

OFFICIAL REPORT OF PROCEEDINGS**Thursday, 28 March 1985****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, C.M.G., Q.C.

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

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

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

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

THE HONOURABLE LYDIA DUNN, C.B.E., 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 ERIC PETER HO, C.B.E., J.P.
SECRETARY FOR TRADE AND INDUSTRY

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 HU FA-KUANG, O.B.E., J.P.

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

THE HONOURABLE DONALD LIAO POON-HUAI, C.B.E., J.P.
SECRETARY FOR DISTRICT ADMINISTRATION

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

THE HONOURABLE CHAN KAM-CHUEN, O.B.E., J.P.

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, O.B.E., 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, O.B.E., 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 CHAN NAI-KEONG, C.B.E., 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 YEUNG PO-KWAN, C.P.M.

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

THE HONOURABLE KIM CHAM YAU-SUM, J.P.

THE HONOURABLE KEITH LAM HON-KEUNG, J.P.

THE HONOURABLE CARL TONG KA-WING

THE HONOURABLE JOHN WALTER CHAMBERS, J.P.
SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
DIRECTOR OF EDUCATION

THE HONOURABLE PETER TSAO KWANG-YUNG, C.P.M., J.P.
SECRETARY FOR HOME AFFAIRS

THE HONOURABLE IAN FRANCIS CLUNY MACPHERSON, O.B.E., J.P.
SECRETARY FOR TRANSPORT

THE HONOURABLE PANG YUK-LING, I.S.O., J.P.
SECRETARY FOR HOUSING (*Acting*)

ABSENT

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

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

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR. LI WING

Second reading of bill

APPROPRIATION BILL 1985

Resumption of debate on second reading (27 March 1985)

Question proposed.

MR. CHAN KAM-CHUEN:—Sir, I rise to support the Appropriation Bill 1985 but have the following comments to make.

The marvellous Hong Kong people

Everytime when I look at the economic figures of Hong Kong for the Budget debate, I find firstly that there is a gold mine of information given to us but because of the limit of time, one can only touch upon a few subjects each year. The orchestra is there, it depends on the conductor to interpret and draw music from it. Secondly, I just cannot help wondering that the people of Hong Kong are really marvellous (香港人真是了不起).

Economically, we have survived various crisis, such as world recession and Hong Kong is still in a reasonably healthy state. This is especially marvellous when one considers that Hong Kong is one of the most densely populated regions in the world with some 5 027 persons per square kilometre. If we were fortunate to have less than 110 persons per square kilometre as our neighbouring country and have all the mineral resources such as coal, iron, petroleum, gold etc., I think we would be a developed industrial region long ago. But alas, we only have as consolation a Diamond Hill which produces no diamonds. We have little land for agriculture and we have to import food from all over the world but we are still a land of plentiful. We have not asked for foreign aid but we have over the years sent foodstuff and remit Hong Kong dollars to our relatives and friends in the mainland, we have accommodated a large number of Vietnamese refugees and are among the big league contributors, in a private capacity, to help a famine stricken country in Africa recently. We do not have many palatial homes due to the scarcity of land but we have accommodated over 40 per cent of the population in public housing and we are still building more to accommodate those hill side squatters which came from the mainland.

Our unemployment figures since 1978 have fluctuated between 2.7 per cent to 5.1 per cent and our per capita G.D.P. are both targets which other countries can only hope to achieve in the next century. With the exception of a minority of foreigners and indigenous inhabitants, Hong Kong people are overwhelmingly immigrants or decendants of immigrants from the mainland for the last 150 years. Their hardwork, capital and talent have helped to build up Hong Kong.

The economy

During 1982 and 1983 negotiation period, an increase number of Hong Kong residents have migrated to the United States of American, Canada and Australia. This certainly affect our investment markets and domestic consumption and business are sluggish. The Sino-British Joint Declaration has restored superficial calm.

With this background, the various economic sectors have very different performances. Some well-known businesses have folded up and changed hands. The two evergreens, however export and tourism, have both performed well. Added to these is the steep increase in re-export to China due not only to her modernisation but also as mainland people may now profit from small enterprises and wish to satisfy their desire for foreign goods after a ban of over 30 years. How long this re-export will last depends on many factors, such as how quick China catches up and also cash flow problems.

We must protect the tourists from being cheated or robbed otherwise it would tarnish our image as a tourist centre. We should have legislation which penalise shops which after receiving a deposit cannot deliver the type of goods ordered by tourists. The compulsory double-refund practice long accepted by Chinese custom may be the answer.

Turning to exports to our largest customer, the United States of America, we recently discussed in this Council the following subjects: visits conducted by U.S. inspectors to our factories; certificate of origin and the talk of establishing a border industrial zone using cheap labour from China.

As I am not in the industry, I shall take a detached view and try to be the devil's advocate in this important issue. I am all for renewed efforts for negotiation through the proper channels, but we must be sure that our products are truly Hong Kong made or of an agreed percentage like Japanese car parts send to other foreign countries for assembly before they are accepted as local cars made in that country.

I am against the creation of a border industrial zone using cheap labour from China. Macau is wiser than us in sending their cheap labour from Fukien back on the superficial reason of unfair competition for jobs with Macau labour. The more serious issue is that since the post-war years, the Labour Department, the Labour Advisory Board and its various committees and sub-committees have laboured unceasingly to get rid of the image of cheap labour and sweatshop for Hong Kong. As at 31 December 1984, Hong Kong has applied 30 I.L.O. labour conventions in full and 19 with modifications which compares favourably with most member nations in the region. In the past ten years, 152 enactments of labour legislation had been made. If we now announce a cheap labour zone in Hong Kong we shall not be pointing the blade of our sword towards the protectionists but give them the handle (授人以柄) so that they can finish us off with the accusation of dumping and unfair competition.

Although I have left the Hong Kong Productivity Council, I am sure that they can come up with some labour-saving and cost-reducing automation methods and devices to help the industry in question. We all know where our Achilles' heel is and we should not complicate the issue.

Civil service

Much has been said about the excessive size of the present staff strength of the Civil service, but how do we judge these allegations?

If it is correct that government employees are public servants then it may be relevant to compare the increase of public servants to the increase of population. From the Annual Reports of the Hong Kong Government, I extracted the following figures:—

<i>Year</i>	<i>Population as at 31 December</i>	<i>Civil Service Strength as at 1 April</i>
1975	4 379 000	104 291
1976	4 477 600	104 157
1977	4 566 900	108 400
1978	4 720 200	115 700
1979	5 017 000	122 800
1980	5 147 900	129 200
1981	5 207 000	139 300
1982	5 287 800	154 000
1983	5 344 400	166 569
1984	5 397 500	170 051

From the above, it can be seen that the population has only increased by 23.2 per cent from 1975 to 1985 but the increase of civil servants for the corresponding period was 63.1 per cent. I trust, that you, Sir, would agree with me that generally Hong Kong civil servants are efficient and it may be assumed that the types and volume of activities have increased. However, we should not be complacent or start making excuses but we should review all the activities and cut down those which are not cost-effective or of marginal value. Of course, this is only a quick rule-of-the-thumb method and those dealing with tourism and external trade etc. may have other relevant increase factors added.

We should seize every opportunity to use natural staff wastage, such as retirement, resignation, hive-off etc. to gradually cut down the actual strength to one which commensurates with population growth.

Indirect taxation

Indirect taxation on non-essentials is better than compulsory direct taxation, in that the public have the option to pay the indirect tax or boycott the Government by saving their money for other non-taxable essentials. As a Chinese fisherman philosophically said (願者上釣) i.e. 'those willing get hooked'.

I shall not go into the arguments of whether liquor and aerated water etc. with sugar would add 'blank calories' for the dieter and may lead to sickness associated with obesity. But I shall talk shortly about cosmetics and more lengthily about cigarettes. I had mentioned in one of my previous speeches about the harmful effects of smoking to health. I shall now go into the economic effects of smoking on one's family and the community and try to demonstrate that heavier tax on cigarettes may be a blessing in disguise for the smokers.

Cigarettes

I am a non-smoker because I had made calculations and come to the conclusion that I cannot afford this expensive addiction.

It is noticed that quite a number of smokers were addicted when they were teenagers trying to show off that they were grown-ups with a cigarette in their mouth.

If he starts at 18 and he spends \$20 on 50 cigarettes per day, that person would have spent \$4.75 million at the retirement age of 60 taking into account an *average* interest of 10 per cent per annum, compounded monthly at 0.83 per cent. If one doubts this staggering figure, one does not require a computer but a financial calculator costing less than \$150 would verify the result of this \$20 per day sinking fund.

Earning an average interest of 10 per cent p.a. requires no financial talent and inflation is irrelevant in this case as money spent on cigarettes goes up in thin smoke and the cigarette butt is the interest with a bad lung thrown in as a bonus. Even with 4.75 million deflated dollars, one could own property, live comfortably after retirement or set up a business or send one's children abroad for university education which are all high goals for the working class.

But one would ask if it is so simple why can't people do it? Well it is human nature to 'choose evil and cling stubbornly to it (擇惡而固執). When they are old, poor and sick, they would not blame smoking but say it is the fault of the society (社會錯) to hide their petty vice and save their foolish pride. The community will have to foot the bill in social assistance and prolonged medical expenses and may result in painful deaths. I believe that the taxpayers' money could be put to better use. Those who have the will power to quit smoking due to heavier tax would therefore be paid off handsomely.

But I shall ask the Financial Secretary and cigarette manufacturers to rest assure that money will still be rolling in due to human nature.

Cosmetics

I shall quote an interesting argument on cosmetics from the '300 Selected Poems of the Tang Dynasty' (唐詩三百首) about the Duchess of Quik (虢國夫人) proceeding to court (卻嫌脂粉污顏色，淡掃蛾眉朝至尊) i.e. 'but she discarded cosmetics for fear of staining the beauty of her complexion and only lightly

brushed her eyebrows before seeing the supremo'. The self-confidence of this natural beauty earned her lasting praises for centuries and may be food for thought for the fairer sex.

As the tax net is now drawn tighter on these dutiable commodities, it is timely to add a word of caution on smuggling which I am sure the Customs and Excise personnel will be able to control.

With these remarks, Sir, I support the motion.

MR. CHEUNG YAN-LUNG:—Sir, I wish to congratulate the Financial Secretary on his performance in preparing the Budget for the coming year and in laying it before this Council. It reminded me, somewhat, of a conjurer producing a rabbit out of a hat, to the applause of the observers and leaving the rabbit and the hat intact—almost. Now that the clouds of uncertainty have begun to roll away, he has been able to speak with more assurance of the future. Nevertheless, our financial resources must continue to be husbanded to insure against the pitfalls and dangers that inevitably beset an economy like ours.

Development of the New Territories

With the continual development of democratic institutions, now gathering pace, and the consequential expansion of public services, new provisions in finance and manpower must arise. We have in the Budget a new department under Head 111, with the setting up of the Regional Council and the services department that supports it. Both the estimate for expenditure and that for manpower can be no more, at this stage, than reasonable 'guestimates'. In particular, there is some doubt that the manpower provision, in view of the fact that the experimental new Provisional Regional Council will be completely inexperienced, will meet the need. It will be necessary to stretch the whole organisation to the limit of its activities during the provisional term of the Council so that any weaknesses in the system may be revealed and remedied in time. One year may not be enough for this exercise. The progress of the great experiment needs close watching.

I must commend the New Territories Development Department for the splendid achievements of the past year in the provision of serviced land for public and private housing estates, for utilities and public buildings and for the provision of roads and sewage facilities in the new towns of Tuen Mun, Tsuen Wan, Kwai Chung, Tai Po, Sha Tin, Fanling and Yuen Long. I note, also, that the strategy for the Northwestern New Territories has been drawn up and accepted. There is however no mention at all of Sha Tau Kok and the Northeastern New Territories.

