

**OFFICIAL REPORT OF PROCEEDINGS****Thursday, 13 April 1978****The Council met at half past two o'clock****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)  
SIR CRAWFORD MURRAY MACLEHOSE, GBE, KCMG, KCVO

THE HONOURABLE THE CHIEF SECRETARY  
SIR DENYS TUDOR EMIL ROBERTS, KBE, QC, JP

THE HONOURABLE THE FINANCIAL SECRETARY  
MR CHARLES PHILIP HADDON-CAVE, CMG, JP

THE HONOURABLE THE ATTORNEY GENERAL (*Acting*)  
MR GARTH CECIL THORNTON, QC

THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS  
MR LI FOOK-KOW, CMG, JP

THE HONOURABLE DAVID HAROLD JORDAN, CMG, MBE, JP  
DIRECTOR OF TRADE, INDUSTRY AND CUSTOMS

THE HONOURABLE DAVID AKERS-JONES, CMG, JP  
SECRETARY FOR THE NEW TERRITORIES

THE HONOURABLE LEWIS MERVYN DAVIES, CMG, OBE, JP  
SECRETARY FOR SECURITY

THE HONOURABLE DAVID WYLIE McDONALD, CMG, JP  
DIRECTOR OF PUBLIC WORKS

THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, CMG, JP  
DIRECTOR OF EDUCATION

THE HONOURABLE DAVID GREGORY JEAFFRESON, JP  
SECRETARY FOR ECONOMIC SERVICES

THE HONOURABLE ALAN JAMES SCOTT, JP  
SECRETARY FOR HOUSING

THE HONOURABLE EDWARD HEWITT NICHOLS, OBE, JP  
DIRECTOR OF AGRICULTURE AND FISHERIES

THE HONOURABLE THOMAS LEE CHUN-YON, CBE, JP  
DIRECTOR OF SOCIAL WELFARE

THE HONOURABLE DEREK JOHN CLAREMONT JONES, JP  
SECRETARY FOR THE ENVIRONMENT

DR THE HONOURABLE THONG KAH-LEONG, JP  
DIRECTOR OF MEDICAL AND HEALTH SERVICES

THE HONOURABLE ERIC PETER HO, JP  
SECRETARY FOR SOCIAL SERVICES

THE HONOURABLE JOHN CHARLES CREASEY WALDEN, JP  
DIRECTOR OF HOME AFFAIRS

THE HONOURABLE JOHN MARTIN ROWLANDS, JP  
SECRETARY FOR THE CIVIL SERVICE

THE HONOURABLE JAMES NEIL HENDERSON, JP  
COMMISSIONER FOR LABOUR

THE HONOURABLE SIR SZE-YUEN CHUNG, CBE, JP

THE HONOURABLE LEE QUO-WEI, CBE, JP

THE HONOURABLE OSWALD VICTOR CHEUNG, CBE, QC, JP

THE HONOURABLE ROGERIO HYNDMAN LOBO, OBE, JP

THE HONOURABLE PETER GORDON WILLIAMS, OBE, JP

THE HONOURABLE JAMES WU MAN-HON, OBE, JP

THE HONOURABLE HILTON CHEONG-LEEN, OBE, JP

THE HONOURABLE LI FOOK-WO, OBE, JP

THE HONOURABLE JOHN HENRY BREMRIDGE, OBE, JP

DR THE HONOURABLE HARRY FANG SIN-YANG, OBE, JP

THE HONOURABLE MRS KWAN KO SIU-WAH, OBE, JP

THE HONOURABLE LO TAK-SHING, OBE, JP

THE HONOURABLE FRANCIS YUAN-HAO TIEN, OBE, JP

THE HONOURABLE ALEX WU SHU-CHIH, OBE, JP

THE REV THE HONOURABLE JOYCE MARY BENNETT, JP

THE HONOURABLE CHEN SHOU-LUM, JP

THE HONOURABLE LYDIA DUNN, OBE, JP

DR THE HONOURABLE HENRY HU HUNG-LICK, OBE, JP

THE HONOURABLE LEUNG TAT-SHING, JP

THE REV THE HONOURABLE PATRICK TERENCE McGOVERN, SJ, JP

THE HONOURABLE PETER C. WONG, JP

THE HONOURABLE WONG LAM, OBE, JP

DR THE HONOURABLE RAYSON LISUNG HUANG, CBE, JP

THE HONOURABLE CHARLES YEUNG SIU-CHO, JP

**ABSENT**

THE HONOURABLE DAVID RAYMOND BOY, JP  
SOLICITOR GENERAL (*Acting*)

**IN ATTENDANCE**

THE CLERK TO THE LEGISLATIVE COUNCIL  
MR STEPHEN TAM SHU-PUI

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**Second reading of bill (resumed debate)****APPROPRIATION BILL 1978****Resumption of debate on second reading (12 April 1978)***Question proposed*

SECRETARY FOR THE NEW TERRITORIES:—Sir, I am indebted to Mr Charles YEUNG for focussing the spotlight of this debate, for much longer than is usual, on matters affecting the physical and social well-being of the New Territories. Mr YEUNG spoke of the marked improvement that has already been made in the provision of facilities and amenities in the New Territories: I would agree with this and I would agree, too, that there is much more to be done, but I would go further and affirm that it is being done.

Briefly, the proportion of expenditure of the Public Works Department spent in the New Territories on new towns and other towns has risen in the last three years from 30% to 42% of the total expenditure on Public Works, and has climbed from an actual expenditure in 1976-77 of \$347 million, to almost double that in the forecast for 1978-79 of \$675 million, and this excludes the very significant and separate expenditure by the Housing Authority in the New Territories. These facts and figures clearly reflect the shifting emphasis of development from Hong Kong and Kowloon to the New Territories. But, to get the real picture, you must go behind the bald figures to the actual items of expenditure, you find there proof of the increasingly high standards of development being applied and will learn that development is not confined simply to the new towns as an urban overspill from Kowloon, neglecting the rest of the New Territories, but that there is a comprehensive programme of improvement and expansion in all the main centres of population. Standards being applied will be far higher than anything yet seen in Hong Kong; emphasis is being placed on balanced development, and, on restoring the balance where facilities are lacking; and attention is being paid, as never before in Hong Kong, to the environment, landscaping and to the management of these communities.

It is true that rating and property tax have been extended to the New Territories, but it would be counter-productive, if that is the term, to suggest that a proportion of the outturn be set aside to enable the New Territories

separately to embark on a capital expenditure programme to build cultural and recreational facilities, auditoria and libraries. For this would certainly mean cutting back on what we are already doing or planning to do!

Mr YEUNG urged that priority should be given to the provision of feeder and access roads to many more of the less accessible parts of the New Territories—and has specifically suggested where private ownership of land has proved an obstacle, that Government should consider acquiring the land by compulsory acquisition. It is interesting to note that the Sha Tin Advisory Board raised a similar problem only the other day. As a matter of fact, the record of providing access to isolated villages is not bad and work is continuing. For example, only last year 8 new motorable access tracks were built and 13 repaired. Those villages which still do not have vehicular access are usually very remote or sparsely inhabited, save in a few cases where, as Mr YEUNG has indicated, private land has prevented it. I believe we have now reached a point where, in certain cases, we should tackle the problem, as he suggests, by resumption of the land required.

Another suggestion made by Mr YEUNG, which would improve living conditions in villages, is the provision of an individual metered water supply for each house, rather than free water from a public standpipe. Where possible, such requests are met, but it is often the case that a standpipe supply is on the edge of a supply zone: as a result water pressure may not be adequate to supply individual meters without upgrading the whole system, and this, in turn, may mean laying completely new pipes and resolving technical problems. Having said this, I should add that there are projects in the Public Works Programme to improve existing supply zones, and to extend supply to new areas. These include provision of supply to Ma Wan and Lamma, and to Cheung Sha on Lantau. Provision of a supply, as I said in 1976, is essential to development of these places, and I am pleased to see that target dates have now been set for Ma Wan and Cheung Sha, and that consultants have now been appointed to investigate and advise about the supply for Lamma Island with a view to getting on with it as quickly as possible.

The figures I gave earlier on show that in terms of capital outlay the New Territories have a fair slice of the cake. However Mr YEUNG's point that there should be a review of facilities which are being provided in the New Territories reveals—at least in this case—how close the Unofficial and the Official mind are in their thinking! In fact we have beaten Mr YEUNG to the draw: the Director of Urban Services has just completed such a review and it will be shortly examined by the New Territories Development Progress Committee, which I chair, so that the long-term implications of the programme can be properly assessed and, equally important, so as to ensure the adequacy of the machinery to implement and manage the programme of works involved.

It is a regrettable fact that part of the price of development in the New Territories is the acquisition of private property and the disturbance and, in some cases, complete removal of long-established villages. Every effort is made to reduce this to the minimum and constantly to review removal terms and the options available. But the options are limited by that very process of development whose aim is to turn a rural environment into an industrialized town. When a village house has to be removed the present arrangements, simply put, are, in return for each .01 of an acre or 435 square feet of village building land surrendered, to build a new home for the village owner which is three storeys high, has a floor area of 2,100 square feet with a bathroom and kitchen on each floor. Ancestral temples are rebuilt; a removal and redecoration allowance is granted for each resite house; and, so far as is possible, to meet the wishes of the villagers, each village is resited as a whole into one new site. The new village is built to modern standards, to a proper layout, and with modern services.

Generally villages are required to remove because they are low-lying or obstruct essential development works, but some villages can be left where they are, this is particularly so in Sha Tin, and here there are plans to improve the environment of the villages that remain and provide them with various facilities which are now lacking.

The suggestion that the energies and abilities of our young people be channelled into a more direct association with our Country Parks is certainly an attractive one and fully accords with Government thinking. At present, many thousands of young people participate in education and outdoor work programmes organized or assisted by the Agriculture and Fisheries Department, and Civil Aid Services cadets are already helping to patrol Country Parks. I am sure there is much more that can be done in this direction and with this in view, the Director of Agriculture and Fisheries, who is the Country Parks Authority, will present his plans on Conservation Education to the Country Parks Board during the summer, and will put forward the Authority's intentions in this field. Briefly, the overall objectives of these proposals are to improve community and individual awareness and participation in countryside conservation, with particular emphasis on young people.

The Government believes, however, that thieves and robbers in Country Parks, and elsewhere, are best tackled by strengthening the presence of the Police and their ability to respond to calls for help. Part of the process of improving Police effectiveness is the extension of Beat Radio to the New Territories. Beat Radio is already used in Kwai Chung and in Tsuen Wan. The scheme has proved very effective, but it is expensive and there are technical problems to overcome. Nevertheless, it is the intention that this system should be extended to Sha Tin and Tuen Mun during this and the next financial year, and later to Yuen Long and Sheung Shui.

Sir, Mr Charles YEUNG spoke at some length and raised many points: I have replied briefly and perhaps have not done full justice to all he said. (We shall have many more opportunities to continue the dialogue!) I would like to add, however, just a few general sentences. There may have been some people in the past four years who will have doubted whether we really meant what we said when the plans for the new towns, and all the other things we said we were going to do, were spelt out. There were some who doubted the wisdom of trying to do so much at one and the same time. Today there can be no more doubting, we have not collapsed under the strain and the essential nucleus of development has already been completed. Now, round this central core in every place reclamation, engineering works and pile driving is already underway, which will take us well into the development programme and towards the target of providing new homes for one and a half million people. The list of all that is being done is too long to relate, the achievement is already remarkable. I should like to say here, how rewarding it is to see the enthusiasm of all those—and I mean all—associated with these great schemes and to express my thanks for their co-operation, hard work and dedication. I should also like to pay tribute to the people now living in these developing areas who put up so patiently and cheerfully with the dust, dirt, noise and disruption, knowing that out of it all will grow the reality of new homes and new opportunity.

Sir, I support the motion.

SECRETARY FOR SECURITY:—Sir, four Honourable Members have referred to matters in the law and order programme area and I would like to comment on what they have said.

*Royal Hong Kong Police*

The Police Force has 33 neighbourhood policing units and 59 reporting centres already in existence, a ratio of about 1:2. Reporting centres do provide an economical police presence: but like Mr Hilton CHEONG-LEEN, who referred to this, I know that neighbourhood policing units are relatively much more popular. The demands on manpower are also greater. In 1978-79 provision is included in the estimates for another 12 neighbourhood policing units and 37 reporting centres. Given the demands on the manpower of the Force and the need for wide geographical coverage I believe this is about right.

Mr Charles YEUNG will be glad to be reassured as he has already been, that the beat radio system is in existence in the New Territories. It remains for me to add in reply to his question about the use of helicopters that the RAF and Auxiliary Air Force helicopters are always available to be tasked for use by the emergency units of the Police.

