

**OFFICIAL REPORT OF PROCEEDINGS****Wednesday, 25 April 1984****The Council met at half past-two o'clock****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)  
SIR EDWARD YOUDE, G.C.M.G., M.B.E.

THE HONOURABLE THE CHIEF SECRETARY  
SIR CHARLES PHILIP HADDON-CAVE, K.B.E., C.M.G., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY  
SIR JOHN HENRY BREMRIDGE, K.B.E., J.P.

THE HONOURABLE THE ATTORNEY GENERAL  
MR. MICHAEL DAVID THOMAS, Q.C.

THE HONOURABLE ROGERIO HYNDMAN LOBO, C.B.E., J.P.

THE HONOURABLE DENJIS CAMPBELL BRAY, C.M.G., C.V.O., J.P.  
SECRETARY FOR HOME AFFAIRS

THE HONOURABLE DAVID AKERS-JONES, C.M.G., J.P.  
SECRETARY FOR DISTRICT ADMINISTRATION

DR. THE HONOURABLE HARRY FANG SIN-YANG, C.B.E., J.P.

THE HONOURABLE LO TAK-SHING, C.B.E., J.P.

THE HONOURABLE FRANCIS YUAN-HAO TIEN, O.B.E., J.P.

THE HONOURABLE CHEN SHOU-LUM, C.B.E., J.P.

THE HONOURABLE LYDIA DUNN, C.B.E., J.P.

THE REVD. THE HONOURABLE PATRICK TERENCE McGOVERN, O.B.E., S.J., J.P.

THE HONOURABLE PETER C. WONG, O.B.E., J.P.

THE HONOURABLE WONG LAM, O.B.E., J.P.

DR. THE HONOURABLE THONG KAH-LEONG, C.B.E., J.P.  
DIRECTOR OF MEDICAL AND HEALTH SERVICES

THE HONOURABLE CHARLES YEUNG SIU-CHO, O.B.E., J.P.

THE HONOURABLE JOHN MARTIN ROWLANDS, C.B.E., J.P.  
SECRETARY FOR THE CIVIL SERVICE

DR. THE HONOURABLE HO KAM-FAI, O.B.E., J.P.

THE HONOURABLE ALLEN LEE PENG-FEI, O.B.E., J.P.

THE HONOURABLE ANDREW SO KWOK-WING, O.B.E., J.P.

THE HONOURABLE GERALD PAUL NAZARETH, O.B.E., Q.C., J.P.  
LAW DRAFTSMAN

THE HONOURABLE HU FA-KUANG, J.P.

THE HONOURABLE WONG PO-YAN, O.B.E., J.P.

THE HONOURABLE DONALD LIAO POON-HUAL, C.B.E., J.P.  
SECRETARY FOR HOUSING

THE HONOURABLE WILLIAM CHARLES LANGDON BROWN, O.B.E., J.P.

THE HONOURABLE CHAN KAM-CHUEN, J.P.

THE HONOURABLE JOHN JOSEPH SWAINE, O.B.E., Q.C., J.P.

THE HONOURABLE COLVYN HUGH HAYE, C.B.E., J.P.  
DIRECTOR OF EDUCATION

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, J.P.

THE HONOURABLE CHEUNG YAN-LUNG, M.B.E., J.P.

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

THE HONOURABLE MARIA TAM WAI-CHU, J.P.

DR. THE HONOURABLE HENRIETTA IP MAN-HING

THE HONOURABLE PIERS JACOBS, O.B.E., J.P.  
SECRETARY FOR ECONOMIC SERVICES

THE HONOURABLE DAVID GREGORY JEAFFRESON, C.B.E., J.P.  
SECRETARY FOR SECURITY

THE HONOURABLE HENRY CHING, C.B.E., J.P.  
SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE CHAN NAI-KEONG, J.P.  
SECRETARY FOR LANDS AND WORKS

THE HONOURABLE RONALD GEORGE BLACKER BRIDGE, J.P.  
COMMISSIONER FOR LABOUR

THE HONOURABLE CHAN YING-LUN

THE HONOURABLE MRS. RITA FAN HSU LAI-TAI

THE HONOURABLE MRS. PAULINE NG CHOW MAY-LIN

THE HONOURABLE PETER POON WING-CHEUNG, M.B.E., J.P.

THE HONOURABLE JAMES NEIL HENDERSON, O.B.E., J.P.  
SECRETARY FOR EDUCATION AND MANPOWER

THE HONOURABLE JUSTIN YUE KWOK-HUNG, M.B.E., J.P.  
SECRETARY FOR TRANSPORT (*Acting*)

THE HONOURABLE JOHN FRANCIS YAXLEY, J.P.  
SECRETARY FOR TRADE AND INDUSTRY (*Acting*)

#### **ABSENT**

THE HONOURABLE ALEX WU SHU-CHIH, C.B.E., J.P.

THE HONOURABLE YEUNG PO-KWAN, C.P.M.

#### **IN ATTENDANCE**

THE CLERK TO THE LEGISLATIVE COUNCIL  
MRS. JENNIE CHOK PANG YUEN-YEE

**Oath**

Mr. J. F. YAXLEY took the Oath of Allegiance and assumed his seat as a Member of the Council.

HIS EXCELLENCY THE PRESIDENT:—I should like to welcome Mr. YAXLEY to this Council.

**Papers**

The following papers were laid pursuant to Standing Order 14(2):—

<i>Subject</i>	<i>L.N.No.</i>
Subsidiary Legislation:	
Fire Services Ordinance. Fire Services Department (Reports and Certificates) (Amendment) Regulations 1984.....	87
Miscellaneous Licences Ordinance. Miscellaneous Licences (Amendment) Regulations 1984.....	88
Fixed Penalty (Criminal Proceedings) Ordinance. Fixed Penalty (Criminal Proceedings) (Amendment) Regulations 1984.....	89
Fixed Penalty (Traffic Contraventions) Ordinance. Fixed Penalty (Traffic Contraventions) (Amendment) Regulations 1984 ...	90
Waterworks Ordinance. Waterworks (Amendment) Regulations 1984.....	91
Port Control (Cargo Working Areas) Ordinance. Port Control (Public Cargo Working Area) Order 1984.....	92
Labour Tribunal Ordinance. Labour Tribunal (Forms) (Amendment) Rules 1984.....	93
Interpretation and General Clauses Ordinance. Specification of Public Office.....	94
Fixed Penalty (Criminal Proceedings) (Amendment) Ordinance 1981. Fixed Penalty (Criminal Proceedings) (Amendment) Ordinance 1981 (Commencement) Notice 1984.....	95

<i>Subject</i>	<i>L.N.No.</i>
Fixed Penalty (Traffic Contraventions) (Amendment) Ordinance 1981. Fixed Penalty (Traffic Contraventions) (Amendment) Ordinance 1981 (Commencement) Notice 1984.....	96
Public Revenue Protection Ordinance. Public Revenue Protection (Inland Revenue) Order 1984.....	98
Pawnbrokers Ordinance 1984. Pawnbrokers Regulations 1984 .....	99
Revised Edition of the Laws Ordinance 1965. Revised Edition of the Laws (Correction of Error) Order 1984 .....	100
Merchant Shipping (Safety) Ordinance. Corridor Bulkheads Serving Accommodation Spaces and Control Stations	101
Inland Revenue Ordinance. Inland Revenue (Interest Tax) (Exemption) (Amendment) (No. 6) Notice 1984.....	102
Public Health and Urban Services Ordinance. Public Health and Urban Services (Amendment of Fifth Schedule) Order 1984.....	103
Registration of Persons Ordinance. Registration of Persons (Application for New Identity Cards) (No. 3) Order 1984 .....	104
Public Health and Urban Services Ordinance. Food Business (New Territories) Regulations (Exemption from Regulation 31(1) Notice 1984 .....	105
Public Health and Urban Services Ordinance. Food Business By-Laws (Exemption from By-Law 32(1) Notice 1984 .....	106
Banking Ordinance. Specification of Specified Liquid Assets.....	107

Sessional Paper:

No. 51—Report of the Finance Committee on the Draft Estimates of Expenditure  
1984-85.

**Government business****Motion****HONG KONG EXPORT CREDIT INSURANCE CORPORATION ORDINANCE**

THE FINANCIAL SECRETARY moved the following motion:—That the contingent liability of the Hong Kong Export Credit Insurance Corporation under contracts of insurance shall not at any time exceed the sum of 3,500 million dollars.

He said:—Sir, I move the motion standing in my name in the Order Paper.

In May 1982 the maximum contingent liability of the Hong Kong Export Credit Insurance Corporation was increased by \$500 million to \$3,000 million. In the past two years the Corporation's liability under contracts of insurance has risen by \$399 million and at the end of January 1984 stood at \$2,757 million.

With exports going well, the contingent liabilities of the Corporation are increasing at the rate of approximately \$50 million per quarter. This rate may also accelerate, as a result of new and expanded business including that generated by the launching of a Comprehensive Shipments Policy. In the circumstances the Corporation's Advisory Board considers that the existing statutory limit may be reached during the second half of 1984. It has thus advised that the maximum contingent liability should be increased by \$500 million to \$3,500 million. Failure to raise the limit could result in the Corporation having to turn away further business. On the basis of the usual gearing of three, up to \$167 million will have to be set aside from the free fiscal reserves as cover for the additional contingent liability.

I must, however, stress that this maximum liability is a theoretical amount, never likely to be at risk at any one time.

Sir, I beg to move.

*Question put and agreed to.*

**First reading of bill****CROSS-HARBOUR TUNNEL (PASSAGE TAX) BILL 1984**

*Bill read the first time and ordered to be set down for second reading pursuant to Standing Order 41(3).*

## Second reading of bills

### CROSS-HARBOUR TUNNEL (PASSAGE TAX) BILL 1984

THE SECRETARY FOR TRANSPORT moved the second reading of:—‘A bill to impose a tax on the passage of motor vehicles through the Cross-Harbour Tunnel, to amend the Cross-Harbour Tunnel Ordinance and for purposes connected therewith’.

He said:—Sir, I rise to move the second reading of the Cross-Harbour Tunnel (Passage Tax) Bill 1984.

The primary objective of this Bill is to impose a tax on certain classes of vehicles in order to reduce congestion in the Cross-Harbour Tunnel and on the approaches to it.

This Council in May 1982 and in February 1983 endorsed measures to increase the taxation of private cars which are the least efficient users of road space. These measures have had a marked effect on private car ownership. Private car ownership has since declined by 9%. However, this decline has not translated into a corresponding easing of congestion on the roads.

In the case of the Cross-Harbour Tunnel, the drop in private car ownership has provided no more than a respite. The daily vehicle flow through the tunnel remains in excess of 100 000 vehicles. This is well above the carrying capacity that the tunnel was designed for. After a small drop in traffic in 1983, usage of the tunnel appears to be increasing once again.

In the short term, there is little scope for improving further the tunnel operations and the traffic controls around the approach roads and exits. In the longer term, the solution must be to provide a second fixed vehicular crossing. The Steering Group examining the options is making steady progress and will be able to submit a final report to the Executive Council by September this year. Present indications are that the problems associated with the proposed Lei Yue Mun Bridge will be difficult to overcome a tunnel linking Tai Koo Shing and Cha Kwo Ling *appears* to be the best alternative in traffic terms and in construction terms. But this is still a *preliminary* view, to be confirmed by detailed assessments now underway of the economic and financial viabilities of the various options. Even if a firm decision could be taken later this year to construct a second fixed harbour crossing, it will take at least four years to complete.

Sir, the Bill aims to restrict the tax to certain classes of vehicles and to exempt public and private omnibuses. In this way, the vast majority of the public which travels through the tunnel on public transport should remain unaffected and should, as a result of reduced congestion, enjoy shorter journey times.

The proposed tunnel tax of course also has important revenue implications. After discounting for reduced traffic as a result of resistance to the tax, it is estimated that approximately \$140 million per annum will accrue to the Government. In this regard I should refer to the statement by the Financial Secretary in his Budget speech that he would regard this increased revenue as especially available for transport purposes. The Company's application for a toll increase is being examined separately.

I now turn to the main provisions of the Bill. Clause 3 in conjunction with the First Schedule provides for the charging of different rates of tax on different classes of motor vehicles using the tunnel. The higher rate of tax of \$5 will apply to private cars and taxis which together account for 70% of the traffic flow through the tunnel. Goods vehicles would pay the same tax as private cars and taxis. This is not expected to add significantly to transport cost as over 90% of the daily goods vehicle trips do not involve crossing the harbour. Motor-cycles, public and private light buses, will be subject to a tax of \$2. Originally it had been envisaged that a distinction should be made between public and private light buses for the purpose of this tax. However, the toll collection system used by the Cross-Harbour Tunnel Company does not permit this. And upon further consideration, the tax rate for both types of light bus has been fixed at \$2.

Omnibuses are exempt from the tax by virtue of clause 4 and the Second Schedule. Government vehicles are however not exempted, except in the special circumstances of officials carrying out duties within the tunnel area.

Sub-clauses 4(3) would exempt Consular Corps staff from the tax. Detailed administrative arrangements will be agreed with the Cross-Harbour Tunnel Company.

Revisions to the schedule of charges will be subject to resolution by this Council.

The tax would apply throughout the twenty-four hours of each day. The possibility of providing for exemption from the tax during non-peak hours has been examined but unfortunately there are considerable administrative and operational problems, the main one of which is that the Cross-Harbour Tunnel Company's existing computer does not have the capacity to undertake such a requirement. An opportunity to re-appraise this possibility would arise if and when the Company should switch to a new computer with additional capabilities.

Clause 5 makes the Cross-Harbour Tunnel Company responsible for collecting the tax. At present, 25% of the traffic through the tunnel pays by means of prepaid tickets; provision has been made in sub-clause 5(3) for prepaid tickets to include the tax. Tax revenue from both prepaid tickets and cash collected at the toll booths would be paid to the Commissioner for Transport.