Now that the 1997 issue has been happily resolved, plans should be put in hand for those areas closed for defence purposes over so many years which now should be scheduled for development. The so-called 'closed-area' at the border no longer serves its original purpose. The people living there, who have so long

bowed to the overriding needs of the frontier defence, should now be able to share in the development and prosperity of other parts of the New Territories. It may be considered a convenience to keep the area closed but, in view of the needs and rights of those who live there, no part should any longer be cut off except it is absolutely essential. I, for one, do not believe that this is the case. So much, indeed, has the area stagnated that, it is said, the people on the Chinese side at Sha Tau Kok, in their gleaming new houses, like to take visitors from all parts of Kwangtung to the border and point across to the Hong Kong side at a way of life that has not changed in 50 years. Hong Kong's Sha Tau Kok area, is regarded much as a folk museum would be. This, Sir, does nothing for our image.

Youth and education

This year is the International Year of the Youth and it is dedicated to those in the 15 to 25 age group. For this reason I propose to devote much of my speech to matters concerning youth and education. The theme of the Year is, 'Participation, Development and Peace'. With such a large population of young people in Hong Kong, it is hoped that the various programmes of the Recreational and Cultural Divisions both of the Regional and Urban Services Departments, during the year, will be able to promote initiative, give the young a greater sense of community and encourage leadership. The recent District Board elections were very encouraging in the number of young people who went forward for election and those who actively supported them on election day. I hope that this year will mark a milestone on the way towards building a young, dynamic community, well prepared to face the challenges that face Hong Kong.

It is unfortunate that the aspirations and hopes of many of the young people in Hong Kong, particularly in recent years, have been turned to overseas countries for fulfilment. It might have been a situation that has been forced on them because of our lack of facilities, now easing somewhat, for further studies and the fears generated by the 1997 problem. Time has changed. Our young people should not be allowed to believe that they must go overseas because Hong Kong does not want them. Overseas education is an excellent thing and highly valued by every country in the world. For this reason it is important that the public should be aware of the help given by Government to many who study overseas and, equally, that this help should be put to the best possible use.

There are two schemes in operation that greatly help our young people. One is a subsidy scheme for the children of government officers of the appropriate rank to study from late primary level to the age of 19 in Britain. This scheme was extended to cover local civil servants about ten years ago on the principle of parity for those of equal rank. Happily, some of the larger firms in Hong Kong have followed the Government's example and thus supplemented the education available. Excellent as this scheme was, with the rapid changes and developments on the educational scene both here and elsewhere, some review is needed. Since the scheme began, local children finishing primary school have become

progressively younger. Also, their proficiency in English has notably declined. These two factors make it undesirable for them to leave Hong Kong so soon and, indeed, their parents are reluctant to let them go. On the other hand, since the scheme began the children of non-British nationals have been required to pay full university fees which have increased greatly in recent years. The children of British nationals living in Hong Kong need pay only 'home' fees. Thus the local students who do secondary education in Britain are virtually excluded from any higher education. Most of them can neither afford to pay full fees in Britain nor can they hope to get a place in a higher institution in Hong Kong after secondary schooling in Britain. It would seem, then, that some flexibility in the years of subsidised education overseas for these students is urgently needed or the scheme will become a waste of money.

The second scheme, called the Joint Funding Scheme, was initiated by Your Excellency two years ago. It is intended for the public at large so that a promising child of a needy family who is unable to get one of the comparatively few places in higher education in Hong Kong will be subsidised for his studies in Britain. This scheme is jointly funded by Hong Kong and Britain. It, too, seem to have run into problems. In spite of the fact that more students went overseas for studies in 1984 than ever before, the number receiving subsidies from this fund seems to have actually dropped! It is a situation that needs investigation to see that government funds are used in the best possible way. It may be that the amount offered to each is not enough to allow a student study in Britain. It may be that the parents are unable to get firm assurances of help in time to make the necessary arrangements. It may be that the man in the street thinks that he has little hope of a subsidy and so does not apply. It might even be that Hong Kong parents are so well off that they do not need a subsidy!

Cosmetics

Sir, before I conclude my speech, I would like to say a few words on the Financial Secretary's proposal to reintroduce a 25 per cent *ad valorem* duty on the C.I.F. price for imported or wholesale price for locally produced cosmetics. Viewed solely as a revenue protection measure, I consider reintroduction of the *ad valorem* duty acceptable. However I hope the Administration would consider carefully the possible repercussions of this measure. First, there is at present no clear regulations on how much an individual person can bring back into Hong Kong upon return from a foreign country. People can easily avoid the duty by bringing in cosmetics from duty free countries thus adversely affecting local business and duty-collection; secondly, a large proportion of imported cosmetics and perfume are for re-export to other countries. With the imposition of the *ad valorem* duty, Hong Kong will lose her position as regional distributor of cosmetics to Southeast Asian countries. I, therefore, would like to put forward some suggestions for the Administration to consider. I think in all fairness, the proposed 25 per cent *ad valorem* duty should be levied on the F.O.B. rather than the C.I.F. price because the latter include the cost of freight,

insurance etc., which is not part of the cost of goods itself; clear regulations must be set down to prevent people from exploiting duty-free concessions; lastly, the *ad valorem* duty should not be levied on samples and gift items as these are not for sale.

With these remarks, Sir, I support the motion.

MRS. CHOW:—Sir, 'No taxpayer likes additional tax burdens unless they are placed on others while he derives the benefit,' so said the Financial Secretary in his Budget speech a month ago. This is a fair assessment of human nature, and in considering tax measures, we need to take a broad and balanced view of their effects and consequences in the context of our entire revenue requirements. At the same time it would be unwise for the Administration to be totally insensitive to public sentiments. It is against this background that I wish to comment on the following revenue-raising proposals.

However loudly the concern has been voiced on behalf of private motorists (of whom I am one and I hereby declare interest) it is clearly not loud enough. Once again they have been identified as the target.

I reiterate my firm belief that it is road usage by motor vehicles that need to be controlled, by fiscal measures if necessary, and not the ownership of private cars. It is unfair that the private motorist should be singled out time and again. I therefore support the increase on tunnel tolls while deploring the rise in fees for vehicles and licenses.

I can understand the rationale behind the clamp down on duty-free concessions. However, Hong Kong is an international city that prides itself as a free port. I cannot therefore support the proposed withdrawal of the average duty-free allowance that is available to residents of almost all other countries in the world i.e. one litre of spirit and 200 cigarettes. On the other hand, I recognise the abuse of this very reasonable concession by daily travellers in and out of Hong Kong, particularly by train. I can also see the administrative problems we might encounter by imposing a minimum period of absence. I therefore advocate that the existing allowance should remain for all those who enter Hong Kong by air, while the new restriction should apply to all other points of entry. I trust this arrangement is reasonable. Those residents who have not and are not likely to over exploit the concession should not be penalised. For those Hong Kong entrepreneurs who have hitherto abused the system, this proposed adjustment should make their efforts totally unviable.

The controversy resulting from the Financial Secretary's reference to soft drinks as a pleasing indulgence not a necessity should not be mistaken as resistance to the duty. Only by monitoring the market activities can we establish the real resistance, if any. The Consumer Council conducted surveys on the price movements of soft drinks prior to, immediately following and now a month after the announcement of the duty. Prices have remained stable and at

levels predicted by Government. It is also interesting to note that even after the increase which takes in the proposed duty, price levels are about 10 per cent lower than the recommended retail price in the trade. It seems to indicate that prices at their present level are affordable and acceptable. However I beg to differ with the Financial Secretary who chose to compare soft drinks with beer. He has overlooked the fact that a considerable proportion of consumers of soft drinks are minors. Furthermore I regret that a duty that hits young people hardest has to be introduced in the International Youth Year.

I do not think I will be forgiven if I left the subject of revenue without saying a word on the duty on cosmetics.

To be fair to the cosmetics trade, I must point out that the costs of products given in the foot-note of the Financial Secretary's speech are misleading as they have not included marketing costs such as advertising and packaging. The trade has raised objections to the C.I.F. prices as the base for imported products as the administrative procedure can be unnecessarily cumbersome. The lack of prior consultation with the trade is totally understandable, but numerous operational problems will now need to be resolved between the relevant departments concerned and the trade. I hope the authorities will be receptive and responsive to practical circumstances on the ground, and would keep inconvenience to the lowest possible level.

On the other hand, although the application of the wholesale price as the base for locally produced cosmetics is less complicated it will inflate the duty for this category as this price will have included the hefty marketing costs and the profit. Apart from creating an anomaly it might prove to be an unfair disincentive for this local industry.

Incidentally I would be interested to hear what steps will be taken to discourage enterprising individuals from making daily trips across the border to beat this new duty as they have done with brandy and tobacco.

The argument has been forwarded that this duty is discriminative against the female sex. If it were so, then of course it would be totally unacceptable, but I am sure it is not the intention, as I saw the inclusion of aftershave lotion and hairspray, not to mention face powder in the list of items quoted which are used, some more widely than others, by men. Nevertheless, just so there is absolutely no question of any bias against women, the definition of cosmetics must allow for the coverage of products catering for both sexes.

I would now like to move on to two subjects which are worth our immediate attention.

Immigration facilities

The services being offered by the Immigration Department at the different points of entry require not only long term planning, which has been promised, but also some immediate temporary relief. Lines at Kai Tak counters are

considered long if they are more than six or seven deep, while travellers are often required to wait for more than an hour before they are processed at Tai Kok Tsui and Man Kam To. With the likelihood of pressure building up at these points as social and economic ties between Hong Kong and China multiply, special allowances must be given to this area of activity.

Privatisation

Here I echo the views most eloquently expressed by my senior colleagues, Dr. H. FANG, Mr. A. SO and Mr. F. K. HU. In view of the tremendous success of the hiving off of the Kowloon-Canton Railway and the leasing out of government car-parks, other government services should be identified for similar treatment wherever possible. In addition, the contracting out of other non-revenue-producing government services should also be encouraged as far and as soon as possible, following such workable examples as cleansing contracts in squatter areas. In this sphere of social services, more participation by the voluntary and private sector could also mean more cost effective provision of these services while offering more flexibility to the managements concerned. I have no doubt this overall policy of de-governmentisation is the right path to less bureaucracy on the one hand and more flexibility and efficiency on the other. I would be most interested to hear from the Financial Secretary what major plans of privatisation he has in mind.

With the above reservation, comments and suggestions, Sir, I support the motion.

MISS TAM:—Sir, the Financial Secretary's achievement in steadily reducing the deficits in our Budget in the last three years must be appreciated by all of us who may look forward to a balanced budget for the year 1986-87. The deficit, estimated at HK\$3.5 billion in 1982-1983, HK\$3 billion in 1983-1984, and HK\$1.8 billion in 1984-1985, will be reduced to about HK\$1 billion for the year 1985-86. The banking sector is giving an even more optimistic forecast on the growth of G.D.P. i.e. 8 per cent for the coming year rather than the Financial Secretary's forecast of 7 per cent. No doubt the Joint Declaration on the future of Hong Kong has removed a lot of speculations and uncertainties on what sort of economic system will be put in place in Hong Kong to preserve its viability for the investors. Against this background of revived confidence in this territory the 1985-86 Budget will be accepted by a great majority of the community as a sure and steady move to sustain a reviving economy; and one which manages to spread the tax burden pretty evenly among all sectors of the community.

It is often said that private investment in plant and machinery is a good indicator of local confidence, and the Financial Secretary has made a forecast of an increase of 16 per cent in 1985. It is not certain how much of the investments on these assets will be made for replacement rather than for expansion, or whether some or most of them will end up in the Shenzhen Economic Zone rather than Hong Kong. I can only say the fact is that there is a *prima facie*

return of confidence here. But such confidence must also be sustained by concrete evidence of the faithful implementation of the Joint Declaration by Britain and China, and must not be taken for granted. This after all, is the year of the ratification of the Sino-British Joint Declaration, the year in which we might see the commencement on the drafting of the Basic Law; the year of the formation and/or the initial meeting of the Joint Liaison Group; and the setting up of the Land Commission. Whilst we are concerned with the fact that the Hong Kong manufacturers are wrestling with the formidable problem of American protectionism over the issue on the certificate of origin for knitwears exported to the U.S.A., and tackling the difficulties created by the linked-rate system which takes away the competitive edge of our goods in the European market, we are also keeping a watchful eye on the development which will unfold before us in three months' time on the implementation of the Joint Declaration. I firmly believe that neither U.S.A. protectionism nor an unfavourable exchange rate will have an adverse effect on our economy for too long; the entrepreneurial skill of the Hong Kong manufacturers will, given time, overcome these setbacks. However, should the Joint Declaration not be perceived to be faithfully implemented, the erosion of the confidence here may ultimately defeat the effort of good budgetting by our Financial Secretary, and that's something I believe none of us wish to see.

