the guideline figure I have in mind for annual capital expenditure in the mid and late 70s, namely, \$1,600 million (at today's prices) of which one quarter can probably be financed by capital revenue leaving three quarters (the deficit of \$1,200 million) to be financed by the surplus on recurrent account.

At 1st April 1973, the outstanding balance on approved expenditure for Public Works Non-Recurrent is likely to be \$4,615 million. Of this commitment, \$1,050 million is required for expenditure during the year, which is \$284 million more than the revised estimate for the

current year. The largest increase in absolute terms is in respect of waterworks items, as a result of delayed payments on the High Island Water Scheme and expenditure on the single-purpose desalter, although there is an over-provision here amounting to \$46 million in respect of that part of expenditure on the latter that will be financed from a loan from the Asian Development Bank. In relative terms, the greatest increase is in respect of Public Works Non-Recurrent: Headquarters, largely as a result of greater expenditure on compensation for surrenders and resumptions of land in respect of the Mass Transit Railway, and the urban renewal and improvement schemes.

The outstanding balance on other capital expenditure, that is capital expenditure other than Public Works Non-Recurrent, at 1st April 1973 is likely to be \$668 million. Of this commitment, \$319 million is required for expenditure in 1973-74, representing a decrease on the revised estimate for 1972-73, largely because the latter unusually includes special expenditure for back pay arising from the recommendations of the 1971 Salaries Commission and because of the lower level of expenditure on the Universities building programme.

Sir, I shall be considering our growing commitments in respect of capital expenditure further in a few minutes but, before doing so, I must take a look at the actual content of the Draft Estimates. The detailed justification for the provision sought is contained in the Memorandum Note for each head. The heads of expenditure are designed to facilitate control. They do not provide a clear picture of the pattern of Government spending. This is more easily gleaned from the functional analysis in Appendices VI to XIII to the Estimates. Most of these tables span the 15 years 1962-63 to 1976-77, that is to say they cover 10 years of actual expenditure, two years of estimated expenditure and three years of forecast expenditure. Next year we shall have to extend them to include expenditure that does not go through the public accounts even though it is financed from public funds.

In 1962-63, 14% of total expenditure was on *education*. By 1972-73 the proportion had increased to 19% and is estimated to remain at that level for 1973-74. The factors contributing to this startling change are universal and free primary education, the expansion of secondary education (as explained in some detail in the Memorandum Note on Head 36 Education Department), and the establishment of a second university and of the Polytechnic. For the future, there will be expansion of the capacity of the Polytechnic to meet the approved targets, four additional technical institutes and the further revision now being considered for the targets for secondary education to which you, Sir, referred in your speech opening the current session of this Council. As the expenditure involved in a revised programme of secondary education has yet to be determined, it has not been included in the

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

projection forward to 1976-77. But my very tentative estimate is that to achieve places for all in the 12-14 age group and for 40% in the 15-16 age group would involve additional capital expenditure of \$500 million and would, when fully realized, add a further \$130 million at present day prices to the annually recurrent bill for education.

Sir, you also referred to *social welfare*, and I must stress social welfare, not the whole group of social services. Expenditure on social welfare amounted to 1.3% of total expenditure in 1962-63. The general increase in the Government's activity in this field (including the introduction of public assistance and legal aid, and increased subventions to voluntary organizations) raised the proportion to 2.3% by 1972-73 and there is a further slight increase to 2.4% for 1973-74. For the future, there is expenditure on the new disability and infirmity allowances, which will add a further \$12 million to expenditure in 1973-74 and which was approved after the cut-off date, 17th January 1973, for the Estimates.

On the face of it, *housing* appears to be assuming a less important place in expenditure: in 1972-73 it accounted for 5.8% of the total compared with 11.5% in 1962-63. This is because the Housing Authority has used income from rents from its estates to finance capital works without such expenditure passing through the Colony accounts. Nevertheless, with the increasing emphasis on public housing, expenditure in 1973-74 is estimated to increase to 6.7% of the total. And if we add back the expenditure of the Housing Authority on capital works financed from its own sources (total capital expenditure on housing was \$139 million in 1962-63), it is likely to be \$258 million in 1972-73 and is estimated to be \$350 million in 1973-74. In your speech opening the current session of this Council, Sir, you referred to a target of sufficient permanent self-contained accommodation for every family in Hong Kong. You thought the total requirement for *public* housing, in addition to the contribution of the private sector, would involve housing a further 1.8 million people over the next 10 years. This requirement has now been approved as a basis for planning and development. I estimate the capital cost of housing this number of people at \$8,500 million at today's prices. Of this amount, \$3,200 million is in respect of blocks of flats (including expenditure on those now under construction) and \$5,300 million for the necessary infrastructure. Housing and related engineering projects amounting to \$3,600 million are already in Categories A and B of the Public Works Programme.

Expenditure on *medical and health services* has assumed greater or lesser importance in terms of expenditure as a whole, depending on the capital projects of the moment. But now that we are close to

achieving our target of 4.25 beds for every 1,000 persons, the proportion of expenditure on medical and health services is forecast to level off at about 10% of total expenditure in 1973-74. This forecast allows for the revised policy on hospital subventions explained in the Memorandum Note on Head 76 Subventions: Medical, and for the consequentially higher level of expenditure on such subventions. I should add that to make maximum use of subsidized beds under the new arrangements, it will be necessary to raise fees in Government hospitals nearer to those to be charged in subvented hospitals. My honourable Friend the Director of Medical and Health Services will be putting forward his proposals to this end during the year.

Expenditure on *law and order* in 1962-63 accounted for 9.1% of total expenditure and is estimated to account for 8.6% in 1973-74. This is in spite of the progress that will be made towards completing the substantial programme of buildings for the Police and in spite of an additional \$14 million arising from increasing use of the Auxiliary Police Force. Expenditure on the regular Force will be appreciably higher when the present vacancies are filled. Meanwhile, a further \$20 million will be required in 1973-74 for the recently approved additional duty allowances, provision for which has not been included in the Draft Estimates. Also, \$13 million will be required for a radio network for patrol officers and certain operational units to increase the effectiveness of the present strength of the Force. If the Force were fully up to strength, and with the additional expenditure I have mentioned and that on the Cadet School taken into account, expenditure on law and order would amount to about 10% of total expenditure in 1973-74, rather than the 8.6% I forecast.

All these expenditure programmes involve substantial capital expenditure. I cannot produce a very precise total figure, but honourable Members will wish to have even an order of magnitude of what they will involve over the next ten years. *First*, there is \$4,615 million for approved expenditure for Public Works Non-Recurrent, that is to say, expenditure in respect of items in the Public Works Programme upgraded to Category A and miscellaneous items approved by Finance Committee gathered together under Head 63 Public Works Non-Recurrent: Headquarters. *Secondly*, there are those items in Categories B and C of the Public Works Programme for which planning has started or will start in 1973-74 or later. In such circumstances, it is difficult to put a price to them. But in terms of those items to be financed *directly* from General Revenue, at present day prices expenditure of the order of \$3,700 million is likely to be involved. *Thirdly*, it is necessary to add in expenditure on housing in the next 10 years to be financed from the Development Loan Fund and from income from rents. I estimate such expenditure, again at current prices, will be about \$2,100 million, to which should also be added about \$4,200

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

million for the infrastructure for the new towns not yet in Categories A and B of the Public Works- Programme. Finally, if one adds in another \$500 million for education, another \$500 million for the Mass Transit Fund (making \$1,000 million in all), \$1,000 million for further water projects and \$3,000 million for likely other capital expenditure over the next 10 years, it becomes apparent that the capital expenditure on our policies as they are likely to take shape is of the very rough order of \$19,500 million. This is a very formidable figure and it exceeds ten year's worth of expenditure at \$1,600 million a year, but only by an amount not much greater than our likely fiscal reserves at the end of the current financial year.

The Revenue Estimates anticipate collections of \$4,722 million, representing an increase of 3% over the revised estimate for 1972-73.

To head off accusations that I am under-estimating revenue for next year, I hasten to add that the reason for the apparently small growth is the vagaries of yield from items of capital revenue. My estimate here is \$447 million which, although 57% higher than my original estimate for 1972-73, is 37% less than the likely result for the current year. The reduction is due to two factors. *First*, revenue in 1972-73 was boosted by the unexpected \$122 million, to which I have already referred, in respect of settlement of outstanding instalments of land premia. *Secondly*, because of clearance difficulties and the priority which must be given to the Mass Transit Railway and the Housing Authority, uncertainty surrounds the amount of land likely to be available for sale during 1973-74. Present indications are that, in the urban area, about 175,000 square feet of non-industrial land and 80,000 square feet of industrial land will be offered for sale during the first half of the year, compared with 253,000 square feet of non-industrial land and 114,000 square feet of industrial land sold this year. In the New Territories about 485,000 square feet of non-industrial land and 315,000 square feet of industrial land will be offered for sale during the first half of the year compared with 123,000 square feet of non-industrial land and 90,000 square feet of industrial land sold this year.

However, the outlook is not all that bleak: over the next two years the land to be made available in the lay-out areas in the New Territories by exchanges will be about 2-3 acres for non-industrial use and 20 acres for industrial use. The land sale programme in the new towns at Sha Tin and Castle Peak (Tuen Mun) will depend on three factors: *first*, on the progress of the respective road links with Kowloon *via* the second Lion Rock Tunnel and the improved Castle Peak Road, both of which are in the Public Works Programme; *secondly*, on the vast programme of public housing, which must provide for the workforce for industries moving to the new towns; and *thirdly*, on the

practicability of forming land and providing the necessary services. Ultimately 290 acres of land for private residential and commercial development and 170 acres for industrial use will be available at Sha Tin and 170 acres and 200 acres respectively in the Castle Peak area.