For accounting and audit purposes, the Company is required under clause 6 to keep detailed records of the daily number of motor vehicle passages liable to tax and the amount of tax collected either in cash or in the form of prepaid tickets. The receipt, counting, and accounting of tax may involve the Cross-Harbour Tunnel Company in additional work. If justified, clause 8 provides for the Company to be paid a fee, to be agreed, for the collection of the tax.

Clause 7 makes it an offence to drive a vehicle liable to the tax past a toll booth without paying the appropriate tax although clause 9 would allow that in the case of emergency vehicles on duty, the tax could be settled later.

Other consequential amendments are required to both the Cross-Harbour Tunnel Ordinance and the Road Traffic (Public Service Vehicle) Regulations, and there are dealt with in clauses 10 and 11 respectively.

Clause 12 provides for a transitional period during which existing stocks of toll tickets may be used for payment of the tax as well as the toll. With these transitional arrangements, it is intended to bring the Bill into operation on 1st June 1984. The transitional arrangements will end on a date notified by the Commissioner for Transport in the *Gazette*.

Sir, I beg to move that the debate be now adjourned.

*Motion made. That the debate on the second reading of the Bill be adjourned*—SECRETARY FOR TRANSPORT.

*Question put and agreed to.*

## **APPROPRIATION BILL 1984**

### **Resumption of debate on second reading (29 March 1984)**

*Question proposed.*

SECRETARY FOR TRANSPORT:—Sir, Father MCGOVERN, Mr. WONG Lam, Mr. F. K. HU, Mrs. Rita FAN, Mrs. Pauline NG and Mr. YEUNG Po-kwan all spoke on the subject of the Cross-Harbour Tunnel. As I have already touched on the various aspects in moving the second reading of the Cross-Harbour Tunnel (Passage Tax) Bill this afternoon, I will be brief.

Father MCGOVERN is opposed to the proposed tunnel tax because there has been a drop of .47% in tunnel traffic in 1983 as compared with 1982 and because the Cross-Harbour Tunnel Company has said that the congestion at both sides of the tunnel is not expected to worsen significantly in the near future. While in traffic management terms I am happy to see that the congestion at the Cross-Harbour Tunnel has not worsened, I cannot accept that a .47% decline in tunnel traffic is good enough. For me to do otherwise would be to accept that

the present level of congestion is tolerable, which it is not. In any case, the decline in question appears to have been a temporary phenomenon. The total volume of traffic for calendar year 1982 was 39.78 million vehicles. For calendar year 1983, this was 39.59 million, i.e. a drop of .47%. However, for the latest 12-month period ending March 1984, it was 39.79 million. So already we are back to where we were before!

I welcome the support of Mr. F. K. HU and Mrs. Pauline NG for the proposed tax. Mrs. NG has asked that sufficient public transport be provided if the purpose of the proposed tax is not to be defeated. Sir, I can assure Mrs. NG that the Transport Department has this in hand.

Mr. HU has urged that the construction of a second cross-harbour tunnel be looked into without further delay. I have said, in moving the Cross-Harbour Tunnel (Passage Tax) Bill 1984, that a tunnel linking Tai Koo Shing and Cha Kwo Ling appears to be the best alternative to the proposed Lei Yue Mun Bridge. But it will take at least four years, assuming a firm decision to go ahead with its construction, to complete.

Mr. WONG Lam has suggested that the proposed Cross-Harbour Tunnel tax should not apply during non-peak hours. This was examined. As a concept, it has considerable merits. But as I have said, there are also considerable administrative and operational problems, the main one of which is that the Cross-Harbour Tunnel Company's existing computer cannot cope with such a requirement. If and when the Company should switch to a new computer with additional capabilities, I would certainly ask for this to be re-examined.

Mrs. Rita FAN and Mr. YEUNG Po-kwan have urged that the Cross-Harbour Tunnel toll should not be further increased. As the Financial Secretary has said in his Budget speech, the Cross-Harbour Tunnel Company's application for a toll increase is being examined with care by the Administration. To the extent that the Cross-Harbour Tunnel Company's revenue is reduced as a result of resistance to the Tunnel tax, a small increase may be justified, and, if so, there is a possibility that such an increase can be offset within the Tunnel tax. However, it will be some time before the effect of the Tunnel tax can be clearly established. Until then, no firm view can be reached.

Mr. F. K. HU has commented generally on the need to continue improving our transport infrastructure and to encourage the increased use of public transport. The importance of our transport infrastructure to our economy and to our millions of commuters and school children, who take 8.3 million trips per day, is very much on my mind. Increasingly our attention will be focussed on the New Territories as more and more of our population shifts to the New Towns. It is our objective to have an adequate transport network to match our housing programme.

Mr. HU has also touched on the question of taxis. While I do not wish to go into any great detail on this subject at the moment, I should say that we are

embarking on extensive consultations with the Taxi Associations and with all the District Boards and I hope to be reporting the substance of the consultations back to the Executive Council some time in June.

Sir, I support the motion.

SECRETARY FOR TRADE AND INDUSTRY:—Sir, given the crucial importance to Hong Kong's economy of trade and industry, it is not surprising that a number of Members touched on a variety of issues from these fields. We are indeed, as Mr. Y. L. CHEUNG neatly put it, 'seasoned traders'—and this Chamber will share his view that it is essential, given our dependence on trade, to explore every means of maintaining Hong Kong's competitive edge.

#### *Industrial Investment*

A number of Members, including Mr. S. L. CHEN, Mr. WONG Lam, Mr. F. K. HU and Mr. WONG Po-yan expressed concern at the apparent fall in private investment in manufacturing. I know that the Financial Secretary will also be touching on this issue. However let me also assure them that Government is fully aware of the central importance of a healthy manufacturing sector in our economic well-being. Much of our past success has been due to the willingness of our manufacturers to invest in modern plant, machinery and techniques; and to diversify into new products. This is even more important today with the gathering pace of technological change, and with our competitors in the region and elsewhere hard on our heels.

Figures for retained imports of industrial plant and machinery did show a decline in investment by manufacturers in 1982 and the first half of 1983. But following the recovery in exports during 1983, retained imports of industrial plant and machinery began to turn upwards again in the last quarter of last year. Export orders are continuing at a high level, so we expect this trend to continue. Industry Department's investment promotion staff have a full programme planned for the coming year; and they continue to report a healthy level of interest from overseas. At home a number of companies already operating here have recently expanded, or are expanding, their operations. These successes are welcome. But we do not intend to relax, in this very competitive field.

#### *The Promotion of Science and Technology*

It is certainly very true, as Mr. WONG Po-yan said, that industry must keep abreast of technological advancement in order to improve production processes and increase the value-added content of our products.

The task of disseminating technological information, of which Mr. WONG spoke, is currently undertaken by a number of public and private organizations including the Industry Department, the Hong Kong Productivity Centre, the Trade Development Council, the Chinese Manufacturers' Association, the Hong Kong General Chamber of Commerce and the Federation of Hong Kong

Industries. Equally important however is the identification, and introduction, of technologies that are specifically useful in Hong Kong's circumstances. As examples of work towards that goal, I might perhaps draw Members' attention to recent studies commissioned by the Industry Development Board on the metal and light engineering industry; the electronics industry; and technology transfer—to the importance of which Mr. Peter POON also drew our attention. Arising from these studies, measures have been recommended which will facilitate the development of an efficient and effective technological infrastructure to help industry to move towards technology-intensive production.

Each of the bodies I have mentioned contributes its own particular expertise—but it makes clear sense to co-ordinate such activities so as to make best use of their resources. It is perhaps less clear whether this necessitates the establishment of a new body; or whether in terms of manpower, money, and the stimulus that comes from a variety of perspectives, it would be more effective to build on existing facilities. The Industry Development Board discussed this recently, and its consensus was that existing resources should be used as far as practicable. Specific proposals on how this should be done, and how various development activities could be funded, are being examined. The needs and interests of industry will be taken fully into account in that examination.

#### *Support for Industry*

I should also like to assure Mr. Allen LEE and Mr. YEUNG Po-kwan that we shall continue to do all we can, within our well-tried and tested economic philosophy, to ensure that manufacturers get the infrastructure and other services on which they can base the investment decisions which will enable them and the community to prosper. In that effort, bodies such as the Industry Development Board and the Hong Kong Productivity Centre play a central role.

#### *Textile Quota Allocation System*

Mr. Peter C. WONG has asked for a fresh look at the textile quota allocation system. Let me assure him that the 1983 Review of the Textiles Export Control System, adopted by the Textiles Advisory Board, and accepted by Your Excellency in Executive Council, concludes with these words '...it is important that the textiles export control system should be continuously monitored and constantly reviewed, and its provisions modified where and when necessary, to ensure that it remains effective and that it serves its objectives'.

The principles and objectives of this quota system are five-fold:

- (a) that Hong Kong discharges fully its obligations arising from bilateral agreements and the Multi Fibre Arrangement (MFA);
- (b) that the system allows for optimum utilization of restraint limits agreed with importing countries;
- (c) that the system is fair to those who developed the trade;
- (d) that it has flexibility to accommodate the changing pattern of trade, including the entry of newcomers;

(e) that any modifications made do not reduce the overall efficiency of the system.

It is also worth recalling that the need for textile export quotas is not of our choosing. Naturally we prefer free trade in textiles. The quotas have arisen because we have to restrain our exports of certain textile and clothing products within limits agreed with our various trading partners under the provisions of the MFA. This means that the demand for these products is often higher than the agreed and restricted supply from Hong Kong. The high quota premia Mr. WONG has heard of clearly relate to the recent conditions in the U.S. market where there appears to be an extremely strong demand for our products which far exceeds our available quota. Our 1983 shipment performance of 99.9 per cent against our U.S. restraint limit gives an indication of this. From present trends, quotas for the U.S. market this year will likewise be fully used.

As Mr. WONG rightly pointed out, the transfer of quotas adds flexibility to the trade. It also gives a channel for people who do not have quotas, generally newcomers, to obtain them—at a premium determined by supply and demand in the market. However, he also implies that there are quota holders who are wholly engaged in quota farming. As an allocation rule which penalizes persistent temporary transferors who transfer out 50 per cent or more of their total allocation in two consecutive years has been in force for some time, I do not therefore believe this to be possible. I would also point out that of the 14 changes to the Textiles Export Control System introduced after the 1983 Review, four changes apply specifically to the transfer rules while another four indirectly affect those who have transferred quotas. Furthermore, these changes only take effect from the current year, and only time will show their effectiveness. Nevertheless these changes clearly indicate that there is no complacency in this regard; but we must take care not to throw the baby out with the bath water.

Sir, I support the motion.

SECRETARY FOR HEALTH AND WELFARE:—Sir, the idea of a central provident fund has been referred to on a number of occasions, the most recent being only last November, and it has been raised again in this debate. Hopefully, Members will not find me too Pavlovian in my response.

It would have been surprising had my reply to Mr. F. K. HU last November been taken as the final word on the subject. But I did not last November say, as Dr. FANG reported, that the issue would be examined again if new arguments were presented. That goes without saying. Having explained that the Government's views had been stated on a number of occasions and were well documented, what I said was that in the absence of new arguments I would not reiterate what was already a matter of record.

Dr. FANG has reminded us that 'the establishment of a compulsory central provident fund ... was raised first by Sir S. Y. CHUNG as far back as 1974'.

It was raised on that occasion as 'another possible method of financing social and economic development programmes'. Unless the case now being advanced is for a central provident fund as a new source of general revenue, which seems unlikely, there is on this occasion again an absence of new arguments. The willingness of a bank to manage a central provident fund, and of a group of workers to pay into it, are not in themselves arguments justifying the establishment of such a fund. And so again I shall not repeat the Government's views which are already on record. But I shall comment on two specific points raised by Dr. FANG.

First, it was argued that incentives should be offered in the form of tax exemptions, implying that such exemptions are not now available. It is true that employees' payments to approved retirement schemes are not tax deductible, but then no notional amount is added to their taxable income in respect of the contributions made by their employers on their behalf. Employers are, under certain circumstances, given relief for contributions made by them to approved schemes, and employees are not generally assessed, for salaries tax, on sums withdrawn from approved schemes unless they are pensions. Tax exemptions clearly are available. Whether or not they should be improved is, of course, a separate question.

Second, it was suggested that workers would be willing to pay six percent of their earnings towards a central provident fund. No mention was made, however, of the level of benefits envisaged. For such a scheme to provide a reasonable level of benefits, employers would also have to contribute, but no assessment was given as to their willingness to do so. Presumably, their contributions would need to be set at such a level as to provide benefits no less advantageous than those already provided under the Employment Ordinance, and under the existing non-contributory public assistance scheme. And of course the level of the employer's contribution must eventually have some impact on the level of wages he is prepared to pay. It is of interest to note that in Singapore a worker and his employer could together contribute as much as 46% of his earnings.

This subject, Sir, in varying forms, has been dwelt upon at some length in recent years. The Government's basic view has been clearly stated. Put simply it is that the public assistance scheme and related special needs allowance should remain the central pillar of our social security system. The Government is fully committed to providing the resources necessary for this purpose. This is reflected in the draft Estimates which show a significant increase in provision for payments of public assistance and special needs allowance, prompting Mr. HU to express concern that people should not be over-encouraged to depend on social security.

I assure Mr. HU that the public assistance scheme is designed so that the incentive to work is not eroded and so that help is directed towards those most in need. There is no evidence that the levels of public assistance payments are

encouraging people to depend on social security; indeed the great majority of recipients are elderly or handicapped.

Mr. HU raised the point that a 'balance (should be maintained) between social work and social security' and asked that development plans on social work should not be held up. He will be interested to note that estimated expenditure in 1984-85 on relief and welfare payments, on the one hand, and on all other recurrent expenditure by the Social Welfare Department, including subventions, on the other hand, in each case reflects an increase of about 26% per annum since 1980-81. A balance is therefore being maintained between social security payments and the provision of what Mr. HU referred to as social work. These two elements of our programmes are complementary to each other, and the Government will continue to improve both the quantity and quality of social work services as far as resources permit.