It is widely reported that the 'Hong Kong people' will be consulted on and can participate in the drafting of the Basic Law. If this turns out to be the case, I have no doubt that the people of Hong Kong will welcome it as a clear indication of the People's Republic of China's understanding of our concern, and that the People's Republic of China is willing to meet them. This will boost both local and international confidence in the territory. Likewise with the Joint Liaison Group. As a diplomatic group it may not be possible to have in its numbers non-government officials from Hong Kong. But it will definitely inspire confidence if Hong Kong Government officials chosen by the Hong Kong Government for their expertise can participate in this group to discuss, for example, international trade agreements amongst many other issues which the Joint Liaison Group must tackle under its list of priorities in the first half of the period from its formation to July 1997. And as far as specialist sub-groups are concerned, Unofficial Members with relevant expertise must also be allowed to participate, and in general, I hope preference will be given to Hong Kong citizens of Chinese origin.

The Land Commission will be set up in June 1985, and for the year 1985-1986, we know that HK\$300 million of our income from land sales will be set aside for the future S.A.R. Government. It is crucial that not only local land experts from Hong Kong should be members of the Land Commission, but that the Land Commission itself is also seen to be accommodating requests for funds, and, if necessary, requests for more land to be put forth on behalf of Hong Kong to ensure proper development in this territory.

And, from time to time the progress on all the three bodies (i.e. the Joint Liaison Group, the Land Commission and the Basic Law Drafting Committee) should be made known to the Hong Kong people to assure them that the spirit of the Joint Declaration is being upheld every step of the way.

Sir, this Budget has been described as the first budget of the 'transitional period'. And it has been criticised for having no positive proposals to show the Government's determination to encourage long term industrial development, and to further trim down public expenditure, thus reflecting the attitude of a care taking rather than a caring government. Judging from the fact that 17 per cent of the Consolidated Account expenditure is to be spent on education, and coupled with the Government's acceptance of the Education Commission No. 1 Report, there is clearly the will to make long term investment on human resources in Hong Kong.

There has been many suggestions made in this Council on how public expenditures may be trimmed down further, and in particular, expenditures on civil servants' pay and fringe benefits. I believe, in law, there are no major obstacles for Government to reduce the scale of fringe benefits but often there is the question of how to achieve this without affecting the morale of the public service.

Since September 1984, I have from time to time discussed informally with local officers in the Police Force, and young (say in their early '30s) Executive Officers and Administrative Officers in various government departments and some local officers of directorate rank on their reactions to item IV in the first Annex to the Joint Declaration, that is the one concerning the public service. Often the first response is 'let's hope they keep to the agreement.' In context, the word 'they' means China and at times it means the S.A.R. Government. The next important thing is 'I want a roof over my head, my pension, and freedoms for my family.' There was no indication that the free passage to England, or an extremely spacious quarter up the Peak, or the possibilities of their children studying in boarding schools in England are in any way a major or significant consideration of their commitment in continuing to serve the Government. I believe that for the new recruits after June 1985, the real attraction is probably, say, home ownership (with a long repayment term of say, say, 30 years) more than anything else, and for their children, good opportunities in being educated locally, and in some cases, with scholarships to study for tertiary education abroad.

I believe this is the right time to re-examine the fringe benefits package. I don't think it will seriously affect morale if any of the expatriate orientated terms of service or fringe benefits is gradually removed provided there is plenty of notice. We may in fact find that to the local officers, this is no longer a significant factor in their decision to stay or join the public service. It is more likely that they have identified their future with the future of the territory.

And one final point for the local, Sir, in examining the expenditures one can observe that Government spends an enormous amount of money each year paying for overseas consultants fees on public work projects (e.g. the HK\$80 million spent on the consultants' report for the Shaukiwan Hospital), and also on imported machinery and equipment, such as computer equipment hard and soft-wares. Judging from the trend in the last three years, this kind of expenditure will continue to grow in the future. I think it should be considered that, all other factors being equal, priority must be given to overseas consultants with a local branch or partnership in Hong Kong, or overseas manufacturers with local investment, so as to ensure that the Hong Kong community can benefit from the money the Government spend on purchasing overseas expertise and equipment.

Sir, with these remarks, I have pleasure to support the motion.

DR. IP:—Sir, I must congratulate the Financial Secretary again for presenting an excellent Budget proposal, one which is even better than the last. It leaves me very little room for manoeuvre. However to justify my existence, I have the following reactions, and I have adapted the format of my presentation to his, so that I will begin with the revenue and end with the expenditure.

Revenue Measures

Medical insurance

Yes, I can't agree more with the Financial Secretary that whereas land sales revenue was \$8.9 billion in 1981-82, it is unlikely to exceed \$1.7 billion in 1985-86 and that this establishes a trend for future years. We will be spending some \$4 billion on medical and health services in 1985-86, a 20 per cent increase from last year. I see that this also establishes another trend for future years since 'Public aspirations demand more services'! In effect the additional money spent on medical and health services will be using up some 66 per cent of the new proposed measures to raise a net increase of \$1.2 billion in revenue this coming year. In essence medical and health services are expensive. Many countries with a far higher tax rates of 30 per cent or more are beginning to realise, a bit late in the day, that they cannot afford free National Health Services. Our public pays \$0.1 billion for medical services costing some \$4 billion, a mere 2 per cent. The question I'll like to pose is, Sir, 'Can we afford such luxury when land sales revenue is unlikely ever to be like the good old days!'

Sir, if we can't, we must begin to look for an alternative. Respectfully, Sir, I have a proposal which I would like to share with this Council. I consider that Government can afford only the capital outlay for developing adequate medical services, the recurrent cost for the overall administration in the control,

surveillance and planning, and lastly the recurrent cost in giving full medical subvention to those those who are already on social security, namely, the old, the handicapped and the very poor.

The recurrent expenditure on medical services work out to be \$616 per person per year or around \$50 per month. If every abled-bodied person pays an equivalent amount on medical insurance this would be sufficient to balance our recurrent expenditure on this head. \$50 is less than the cost of the hire purchase for a colour television which every family now can afford. A basic minimum premium can be worked out which everyone must purchase and the insurance company, on behalf of the insured, must repay Government, at the rates of charges established by Government for third class service, at cost such that in fact, the insured will receive free unlimited consultations and treatment. Anyone is at liberty to purchase medical insurance at a higher premium and can enjoy private medical services or first and second class services at government hospitals at higher rates of charges.

This proposal is a major change, the feasibility will take time to work out and it must be phased in, but, Sir, I see this as being inevitable. Other than being a method to raise revenue for Government, it will also offer the option to the better off public, to go for private medical services thereby reducing the overcrowding that exist in government hospitals. It may also bring decentralisation, financial independence, flexibility and competitiveness to the government and government subvented hospitals in that they can generate their own funds through standardised payment out by medical insurance. Such hospitals may also be allowed to charge a certain percentage more than what the basic insurance scheme would pay out but it is up to the clients to decide. If they consider getting value for money, they will be prepared to pay. My proposals are in line with the concept of my honourable colleague, Dr. Harry FANG, namely, increase in medical charges, privatisation, block grant to hospitals, flexibility in management and decentralisation. In the phasing-in of this, Government needs not charge the full rate, but aims at meeting half its current expenditure. The insurance premium will then be at a level more acceptable to the public.

Lastly, a recognised medical insurance scheme which Government can initiate, would pave the way to a more standardised charge by private practitioners which I am sure Members of this Council would welcome.

Taxing fringe benefits

I would like now to discuss fringe benefit and its method of taxation. I am aware that at the moment all fringe benefits are taxable if it is of such a nature that the recipient can convert into money. However there are many other fringe benefits which being paid by the employer on behalf of the employee and therefore not convertible to cash, are not taxable. Fringe benefits of one form or another exist in all countries. Nearly every country allows favourable tax treatment of some

fringe benefits, usually because taxing them would be inefficient. Hong Kong with its commendable policy of keeping tax laws simple, have long allowed significant fringe benefits to pass tax free. Over the years, the value and the volume of these fringe benefits have gradually increased to a point where it is causing significant inequities.

Non taxable fringe benefits at present include utility bills, provision of domestic servants, medical benefits not in the form of reimbursements, free use of a car for domestic purposes, subsistence allowance, club memberships, discount in goods/services related to employees business, free lunches, loans at low interest rates, education allowance, passage and leave allowances. All these in a laymen's eyes, is no different to tax avoidance. In fact many firms structure their remuneration packages to give staff benefits rather than salary solely to reduce tax paid. Rental value of free housing accommodation and private tenancy allowance assessed to be equivalent to 10 per cent of one's emoluments rather than the true rental value is yet another example.

I fully support the Financial Secretary in his determination to combat tax avoidance. I therefore propose for Government's consideration to tax fringe benefits as their true value wherever this can be worked out and done simply, thus broadening the tax base and through this keeping the overall percentage of our tax rate low. Of the list quoted above, I would like Government to consider particularly as a start, education allowance, leave and passage allowances, and free housing accommodation.

I truly believe that this is fair because such employees are in actual fact receiving these benefits. If Government considers that no change is necessary, I would like Government to share with me in this Council the justification of its existing policies.

Soya milk

This then leaves me to mention my last point on the proposed revenue measures — duty on non-alcoholic beverages. In the Financial Secretary's speech, soya milk was not included in the items excluded from the ambit of this duty. I clarified the position with him. And it was reassuring to note and I quote from his letter, 'I have proposed to exempt from duty any non-alcoholic beverage which is the undiluted juice of any fruit or vegetable and to which no flavouring or colouring has been added. The case is the same then for pure soya bean drinks and, for example, pure orange or pure lemon drinks.' Over some 90 per cent ethnic Chinese are intolerant to cow's milk because of the lactose content and pure soya bean milk is an established medical cow's milk substitute. I am aware that this concession may not entirely satisfy some commercial firms whose soya products contain flavourings. However it has satisfied me that the Financial Secretary has gone into depths on this and has exempted from his duty proposals those nutritious drinks in the promotion of good health for our community.

Savings in expenditure

I will now turn to the estimates for expenditure and I would like also to begin by congratulating all the Controlling Officers who patiently answered all questions during the open sessions on the Budget estimate, be it large or small, financial or at times on the fringe of being one! I congratulate them because, it has been shown quite clearly through the intensive grueling and interrogation, to put it just mildly, they have during last year and in the proposals for this year, economised like nobody's business. I have not through any of the questions and answers, be it my colleagues' or my own, revealed any significant areas in which the execution of established policies have not been done in the most frugal manner! The fact that questions began to border on to policy matters during these open sessions is a plus point for the Controlling Officers in that they have done their job so well with their excellent financial control that frustrated Councillors in their attempts to justify their existence began to wander off course. It seems clear to me now that in order to save more on expenditure, the next step would be to question the established policies which have a financial implication to our Budget.

Questions*Fringe benefits*

So, questions and more questions, the first series of them are on fringe benefits for civil servants.

What is the rationale, for granting overseas education allowance and passages allowance to children of local civil servants at the rate of five passages every 30 months when the Education Commission is encouraging the use of Chinese as the medium of instruction for local children?

When we spend so much in the development of the English School Foundation schools and staff quarters, and when such school places are not full, what is the justification for granting free passage allowance and overseas education allowance to children of expatriate officers.

What is the rationale for giving local officers and their families leave passages payable up to the amount for a return air passage to the United Kingdom once every two years when Hong Kong is their home?

And what is the rationale for allowing expatriate officers and their families free passage allowance when they go on holiday, rather than to return home? Does it not to some extent defeat the purpose for which such benefit was originally introduced?

What is the rationale for granting a three-bedroom flat worth \$15,000 per month, to a single expatriate officer, when he can well live in one costing \$6,000, pocket half the difference and still be cheaper for Government?

Would the lack of incentives for those who forfeit benefits such as passage, leave, housing, overseas education allowances; or the lack of disincentives for those who fully utilises them, actually encourage unnecessary government expenditure?

(A point to note is that whereas personal emoluments, departmental expenses, and education subvention, etc., etc., have all shown some two-fold increase between 1980-81 and 1985-86, the personel related expenses have shown a three-fold increase!)