As from 1975 about 40 acres will be available for sale or exchanges on Tsing Yi, of which 10 acres will be for residential and commercial development and 30 acres for industrial use. In due course, more land will also be available for sale in Pok Fu Lam and Aberdeen. But the timing of sales must depend on the new link between the widened Pokfulam Road and Connaught Road West and on the Aberdeen Tunnel. Both projects are now only in the investigation stage.

The estimate of recurrent revenue is \$4,275 million, an increase of 10% on the likely outturn for the current year. If the Urban Council was not being financed independently through the new Urban Rate and if rents from resettlement and low cost housing were not now being credited to the Housing Authority, the additional revenue thereby accruing to General Revenue would bring the increase to 13%.

Details of the other changes are included in the Memorandum Note on the Revenue Estimates on pages 19-25 of the Estimates. I estimate that yield from earnings and profits taxes will increase by \$215 million on the revised estimate for 1972-73 or by 20%, which is in line with the estimate of 17% for the growth of the Gross Domestic Product in 1972. The two other substantial increases in relative terms are in respect of revenue from the airport and from water charges. I should also add that, although the increase for 1973-74 is not particularly dramatic, income from interest on investments at \$248 million will continue to be significant at 6% of recurrent revenue. Finally, honourable Members should note that I have not assumed that the yield from stamp duty on contract notes will continue at the exceptionally high levels of recent months. Monthly turnover more than doubled from \$4,500 million in the six months ending September 1972 to \$10,000 million in the five months ending February 1973. Perhaps I should have assumed continuing buoyancy at this level; but I haven't.

With total expenditure of \$4,409 million and revenue of \$4,722 million the Estimates show a surplus of \$313 million. But this figure does not take into account commitments amounting to \$73 million: for disability and infirmity allowances (\$12 million), Police additional duty allowances (\$20 million), a new Police radio network (\$13 million), the United Christian Hospital (\$5 million), the first stage of an expansion of cleansing services in the New Territories (\$11 million), possible temporary accommodation for the Police Cadet School (\$3 million) and about \$9 million for teachers' salaries should the Morgan Committee's recommendations be implemented (bringing the total cost of revising teachers' salaries to nearly \$60 million in the coming year). After

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

offsetting the over-provision of \$46 million for the desalter, the surplus is reduced to \$286 million. I do not think that, in present circumstances, we should budget for any smaller surplus than this. Quite the contrary: I think we should cream off a much more substantial sum on fiscal and monetary grounds.

Before developing this unpalatable theme further, I must take a quick look at trends in the make up of the Revenue Estimates: I would draw honourable Members' attention to the very interesting analyses in Appendices IV and V. Last year I drew attention to our deliberately growing dependence on direct taxation. This trend has inevitably been upset this year by the substantial increase in the yield from indirect taxation through stamp duties. But stamp duty apart, among the various other sources of indirect taxation, income from rates becomes less significant with the removal of the yield from the Urban Rate; and the proportion of the yield from excise duties to the whole continues to fall as a result of relieving from duty last year various hydrocarbon oils with a bearing on industrial costs and on the cost of living.

I am less satisfied with trends in respect of revenue other than from taxation. The relative significance of revenue from licences and other fees is declining. Much greater attention will have to be paid during the next financial year to bringing licences and fees into line with present day costs.

In the longer term, I would like to see the balance between direct taxation and indirect taxation, on the one hand, and all other recurrent revenue (mainly fees, charges, reimbursements and interest earnings), on the other, around 65:35. I am prepared to predict that, for the next few years, recurrent revenue will increase at a sufficiently fast rate, say 12-15%, to finance total expenditure including the deficit on capital account (and, of course, the programmes I have just described in some detail). But I could easily be wrong, so let us maintain a strong fiscal reserve position.

Sir, I have been at pains to spell out the expenditure implications on recurrent and capital account of approved and projected policies and programmes. Taken together with our fiscal reserve position, I do not consider that they themselves justify any tax increases in the coming year. However, even when it is safe to do so, we should never allow expenditure considerations alone to dictate fiscal policies. There are five other considerations too, namely:

- (a) the possible need for reform of the structure of our system of taxes and charges;
- (b) the desirability of affording relief in particular circumstances to a particular class of taxpayer;

- (c) the width of the base of the system and the balance of the system as between one type of levy and another;
- (d) the desirability of adding to our fiscal reserves in times of a buoyant level of economic activity and hence of revenue yields. (Such reserves would have a vital role to play in maintaining the level of public expenditure in a period of recession); and
- (e) the possible need to achieve certain policy objectives *via* fiscal measures.

I have a number of proposals for honourable Members' consideration under each of these five headings, some involving increases in taxes and charges, some involving decreases; but none of the increases is designed, at least at this stage, to bring in extra revenue for the purpose of financing immediate public expenditure which could not otherwise be contemplated.

In working out this package of proposals I have borne in mind that compulsory contributors to public revenue in Hong Kong fall into nine groups. Five groups pay direct taxes, namely:

- (i) Profit takers from business undertakings
- (ii) Owners of property
- (iii) Employees in receipt of salaries
- (iv) Lenders in receipt of interest payments
- (v) Inheritors of property and other assets.

Three groups pay indirect taxes, namely:

- (vi) Occupiers of property
- (vii) Buyers of certain goods and services
- (viii) Dealers in certain types of transactions.

And then there is a group covering all but a small proportion of the community which pays charges as

- (ix) Users of public assets and services (it being fundamental to our low tax system that charges are raised for certain public services designed to meet the requirements of all, but with remissions for those unable to afford the full cost).

That is to say, in considering what package of fiscal changes and reforms to present to honourable Members, I have tried to have regard not only to their practicability in legal and administrative terms and the relative urgency of meeting non-fiscal objectives, but also to the particular needs of different groups of taxpayers.

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

To begin with tax reform, by which I mean changes designed either to make the burden of the system of taxes and levies more equitable, *or* to simplify the administration of the laws under which these taxes and levies are raised, *or* to increase the efficiency of their administration in the sense that higher yields are derived from the same rates of charge.

I have three proposals: the *first* is designed to afford relief on grounds of equity to some members of the salaries tax paying and personal assessment class and to simplify tax administration. Last year I was concerned with the disproportionate share of the tax burden borne by those in the gross income range \$40,000 to \$80,000. So I proposed that the schedule of progressive rates should be stretched in such a way as to postpone the point at which the standard rate on gross income applies. This Council subsequently passed appropriate amendments to the Second Schedule of the Inland Revenue Ordinance to increase the number of platforms of net chargeable income, each of \$5,000, from 10 to 12 and applying a multiple of 2½% to each platform, at an eventual cost to the revenue of \$9.5 million a year.

This year I began by giving consideration to the possibility of retaining personal allowances at all levels of income charging only net chargeable income, but it is apparent that this would result in a considerable reduction of tax for everyone, including the single person. No-one could argue that the single person pays too much tax at the moment and, in my opinion, with our low standard rate of tax, a scheme for the retention of personal allowances throughout any range of income would cost too much in terms of "forgiven" tax, and revenue would be unacceptably reduced. So reform along these lines must await an increase in the standard rate which, I trust, is some years away. In any case, the standard rate of tax on gross income is the normal basis of charge to tax in Hong Kong though there are provisions to relieve hardship and reduce the full impact of that charge.

I then turned to a consideration of whether the present incidence of tax is equitable generally and whether the present selective allowances are suitable to our low tax structure. I think the answer to both questions is no. I can best make out the case for the package of proposals which I propose to put to honourable Members by beginning with these selective allowances.

Lower income relief was introduced with effect from the year of assessment 1970-71. It was an attempt to give a graduated increase of personal allowance to persons in low income groups in order to relieve part of the tax on their net chargeable incomes up to \$7,200 in excess of allowances, but with a full cancellation of tax where this excess is

only \$3,600 or less. Thus an individual qualifying for this relief has a personal allowance of \$10,600.

The defect of this lower income relief is that it has the effect of relieving twice as many single persons (who do not really need it) as married persons in the net chargeable income area concerned. This is a statistical fact. An increase in the personal allowance of \$7,000 would be more effective in that it would relieve the burden of many more married taxpayers and would result in a saving of administrative time and effort. Although the personal allowance is \$7,000, the highest effective allowance for a single person is \$10,600 and I would suggest that the time has come to consider increasing the personal allowance for everyone to \$10,000 and abolishing the lower income relief: and I so propose.

For the single person the increased personal allowance does not completely offset the cancellation of the lower income relief. But I am not perturbed at this situation because it will, in the main, concern new single taxpayers coming into the net for the first time. As taxpayers previously in this range will have by now advanced to the higher platforms, it is not a conscious attempt to increase the charge on existing taxpayers. Furthermore, the effective rate of tax on those concerned spreads from nil to 1.3% or, in absolute terms, up to a maximum of \$14 per month.

Taking this new rate of personal allowance and taking for granted that the single person should enter the gross income zone where the standard rate applies at about the same point of income as at present (\$69,000) and no later, I found that this figure of \$69,000 (\$59,000 net) is not one which lends itself to progressive scaling to achieve the same tax charge at this level (\$10,350).

My proposal, therefore, is to adjust the point at which the standard rate of 15% on gross income applies to a gross income of \$70,000 with tax of \$10,500. Simplicity suggests five platforms of \$10,000 each with tax intervals of 5% rising to 25% on the fifth platform and 30% on net chargeable income above \$50,000. The limitation of proviso (b) to section 13 of the Inland Revenue Ordinance would continue to apply; that is to say, the tax payable should not exceed the standard rate on gross income.

This proposal satisfies the criterion that with a low standard rate of tax there is no case for a slow rate of progression up to the standard rate. The number of platforms before the 30% rate applies is reduced from 11 to 5 and the below standard rate platforms from 5 to 2. So a measure of reform would be achieved, without departing too much from the present curve of incidence.