Concern was also expressed by Mr. HU that the increase in fees in welfare institutions effective from 1 March 1984 would affect those who are not on public assistance, but who might be forced to apply for such assistance as a result of the increased fees. But I think Mr. HU would agree that those who can pay should pay, and for this purpose it is important that fees should be kept up-to-date. If, as a result, an individual has inadequate resources of his own to meet the increased fees, it seems entirely right that he should be assisted through the public assistance scheme.

Assistance to those in need in other areas, such as in the medical field, has not been neglected, and Mrs. NG welcomed the expansion plans for clinics and polyclinics described in Appendix B to the Budget Speech. She drew attention, however, to the importance of outpatient clinics holding sessions in the evenings and on holidays, for the convenience of workers seeking medical treatment outside of working hours.

The provision of evening and holiday sessions in Government outpatient clinics is kept under constant review. Such sessions are provided for a purpose, that purpose being basically to relieve pressure on day sessions and on the accident and emergency departments. Within limited resources, it would not be possible to expand evening and holiday sessions purely on the grounds of convenience, without unduly affecting the services provided during day sessions. But if Mrs. NG has any specific clinic in mind where evening or holiday sessions are justified, but are not presently provided, perhaps she would let the Director of Medical and Health Services have the relevant details for further consideration.

On medical services generally, Dr. IP offered some thought-provoking observations.

In the specific context of dental services, I was delighted to hear her refer to cost-effectiveness, and the need for cost comparisons and for incentives to economize. These are concepts very close to my heart, if somewhat removed

from my present job (*laughter*), and I was eager to expound on them in reply. I have, however, been persuaded to leave such matters to financial experts (*laughter*), and to content myself with pointing out that the Government provides a comprehensive dental service to civil servants as their employer, to meet an obligation under their contracts of employment; it provides a preventive dental service for schoolchildren to inculcate good dental habits at an early age; and it provides for hospital inpatients and the public an emergency service only, confined to therapeutic procedures. These different areas are in no sense options, and it would be meaningless to make cost comparisons between them. Nor would such comparisons help in forming a view on the justification for a government dental service outside of these areas.

On the subject of hospitals, Dr. IP claimed that 'Government subvented hospitals get less funding than Government hospitals of the same nature'. If she meant funding from the public purse, she probably is correct, for Government hospitals are funded for their full expenditure while subvented hospitals are funded only for expenditure not covered by income from other sources.

But if she referred to the total funds available to a hospital, then I would be most interested in seeing the evidence that she undoubtedly has in support of her statement, for it may be that the evidence is being misinterpreted. Was she, for example, comparing funds per bed or funds per patient treated; this I ask in an effort to be helpful and not to excuse. The average stay of a patient in Government hospitals tends to be shorter than in similar subvented hospitals. A subvented hospital, therefore, which gets less funding per bed than a Government hospital may well be getting more funding per patient treated. And it is surely the funding per patient treated that is the measure of the effective utilization of the funds.

An area where the beneficial effects of expenditure are perhaps less easily measured is that of pollution control. I am grateful to Mr. SO for raising this important subject, and for dealing with it so comprehensively. He drew particular attention to the present fragmentation among several Government departments of responsibilities for controlling environmental pollution, and the need to improve efficiency in this respect. Mr. CHEUNG Yan-lung also touched on this issue.

The present arrangements follow recommendations made by consultants in the mid-1970s. They introduced the concept of a comprehensive pollution control programme, and concluded that the best way to make early progress was to draw on expertise where it already existed in departments. Executive functions were thus placed with those departments which were designated as control authorities in the new package of legislative which followed. Programme co-ordination and development were placed with a new central body set up in late 1976, which was the forerunner of the present Environmental Protection Agency.

Since 1976, circumstances have changed. There is now a substantial and well-founded Agency with the required expertise to implement, if not all, then at least some of our pollution control legislation.

In recognition of the new circumstances, an internal review of the Government's organization for pollution control was instituted in the middle of 1983. This exercise is at an advanced stage, and it should be possible to formulate detailed proposals later this year. It is not perceived that there is a need for anything approaching a full-scale change to the existing organization. Rather, it will be a matter of identifying individual tasks which might more appropriately be performed by the Environmental Protection Agency instead of other departments.

Mr. CHEUNG Yan-lung stressed the need, in considering pollution control legislation, to bear in mind the interests of small and traditional industries and argued that drastic measures should not be adopted which might drive them out of business. Extensive consultations are carried out as a matter of course before any new legislation is introduced so that the interests of those likely to be affected by the proposed measures are taken into account.

But Mr. CHEUNG's remarks underline the fact that, unfortunately, there are certain economic activities which are incompatible with a community's wish to have an unpolluted, or at least a reasonably clean, environment. This conflict cannot always be avoided, and sooner or later the decision must be made as to whether the pursuit of such activities should continue regardless of their polluting effect. The decision can be difficult, and compromises are always tempting, but of course each compromise carries a price that must at some stage be paid. Agricultural wastes, for example, are undoubtedly one of the major sources of pollution of our watercourses and coastal waters, and control of such pollution will not be effective as long as advocates of compromise are persuasive in their arguments. I am heartened, Sir, by Mr. CHEUNG's recognition that waste disposal is a big problem in the New Territories and look forward to his continuing encouragement of our efforts to remove it.

Sir, I support the motion.

DIRECTOR OF EDUCATION:—Sir, I note with great pleasure the generally favourable response which this year's Budget proposals for education have received from Unofficial Members and from members of the public. The proposed 17.9% increase in provision for education in a year of general financial restraint has been widely welcomed and has been seen as an indication of the Government's commitment to continue to develop and improve educational services to meet Hong Kong's needs and aspirations.

I would today reaffirm that commitment. Education has served us well in the past because it is through education that we have achieved the high degree of social mobility which has made Hong Kong such a successful community. We can take great pride in the fact that in Hong Kong, no child who is academically

able has ever been deprived of a good education, and hence the opportunity for a successful career, solely because he or she is poor.

However, the significance of the commitment I underline is now much broader. We are now no longer just concerned with providing a good education for those children who are academically able. We are now concerned with providing a *good* and *relevant* education for *all* children, including those with special needs. Sir, it is in the context of this wider concern that I am replying to the comments of my Unofficial Colleagues.

At the risk of over-generalizing, the provision of a good and relevant education is dependent on four main factors: the school, the curriculum, the teacher and the amount of financial support. In their speeches, Mrs. Pauline NG and Mrs. Rita FAN concentrated on teachers; and Dr. IP and Mrs. CHOW on schools and financial support. Mrs. CHOW's comments also related to the curriculum and language standards.

Mrs. NG expressed the hope that the Government would promptly provide every Government and aided secondary school with the promised two additional non-graduate teachers to help strengthen extra-curricular activities and thereby promote moral education. I am pleased to say that financial approval has now been given for a further expansion programme for the Colleges of Education which will enable the first additional non-graduate teacher to be provided for each standard school in September 1986 and the second in September 1987. This expansion programme will cost as much as \$123 million over the next five years, but in case Mrs. NG asks whether the 1986 and 1987 targets can be advanced, I have to add that it is largely for educational reasons, and not financial ones, that these target years have been determined. We do not wish to shorten the teacher training courses or to flood the Colleges with students of lower calibre, and I am sure Mrs. NG would not wish us to dilute the quality of the teaching profession in this way.

Mrs. FAN stressed the need to maintain quality in teacher education. She mentioned in particular the importance of in-service training for teachers and school administrators. I agree with her fully and should like to point out that the Education Department is providing a large number of such retraining programmes. The Colleges of Education now supply systematic retraining courses for both primary and secondary school teachers. The new Institute of Language in Education offers intensive programmes for Chinese and English language teachers. The Advisory Inspectorate runs short courses for serving teachers mainly related to the development of new syllabuses and new teaching techniques. In addition, the Education Department has commissioned the British Council to run refresher courses for English language teachers. As for school administrators, the Department's Training Unit offers management courses for primary heads and will soon extend these to secondary heads.

Thus a great deal is going on, and will go on, in in-service training. Mrs. FAN has noted a deduction of \$110,000 in the draft Estimates for this activity. Let me

assure her that this is simply because of the expansion of the Department's own courses, such as those in the Institute of Language in Education, which have led to a corresponding reduction in British Council courses and therefore the need to spend money on them. This is a rationalization rather than a reduction—or to put it in another way, a saving of \$110,000.

Dr. IP stressed the need to get our priorities right, and, in particular, to ensure that we make the best possible provision for the majority of our citizens. I have no argument whatsoever with these sentiments and can assure Dr. IP that they are central in the planning of our educational provision. I cannot, therefore, accept that the needs of the mentally handicapped or of special education in general are being neglected or discriminated against. Indeed this year has seen considerable improvements in our provision of special education. Before dilating on this, however, I think Dr. IP's criticisms of the provisions being made for the mentally handicapped require detailed comment.

Dr. IP cited a shortfall of 6 000 places for the mentally handicapped. This figure derives from the prevalence rate used in the Rehabilitation Programme Plan, an estimate of demand which experience is showing to be unrealistically high. The actual situation, assessed in January this year, is that the number of mentally handicapped children who, for one reason or another, are still awaiting a special school place, stands at only 630. Even if this figure is doubled for planning purposes, resulting in a theoretical demand of about 1 200, this will still be spectacularly short of the 6 000 quoted by Dr. IP to make her debating point. The Rehabilitation Development Co-ordinating Committee is yet to endorse a realistic figure for planning purposes but I can assure Dr. IP that it will not exceed 1 200.

This does not mean that I think *any* shortfall of places for the mentally handicapped is acceptable, and my Department continues to strive to remedy the situation through a special schools building programme and other emergency measures. Dr. IP should be pleased to note that 242 additional places for mentally handicapped children have been planned for 1984-85 and that three new purpose-built special schools for the mentally handicapped will come on stream in the 1986-87 academic year, providing an additional 330 places if buildings proceed according to schedule. To cover shortage in the interim period, we have initiated an experimental programme this academic year which provides a home-based resource teaching service for children on the waiting list for special school places. Visiting teachers conduct home-teaching and train parents to carry on teaching programmes in their homes. The pupils go to school at least one day a week for specialized training and social and cultural activities. The programme has been well received so far, and if an evaluation this May confirms its success, the scope of the programme will be expanded to cater for many many more mentally handicapped children awaiting school places.

Dr. IP has claimed that delays in the special school building programme have been unnecessary and avoidable. She suggested that the problems encountered would have been overcome by more effort from civil servants. I do not think this allegation is fair or justified. There *have* been geotechnical problems which have resulted in unacceptably high costs and delay over which civil servants have little control and there *have* been changes of plan by sponsoring bodies. It is not possible to resolve these problems, as Dr. IP has suggested, by using standard plans.

Given that special schools require specially adapted buildings, Dr. IP asked whether the Government had 'considered seriously and worked hard enough to aim at operating special schools in temporary accommodation until new schools are built'. The answer, as Dr. IP well knows, is yes, because Dr. IP's own Association for the Mentally Handicapped has been given special permission to use temporary Government premises until it builds a new special school. Nor is this an isolated incident of Government sympathy. We have adapted 13 other sets of premises to help meet this problem, and, as I have already remarked, we are building 3 more special schools by 1986-87 to individual design to take up the registered shortfall of the mentally handicapped. It is worth adding that there are more than another dozen special school projects in the planning stage. This I submit is hardly evidence of Government indifference or inertia.

I have remarked that this year has seen considerable improvements in our provision for special education, and I have to remind Dr. IP that she and Members approved in November 1983 the additional allocation of \$8.91 million per annum, and again in March 1984 a further \$1.03 million per annum for improvement in the provision for special schools to enable, among other things, a higher teacher to class ratio, the provision of more graduate teachers and replacement staff, more promotion posts, additional para-medical staff and improved conditions of service for those engaged in Special Education. These improvements represent the culmination of a great deal of work by my devoted Special Education staff and I think Dr. IP will have to agree that they are concrete evidence that we *do* indeed care for the mentally handicapped, as we do for all our disabled children. To suggest otherwise is to ignore all that has been accomplished by the Rehabilitation Programme Plan since 1977. Of course further progress will be made but it will be considered against the full background of our educational needs.

In a typical non sequitur Dr. IP then went on to suggest that the Government practises positive discrimination in favour of the English Schools Foundation both in the provision made for its capital projects and for its running costs per place. No such discrimination is taking place and I have to remind Dr. IP of the purpose for which the English Schools Foundation receives subvention from public funds.

'The English-speaking schools system exists because it has been the Government's belief that parents whose future lies in the main outside Hong

Kong want their children to have an education of this type'. This provision is made in recognition of the fact that the courses followed in the local 'Anglo-Chinese' schools are *not* appropriate for these children. These children do *not* have the wider choice of school placement suggested by Dr. IP. *Nor* is the ability of English-speaking children to study overseas with allowances paid by the Government a result of their ability to speak English—allowances result from their parents' conditions of employment with the Government.

The quoted purpose of the ESF, some will recognize, comes from the Q. W. LEE Report, the findings and recommendations of which established the present method of subventing the Foundation which ensures parity of treatment with aided schools catering for Chinese children. This principle of parity is strictly adhered to. The grants paid to the ESF schools are based on the notional subsidy per place paid to local aided schools. The higher cost per place results from the approved formula which recognizes the greater mobility among the student population for which it is the ESF's responsibility to cater, and the inevitable fluctuations in enrolments which can occur.

Dr. IP also highlighted the variations in unit costs among the various types of place in the public sector of education. This is not the time and place for detailed technical explanation, but the basic difference between the Government and aided school sectors is due to the different terms of employment of the teaching staff in these schools. The salary scales are the same, but the on-costs of the other conditions of employment are higher for Government teachers.

The difference in the cost of bought places in the private sector is also a reflection of differing operating costs relating to types of accommodation, varying standards of equipment, and, above all, to the salaries of teachers.

This conveniently brings me to Mrs. Selina CHOW's observations. In advocating the abolition of the Junior Secondary Education Assessment (JSEA) System and in presenting possible options for achieving this, Mrs. CHOW expressed the view that the Government should accept that there would always have to be some bought places in private independent schools and that the Government should increase financial assistance to these schools so as to upgrade them while closely regulating their profits through a scheme of control.