I think at this point, I must have raised the Officials blood to boiling point, not because of desire, but of anger, but I want to soothe them with my final question which is: would it not be overall cheaper for Government and more flexible for civil servants if they are paid more with a fraction of the fringe benefits in cash instead? This fraction can be work out through negotiations for mutual benefit.

Accounting presentation

My questions on the accounting presentation of the Budget estimates are:—

Would putting all personnel related expenses under one head rather than under the respective departments—

- (1) underestimate the true expenditure for each department;
- (2) underestimate the fees, charges and unit costs worked out in various costing exercises; and
- (3) lack incentives for departments to take into consideration this very important cost factor when they choose the 'best man for the job'?

Would departmentalising the cost of utilities and rent when departments are housed in shared premises (now under a separate head) reflect better the true cost of the respective departmental expenditure?

The estimates make no mention of the pension benefits which will be earned by the civil service in 1985-86 and hence the increase in the Government's liability to make future payments. If Government continues to offer pensions to civil servants, rather than develop towards the concept of gratuity, would setting aside a fund, the annual addition to it being the real increase in future committment for this year, reflect more accurately our existing expenditure?

I support the points made yesterday by my honourable colleague, Miss L. DUNN on Government's contingent liabilities.

Proposals

And now to be useful and constructive, I have the following proposals for Government's consideration:—

Contract terms for civil servants

There are distinct advantages for Government to promote contract terms with gratuity for civil servants. Annual adjustments, fringe benefits, pensions would be replaced by a gratuity which is taxable. Contract terms offer a higher salary which can be used in any manner. Furthermore they allow freedom of movement; and a free flow of expertise between the civil service and the private sector promotes mutual understanding. Because contract terms are popular, they can attract a higher calibre of staff. Contract terms ensure that no redundant persons are kept in a post and give Government a cautious approach to permanent recruitment. They guarantee the best output from staff.

I feel sure that many recent recruits and potential recruits would be keen to opt for contract appointments. Even those who have joined for some years but have no intention to start and end their career in the civil service would probably be interested to switch from pensionable terms. If with gentle persuasion in the form of taxing fringe benefits and gradual lowering of some uncalled for fringes, Government should succeed in making gradually all those posts which it feels are unnecessary to be pensionable into contract appointments. I am not suggesting that there is no place for pensionable terms, I only ask that Government should review its policy to see whether the majority of civil servants need to be on pensionable terms.

Squatter control

I am highly impressed with the Housing Authority in their ability to confine Government's financial commitment to housing, only for the capital cost of developing housing estates, the overall administration in the planning and development and for the squatter control. 'The policy of the Authority shall be directed to ensuring that the revenue accruing to it from its estates shall be sufficient to meet its recurrent expenditure on its estates'. My previous proposals that Government's commitment to medical services should confine itself to similar areas borrows Housing Authority's excellent example.

However I am rather concerned with the \$184 million spent on squatter control, this being some 64 per cent of Housing Department's expenditure. I trust the genuineness of the Director's comment, 'that compared to some other parts of the world with a similar problem, we are considered to be doing it very cheaply'. I believe as I said earlier that Government's Controlling Officers have all been most frugal in the execution of established policies using established methods.

So, venturing outside established methods, I am not entirely convinced that there are no cheaper methods for squatter control. We must find one, because this \$184 million can be better used in providing accommodation for those without a home. If it is cheaper to regionalise squatter control to the District Boards, let's do it. If there are modern equipment and cheaper techniques of

surveillance let's try out a pilot scheme. If by paying financial reward to informers might in fact save Government's money on squatter control, let us do it. I am aware that a value for money exercise is being done and I look forward to such a study offering a cheaper alternative.

Standardised cost for funding

I have now come to my last topic and it is on standardising cost for the purpose of funding non-profit-making hospital beds, welfare projects, school places, polytechnic, college and university places. Throughout these three years. I have been collecting data, analysing methods of funding, trying to understand the advantages and disadvantages of the existing systems of unequal funding, the overcentralisation in scrutinising expenditure, large administrative overheads to do the above, and the inflexibilities in the rates of charges of these institutions.

Government should consider standardising methods of funding on as simple a basis as possible. In this respect the Social Welfare Department in its attempt to simplify administration for social welfare subventions has taken a leading step. It will take time for Government to work out such standards and at the beginning problems will be encountered i.e. recently by the Social Welfare Department. In working out the standard cost for funding, one must take into consideration the difference in cost between a bed in a general ward and one in a specialist ward; between secondary and primary school places, etc., etc. But all things being equal, two organisations which are the same must be funded similarly. It would of course be impossible for two schools however similar to run on an exact budget. To balance this variable all establishments should then be allowed to generate more funds to meet their own expenditure based on their own above standard services as long as the extra charges falls within a certain set and reasonable limit. This will give much hoped for flexibilities to these establishments. It will also reduce Government's expenditure on unnecessary administration. It will to some extent allow the public to choose the institutions on a value for money basis. With adequate provisions built in the standard funding system, provident funds should be the responsibility of the institutions and not Government.

All these suggestions, Sir, are food for thought only and are in no way foolproof plans. I consider them interesting subjects to ponder over until we meet again.

With these remarks, Sir, I support the motion.

MR. CHAN YING-LUN:—Sir, the Financial Secretary has once again given us an eloquent and lucid exposition on our financial and economic situation. Although we still have a deficit budget, the situation is generally healthy and, what is more, we can look forward to balancing the book next year. I congratulate him on his very capable and prudent approach which is so important in maintaining our stability and prosperity during these transitional years.

In particular, I welcome his assurance that the additional indirect taxation proposed by him is designed to fall on expenditure on luxuries and not on essentials. However, I should perhaps point out that although indirect taxation is more desirable than direct taxation and is less painful to bear, it must be kept in mind that indirect taxation measures must not be allowed to harm the livelihood of our community. Whilst the increases he advocates are fairly modest and I believe the consumer should be able to take them in their stride in due course, there must be a limit as to what should be more heavily taxed and what should be the maximum limit. For example if more increase on airport tax were to be contemplated yet again, this would only have a dampening effect on the tourist industry and also reduce the enthusiasm of our own people in seeing the outside world which is so important an incentive for hard work and also a process for them to acquire a more cosmopolitan outlook. Also, if excessive rates were imposed, this would slow down the recovery of the property market and adversely affect the current progress of home ownership which is so essential in maintaining the stability of our society. If more sources of revenue were to be tapped, I would suggest that consideration be given to luxury items such as imported high-quality clothing, accessories, furniture, jewels and watches, luxurious cars and pleasure crafts. I understand that the profit margin of these commodities is generally pretty handsome and the tax to be imposed is likely to be readily absorbed by both the wholesalers and retailers as well as the consumers. In any case, for people who prefer the finest imported desirables, I do not think a reasonable amount of tax and revenue for Government will hurt at all. I would therefore urge that if more revenue sources are to be considered, priority be given to the real luxuries. An additional tax of one thousand dollars levied on a luxurious car is already equivalent to the collection of twenty cents each from say, 5 000 boxes of milk, but the distinction is obvious.

Sir, may I now turn to the civil service whose total emoluments account for 36 per cent of our recurrent expenditure in 1985-86. I am glad to learn that the policy of permitting no growth as stated in your policy address on 5 October 1983 has been carefully followed. Staff required for the expansion of existing services and the provision of new services are provided through redeployment, increasing productivity and eliminating unnecessary work through policy review. I heartily endorse this approach and going one step further, may I suggest that in presenting their annual estimates to the Finance Committee, all Controlling Officers might be requested to outline their efforts made in the preceding year in reducing cost and increasing productivity in their departments. In this context, and in addition to sending their senior officers to attend financial management courses aptly advocated by my senior colleague, Mr. S. L. CHEN, I would suggest that each Controlling Officer should ensure that the knowledge acquired will be properly practised and implemented within his organisation and that special officers are assigned to monitor their progress in this aspect. In particular, I would also like to remind the Controlling Officers of the need, at all times, to monitor the productivity and courtesy of our civil

servants, many of whom still have the 'iron rice bowl' mentality. Training courses on courtesy are not enough, it is the 'iron rice bowl' attitude that has to be changed.

I am also concerned about the existing system which allows civil servants, not just those with exceptional abilities, to continue working beyond the normal retirement age *and* receiving their pensions at the same time. I do not object to the Government extending the retirement age of senior officers with exceptional abilities who are difficult to replace. However, what is the Government's definition of 'exceptional abilities'? Who decides which officers should be allowed to continue beyond the normal retirement age? What has been done to ensure that younger officers will be able to shoulder fully the responsibilities when their turn eventually comes? Whilst I agree that we should do our best to retain the expertise and experience of the senior civil servants who have contributed substantially towards the success of our society, I am afraid I do not subscribe to the implication that there are not enough qualified candidates to replace them. If so, what is the purpose of spending so much on our training programmes?

These and other questions related to this subject which have been widely reported in the press must have been, I am sure, in the minds of many civil servants. I would therefore urge that a comprehensive review of the present policy be conducted as soon as possible, aiming at striking a proper balance between retaining irreplaceable talents with the most economical and practical means of grooming upcoming officers to shoulder heavier responsibilities in the crucial years lying ahead of us.

Finally, I would like to respond to two questions which the Financial Secretary has asked us to consider before suggesting new proposition for spending money. I believe that District Boards are one of the most suitable forums for discussing priorities in public sector expenditure and where the money should come from. I welcome Government's initiative in consulting District Boards on major policy issues such as the E.R.P. Scheme as stated by my senior colleague, Mr. F. K. Hu yesterday. The very fundamental question of public housing rental subsidy is now being studied by the Housing Authority and I am sure that District Boards can also contribute to setting the priorities. It is only through processes like these that Government get to know better how best to spend public money. Moreover, people not involved in the working of the central government may gradually be educated with a better sense of balance and not, as some may think, just shout for 'free lunches' or services without pay.

With these remarks, Sir, I support the motion.

MRS. FAN:—Sir, as a community, we place considerable weight on 'value for money', and the Financial Secretary demonstrated this frame of mind very clearly in his treatment of the 1985-86 Budget. The Financial Secretary had also

rather skillfully retained a deficit of \$1 billion, and thereby achieved the effect of keeping everyone, and in particular the Controlling Officers, alert for possible saving throughout the year. Some criticised the Financial Secretary for his conservative forecast of 7 per cent growth in G.D.P., and some felt that the extent of saving achieved by the public sector this year in recurrent expenditure, can probably be repeated next year. This year's saving is \$674 million. They held the view that the Financial Secretary could have come up with a balanced budget. I do not share this view. As the Financial Secretary rightly pointed out, Hong Kong is always vulnerable to external events. With the growth of U.S. economy expected to slow down, and the threat of protectionism, there is every reason to be cautious and suitably conservative. Indeed, with a deficit of \$1 billion, one can hardly complain that the proposed tax concessions are insignificant or that the introduction of any indirect taxes are tough. I therefore compliment the Financial Secretary for both his financial foresight and political sensitivity in presenting this Council with a Budget that leaves little room for the critics. Nevertheless, I shall try to make a few suggestions, hopefully constructive, for the Administration's consideration.

Education—training of school heads

Firstly, on the area of education, with 17 per cent of total expenditure for 1985-86 devoted to education, this is certainly an area which deserves closer scrutiny to ensure that money is well spent. However, evaluation of the quality of education is by no means easy, while the quantity achieved by educational programmes is usually available. Hong Kong students are exceptionally good in mastering skills and technology. What is often difficult to assess is whether they have acquired a positive attitude to work and life in general through the education process. Especially worrying is the unruly and delinquent behaviour of a small minority of students, which must have affected their fellow students and even their teachers. Are the school management and the teaching staff equipped to handle such nasty problems, and can they facilitate the development of positive attitudes among students? I believe the answer lies in appropriate training for the trainers—i.e. the teachers and school administrators. If faced with limited resources, I would give priority to the training of heads of schools, because they are the leaders, they take decisions and make policies. When a head is enthusiastic or keen on something, his colleagues will definitely be influenced and most will follow suit. Therefore, if the heads possess the right attitudes and ideas, chances are these will permeate through the school and be passed on to the students. On the other hand, any problem that is sufficiently difficult and significant in the school will eventually go to the head. The manner in which the head handles the situation will become the accepted approach, and even a precedent. With appropriate guidance and support from the head, the teachers can take on much more responsibility and exercise initiative, which in turn will give them more job satisfaction and hence increasing interest and motivation. I do not belittle the in-service training work that Education Department is presently engaged in, and I naturally support the

department's endeavour. However, I do suggest that more resources be devoted to the training and updating of all heads of schools. The department's Training Unit, which is responsible for this important area of work is clearly restrained by the lack of resources and as a result, can only offer training to new and inexperienced heads.