Since Dr FANG spoke about the Auxiliary Police pay, increases have been approved by Finance Committee. After considering all the various factors,

including Dr FANG's points, the effective date was fixed as the 1st April, 1978. This should ensure that recruitment to the Force and turnout for duty continues at a satisfactory level.

#### *Civil Aid Services*

Mr Hilton CHEONG-LEEN referred to the services rendered by the Civil Aid Services and the AMS. The Civil Aid Services, with a recruitment ceiling of 2,750 adult members, is able to fulfill the operational demands made upon it. But with the development of the new towns and the expansion of urban areas we need to ensure that the CAS presence keeps pace with developments. We do keep the recruitment ceiling under reviews and I envisage some expansion of the CAS strength in the following financial years.

#### *Prisons*

Mr Charles YEUNG stressed the importance of assisting offenders towards resuming a useful role in the community after discharge. Some of our existing corrective programmes already provide this. For example, rehabilitation is an essential element of the drug addiction treatment centres programme, and the cultivation of good work habits a specific aim of the programme. Limited half-way house facilities are also provided. In training centres, the training given to young persons is divided equally between education and vocational training. Detention centres also provide corrective training and are designed to give young first offenders a short sharp experience in discipline.

Under each of these 3 programmes young persons and in the case of treatment centres, all persons are released on a date determined by the Commissioner of Prisons within the statutory minimum and maximum period. The persons thus released are then subject to a compulsory period of supervision. Last year 566 young offenders from detention centres and training centres and 2,360 persons of all ages discharged from DATCs were released under supervision. But so far, release under supervision does not apply to those discharged from prisons. Persons under 21 released from prison probably amount to not more than about 25% of this age group in institution. In other words about 75% of young persons discharged from Prisons Department institutions are already subject to aftercare.

Sir, effective schemes of release under supervision operate here and have done so for some years. Elsewhere parole for prisoners has also been in existence for many years and consideration has been given for some time to the extension of our existing schemes of release under supervision, possibly on a phased basis, to include prisoners. There are those, including myself, who would favour some extension of our existing systems. In selective cases, release under supervision would be timed to take effect when the prisoners response to his treatment has reached the highest point and when

in theory his return to society, under supervision, should therefore achieve the best results.

But there are difficulties. In any extension of the scheme it may not be easy to reassure the public that the authorities could keep in sufficiently close and regular touch with those released to see that the conditions of release are imposed effectively. Secondly, it is a matter of judgment whether a prisoner has reached the point of maximum response. This places a great burden on any parole board. Thirdly, and unhappily, even where such schemes have been in operation they have not always had an obvious influence on recidivism. Indeed in some countries where such a system exists natural levels of lawlessness have reached record heights. Not unnaturally the public is apprehensive and the extension of the system to prisoners here, humane as it may be, could only be approached with caution. Probably the next category to be considered should be young offenders.

A related matter was raised by Mr CHEN when he urged that prisoners be employed more productively and I agree. Output from prison industries in 1977 was about \$15.7 million to which we should add the value of routine tasks such as cooking, cleaning and some maintenance of buildings in institutions. Inmates also undertake the cleansing of some public beaches and recreational areas. What the value of these services may be I do not know, but I should think the total falls well short of Mr CHEN's rather optimistic estimate of \$30 to \$40 million per annum.

Expert advice on prison industries was obtained last year and action is in train to implement the recommendations. The object is to develop output to the maximum compatible with the limitations imposed by prisons discipline and routine. This will require additional industrial training staff. Some of the posts have already been approved and are included in the draft Estimates. We will also be proceeding with a programme for improved and additional workshop facilities. The immediate aim is to increase the annual output to about \$26 million and in the long-term to about \$50 million annually. We intend to make progress towards these targets in this financial year.

Sir, I support the motion.

SECRETARY FOR THE CIVIL SERVICE:—Sir, I am encouraged by the fact that no fewer than eight Unofficials included in their speeches comments on the civil service, comments which were not only searching, but also pertinent to the task that faces the service in executing the Government's multifarious programmes.

*Conditions of Service for married women civil servants*

Miss Ko Siu-wah and Mr Charles YEUNG both referred to conditions of service, or rather to a deficiency in them, for women civil servants who happen to be married. They pointed out that married women officers are

not eligible for the same housing and other benefits as women officers who are single, divorced or widowed. These other benefits include educational allowances for children, medical and dental facilities for any family members, and, in the case of overseas officers, passages for their families.

When Mr LEUNG Tat-shing raised the same question in November 1976, the then Secretary for the Civil Service took the view that it would not be appropriate to extend housing and other benefits to married women officers, unless they were divorced or widowed, since it was still the generally accepted view in Hong Kong that the husband should be responsible for looking after his wife and children in these matters. However, this is a field in which attitudes are changing. I shall therefore arrange a further survey of current practice in the private sector before reconsidering whether the Government should change its rules in the direction favoured by Miss Ko and Mr YEUNG.

Meanwhile, I should like to assure this Council that where strict application of the present rules would be inequitable, it is always the practice of the Civil Service Branch to make exceptions.

#### *Private Housing for Civil Servants*

I agree with Dr Harry FANG that while the Government's private tenancy allowance scheme has served a useful purpose, it does not encourage home ownership, and could be open to abuse.

The whole problem is now being looked at in the context of the full scale review of existing policies for the housing of civil servants, which has been underway for some time and should be complete by about July this year. While I cannot anticipate its outcome, I shall not be surprised if it recommends that our main aim in future should be to assist civil servants to own their own homes where they wish to do so. As Dr FANG and others have suggested, such a policy would almost certainly involve housing loan schemes of different types, geared to the needs of officers at various levels. I should point out, however, that the Government cannot force officers to become property owners, and that any proposal to discontinue private tenancy allowances would meet with resistance from local officers not wishing to own accommodation in Hong Kong.

#### *Staffing of the Civil Service*

Four Unofficials, Mr LOBO, Mr LI Fook-wo, Miss Lydia DUNN and Mr WONG Lam, spoke on the staffing of the civil service, with particular reference to the need for better staff relations and morale, improved supervision and productivity, higher standards of staff management and more attention to the career development of local officers. I find myself in agreement with almost all they had to say. However, to identify what needs to be done is one thing. It is more difficult to work out how to do it, and then to carry it through with resolution.

Mr LOBO mentioned the number of recent disputes over pay and structure, and wondered to what extent these reflected dissatisfaction generally within the public service. In some quarters there have been suggestions of increasing militancy on the part of civil servants. I believe, Sir, that I speak for virtually the whole of the civil service when I say that there is no desire to engage in militancy. Nor do I believe there is any general dissatisfaction throughout the service, though there are a number of problem areas and these are receiving my close attention.

Hong Kong is fortunate in the quality of its civil servants, who besides being loyal and hardworking, have a well-deserved reputation for being patient and responsible in matters affecting their own pay and conditions of service. If therefore there are now more groups of staff who feel aggrieved over one issue or another, we must seek out the causes and take steps to remedy them, for, as a general rule, Hong Kong civil servants do not complain unless they believe they have something to complain about.

#### *Improving Staff Management*

Many of our staff management problems stem directly from the rapid expansion to which we are committed in order to develop public services and community facilities at the desired rate. It is my impression that the pace of development is now so fast that many senior officers simply do not have time to deal adequately with staff management on top of their responsibilities for policy, planning, operations and general administration. Urgent studies are needed to get the measure of the problem, and to work out quick and simple remedies. My own tentative view is that in many departments we shall find a need for senior officers able to devote their whole time to supervising recruitment, training, postings, career development, welfare, staff relations and related matters. I can testify from my own recent experience that an investment in responsive staff management can lead quickly to visibly better morale, greater efficiency, and to economy in the use of scarce staff. If it should be decided to appoint senior staff managers in the larger departments, perhaps as part of a plan to improve resource management generally, I am reasonably confident that we shall be able to find suitable candidates from among serving officers in professional and general grades.

#### *Career Development*

This lies at the heart of good staff management in an organization the size of the Hong Kong Government; and yet it must be admitted that the application of this concept within the civil service is still very much in its infancy, partly because it requires highly skilled, and therefore scarce, staff if it is to be effective.

The aims of career development are simple: to motivate an officer to give of his best throughout his career, and to help him develop his potential

to the full for the benefit of the organization. This involves assessing the training requirements of each officer individually, actively assisting his development as a person, and planning his postings so that they lead towards the right goals for the officer in question. It also involves judging the optimum speed for the officer to climb up the ladder and, most important, giving a sense of career satisfaction to those officers who do not win promotion to the higher ranks.

I think, Sir, that the honest answer to Miss DUNN's question is that we do need to do a great deal more by way of career development for all serving officers, both local and overseas, in the principal grades within the civil service. I am sure that this would lead to improved performance throughout the service: it would also increase the supply of suitable officers from within the service to fill the rapidly growing number of senior posts.

#### *Staff Relations*

I should like to start by making one point about staff relations which tends to be overlooked, perhaps because it is so obvious; namely that good staff relations begin not with consultative or negotiating machinery but with good staff management. Of the many aspects of staff management which affect staff relations, I would cite the following as of particular importance:

- first, delegating responsibility, and making it stick;
- second, encouraging initiative, and deliberately providing the individual officer with a challenge;
- third, ensuring that work is both properly organized and supervised;
- fourth, developing good two-way oral communications between all levels of staff;
- fifth, establishing the concept of accountability downwards within the organization.

This last point requires elaboration. We are all used to the idea of being accountable upwards to our superiors. Equal emphasis should, in my view, be given at all levels to an officer's accountability to his juniors in matters which affect their well-being.

While proper staff management along these lines is a necessary foundation for good staff relations, one also needs a properly constituted forum in which management and staff can talk to each other on an equal footing, and in which they can resolve the differences that are bound to arise from time to time in any human organization. Formal Staff Consultative Councils, of which there are now 19, serve this purpose at the departmental level. However, before expanding their number I believe the time is ripe to review their role and 'modus operandi', with the aim of making them more effective instruments for resolving matters which are within the Head of Department's authority.

At the same time we need to review the role of departmental Staff Consultative Councils in relation to pay and structure matters affecting departmental grades of staff, for these nearly always have implications for several departments, and therefore need to be determined on a service-wide basis. My initial, and tentative view is that such pay and structure matters should continue, in the first instance, to be referred to the appropriate departmental Staff Consultative Council for the respective views of both the management and staff sides, which may or may not coincide. The matter should then be considered centrally, without delay, using new negotiating procedures tailored to meet our local requirements. It is essential that any new procedures should, from the outset, enjoy the confidence of both the staff and the Government, and that it be accepted by all concerned that the purpose is to reach agreement.

#### *Localization of the Civil Service*

In view of the concern that has been expressed recently, I think it would be helpful if I restated the Government's policy on localization of the civil service, and then set out the facts of the matter for all to see.

In recruiting men and women for the service, it is our declared policy to try first to fill all vacancies locally in Hong Kong. Overseas recruitment is only undertaken when suitable local candidates are not available in sufficient numbers. There are only two exceptions to this policy, Administrative Officers and the Police Inspectorate. For both these, it is established practice to have regular intakes of overseas officers.

It is also our declared policy to try first to fill all senior posts by promotion from within the service. Promotion is based on merit, regardless of whether an officer was originally recruited locally or overseas, or whether he is now serving on agreement or on permanent and pensionable terms. However, the promotion of an officer who is on agreement does not of itself qualify him to join the permanent and pensionable establishment.

In order to minimise the need to recruit overseas it is our policy to do all we can to train local men and women to fill professional and technical posts throughout the service, and also to help prepare serving officers for advancement to senior posts.

However, the civil service exists to serve the community and I do not believe that it would be in the public interest to allow any lack of skilled staff to delay such vital programmes as law and order, the Home Ownership Scheme, or the development of new towns and industrial areas. I am certain that the public at large expects us to find the necessary staff, and accepts that overseas recruitment is necessary at the present time, particularly in the fields I have mentioned.

I should now like to table some statistics on the number of local and overseas officers in the civil service, in the hope that these will aid discussion of the subject.

Table I shows that the total number of overseas officers has increased over the past 8 years from 1,859 to 2,868, while the number of local officers has increased from 76,116 to 112,623. This means that the proportion of overseas officers in the civil service is almost the same now (2.5 per cent) as it was eight years ago (2.4 per cent). I expect this proportion to rise to about 2.6 per cent over the next year or two, primarily because of the need to recruit more staff from overseas to enable us to proceed on schedule with major public works, housing, the new towns, and development of the Police Force.