While I cannot, and must not, pre-empt the recommendations of the new Education Commission on the question of the future of the JSEA, I do wish to make three points.

First, as noted by Mrs. CHOW, the Government is fully aware of the disparity between the Government and aided sector and the private bought-place sector. All efforts are being, and will continue to be made, to bring the quality of places in the private sector closer to that of the Government and aided sector by allowing increases in the cost of bought places through higher fee levels wherever these are considered justified. A system of control has also been introduced whereby the private schools concerned must show proof that a

specified proportion of the increased fee income is actually spent on improving teachers' salaries. This system of control will be kept under constant and careful review.

My second point is that even though a decision on the future of the JSEA has yet to be made, the Education Department is not proposing to freeze the secondary school building programme. In fact, we have recently sought and obtained approval to build as many as 36 additional secondary schools between 1987 and 1991 at a cost of nearly \$570 million. When completed, these schools will contribute very significantly to the phasing out of the less satisfactory bought places in Forms I-III and the provision of additional places in Forms IV-VI, which will raise the percentage of subsidized Form IV places from the present 62% to 74% of the 15-year-old age group. I might add that this improvement of educational opportunity in the public sector is entirely consistent with the 1978 White Paper.

My third point relates to Mrs. CHOW's call for the provision of more places in longer full-time craft courses in the Technical Institutes as recommended in the Helmore Report. While, as I have explained, I cannot comment on her overall proposal for abolishing the JSEA. I can say that I personally agree fully with this particular aspect of her proposal. In fact, I have been discussing the matter with the Director of Technical Education and Industrial Training since shortly after the Helmore Report was received. This was in the context of the general review of the senior secondary curriculum and examinations which the Education Department is now conducting with the help of comments from the Board of Education, Schools Councils, the Curriculum Development Committee, and shortly, the Hong Kong Examinations Authority. Irrespective of what proportion of Form III leavers we decide to subsidize in future, I firmly believe that if we are to achieve the commitment I referred to at the beginning of this speech, namely, to provide a good and *relevant* education for all children, we must ensure that there will be suitable provision for those children for whom an academic education in Forms IV and V may not be the best answer. I am therefore grateful to Mrs. CHOW for highlighting this issue.

Finally, I share Mrs. CHOW's concern for the maintenance of acceptable standards of language in radio and television programmes. She will be happy to know that her views have been noted by the Chairman of the Broadcasting Review Board who has written to her direct. Members will also be pleased to know that the Review Board is very concerned with this issue and that a special Sub-Committee of the Board will look into the use of language and the need for programme improvement in radio and television. I have to add my reassurance that the entire thrust of the multi-million dollar language package launched by my Department two years ago is for the improvement of language standards in both Chinese and English in schools *and* the community.

Sir, I remarked at the outset of this speech that education has served us well because it is through education that we have achieved the high degree of social

mobility which has made Hong Kong such a successful community. This must be one of the few places in the world where it is possible for children to progress from the humblest of origins to the proudest positions in society because they have access to educational opportunity which is not only *good but relevant* for them. I see the proof of this repeatedly in scholarship and selection boards. A few weeks ago, for instance, I helped select Swire Scholars for Oxford and of the five young people short listed, all of them already undergraduates at the University of Hong Kong, two had grown up in resettlement estates, and one had been born on a poor fishing boat in Aberdeen. Only two came from what might be described as affluent homes; yet all these young people were good enough for scholarships at Oxford.

This tempts me to suggest that in Hong Kong, thanks to the education system, it is possible to skip what my friend Mr. K. C. CHAN so picturesquely described as a Spanish Omlette Sandwich. I know he will forgive me if I quote a local Cantonese saying—今日食麵，聽日食鮑魚， (*laughter*) which may be freely rendered as ‘I am eating noodles today but I shall be eating abalone tomorrow’. (*laughter*)

On this cheerful culinary note, Sir, I am happy to support the motion.

SECRETARY FOR EDUCATION AND MANPOWER:—

#### *Education Commission*

In noting the progress made on the Llewellyn Report through the setting up of the Education Commission, Father MCGOVERN expressed the hope that although it had not been made a statutory body, the Commission would perform an effective co-ordinating role in educational matters. As I said when announcing the establishment of the Commission, the Panel of Visitors did not themselves recommend that the Commission should be a statutory body, a statutory body would certainly have taken much longer time to set up and it would have been very difficult to spell out in statutory terms its precise relationships with the UPGC, the Board of Education and the Vocational Training Council without imposing a rigidly bureaucratic relationship. In its present form, the Commission is sufficiently flexible to allow its relationships with the other bodies to evolve and guidelines to be set up in the light of experience. I have no doubt that under the able and experienced leadership of its Chairman, the Honourable Q. W. LEE, it will play an effective and valuable role in offering consolidated advice on the educational system as a whole, and that a harmonious working relationship with the other three bodies will be built up and maintained. The Commission seems to me to have sufficient stature to have the ‘clout’ to which Fr. MCGOVERN referred, though his fervent desire to see it knock heads together seemed to be somewhat at variance with the emphasis placed on the need for ‘moral education’ by Mrs. Pauline NG.

The Commission held its first meeting in mid April and its first task is to examine the major findings in the Llewellyn Report, including the future of the

JSEA and the language issue, the importance of these issues so rightly stressed by Mrs. Selina CHOW is appreciated both by the Administration and I am sure by the Commission. In so doing, the Commission will take account not only of the costs of implementing these recommendations, but also how these costs are to be met and the balance of investment in different levels and sectors of the education system. A working group is being set up to examine this subject in detail.

Father MCGOVERN, in welcoming the increased proportion of expenditure on Education, queried whether this would be sufficient to meet the priorities for action to be recommended by the Commission. It would hardly have been possible to pre-empt the Commission to the extent of allocating funds in this budget more than six months before the Commission's first report is due. However, as I stated when the Commission was set up, a great deal of progress is already being made in many of the areas identified by the panel of visitors and funds are included for the continuation and development of these.

#### *Technical Institutes Building Programme*

Mr. Francis TIEN referred to construction of the Vocational Training Council's new technical institutes at Tuen Mun and Sha Tin and asks what would happen if Government is not satisfied that the building costs are reasonable and acceptable.

As many Members have previously mentioned, the Government has a duty to be especially mindful at the present time of ensuring value for money in public spending. It therefore follows that Government should not allow projects to proceed if not satisfied with the cost effectiveness of their design. A consequence of applying this principle is that projects whose design fails the test may be delayed, but the alternative of allowing them to proceed would mean having less funds available to spend on other needed projects.

It has been accepted that the new technical institutes should be built to higher standards than the existing ones, which is to acknowledge a greater building cost per student place provided. However, the latest project estimate puts the cost of providing each student place in the new T.I.s at about 80 per cent more than that of building one of the existing T.I.s at today's prices. Mr. TIEN has said that increases in costs between original and latest estimate are to be expected. Ordinarily, this would be so. However, in this instance the Tender Price Index has declined in the intervening period, so construction should be cheaper. The increase is therefore due to design, not to inflation.

An analysis of cost estimates and project plans enables costs due to agreed improvements in quality to be separated from those arising out of the design features. The former can be accepted as reasonable but the latter may have to be rejected as being less than essential in this time of stringency. The Administration is prepared to ask the Finance Committee of this Council to accept a revised commitment which would enable the objective of improved quality to be

met, but not to support expensive design features for their own sake. It has therefore asked that the design of two new institutes be amended accordingly.

To avoid recurrence of this kind of situation in future, it will be necessary to ensure that, from the start, design and financial considerations are more closely related. The Administration is now considering as a matter of urgency the introduction of procedures necessary to achieve this. I as much as anyone regret the delay that a re-examination of the Technical Institute design will cause particularly as referred to by Director of Education we foresee a possible increasing role for them in the Educational system. But much as the Government respects the independent authority of the V.T.C., nonetheless subvention monies as well as those of Government direct expenditure must at the present time be deployed most economically for reasons explained by the Financial Secretary in his budget speech.

#### *Vocational Training Council*

I note Mr. CHAN's ingenious suggestion that a development fund should be considered for the Vocational Training Council to obviate problems of this kind. I appreciate that the point of this suggestion is to avoid unnecessary delay to the V.T.C.'s capital projects.

However, such a fund should not be necessary in cases where Government is satisfied that the cost of a capital project is reasonable, as Government would consider making available additional finance to meet any unforeseeable increase in that project cost. It is not clear to me that a Fund could be justified, as it could allow the Vocational Training Council to use savings from its allocation of public funds to proceed with projects which Government considered too costly even though, as Mr. CHAN pointed out, these savings are achieved from prudent management of funds by the V.T.C.

#### *Law enforcement—Apprenticeship Inspectors*

Dr. HO quite correctly draws attention to the increasing difficulty of enforcing the Apprenticeship Ordinance. The reduction in the establishment of the Inspectorate from 72 in 1981-82 to 53 in 1983-84 sounds serious but reflects a service-wide policy to delete all establishment posts not currently filled. The actual strength of the Inspectorate, due to recruiting difficulties as a result of the high standards required, was 53 in 1981-82, and has stayed fairly constant since. The Department now believes it could recruit more inspectors now and has plans to increase its establishment, but these proposals have had to be deferred on financial grounds. In the meantime the Inspectorate manages to achieve an encouragingly high level of coverage of industrial establishments in the designated trades, each inspector carrying out about 1 000 visits per year, and its practices and procedures are being examined in detail to determine whether its statutory obligations could be discharged even more effectively. It may, for example, be possible to reorder inspection priorities to give a greater coverage to the worst offenders.

*Industrial safety—factory inspectors*

I am grateful to Dr. HO Kam-fai for his continuing interest in industrial safety and health, and should like to assure him that this is a matter to which Government attaches a very high priority. I also agree with Dr. HO on the importance of the size and effectiveness of the factory inspectorate, whose planned expansion will be continued as soon as circumstances permit. However, regardless of their number or effectiveness, factory inspectors cannot be everywhere, all the time. If we are to reduce accident rates and loss of life, it is vital that individual employers and employees become more safety conscious. Safety education and publicity are the key to this. The \$1-1/2 million set aside for this in the 1984-85 budget, and the generous contributions, I may say made by a number of private companies, will be money well spent. This end is also being furthered by the increased number of tripartite safety sub-committees of the Occupational Safety Committee of the Labour Advisory Board and their increasing range of activities. Government will also continue to seek improvement through appropriate safety legislation.

*Commissioner for Rehabilitation*

I welcomed the remarks of Dr. Harry FANG both on the long way that rehabilitation has come since the 1977 White Paper and the recognition accorded to rehabilitation in our social services by the increased allocation of resources to it. He has remarked too, on the increasing international understanding of our efforts and the need for an identity in Government as a focus for rehabilitation both internally and externally. He has revived a proposal he and others made in 1977 of introducing the post of Commissioner for Rehabilitation in an analogous way to the post of Commissioner for Narcotics and for similar reasons, rather than a branch Principal Assistant Secretary who effectively fills this role at present. In a curious and ironical way it is a rather back-handed compliment to Dr. FANG that we have not introduced the focus that he is advocating. Both as Chairman of the Rehabilitation Development Coordinating Committee and internationally as President of Rehabilitation International he has himself very much occupied the focal point in this field in Hong Kong. However, he will shortly reach the end of his term as President of the Rehabilitation International after an immense contribution in the field of rehabilitation both local and world-wide. This is perhaps an opportune time to reconsider having a sharper rehabilitation focus in the Administration itself and have a plainer identity in view. I am now persuaded that the time has come to introduce a post with the title of Commissioner for Rehabilitation in place of the present Principal Assistant Secretary. In saying this I am not necessarily persuaded that the post be re-graded although I agree that this should be examined in due course.

*Vocational training for disabled persons*

Dr. HO Kam-fai proposed that the V.T.C. should be expanded to include a representative from the Rehabilitation Development Coordinating Committee.

I am pleased to be able to inform Dr. HO that a member will shortly be appointed to the V.T.C. to advise on the special needs of disabled persons.

Sir, I support the motion.

SECRETARY FOR HOUSING:—Sir, Mr. F.K.HU made several points about the public housing programme, in particular the current and continuing high level of public housing production. The Housing Authority is of course pleased with the level achieved in recent years. The total public sector production of 38 681 flats in 1983-84 was especially noteworthy with the Housing Authority contributing a record 36 441 flats. It is the intention to maintain such production levels for the foreseeable future. Indeed, when the Private Sector Participation Scheme reaches its full target of 5 000 a year in 1985-86, the total public housing production will rise to an average of over 40 000 flats a year.

I should like to mention that during the past few years we have been able to produce more and better quality flats at about the same level of expenditure. This has been possible mainly because of the fall in tender prices, the economies of scale in terms of design and production and the application of labour-saving mechanized construction methods, all of which have helped to keep costs down. However, in the face of recent rise in prices of building materials, we need to continue to be particularly cost-effective.

Mr. HU suggested that the Housing Authority should pursue a rental policy aimed at reducing the gap between actual costs and rental income so that gradually the Authority could contribute more to the construction of rental estates and be less dependent on public funds. I agree that this is desirable and it is the objective of the Authority that rental income should cover recurrent expenditure. However, since rents for the older estates are still at a very low level, we continue to operate at a deficit. Moreover, the inflation rate in recent years has made it difficult for the Authority to keep pace with rising recurrent costs and a substantial reduction to this deficit has not been possible. A major problem remains the heavy level of subsidy for the oldest housing blocks, as rent increases must be a gradual process and we need to have regard to general economic circumstances as well as tenants' ability to pay.

The redevelopment programme of the Mark I and II blocks, which is gathering momentum, will not only substantially improve living conditions for the 200 000 tenants in the remaining blocks but will also serve to reduce the number of old deficit-incurring estates and increase the number of new estates which are able to pay their way.