Overseas training vis-a-vis local training

While on the subject of training, I shall turn to my second suggestion: may I suggest that the Administration conducts an in-depth review on the need and value obtained on all the overseas training provided for members of the civil service. \$31.5 million are budgetted for the training needs of the civil service. This does not include the funds for special projects which are included under departmental heads of expenditure. \$23.7 million are envisaged for overseas training which will benefit about 270 trainees, while \$7.8 million will be used to provide training locally for 11 100 trainees. The question that presents itself must be, 'can we forgo some of these expensive overseas training, and use the saving to train more people locally?' I have been most impressed by the programmes offered by the Senior Staff Course Centre which costed about \$3 million to run in 1984-85. The latter provides an sterling example of how training can be offered locally which is of equivalent, if not better value, compared with overseas training, and is more cost-effective for the taxpayer and less time consuming and disruptive for the trainees.

Data Processing staff and Chinese Language Officers

My third suggestion is related to the centralisation of Data Processing staff and Chinese Language Officers. During 1984-85, 109 Information Officer grade posts were transferred back to the Information Services Department from various departments. The reason given was to facilitate deployment of professional staff to meet changing patterns of demand determined by the Government's overall publicity and public relations priorities. There are, however, a few more advantages to this move. Firstly, the actual expenditure on information activities is reflected more realistically under one head. Secondly, the Director of Information Services is having more control over staff deployment and therefore is now directly and clearly accountable for the performance of the Government's information and public relations activities; it follows therefore that it rests upon the Director of Information Services to ensure full and appropriate utilisation of manpower through constant review. Thirdly, the Information Officers who are still working in the department are basically back into the main stream where they may expect to enjoy improved career prospects if they perform well. This is probably a boost to the morale of the officers concerned. In my view, the move to transfer Information Officer grade posts to the Information Services Department is a sensible management decision. There are two other grades in the civil service which deserve similar treatment, namely, the Chinese Language Officers and the Data Processing staff. Both categories of staff are experts in their own fields. Their deployment

are necessarily affected by Government policies and priorities. Their length of assignment in various departments depends on the nature of the projects and the progress of a certain project. The three advantages I mentioned earlier apply to these two categories of staff as well. For these reasons, I suggest that the Administration look at the possibility of transferring these posts to the Chinese Language Division and the Government Data Processing Agency carefully. I believe this can result in better efficiency and utilisation of manpower.

Charging of fee at other Immigration control points

My fourth suggestion is to charge fee at other Immigration control points. The Financial Secretary proposes to increase the air passenger departure tax at the Hong Kong International Airport by 20 per cent to \$120 and the passenger embarkation fee by 87.5 per cent to \$15 when the new Macau ferry terminal opens. He is however reluctant to raise revenue from those who are using the Hung Hom Control Point, the Lo Wu Control Point, and Man Kam To, as he considered the facilities provided at these locations to be patently inadequate. While appreciating the sentiment, I beg to disagree with the Financial Secretary due to the following reasons:—

1. The present Macau ferry terminal does not compare favourably with Hung Hom, Lo Wu or Man Kam To; however, an embarkation fee of \$8 has been in force for years.
2. Air-conditioning has been installed at the Lo Wu Control Point which resulted in an increased recurrent expenditure in power consumption.
3. Due to increasing traffic flow of China-bound passengers, a number of improvements have already been made which included the opening of Sha Tau Kok Control Point and Sha Tin—Meisha Terminal, as well as extending the opening hours of Lo Wu and Man Kam To. These improvements naturally require increases in staff emoluments.

The Financial Secretary rightly pointed out that, 'It is not fair that the general taxpayer should subsidise those who visit Macau. If we sought to redress the situation in one step, the increases would need to be very steep indeed.' Following this trend of thoughts, it is therefore not fair for the taxpayer to subsidise those who visit China, and it seems more palatable to charge a small fee now, which will be adjusted step by step when the facilities improve. In 1984 15 million passengers travelled to China by land. If a \$5 charge is levied, this will yield \$75 million in revenue. Purely on fiscal grounds, it seems rational to tap this source of income.

Taxation system

Finally, I wish to make some observation on the taxation system. To maintain prosperity and stability of our economic system, I always believe that we must place priority on the maintenance of Hong Kong as a major financial centre. One of the main factors that contribute to Hong Kong's success in this area is our simple and comparatively low tax system. With these good basic features,

investors may conduct business operations here free from tax consideration. Sir, I urge that our Government places priority on maintaining our credibility in preserving the basic features of our tax system. I have expressed my reservations in this Council about the Financial Secretary's suggestion in the 1984 Budget of taxing off-shore interest which can be perceived as a departure from our territorial source taxation concept. During the debate on the Inland Revenue (Amendment) Bill 1984, I reiterated these reservations, and expressed regret towards the growing complexity of our taxation system. I was afraid that these measures may not be advantageous to Hong Kong in preserving our reputation and position as being the third largest financial centre in the world. It is with regret that I noted the numerous representations against the said Bill after its enactment, and that there was a significant decrease in the number of companies registered in Hong Kong by overseas investors since the publication of the revised Inland Revenue Departmental Interpretation and Practice Notes No. 13 in September 1984.

I am aware from the Financial Secretary's Budget speech this year that he had found 'some of the representations have merit and may well require further amendments to the law.' I particularly welcome this. I sincerely hope that the new amendment will take care of the valid reservations and representations from the public, and will clearly preserve our territorial source taxation concept.

The Financial Secretary has, for two consecutive years, expressed his determination to introduce anti-avoidance legislation. In this year's speech, he said: 'It is also clear that the existing legislation does not provide the Revenue with a totally effective defence against those determined to avoid.' The phrase 'totally effective defence' worries me, not because that I doubt whether this objective is attainable, but rather because in the course of trying to achieve the 'totally effective defence', our comparatively simple taxation system may evolve into a complicated maze which has the effect of frightening away the genuine investors and at the same time, creating other loopholes for tax avoidance. There are countries which are famous for the complexity of their taxation system. These are usually the result of continuous effort by the governments to close loopholes. Yet, many people still find tax-saving means, and tax specialists earn a good living, tanks to the confusing tax legislations. Sir, Hong Kong must have a simple taxation system if we are to prosper as a financial centre. If effective anti-avoidance measures can be arrived at while maintaining a simple tax structure, it shall have my full support. Otherwise, the revenue gained through such measure is not worth the sacrifice. A proper balance between additional powers granted to the revenue collectors and the treatment received by the prospective taxpayers, is very important to Hong Kong where the movement of capital is unrestricted. It would be most unfortunate if shortterm goals are achieved at the expense of long-term and more fundamental objectives. Caution must be exercised when dealing with the taxation system.

Sir, with these remarks, I support the motion.

4.10 p.m.

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

4.30 p.m.

HIS EXCELLENCY THE PRESIDENT:—Council will resume.

MRS. NG delivered her speech in Cantonese:—

督憲閣下：從財政司於二月廿七日在本局發表的一九八五—八六財政年度政府收支預算案演辭中，我們獲悉本港在一九八四年的經濟狀況十分的令人滿意。隨着美國經濟出現強勁的擴展以及中國實施新的經濟政策後，去年的本港經濟連續第二年經歷由出口帶動的增長；另一方面，香港前途問題獲得圓滿解決後，人們對前途恢復信心而投資亦開始復甦，本港經濟可以重新踏上軌道，通貨膨脹率下降、失業率偏低，這都是令人十分鼓舞的現象。

關於政府財政收支結算方面，財政司預算本財政年度的赤字大概為十八億元左右，而一九八五至八六年度則可以減至十億元。事實上，正如財政司指出，政府在賣地收入方面已由八一—八二年度的八十九億元減至八五—八六年的預計的十七億元，加上前幾年世界經濟衰退以及因前途問題不明朗而帶來的不安，政府能夠在這惡劣經濟環境中逐步將赤字減低，是一件很難得的事。況且，政府在這過程中採取穩健及有規劃的措施，使到本港在適應這些外在環境及轉變中，不致令到某方面蒙受太大的損失，是很難能可貴的。

政府限制公營部門開支的增長，相信對減低赤字及抑壓通貨膨脹方面，都收到很大的效用。公營開支在生產總值所佔的比例，在過去幾年間一直縮減至一九八五—八六年度預算的百分之十六。而一九八四年內以實質計算下，公營部門總開支下降百分之二；同期的生產總值以實質計算則有百分之九點六的增長率。能夠將公營部門增長率限制於生產總值增長率之下，相信各部門首長必定已作出很大的努力去限制部門開支及人力的增長，本人很高興見到「物有所值」這個觀念已成爲公營部門嚴格的準則。而政府亦成功地限制了公務員人數的增長，在可行的情況下盡量將工作效率提高，實在是很值得嘉許的。

至於新的徵稅措施方面，本人同意應避免在下一年度增收直接稅，因爲香港有特殊的經濟環境，故需要將稅率保持在一個低水平，而直接稅率剛在一九八四年提高了。同時本人非常高興見到財政司建議將目前須繳交百分之二十稅率的稅級，將由一萬元擴闊至二萬元。相信這寬減措施必會令中等入息階層得益。本人亦非常高興見到子女及父母額外免稅額將會在下一個財政年度獲得提高，但遺憾的是單身人士免稅額卻未見有提高，希望政府能在這方面加以考慮。

既然直接稅要維持在現今的水平，那麼徵收間接稅來彌補財政預算上的赤字似乎是無可避免的事實，而預算案中，所建議徵收間接稅的稅項，都集中在非必需品上，對普羅大眾的影響將會不會太大。不過，在各項徵收間接稅建議中，本人對削減本港居民的免稅優待的建議抱有保留態度。財政司建議將原有的優待，即：二百支煙及一公升葡萄酒或烈酒減至一百支煙及一公升葡萄酒。本人認爲這樣對本地居民有欠公平，財政司列舉幾個外國國家的例子，來說明當地居民及遊客享有不同的免稅優待是普遍的事，但本人想指出在攜帶酒類方面，這些國家都沒有硬性規定其本地居民只可享有某種酒類的免稅優待。眾所周知，本港人士飲用烈酒遠比葡萄酒多，但財政司的建議則取消本港居民購買烈酒的免稅優待。其實他這個建議的目的，主要是對付一些以攜帶免稅品返港作爲專職的旅客，因此本人建議規定旅客最低限度須離港若干日然後才享有免稅優待，這個辦法似乎對本港居民更爲公

平。本人更相信這個措施不會引致海關檢查站嚴重擠塞，因為居民出入境的日子已清楚地列明在旅遊證件內。只需施行一些簡單的程序上安排便可以解決問題。所以本人建議將最低離港時間規定為七十二小時，便可以保障政府在這方面的稅收。

最後，本人希望就財政司徵收奶類飲品稅項的建設作簡短評論。本人認為除牛奶外，那些由牛奶配製的飲品，若其蛋白質含量不低於某一程度，應可免列入徵稅範圍內，因為此類飲品應含有相當高的營養，市民若多飲用，對健康亦有益處。

督憲閣下，本人謹此陳詞，支持動議。

(The following is the interpretation of what Mrs. NG said.)

Sir, from the 1985-86 Budget speech delivered by the Financial Secretary on 27 February in this Council, we noted that the Hong Kong economy attained to a most satisfactory level in 1984. Last year, the local economy experienced the second consecutive year of export-led growth subsequent to the strong economic performance in the United States and the implementation of new economic policy by China. On the other hand, after the settlement of the issue of Hong Kong's future, confidence returned, investment began to pick up, the Hong Kong economy got back on its feet, inflation declined, and unemployment was low. Such signs are very encouraging.