TABLE I

*Total Numbers of Local and Overseas  
Officers in the Hong Kong Civil Service*

<i>as at</i>	<i>Local</i>		<i>Overseas</i>		<i>Total Strength</i>
	<i>No.</i>	<i>% of total</i>	<i>No.</i>	<i>% of total</i>	
1.1.70	76,116	97.6%	1,859	2.4%	77,975
1.4.78	112,623	97.5%	2,868	2.5%	115,491

Table II identifies those parts of the civil service in which there has been a marked increase in the number of overseas officers over the period 1970-78. These are:

- (a) The Police: 1,120 overseas officers now compared with 593 in 1970.
- (b) The Public Works and Housing Departments: 606 overseas officers now compared with 287 in 1970.

TABLE II

*Breakdown of Local and Overseas  
Officers by Departments*

	<i>as at</i>	<i>Local</i>		<i>Overseas</i>		<i>Total Strength</i>
		<i>No.</i>	<i>% of total</i>	<i>No.</i>	<i>% of total</i>	
Royal HK Police Force	1.1.70	12,934	96%	593	4%	13,527
	1.4.78	19,664	95%	1,120	5%	20,784
Public Works & Housing	1.1.70	15,376	98%	287	2%	15,663
	1.4.78	20,114	97%	606	3%	20,720
Legal, Judiciary, Registrar General & Legal Aid	1.1.70	1,076	91%	105	9%	1,181
	1.4.78	1,689	90%	186	10%	1,875
Administrative Officers	1.1.70	43	38%	70	62%	113
	1.4.78	92	45%	114	55%	206
The rest of the Civil Service	1.1.70	46,687	98%	804	2%	47,491
	1.4.78	71,064	99%	842	1%	71,906

- (c) The Legal group of departments: 186 overseas officers now compared with 105 in 1970, and
- (d) The Administrative Service: 114 overseas officers now compared with 70 in 1970.

To put these figures in perspective, the number of local officers in these same parts of the civil service has increased from 29,400 to 41,600 over the same period.

Table II also shows that for the rest of the civil service, encompassing some 34 departments, the number of overseas officers now (842) is almost the same as the number eight years ago (804). During the same period the number of local officers in these 34 departments increased from 46,700 to 71,100.

Table III shows that local officers now hold 197 posts at the Directorate level, or 35 per cent of the total. I am confident that this proportion will grow steadily in the years ahead. Indeed we appear to be entering a phase where it will be increasingly the norm for overseas officers to find local officers senior to them in rank.

TABLE III

*Numbers of Local and Overseas Officers holding Directorate Posts*

<i>as at</i>	<i>Local Officers</i>		<i>Overseas Officers</i>		<i>Total No. of Dir. Posts</i>
	<i>No.</i>	<i>% of total</i>	<i>No.</i>	<i>% of total</i>	
1.1.1960	21	13%	138	87%	159
1.1.1970	62	19%	264	81%	326
1.4.1978	197	35%	367	65%	564

Miss DUNN referred to the particularly large number of overseas officers who joined the service last year—the total was 546, and wondered whether this arose partly because staff requirements were not foreseen in advance. This figure of 546 was made up as follows:

(a) For the Police Force	209
(b) Professional officers for the Public Works and Housing Departments	226
(c) Doctors and other professional officers for the Medical and Health Department	25
(d) Professional officers for the Legal group of departments	27
(e) Mainly professional officers for 14 other departments	59
Total:	<u>546</u>

In the case of the Police Force, as Miss DUNN acknowledged, it has been established policy to recruit regularly from overseas.

In almost all other cases the need to recruit from overseas was partly the consequence of an overall shortage of people in Hong Kong holding particular qualifications (for example surveyors), partly the consequence of extremely high demand in the private sector (for example architects), and partly because in some professions (for example medical and legal) there is a marked preference for private practice. I am not sure there is anything very effective that can be done about the last two points. It might in theory have been possible for the Government to have foreseen the present overall shortage in certain professions, but we should need to have done so 8 years ago or more. With respect, I question whether anyone could in practice have foreseen in 1970 the scale on which development is now taking place in Hong Kong.

That is not of course to say that there has been no rational, forward planning of staff requirements, and in some fields: for example Medical and Health, Education, Social Welfare, Public Works and Legal, quite sophisticated forecasting procedures have been operating for some years. However, this is a field in which more needs to be done, particularly in forecasting likely future requirements at the senior professional and directorate levels.

Returning to the general theme of localization, it is evident that despite our repeated declarations of intent, and despite the fact that more and more local officers are moving into the senior ranks of the service, we have not succeeded in persuading many people of our sincerity on this issue. This may be partly because no matter how much we do, there is always so much more remaining to be done.

I take this opportunity therefore of stating, unequivocally, that I regard it as one of my principal tasks to implement the Government's localization policy, to do so firmly, and with fairness to all the officers concerned, local and overseas alike.

I have referred earlier to the part that career development can play in preparing local officers for advancement to more senior posts. We must also try to arrange our staff structures, job requirements and entry qualifications so that more posts can be filled from within Hong Kong. I suspect that we also need to be bolder in making full use of available talent, as well as more flexible in slotting the right officer into the right post, perhaps by extending the number of cross-postings from one department to another.

To conclude, may I echo Miss DUNN's remark that Hong Kong is too sophisticated a place for it to be wise or necessary to pursue a policy of localization for its own sake. Indeed, if we were ever to fall into that trap, the civil service could lose some of its most dedicated and talented officers. Hong Kong as a whole would then be the loser.

Sir, I support the motion.

THE CHIEF SECRETARY:—Sir, first of all, may I offer my sincere congratulations to Unofficial Members for their careful and constructive speeches which were also, with one or two traditional exceptions, models of brevity and economy of thought.*(laughter)*

I ask Unofficial Members to excuse my Colleagues and myself for not dealing fully with all the wide ranging comments and arguments which they have put forward. I hope that any Member, who finds that some of his points have not been met, will understand that we do not intend to be discourteous but that we are obliged to make some selection in order to restrain the debate within reasonable limits.*(laughter)*

### *Magistrates Courts*

Mr CHEONG-LEEN expressed the anxiety about the number of Magistrates Courts, drawing attention to a reduction in the number of Magistrates provided for under Head 43 of the Estimates.

The total number of Principal Magistrates, Senior Magistrates and Magistrates during the past year was 43. The Estimates provide for a total of 40 in 1978-79.

I am informed by the Registrar of the Supreme Court that this reduction is due to a shift in criminal cases from the Magistrates Courts to the District Courts. In particular, many more robbery cases are now tried in the District Courts than previously. To meet this changed pattern, posts for three more District Judges have been created, with a reduction of three in the number of Magistrates.

Mr CHEONG-LEEN mentioned complaints that witnesses and defendants are sometimes obliged to wait for many hours before cases are heard and that some have to return on a future occasion, after waiting a whole day for their cases to be called.

This is a complaint which is heard in most countries, and I am afraid that some degree of inconvenience is unavoidable. With huge numbers of summary cases to be tried, a magistrate must include sufficient trials in his list to ensure that the Court will continue to operate throughout the working day.

Inevitably, some cases last longer than the time estimated for them, thus causing the postponement of other cases, sometimes to much later on the same day.

The alternative, which is open to objection on several grounds, is to give a Magistrate a lighter case load. This would mean that much of his time will be wasted and that there will be longer intervals between the offence and trial, or that it would be necessary to create a much larger number of Magistrates Courts, none of them being used to the full.

Nevertheless, I can assure Mr CHEONG-LEEN that the Judiciary is fully aware of the need to do whatever it reasonably can to reduce to the minimum the delays and inconveniences which are caused by the judicial process to members of the public.

*Hong Kong/UK Relationship*

Mr YEUNG spoke about our links with the people of the United Kingdom and suggested that they had been weakened in recent years. I doubt if this is true.

Certainly, if we are to judge by the amount of comment on Hong Kong affairs which appears in the United Kingdom press, radio and television, there is much more interest there in Hong Kong than there has ever been before.

I suggest that the bulk of this comment is well informed, and reasonably balanced, giving full credit to Hong Kong for its success as a trader and for what we have been able to achieve, in spite of our limited resources and of the formidable constraints under which we live. Of course, Hong Kong has its enemies and its critics, but surely they are few compared with the large number of our friends in Britain.

Mr YEUNG suggested that more funds and facilities should be provided for the Hong Kong London Office, to enable it to promote Hong Kong's interests better in the United Kingdom. Members have recently approved the addition of a Deputy Commissioner for the London Office, with the main object of relieving the Commissioner of much of his other work, so that he can concentrate his energies upon the promotion of better understanding in the United Kingdom of Hong Kong.

It is the Commissioner's task to respond to ill informed criticism, but I do not believe that it is necessary, or desirable, that he should mount a conventional public relations campaign to improve our reputation in Britain. Our best answer to our critics lies in our record of achievement and in our policies for the future.

*Health Care Scheme*

Mr YEUNG revived the proposal for a contributory health care scheme, subsidized and generally controlled by the Government. This was one of the possibilities explored in the Report of the Working Party on Social Security, which was tabled in this Council on 10 April, 1968.

The objects of his earlier proposal were to spread the cost of medical care more evenly throughout the community, to eliminate misdirection of subsidy from public funds and to release public money for other measures. Sir Michael GASS, in his Statement on tabling the Working Party Report, expressed his doubts about its practicability.

So far as I am aware, the universal experience of schemes of a similar nature elsewhere has been that publicly financed medical insurance has

resulted in spiralling and uncontrollable costs. We assume that Hong Kong would prove to be no exception.

The Government considers that the most effective method, in the circumstances of Hong Kong, of providing basic medical services is to give effect to the proposals contained in his 1974 White Paper on The Further Development of Medical and Health Services in Hong Kong. This programme plan is updated annually, on the advice of the Medical Development Advisory Committee, which includes several Members of this Council.

There remains room for schemes which supplement the medical care provided from public funds, for those who want them and can afford them. But I do not think that it would be a proper use of public funds for such schemes to be subsidized, or organized, by the Government. Even where there is a comprehensive National Health Service, as in the United Kingdom, there are independent schemes (like those of the British United Provident Association and the Private Patients Plan) which provide greater comforts and a wider choice.

Similar developments in Hong Kong would be welcome, but there can be no question of them being administered by the Government or subsidized from public funds.

#### *Immigrant Workers*

Mr TIEN suggested that the Government should consider relaxing our immigration laws to allow the entry into Hong Kong of foreign labour in order to alleviate a shortage of workers, particularly in the textile and clothing industries.

Before any such step could be contemplated, we would have to be satisfied that a genuine shortage of labour does exist, to a degree which is likely to inhibit our future economic growth and prosperity.

Is there really an overall shortage such as is suggested, or is there merely a difficulty of recruiting labour for some industries because wage rates in other sectors have risen fast? Even if labour is genuinely short, is not the better remedy a paring of wasteful employees by private enterprise, a process which Unofficial Members incessantly urge upon the public service, (*laughter*) or the replacement of some labour by capital equipment?

I must also ask anyone, who might be tempted by this solution, to bear in mind the grave social problems which the importation of large numbers of foreign workers would pose. We are already faced with the immense task of providing adequate housing for our own residents. How could we give priority to such foreign workers, yet equally how could we allow them to live in sub-standard conditions?

We should also bear carefully in mind the fact that, once you have imported substantial numbers of foreign workers, it is difficult, if not impossible, to get rid of them if circumstances change and you no longer require them.

*Explanatory Memorandum*

Mr T. S. Lo suggested that Bills should contain a paragraph indicating the financial implications of the proposed legislation.

This practice has been adopted in several Commonwealth countries, including, I believe, the United Kingdom. I see no reason why it should not be introduced here, perhaps at the start of the next session, though Members may find that a surprising proportion of Bills have no financial implications. (*laughter*)

It will be a useful discipline for the administration to be obliged to calculate, with a reasonable degree of accuracy, the additional expense involved in a legislative measure. It will also assist this Council, when debating a Bill, to assess its implications for the future with greater accuracy.

I must, however, caution Mr LO that it would be unreasonable to expect the financial references to be more than an estimate of the cost on the basis contemplated at the time when a Bill is published. As Members know, modest sized acorns often grow into impressive oaks. (*laughter*)

*Advisory Committees*

Miss DUNN asked several questions about the network of Advisory Boards and Committees, which have assumed an integral part of our system of Government. In particular, she asked whether the membership of them makes best use of the resources of the community.

I can assure her that the Government attaches great importance to these Committees. We believe that, in our political circumstances, Unofficials from a wide variety of backgrounds should be associated closely with the administration of Hong Kong and in the formulation of policies.

We are fortunate in that so many gifted men and women are prepared to devote their time generously to public affairs by serving on them, often at considerable personal inconvenience and financial loss. But we cannot ask too much of them. For this reason, and because it is desirable to involve as wide a cross-section of the community as possible in our administrative processes, we are always searching for suitable members for these Committees.