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

The effect of the *working wife allowance* is that a man with a working wife and no children gets allowances of \$17,000, which is \$1,000 more than the allowances enjoyed by a man who fully supports a wife and one child. Where family allowance circumstances are the same, this advantage to the married man with a working wife over the man whose wife does not work remains until both are paying tax at the standard rate. A married man fully supporting a wife and one child pays tax at the standard rate on a gross income of \$87,000 or more, but if the wife is working he does not pay at the standard rate until the joint gross income is \$93,000. The married man with a wife not working and six children pays the same tax as a married man with three children whose wife is working.

To base an allowance on the concept of the additional cost of maintaining the home in special circumstances of personal choice offends, in my opinion, the principle that, in a system of taxation, you cannot vary allowances according to the condition of, and the standard of living expected or enjoyed by, different classes of taxpayers. The working wife allowance gives, by way of extra allowance, relief for expenditure that is specifically forbidden from deduction by the Ordinance itself, that is to say, domestic and private expenditure.

In the circumstances, to rectify this inequitable situation, the least I can do is to propose that the wife who cannot work should have the same benefits as the wife who can. At present there is an allowance of \$7,000 for a wife and another \$3,000 if she works. I propose that the basic allowance for a wife in *all* cases be increased to \$10,000, the same as the new personal allowance, and that the special extra allowance for a working wife be cancelled.

In considering what the new personal allowance should be, I have borne in mind that the very low rates applicable to the lower platforms gives a further form of additional allowance that many fail to acknowledge. I think this point deserves underlining: the standard rate of tax on gross income is the normal basis of charge to tax in Hong Kong. But there are allowances to relieve hardship and the platforms of net chargeable income and the schedular rates are designed to bring taxpayers progressively up to that norm.

One small effect of these proposals is that the widow or widower with dependent children at the levels of income where the lower income relief presently applies would be slightly worse off at certain levels of income. The only way to avoid this is to increase the allowance for the first child from \$2,000 to \$3,000, and I so propose. As the cost to the revenue would be quite heavy at \$6 million, I had thought of countering this by reducing the increase in the wife's allowance from \$3,000 to

\$2,000, but I have decided to stick on a figure of \$10,000 for the wife's allowance.

The cost to the revenue in 1973-74 of the suggested new allowances, the new platforms of net chargeable income and schedular rates and the consequential extension of the period of effectiveness of allowances is estimated to be \$21 million. There is, therefore, ample margin of extra relief to cover the withdrawal of two other selective allowances which are not easy to check and administer or are not equitable in their incidence.

I refer to the dependent parent's relief and deductions for life insurance and similar expenditure. As regards the *dependent parent's relief*: experience shows that the risk of abuse and the cost of administering this allowance does not justify its continuance, especially with the increased allowances now proposed. Estimated savings in a full year would be about \$2.5 million. As regards *deductions for life insurance and similar payments*: I can see no reason why this particular form of thrift or personal expenditure should attract relief, particularly with the increased allowances now proposed. Savings in a full year would be about \$3 million.

Another factor which I feel must not be lost sight of in the case for the abolition of the present four selective allowances is the tax relief afforded by the new stretched schedule of rates introduced in 1972-73. This was the first step in extending the benefit of allowances and the new schedule was, like my present proposals, quite generous in those areas where the selective allowances operated most effectively. If these further proposals for new allowances and new schedular rates are accepted by honourable Members, most taxpayers will eventually have received two successive reductions of tax. In a situation where there is no real case for an overall reduction of taxation, the loss of unwarranted (in the Hong Kong context) selective allowances as a *quid pro quo* is, in my opinion, quite justified.

Finally, I would like to refer to a suggestion made by my honourable Friend Mr CHEUNG in this Council on 17th January last that parents of adult children who are not employable because of a handicap should be granted a form of tax relief.

To be consistent with all I have said about selective allowances in a low tax structure, this suggestion can only be considered in the context of child relief. Accordingly, I propose that such relief be granted to parents of incapacitated children maintained by them at the rates provided for in section 42B(1)(c) of the Ordinance, irrespective of age.

To sum up: I propose that the Inland Revenue Ordinance should be amended to provide for the following package of adjustments, at a net cost to the revenue of \$15.5 million, viz:

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

- (a) an increase in the personal allowance from \$7,000 to \$10,000;
- (b) an increase in the wife's allowance from \$7,000 to \$10,000;
- (c) an increase in the allowance for the first child from \$2,000 to \$3,000 and of the maximum allowance for children from \$9,500 to \$10,500;
- (d) an alteration of the schedular rates of tax so that, upon the first platform of \$10,000 of net chargeable income, tax at 5% is payable and upon each of the next four platforms of \$10,000 a further 5%. On net chargeable income over \$50,000 a rate of 30% will apply with the standard rate of 15% applying on gross income less expenses and charitable donations in accordance with proviso (b) to section 13 of the Ordinance;
- (e) cancellation of lower income relief and the selective allowances for working wives, dependent parents and life assurance, provided for in section 42B(1)(d), (f), (g) and (h); but
- (f) extension of child relief under section 42B(1)(c) to parents of children of any age not employable because of mental or physical incapacity and for whom medical certificates are produced.

The relief accorded by the reduction in revenue would vary as between taxpayers in different income groups and in different family circumstances and the Commissioner of Inland Revenue will be publishing shortly a series of illustrative tables.

My second proposal for tax reform concerns duty on imports of alcoholic liquor in bulk and is designed to increase the efficiency of administration: in 1962 the rates of duty on whisky, brandy and other spirituous liquors of 78° proof were increased, but the rates of duty above this strength remained, by an oversight, unchanged. Liquor importers have recently realized that, as a result, they can pay less duty per bottle by importing high proof liquor and watering it down to lower proof levels. This is because the rate per degree over 78° is sufficiently below the rate per degree for liquor of 78° proof.

There is thus a small but quite unjustifiable potential loss of revenue here and, accordingly, Your Excellency signed an order this morning under the Public Revenue Protection Ordinance providing for the rates of duty per degree applicable over 78° proof to be 96 cents in the case of liquor of Hong Kong and Commonwealth origin and \$1.08 in the case of liquor of non-Commonwealth origin. These new rates will be effective as from 4 o'clock today. The effect of these increases will vary from a few cents to 39 cents per bottle, except for

such particularly strong liquors as "Green Chartreuse" and "Lemon Hart rum" for which the duty per bottle will be increased by \$1.53 and \$4.17 respectively.

My *third* proposal for tax reform concerns stamp duty on contract notes in respect of purchases and sales by a broker on his own account when he is, in effect, performing a jobbing function. After considering representations from the Stock Exchanges I have accepted that transactions which are designed to accommodate the market should be exempt from stamp duty. I propose that the Stamp Ordinance should be amended accordingly and regulations made to define and control these transactions with effect from 1st April next or as soon as possible thereafter. The cost to the revenue will be about \$3 million in a full year.

Turning now to the second reason for proposing changes in our system of taxes and charges, namely the desirability of affording relief, I have six proposals: the *first* concerns the duty of 48 cents per gallon on certain, but by no means all, non-alcoholic beverages, known as table waters. This is a selective tax introduced in 1941 for purely revenue purposes.

My honourable Friend the Director of Commerce and Industry has discussed this matter with the Beverage Manufacturers' Association and the members of the Association have undertaken that, despite considerable cost increases since prices were last raised in March 1971, prices would not be increased before April 1974 if the duty were abolished. The members of the Association have also undertaken that, provided there are no exceptional further increases in costs, prices would not be increased before April 1975. Accordingly, I propose that the duty should be abolished from 1st April next at a cost to the revenue of \$10.5 million.

My *second* proposal for relief concerns duty on heavy oil used in the manufacture of gas and electricity, the case for which falls also partly under my fifth reason for tax changes, namely the pursuit of non-fiscal (in this case an economic) objective. As I said in last year's budget speech, with the very close relationship between import costs and export competitiveness in a trade-based manufacturing economy such as Hong Kong's, the indirect tax system should not inflate costs. So I proposed the abolition of duties on a wide range of hydrocarbon oils other than furnace oil used in the manufacture of gas and electricity, aircraft spirit, motor spirit and automotive diesel oil used by road vehicles, at a cost to the revenue of \$16.2 million in 1972-73. This year I propose we should complete this exercise by abolishing, with effect from 1st April next, the duty of 10 cents per gallon on furnace oil used in the manufacture of electricity and gas at a cost to the revenue in 1973-74 of \$43 million.

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

The saving in electricity bills would vary as follows: in the case of Hong Kong Electric, from \$1 in the case of a small domestic consumer using 120 units at a monthly bill of \$21 (4.8%) to \$3,800 in the case of a bulk consumer using 500,000 units at a monthly bill of \$43,500 (8.7%). In the case of China Light and Power, from \$1 in the case of a small domestic consumer using 120 units at a monthly bill of \$20 (5%) to \$40,000 in the case of a bulk consumer using 5,000,000 units at a monthly bill of \$288,000 (13.9%). Finally, in the case of the Gas Company, as its tariff does not include a fuel variation clause, increases in the cost of fuel oil over the past year have been fully absorbed by the company. It is, therefore, not envisaged that any reduction in the charge to consumers will arise as a result of the abolition of fuel oil duty.

My *third* proposal for relief concerns stamp duty in respect of conveyances of low valued properties, a subject dear to the heart of my honourable Friend Mr Q. W. LEE. In 1967, as a result of a proposal put forward by my predecessor in his budget speech for that year, the standard rate of 2% was waived for properties of \$20,000 and halved for properties of \$20,000 or over but under \$40,000, at a cost to the revenue at that time of \$5 million. (Only a fixed charge of \$20 is paid on conveyances of property under \$20,000). With higher property prices this concession has become largely inoperative and yet, by and large, the purchasers of these properties are in the same lower middle income range as before, albeit with higher incomes. Compared with 1967 when 76% of properties on the market for sale were priced at \$40,000 or less, in 1972 only 2.3% were so priced. To restore the application of the concession to the same range of properties covered in 1967 would require adjusting the values to about \$62,500 and \$125,000 respectively at a cost to the revenue of around \$15 million.