With regard to Government's finance, it was estimated that the deficit for the current financial year would be about \$1.8 billion and this would be reduced to \$1 billion in 1985-86. As pointed out by the Financial Secretary, land sales revenue has been reduced from \$8.9 billion in 1981-82 to an estimated \$1.7 billion in 1985-86. In addition, the world recession in the past few years and the instability caused by the uncertainty of our future brought about adverse economic conditions which made the progressive reduction of our deficits a more remarkable achievement. Furthermore, the Government has adopted steady and well-planned measures in the process of cutting down the deficit so that no one sector will be afflicted with unduly great loss while Hong Kong is in the process of change and adapting to the external conditions. This is really commendable indeed.

It is believed that the restraint on growth of public sector expenditure has played a very effective part in reducing the deficit and suppressing inflation. The ratio of public sector expenditure to the G.D.P. has been reducing since a few years ago to an estimated 16 per cent in 1985-86. In 1984, the public sector expenditure declined by 2 per cent while the G.D.P. grew by 9.6 per cent in real terms. To hold the growth of public sector expenditure well below the rate of growth in G.D.P., department heads must have made strenuous efforts to restrict the departmental expenditure and the growth of manpower. I am very pleased to note that the concept of 'value for money' has become a strict guideline for the public sector. Moreover, the growth of the civil service has been successfully restricted while work efficiency enhanced wherever possible. This is again praiseworthy.

As regards the new taxation measures, I agree that increase in direct tax in the coming fiscal year should be avoided. In view of the peculiar economic situation in Hong Kong, it is desirable to have the tax rate maintained at a low level whereas the rate of direct tax had already been increased in 1984. I am pleased at the Financial Secretary's proposal that the band to which the 20 per cent rate of tax presently applies be widened from \$10,000 to \$20,000. Surely this concession will benefit the middle income group. I am also pleased to know that both the child allowances and the additional allowance for a dependent parent will be increased with effect from the next fiscal year. It is a pity, however, that the allowance for single persons has not been increased. I hope that the Government will consider offering concession in this area of personal taxation as well.

As direct tax is to be maintained at the present level, increase in indirect tax to make up the budgetary deficit seems to be inevitable. Indirect taxes which will be increased as proposed in the Budget are mainly concerned with nonessentials, thus the public will not be greatly affected. However, of the indirect tax increase proposals, I have my reservations about the proposal to limit the duty free concession for local residents returning to Hong Kong. The Financial Secretary proposed the reduction of the present allowance from 200 cigarettes and one litre of wine or spirits to 100 cigarettes and one litre of wine. I think this is unfair to local residents. The Financial Secretary cited examples to illustrate that separate concessions for local residents and visitors are quite common in other countries. However, I want to point out that such countries do not impose restrictions on the types of liquor to which the duty free concession applies. It is known to all that the people of Hong Kong drink much more spirits than wine, yet it was the cancellation of the duty free concession for spirits for local residents that was proposed. In fact, the main aim of the proposal is to deter those travellers who have taken up bringing duty free items to Hong Kong as a full-time job. I thus propose the introduction of a minimum period of absence abroad before the concession applies. This seems to be more fair to local residents. I believe it will not result in any serious congestion at the Customs control points as the dates of departure and return are clearly indicated in the travel documents and only some simple administrative arrangements are required to carry out the procedure. I propose the minimum period of absence abroad be set at 72 hours and with it, the revenue of the Government in this regard will be protected.

Finally, I would like to comment briefly on the Financial Secretary's proposal to levy tax on milk drinks. I think that milk-based drinks, like milk, should also be excluded from the ambit of the duty, provided that the protein content of the drink is not lower than a certain stipulated level, such drinks are very nutritious. Drinking them more often will be beneficial to the health of our community.

Sir, with these remarks, I support the motion.

MR. POON:—Sir, Edmund Burke once said ‘To tax and to please, no more than to love and be wise, is not given to men’. Therefore it is not surprising that Mr. J. B. COLBERT, Controller General of Finance of Louis XIV remarked ‘The art of taxation consists of so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing’. In fact, very much earlier, Tiberius also offered equally sound tax advice. He said ‘It is the duty of a good shepherd to shear his flock, not flay them’. We, too, have a Chinese saying ‘Gather enough feathers and you can make a fine coat’ (集腋成裘). In this year’s Budget proposals, the Financial Secretary has demonstrated that he can apply these principles exceedingly well. I shall therefore confine my speech to some revenue proposals and tax legislation.

There is little in the proposed measures to raise revenue that one can quarrel with. No increase in direct taxation has been proposed. Actually, there will be cuts in personal tax of some \$150 million in 1985-86 and \$210 million in 1986-87, not insignificant in view of our financial position. Admittedly the tax concessions are more for the ‘club’ sandwich class but they nonetheless provide some relief or quite a number of taxpayers. As to the adjustment of various fees and charges, it is only right for Government to review them periodically to keep up at least with inflation. The only controversial item may be the new duty on non-alcoholic beverages. This reminds me of a story I heard shortly after Budget Day. A disgruntled boy came to his father and said ‘Father, I now know what a Budget is all about. It is finding out what people like most and taxing them for it’. The father wryly replied ‘Son, in my younger days there was absolutely nothing wrong with a good cup of tea and the Government has not got around to taxing it yet. I have often said to you, a can of soft drink may be a necessity, three is luxury and six is definitely indulgence. I am sympathetic to your plight and will increase your allowance by 50¢ a day and that’s final.’ However, the new duty may be regarded by some as the first inroad to a consumer’s tax and understandingly strong objections are bound to come from the businesses affected that the levy is unfair to them being purely selective. I intentionally refrain from commenting on ‘cosmetics’ because ‘cosmetics’ and ‘accounting’ do not mix. Accountants dislike intensely the phrase ‘cosmetic accounting’.

The Financial Secretary has indicated that he is determined to introduce legislation against tax-avoidance. This has my full support. I also entirely agree with him that the proposed anti-avoidance legislation would clearly require the most careful drafting and should be the subject of equally careful scrutiny by the legislature. This is absolutely essential.

As Hong Kong has grown to become the third largest financial centre in the world, our tax legislation must keep pace with such development. Much as we like to have simple tax legislation, it is not always possible. On the other hand, complicated legislation tend to have many defects and we must ensure that they are effective otherwise it may be a futile exercise creating a lot of inconvenience and inequities without achieving the desired results.

I now turn to the three objectives of the Financial Secretary's proposal. Firstly, I fully agree that the general anti-avoidance provisions contained in section 61 of the Inland Revenue Ordinance are grossly inadequate and should be amended without delay. The Hong Kong Case *C.I.R. V Douglas H. Howe (1977)* shows how the present provisions in this section is totally ineffective to combat blatant artificial tax avoidance schemes. Secondly, our very generous initial allowance and annual allowance for depreciation do provide opportunities for tax deferral schemes by leasing arrangements. The relevant antiavoidance legislation in other countries are quite complicated and we should learn from their experience. Thirdly, the Privy Council decision referred to, which was actually handed down on 10 May 1984 created what is to the Inland Revenue Department an undesirable situation as far as expense deductions for profits tax purposes are concerned. Appropriate amendment, too, ought to be considered in this respect.

Perhaps it would be pertinent for me to make some comments on antiavoidances legislation. Even though legislation against tax evasion are called anti-avoidance legislation, tax avoidance, which may be lawful must be clearly distinguished from tax evasion which is illegal. For example if a person marries in order to reduce his tax burden, he is practising tax avoidance; if he tells the Inland Revenue Department that he is married when he is not, he is guilty of tax evasion and may well be prosecuted. Similarly if a person leaves a territory one day before the specified period of time which will make him a resident for tax purpose, this is tax avoidance. If he falsely declares to the Inland Revenue Department his period of residence which in fact covers the full period, it will be tax evasion. How to stop the tax avoidance? The Financial Secretary can hardly prevent a person from getting married or leaving the territory legally but he may well introduce legislation to raise the marriage licence fee or the airport departure tax! (*laughter*)

Few taxpayers enjoy paying tax, although many regard it as a public duty to pay their fair share of the money required by the Government much of which are spent in the form of social services which they can also enjoy. Some citizens admit this duty but do not take the same view as Government as to what is their fair share; others have the simple philosophy that the tax collector is public enemy No. 1, to be outwitted by fair means or foul. It used to be quite simple to distinguish between 'tax evasion' i.e. non-disclosure of relevant facts or the provision of false information which is definitely illegal and 'tax avoidance' i.e., proper use of reliefs and other legislative provisions to minimise a person's tax bill which is legal and not considered by many as morally reprehensible. The law was and perhaps still is that no one is required to pay more taxes than he is legally bound to do. The judgement in *I.R.C. V Duke of Westminster (1936)*, House of Lords, included the celebrated dicta that 'every man is entitled if he can to order his affairs so that the tax attaching . . . is less than it would otherwise be'. To put it simply, if a person can do business legally through either method A or method B, he has every right to choose the method which would minimise

his tax burden. I am referring to genuine business transactions, legal and properly evidenced, as against artificial or sham transactions. As tax rates increase and tax laws become more complicated, some people are tempted to abuse such principle and engage in artificial schemes, sometimes known in the profession as 'tax avoidance' (*laughter*) e.g. imposing a series of artificial or contrived preordained steps or transactions, which have no commercial purpose, to avoid or reduce the tax bill using loopholes in the tax legislation. This is where Government takes a serious view and properly regards them as unacceptable. The line between 'tax evasion' and 'tax avoidance' may sometimes be very thin. It took the Inland Revenue 13 years after the implementation of a complicated tax avoidance scheme by a taxpayer in the U.K. to obtain victory in the House of Lords decision in *Furniss V Dawson (1984)* which lend authority to the tax principle of 'looking at the substance and end results of the transactions instead of mere form' but that case, though further supported by another subsequent House of Lords case, *Coats V Arndale (1984)*, is by no means the whole answer to this complex problem.

Anti-avoidance legislation ought to aim at cases where there is an intention to evade tax. I have no sympathy for tax-dodgers. Taxpayers who play with fire have only themselves to blame if they burn their fingers. On the other hand, Hong Kong is now a well-developed financial centre. Many transactions conducted by taxpayers are complicated and sophisticated by their very nature. In view of this, anti-avoidance legislation should avoid catching the innocent as well as the guilty. One should not try to kill a rat in his own house with a shotgun. Experience of anti-avoidance legislation elsewhere has often led to an 'overkill' and ultimately such laws are sometimes considered ineffective by the courts. I am sure this will be borne in mind by the Administration as well as the Legislature.

Tax legislation is often a headache, even for lawyers and accountants. It is seldom that one gets it right the first time. There are circumstances that never occurred to the Government or the public until the legislation is put in force. What's more there are often anomalies. I am glad to learn that the Financial Secretary has reiterated Government's continuing willingness to pay heed to constructive criticisms and he will give due consideration to representations that have merits. To me, there is no such thing as 'right' or 'wrong' in any piece of tax legislation, the only considerations are whether it is 'fair', 'reasonable', 'necessary' and finally 'workable'.

I apologise for dwelling at some length on this subject but I hope what I have said will assist in clarifying somewhat this highly complicated subject.

We in Hong Kong have been extremely fortunate to have a succession of very able Financial Secretaries. In the past three years, we have seen, as the Financial Secretary said, the worst world recession since 1930 and in addition, we had to face the uncertainty surrounding the future of Hong Kong. The fact that we

have not suffered the human miseries of poverty and unemployment, common in many parts of the world, is itself a tribute to our Government, the resilience of our economy, and the vitality of our people.

Finally I agree with the Financial Secretary that we have a reasonably good prospect of balancing our Budget in 1986-87. I have every confidence that the Government and the people of Hong Kong, despite various difficulties such as increasing trade restrictions imposed by our trading partners, will strive hard to achieve this end.

Sir, with the remarks, I support the motion.