It is the task of the Secretary for Home Affairs to maintain a register of serving and potential members of Government Committees. I hope that Unofficial Members of this Council will submit to him the name of anyone whom they think would be suitable for appointment.

The Government does carry out periodical examinations of the structure, purpose and membership of these Committees, to see whether their existence is justified or their jurisdiction should be changed. As a result of such an examination about three years ago, several were abolished and the composition of others was altered.

Although the present system may have been somewhat unsystematic, I believe that it has been successful in identifying, and giving experience of public affairs to, many able members of the community. The presence on this Council of Miss DUNN, and several of her Colleagues, shows how admirably the system works sometimes. (*laughter*).

#### *Size of Public Service*

Several Members, including Mr Q. W. LEE, Mr S. L. CHEN, Mr F. W. LI, Mr WONG Lam and Miss DUNN, expressed anxiety at the growth of the public service and have asked whether the substantial increases in its size last year, and the further increases proposed for this financial year, are justified.

In retrospect, one of the less fortunate decisions which was forced upon the Government during the period of recession was that the size of the public service should be frozen. This meant that, when the economy recovered unexpectedly swiftly, we were not in a position to make use of the additional revenue as quickly as we would have liked. It also obliged us to compress into two or three years the number of additional posts which, had we been able to maintain a steady progression, would have been spread out over four or five.

Our housing, educational and social welfare plants, and our programme of construction of other facilities, will continue to expand during the next few years. It would surely be unfortunate if these plans and programmes were delayed because of a lack of adequate staff in the public service.

I have therefore no hesitation in assuring Members that substantial increases in the size of the public service will not only be justifiable, but will be essential, during the next few years if we are not to lose the momentum of our various programmes.

#### *Monitoring Public Service*

Several Members have asked if our procedures are adequate to ensure that all the new posts created for the public service are justified and if steps are taken to ensure that, when posts have been created, the holders of them are properly employed.

So far as the creation of posts is concerned, I venture to suggest that the record of the Finance Branch, as a guardian of the public purse, is an excellent one. Any Head of Department will assure you that he is obliged to make the fullest justification to Finance Branch for every additional post which he seeks. It is indeed likely that he will complain that he cannot obtain approval for many extra posts which he thinks are necessary.

I should remind Members that, when an application for additional staff has fought its way through the close mesh of the Finance Branch, (*laughter*) it must still satisfy the Members of the Establishment Sub-Committee and

then Finance Committee itself. Consequently, Members of this Council have the final say in the approval of any new post in the public service. I believe, therefore, that adequate safeguards exist for ensuring that unnecessary posts are not created in the public service. But I do not think that our present procedures for monitoring posts after they have been created are as satisfactory.

Examinations of the deployment of staff in Government departments are carried out from time to time by the Civil Service Branch and by the Management Services Division (which includes the Organization and Methods Unit). More important, in this context, is the Finance Branch's responsibility for complementing. This includes the duty of examining whether a department's establishment is appropriate to the discharge of its approved functions and of ensuring that there are the correct numbers of posts at all levels.

There is, however, no systematic machinery for the regular examination of departmental establishments, mainly because the Branch, in a period of rapid expansion, has been fully engaged in the processing of requests for additional staff.

The Deputy Financial Secretary accepts that more could be done to monitor the use of staff and will review the scale of such staff inspection work as is undertaken by the Finance Branch, to determine how much more we should do to ensure that departments observe the strictest economy in the use of staff and that all staff remain essential to the carrying out of the department's work.

#### *Hiving-off Departments*

Mr F. W. LI suggested that some enterprises, of a public utility nature, should be removed from the Civil Service and operate as independent corporations on a commercial basis, though I cannot say that I am clear as to what benefits Mr LI thinks would flow from such a separation.

He has not suggested that the Government departments which run public enterprises, like the Kowloon-Canton Railway, the Post Office or the Airport are inefficient or expensive. Nor, so far as I am aware, have any substantial complaints been made by the public about the services provided by them.

To establish independent corporations, employing at least as many officials as the relevant Government departments do at present, is unlikely to save public money. Indeed, I suggest that the slackening of central control which would result, would sooner or later mean that the overhead expenses of providing these utility services would be substantially greater.

We have been pragmatic about the methods which are adopted for the provision of the various public utilities. In some cases, they are run wholly by private companies, for example the buses and the ferries. In some instances, there are independent corporations with Government participation,

the extreme case being of the Mass Transit Railway. In others, we have established independent corporations, financed from revenue, as in the case of the Trade Development Council, the Tourist Association and the Productivity Council. And some enterprises are run by Government departments.

If it can be demonstrated clearly that any of the services provided by Government departments could be run more economically, more efficiently and provide a better service to the public, under some other regime, the Government would be prepared to consider it. No such cogent evidence exists at present, so far as I am aware.

#### *Structure of the Service*

Several Members, including Mr Q. W. LEE, Mr F. W. LI and Miss DUNN have asked whether, in view of the great expansion of the public service in the past few years, there should be an examination of the structure of the central Government.

It may be of interest to Members to know that the Secretary for Administration last year initiated an investigation of the role of the Government Secretariat as a central co-ordinating body, with particular reference to the responsibilities of the various Secretaries. He will also be examining the relationship between the Secretariat and Departments.

#### *The Administration Branch*

Further, Management Services staff from the Administration Branch have undertaken a programme of reviewing the organization of departments. In the past year, such studies have been carried out in the Agriculture and Fisheries Department, the Printing Department and the Home Affairs Department.

The same Branch has recently begun work on a series of management reviews. These involve a critical study of the organization allocation of work and general management of a department at all levels. A pilot survey has been carried out during the past six months in the Social Welfare Department. As suitable staff become available, the process will be extended to other departments.

I hope that these various activities will satisfy Members that the administration is alive to the need to examine the structure of the Government regularly, to ensure that it is adapted to changing patterns of need.

The Hong Kong Civil Service as a whole is subjected, understandably, to more criticism than praise, because generally the disgruntled member of the public is more vocal than those who are satisfied.

But I have no doubt that the Hong Kong Civil Service has much more than its fair share of able, devoted and industrious officers, with a genuine sense of dedication to the community they serve. I am confident that they will not let Hong Kong down in the exciting years which lie ahead of us.

Sir, I support the motion.

3.35 p.m.

HIS EXCELLENCY THE PRESIDENT:—I think perhaps that at this point Honourable Members might like a short break before the Financial Secretary's speech. Council will resume in 15 minutes.

3.55 p.m.

HIS EXCELLENCY THE PRESIDENT:—Council will resume.

THE FINANCIAL SECRETARY:—

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## ANNEX

Comparative table of tax thresholds and effective rates of tax for a married person with a dependent wife and two dependent children

### *INTRODUCTION*

Sir, Honourable Members have expressed general support for the budgetary strategy proposed for 1978-79 and my colleagues in the Finance and Economic Services Branches of the Government Secretariat and I are most grateful to them for their generous response to the Budget Speech and supporting documents. As usual, their speeches have been wide ranging: inevitably, therefore, many doubts have been expressed and questions asked. In summing up this debate, it falls upon me to deal with those concerned with budgetary, financial management, fiscal and economic subjects.

#### (1) *BUDGETARY SUBJECTS*

##### (a) *1977-78 Accounts*

2 Although the final accounts will not be available for some time yet, as nearly two months have elapsed since I made my prediction of the outturn for 1977-78, I should begin by revising that prediction on the basis of the state of the Treasury's cash book at the end of March. It now looks as if revenue will be about \$9,200 million<sup>(1)</sup> and expenditure about \$8,120 million<sup>(2)</sup> giving a surplus of \$1,080 million compared with my prediction of \$1,150 million<sup>(3)</sup>. Here I should point out, Sir, that Mr Hilton CHEONG-LEEN is in error (*laughter*) in explaining away this surplus with reference to land revenue. He overlooked the fact that the total yield from land sales included the \$863 million for the Mass Transit Railway and Home Ownership Scheme sites which were offset by contra-expenditure items debited to the Mass Transit Fund and the Home Ownership Fund. These transactions had a

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(1) *Exclusive of the premia for the Mass Transit Railway Corporation's Kowloon Bay Depot site and for the six sites being developed in Phase I of the Home Ownership Scheme. The amounts concerned were \$335 million and \$528 million respectively. And exclusive of the drawdown of a sum of \$27 million from the Hongkong and Shanghai Banking Corporation Consortium Loan for the Sha Tin Urban Development (Housing) Project (see Memorandum Note on Asian Development Bank Loans on page 796 of the Estimates).*

(2) *Exclusive of the amounts transferred to the Mass Transit Fund (\$335 million) and the Home Ownership Fund (\$528 million).*

(3) *B.S., 1978, paragraph 63.*

neutral effect, therefore, on outturn; and, as actual expenditure is likely to be \$8,120 million, or only \$125 million less than the Approved Estimates for 1977-78, the surplus can be attributed to better than expected yields from revenue generally: earnings and profits taxes and bets and sweeps taxes alone yielded an extra \$500 million and premia from land transactions an extra \$200 million.

(b) *1978-79 Estimates*

(i) *Accuracy of estimates*

3 Sir S. Y. CHUNG began his thought-provoking speech by saying that he is 'no better (than the Financial Secretary) in preparing estimates (of revenue and expenditure)'. But he then went on to claim that his approach, based on 'statistical analysis', has always produced results more consistent with actual experience. Regrettably, there is some historical evidence that his claim is justified. (*laughter*) But whether, as Financial Secretary, I can be fairly accused of being too cautious or too imaginative, I cannot manage the public finances solely on the basis of statistical projections, even if, sometimes, these projections fit reality *ex post facto*. On the revenue side, I have to take a view of the likely course of the economy and give due weight to the professional opinions of such collectors of revenue as the Commissioner of Inland Revenue; and, on the expenditure side, I have to be guided by what heads of departments and Finance Branch say is needed by way of vote provision to implement approved policies and programmes. So, even if I agreed with the methodology of Sir S. Y. CHUNG's statistical analysis, it would just not be appropriate to manage the public finances on the basis of such a mechanistic approach.

(ii) *Fiscal reserves*

4 The various guideline ratios which I bear in mind when constructing each year's budget have not been subject to unfavourable comment this year and, indeed, I sense that they are now accepted as being a necessary discipline on our thinking. However, Mr T. S. LO suggested in a roundabout sort of way—in other words, by taking a trip on the as yet unfinished MTR (*laughter*) that we should resign ourselves to the inevitability of the Mass Transit Railway not being viable and use a substantial proportion of our fiscal reserves to reduce the loan gearing of the Corporation. To earmark a proportion of our fiscal reserves to secure the loans raised by the Corporation against a guarantee by the Government does not imply that the Corporation will be unable to service its debt. These loans are, in the opinion of the Corporation's creditors, well secured by the projected cash flow of the Corporation when the railway is operating. But the terms under which the loans are negotiated are, of course, greatly influenced by the view taken of the parent company's financial strength. I do not agree, therefore, that the Government should take a larger equity position in the Corporation and

deprive itself, meanwhile, of the useful income derived from the various monetary instruments and deposits in which our fiscal reserves are held. In 1978-79, even at current interest rates, we shall earn at least \$230 million from these investments, or 2½% of total recurrent revenue.

5 Miss KO looked at the present state of our fiscal reserves rather differently: she implied that the guidelines whereby one third of our contingent liabilities and 15% of current expenditure should be covered were too conservative. Instead, Miss KO suggested that at least part of our reserves should be used to accelerate the growth rate of expenditure on social services (regardless, presumably, of Miss DUNN's contention that the Government paid too little attention to what she described as the 'mix of total expenditure' in the interests of the general quality of life). I am afraid we simply must maintain a certain relationship between our fiscal reserves, on the one hand, and our contingent liabilities and the level of current expenditure, on the other. Without the surplus of nearly \$1,100 million thrown up by the buoyancy of revenue in 1977-78, the guideline ratios which I believe should determine the level of our fiscal reserves would be seriously breached. That surplus lifted the level of our fiscal reserves from \$3,713 million a year ago to about \$4,800 million today. So, without it, after allowing \$3,200 million as security for our contingent liabilities, the balance of our reserves would only be sufficient to cover 5% of expenditure in the current year instead of the agreed guideline of 15%. Given the uncertainties of the international trading economy in which we live, and our obligation to maintain our services and capital works programmes intact in the face of short term difficulties, I would regard this as dangerous living indeed.