As I am conscious of the desirability of encouraging home ownership, I propose that the values be adjusted upwards even further to \$75,000 and \$150,000 by 1st April, bringing into the ambit of the concession about 83% of all current sales. Thus a purchaser of a flat selling today for \$70,000 will pay only the nominal duty of \$20 instead of \$1,400 and of a flat selling for \$140,000 will pay \$1,400 instead of \$2,800. The cost to the revenue of these revised values will be about \$22.5 million.

My *fourth* proposal for relief concerns stamp duty on receipts. A duty of 15 cents is chargeable under Head 44 in the Schedule to the Stamp Ordinance on receipts given for amounts of \$20 or more, with specific exemptions for various types of banking transactions, wage and salary payments, gifts to and payments from charities, and so on. The amount of the duty has remained unchanged since 1949. Because of enforcement difficulties, the yield has not kept pace with that from

stamp duties in general and I propose that it be abolished by 1st April next at a cost to the revenue of about \$6.5 million.

My *fifth* proposal for relief concerns the imposition of stamp duties on a miscellany of documents which yield small amounts of revenue by present day standards and which are irksome to the public and the Stamp Office alike. The documents concerned are those appearing in the Schedule to the Stamp Ordinance under the heads named Bill of Lading, Shippers Books (Chinese), Charter Party, Policies of Insurance, Affidavit, Agreement, Memorandum of Agreement, Agreement or Contract for Hire Purchase, Attested Copy, Godown Warrant, Letter of Hypothecation, Notarial Act and Note of Protest. Stamp duty is no longer levied on many of these documents elsewhere and I propose that the respective heads be deleted from the Schedule to the Stamp Ordinance by 1st April next or as soon as possible thereafter at an annual cost to the revenue of about \$4 million.

My *sixth* proposal for relief concerns entertainment tax which has been levied since 1930 for purely revenue raising purposes. Apart from an amendment to the Entertainments Tax Ordinance in 1970 to relieve live entertainment, except race meetings, the Ordinance has remained unamended as to its main content and the rates of tax charged have remained unchanged since 1941.

Cinema admission prices are fairly standard and generally applicable according to the type of cinema. The effect of increased admission prices has been that the tax per seat has been effectively increased over the years. This is why for many years in the 1960's this tax was an expanding tax. It is no longer now that audiences are declining and it discriminates against the cinema-goer as opposed to, for example, the patron of night clubs. I propose, therefore, that the tax on admission charges to cinemas (but not to race meetings) should be abolished with effect from 1st April next at a cost to the revenue in 1973-74 of \$32 million on the basis of the recently increased prices of seats. Thus a seat now costing \$2.40 inclusive of tax will cost \$2 and one costing \$6 will in future cost \$5 only.

So far the net cost to the revenue of my proposals for reform and relief in 1973-74 comes to \$137 million. I am confident, Sir, that we can afford to forego this revenue in the coming year, but I do not think we should assume too lightly that we can afford the permanent loss involved. There is a further point I should make concerning the balance of the system between direct and indirect taxes. The various tax changes during the past 11 years and the changes proposed for next year mean a shift in the ratio of direct to indirect taxation from 34 : 66 in 1962-63 to 46 : 54 in 1973-74.

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

In these circumstances, I consider there is a case for raising additional revenue from one of our main instruments of indirect taxation, the Stamp Ordinance, so as to restore the balance somewhat between direct and indirect taxation and I propose that the present rate of *ad valorem* duty on contract notes in respect of share transactions should be increased by 100%, that is to say, from 20 cents to 40 cents for each note or from 40 cents to 80 cents for each transaction. I am advised that it would be convenient if this were to be achieved by substituting for "20 cents for every \$100 or part thereof" in Head 18A of the Schedule to the Ordinance the words "four dollars for every \$1,000 or part thereof". By relating the rate of duty to units of \$1,000 of consideration the amended charge would, on the one hand, recognise that the minimum consideration for a single board lot is currently in terms of thousands rather than hundreds of dollars and, on the other hand, would effect a saving in the number of adhesive stamps required to be affixed to contract notes. The increased rate of duty will be applicable to all transactions entered into from tomorrow and to this end Your Excellency signed an order under the Public Revenue Protection Ordinance this morning.

There are two other arguments for this increase: *first*, there are a number of active investors buying and selling in the various exchanges who are on the borderline between dealing for profit and investing funds earned or acquired from other sources. I feel that a higher rate of stamp duty on the notes covering their transactions represents a fair way of creaming off something extra from them for the revenue. In addition, the Commissioner of Inland Revenue is being given staff straightaway to make enquiries into the activities of habitual dealers with a view to establishing that they are carrying on businesses or "adventures in the nature of trade" thereby bringing their rewards into charge for profits tax. *Secondly*, I do not consider that, in our present circumstances, it is either necessary or prudent to budget for other than a substantial surplus. I estimate that the extra yield from a doubling of the rate of stamp duty levied on contract notes would be \$300 million on the basis of my possible conservative forecast of turnover next year and this figure of \$300 million would, I am happy to say, more than offset the cost of the tax reforms and reliefs I have just so generously proposed.

So while I have placed this proposal under the heading of the balance of the system, I think there are supporting arguments under tax reform (efficiency of administration) and fiscal policy; and, in addition, I have taken this opportunity of introducing into the new rate a regulatory element. I do not think the new rate will have more than a slight effect on the market, but I should state here and now

that the Government would be prepared to seek emergency powers at a moment's notice to raise the rate of duty on contract notes immediately to cope with any future situation that looked dangerous, if the Securities Advisory Council recommended this as part of a package of short term cooling measures.

Finally, I have one proposal for a tax change designed to secure an economic policy objective and two proposals designed to assist policy objectives in the field of transport.

The economic policy objective I think we should seek to pursue is the development of Hong Kong as a financial centre offering a wide range of facilities in both the Hong Kong dollar market and the market for international currencies. We have a banking system which has a growing expertise, is diverse and is liquid and one which operates within certain statutory guidelines laid down in the Banking Ordinance. We have an active market both for local and overseas securities. In recent years, a number of quasibanking institutions have been established in Hong Kong which are generally referred to as finance companies. These companies, because of the present definition of banking business in the Banking Ordinance, are able to extend to the public a wide range of conventional banking services, including the soliciting of deposits (albeit on a restricted basis), without being subject to the disciplines imposed on licensed banks by the Banking Ordinance. While the establishment of these companies has led to the emergence of a variety of borrowing and lending facilities they have not, as yet, been formalized in any generally accepted instruments.

The interest rate which is obtainable from the principal banks in Hong Kong for 12-month deposits is 7% and the lending rate by such banks is 7½%. The margin between these rates is the area in which a money market in Hong Kong dollars could operate and develop. Not surprisingly, several companies have recently formulated proposals for negotiable Hong Kong dollar Certificates of Deposit and I am, therefore, now considering what control should be exercised over banks and finance companies which issue such instruments: that is to say, what arrangements should exist to provide a ready discount facility to holders of such paper in the absence of a developed secondary market; what limits, if any, should be imposed on the total volume of paper issued; and whether finance companies issuing Certificates of Deposit should be subject to the same liquidity provisions as banks must observe under the Banking Ordinance. There is also the administrative problem that the withholding tax procedure does not readily adapt itself to the collection of tax on the interest earned on these instruments. They are bearer instruments often negotiated during their term and the interest or, if you like, profit to each holder is reflected in the price at which he sells or the proceeds he realizes on maturity.

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

Thus, while the banking system is tightly controlled and we are moving in the direction of regulating trading in securities, the "grey" area between banking and the provision of other short and medium term credit has been left alone for the time being. But this is not to say that some control in the interests of the economy as a whole should not be contemplated and, as I have said, the Government is considering the introduction of legislation to supervise and regulate the conduct of banks and finance companies accepting deposits through the issue of such instruments as Certificates of Deposit.

As regards the development of a money market in international currencies, it is often argued that this is inhibited by the existence of our 15% interest withholding tax. All interest arising in or derived from the Colony is chargeable to Hong Kong tax. It is chargeable either to profits tax where it is income of a trade, profession or business carried on and so falls into computation of assessable profits, or to interest tax. Low rate interest (at present 3½% per annum or under) paid by licensed banks and specified public utilities to persons not carrying on trade or business in the Colony is exempt. Interest tax assessments and collections are normally at source through the withholding system; and the tax withheld is a debt due to the Government.

The test question to determine the territorial source of interest is this; did the lender make his loan or credit available to the borrower in Hong Kong? In applying this test to persons depositing money with banks in Hong Kong the currency used is immaterial but, if banks accept currencies in cash or in the form of negotiable instruments which they bring into account in their own Hong Kong offices, then the customer's credit is construed to be made available to the Hong Kong office of the bank and the source of the interest earnings is construed to be in Hong Kong. Where such deposits are received by Hong Kong offices of banks for account of a bank outside the Colony with the Hong Kong offices acting as agents and with nothing more than Memorandum Accounts or immediate transfer notes at the Hong Kong end, the credits are *not* construed as being made available in Hong Kong. It makes no difference whether the depositor is a Hong Kong resident or not for residence is not the test, tax being chargeable on interest paid or credited to any lender who makes his credit available in Hong Kong. To exempt non-residents from tax payable on interest earnings in Hong Kong would be a denial of the basic concept on which our Inland Revenue Ordinance is based, that is to say earnings and profits arising in or derived from Hong Kong, and only from Hong Kong, are chargeable to Hong Kong tax no matter whether the person earning those earnings and profits is resident or not.