MR. YEUNG PO-KWAN delivered his speech in Cantonese:—

督憲閣下：一九八五至八六年度的財政預算案可稱為一個溫和、保守及量入為出的預算案。整個社會必須明白公平及效率是制定預算案的原則，而量入為出的財政預算案是最適合當前現實情況。此外，我們必須理解到現時一個平穩和溫和的預算案將有利於香港未來整體經濟發展。

預算案指出全年總開支預計三百八十四億元；按原定辦法，稅收預計三百六十二億元，赤字二十二億元，將從自由財政儲備撥出十億元彌補，而以增加稅收辦法籌措餘下的十二億元。通常來說，一般減輕赤字出現的方法包括動用儲備金、發行地方債券、向外舉債、增加各種稅收、提高各種服務收費及緊縮公共開支等。從八二至八三年度算起，每年赤字已由三十五億元遞減至三十億，十八億乃至十億元；而財政司更預期八六至八七年度將可能提出一個收支平衡的預算，本人深信市民必渴望這個日子的來臨。

港府為了維持政費開支及平衡財政逆差，不能靠加稅加價的「開源」，還需要港府本身的「節流」。

從「開源」方面來看，這次所加的對象是非必需性的消費品，因此具有鼓勵生產而不鼓勵消費的作用。經濟學家也許贊同增加間接稅的原因，就是因為納稅人有所選擇，對市民大眾的量入為出無多大影響，而不增加徵收直接稅乃為了避免妨礙本港經濟復甦。不增加公司利得稅將有利工商人士重新投資意念，而低稅制亦有利鼓勵人民勤奮工作賺錢及海外資金流入投資。在香港經濟逐步回甦，而還未大好的時候，這種平衡與謹慎的稅務政策是理智的。此外，過去政府開支來源太過倚賴賣地這種不經常性收入，一旦地價不理想，財政就出現很大困難，現在預算逐漸不倚賴土地交易乃屬明智及合理之舉。

有關「節流」的重要性，本人很欣賞財政司所採取一貫政策及抱有的態度。財政司說：「節儉對於一個好的政府，是不可缺少的一部份」，而在前年的預算案中，他亦指出一個好政府不論在任何時間都要節約而用錢較少的政府是較有效率的政府。節儉不單對政府，就是對市民的家庭及本身都是一種美德。一個好政府必能獲得人民的支持，而效率是一個好政府運作的重要因素。為了達致收支平衡，政府正在繼續壓低公營部門的開支和提高政府的收入。本人必須指出在公務員編制再度嚴重限制增長的時候，政府更應同時顧及大部份公務員，尤其中下級公務員的工作壓力增加，士氣及情緒等問題。政府沿着「用錢少而效率高」的理想途徑進發本來無可厚非，但不可單為削減開支，減少赤字，而應從更長遠角度來看，如何提高政府部門的操作效率，避免無謂浪費政府的資源。一個用錢失度的政府，不獨浪費公帑，且使結構過於臃腫而鬆懈，運營怠滯，易於卸責。此外，用錢如果失去節制，更易引至貪污。政府每年都有不少部門受到核數署長的批評。核數署長在今年年報中又抨擊多個部門逾期未收的各種稅項多達十三億元之巨，令政府既浪費又虛耗公帑，更因開支不當而使政府損失龐大利息。年報每年都有指出政府部門出現浪費現象，似乎有

揭之不盡的感覺，這會使納稅人不期然懷疑，各個政府部門是否有因核數署長的監察檢舉而自動加強效率？而改善的後果又是否令人滿意？事意上，凍結公務員人數的措施必能促進人才及經濟資源作更有效的運用。而當政府正在逐步推行代議政制，各部門亦不免作相應的改革，帶領代議制的新政府與甚至將來的「港人治港」政府養成用錢謹慎的好習慣。

在稅收方面，由於香港逃稅情況嚴重，影響政府在直接稅方面的收益，政府儘快訂立法案，防止逃稅的做法是值得歡迎。本人同意財政司指出鑑於明年可能還有赤字，現在作出任何稅項寬減，都應視為慷慨之舉。本人深切希望財政司預期一九八六至八七年度能達致收支平衡的理想可實現，同時亦能真正對中下等入息階層的市民在稅項寬限上給予較大的實質得益。同時，本人希望指出家庭入息免稅額的增幅必須包括通貨膨脹的因素在內，而已婚人士供養父母的免稅額不應只局限於與父母同住，應伸展至因種種因素不能與父母同住但仍給予金錢資助的人士，以便能有更多納稅人真正受惠。

無可否認，在極力低赤字的要求下，新預算案對教育、醫務衛生，社會務等方面，都已有所特別關顧。如教育開支，比八四至八五年度增加百分之十三，醫務衛生方面比八四至八五年度修正財政預算，增幅達到百分之十五點七。凡此種種，都是促進市民福祉的。維持在教育、房屋建設、社會服務及醫療方面有相當增長的撥款，這樣對建設一個更美好的香港肯定會有幫助，也顯示出政府有決心維護香港安定與繁榮，這一點確能給予市民一些鼓舞作用。

綜觀財政預算案所提出的政費預算，公營開支、財政赤字、加稅項目、金融政策及經濟預測，這可算是一份審慎、樂觀、漸進而溫和的財政報告。這份報告對「有更大幅度的增長，通貨膨脹率下降，失業率偏低，人們恢復信心而投資亦開始復甦」的本港經濟情況與趨勢，自然有其利好性的作用。香港前途聯合聲明已經將過去兩年來一直籠罩着香港經濟的不明朗因素消弭於無形，而中國的新經濟政策相應增進了中港的雙邊貿易機會。因此，香港市民對今後香港經濟發展之展望，應該更有信心，一本初衷發揮勤苦奮鬥，節用積蓄的精神，為個人及香港厚植實力。

督憲閣下，本人此謹此陳辭，支持動議。

(The following is the interpretation of what Mr. YEUNG PO-KWANSaid.)

Sir, the 1985-86 Budget can be described as mild and conservative and one that is limiting expenditure to meet the level of income. The public at large must be made to understand that a budget is made according to the principles of equity and efficiency, and that a budget confining expenditure within the limits of income is most appropriate in view of prevailing conditions. We must also realise that a balanced and mild budget now will go a long way in the future development of our economy as a whole.

The Budget shows the total estimated expenditure to be \$38.4 billion for the fiscal year while the estimated revenue is \$36.2 billion. The \$2.2 billion deficit will be met by drawing \$1 billion from 'free' fiscal reserves and the balance of \$1.2 billion is to be raised from increases in revenue. Generally speaking, the common measures of reducing the deficit are by drawing from reserve funds, issuing local bonds, raising overseas loans, increasing taxes, raising fees and charges for various services and constraining public expenditure. Since 1982-83, the yearly deficit has gradually decreased from \$3.5 billion to \$3 billion, to \$1.8 billion and then to \$1 billion. The Financial Secretary even anticipates that a

balanced budget could be presented for the 1986-87 fiscal year. I believe the public will look forward to that day.

The Government cannot rely solely on finding new revenue measures as a means to maintaining the administrative cost and meeting the Budget deficit. It has in addition to cut down expenditure.

As the tax increases this time are on non-essential consumer goods, the new increases will result in the promotion of production on the one hand and the discouragement of consumption on the other. The reasons why economists are in favour of increases in indirect tax rates lie perhaps in the fact that taxpayers are allowed an option, and that they will not have any adverse effect on the majority who live within their means. Further increases in direct taxes are avoided because they may affect the economic recovery of Hong Kong. The decision not to raise the corporate taxation rate will encourage re-investment in the commercial and industrial sectors while a low taxation system will not only stimulate enterprise and hard work but will also attract foreign investment. As the economy of Hong Kong is improving steadily and has yet recovered fully, this balanced and prudent approach to taxation is a sensible move. Moreover, in the past the Government relied too much on revenue from land sales which is only a non-recurrent revenue. Once the price of land drops, financial problems will ensue. So it is sensible and reasonable of the Government to rely less and less on revenue from land sales.

As regards the importance of 'cutting down expenditure', I much appreciate the policy and attitude adopted all along by the Financial Secretary. He said, 'I regard frugality as an essential component of good government.' In the Budget of the previous year, he pointed out that a good government should always be economical while a government which spent less was a more efficient government. Frugality is a virtue not only to a government but also to the citizens themselves. A good government is sure to win the support of the people while efficiency is an important factor in its operation. To achieve a balanced budget, the Government continues to restrain public expenditure and to increase public revenue. I must point out that, while the growth in the size of the civil service is again severely limited, the Government should pay attention to the problems of the civil service, especially to the problems of those who are in the middle and lower levels, including problems such as the increase in work pressure and declining morale. The Government is above blame in aiming at the goal of 'less money for higher efficiency'. But this goal should not be made to serve only the purpose of cutting down expenditure and reducing deficit. Instead it should work in the long term by planning on increasing the efficiency of the governmental operations and avoiding undue waste of government resources.

A profligate government not only wastes public money but also causes its structure to become unduly expanded and loosely organised, resulting in an ineffective management which tends to shirk responsibilities. Besides, profligacy

will easily lead to corruption. In the past years, many government departments had been criticised by the Director of Audit. In this year's report, the Director of Audit again attacked several government departments for allowing arrears of revenue to accumulate to \$1.3 billion. This is not only a waste of public money but it also incurs a hefty loss of interest. Each year, the Audit Report points out that certain government departments are wasting public money, and it seems that there are no end to such cases. Because of this, taxpayers naturally are bound to doubt whether government departments have taken the initiative to improve efficiency after the audit inspection and appraisal, and whether the improvements made are satisfactory. In fact, stabilising the size of the civil service can certainly result in a more effective deployment of manpower and better utilisation of economic resources. While steps are being taken to gradually develop a system of representative government, government departments should also make corresponding reforms in a bid to cultivate good frugal habits for the new representative government as well as the future 'government by Hong Kong people' to follow.

Since avoidance of taxes has become a major preoccupation of an increasing number of taxpayers and is affecting revenue from direct taxation, the Government is welcome to introduce anti-avoidance legislation at an early opportunity. I agree to what the Financial Secretary has said: 'given the prospect of another deficit in the coming year, any tax concession at this time should be regarded as generous'. I sincerely hope that a balanced budget for 1986-87 will be achieved as anticipated by the Financial Secretary, and by that time the lower and middle income groups will be substantially benefited by greater tax concessions. Meanwhile I would like to point out that the rate of inflation should be taken into account when considering the increase of a family's income tax allowance. Besides, the additional allowance for dependent parents, a benefit now available to only taxpayers residing with their parents, should be extended to those who are not able to reside with their parents for various reasons but are actually giving them financial support, so that more taxpayers can really be benefited from that allowance.

It cannot be denied that despite the need to keep the deficit as low as possible, the new Budget has given due consideration to education, medical and health as well as social services. Expenditure on education, for example, has been increased by 13 per cent when compared with that for 1984-85. As for medical and health services, there will be an increase of 15.7 per cent when compared with the revised estimate of that item in 1984-85. These are all meant to bring about better welfare for the general public. The allocation of more funds for education, housing, social services and medical services will certainly contribute towards the building of a better community. It will at the same time be indicative of the Government's determination in maintaining stability and prosperity. This will definitely provide the general public with some encouragement.

After making a comprehensive examination of the items in the Budget, namely the Government estimates for the coming fiscal year, the public expenditure, the budget deficit, the tax increases, the monetary policy and the economic forecast, I consider that this is a prudent, optimistic, progressive and mild budget. This Budget has a favourable effect on Hong Kong's economy as 'economic growth increased, inflation decreased, unemployment was low, confidence returned and investment began to recover'. The Joint Declaration on the future of Hong Kong has eliminated all the uncertainties over Hong Kong's economy in the past two years. China's new economic policy has relatively enhanced bilateral trades between China and Hong Kong. Hence, Hong Kong people should have more confidence in the future development of Hong Kong's economy and should work industriously and live thriftily for the well-being of themselves and Hong Kong.

Sir, with these remarks, I support the motion.

MR. KIM CHAM:—Sir, the budgetary proposal by the Financial Secretary for the fiscal year not only testifies to the resurging vitality of our economy but also, given its commendable modesty, is an important instrument itself to steer our way to recovery. In a positive attempt to broaden the existing tax base, the Financial Secretary has displayed well-balanced discretion in exploring sources for additional revenue. He chooses to lay the principal burden not directly on the wage and salary earners but indirectly, by adding on the list of dutiable commodities and augmenting the rates on selected items on which duties have been levied. Although the onus of such indirect taxes is likely to be shifted eventually on to the consumers, most of the commodities receiving the brunt do not belong to the category of 'basic necessities' and for this reason, pose less a threat in inflating cost of living at a modest standard of consumption sophistication. However, the proliferation of items now on the ledger of dutiable commodities inevitably raises the technical issue of devising an effective and enforceable machinery for collecting the duties on the variety of taxable consumption goods. The practical importance of administering, policing and supervising with competence an increasingly varied and complex system of excise, customs and duties is obvious. The Government should monitor any loopholes or deficiencies which might easily be exploited in a more complex system.