Turning to the question of public housing policies, these are kept under regular review, and have evolved over time to meet the changing housing needs of the community. But the stabilization of population growth and the sustained and increasing level of public housing production have enabled the Housing Authority to carry out a further review of its allocation policies. The five areas which are the subject of this review are: the eligibility for public housing of

small households; the rehousing of squatters and Temporary Housing Area residents; the issue of well-off tenants in public rental estates measures to promote home ownership; and the addition of married children and families to public housing tenancies.

Since any change of policy could have an impact not only on the two and a half million people living in public housing but also on prospective tenants and home owners, the Housing Authority will be seeking the views of the public on a range of options before it decides whether changes of policy should be recommended to the Government.

A Consultative Document has therefore been prepared covering the subjects I have mentioned and will be published tomorrow for public discussion. Copies will be available to members of the public and the press. I have no doubt that various District Boards would wish to discuss these subjects. It should be stressed, however, that this is a discussion document in the truest sense of the word, and the options therein are not yet agreed policies. The Authority hopes that this approach will stimulate wide public interest on these important policy matters.

With these remarks, Sir, I support the motion.

SECRETARY FOR LANDS AND WORKS:—Sir, Mr. Stephen CHEONG has asked if the time has come to take stock of Government's expenditure on capital works and to review what has been done to date before entering into new commitments. He has drawn attention to land production as a case in point and has queried whether it is necessary to spend so much on this, given the current state of the economy and the satisfactory progress of our housing programmes. Echoing Miss DUNN's sentiments, he has asked if we should not critically reassess our priorities.

Members are already aware, through their participation in Public Works Sub-Committee (P.W.S.C.) and Finance Committee, of the rigorous procedures and scrutiny to which Public Works Programme items are subjected before they are approved, and the tight control which is exercised over any change of scope or increase in approved estimates. Moreover, at the time of the Annual Review in November each year, Members of the P.W.S.C. have the opportunity to comment upon the Government's proposed programme of new works for the coming financial year.

During the past ten years, the Government has spent some \$36.4 billion on public works, excluding the cost of public housing but including the cost of land acquisition. This compares with a total of only \$5.35 billion spent in the previous ten years, when annual expenditure on capital works varied between less than \$300 million and \$800 million per year. Over the past three financial years from 1981-82, expenditure has averaged about \$7.4 billion per year or \$20 million a day, 365 days a year. Even allowing for increases in construction costs, there has been very significant expansion in Government's programme of

capital works projects during the past few years which has demanded not only considerable financial resources but, more particularly, has imposed heavy burdens on the design and supervision capabilities of Government's Works Departments. Whereas the former demand has been eased to some extent by the lower tender prices of the past two years, resulting in more work being accomplished at lower cost, the strain on our limited manpower resources continues. Despite all our activity, a great deal still remains to be done in order to complete the public works programme already in hand, and to fulfil the requirements of the various programmes adopted by Government.

At 31 March 1984, it was estimated that the outstanding value of works financed from the Capital Works Reserve Fund (excluding land costs) currently in hand or already authorized to begin, amounted to about \$22.5 billion. With expenditure running at between \$6.5 billion and \$7.0 billion per annum this represents over three years' works, ignoring any possible escalation in construction costs or the injection of urgent items which will inevitably occur.

Sir, this indicates the size of the problem. Nevertheless, I am acutely aware of the need to review the present situation and I have given a great deal of thought recently to ways and means of ensuring that it is projects most deserving of priority which are allocated planning resources and considered for implementation.

Whether individual items should be retained in the Public Works Programme is already a matter of constant scrutiny. Only as recently as the end of March, the Public Works Priorities Committee undertook a review of the Programme and downgraded or deleted some 24 less urgent projects which were in Category B. In spite of this, the value of items in the Programme for which a start has not yet been agreed still represents about ten years' injections of new projects at the current rate of about 3.5 billion dollars' worth annually. It is clear that, given the financial resources likely to be available, if room is to be found for additional major infrastructural projects likely to be necessary for the 1990's, further critical examination of our priorities will be essential. In order to ensure that our more pressing commitments continue to receive top priority, Policy Branches and Departments were invited earlier this month to assess the relative urgency of projects in the Public Works Programme which are still in the formative planning stage.

On the particular question of land production referred to by Mr. CHEONG, the general position is kept under review by the Special Committee on Land Supply. The current view of that Committee is that over the next seven years, that is to say up to 1990-91, there should be an adequate supply of land for industrial use and private housing. However, there will remain an on-going need to supply about 70 hectares per annum for public housing, including Home Ownership and Private Sector Participation Schemes. For the most part, this will be catered for by items *already* included in the current New Towns Development Programmes, and indeed, it was because of this demand that it was necessary to

proceed with the development of the first phases of the third-generation New Towns at Ma On Shan and Junk Bay. At the same time, the option of rezoning already-formed land which is surplus to other requirements has been, and is being, considered, with a view to making such land available for public housing purposes.

Looking ahead to the 1990's it has been estimated that about 1 000 hectares of new land is likely to be needed to meet the requirements of population growth up to the year 2001. At 1982 prices this could cost about \$10 billion for site formation alone. In addition, recent studies have shown that for the 1990's greater emphasis will need to be given to transport and other key infrastructure facilities. These are being considered in the context of the territorial development strategy, preliminary results of which indicate that the demand for improvements and additions to the transport network could heavily outweigh the cost of land production, that, in future, more of our works could be 'transport-oriented' and that our ability to provide a satisfactory balance between land uses and transport facilities will to a great extent influence decisions on further land production for housing and other uses.

In summary, Sir, I would agree with Mr. CHEONG that much has already been done, and that, taking into account the current level of construction costs, Government's capital works production is running at a higher rate than ever before. However, in spite of this, the demands and aspirations of our growing population will allow no relaxation of our efforts, and the indications are that in order to make way for major infrastructural items which may be necessary for the 1990s, an urgent need exists to assess, at the formative planning stage, the relative priorities of projects already included in the Public Works Programme. I can assure Members that this will be actively pursued with a view to ensuring that in the planning and execution of works (including land production) we concentrate on those projects which deserve high priority which are in accordance with already-approved Government programmes and which can be accommodated within available resources.

Mr. CHEONG Yan-lung in his speech raised two points on land administration. The first related to the large scale mapping of land titles in the New Territories. The existing survey of the New Territories has its origins in work begun in 1905 and also has its limitations. It was basically done for fiscal purposes and did not accurately and positively define boundaries on the ground as later survey work has done. To a large extent the onus has been on the land owner to safeguard his property rights. Similarly, the system of land registration, which does not rely on title plans, did not make accurate boundary surveys essential. With land prices in the New Territories so much higher than they were, problems which previously would have been ignored have assumed greater importance including instances of parcels of land missing from the record plans and disputed ownership.

A case could be made for a new survey but this would be a massive and difficult undertaking, given the area covered and the rapidly changing pattern of ownership in the New Territories. The Lands Department is tackling the problem mainly by working on rectification in areas as new grants are made and this will result in the gradual extension of much more accurate records. Resurvey will of course not affect land holders' legal rights but should make the position clearer and help land holders to maintain these rights.

Mr. CHEUNG's second point was that the Lands Department should maintain flexibility in its approach. This is certainly the intention and I think it is being achieved. The last two years have seen difficult times in the land market and the department has been able to introduce measures to alleviate many of the problems which have arisen. These measures have included the rephrasing of Building Covenants and instalment premiums and the modification of sales conditions to allow changes in flat sizes to meet market needs.

The Lands Department has shown similar flexibility in dealing with specific New Territories problems. The abolition of Letters B, the modification of the ex-gratia compensation system and the introduction of a monetized approach to speed up the redemption of outstanding Letters B are changes made to meet changing circumstances. There has been progress on various aspects of the small house policy and land resumptions. Clearances and village removals have generally been proceeding smoothly which suggests that a common sense approach is taken in such matters. The Department is also looking with other departments at the question of allowing the improvement of temporary structures and the living conditions of farmers and at village improvements and extensions.

Mr. CHEUNG specifically mentioned land records. The inadequacies of the existing survey records, to which I have already referred, are also reflected in other older land records and there is, as Mr. CHEUNG points out, a great need for a common sense approach in rectifying anomalies and uncertainties which arise.

Flexibility must of course have its limits otherwise there is a risk of abuse. Land owners hold their land under lease conditions which must be adhered to. However, I can assure Mr. CHEUNG that within these conditions, legal rights will be maintained and that every effort will be made to ensure that sensible solutions are found to any problems which may arise.

Mrs. Pauline NG has suggested that provision under the Engineering Development Department's street lighting vote (Head 43 Sub-head 242) should include the lighting of squatter areas, in the same way that it does streets and other public places. The suggestion has been looked at very carefully and sympathetically but the conclusion is that the lighting of squatter areas should not be included under this head, given the distinct nature of the requirement, the efforts already in hand to meet it and the extent of the resources available for the purpose.

Lighting in squatter areas *is* being provided within the Housing Department's Squatter Area Improvement Programme, as Mrs. NG has already observed, and both the capital and recurrent costs of this are being paid for by the Government.

The five-year programme, which was approved by the Executive Council early last year at an estimated cost of \$300 million, is a 'rolling' programme of works, and over the next four years, improvements to about 80 areas will be carried out, including the provisioning of public lighting. The Government is now firmly committed to this work, therefore, and is also committed to the maintenance of the facilities provided under the programme, including the recurrent cost of the lighting. It is estimated that the latter will amount to about \$2½ million per annum by the time these works are completed in 1989.

This expenditure is intended to ameliorate conditions in areas which we hope will, in the not-too-distant future, be cleared of squatters. Since it is a temporary expenditure to deal with a temporary situation, the expenditure produces only a relatively short-term benefit. Expenditure under the street lighting vote, on the other hand, is a permanent recurrent commitment, and is intended to pay for permanent facilities provided to full standards. To include squatter area lighting in the Engineering Development Department's street lighting vote could therefore lead to imbalance in the allocation of resources to this form of squatter area improvement when compared with others. Progressive implementation of a balanced and well co-ordinated programme of related improvements is therefore considered to be the best approach.

Sir, I support the motion.

4.15 p.m.

HIS EXCELLENCY THE PRESIDENT:—At this point, Council might like a short break.

4.30 p.m.

HIS EXCELLENCY THE PRESIDENT:—Council will resume.

SECRETARY FOR DISTRICT ADMINISTRATION:—Sir, I am grateful to Mr. CHEUNG Yan-lung, Mr. Hu Fa-kuang, Mr. CHAN Ying-lun and Mr. Stephen CHEONG for their interest and helpful suggestions on Local Administration.

There has been much comment and discussion both in the media and by the general public since February 15th when the Chief Secretary announced proposals further to develop local administration. This reaction is both a reflection of an increasing public interest in the benefits arising from improved local administration and of the desire that there should be more opportunity for elected representatives to play a part in Government. The Chief Secretary's

statement was specifically aimed at generating the sort of public expression of views and opinions which has resulted. Consultation with the District Boards and the Heung Yee Kuk has taken place and the views of members of other bodies, particularly the Urban Council, have been made known. Comments from all sources including the press and on the air are now being collated and analysed.

The proposals described by the Chief Secretary in his Legislative Council statement were derived from consideration of the way the District Administration Scheme, introduced in 1981, had developed, and indicated that the time was right to take a further step in the progressive development of our local administrative institutions.

I should like briefly to restate the main proposals, noting in passing that, although the suggestion that there should be a new Regional Council for those areas not at present covered by the Urban Council has attracted most attention, the other proposals are of no less significance.

These are the proposals:

firstly, the representative status of the District Boards should be strengthened by increasing the elected element;

secondly, in some large and complex conurbations such as Tsuen Wan, it may be necessary to create more boards to serve smaller geographical areas;

thirdly, to consider developing the management role of the District Boards;

the fourth and the most debated proposal is that a new Regional Council should be set up to cover the areas not under the aegis of the Urban Council, the opportunity possibly being taken to realign the regional boundaries and to bring the provision of some of the services presently provided by the Recreation and Culture Department within the purview of the two Councils.

I should like now to say more about these proposals in the light of the views so far publicly expressed.

#### *First Proposal*

The District Boards have clearly demonstrated their ability to improve the local environment, to promote recreation and cultural activities, and to provide valuable advice and encouragement on district management matters. Their broad terms of reference also mean that they can in practice discuss a wide range of public issues, and over the past two years, they have given much useful and timely advice. District Boards have therefore proven themselves not only valuable at district level, but also an important link in the broad consultative machinery that Government depends upon in pursuing its aim of Government by consensus.

The proposal to increase the ratio of elected to appointed members to 2:1 instead of the present equal balance between elected and appointed unofficials has significant implications and has so far received general support. It would mark a major step forward for district administration for it would mean that from 1985 the District Boards would have an elected majority.

District Boards have also provided an opportunity for enthusiastic and dedicated citizens to participate in the administration of local affairs. It provides a useful experience for potential leaders before they move on to higher levels of Government administration. The appointment of District Board members to central Government Boards and Committees, including the Legislative and Executive Councils has now become a feature of our administration and this trend will no doubt continue.

#### *Second Proposal*

With regard to the geographical boundaries of the District Boards, the consensus appears to be in favour of no change except in Tsuen Wan where two District Boards, one covering Tsuen Wan itself and the other Kwai Chung and Tsing Yi Islands, are favoured. The detailed implications of having two District Boards in Tsuen Wan are now being examined.

#### *Third Proposal*

Development of the role of District Boards in the use and running of local community facilities, other than specialized facilities, is another important proposal which, again, has been widely welcomed. Participation by local people in the running of community facilities such as town halls in Yuen Long and Tsuen Wan has proved valuable in promoting the use of these buildings. The proposal to extend this participation to other districts, and to cover other recreation, sports and cultural facilities, would provide a further opportunity for members of the public to have a say in making the best use of local resources, without, however, burdening them with direct statutory responsibility and day-to-day management details. This function of the District Boards could be expanded with relative ease for appropriate facilities in the New Territories. Different considerations apply in the urban area and it is a possibility which the Urban Council may wish to explore.