(iii) *Growth of expenditure*

6 In any case, Sir, surely Miss KO has paid insufficient attention to the growth rate of expenditure envisaged for 1978-79, compared with 1977-78 (revised estimates): overall it is 26% (and if this is achieved the growth rate of expenditure *in real terms* over the five years 1974-75 to 1978-79 will be almost 10% per annum). On the social services group alone, the increase envisaged for 1978-79 is 35% on 1977-78 (revised estimates) and no less than 99% on 1974-75.

(iv) *Social welfare subventions*

7 Perhaps Miss KO had in mind the alleged inadequacy of the 41% increase in the one-line vote for social welfare subventions. Of the \$100 million provided, \$80 million is for existing services, and for expanding them to meet demand, and \$20 million is for new services of which \$7 million has been earmarked for voluntary agencies concerned with those new services envisaged in the Green Papers on the elderly and youth. So I would say to her and to Dr HU and Dr FANG that I believe this sum will be sufficient to enable voluntary agencies to play their programmed role in these developed services

in 1978-79. If I am proved wrong, and circumstances permit, supplementary provision will be sought.

(v) *Financing of voluntary agencies*

8 But let me repeat the point I made in the budget speech<sup>(4)</sup>: whilst the financial needs of the voluntary agencies are the immediate issue, we must not overlook the wider issue. That is to say, the present-day role of particular voluntary agencies in our network of social welfare services needs to be defined and, in appropriate cases, present financial arrangements should then be revised to enable them to fulfil their defined agreed roles. In return, these agencies will have to accept a lesser degree of independence, for we cannot integrate the services they provide with the services provided by the Social Welfare Department and continue to subvent them on the present lump-sum discretionary grant basis.

(vi) *Housing Authority's financial requirements*

9 Mr LOBO could not reconcile my figures relating to the financing of the Housing Authority's building programme for rented accommodation with the Housing Authority's figures, and referred to what he called a 'shortfall' of \$296 million. There is, indeed, a difference of \$296 million between the Housing Department's estimate of what it will spend, namely, \$696 million, and the amount which will be made available from the Development Loan Fund, namely, \$400 million. But, as I explained in paragraph 129 of the Budget Speech, this difference will be met from the Authority's own funds. I do not expect the difference to be as great as \$296 million, for I do not think as much as \$696 million will be spent. I estimate the Housing Authority will only have to find about \$124 million. But if I am proved wrong, this does not mean that the Housing Authority's programme will be constrained. If, in the event, the Housing Authority *is* able to spend as fast as it envisages, on-lending from the Development Loan Fund will be increased accordingly. I *could* have assumed the Housing Authority *would* be able to spend \$696 million, of which \$124 million would be found from its own resources and \$572 million from the Development Loan Fund. But if, in the event, the Housing Authority were unable to do so, I would undoubtedly have been accused next year of deliberately inflating this year's Expenditure Estimates for one devious—but quite untrue—reason or another. (*laughter*)

(vii) *Lotteries Fund*

10 I was rather bewildered by Mr F. W. LI's implied criticism of the management of the Lotteries Fund, as I made it clear last year that I thought the Social Welfare Advisory Committee had been a little slow in coming forward with ideas for drawing the accumulated balance in the Fund down. On present indications, the balance in the Fund will be no less than \$43 million by the end of this financial year. Although f.n. (70) to the Budget Speech indicated that, by 31st March 1982, the accumulating surplus in the

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(4) *B.S., 1978. paragraph 152.*

Fund may be exhausted on the basis of a projected programme of works now available to us, I personally am a little doubtful that it will be. I agree with Mr LI, therefore, that the resolution establishing the Fund should be amended to allow a wider range of non-capital items of expenditure to be financed from the Fund. Accordingly, I have asked the Deputy Financial Secretary to suggest a suitable amendment to the resolution in conjunction with the Secretary for Social Services.

(2) *FINANCIAL ADMINISTRATION*

(a) *Introduction*

11 Miss DUNN politely complained that I was rather vague as to what I had in mind when I argued, at the end of the Budget Speech<sup>(5)</sup>, that we should assess the implications for our system of financial administration and, indeed, for the organization of the Government's internal administration as a whole, of the present size and scope of our activities. I could not have been all that vague for the four areas worthy of attention which were mentioned by Miss DUNN adequately cover the ground. The Chief Secretary and the Secretary for the Civil Service have dealt with the organization of Government's internal administration, the management of the Civil Service and the role of advisory boards and committees in the conduct of our affairs. So I need only be concerned with how I see the future of our financial administration.

12 Notwithstanding certain important changes introduced in recent years<sup>(6)</sup>, our system of financial administration remains the same as it was twenty years ago, particularly insofar as it relates to the authorization of expenditure and the sanctioning of additional provision.

13 While this system has stood us in good stead over the years, and I say this because it has been some years since the Director of Audit has found it necessary to comment in his annual report on any deficiency in vote control, it would be short-sighted not to recognize as Miss DUNN has done that this system was devised for an earlier day and age and may not be entirely suitable for present day circumstances.

(b) *Exercise of authority*

14 As a logical step in the development of financial devolution within Hong Kong, we need to define *how* authority should be conferred and at what

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(5) *B.S., 1978, paragraph 225.*

(6) *For example, the vote on account procedure introduced in 1975-76, by which expenditure for the forthcoming financial year is permitted within certain limits in advance of the enactment of the Appropriation Ordinance, so as to give the Legislative Council more time to consider the Draft Estimates of Expenditure. As a further example, an appropriations-in-aid system was introduced in 1976-77 under which we abandoned the concept of invariably crediting all receipts to General Revenue, in favour of a procedure by which receipts in respect of cost related fees and charges are applied towards meeting relevant expenditure.*

levels authority can best be exercised. The General Warrant signed after the enactment of the Appropriation Ordinance is no more than an *authorization* to the Director of Accounting Services to pay out up to the limit represented by the total provision in each head of expenditure. The *control* of expenditure is subject only to administrative rules. Accordingly, I have asked the Deputy Financial Secretary to head a small working party consisting of the Director of Audit and the Director of Accounting Services to consider whether we should think in terms of a system of statutory backing for our system of financial control and possibly introduce a formal concept of Accounting Officer.

(c) *Levels of authority*

15 There is also the associated question of *levels* of authority: at present the position is unsatisfactory as indicated by the workload of the Finance Branch and Finance Committee and its sub-committee<sup>(7)</sup>. For example, the number of E.S.C. papers and P.W.S.C. papers has increased from 170 and 219 in 1974-75 to 484 and 399 during 1977-78. Clearly, a greater degree of delegation of authority from both Finance Committee and Finance Branch is called for. Accordingly, I have asked the Deputy Financial Secretary also to set in motion a review of delegated authorities<sup>(8)</sup> and I hope that Mr Q. W. LEE will regard this move as an adequate response to his suggestion that a working party of Officials and Unofficials should be set up. As I would anticipate returning to this Council later on with specific proposals, Unofficial Members will have ample opportunity to put their views forward.

(d) *Functions of Finance Branch and Finance Committee*

16 A lighter workload would enable Members of Finance Committee to direct their attention, even more than at present, to what Miss DUNN described as 'the policies and principles underlying expenditure proposals', and the Finance Branch would be able to devote much more of their time towards determining whether departments are achieving value-for-money in their expenditure performance. Here I would stress that the Finance Branch and I are extremely conscious of the importance of what Mr CHEN described as 'cost-effectiveness of public spending' though, sometimes, we are not able to be as effective as we would like to be. And, incidentally, with reference to Miss DUNN's allegation, Sir, that the Administration sometimes presents Finance Committee with *fait accompli* situations, a remedy exists: Finance Committee can decline to sanction the provision sought; and I would stress that it is *Finance Committee* which sanctions provision, contrary to what Father MCGOVERN seemed to suggest when he rather flatteringly referred to my personal generosity in lavishly lashing out liberal lumps of money to destitute departments'. (*laughter*)

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(7) For example, the number of E.S.C. papers and P.W.S.C. papers has increased from 170 and 219 in 1974-75 to 484 and 399 during 1977-78, or by 18% and 82% respectively.

(8) As contained in L.N. 136 of 1973.

(e) *Public Accounts Committee*

17 A system of statutory authorities, coupled with a further degree of delegation but *not* abrogation of control, would be consistent with the Government's intention to establish a Public Accounts Committee, the functions and composition of which I outlined in last year's budget debate<sup>(9)</sup>. I can assure Mr F. W. LI that it only remains for the necessary changes in the Standing Orders of this Council and minor amendments to the Audit Ordinance to be made for the Committee to be brought into being. This will be done in good time for the Committee to consider the Report and Certificate of the Director of Audit on the accounts for 1977-78. Heads of departments, Secretaries, and representatives of organizations in receipt of public funds will be called before the Committee to answer any points put to them. The Committee will be concerned with principles and systems, not with details and personalities, and will look to the Deputy Financial Secretary, as the head of the branch of the Government Secretariat responsible for the control and management of public funds, to see that appropriate action is taken on its report.

(3) *FISCAL SUBJECTS*

(a) *Introduction*

18 In the budget speech<sup>(10)</sup> I dwelt at length on our fiscal system generally, on the requirements of tax policy, and offered a preview of fiscal policy in the future. Although Honourable Members did not dispute the general thrust of my analysis, a number of specific doubts and criticisms were raised.

(b) *Taxation treatment of interest*

19 *First*, Mr Q. W. LEE was unhappy about the taxation treatment of interest *qua* interest. Yesterday I moved the Second Reading of the Inland Revenue (Amendment) Bill 1978 which dealt with the taxation treatment of interest which forms part of the profits of banks. But, having regard to the possible effect on the cost of borrowings by Hong Kong businesses, the Government decided not to accept the Review Committee's recommendation relating to the taxation treatment of interest generally, or a variant of it. That is to say, the Government decided not to reinforce the existing charge on interest as such by extending the territorial source criterion so as to tax interest received on funds used by borrowers to produce profits charged to Hong Kong tax (unless, of course, the interest is already being taxed under the provision of credit test). I hope Mr LEE now at least understands the position, though he may well remain unhappy. (*laughter*)

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(9) *C.S., 1977, paras. 38-42.*

(10) *B.S., 1978, paras. 154-194.*

(c) *Incidence of salaries tax*

20 *Secondly*, Mr WONG Lam and Mr Hilton CHEONG-LEEN argued that there are persons in the lower and middle income brackets who are either paying too much tax or who are paying relatively more than those who are better off. Both seemed to imply that personal allowances and the schedular system were not sufficiently generous. Mr WONG Lam said he was particularly concerned about those taxpayers in the income range of \$25,000 to \$60,000/ \$70,000 per annum. He is quite correct in saying that the better off probably also receive income in the form of dividends and fringe benefits which is not subject to tax. But I would remind him that I tried, and failed, to bring dividends into the tax net and, as I explained in Annex (15) to the printed version of the Budget Speech, the taxation of fringe benefits would be administratively costly and would not be very productive of revenue. In any case, the remedy for the state of affairs he complains about would certainly not be an indiscriminate increase in the rates of tax at the upper end of the schedular system, nor a lowering of the rates of tax at the lower end as suggested by Miss KO.

21 As regards Mr WONG Lam's complaint that personal allowances are, due to the tapering nature of the supplementary allowances, higher for taxpayers on lower incomes than taxpayers on higher incomes, frankly, I can see no objection to this. Furthermore, Mr WONG Lam should remember that the basic personal allowances of \$10,000 and \$20,000 disappear altogether when a taxpayer enters the gross income zone on which the standard rate of tax is levied. Thus a married man with two children on a salary of \$104,000 is charged 15% on his *gross* income.

22 I must also reject, Sir, the view that, when I increased the tax threshold to \$12,500 and \$25,000 for single and married persons respectively, last year I was of the opinion that these figures represented the minimum subsistence costs. Not to reject this view would be to imply that a large number of people in Hong Kong are living below subsistence level! All that can be read into the fixing of thresholds at these levels is that I do not consider, taking into account various factors, that persons earning below these amounts should pay salaries tax. Again, I must make the point, which I have made so often before that, whatever yardstick one applies, *no one* in Hong Kong is overtaxed. The personal allowances which were reviewed only last year are generous enough to keep a very large percentage of the salaries population completely outside the direct tax net; and our effective rates of tax, that is to say, the amount of tax expressed as a percentage of a person's income, our effective rates of tax, in their progression to the standard rate of 15% of gross income, are extremely low. I attach as an Annex to the printed version of this speech, comparisons with tax thresholds and effective rates of tax in two neighbouring countries and in the United Kingdom. Just by way of illustration: a married man with a dependent wife and two dependent children on an income of \$25,000 per annum has an effective rate of tax of

0% in Hong Kong, 4.2% in Singapore, 4.44% in Malaysia and 14.16% in the United Kingdom; on an income of \$35,000 per annum his effective rate of tax is 0.64% in Hong Kong, 6.71% in Singapore, 8.06% in Malaysia and 19.83% in the United Kingdom; and on an income of \$70,000 per annum his effective rate of tax is 8.21% in Hong Kong, 14.93% in Singapore, 18.21% in Malaysia and 27.24% in the United Kingdom.