I turn now to the tax and monetary aspects of three lines of action which we could adopt to encourage the establishment of an international currency market in Hong Kong. *First*, we could exempt interest on foreign currency deposits from tax. There are serious monetary objections to this: there might be large scale conversions of Hong Kong dollar deposits into foreign currency accounts to obtain the benefit of this exemption, with consequent implications for our balance of payments position and the structure of local interest rates. *Secondly*, we could exempt non-residents from interest tax. There would be enormous difficulties both for the banks and the Inland Revenue Department in deciding whether a depositor was a resident or a non-resident and, in particular, in disproving a taxpayer's claim to be a non-resident. Only stringent exchange controls would provide a reasonable chance of ensuring that only non-residents qualify for relief from withholding tax and no-one would argue, I trust, that we should abandon our traditional policy of free inward and outward movement of funds. *Thirdly*, we could abolish interest tax altogether. This is a logical approach, but has serious tax objections (and monetary dangers too, given our traditional policy of free inward and outward movement of funds). Hong Kong has one of the narrowest tax bases of any territory with a developed system of direct taxation and the lowest effective rate of direct taxation in the Far East. Furthermore, the tax base has already been narrowed considerably in certain fields due to interpretation and practice concerning earnings and profits tax that arise in or derive from the Colony, a subject on which I shall have more to say later. In my opinion, there are no grounds for taking out of direct taxation one area of income and earnings that *does* arise in or derive from the Colony. Countries like Singapore and the United Kingdom (so often quoted against us) whilst imposing tax on income generated within their boundaries, also impose tax on overseas income remitted to residents. So in those countries there is already a fiscal obligation attached to being a resident and, with this safeguard, it is not such a big step for them to exempt non-residents from withholding tax on certain closely defined areas of interest. To abolish tax on interest earnings would be to relieve the financial sector and the wealthier groups in our society; and I do not believe that additional profits tax would be generated to offset this. The interest and profits earned would, I am sure, be shown to have been earned outside the Colony and so escape being brought into profits tax charge. Furthermore, there could be a switch into loan financing by the business community as interest on loans to businesses would normally be an admissible deduction in computing assessable profits. So by such a reduction of assessable profits the Government would be losing revenue and indirectly contributing 15% towards the cost of the loan financing.

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

Now, of course, whether one should accept the risks and drawbacks of any of these courses of action, or try to devise another course of action, depends very largely on the benefits for the Hong Kong economy as a whole (and I stress for the *Hong Kong economy*) of the establishment of an international currencies market here. I personally find the benefits difficult to quantify and even the general arguments elusive. However, I am sufficiently convinced that if an international currencies market can be established here it will broaden the range of facilities which banks and other financial institutions can offer.

In order to ensure that the local market in Hong Kong dollars develops in a prudent and orderly manner and to secure the establishment of a local market in international currencies, which does not harm the Hong Kong economy, I hope honourable Members will concur with me that the time has come to consider the introduction of legislation to regulate the activities of those banks and finance companies which seek to operate in these two markets. While at this stage it is not possible to set out precisely the terms and conditions which would be placed on banks and finance companies seeking to issue Hong Kong dollar Certificates of Deposit and/or operate in the international currencies market, I can indicate broadly the lines along which we are thinking.

In the first place, the issue of Hong Kong dollar Certificates of Deposit and the borrowing of foreign currencies for international lending operations would be undertaken by banks and finance companies which are granted a special licence. One condition of approval would be that the banks and finance companies would have to set up within their own organizations separate departments for these operations.

Secondly, as the income from this Hong Kong dollar borrowing would have a Hong Kong source, a complete exemption from interest tax would create a new area of tax exemption and further reduce the existing narrow Hong Kong tax base. So trading in Certificates of Deposit would be restricted to banks and corporations carrying on business in Hong Kong which are already exempted from interest tax in respect of interest payable to them because their interest earnings are brought into their profits tax assessments.

Thirdly, the special departments of the licensed banks and finance companies would be able to accept deposits, subject only to a restriction on the size of the minimum deposit, and make loans in foreign currencies. These special departments would be exempt from the obligation to withhold tax from the interest they pay on these deposits. This would not, in general, involve a loss of revenue since we are dealing here with a new activity in Hong Kong.

Fourthly, the profits of the departments of the banks and finance companies undertaking these operations would be deemed to be profits chargeable to Hong Kong profits tax.

Fifthly, the liquidity requirements for the new departments would be no more restrictive than those imposed by the Banking Ordinance.

Sixthly, as well as imposing liquidity requirements to be met by those finance companies setting up special departments it may be desirable to require a minimum paid up capital.

To summarize, Sir: I consider that the development of Hong Kong as a broadly based financial centre should be encouraged, but with guidelines which would ensure its growth in a manner which would command the respect of those who decide to conduct their business in or through the Colony. It must also be recognized that the effects on the domestic deposit base and on the Hong Kong economy generally cannot easily be foretold and it is, therefore, all the more necessary to proceed with caution.

Subject to the advice of Your Excellency in Council, a draft bill to control those institutions operating in these two markets will be published in due course and comments on it will be welcome. It will also be necessary to amend the Inland Revenue Ordinance to provide for the necessary exemption from interest tax and to bring into charge to profits tax the profits earned on the associated dealing and lending operations.

I come now to fiscal proposals designed to achieve certain policy objectives in that highly disputatious field of transport policy. Our overall transport policy has three elements (if I sound repetitious I can only apologize to honourable Members): *first*, the development of the road system and our rail and water links. An examination of the numerous projects in Categories A and B of the Public Works Programme will show how seriously the Government is tackling this task. *Secondly*, the improvement of public transport facilities. This involves a re-vamping of surface facilities and the construction of an underground railway system. I announced the Government's intentions as regards the latter in this Council a fortnight ago and referred to finance for the proposed Mass Transit Railway Corporation earlier in this speech. *Thirdly*, the application of measures to make the best use of road space. This involves two aspects:

- (a) establishing priorities of use of available road space or, putting the point more bluntly, discouraging uneconomic road users; and
- (b) speeding up traffic flows.

[THE FINANCIAL SECRETARY] **Appropriation Bill—second reading**

But as honourable Members will doubtless wish to debate the whole range of problems connected with a viable and acceptable transport policy for the 70s and 80s outside the context of the annual Appropriation Bill, I do not propose to put forward today any restraint measures to achieve a better use of road space by fiscal measures or otherwise. However, there is one problem which does require urgent remedial action: I refer to driving tests. There are now 417,000 holders of driving licences, with a waiting list of 75,000 applicants and more coming forward at a rate of 6,000 a month. The Transport Department tried to solve the backlog problem by organizing an accelerated testing programme, but only succeeded in making matters worse. So we must resort to fiscal measures and I propose that the fee for the application form should be raised from \$20 to \$150 and for a provisional licence from \$40 to \$100. These increases should reduce applications to manageable numbers. At the same time, I propose that the fee for a driving licence should be raised from \$10, set as long ago as 1956, to a more realistic figure of \$50. Many applicants for driving licences no doubt hope in due course to purchase a vehicle and the first step in this process is to obtain a driving licence. An increase in the cost of obtaining a driving licence should assist in deterring them from the first step which leads eventually to increased road congestion. An increase in the annual fee may also help to persuade some existing drivers not to renew their licences. There are, after all, more than twice as many drivers as there are vehicles.

So the total cost of becoming a licensed driver will from now on be \$300 as opposed to \$70 at present. The revenue will benefit by about \$38 million from these several increases in 1973-74 after allowing for the hoped for deterrent effect.

Sir, that completes my proposals for 1973-74: the net effect is to increase the difference of \$313 million between the printed revenue estimates and the Draft Estimates of Expenditure by \$201 million to \$514 million, representing the surplus I am actually budgeting for. (Actually it would be more accurate to take into account, also the various adjustments involving additional expenditure in 1973-74 of \$27 million. Thus the surplus becomes \$487 million). Ignoring the effects of movements in interest rates on the prices of gilt edged securities and assuming no recovery in the state of the Exchange Fund's finances, I estimate that our fiscal reserves at 31st March 1974 will stand at \$3,345 million thanks to this surplus which I am budgeting for, a useful improvement on the position at the end of this year.

Before concluding, Sir, I should give honourable Members notice of my intention to put to them in next year's budget speech or earlier two further revenue proposals: one is designed to simplify administration and the other to increase the efficiency of the system.

First there is the outstanding matter of change of basis for the assessment of profits tax. The Report of the 1966 Review Committee and all the comments received from various bodies on that report are now being re-studied with a view to seeing how best to resolve the problems of changing over to a current year basis and I think we should aim for 1st April 1974 as the target date for the change-over.

My *second* proposal is designed to improve the efficiency of tax administration and to simplify the assessor's task as well. The time has come to bring to the notice of this Council the fact that the existing tax charge on the profits of Hong Kong businesses is proving even narrower in operation than was originally intended. Court decisions have shown that a business in Hong Kong doing exactly what it was set up to do in Hong Kong and nowhere else can have business income derived from outside Hong Kong, coming from no conduct of business outside Hong Kong, and escaping charge. Not that the assessor's problem ends with the decision as to source: once a decision is taken that there is non-Hong Kong income, there is the problem of quantification of the net profit from this income to be excluded from assessment. This involves a complete analysis of business operations to indicate what direct expenditure and what proportion of indirect expenditure and overheads are properly chargeable against the overseas earnings. I do not pretend that it will necessarily be easy to devise a suitable amendment to the Inland Revenue Ordinance to redefine chargeable profits, but I hope an amending bill can be introduced later this year to come into effect from 1st April 1974.

Sir, the coming fiscal year covers the Year of the Ox a year which, it is said, will bring prosperity to Hong Kong, provided all of us deal with such problems as beset us with patience and resolution. I believe this prediction will be borne out by events as they unfold. I further believe that the proposals I have just outlined are consistent with this astrological view of the year ahead.