I agree with Mr. CHAN Ying-lun that District Boards can play a greater role in co-ordinating community building programmes in the districts by ensuring that funds allocated to various departments and agencies for the organization of such activities are spent in the most effective manner. The proposal to develop the role of the Boards in making use of local facilities, as I described above, would contribute to this objective.

#### *Fourth Proposal*

Mr. Stephen CHEONG referred to unnecessary competition between the Urban Council and the Recreation and Culture Department, and Mr. CHAN Ying-lun

supported rationalizing and streamlining the organization and staffing of the Cultural Services and Recreation and Culture Departments. The Government, too, believes that there is benefit to be gained by a greater integration of staff resources in promoting district recreation and cultural activities and those involved in managing these facilities. It is the intention to pursue reorganization in this area of our administration.

With regard to the proposal that a new Regional Council should be established for those areas of Hong Kong not under the aegis of the Urban Council, Mr. Hu Fa-kuang spoke in favour of one reconstituted enlarged Council for the whole territory and, in so doing, was echoing the views of the majority of the members of the Urban Council. These views are very understandable but I should like to set out more fully the Government's objective in making this proposal.

Municipal services and recreational and cultural facilities are provided in the urban area by a financially autonomous Urban Council made up of thirty elected and appointed Urban Councillors who also now sit as members of District Boards. Policies are made and priorities are set by this representative Council with its own funds and staff. Outside what is called the urban area, these services are provided by Government departments which, although capable and efficient, do not come under the control of the people they serve. It is apparent that with a population already at one and a half million, this gap in local Government for a large part of Hong Kong should be filled, and that a suitably representative body should be established to do this. This proposition has not been contested. What has been debated is whether a single territory-wide Council should form the middle-tier of the Government structure, or whether there should be a second Council in addition to the Urban Council.

When the Chief Secretary put forward the Government proposals, he said that it was the Government's view that one Council would be unwieldy. One Council large enough to cover the work involved and to be sufficiently representative of such a dispersed area would have to be sixty or seventy strong. To form one Council would in any case require the dissolution of the existing Urban Council and accepting, moreover, the disruption that this would cause. It would mean calling for fresh elections and working out a host of fresh administrative arrangements. There seems no doubt that the conduct of business in such a large body would be complex, and that it might encounter difficulty in maintaining its grip on the detailed problems in every corner of Hong Kong and the New Territories.

But there is an opportunity to serve this region with a Council which could operate somewhat differently from the Urban Council. Due weight should be given to the fact that the area covered by the eight New Territories districts has a growing population and will, by 1988, have over two million residents. Moreover these people are, and will be, living in a number of quite distinct and widely separated townships. In any country in the world such an area and such

a population would justify its own local administrative institutions for the provisions of local public services and facilities. But numbers apart, it seems not unreasonable to suppose that the people of the eight districts, both the rural and new town populations, expect that the services that affect their day-to-day lives, and in particular the priorities in the provision of those services should be determined by an organization made up of residents of the area rather than as now by the central Government, or by a central Council perceived to be remote and less likely to understand their own requirements. Additionally, one can also understand that, for the time being at least, the residents of the Islands District and the villagers of Junk Bay wish to retain their existing links and to come under this proposed new Council.

Whilst therefore no one can disagree with Mr. Hu that the New Territories will continue to become more urbanized, the fact remains that the eight districts each have their own individual characteristics, Sha Tin from Tuen Mun, Sai Kung from Fanling and so on. And, apart from the Islands, each has a distinctive township at its heart. Each district has its own facilities and its own problems, and, as a whole, the region differs very considerably from the homogeneous downtown areas of Hong Kong and Kowloon. The proposed new Council could serve as an umbrella statutory organization, leaving the running of many of its facilities in the districts to be directed by District Committees linked to the District Boards. For example, Tuen Mun has its own town hall, sports grounds, swimming pools and town park and it is more than twenty miles from Kowloon: a Tuen Mun Committee could be given considerable delegated responsibility for the efficient and popular use of these facilities.

As a whole, the region is in the throes of dramatic change as each of the new towns grows in size and it will accept an inflow of about a million people in the next ten years. This, too, is creating, and will create, its own special problems and opportunities and requires special and knowledgeable attention.

In proposing the new Council, therefore, the Government has tried to put forward an arrangement which is most acceptable to the people in the area, and which provides the most opportunity for individual expression and development, so that we will benefit as a community from diversity and comparison instead of, as Mr. HU fears, confusion and conflict.

Bearing in mind the special characteristics of the area which I have mentioned, one of the points which has been made in connection with the proposed establishment of the Council relates to its possible membership. In his statement, the Chief Secretary referred to an equal number of appointed and elected unofficial councillors: this is the present balance in the Urban Council. Mr. CHEUNG Yan-lung has suggested that District Board members should sit on the Regional Council. This is a suggestion which will be given careful consideration, for it would be possible to create a Regional Council composed of members elected by district constituency representatives elected by District

Boards from amongst their own number. They, together with the appointed members and some seats reserved for the Heung Yee Kuk, could provide a well-balanced representative body. Certainly, there is considerable support for a link between the District Boards and the proposed Council with the former each sending a member to serve on the Council. This would contrast with the system in the urban area whereby Urban Councillors presently have seats reserved for them on the District Boards, but District Board members do not sit on the Urban Council.

Consultation on the proposals has ranged widely, involving the District Boards, the Heung Yee Kuk and many other organizations which speak for a cross-section of people. All the eighteen District Boards have been consulted. Apart from the support of all the eight New Territories District Boards, some urban District Boards have either expressed their general support or proposed that the matter should be decided in the light of the views and wishes of the residents in the area to be covered by the Council. Two urban District Boards were divided on the proposal, some members speaking strongly against it, one urban District Board has not commented and another expressed no strong views on the matter.

Some have commented on the unnecessary cost of having a second Council. Naturally a Regional Council will have its cost, similarly an enlarged central Council would cost more than the present Urban Council, although, as Mr. Hu has pointed out, perhaps not as much as two Councils. It is a question of weighing this additional cost against the various other factors I have mentioned.

This then is the present position. It is already apparent that there is broad general support for the proposals which were described in the Chief Secretary's statement in this Council on February 15 and a consolidated report will soon be made to you, Sir, so that you may take the advice of the Executive Council, in order that actual decisions may be made in sufficient time to introduce whatever legislation is necessary, and to make the requisite financial and administrative arrangements, whatever they may be, before the next elections for the District Boards in 1985.

Sir, Miss DUNN asks that we must advance towards a more representative form of Government involving a gradual transfer of real power from Officials to the Unofficials. The measures which I have described will be seen by the discerning as an important step in this direction, for they are aimed at reforming and strengthening the foundations of our representative structure.

I am glad Mrs. Selina CHOW mentioned the need to do more to explain to the public the existing system of Government and what we hope to achieve by the changes that are being introduced. An opportunity will occur to do more about this in connection with the registration of electors this year, at the conference

for District Boards in the Autumn and at seminars organized at District level. In the meantime, it is not without significance that the District Boards either have discussed or will be discussing policies with regard to education, housing and broadcasting; and all District Boards have been assured that, if they wish to do so, they may discuss and give their advice on the subject which is of great concern to us all—the future.

Sir, I support the motion.

SECRETARY FOR THE CIVIL SERVICE:—Sir, I should like first to respond to Mr. Allen LEE's point that civil servants have their part to play in ensuring the continued viability of our economy. Talking with civil servants of all ranks, I am struck by the extent to which they do appreciate their role in the economy of Hong Kong, not merely in terms of their own cost to the community (to which Mr. LEE was specifically referring) but also in terms of what they contribute in return, namely the essential infra-structure of Government without which there would be no economy as we know it.

This year again the civil service will be making its particular contribution to the economy by taking on additional work without a proportionate increase in staff. In last year's Budget Debate I said that of a total of 60 Government departments and agencies, no less than 35 (58%) would be experiencing zero or close-to-zero growth in staff during 1983-84. During the coming year 1984-85 the number of departments and agencies experiencing zero or close-to-zero growth will be 34 (57%). 16 of them are expected to show actual savings in staff during the coming year. I do not believe we could achieve results of this order for two years in succession without the co-operation of staff associations and of individual members of staff.

Mr. Peter POON questioned whether the civil service is 'too large for our needs' and urged on us an 'in-depth review of the whole civil service structure.' But the size and structure of our civil service is a function of public policy and has evolved in response to decisions made in the Executive and Legislative Councils. While the civil service has done much recently to contain its growth; and we shall do more, there are limits to what can be achieved through thrift, through streamlining procedures, better training, increased productivity, etc. To achieve any really substantial staff savings in the short term, or to forestall further substantial growth in the longer term, I believe it will be necessary to review the underlying public policies themselves, particularly if the demand for public services continues to grow in both scope and amount.

Mr. POON referred to the improved expenditure control that would result from the employment of more qualified accountants. We share his view and I confirm that it is our policy to create posts of Treasury Accountant in all departments which would benefit from them.

In response to Mr. Stephen CHEONG, I would like to assure this Council that performance measures are widely used in the civil service. Departmental plans are related wherever possible to quantifiable targets: these are then broken down into staff manning scales for the various tasks to be carried out. Individual performance measures are then applied in the case of such work as data processing, immigration control, postal sorting and deliveries, and street cleansing. There is in my view scope for extending the use of performance measures, particularly to administrative and general office work, but these will have to be done intelligently and flexibly.

I would particularly like to thank Mr. CHAN Ying-lun for his thoughtful remarks about the need for the civil service to be constantly searching for ways of improving its management and working methods. Mr. YEUNG Po-kwan also spoke on the same theme. I hope they will accept the following points as confirmation that we are trying to do the sort of things which they have in mind:

*Value-for-money studies.* The Management Services Division of Finance Branch has completed 24 studies during the past year: 16 more studies are in progress. Achieved savings to date amount to about \$120 million: potential savings of several hundred million dollars have been identified.

*Productivity studies at the point of delivery of services to the public.* With initial help from Civil Services Branch a total of 80 studies have been completed by departments and a further 20 are in progress. Their aim is to encourage junior staff, and in particular junior supervisors, to take the initiative themselves.

*Corruption Prevention Studies.* 101 such studies have been undertaken jointly by ICAC and departments during the past sixteen months. These studies are aimed at streamlining procedures and in many cases lead to improved services for the public.

*Management and Supervisory Training.* Although we have done a great deal in recent years, we shall need to do more in order to achieve the sort of impact envisaged by Mr. CHAN Ying-lun. However the scale of training required is such that it cannot all be provided centrally. We are therefore considering now what additional steps are required to ensure that departments are provided with the necessary training capability.

I should mention here that arrangements for the new senior staff courses are well in hand, and that 40 officers will be joining the first course in September. Besides preparing senior officers for greater responsibilities, these courses should help to create the right climate for management and supervisory training throughout the service.

*New Staff Appraisal System.* This year sees the introduction of a new annual staff appraisal form for use service-wide. It is performance-based and is designed to enable annual assessment of staff to be made against specific work goals.

Mr. CHAN Ying-lun suggested that the Administration had been resorting unnecessarily to the employment of overseas consultants, when in fact the desired expertise is available within the civil service. The Deputy Financial Secretary assures me that a decision to employ consultants is never taken lightly and that approval is not given without good reason. Mr. CHAN referred specifically to the engagement of consultants in the engineering and planning fields, and I have therefore had a word with the Secretary for Lands and Works. He asks me to say that he is keeping a close watch on the employment of consultants in these fields and expects more work to be undertaken in-house now that the staffing situation in the Works Departments has improved.

Mr. CHAN Ying-lun suggested that consideration be given to gradually replacing private tenancy allowances with home purchase allowances. We shall this year be according a degree of priority for home purchase allowances to officers who are now living in quarters or drawing private tenancy allowances. I do agree with Mr. CHAN that in the longer term this offers the prospect of reduced expenditure.

Dr. IP commented on the level of provision for personnel related expenditure and suggested that it was perhaps overgenerous, both in itself and by comparison with the subvented sector. She also raised the question of incentive payments to civil servants.

The personnel related expenses of the civil service cover the costs of recruiting, training, housing and providing for pensions and gratuities for civil servants. Of the total provision of \$2.15 billion in the coming year, about 46% is for pensions and gratuities while 43% is for the provision of accommodation in one form or another.

The provision for pensions is a statutory requirement, whilst the payment of gratuities is a contractual obligation. As regards accommodation, the provision in the estimates is no more than is required to provide for various allowances and payments approved by Finance Committee and in accordance with policies approved by the Governor in Council. The same is true for education, passage and other allowances provided for under this component of expenditure.

Regarding incentives for civil servants, Dr. IP is quite right in thinking that staff neither expect nor receive any cash inducements for suggesting improvements in their own field of work: indeed it is their duty to do so. We do however have a small fund available to reward officers who go out of

their way to make practical suggestions for improvements in some quite different area of work.

The idea of rewarding excellence with additional salary increments is attractive at first sight, and while I would not rule out a scheme along these lines I fear there would be real practical difficulties to be overcome. For the main career grades the best way of rewarding excellence is almost certainly through career advancement, and this is something we pursue seriously.

Mr. Peter WONG suggested that it was perhaps time to review the organization of the Government Secretariat, which has remained basically unchanged from the McKinsey reorganization of a decade ago. The structure of the Government and the relationship of the various component parts to each other and to the whole has not changed significantly during the past decade, and so long as that remains the case, it is doubtful whether there would be any great advantage in substantially changing the organization. That is not to say we should make no changes, and indeed the record does show that hardly a year has gone by without changes being made to the functions and organization of Secretariat branches with a view to facilitating the better conduct of public business. We do however believe that such changes should be made pragmatically and progressively.

Finally, I turn to Mr. CHAN Ying-lun's remarks about the importance of maintaining a cohesive civil service in the years ahead. He urged in particular that steps should be taken, if they have not been already, to allay civil servants' concern about their future. The Civil Service Branch and Heads of Departments are in close and regular touch with all groups of staff. These arrangements, both formal and informal, enable us to understand in depth the concerns of staff about the future and to take them fully into account in our planning.

The task of ensuring continuity of the public service up to and beyond 1997 must now be tackled with care and thoroughness, for an effective and continuing public service will be one of the keystones on which the future rests.