(d) *Working wife allowance*

23 *Thirdly*, Miss KO sought the reintroduction of the working wife allowance which was introduced in 1970 and, *as such*, was abolished three years later in 1973. If a wife's earnings were included in an assessment for salaries tax on her husband, an allowance equivalent to the wife's actual income or \$3,000, whichever was the less, was granted. The case for the allowance for a working wife stemmed from the extra cost of maintaining the home when a wife was unable to give it her full attention because of her employment.

24 In proposing the withdrawal of the allowance in 1973, I considered whether the effect of the allowance was equitable in the general context of whether selective allowances were suitable to our low tax structure. I took the view that the answer was no<sup>(11)</sup> and, in passing the Inland Revenue (Amendment) (No 2) Bill 1973, most Honourable Members concurred with this view. I argued that the working wife allowance was not equitable because, where family circumstances—including income—were the same, a married man with a working wife enjoyed an advantage over the man whose wife did *not* work, *and* this advantage remained until both were paying tax at the standard rate. I argued, further, that to base an allowance on the concept of the additional cost of maintaining the home in special circumstances of personal choice offended the principle that, in a system of taxation, allowances should not be varied according to the condition of, and the standard of living expected or enjoyed by, different classes of taxpayers. The working wife allowance in effect gave, by way of extra allowance, relief for expenditure of a domestic and private nature specifically forbidden from deduction by the principal Ordinance.

25 To rectify this inequitable situation, I proposed that the wife who did not work should have the same benefit as the wife who did. So the basic allowance for all wives was increased from \$7,000 to \$10,000 and the special extra allowance for a working wife was cancelled. The withdrawal of this special extra allowance for a working wife, accompanied by the increase in the basic allowance for all wives, in effect meant that all wives were assumed to be working wives (and many wives would concur with this view). (*laughter*)

26 Clearly, from the point of view of sound tax administration and equity between taxpayers, the present system is preferable. Having regard to sociological considerations, job opportunities, and training, it is also doubtful whether additional incentives by way of tax relief would have any significant

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(11) *B.S.*, 1973, paragraph 67.

effect in encouraging married women to take up paid employment. There is no evidence that the repeal of the working wife allowance in 1973 led to wives being deterred from working due to the absence of any form of tax relief. Of a total of over 200,000 demand notes for salaries tax issued in 1977-78, only 39,600 involved working wives, of whom about 34,500 would have derived benefit from a working wife allowance. The remaining 5,100 would not have benefited because they and their husbands were already on the standard rate of 15%. These proportions are not materially different from those disclosed for 1972-73, i.e. the last year for which a working wife allowance was granted.

(e) *Dependent parent's allowance*

27 *Fourthly*, the indefatigable Mr Hilton CHEONG-LEEN and Mr WONG Lam were joined this year by Miss KO and Dr FANG in pleading for the reintroduction of a dependent parent's allowance, and I suspect Sir S. Y. CHUNG was in there with them in spirit. (*laughter*) While I am not sure that Dr FANG is right when he says that 'the community has spoken with one voice on this issue', I am conscious of the volume of hostile press comment directed at me and me personally on this issue. For this means that my repeated denials that I am careless of customary attitudes and local circumstances generally have not been believed. Likewise, the evidence I have adduced of the widespread abuse of this particular selective allowance, and the difficulty and cost of administering it, have failed to make any impression whatsoever. (*laughter*) Again, whilst no one has denied my point that, in the general context of our system of personal taxation, the allowance is of limited significance for the taxpayer with dependent parents, the pressure for the allowance to be reintroduced in some form apparently remains.

28 The question is why? I can only presume that it is the *concept* of an allowance for dependent parents which is of importance: that is to say, the view is widely held that it is wrong for the Government, *via* the system of personal taxation, not to recognize filial duty. That is to say, given the traditional view of the family unit in this society, many people do not understand why taxpayers are not accorded some relief in respect of dependent parents as they are for dependent children. So the concept of an allowance for dependent parents has acquired a certain symbolic quality and I fear that, in these circumstances, the debate about it will not just fade away, whatever—and however powerful—the taxological arguments against such an allowance may be. (*laughter*)

29 I have, therefore, in conjunction with the Commissioner of Inland Revenue, spent many anxious hours during the past fortnight trying to figure out what to do. (*laughter*) I have come to no definitive conclusion, for all the possible variants of a dependent parent's allowance are fraught *either* with costly administrative difficulties *and/or* are likely to be criticised as being inadequate *and/or* are likely to be criticised as paying only lip-

service to filial duty *and/or* would be too costly to the revenue. However, Sir, I concede the concept (*laughter*) and I undertake, subject to the advice of Your Excellency-in-Council, to introduce an amending Bill into this Council later this year which will contain proposals for an allowance effective from the year of assessment 1979-80. I hope Honourable Members will readily appreciate that 1979-80 is the earliest possible year of implementation. There can be no question of our being able to work out a scheme, introduce legislation and mount all the necessary administrative arrangements in time to grant the allowance for the current year of assessment. Finally, Sir, I feel bound to state, and most emphatically, that further pleas for forms of virtue, other than care of parents, (*laughter*) to be rewarded through the tax system will have to fall on very deaf ears indeed. (*laughter*)

(f) *Water charges*

30 Finally, Sir, several Honourable Members have expressed concern over my warning that a revision of water charges is inevitable. Mr Hilton CHEONG-LEEN, Dr HU, Mr CHEN and Mr WONG Lam said that, as a 'basic necessity', water should be supplied at 'a reasonably low price', even if this entails 'a substantial subsidy by Government' (meaning, let us never forget, the general taxpayer). Mr James WU, Mr CHEN and Mr WONG Lam were opposed to higher charges for non-domestic supplies because industry would be 'hurt'. Mr CHEN advocated the introduction of a steeply rising tariff to discourage high domestic consumption.

31 May I be tedious, Sir, to begin by restating the position with regard to the waterworks accounts? Operating costs are estimated to be \$634 million in 1977-78, \$705 million in 1978-79, and to total \$2,207 million over the three year forecast period, 1979-80 to 1981-82. These figures are based on *present* costs, they assume only a nominal 7% interest on capital employed, and they exclude the value of land<sup>(12)</sup>. Hence these figures by any standards, are very conservative. By that I mean on the low side.

32 On the basis of current water charges and the contributions from rates and General Revenue, income is estimated to be \$433 million in 1977-78, \$457 million in 1978-79, and to total \$1,810 million over the forecast period. The contribution from rates is at present set at two percentage points of rateable value and, for 1978-79, is estimated to be \$201 million. This contribution considerably reduces the direct burden on water consumers. As a result, and because of the contribution from General Revenue for free supplies and supplies for Government uses<sup>(13)</sup>, direct payments by consumers

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(12) *The full cost of Government undertakings should include the value of land. However, in the case of the waterworks accounts, the value of land is not included mainly because of the difficulty of establishing and apportioning to other uses the value of catchment areas; this does not apply to the value of the areas occupied by treatment works, the desalter, etc. which, strictly speaking should be included in the assets.*

(13) *Charges on General Revenue comprise the free allowance for domestic consumers, and supplies for Government uses.*

for water at current water charges will be about 40% of total costs over the forecast period<sup>(14)</sup>.

33 If the present charges are maintained<sup>(15)</sup>, and even on the basis of the conservative calculation of costs, the waterworks accounts will be in deficit to the tune of \$200 million in 1977-78 and \$250 million in 1978-79, with deficits over the forecast period totalling \$400 million. Clearly, deficits of this magnitude are quite inconsistent with a proper pricing policy. In order to bring the accounts into balance, with no change in the rates contribution, but with a proportional increase in the contribution from General Revenue, the total direct contribution by consumers would have to be increased by at least 50%. The alternative would be a large subsidy.

34 The objections to subsidizing public utilities are, in my view, self-evident. But they may not be self-evident to some Honourable Members. It seems to me that non-observance of the no-subsidy principle means, *first*, that public utilities are operated at a loss and this is likely to be inflationary. *Secondly*, non-observance results in the taxpayer making an indiscriminate contribution to the profits of all firms in the private sector. *Thirdly*, to charge less than the true cost is to encourage excessive use and waste of the product or service supplied. This is particularly serious in the case of water supplies. With both domestic and non-domestic consumers being billed for less than half of even the conservatively estimated cost, many consumers are unlikely to appreciate the value of water and are unlikely to use it according to its value. *Fourthly*, in turn, excessive use (and waste) due to subsidization, accelerates the need to expand public utilities. In the case of water, moreover, as I explained in my Budget Speech<sup>(16)</sup>, the expansion of the supply system is likely to lead to higher and higher costs of production, whatever the future role of water purchased from China may be, and despite Sir S. Y. CHUNG's strictures about the way our supply system has been developed over the years. For these four reasons, the no-subsidy principle must apply unless conscious policy decisions dictate otherwise<sup>(17)</sup>; and, leaving aside the context in which she spoke, I was glad to hear Miss DUNN's exposition of the role of fees and charges generally in our fiscal system.

35 In the case of *domestic* water supplies our pricing policy already recognizes that a certain quantity of water represents a basic human need to sustain a healthy life and, as such, must be within everyone's reach

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(14) Chargeable supplies of water at current water charges, (i.e. income derived from the billing of water charges):

1977-78	1978-79	1979-80	1980-81	1981-82
(\$ mn)				
211.8	212.6	278.4	297.2	316.4

(The low figures for 1977-78 and 1978-79 are due to water restrictions).

(15) Domestic supplies: \$3 per 1,000 gallons for chargeable water; and \$6 per 1,000 gallons when total consumption exceeds 3,500 gallons per month

Non-domestic supplies: \$4 per 1,000 gallons.

(16) B.S., 1978, paras. 192-193.

(17) B.S., 1978, paragraph 187.

regardless of the cost. Thus the first 2,700 gallons consumed per four months billing period is charged to General Revenue. Yet there seems to be no reason why supplies that are not vital for a healthy life should not be pitched at a level reflecting the true cost. Also, I agree entirely with Mr CHEN that there should be a steeply rising tariff for domestic consumers positively to discourage extravagance and waste<sup>(18)</sup>. The introduction of a steeply rising tariff would, in effect, mean that extravagant consumers would be subsidising moderate consumers; this would make sense bearing in mind that high consumption leads to higher production costs, and certainly I look forward to Mr CHEN's support when a new pricing system for domestic supplies has been devised.

36 In the case of non-domestic supplies, that is to say, water consumed by trade and industry, I see no reason why it should be treated any differently to other inputs of raw materials and services. The private sector charges for raw materials and services, not only at cost, but at cost *plus* profit. Similarly, a profit would be made on water if it were provided by the private sector. While there may be *some* argument against the Government making a profit on the services it provides, the fact that the Government is better able to provide water to industry cannot be acceptable grounds for water being supplied *below cost*.

37 Those Honourable Members who argued, Sir, that some of our industries will be hard hit by an increase in water charges are, in effect, saying that these industries *need* to be subsidised. *If* there are grounds for subsidising any particular industry from General Revenue (and I do not necessarily accept that argument for one moment) if there are grounds for subsidising any particular industry from General Revenue, a subsidy *via* low water prices would not be in an appropriate way of doing it. The need for water varies from industry to industry and from factory to factory within each industry; and some enterprises are economical users of water and some are not. The provision of low priced water for industry would thus be an extremely arbitrary, wasteful and indiscriminate means of disbursing aid.

38 There are, however, grounds for encouraging industry to conserve water through a more sophisticated pricing system. We are looking at this (*laughter*) and despite the difficulties of the exercise, we are seeking to devise a system which, on the one hand, will encourage conservation, including recycling but which, on the other hand, will not discriminate against large scale enterprises.

39 Apart from the introduction in 1975 of an additional charge of \$6 per unit for domestic consumption in excess of 14,000 gallons in a four-month billing period<sup>(19)</sup>, the basic charges for domestic and non-domestic supplies have not been increased since 1971 and 1972 respectively and have, therefore, not kept up even with cost increases over the intervening six year period.