Sir, I beg to move.

Debate adjourned *pursuant to Standing Order No 54(2)*.

4.33 p.m.

HIS EXCELLENCY THE PRESIDENT: —At this point perhaps Members might like a short break. Council will resume in 15 minutes.

4.47 p.m.

HIS EXCELLENCY THE PRESIDENT: —Council will resume.

STOCK EXCHANGES CONTROL BILL 1973

THE ATTORNEY GENERAL (MR ROBERTS) moved the second reading of:—"A bill to regulate the establishment and operation of stock exchanges in Hong Kong."

He said:—Sir, honourable Members will recall that, in answer to a question from the honourable P. C. WOO on the 15th November of last year, the Financial Secretary stated that under a Securities Bill, which he hoped to introduce into this Council within a few months, only those stock exchanges approved by the Financial Secretary would be allowed to operate in Hong Kong after that bill was enacted.

He further stated that he intended to approve under that bill only those stock exchanges which have been recognized for the purposes of section 2A of the Companies Ordinance.

He added that any exchange which was not recognized under the Companies Ordinance would not be able to continue to operate, and that any new stock exchange which might be established after the date of his statement and before the enactment of the Securities Bill would not be recognized. In other words, it was the Government's declared policy to restrict the number of exchanges to four.

In view of this statement, no member of the public could have been under any illusion as to what might happen if he attempted to form a fifth stock exchange. The clearest notice had been given to him that it would not be allowed to operate after the enactment of the Securities Bill.

On the 3rd January this year, the Financial Secretary made a statement in which he announced the establishment of the Securities Advisory Council. In the course of it he again stated that, effectively, a monopoly had been conferred on the four recognized exchanges then operating. He went on to discuss the very high level of activity in these exchanges during the past few months, and the fact that undesirable practices had grown up within them.

It will be the duty of the Securities Advisory Council to supervise the working of the bill when it is enacted. This bill, as honourable Member will recall, will deal with the creation of a Federation of Stock Exchanges, the registration of dealers and investment advisers, trading in securities outside stock exchanges, the prevention of false markets and the keeping and auditing of accounts.

The Financial Secretary added that in present conditions it was not thought prudent to wait until the bill is enacted before providing authoritative guidance and help to those responsible for managing stock exchanges and other institutions which trade in securities. Consequently,

he said, the Government had decided to anticipate the enactment of the Securities Bill and to establish forthwith a Securities Advisory Council, on an administrative basis, in the hope that the Council would be able to exercise a beneficial influence on stock markets in advance of the enactment of statutory controls.

Since its creation, the Securities Advisory Council has been extremely active. Among the measures advised by this Council, and followed strictly by all four recognized stock exchanges, has been a limitation of the hours during which trading in securities is permitted in a stock exchange.

All those in a position to offer informed judgment on the subject seem to be of the opinion that Hong Kong's needs are adequately served by the operation of the four existing exchanges.

In spite of this, and of the clear statements of the Government that further exchanges would not be recognized now, nor permitted to operate at all after the Securities Bill is enacted, a group of persons has recently announced its intention of opening a fifth stock exchange, regardless of the warnings to which I have referred.

The argument has even been advanced that, because the exchange was registered as a company in 1970, this gives it some kind of right to be allowed to operate. This is nonsense. The registration of a company guarantees nothing. Countless activities in Hong Kong are regulated by licences or controls. It is ridiculous to suggest that the mere registration of a company carries with it an obligation on the part of the authority concerned to issue a licence to the company in order that it may operate in its chosen field.

The bill before Council today, and the proposal to pass it through all its stages this afternoon, should make it clear to those responsible for attempting to create a fifth exchange that the Government means what it says and that further exchanges will not be tolerated.

The bill is, of course, an interim measure, and it will be repealed when the Securities Bill, which will contain similar provisions, is enacted in the fairly near future.

Clause 3 replaces section 2A of the Companies Ordinance, under which exchanges are recognized by order of the Governor in Council. Clause 3(2) preserves the effectiveness of orders which have already been made under section 2A, so that the four existing recognized stock exchanges will continue to operate on exactly the same terms as they do at present.

Clause 4 makes it an offence, punishable with a fine of \$200,000 plus a further \$5,000 for each day during which the offence continues,

[THE ATTORNEY GENERAL] **Stock Exchanges Control Bill—second reading**

for any person to establish or operate or assist in establishing of operating a stock market which is not part of a recognized stock exchange.

By clause 5, it is an offence for a dealer to buy or sell shares in a stock market run by an unrecognized stock exchange.

Clause 6 gives the necessary powers to senior police officers to enter and search premises in which an offence against clause 4 or clause 5 is suspected of having been committed.

Clause 7 confers on a magistrate power to order the securing and locking of premises in which an offence under the Ordinance is alleged to have been committed. Such an order may be made on the application of the Attorney General at any time after a person is charged with such an offence.

Furthermore, if a person is convicted of an offence under the Ordinance, the court must order that the premises on which the offence was committed shall be locked or secured for not less than one nor more than three months.

The object of these provisions is to ensure that, as soon as somebody is charged with an offence under the Ordinance, those responsible will be unable to continue to operate on the premises of the illegal exchange. Similarly if a conviction is obtained, this clause will prevent any reopening of the stock exchange on the same premises for a substantial period. It is also made an offence for any person to enter premises in respect of which a closure order has been made by a court under this clause without permission from a police officer.

I hope that this bill will make clear beyond any doubt the Government's intention to ensure that the market for shares in Hong Kong develops in an orderly manner.

MR WOO: —Sir, my Unofficial colleagues and I have given this bill careful scrutiny. We have held three meetings to discuss it, at the second of which we had the benefit of the advice of Mr J. B. SELWYN, Commissioner for Securities. At the third discussion my honourable Friend the Attorney General was good enough to go through the list of amendments which, with your leave, Sir, I shall move at the Committee Stage today to meet the points raised by my Unofficial colleagues and myself. Subject to these amendments we unanimously support the bill and, indeed, consider it to be a most necessary measure.

The bill, as the Attorney General said, is a holding measure pending the enactment of more comprehensive legislation to govern transactions in securities. It is intended primarily to prevent the establishment or operation of any stock exchange which is not recognized by Government. We understand it to be the intention that no further stock exchanges will be recognized. It is in our view essential to stop any further proliferation of exchanges and to take steps to ensure that transactions in the stock exchanges which have already been recognized are conducted in an orderly fashion.

We consider that the penalties contained in clauses 4, 5 and 7 of the bill are inadequate. Our view is that the penalty in clause 4 for establishing or operating an illegal stock exchange should be raised to \$500,000 plus a continuing fine of \$50,000 per day. We think the penalty in clause 5 for dealing in securities in an illegal stock market should be increased to \$50,000. In clause 7, the penalty for entering premises in contravention of a closure order should be raised to \$50,000.

We also feel that a closure order under clause 7 should be made by a district judge rather than a magistrate, and that provision should be made whereby any person aggrieved by the order may apply to a district judge for the order to be discharged. On the hearing of the application the district judge may either confirm the order or direct that it be discharged. We also consider that no prosecution under the Ordinance should be brought without the consent of the Attorney General.

In addition to the above, we also propose a number of other minor amendments to clarify the intention or phraseology of various clauses of the bill. These are included in the list of amendments which I shall move at the Committee Stage.

The Unofficials have been given to understand that there is no intention at present to restrict local dealings in foreign securities which are not listed on the recognized stock exchanges in Hong Kong, nor is it intended to restrict transactions of local shares in private companies which are not so listed. In order to make this clear to the public, the Unofficials seek confirmation of Government's intention.

Sir, with these remarks, my Unofficial colleagues and I support the motion before Council.

THE ATTORNEY GENERAL (MR ROBERTS): —This has not been an easy bill to draft in a hurry, and I appreciate the care and attention which have been given by Unofficial Members to its provisions. The various amendments which the honourable Member proposes to move at the Committee Stage do effect substantial improvements to it both

[THE ATTORNEY GENERAL] **Stock Exchanges Control Bill—second reading**

from a drafting point of view and with regard to its enforcement provisions, and I shall be pleased to support them at the Committee stage.

The definition of "stock market" which is contained in clause 2 has had to be drafted in wide terms in order to prevent regular stock exchange dealings taking place on any premises other than those of a recognized stock exchange. However, I confirm that there is no intention of making use of the provisions of the bill so as to require a person who deals only in foreign securities which are not listed on any recognized stock exchange to seek recognition under clause 3, and similarly it is not intended that the bill should control the operation of persons who restrict their activities to transactions in local shares in private companies which are not listed on any of the recognized stock exchanges in Hong Kong.

As one of the amendments proposed by the honourable Member will be that no prosecution for an offence under the Ordinance may be taken without my consent, honourable Members may rest assured that the Ordinance will be applied in accordance with this understanding of its scope and intention.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order No 43(1).

Explanatory Memorandum

This Bill is an interim measure which is intended to curb the proliferation of stock exchanges in Hong Kong. Only those stock exchanges that are declared to be recognized stock exchanges under clause 3 of the Bill will be allowed to operate after the Bill comes into force.

Clause 1 relates to the short title of the Bill.

Clause 2 defines the terms used in the Bill. These include "dealer", "dealing in securities", "recognized stock exchange", "securities", and "stock market".

Clause 3 consolidates section 2A of the Companies Ordinance, which provides for the recognition of stock exchanges by order of the Governor in Council. Orders made under that section (which is to be repealed by clause 8 of this Bill) in relation to those stock exchanges that have already been recognized will continue in force under the Bill after its commencement.

Clause 4 makes it an offence for any person to establish or operate a stock market unless it is the stock market of a recognized stock exchange. The offence is punishable with a fine of up to \$200,000 and, in the case of a continuing offence, a further fine not exceeding \$5,000 a day.