Sir, I support the motion.

THE FINANCIAL SECRETARY:—

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Sir, the 24 Unofficial Members of the Council who have taken part in this important debate have generally supported the Appropriation Bill. It has been presented in times that are not easy; hard choices have had to be made; and I am grateful for the approval that I have received.

2. Our legislative process is not based on adversarial politics. Its constructive nature has ensured that many excellent points have been made by individual Members critically seeking change and improvement. I respect their particular views, and will respond in those areas which have not already been covered by my colleagues. If by chance I have missed a point I hope that my apology is acceptable. It will be an error of omission, not commission. *(laughter)*

3. While we all accept that some issues of principle can be seen in black or white terms, in other matters of opinion shades of grey are inevitable. Few decisions of Government are more liable to criticism than the setting of budgetary priorities. They are largely subjective. Revenue is insufficient. There is a rising demand for those services which can only be provided by central Government. Powerful interests and pressure groups seek advantage. There is never agreement on appropriate levels of taxation. I ask Members to bear with me while I seek to explain how I may be seen to be if not absolutely right (which is given to no man) at least not obviously wrong. *(laughter)*

#### *Revised Estimates 1983-84*

4. First I should like to bring you up to date on the latest state of the Government finances, having regard to our performance over the past three months. I have good news. In my budget speech I gave the revised estimates of revenue and expenditure for 1983-84 as \$30.3 billion and \$33.6 billion respectively, thus producing a deficit of \$3.3 billion for 1983-84<sup>(1)</sup>. Our latest assessment of total revenue is slightly higher, while total expenditure is somewhat lower. Because of this improved situation, following last year's pattern the opportunity has been taken to transfer a further \$200 million to the Capital Works Reserve Fund and \$180 million to the Development Loan Fund.

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(1) *B.S. paragraph 32.*

The revised overall deficit for 1983-84 is thus \$3.1 billion<sup>(2)</sup> or \$100 million less than estimated in the 1983 budget speech. The additional transfers to the Capital Works Reserve Fund and the Development Loan Fund will leave both these funds with improved surpluses at the end of the 1984-85 financial year. This will enable me in the 1985-86 budget if necessary to reduce transfers and consequently expenditure on the General Revenue Account. With recurrent revenue for 1983-84 now expected to be \$27.23 billion and recurrent expenditure \$22.94 billion, our guideline ratio of not more than 85% for the latter is well satisfied. The figure is 84%.

<i>Revised Estimates 1983-84</i>				
(2)	<i>Printed Revised Estimates (\$ mn)</i>	<i>Updated Revised Estimates (\$ mn)</i>	<i>Printed Revised Estimates (\$ mn)</i>	<i>Updated Revised Estimates (\$ mn)</i>
<i>Recurrent Account:</i>				
<i>Revenue</i>	27,130	27,230		
<i>Expenditure</i>	<u>23,280</u>	<u>22,940</u>	<u>3,850</u>	<u>4,290</u>
<i>Capital Account:</i>				
<i>Revenue</i>	<u>3,150</u>	<u>3,160</u>		
<i>Expenditure</i>	<u>10,320</u>	<u>10,550</u>	<u>-7,170</u>	<u>-7,390</u>
<i>Overall deficit</i>			<u>-3,320</u>	<u>-3,100</u>
<i>Component</i>				
			<i>Printed Revised Estimates (\$ mn)</i>	<i>Updated Revised Estimates (\$ mn)</i>
<i>Personal Emoluments</i>			8,390	8,350
<i>Personnel Related Expenses:</i>				
<i>Pensions</i>			920	885
<i>Other</i>			1,040	1,005
<i>Departmental Expenses</i>			2,870	2,790
<i>Other Charges:</i>				
<i>Defence Costs Agreement</i>			1,170	1,170
<i>Other</i>			2,800	2,780
<i>Subventions</i>			<u>6,090</u>	<u>5,960</u>
<i>Total Recurrent Expenditure</i>			<u>23,280</u>	<u>22,940</u>
<i>Plant, Equipment and Works:</i>				
<i>Defence Costs Agreement</i>			80	70
<i>Other</i>			650	570
<i>Other Non-Recurrent</i>			270	260
<i>Subventions</i>			520	470
<i>Transfers to Funds:</i>				
<i>Capital Works Reserve Fund</i>			7,500	7,700
<i>Development Loan Fund</i>			1,220	1,400
<i>Student Loan Fund</i>			40	40
<i>Mass Transit Fund</i>			40	40
<i>Total Capital Expenditure</i>			<u>10,320</u>	<u>10,550</u>

*1984 Economic Prospects*

5. Members appeared broadly to accept my forecast of the prospects for our economy in 1984.

6. I agree fully with Members' concern that the present and prospective level of investment is lower than desirable and is directly holding down our growth rate. Mr. Charles YEUNG's and Mr. K. C. CHAN's views are obviously material. In the past at this stage in an economic recovery double-digit growth rates in real terms for private investment in plant and machinery would have been expected, and my forecast growth rate of only 8% would have been unduly pessimistic.

7. Without suggesting that high investment growth rates are likely for 1984, there are nevertheless grounds for some optimism. Retained imports of capital goods, which had been generally on a declining trend since the fourth quarter of 1981, increased by 5% in real terms in the fourth quarter of 1983. This was largely due to an increase in retained imports of textile and electrical machinery. Although the corresponding figures for the first quarter of 1984 are not yet available, the indications are that the improvement has continued.

8. Industrialists are also looking for factory premises to expand their operations. The fall in property prices, coupled with the export-led economic recovery, have resulted in some increase in the take-up of commercial and industrial property in the second half of 1983. This trend appears to have continued in recent months. It is again good news that signs of long-term investment are re-appearing.

9. The implications of the increased take-up of industrial and other space, which has reduced the vacancy rates for most types of property<sup>(3)</sup>, are beginning to be seen in terms of increases in floor areas for which consents to

*(3) Offices being the exception.*

	<i>Amount of vacant premises as at the end of:</i>					
	<i>1981</i>	<i>As a percentage of stock (%)</i>	<i>1982</i>	<i>As a percentage of stock (%)</i>	<i>1983</i>	<i>As a percentage of stock (%)</i>
<i>Residential (units)</i>	29,700	5.8	31,700	6.0	25,530	4.7
<i>Shops (‘000M<sup>2</sup>)</i>	282	9.7	359	11.5	343	10.5
<i>Offices (‘000 m<sup>2</sup>)</i>	302	11.0	545	17.6	793	20.6
<i>Flatted factories (‘000 m<sup>2</sup>)</i>	795	7.5	1,219	10.5	1,089	8.9

*Source: Rating and Valuation Department*

commence construction are being sought<sup>(4)</sup>. Although the figures are very volatile, they are indicative of slowly returning confidence in the area of property development. In the last quarter of 1983 (and the first two months of this year) the floor area for which consents were given to commence construction exceeded the floor area of completed projects for the first time since the second quarter of 1982. But because the level of starts has been so low in recent quarters and because it takes time for an improvement in starts to be reflected in additional work done, I do not propose to alter my forecast of a further slight fall in private investment in building and construction. I will however do so in my mid-year review if the recent recovery continues.

10. Several Members suggested that my forecast of a drop in the rate of inflation to 7% by the end of the year was over-optimistic. So far this year inflation has been slowing down from a year on year rate of about 12.5% in January to only slightly over 9% in March. The linked exchange rate system should bring this down further in due course. The speed at which this occurs depends largely on the rate at which the residual adverse impact of last year's depreciation of the Hong Kong dollar works its way through our economy plus the extent to which the U.S. dollar may depreciate against other currencies this year. The latter is sheer guesswork at present. Though some further fall is probable I personally would not underestimate the strength of the U.S. economy. I therefore intend to hold to my forecast of inflation coming down to 7% by the end of the year. This again will be subject to comment in my mid-year review.

11. The depreciation of the Hong Kong dollar actually stopped in September last year, that is seven months ago. Price increases stemming directly from this source should therefore soon be over. The main danger now is internally generated cost increases. If these are significant they will tend to delay the downward trend which I have forecast.

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(4)	<i>Usable floor area of building plans with consent to commence work</i>		
	<i>January-February</i>		
	<i>1983 ('000m<sup>2</sup>)</i>	<i>1984 ('000m<sup>2</sup>)</i>	<i>%change</i>
<i>Residential</i>	<i>52</i>	<i>262</i>	<i>404</i>
<i>Commercial</i>	<i>76</i>	<i>30</i>	<i>-61</i>
<i>Industrial</i>	<i>16</i>	<i>75</i>	<i>369</i>
<i>Others</i>	<i>36</i>	<i>42</i>	<i>17</i>
<i>Total</i>	<i>180</i>	<i>409</i>	<i>127</i>

*Government Bond Issue*

12. I am pleased that the billion dollar bond issue has gone well. It was 2½ times over-subscribed. The yield to maturity taking account of half-yearly interest payments and issue price of 100.5% will be 10.1% tax free.

*Salaries Tax Increase*

13. There has been particular criticism of two areas of my proposals with regard to salaries and profits tax. Firstly; as usual the effect on the so-called sandwich or middle class has been stigmatized. During the debate itself I have been chided or even occasionally commended in various constructive degrees by Dr.FANG, Mr. CHEN, Miss DUNN, Mr. Peter WONG, Mr. WONG Lam, Dr. HO, Mr. HU, Mr. K. C. CHAN, Mr. CHEUNG Yan-lung, Mrs. FAN, Mr. POON and Mr. YEUNG Po-kwan. All their views will be taken into account before we consider next year's budget, but I can make no promises. (*laughter*)

14. It is impossible in Hong Kong or elsewhere to increase tax revenue without involving some people in paying more tax. (*laughter*) I have consequently sought to shape the budget as best I can to provide that only those pay more who arguably can so afford. Salaries tax is progressive.

15. To restate the obvious: despite Mr. K. C. CHAN's worries my proposals do not mean a general increase in salaries tax. They involve two percentage points increase in the cap, previously 15%. There is no distortion in using as an illustration a typical Hong Kong family of man, wife and two children. My example will pay no increased tax whatsoever until monthly salary exceeds \$18,650 per month, nor fall into the 17% bracket until his, her, or their combined salary exceeds \$23,300 per month. Consequently in a population of 5.3 million only some 30 000 salaries tax payers will be in any way affected.

16. There are various definitions of the middle class. I noted with raised eyebrows an academic comment that \$23,300 per month is 'not a particularly high income'. Mrs. FAN and Mr. K. C. CHAN echoed this opinion. It is a mild rejoinder that opinions from a public housing estate are likely to be different. (*laughter*) Nor can I accept a definition of the sandwich class as being anyone who does not want to pay more tax. (*laughter*) A year ago I made a speech to the Hong Kong Association of Business and Professional Women. I should like to repeat the last paragraph: '... The real "sandwich class" are those middle income households who either purchased their own homes in recent years or are paying the fair market rent or something close to it for private rented accommodation. The numbers involved are relatively small, somewhere between four per cent and ten per cent of all households, but probably nearer four per cent. But though they are relatively few in number, the problems of those in the sandwich class are nevertheless real. And it is right that the Government should show that it is aware of them.' We are. 4% of households is 54 600: 10% is 132 500. Out of a working population of about 2.5 million only

some 18 500 men and women will pay salaries tax of 17%, a very low level by most international comparisons.

17. No one likes paying tax. No Financial Secretary can expect to propose higher taxation without arousing opposition. I have done so because the Government is sensitive to public opinion, which clearly supports the continuation of existing programmes and policies against a background of increased GDP<sup>(5)</sup>. I entirely agree with Mr. WONG Lam in this respect. I must also suggest that many self-interested defenders of the middle class are over-egging their cake. The vast majority in Hong Kong does not and will not earn a salary above \$18,650 per month. This seems to me a not unreasonable level above which a moderate increase should be bearable. Nor am I more than sympathetic to a bachelor earning \$10,400 per month, out of which he will be asked to pay another \$40.

18. My concern must focus at least equally on the vast majority; that is to say on lower income earners. I accept that, as a result of inflation creep plus unchanged thresholds and allowances for two years, more people are falling into the tax net at the lower pay levels and that those in the tax net already are paying more in real terms. I recognized this problem in my budget speech and I have promised to do what I can next year, subject always to the budgetary position at that time. This consideration inevitably was a constraint this year, for concessions in this and analogous areas are expensive and thus would have necessitated even higher compensatory tax increases elsewhere.

19. We tax mainly for fiscal reasons, but it does not seem inequitable that the better off should pay a little more. Our civilized programmes and policies have to be paid for somehow, though I accept that enterprise and productivity are better achieved by keeping taxation as low as possible. Our past record speaks for itself.

*Profits Tax Increase and Changed Ambit*

20. Secondly; outside this Chamber there has been a deliberate exaggeration of the problems that may accompany a corporation profits tax increased to 18½% with a changed ambit. It is useful for new legislative proposals to be criticized. If however those who deny the need for increased or new tax measures altogether, or oppose the form proposed, wish to be taken seriously, it would be more persuasive if they simultaneously submitted equally productive alternatives. In other words criticism, which is valuable and indeed essential, would be more fruitful if constructive. Money has to be raised, or the deficit will increase, or programmes must be cut. Which? The Police? Health? Education? Social Welfare? Housing? Roads?

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(5) *B.S. paras. 5 and 162.*

21. It is proper to advise professionally within the law. A minority of tax advisers, who are not amongst the poor, have, however, sounded like poachers facing new game laws. There have been attacks on the moderate two percentage points increase, on measures to safeguard the revenue yield after the widely advocated removal of interest tax, and on new arrangements to bring so-called offshore interest into the tax net taking account of the views of the third Inland Revenue Ordinance Review Committee in 1976. The changes have been claimed to engender serious problems over avoidance, complication, retrospectivity, uncertainty, delay, the size of the Inland Revenue Department, incentives and investment in Hong Kong; but undermine our stable tax system, limit normal banking practices and drive business to other centres; in fact to introduce every vice except wife beating. (*laughter*) In this respect I have particularly welcomed the sensible comments of Miss DUNN, Mr. LEE, Mr. BROWN, Mr. CHEONG, Mrs. FAN and Mr. POON. All has been taken aboard.