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(18) *The introduction of a steeply rising tariff would, in effect, mean that extravagant consumers would be subsidising moderate consumers; this would make sense bearing in mind that high consumption leads to higher production costs.*

(19) *B.S., 1975, paras. 141-153.*

40 Charges for both domestic and non-domestic supplies will have to be increased as soon as a new pricing system has been devised and we have acquired sufficient experience with our new computerized billing system. However, I can see an argument in favour of adjusting the contribution to income from General Revenue for the free allowance to domestic consumers. At present this contribution is based on the lower rate charged for domestic supplies, but, to avoid any hidden subsidy, this contribution should be in my present view at the *actual* cost of water. The effect of this will be substantially to increase the contribution from General Revenue and reduce the deficit in the Waterworks accounts. Thus to balance the accounts the revenue from water charges would only need to be increased by approximately 35% *overall*. I stress *overall*, for I shall, in due course, unsympathetically bear in mind the position of large users of domestic supplies, sympathetically consider the impact effect of an increase in the flat rate of \$4 per 1,000 gallons for non-domestic supplies to industry, and sympathetically consider the wisdom of phasing in such increases as are proposed.

(g) *Provisional tax: instalment system*

41 While Mr BREMRIDGE and Miss KO were clearly a little dismayed that I had not searched around for more examples of conspicuous consumption to tax, Sir S. Y. CHUNG thought I had pitched the increase in duty on imported cigarettes too low, and Mr F. W. LI could not accept my arguments for increasing charges for certain postal services which I considered should not be cross subsidized by users of postal services generally, despite these various comments, there was in fact only one actual criticism of my revenue proposals for 1978-79.

42 Sir S. Y. CHUNG questioned the intention to restrict the privilege of paying provisional tax in two instalments to those who pay the first instalment on the due date. He suggested that interest imposed on overdue balances on a continuing basis would encourage taxpayers to pay their tax when due. Apart from the point that any such system would involve additional administrative costs and cause further delay in collection, it has been the experience of the Commissioner of Inland Revenue, arising from the imposition of the additional 10 per cent surcharge in 1974 on tax which was overdue for 6 months<sup>(20)</sup>, that this would not have the desired effect. So he considers, and I agree with him, that the most effective deterrent is the knowledge that enforcement will follow shortly afterwards, coupled with the imposition of a flat 5 per cent surcharge *and* the loss of the privilege of payment in two instalments. From time to time, Honourable Members have expressed concern at the figures of arrears of tax and I suggest that any reasonable measure which the Commissioner takes to cope with the problem in accordance with the statutory authority vested in him should receive their support.

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(20) *B.S., 1974, paras. 142-143.*

(4) *ECONOMIC SUBJECTS*

(a) *Hong Kong's position in the world economy*

43 I turn now, Sir, to the relationship of Hong Kong's economy with the rest of the world. Hong Kong is one of the most externally dependent economies in the world and the openness of our economy does not allow us to avoid most of the cyclical behaviour imposed on it by shifts in the world trading environment.

44 As Mr Q. W. LEE quite rightly pointed out, changes in recent years have resulted in Hong Kong being 'much more vulnerable to international developments (than in the past)'. For example, our internal price level is now more influenced by the marketing strategy of our main suppliers; our interest rate structure used to be largely determined by internal demand and supply factors, but this is no longer the case; our stock market is now influenced by the state of other markets; and the Hong Kong dollar, which used to have a fixed relationship first with sterling and later with the U.S. dollar, is now floating.

45 These changes, taken together with the emergence of the financial services sector of our economy, involving greatly enlarged capital flows across the exchanges, have highlighted the importance of confidence in Hong Kong, not just on the part of Hong Kong residents, or even of overseas investors in our manufacturing industries, but also of the international financial community. If its confidence in Hong Kong generally, and in the Government's management of our fiscal, budgetary, economic and monetary affairs were to be eroded, the effect could be quite disastrous. In other words, we live in a much riskier, because it is a much more exposed, environment and so prudent management of our affairs is more vital than ever.

46 This general proposition leads me on to consider the implications for our economy in 1978 of the continuing depreciation of the Hong Kong dollar against most major currencies. As Mr James WU pointed out, we are having to pay more for imports from, for example, both China and Japan as a direct result of this depreciation. My forecast for consumer prices for 1978 was made on the assumption that the exchange rate of the Hong Kong dollar would be stable<sup>(21)</sup>. If, however, this depreciation continues, it is likely that my forecast of the increase in consumer and other domestic prices will turn out to have been too low. However, the fact is that, under a floating rate regime, exchange rate movements are a part of the adjustment process and the recent depreciation of the Hong Kong dollar will tend to improve the competitiveness of our exports. The most recent trade statistics show an upsurge in imports of raw materials and semi-manufactures<sup>(22)</sup> and this normally precedes an improvement in our export performance. To the extent

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(21) *B.S.*, 1978, paragraph 53.

(22) *In real terms, imports of raw materials and semi-manufactures in the four months ending 31st January 1978 were about 14% higher than in the corresponding period a year ago.*

that these movements are sustained, my forecast for the growth rate of domestic exports could turn out to have been a little pessimistic with consequences for the composition of domestic sector activity, the internal price level, and for the volume of imports. However, having regard to the constraining effect of supply side factors, I stand by my original forecast for the growth rate of the economy as a whole in 1978.

(b) *The changing structure of Hong Kong's economy*

47 Several Honourable Members pointed out that the growing shift towards protectionism in the world economy, particularly in the area of textiles and clothing, has led to considerable interest in diversification both within the manufacturing sector and from the manufacturing sector to other sectors of the economy.

(i) *Shifts within the manufacturing sector*

48 Mr TIEN made a plea that, while we should 'obviously (seek) to widen our industrial base through...diversification', we must not write off the textile and clothing industries. I agree with him. Indeed, when suggesting, in the Budget Speech, that Hong Kong might not be able to rely on these industries contributing as much in real terms to the *growth* rate of exports as in the past<sup>(23)</sup>, I said that their exports would continue to grow, albeit probably more slowly; and there is no denying the fact that these industries, representing as they do about half of total domestic exports, will continue to be our single most important source of export earnings for a long time to come. Moreover, the terms of reference of the Advisory Committee on Diversification in no way imply that the Government has written off the textiles and clothing industries. In this connection, I might point out that diversification as a term can cover diversifying the range of markets for the products of existing industries as well as the introduction of new products and new industries.

(ii) *Shift from the manufacturing sector*

49 Sir S. Y. CHUNG, Mr James WU and Mr Hilton CHEONG-LEEN expressed concern at the relative decline of the manufacturing sector, as this has been the mainstay of our externally dependent economy up till now. To the extent that this shift is a reflection of a shift in final expenditure from exports to domestic demand, I share this concern for it is almost certainly not sustainable.

50 However, in considering a particular sector's contribution to our economy it is not sufficient to consider its export performance in isolation<sup>(24)</sup>. What matters is its *net* contribution in terms of value-added, and the extent to which the value of its exports exceeds the value of the imported inputs used in producing its output. Manufacturing industries may be dominant in terms of exports, but they are also relatively import-intensive. Although we

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(23) B.S., 1978, paragraph 57.

(24) B.S., 1978, paragraph 9.

do not know for certain, tertiary industries are almost certainly less export-oriented and less import-intensive. So it is not obvious *a priori* that the shift to tertiary industries is having an adverse effect on the growth rate of our foreign exchange earnings.

51 Thus, the net effect of this shift away from industries in the manufacturing sector is unclear. But I agree with Dr HU that it is ‘an important development’; and I can assure him that the Government is keeping ‘a close eye on it’. Because our statistics for the various industries in the tertiary sector, especially as regards the balance of payments, are relatively poor, the Government has plans in hand<sup>(25)</sup> to improve the coverage and quality of statistics relating to exports and imports of services, and we hope shortly to begin consultations in preparation for a survey in this area.

52 Until the Government has clear evidence that the developing shift in emphasis from manufacturing industries to tertiary industries is undesirable, it will continue to be sympathetic to the growth of tertiary industries and will do its best to facilitate that growth, or, at least, not to impede it. The modifications to the Stamp Ordinance<sup>(26)</sup>, most of which are of benefit to industries in the tertiary sector, and the recent lifting of the moratorium on the granting of bank licences are policy decisions reflecting this sympathy.

(c) *The Government’s economic policy*

(i) *Policy towards industry*

53 Sir S. Y. CHUNG maintained that the Government ‘does not believe that it should take an active role in promoting industries inter-dependence and overall optimization in industries development’, and attributed the success of such countries as Japan and South Korea to the direct and active involvement of their governments in these fields. He maintained that it is not ‘*whether* the (Hong Kong) Government should be involved in industrial development’ but rather ‘the *extent* of (that) involvement’ he maintained that that is the relevant question.

54 Mr James WU drew attention to the involvement of both industry and Government in Japan in ‘encouraging technological innovation and maintaining technological leadership in (various) fields’ and, because he claimed that Hong Kong is ‘falling very much behind’, he urged the Government to take a more active role in the sponsorship of such activities as would improve productivity, promote research and development and facilitate the transfer of technology. Mr CHEN urged the Government to place ‘(greater) emphasis on the practical industrial training of manpower, particularly at the higher technical levels’, with a view he said to ‘broadening and up-grading our technological base’. And finally, while both Mr WU and Mr Hilton CHEONG-LEEN revived the proposition of an Industrial Development Council, by asking

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(25) *B.S., 1978, f.n. 40.*

(26) *B.S., 1978, paras. 214-222.*

whether 'we can afford to wait any longer', and Mr CHEN proposed a Factory Ownership Scheme to 'help small industrial operators' and finally the absent Mr T. S. LO suggested that we should be more imaginative in developing our offshore resources.

55 Sir, while I am sorely tempted to respond in great detail to (*laughter*) these important questions and proposals today, to do so today would be premature and discourteous to the Advisory Committee on Diversification, which is at present heavily engaged in its various and somewhat onerous tasks. The extent of the Government's involvement in industrial development is covered by that paragraph of the terms of reference by which the Committee is required to advise on whether the process of diversification of the economy can be facilitated by the modification of any of the Government's existing policies or the introduction of new policies. The possible lessons to be learnt from our neighbours in promoting industrial development are covered by another paragraph of the terms of reference, which require the Committee to consider the practices in comparable economies which have successfully encouraged the establishment of new industries.

56 But, having said all that, I feel constrained at least to respond to Sir S. Y. CHUNG's broader question regarding the *extent* of the Government's involvement in industrial development in the context of the Government's existing economic policies.

57 Sir S. Y. CHUNG is quite right in implying that there should be Government involvement in industrial development. Indeed there is already a degree of involvement. However, that involvement is at present governed by our philosophy of positive non-interventionism, (*laughter*) that is to say, we take the view that attempts to frustrate the operation of market forces will tend to damage the growth rate of the economy, particularly as it is so difficult to predict, let alone control, market forces that impinge on an open economy. But that is not to say that the Government does not recognise certain quite specific obligations. For example, in my winding up speech last year<sup>(27)</sup>, I said that the Government must play an active role in the provision of those services and facilities essential to life in a civilised community and that we also believe that there are certain services and facilities which it is *either* more convenient and more efficient for the Government to provide *or* which should be provided, as a matter of policy, as a charge, wholly or partly, to public funds<sup>(28)</sup>.

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(27) *B.S.*, 1977, paras. 48-49.

(28) *These underlying considerations account for the provision, by the Government, of land for development, of education as an investment in our work force and of capital in the form of our social and economic infrastructure. Over and above these activities the Government has also organised certain business services in default of the private sector doing so. And so we have established the Export Credit Insurance Corporation to make available terms competitive with those available to exporters elsewhere; an export promotion service in the form of the Trade Development Council; a Productivity Council to explore ways and means of increasing productivity; a tourist promotion service; and a service in the Trade, Industry and Customs Department to promote industrial investment.*

58 So, at this stage and without prejudice to the advice which will be tendered by the Advisory Committee on Diversification, may I answer Sir S. Y. CHUNG's question with two points? *First*, the Government is already involved, directly and indirectly, in activities which facilitate industrial development. *Secondly*, the various proposals for the Government's *further* involvement which he and his Colleagues have advanced will be considered by the Advisory Committee on Diversification and I hope that, in so doing, the Committee will accept the principles underlying the Government's present economic policies, for they have stood us well in the past. While I do not believe that acceptance of these principles would place undue restriction on the Committee, I do believe that they will help to ensure that the Committee's recommendations will be consistent with the nature of the Hong Kong economy.

(ii) *Economic implications of the supply of land*

59 The Secretary for the Environment has already dealt with Honourable Members' points relating to the supply, use and price of land. I will content myself with a few supplementary comments on the implications for the economy in general of these points.

60 Mr Q. W. LEE, Mr CHEN and Mr James WU have argued that land prices are absorbing an excessively high proportion of production costs, that they have reduced the competitive edge of our economy, and that this tends to deter potential overseas investment as well as interfering with the broadening of our industrial base. In addition, Mr James WU attributed some of the rapid increases in land prices to the operation of speculators who are withholding accommodation from genuine users, and he asked whether the Government can channel what he called 'idle cash' presently being used for speculation into the development of more land.