Clause 5 makes it an offence, punishable by a fine not exceeding \$20,000, for a dealer in securities to transact a dealing in securities at any stock market other than one being operated by or with the authority of a recognized stock exchange.

Clause 6 confers on a police officer not below the rank of inspector who has reason to believe that an offence against clause 4 or clause 5 is being or has been committed on any premises power to enter and search the premises and to remove and detain articles which he has reason to believe have been used in connection with the commission of the offence.

Clause 7 empowers a magistrate to order the closure of premises in which an offence against clause 4 or clause 5 is alleged to have been committed. Where any person is convicted of such an offence, the clause requires the convicting court to order that the premises be locked and secured for from one to three months. Any person who enters the premises in contravention of the order without authority is liable to a fine of up to \$20,000.

Clause 8 repeals and replaces the definition of "recognized stock exchange in the Colony" in section 2(1) of the Companies Ordinance, and repeals section 2A of that Ordinance relating to recognition of stock exchanges.

HOUSING BILL 1973

Resumption of debate on second reading (14th February 1973)

Question proposed.

MR SZETO: —Sir, in my maiden speech in this Council in September 1964 when the White Paper entitled "Review of Policies for Squatter Control, Resettlement and Government Low-Cost Housing, 1964" was debated, I said in respect of the then proposed programme to re-house 1,070,000 people in 6 years:

"In spite of our tremendous achievement in the resettlement housing programme, it is alarming to think that there still remains a backlog of over half a million units. This backlog is further aggravated by an annual increase of 30,000—an estimate which

[MR SZETO] **Housing Bill—resumption of debate on second reading
(14.2.73)**

will inevitably be swelled by the accelerated though justified enactment of the Dangerous Buildings Ordinance.

The fulfilment of a building programme of such staggering magnitude is surely a colossal task."

In July that year, a decade after the outbreak of the devastating fire at Shek Kip Mei which prompted the creation of the Resettlement Department, the total number of people housed in Government estates stood at 682,500 with a backlog of over half a million. Much has been achieved since the adoption of the White Paper and, at the end of March 1972, over 1,667,000 people were living in resettlement estates, cottage areas, Government low-cost housing and Housing Authority estates. Notwithstanding this achievement, over 620,000 people still remained in squatter and licensed areas awaiting accommodation. This is a seemingly perpetual operation requiring perseverance and humanistic approach, and it is gratifying, Sir that we have once again set ourselves on an ambitious new target to re-house 1.8 million people in the next 10 years at an estimated cost of \$3,000 million.

After two decades of achievements in quantities, we are moving onto the next phase in which our newly acquired economic prosperity and affluence call for better amenities and environment. It is true, Sir, that in the first 10 years of our endeavour we were primarily concerned with numbers—to build as quickly and as cheaply as possible providing only the basic essentials of life. The hundreds of Mark I and Mark II resettlement blocks built in that period with their 24 sq. ft. living area per adult person and primitive communal lavatory facilities and completely void of environmental and community amenities were, judging by today's standards, appalling depravity of human dignity, and remain a blot on our present-day status. Although some slight improvements were made to the Mark III, Mark IV and Mark V series, not unlike adding minor embellishments in motor-car production, it was not until 1970 that such accommodation was given a little more leg-room and other essentials of life when Government accepted the Housing Board's recommendation to standardize the building of resettlement and low-cost housing estates and thereby raised the accommodation standard of 35 sq. ft. per adult along with simple self-contained sanitary and cooking facilities. At the same time, certain modest but planned and built-in welfare and community facilities were provided.

Sir, with the launching of the new Government housing estate in Sha Tin, which has been designed as a pilot scheme with a more balanced and adequate provision of facilities, it can be said that Hong

Kong has progressed onto the third phase of its public housing endeavour in which the scale and dignity of man are being recognized. The new target to house 1.8 million people in the next 10 years is undoubtedly a formidable task but the establishment of a new Housing Department, together with a reconstituted Housing Authority, will ensure concentration of efforts and expertise which hitherto were fragmented. Furthermore, Hong Kong's growing prosperity will measure up to the high cost of the programme without undue hardship.

Apart from planning, building and managing future housing estates, the new Housing Department has an urgent task of relieving overcrowding in the older estates. Despite the fact that resettlement estates were designed on the basis of 24 sq. ft. living area per adult person, in March 1971 some 354,000 people in 48,000 families were living in conditions below the designed criteria, and today thousands of families are actually living in accommodation of little over 12 sq. ft. per person due to natural expansion. This appalling condition must be considered a stigma on our affluent community. May I, Sir, in closing, repeat what I said in this Council in October 1971, that extreme congestion bred crimes and our new slums generated sociological problems that were far more serious than anything we had experienced in the past. Many of our earlier estates need complete replanning and rebuilding instead of mere conversion. Their inhabitants had not long ago moved out from their shanty towns only to find themselves today in concrete jungles.

Sir, with these remarks I support the bill and I wish the new Secretary for Housing all success in his tremendous task.

MR WONG: —Your Excellency, on October 7th 1970, I said in this Council, "It is very confusing to the public and ourselves to have three kinds of low-cost housing; *i.e.* the Housing Authority, Government low-cost housing, and resettlement housing. Since they are administratively under one organization, I would propose that this organization be co-ordinated into a Housing Department to justify the importance of housing."

With the introduction of this Housing Bill 1973, which repeals both the Housing Ordinance and the Resettlement Ordinance, it, in fact, establishes the new reconstituted Housing Authority which is to be served by a unified housing department. The general powers and duties of the Authority as outlined in clause 4 of the Ordinance are much broader than those possessed by the former Housing Authority.

By dissolving the Housing Board and consolidating the old Housing Authority, the new Housing Authority will have more unity of direction,

[MR WONG] **Housing Bill—resumption of debate on second reading (14.2.73)**

powers, and functions. It will have not only the executive responsibilities for all housing estates, but also the advisory functions of the Housing Board. This is necessitated by the fact that the old Housing Authority had too limited functions and restricted financial powers. The functions of the Housing Board were too broad and too vague. I am sure that the streamlining of this new housing policy and functions into a single body will bring forth greater efficiency in implementing our ten years housing programme and a more positive approach to housing problems as a whole. I have much pleasure in supporting this bill.

DR CHUNG: —Your Excellency, for over 20 years Hong Kong has been, and is still, suffering from the chronic shortage of housing. During this period there were two particularly significant upsurges in demand for housing. One was in the early 1950's and was caused by the sudden influx of population. The other started about three or four years ago and is now getting more acute. The current rapid rise in demand for housing is, I believe, due to increasing affluence of the population.

Despite the tremendous effort exerted by Government in the development of public and Government-aided housing there is still a very large number of people living in accommodation built by the private sector and spending an absurdly high proportion of their income on rents. The Rent Increases Control Ordinance for domestic premises introduced in this Council in 1970 does not apply to those premises having a rateable value of more than \$15,000 per annum nor is it applicable to new premises. Furthermore it is almost three years now since Government agreed to examine the proposal of establishing a "Fair Rent Tribunal" so that aggrieved tenants can submit their disputes for impartial arbitration. So far, we have heard nothing about the progress of this matter. As a result, rents for the uncontrolled premises have been and are still rising at unprecedented rates.

Let me cite two typical examples. The first one is a medium size flat of about 1,800 square feet in Stubbs Road. The tenant first rented it in March 1967 at \$1,530 per month which was increased to \$1,850 in 1970, to \$2,850 in 1972 and to now \$4,500 last month. This represents \$2.50 per square foot per month. The other example, even worse, is a large flat of about 3,000 square feet in Woodland Heights. The tenant moved in around March 1967 and paid a rent of \$2,650 per month which was raised to \$5,000 in 1970 and now to a

fantastic level of \$13,000 per month. It works out at \$4 per square foot per month.

There is a growing body of opinion that such a phenomenal increase in residential rents is a direct result of Government's outdated land policy which, as the general public understands it, is to obtain the maximum return on selling leases of Crown land. Recent land sales clearly show the inflationary effect of Government's current land policy. A piece of residential Crown land, about 16,000 square feet in area, situated in Argyle Street was sold by public auction on 26th January this year for \$16.6 million or about \$1,000 per square foot. For a 14-storey building construction, the maximum coverage permissible under the terms of the lease is 25% of the site area and the gross floor area for each storey including lift lobby and staircases is therefore 4,000 square feet, giving a total gross floor area of 56,000 square feet for the whole building. Honourable Members will see that the cost of land alone in this case is already as high as \$300 per square foot of gross floor area. The cost of piling, superstructure, plumbing work and lifts is roughly about \$60 per square foot of gross floor area and is about only one-sixth of the total cost.

This is not an isolated case. The three lots of Crown land situated on Broadcast Drive for private residential purposes were sold by public auction on last Friday for an average price of practically \$900 per square feet. The cost of land alone again in this case works out as high as \$230 per square foot of gross floor area.

At this cost level, I believe that the cost of housing in Hong Kong is among the highest in the world. Unless we can and will do something to improve the situation, I think we are facing a great danger of rapid inflation in salaries, wages and cost of living. This will in turn jeopardize Hong Kong's position in the ever-increasingly competitive world markets. Although Hong Kong's manufacturing industry is continually improving its technology and productivity, there is a limit to which both technology and productivity can counteract the fast rate of cost inflation. Even the most industrially advanced country in the world finds it difficult to compete in international markets because of its high cost of production. I therefore hope that Government will not over-estimate our strength and put the economy of Hong Kong's export-oriented industry at stake.