22. The apocalypse is not here. Exaggeration is the mother of distortion. Vested interests must have their fair say, but the budget concerns the economic well-being of the whole community. If my proposals are accepted, tax revenue will still represent only about 11.3% of GDP. This is the lowest figure that I know of in any industrial economies<sup>(6)</sup>. We will also retain lower corporate taxation rates than any of our Asian competitors, though I entirely accept Miss DUNN's views on the need for an austere approach. But even more I value Mr. Peter WONG's Mr. BROWN's and Dr. IP's general support.

23. Of course like Mr. Charles YEUNG I regret the growing complication of tax law and the waste of resources that results. All do—except no doubt some who profit from it. This is no design of the Government but an inevitable and proper reaction. It shows our determination to protect the revenue in the interests of the overwhelming majority when confronted with prior skilful tax avoidance measures. The recent House of Lords ruling in *Furniss v Dawson* will alter the general perception. I am also studying with my advisers the anti-avoidance provisions contained in the Ordinance with a view to making them more effective and relevant to our needs. Further legislation may sadly be indicated; but, as Mr. BROWN, Mr. POON and Mrs. FAN wish to hear, no proposals that I may make to Executive Council will include change to the basic territorial source criterion. The Government remains wedded to the principle that taxation should only be applied to income arising from Hong Kong.

24. I see no persuasive reason why, in the interests of the great bulk of our people, we should not take fair and principled steps to catch those companies who while profiting from our environment yet seek to avoid our low taxation and thus their fair contribution to Hong Kong's infrastructure. Mr. YEUNG Po-kwan agrees: I have also much appreciated Mr. BROWN's and Mr. POON's

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(6) 1984 B.S., footnote 5.

professional comments. It would be ridiculous to tax only those who are unable to pay for avoidance advice. The Inland Revenue Department will thus certainly pursue tax avoiders as far as it can. Why should its efforts be thought in advance to be unsuccessful? An alternative to pursuit of the avoiders is higher direct taxation; but naturally no critic proposes that, for it is obvious what the public reaction would be.

25. The facts must be faced. On one side is a safeguard to protect an existing profits tax yield of about \$400 million per year (\$500 million having already been lost with the removal of interest tax), plus a measure to acquire another \$350 million per year from offshore interest—on the other the continuation of our reasonable social programmes. Few seriously propound other possible courses of action.

26. Members may also wish to reflect on the lack of balance of those who criticized the detail of proposed new legislation long before the actual amendment had even been gazetted as an adjunct to the necessary Revenue Protection Order. Once Executive Council has approved it, the administration will look forward to discussing the proposed amendment bill, which is complicated, with the usual able working group of Unofficials under the experienced Chairmanship of Mr. BROWN. The participation of the knowledgeable Mr. POON will be most beneficial. Having fairly considered all representations, of which there have been several, I am sure that they will assist the Government to achieve the desired effects without unfair retroactivity, distortion or inequity. It will be unusual if some changes for the better are not agreed for committee stage amendment before final reading.

#### *Control of Public Sector Expenditure*

27. I am determined to control public sector expenditure. This is a key to all budget considerations. Recurrent expenditure is the major target. Nothing could be more to the point than the advice of Mr. CHEN, Mr. LEE, Mr. WONG Po-yan, Mr. CHEONG, Mr. POON and Mr. YEUNG Po-kwan. Fair-minded critics will however note the forecast drop of 1.1 percentage points on the relative size of the public sector this financial year. It signifies a cut of over \$2.6 billion. This is no mean sum. Spending will be so limited. Our likely public sector expenditure this financial year will be about 18.3% of GDP. The average figure for EEC members in 1982 was 50.8%. Vive la difference! (*laughter*) Miss DUNN knows that I share her general views. Her consistent and principled stand has long been most persuasive. But politics is the art of the possible. She therefore also knows my cynicism about—and seeks nimbly to defend herself against—headline-winning general attacks unaccompanied by specific advice on which particular heads of expenditure should be cut against the background of our clear policies. I presume, for example, that she does not include the enterprising TDC whose expenditure of public money is rising sharply. If she were right about future transfer of some authority to Unofficials, one lateral effect could consequently

be that, equipped with responsibility rather than the freedom of wide-ranging criticism, she has to eat some of her words. I am not being sarcastic for it has happened to me already. (*laughter*) With her and Mr. CHEONG, I should also like in theory to move towards zero-based budgets, but it is no more practicable in Government than generally in commerce and industry.

28. Mr. WONG Po-yan has gone even further with the heroic suggestion of cutting expenditure to 15% of GDP. I wish I could accept his advice. It would represent an expenditure cut of over \$7 billion. Though he supported the provision of social services, and encouraged projects embodying multiplier effects, let us look rationally at what this might mean in potential sacrificial areas. Government's total expenditure on education will be \$7.1 billion, on medical services \$3.5 billion, and on the Police \$2.1 billion. A cut of the size suggested, however spread, would have truly resounding repercussions. This is totally impossible to contemplate unless for extraneous reasons our export trade collapsed. Mr. WONG PO-yan's general stand is of course in accordance with my own views.

#### *Currency Issues*

29. I turn now to currency issues. As far as the link to the US dollar at HK\$7.80 is concerned, I have nothing to add to the words carefully used in my budget speech. Mr. Allen LEE has also suggested that the Hong Kong dollar should again be floated. Last autumn there was a lack of confidence leading to worldwide speculation against our currency, the Hong Kong dollar fell sharply, and a degree of panic was seen in Hong Kong. The Government's subsequent stabilization measures have been more successful than I dared to hope. To suggest that a patient restored into good health should deliberately again be exposed to risk seems exuberant lateral thinking. At this juncture Mr. LEE's proposal does not merit consideration, though I share his concern over inflation. I welcome Mr. Peter WONG's and Mr. CHEONG's apposite comments. In this and many other respects their speeches were highly constructive.

#### *Possible New Tax Measures*

30. This year I have received carefully thought out advice on possible new tax measures from Mr. CHEN and Mr. K. C. CHAN. All their ideas and may more including, for example, a tax on professional fees, on all restaurants and bars, on private clubs, on fringe benefits, on confectionery, and value added or sales taxes, have already been considered. I intend, however, to keep our tax ambit relatively simple, to be responsive to public opinion, to limit the effects of inflation on the less well off, and to match possible revenue yield against cost and complication. For example, though logical I do not think that a tax on cosmetics would be worth the candle. But we do conduct a running internal debate in an endeavour to foment new ideas. So I much encourage new thinking from any source. I am open to further suggestions from Members and the public.

*Cross Harbour Tunnel Tax*

31. The Secretary for Transport has spoken fully about the Cross Harbour Tunnel tax. I wish to add only three comments. Firstly, though not the prime reason for the tax we need the additional net revenue of some \$139 million that is involved. It seems on several grounds more intelligent to raise this from specific users of the tunnel rather than the obvious alternative of generally increasing the petrol tax, which Mr. CHEN proposed and which Fr. MCGOVERN would obviously oppose. Secondly, I take note that the shares of the Company are publicly quoted. On the first quotation day of 30 July 1974 the price closed at \$4.60. Now it is about \$12 selling. Thirdly, there is an orchestrated private car defence lobby. This is fair enough in a free society. But could the critics also make a comparison of taxation in this area with, for example, that of Singapore whose traffic problems are similar to those of Hong Kong. Perhaps the Government deserves congratulations rather than unbalanced attacks.

*Individual Points*

32. Inflation is a issue of major importance. Thus I welcome Mr. CHEN's, Mr. WONG PO-yan's and Mr. CHEUNG Yan-lung's useful advice. They will note my earlier comments in updating my budget forecast of 1984 prospects<sup>(7)</sup>. Inflation and inadequate investment are our two major economic problem areas. In the latter respect Mr. CHEN and Mr. HU are again perceptive, though I am surprised by the former's views on a proper balance between direct and indirect taxation and on the compatibility of the latter with lower inflation.

33. Betting duty was mentioned by Mr. WONG Lam, Mr. K. C. CHAN and Mrs. FAN. I am entirely pragmatic in my efforts to secure as much as I can within reason and thus without driving punters into the hands of illegal off-course bookies. This must be a matter of informed judgment based on wise advice.

34. Mr. CHEONG's comments on the need for constant review of fees and charges are very helpful. I fully agree, and thus cannot accept Mr. WONG Po-yan's directly contrary advice. Moreover I take this opportunity to remind Members again that next year I may wish to restore the yield in real terms of many taxes and duties, which were not increased this year. There must be no element of shock in this. Ample warning has been given. (*laughter*)

35. Little has been said about our new, carefully prepared and well publicized rate arrangements. No one likes paying more, but I believe that they are accepted by the majority as bearable in the light of the services they receive. There have nevertheless been a large number of objections—particularly from the Home Ownership Scheme section, which the Commissioner will handle sympathetically and expeditiously after inspection. I note Dr. Ip's suggestions, and I shall bear in mind also Mr. WONG Lam's concern. It is our intention that

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(7) *Paras. 10 and 11 above.*

in future revaluation will normally be conducted on a three-year cycle, although it may not be feasible to achieve this for the next exercise.

36. In both the last budget debates there was considerable discussion about separate taxation for married women and allied allowances. The issues have again been raised fairly by Mr. POON, Mrs. NG and Dr. IP. They have a case; but in my opinion one that cannot carry a degree of priority. I can add nothing useful to what I said last year<sup>(8)</sup>.

37. Eagle eyed Mr. WONG Lam thought that I had been over-conservative in setting aside \$1.45 billion for 12 years in the Capital Works Reserve Fund for Tin Shui Wai. I make no apology, for he failed to note that I am proposing to utilise some of the balances in the funds. Transfers to Funds from General Revenue, taken together with loan repayments and interest accruing, are less by \$1.1 billion than the estimated expenditure from these funds. In any case the Capital Works Reserve Fund commitments for projects that have already started, let alone those to be started, exceed \$19 billion. In addition no public money lies idle in any fund. By and large all Government cash is managed profitably either on local deposit in the case of the smaller funds or in the Exchange Fund in the case of the Capital Works Reserve Fund.

38. Mr. YEUNG PO-kwan drew attention to criticisms in the Director of Audit's annual report. Let me reassure Mr. YEUNG that the Administration is not in the least complacent and that every Controlling Officer is fully accountable to me and to the Public Accounts Committee for the use he makes of the public funds that are placed under his control.

39. As regards accountability, the Director of Audit's Annual Report and the Report of the Public Accounts Committee are the vehicles by which seeming errors in the management of public moneys are brought to the attention of the public. The Government Minute in reply makes it clear that the great majority of the criticisms have been accepted and evidences the vigorous steps being taken to improve matters. We can never achieve the ideal of a completely competent and efficient government. Such an animal does not exist. Mistakes will be made as they clearly are in the private sector. But we can and will continue to strive for improvement. The Director of Audit and the Public Accounts Committee, in their future enquiries will undoubtedly continue to reveal situations and incidents which are less than satisfactory. This is what their enquiries are all about. The important thing is that they are revealed and that steps are taken to prevent their recurrence. We must however view these matters in the context of the vast range and volume of Government transactions which do not attract unfavourable comment. The Chief Secretary addressed Members on the latest Government Minute on 14 March last.

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(8) *Concluding speech on 14 April 1983 paras. 35-36.*

*Summing Up*

40. Following Miss DUNN's and Mr. BROWN's expression of uncertainty, I would like again in simple language to make the Government's budgetary policies clear. This seems an ideal issue on which to sum up this fruitful debate. I do not accept that an endemic budgetary deficit exists in Hong Kong. Though this is not the general experience elsewhere, we seek to present a unique example. The Government is therefore set on a measured and calm adjustment made necessary by the collapse of land revenues. Coincidentally reasonable and justified aspirations are fast increasing at a time when uncertainty has hung over us. The last two annual deficits have been \$3.5 billion and \$3.1 billion. For 1985 a deficit of \$2.1 billion is forecast. There will probably be a deficit in 1985-86, but it should again be well under 1% of GDP. This is relatively very small—in fact arguably within acceptable margins of combined estimated revenue and expenditure fluctuation. The improving trend is obvious and is more marked when reckoned in percentage terms, that is to say as a lower deficit on rapidly growing GDP. Nor does it arise by chance. Having taken an unexpected 25% drop in revenue, this calm and deliberate adjustment seems more intelligent than wielding a fundamentalist axe. From 1986 the possibility exists of budgets balanced over a cycle of years—in other words the equilibrium mentioned by Mr. Peter WONG. But let us not count our chickens yet. Additionally there can be no objection to moderate borrowing for clearly profitable capital investment, as long as recurrent revenue comfortably exceeds recurrent expenditure.

41. This is a civilized Government. In a relatively rich community growing richer Your Excellency has made it clear that we intend to maintain our existing programmes, to introduce new ones, and to take reasonable and compassionate care of the disadvantages. This can be done while still exercising a tight hold on public sector spending, to which I attach great importance. I have demonstrated that its growth is being slowed down. This has meant a standstill in many non-essential areas. I welcome Members' general support. There can surely be no doubt where public sympathy lies.'

42. Our finances must always be conservatively directed, for Hong Kong's economy is entirely subject to uncontrollable external events. It is for this reason, with trade representing 163% of GDP, that long-term detailed budgetary planning is quite impracticable. We must stay quick on our feet and quick to react to situations that cannot be foreseen.

43. As you would expect with my background I am a firm believer in low taxation and the motivation of enterprise. But a sense of decency, of balance and of the interests of the whole community is equally compelling.

44. There thus has to be a reconciliation of taxation, of borrowing, of use of fiscal reserves, of expenditure, and of the reasonable aspirations of the

community. I have done my subjective best to show a responsive and competent Government in action.

Sir, I beg to move.

*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).*

### **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, 2 May 1984.

*Adjourned accordingly at fifteen minutes to six o'clock.*