61 As the Secretary for the Environment has quite rightly pointed out, the long-term solution to the problem of land prices is to increase the supply of land. But it must be remembered that any substantial increase in the supply of land to the private sector will take some time, particularly given the current and foreseeable load on the construction industry.

62 It seems clear, however, that Honourable Members are mainly concerned with the short-term implications for the economy of the rise in *industrial* land prices, the related increase in industrial rents and, therefore, with what the Government proposes to do about them. It must be remembered that, with only a certain amount of industrial land becoming available to the private sector at any point in time, prices will ultimately depend on the demand for the products of the factories to be built on that land. The actual prices being paid at any point in time may be higher or lower than business prospects truly warrant, but such disequilibrium can only be a temporary phenomenon, for the operation of market forces in an open economy such as ours will ultimately determine the prices. Mr James WU has suggested, however, that speculation in property, 'fuelled by idle cash', is preventing the underlying

market forces from operating correctly; and it is true that such speculation, if it exists, could temporarily—and, I emphasize, temporarily—push up land prices. If it can be proved that this is having damaging effect on the economy and *is likely to continue*, the Government would certainly intervene.

63 Mr CHEN suggested that the Government should, in the interests of industrial development, make land available at below current market prices to certain land-intensive, high technology industries even if it means that optimum use will not be made of such land. The Government already provides land on this basis to a limited extent, but it must be remembered that the greater the proportion of available land disposed of in this way, the higher will be the open market price of the remaining industrial land.

(iii) *Economic implications of labour supply*

64 Turning now, Sir, to the labour market, Mr James WU mentioned that the manufacturing sector of the economy is now ‘hit’ by cost inflation, including ‘increases in wages of up to 30%’ particularly in situations where manufacturers are having to compete for labour with the building and construction industry, and he warned that these inflationary trends would reduce the competitive edge of our exports and inhibit our growth.

65 In the manufacturing sector, the increase in nominal wage rates between September 1976 and September 1977 was about 12%<sup>(29)</sup> and, in the building and construction industry, the increase over the same period was about 20%. Thus, while it is probably true that some wage rates have increased by as much as 30%, that figure gives a misleading impression of the increases enjoyed by most workers and faced by most employers. Indeed, in the context of an overall growth in output of the economy in *real* terms equivalent to about 9% per worker, it does not seem to me excessive for real wages rates in manufacturing to have grown at just over 6%. It is thus more appropriate to consider the effects of relative wage increases between different sectors of our economy than of the size of the increase in any one sector.

66 In a competitive economy such as ours, wage differentials are one of the means by which labour is induced to shift between different sectors of the economy. Thus the widening wage differential between manufacturing industries and the building and construction industry is simply a reflection of the extent to which the latter has been expanding in relation to the former. I admit that this differential is not without its dangers because the building and construction industry makes a far smaller contribution to our foreign exchange earnings per worker employed than manufacturing industries. However, I expect the growth rate of employment in the building and construction industry to slow down substantially in 1978 compared with 1977<sup>(30)</sup> so that the pressure exerted by this industry should already be moderating.

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(29) *This includes increases in respect of fringe benefits.*

(30) *B.S., 1978, paras. 44-45.*

67 But it is inappropriate to view the relationship of the building and construction industry to the manufacturing sector in isolation. Although 15,000 workers joined the building and construction industry between September 1976 and September 1977 and 20,000 workers left manufacturing industries, the total number of workers employed in the economy grew by 41,000 in the same period. Thus employment in other industries grew by 46,000<sup>(31)</sup>. But, as I have said earlier, the net effect of these shifts within our economy is unclear and the Government is keeping a close watch on the situation<sup>(32)</sup>.

68 This brings me to the concern Mr TIEN expressed over the shortage of labour, particularly for the textiles and clothing industries, and his proposal to allow entry into Hong Kong of persons from our neighbouring territories in order to alleviate the shortage.

69 The Chief Secretary has already discussed this proposal in terms of the social problems and in terms of other solutions. From an economic point of view, the only justification for bringing in foreign workers would be to remedy short-term—and I *repeat*, short-term—imbalances in our economy. In theory, I can envisage four possible situations of imbalance. *First*, batches of labour with specialized skills might be required which Hong Kong either does not have or has on an inadequate scale. So, the undesirability of holding up a project of vital importance, or one which required specialized skills which were not of long-term use to Hong Kong, *might* justify bringing in foreign labour for a limited period of time. *Secondly*, where the Government, or one of its agencies, has the power to act in the labour market as a quasi-monopsonist, that is to say, as a dominant buyer, there *might* be occasions on which it would be better for the Government's contractors to bring in foreign labour rather than exercise its powers as a dominant buyer and crowd out other potential buyers. *Thirdly*, the implementation of social legislation or other policy decisions *might* reduce abruptly the supply of labour, so that the economy *might* require additional labour until it could adjust to the new situation. *Fourthly*, where a particular sector of the economy came under temporary pressure from excessive demand, there *might* be a case for bringing in additional capacity, in terms of both capital and labour, if readily available in order, for example, to maintain our position in a particular export market of value.

70 Now, Sir, what Mr TIEN implied was that we should allow immigration on a relatively long-term basis to meet a labour shortage which he apparently expects to continue into the mid-1980s. But the case for allowing this cannot be justified on economic grounds and, as the Chief Secretary has said, the social implications would be extremely serious. Moreover, it appears that Mr TIEN has misunderstood my warning of a slow down in the growth rate of the population of working age<sup>(33)</sup>. My point was simply that such a slow

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(31) 1978-79 Budget: Economic Background, paras. 52-56.

(32) See paragraph 51 above.

(33) B.S., 1978, paras. 58-59.

down can be expected to reduce the growth rate of our GDP. I intended no such implication for the growth rate of GDP *per capita*; nor did I imply that the slow down in the growth rate of the population of working age would necessarily result in a labour shortage.

### CONCLUSION

71 That concludes, Sir, this Council's consideration of the Second Reading of the Appropriation Bill for 1978. It only remains for me now to commend Honourable Members for the obvious care with which they have studied the various budget documents laid before them and to thank them again for their kind remarks on the budget speech itself.

72 Sir, I beg to move.

### ANNEX

#### COMPARATIVE TABLE OF TAX THRESHOLDS AND EFFECTIVE RATES OF TAX FOR A MARRIED PERSON WITH A DEPENDENT WIFE AND TWO DEPENDENT CHILDREN (\$HK)

Salary	Hong Kong		United Kingdom*		Malaysia		Singapore	
	Tax Payable	Effective Rate	Tax Payable	Effective Rate	Tax Payable	Effective Rate	Tax Payable	Effective Rate
\$	\$	%	\$	%	\$	%	\$	%
11,002							0.10	0.0009
12,500							75.0	0.6
12,780					0.12	0.0009	89.0	0.7
14,594			2.92	0.02	98.04	0.67	179.7	1.23
15,000			140.35	0.94	120.0	0.8	200.0	1.33
20,000			1,842.12	9.21	525.0	2.63	570.0	2.85
25,000			3,540.96	14.16	1,110.0	4.44	1,050.0	4.2
30,000			5,237.80	17.46	1,845.0	6.15	1,630.0	5.43
31,088	0.05	0.0002	5,609.15	18.04	2,037.60	6.55	1,763.32	5.67
35,000	225.0	0.64	6,939.57	19.83	2,820.0	8.06	2,350.0	6.71
40,000	525.0	1.3	8,638.42	21.6	3,820.0	9.55	3,100.0	7.75
45,000	1,100.0	2.44	10,340.18	22.98	5,045.0	11.21	4,050.0	9.0
50,000	1,762.5	3.53	12,039.03	24.08	6,295.0	12.59	5,050.0	10.1
55,000	2,625.0	4.77	13,737.87	24.98	7,770.0	14.13	6,250.0	11.36
60,000	3,600.0	6.0	15,439.64	25.73	9,270.0	15.45	7,500.0	12.5
65,000	4,600.0	7.08	17,138.48	26.37	10,995.0	16.92	8,950.0	13.77
70,000	5,750.0	8.21	19,067.92	27.24	12,745.0	18.21	10,450.0	14.93

\*It is assumed that the first child is between 11 and 16 years old and the other is under 11.

#### Late Note

The figures for the United Kingdom refer to the position before the Chancellor of the Exchequer's Budget Statement on 11th April 1978.

*Question put and agreed to.*

Bill read the second time.

*Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).*

### **Committee stage of bills**

Council went into Committee.

### **APPROPRIATION BILL 1978**

HIS EXCELLENCY THE PRESIDENT:—We shall consider the Schedule first in accordance with Standing Order 55. The question is that the sums for the following Heads stand part of the Schedule.

Heads 21-30 were agreed to.

Head 31.

MR CHEONG-LEEN:—Sir, it has been just over six years since compulsory primary education was introduced into Hong Kong.

I understand that about 1% of our primary school age children have still to see the inside of a class-room, but that the Education Department is strenuously attempting to redress this social anomaly.

What is equally disturbing is the fact that 3000 or more students are dropping out during their primary school education. What is happening to these young drop-outs? How many of them are being lured into factories? Will children under 14 be banned from working in non-industrial places such as offices and restaurants as from October next year (as reported in the press), and if so, what further steps will the Education Department be taking this year to close the gap on drop-outs in the primary school system?

Since compulsory primary education was introduced, why is it that only two attendance orders were issued? As the Education Department has no authority at present to compel parents to send their children back to school after the age of 11, will any amendment to existing legislation be necessary or required until such time that Government can provide free and compulsory education up to Form III or on attainment of the age of 15? In order to improve the quality of primary education, and derive maximum benefit for money spent, how soon can Government revert back to full-day sessions?

DIRECTOR OF EDUCATION:—Sir, it is believed that of the 1% of primary-age children not at school at a moment of time that some, perhaps the majority, attend school at some time or other.

Some 5,000 students may have discontinued schooling during their primary school education and this figure includes some 1,300 students who have emigrated with their parents to overseas countries in 1977. It also appears that the majority of the 5,000 are already over the compulsory school age of 11 when they leave.

As I have previously stated in this Council we have a system by which headmasters inform us of cases where they believe that a child has discontinued schooling. These cases are followed up with the assistance of Social Welfare Department officers, and where necessary, the children are placed back in school. The system works well but it is true as I have previously stated, that it is not possible to trace all children. The fact that we cannot trace them does not mean that they are necessarily not at school; they may have moved to another school with a change of address. When traced, nearly all the parents accept persuasion to send their children back to school and so far it has been necessary to serve only two attendance orders. The orders were served after the parent concerned had refused to accept the advice of officers of the Education and Social Welfare Departments to send his two children to school.

As regards legislation for the raising of the compulsory age of school attendance and the corresponding prohibition of employment, the Government's proposals are described in Your Excellency's speech of 5th October last year. Specifically as regards non-industrial employment, Sir, you stated: 'The intention is to prohibit employment which would interfere with a child's schooling, but flexibility will be maintained to allow for part-time employment particularly in family businesses or summer jobs'.

The question of unisessional and bi-sessional primary education is being examined by the Working Party on Primary Education.

Head 31 was agreed to.

Head 32-86 were agreed to.

*Question put that the Schedule stands part of the bill and agreed to.*

Clauses 1 and 2 were agreed to.

## **HOUSING (AMENDMENT) BILL 1978**

Clauses 1 to 5 were agreed to.

**LAW AMENDMENT AND REFORM (CONSOLIDATION) (AMENDMENT) BILL 1978**

Clause 1 was agreed to.

Clause 2

THE ATTORNEY GENERAL:—Sir, I move that clause 2 be amended as set out in the paper before Members.

The amendment proposed deletes from subsection (3) of the new section 22A a definition of the words ‘motor vehicle’. These words are not used elsewhere in the Bill in its present form and the definition, accordingly, serves no purpose.

*Proposed amendment*

**Clause 2**

That clause 2 be amended in the proposed new section 22A by deleting subsection (3) and substituting the following—

‘(3) In this Part, “born” means born alive (the moment of a child’s birth being when it first has a life separate from its mother), and “birth” has a corresponding meaning.’.

The amendment was agreed to.

Clause 2, as amended, was agreed to.

Council then resumed.

**Third reading of bills**

THE ATTORNEY GENERAL reported that the

**APPROPRIATION BILL 1978 and HOUSING (AMENDMENT) BILL 1978**

had passed through Committee without amendment and that the

**LAW AMENDMENT AND REFORM (CONSOLIDATION) (AMENDMENT) BILL 1978**

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 26th of April.

*Adjourned accordingly at twenty minutes past five o'clock.*