The problem of high cost in private sector housing, I recognize, is not a simple one but in the end it is still a matter of availability and adequate supply of suitable land for the private developers. In this respect I am concerned about the reduction in residential land sales in urban areas in the next fiscal year as compared to that in the current financial year as disclosed by the honourable Financial Secretary in his budget speech this afternoon. This news, I regret to predict,

[DR CHUNG] **Housing Bill—resumption of debate on second reading
(14.2.73)**

will push the residential land prices up to even greater heights. I therefore urge Government to exert greater efforts in this direction of making more land available.

Sir, Government's plan to build housing for over 1½ million people by 1983 is a very laudable one. This plan calls for an annual construction of about 5½ million square feet of floor area and, even at current prices, incurs an annual expenditure of over \$300 million on housing construction alone. This is a major project and I fully endorse the idea of forming one unified body—a reconstituted Housing Authority—to oversee the policies and development of the 10-year housing project, and I wish to associate myself with my senior colleague Mr SZETO to wish the Secretary for Housing every success in this worthwhile project.

With these remarks, Sir, I support the motion.

MR LIGHTBODY: —Sir, I am grateful to my honourable Friends for their support of this bill, and it is pleasing to note that it does at last bring close to realization a change which my honourable Friend Mr Wilfred WONG proposed as far back as 1970, namely, that all public housing should be under a single direction.

The honourable SZETO Wai's point about conditions in the older estates is well taken. The original designers of these blocks did look ahead and anticipated eventual conversion to self-contained flats with through ventilation, and it is tempting to do just that. However, there will be wide support for my honourable Friend's view that what is required here is not simple conversion, but rather complete redevelopment of these sites. This view is supported by a recent recommendation by the Housing Board.

Returning to the bill, Sir, there is one feature of the Housing Bill on which a clearer statement of Government's view might be helpful. I refer to clause 3(3), which provides that an official member of the Housing Authority should be its Chairman. The reason for this provision is that the task of steering this new Authority through its greatly enlarged and complex roles, involving as they will the integration of the activities of several departments which are now separate but are to be combined, points to the need for the Chairman to be an official, whose full time is available for the work. It is therefore Government's intention that the first Chairman should be an official.

However, Sir, that is not to say that in years to come, when operating patterns are more clearly established, it may not be desirable for the Authority's Chairman to be an unofficial. In recognition of this, and with a view to leaving Your Excellency's discretion in this matter completely unfettered, it is the intention to move an amendment to clause 3(3) at the Committee Stage to provide that the Chairman and the Vice-Chairman will be appointed by the Governor.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order No 43(1).

Committee stage of bills

Council went into Committee.

URBAN COUNCIL BILL 1973

HIS EXCELLENCY THE PRESIDENT: —We shall take the clauses in blocks of not more than ten.

Clauses 1 to 54 and the First to Fourth Schedules were agreed to.

STOCK EXCHANGES CONTROL BILL 1973

Clause 1 was agreed to.

Clause 2.

MR WOO: —Sir, I have not been able to give the three clear days notice of amendments required by Standing Order No 45(2), though I have been able to discuss with the Attorney General the amendments which I wish to move in connection with this bill. I therefore seek your leave, under that Standing Order, to move the amendments listed in the paper which has been circulated to honourable Members without having given three clear days notice of them.

HIS EXCELLENCY THE PRESIDENT: —I give leave accordingly.

MR WOO: —Sir, I move that clause 2 be amended as set forth in the paper before honourable Members.

[MR WOO] **Stock Exchanges Control Bill—committee stage**

The first amendment is to make the definition of recognized stock exchange similar to that of clause 8, and the second is to make it clear that “loans” means loan stocks, bonds and not ordinary loans.

Proposed Amendments

Clause

2 That clause 2 be amended—

(a) by deleting the definition of "recognized stock exchange" and substituting the following—

““recognized stock exchange” means a body of persons, corporate or unincorporated, in respect of which an order made or deemed to have been made under section 3(1) declaring the body to be a recognized stock exchange is for the time being in force;”;

(b) by deleting from the definition of "securities" the word "loans," and substituting the following—

“loan stock, bonds,”.

The amendments were agreed to.

Clause 2, as amended, was agreed to.

Clause 3 was agreed to.

Clause 4.

MR WOO: —Sir, I move that clause 4 be amended as set forth in the paper before honourable Members.

The first amendment to this clause is to make clear that a person who assists in the operating of a stock market must have the knowledge that the stock market is a recognized stock market.

The second is to increase the penalties of \$200,000 and \$5,000 to half a million dollars and \$50,000 respectively.

Proposed Amendments

Clause

4 (a) That clause 4 be amended by deleting subclause (1), and substituting the following—

"(1) No person shall—

- (a) establish or operate a stock market which is not the stock market of a recognized stock exchange; or
- (b) assist in the operation of a stock market which, to his knowledge, is not the stock market of a recognized stock exchange."

- (b) That clause 4(2) be amended by deleting "\$200,000" and "\$5,000", and substituting "\$500,000" and "\$50,000" respectively.

The amendments were agreed to.

Clause 4, as amended, was agreed to.

Clause 5.

MR WOO: —Sir, I move that clause 5 be amended as set forth in the paper before honourable Members.

The amendment to clause 5(1) is to alter the penalty from \$20,000 to \$50,000.

Proposed Amendment

Clause

- 5 That clause 5(1) be amended by deleting "\$20,000", and substituting "\$50,000".

The amendment was agreed to.

Clause 5, as amended, was agreed to.

Clause 6.

MR WOO: —Sir, I move that clause 6 be amended as set forth in the paper before honourable Members.

The purpose of this amendment is to substitute the word "superintendent" for the word "inspector". It is considered that a senior police officer of the rank of superintendent is more suitable than an inspector.

Proposed Amendments

Clause

- 6 (a) That clause 6(1) be amended by deleting "inspector", and substituting "superintendent".

Stock Exchanges Control Bill—committee stage

- (b) That clause 6(2)(c) be amended by deleting "they", and substituting "the premises".

The amendments were agreed to.

Clause 6, as amended, was agreed to.

Clause 7.

MR WOO: —Sir, I move that clause 7 be amended as set forth in the paper before honourable Members.

The first amendment is to substitute the word "magistrate" by the words "district judge".

The purpose of the second is to allow a person who is aggrieved by a closure order to apply to a district judge to discharge the order; and on the hearing the district judge can either confirm or discharge the order. A copy of the application must be served on the Attorney General within 24 hours of the hearing, otherwise the hearing cannot take place.

*Proposed Amendments**Clause*

- 7 (a) That clause 7(1) be amended by deleting "magistrate", and substituting "District Judge".
- (b) That clause 7 be amended by inserting, after subclause (1), the following—

"(1A) Any person aggrieved by the making of an order under subsection (1) and having an interest in the premises in respect of which the order was made may apply to a District Judge to have the order discharged; and on the hearing of the application the District Judge may either confirm the order or direct that it be discharged.

(1B) An application under subsection (1A) may be opposed by the Attorney General and shall not be heard unless a copy of the application has been served on the Attorney General at least 24 hours before the hearing. "

- (c) That clause 7(4) be amended by deleting "\$20,000" and substituting "\$50,000".

The amendments were agreed to.

Clause 7, as amended, was agreed to.

Clause 8 was agreed to.

New clause 7A "Consent of Attorney General."

Clause read the first time and ordered to be set down for second reading pursuant to Standing Order No 46(6).

MR WOO: —Sir, in accordance with Standing Order 46(6) I move that the new clause 7A as set forth in the paper before honourable Members be read a second time.

It is considered that any prosecution under this bill should have the consent of the Attorney General.

Question put and agreed to.

Clause read the second time.

MR WOO: —Sir, I move that new clause 7A be added to the bill.

Proposed Addition

Clause

7A That a new clause 7A be inserted as follows—

"Consent of Attorney General. **7A.** No prosecution for an offence under this Ordinance shall be instituted without the consent of the Attorney General. "

The addition of the new clause was agreed to.

**PUBLIC HEALTH AND URBAN SERVICES (AMENDMENT)
BILL 1973**

HIS EXCELLENCY THE PRESIDENT: —We shall take the clauses in blocks of not more than five.

Clauses 1 to 11 were agreed to.

Clause 12.

MR CHEUNG: —Sir, I move that clause 12 be amended as set forth in the paper before honourable Members.

[MR CHEUNG] **Public Health and Urban Services (Amendment) Bill—
committee stage**

The various sections that are referred to in the paper enable Your Excellency to designate premises as a public market, a library, a museum and so forth. It is the intention, however, that those powers should only be exercised in relation to premises publicly owned and not in relation to those privately owned. Accordingly, I think that that should be made clear beyond mischance and this will be achieved by the amendment which I have proposed.

If Members agree to it, they may go away from this Council resting assured that Your Excellency will not exercise your powers under section 76A, for example, to designate the stock exchanges, which are privately owned, as public slaughter houses. (*Laughter*).

Proposed Amendment

Clause

12 That clause 12 be amended by adding the following new section after the proposed new section 144—

"Restriction on certain powers. **144A.** The Governor shall not exercise the powers conferred by sections 42A(1), 76A(1), 79(3), 105A(1), 105G, 105K(1), 105M(1), 106(1), and 124A(4) in relation to any premises which are the subject of a Crown lease without the consent of the lessee thereof. "

The amendment was agreed to.

Clause 12, as amended, was agreed to.

Clauses 13 to 20 and the Schedule were agreed to.

Council then resumed.

Third reading of bills

THE ATTORNEY GENERAL (MR ROBERTS) reported that the

Urban Council Bill 1973

had passed through Committee without amendment and that the

Stock Exchanges Control Bill 1973

Public Health and Urban Services (Amendment) Bill 1973

had passed through Committee with amendment and moved the third reading of each of the bills.

Question put on each bill and agreed to.

Bills read the third time and passed.

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT: —In accordance with Standing Orders I now adjourn the Council until 2.30 p.m. on Wednesday the 14th March.

Adjourned accordingly at twenty-six minutes to six o'clock.