I am concerned with the issue of equity in the Financial Secretary's proposal to discriminate between local residents and visitors from overseas in his idea to reform the present system of duty-free concession to bearers of tobacco, at the point of entry into Hong Kong. In terms of the principle of equitable treatment, I would suggest that visiting non-residents should not be privileged under a new preferential form of duty allowance. The proposal permits visitors to bring in 200 cigarettes while residents are allowed only 100. Furthermore, the volume of exemption proposed for visitors may be too lenient if such concession is merely to allow for their own personal consumption during their temporary stay in

Hong Kong. According to statistics available from the Hong Kong Tourist Association, visitors to Hong Kong stayed for an average period of 3.62 nights in 1984. Let alone the question of the discrimination against residents, it is doubtful whether the consumption of 200 cigarettes within such a short interval by our visitors is really needed, since the proposed allowance means an average consumption of 55 cigarettes a day. Given these reservations, I would subscribe to the retention of a uniform system of concession to both visitors and residents entering the territory, with an allowance of 100 cigarettes for both categories on a comprehensive non-discriminatory basis. This level implies an average consumption rate of 27 cigarettes a day for our visitors, a rate which is obviously more reasonable and healthy.

I am in agreement with the Financial Secretary on fees and charges which require regular updating to cover costs. While we should not lose sight of other factors when determining increases in fees and charges, for essential services, recovering costs must be an important consideration especially when such charges are related to non-essential services. Thus, the same principle must be applied when considering passenger embarkation fees and berthing fees for Macau ferry services. I am surprised to hear that revenue derived from this source is insufficient to cover operating costs let alone to provide any return on the investment. On the surface, the proposed increases of passenger embarkation fees from HK\$8.00 to HK\$15.00 and the main berthing fees from HK\$1.00 to HK\$2.00 a ton may appear steep. As a matter of principle, the general taxpayer should not subsidise visitors to Macau, which is more a luxury rather than essential item. If the presently proposed increases still cannot cover costs, sharper increases should be introduced until full costs are recovered. In my opinion, there is no need to adopt fee increases by stages for this particular item. With the opening of the new Macau ferry terminal, this is an opportune time for revenue to be raised to recoup all costs as well as to provide a reasonable return on our investment.

Turning to the economy, the twilight now appears in sight after the tempest that the economy rode through during the last few years. Various indicators on the performance of our economy such as external trade, inflation, employment and real wage level suggest that optimism from now onwards is now unwarranted.

The most encouraging evidence for growth in the economy is the healthy growth of trade, with a narrowing visible trade gap of 0.9 per cent. This positive development is especially conspicuous in terms of the aggregate visible and invisible trade account showing a surplus of over \$11.6 billion, the first surplus since 1978. This represents an adjusted visible trade deficit of \$3.4 billion and invisible trade surplus of \$15 billion. However, there is little ground for complacency, at a time when the curbing effects of protectionism are increasingly felt. Obviously, free trade is of mutual benefits to all trading partners, but short-sighted measures of restrictions have become more widely

used by individual governments in attempts to appease the parochial business interests of their domestic industry. No doubt, this will adversely affect our visible trade account. It is clearly of urgency on the agenda of our economic policy to counteract the impediments of these discriminatory practices on our trading position. While we must be committed to strengthen the competitiveness of our products in the world market, we should continue to diversify our economy and reinforce our invisible trade surplus through the expansion of other sectors especially in financial services.

I am pleased to note the pledge by the Financial Secretary on the Government's commitment to support the free market economy and to maintain the infrastructure within which private enterprises may flourish. Indeed, I must state that I am impressed with the work of relevant policymaking branches in finance and economics as well as the capabilities of their responsible officers. These staff are commendable for their succinct understanding and genuine concern for the market-place, with little obsession for the dictate of bureaucratic regulations and legal requirements. In the area of finance, developments are moving forward at such a rapid pace that everyone engaged in the field has to make constant efforts to keep abreast with newly created or modified financial instruments. In this respect, middle management of Government operating departments is no exception. For this reason, I suggest that Government should place public employees at middle management level with portfolios in finance and economic matters on secondment to the private sector to gain practical experience in the actual arena of financial activities. Upon completion of the secondment, the seconded officer should become fully aware of and acquire the feel of the 'real-life' finance market which is assuming growing importance and vitality as one of the pillars behind Hong Kong's free enterprise economy. With a good understanding of the market, a concerted effort can be made between government departments and the private sector for the further development of the market mechanism in Hong Kong. The warning signal is written on the wall. Unless we are prepared to advance, and to advance in a well co-ordinated pace geared to the market activities, the performance and attractiveness of our finance economy to international participants will be outstripped by our neighbouring competitors, as they step up their efforts to challenge our position.

Sir, I support the motion.

MR. KEITH LAM delivered his speech in Cantonese:—

督憲閣下：我很高興見到政府正採取積極措施，以期達致一個均衡的財政預算案，而不須增加直接稅或減低社會服務項下的開支。我特別高興知道，公務員的編制已大致穩定下來，而政府正開設新職位，以配合市民對新添及改善服務項目日益增加的需求。廣大市民，特別是納稅人，有權期望政府善用公帑。在這方面，堅決縮減開支，以及因而相對地緊縮公營部門的措施，證明政府決心努力達致一個規模小、但效率高和效用好的管理系統，這是值得市民歡迎的。

(The following is the interpretation of what Mr. Keith LAM said.)

Sir, I am glad to see that Government is taking positive steps to move towards a balanced budget without increasing direct taxation or reducing expenditure on social services. I am particularly pleased to note the overall stabilisation of the civil service establishment when new posts are being created to meet growing demands for new and better services. The public, especially the taxpayers, have a right to expect good value for money. In this regard, the firm restraint on expenditure and the resulting relatively smaller size of the public sector shows Government's determined effort to achieve a small but efficient and effective administration. This is a good thing.

To help reduce public expenditure, I would like to make a bold suggestion here. In pursuing the principle of cost-effectiveness and to further promote cooperation with China, why not consider hiving off some governmental functions to China where overheads are much lower?

One such possibility is to move Stanley Prison to Shenzhen. As Stanley Prison is a maximum security prison, the recurrent expenditure is very high. In the first half of 1984-85, the average cost per inmate was \$144 per day or \$4,320 per month. If we lay down our requirements and specifications for a maximum security prison and contract out the maintenance of such a prison to the city of Shenzhen, I think the cost per inmate will be substantially reduced without lowering the standard of the present because staff salaries and prices of food and materials are much lower than those in Hong Kong. To ensure that standards are met, we can send staff to carry out periodic inspections. I understand that whether or not this proposal can be carried out depends very much on China but at least we can look into the matter and consult China on this. This proposal may also be treated as an experiment exploring the feasibility of the 'one country, two systems' concept on a small scale before 1997 because this will be a project with Hong Kong specifications being carried out under Chinese sovereignty. Furthermore, the possibility of serving a sentence in Shenzhen may produce a greater deterrent effect on potential criminals of serious crime.
(laughter)

The land which will be vacated by the Stanley Prison can then be used as open space or recreational ground. This would provide an additional resort area and enhance the attractiveness of Stanley to tourists and local residents alike.

Sir, the British garrison in Hong Kong now is primarily engaged in combating illegal immigration. I am not suggesting that we should contract out anti-illegal immigration operations to China, but I would think that a review should be made as to whether it is necessary for the barracks to be situated in the urban area. It seems to me that relocating those barracks in the urban area to the border region might increase the operational efficiency of the troops while releasing the urban sites for other developments such as community centres,

carparks, sportsground and sitting out areas these facilities are badly needed in many urban districts. I understand that this proposal would involve some money, and the Financial Secretary might ask, 'where is the money coming from?' However, some consideration may be given to this possibility and the U.K. Government can be consulted so that when the economy improves the barracks can be relocated.

On the revenue side, I fully agree with the Financial Secretary that all who create wealth for Hong Kong must not be discouraged by our taxation system. No increases in direct taxes are proposed and the increase in indirect taxation is moderate and it will not bring hardship to the public.

It has been expressed in some quarters that soft drinks, which are mainly consumed by children, should not be taxed. I do not subscribe to this view. Children are part of our community and they share the benefits brought by the community. As such, they should also contribute to the public coffers when they enjoy, I quote: 'a pleasing indulgence not a necessity'. This could be seen as a lesson in civic education for the children: a process of give and take in society, and this giving is not so much that it would affect their health or well-being. It only involves paying a little bit more for something which is basically nonessential consumption.

The proposed tax concessions, though small, are an indication of Government's concern for the middle income taxpayers or 'sandwich class'. I hope further concessions will be made when we return to balanced budgets.

An allowance which has not attracted much public attention but which, I think, warrants some reconsideration is the additional allowance for a dependent parent residing with the taxpayer. I would like to know the rationale for the additional living together allowance. The policy of letting only one child claim the dependent parent allowance assumes that that child is solely responsible for supporting the parent. Of course, the children can make their own arrangements for contribution but these do not affect the legal position that only one of them can claim the allowance. It is unfair to penalise children not living with parents by giving them less allowance. I would think that these taxpayers should have the same allowance as those who reside with parents, unless Government is deliberately encouraging the formation of extended families, i.e. families with several generations living together. An enlightenment by the Government on this issue would be most appreciated.

Finally, Sir, I am pleased to see the Financial Secretary's determination to combat tax avoidance and I look forward to measures which will reduce the loss of public revenue to a minimum.

With these remarks, Sir, I support the motion.

MR. TONG:—Sir, when I first joined the Legislative Council, Sir John BREMIDGE said this to me ‘...Carl, one thing you will find hard to understand as a chartered accountant, is the Government’s system of accounting—it is on the cash basis and *not* the accrual basis...’. Well, Sir John, as much as I hate to admit it—you are absolutely right. However, what is so worrying is that—if a chartered accountant cannot grasp the Government’s accounts, what chances does an ordinary man or woman have? Moreover, I am sure that everyone will agree with me that the Honourable Lydia DUNN is far from ordinary, and yet she appears to have a similar problem in her comprehension of the Government’s accounts! I believe that for Government to make timely and proper decisions, we must have an information data base and accounting system that can provide timely and accurate information and meaningful financial statement. In this connection, I support fully the Honourable Lydia DUNN’s views so eloquently voiced in this Council yesterday about the inadequacies of the Government’s financial statements.

The quality of the financial information reported depends very much on not only the quality of the information system, but also, more importantly, the quality of the data base. I am sure honourable Members are familiar with the saying ‘garbage in, garbage out’! The quality of the data base, in turn, depends on the quality and quantity of those responsible for collating, entering, summarising, reporting and reviewing of the data, i.e. the accountants. In our Medical and Health Department, I understand that, on average, there is one accountant per 1 000 patients, comparing with one accountant per 130 patients in the Medical and Health Department of the U.K. I have been impressed with the progress made to-date on the Ledger Accounting and Financial Information System (L.A.F.I.S.) project which, when fully implemented in all government departments, will certainly much strengthen the government information system. However, I understand that progress is somewhat held back because of the overall deficiency in the number of accountants. I believe that the apparent deficiency in accountants and accounting expertise must be made good. In this regard, I also support fully my honourable friend Mr. S. L. CHEN’s recommendation in the P.A.C. that all directorate grade civil servants should receive adequate financial training.

Now I shall turn to the Budget provisions, I would like to comment on two specific points. Firstly, on the revenue side, I question the wisdom of imposing duty on cosmetics. My objection is purely on financial grounds. The Government’s expectation to yield \$100 million for 1984-85 from this new duty appears to assume a relatively inelastic demand in cosmetics. Industry data indicates that out of the total current cosmetic sales, between 55 per cent to 80 per cent is from tourists. Also, figures indicate that, after imposing the duty, cosmetic prices in Hong Kong will not compare favourably with other major countries which are in competition for our tourist business, e.g. Singapore. There is a risk that the yield from duty on cosmetics may be more than offset by revenue losses in connection with the tourist trade. Secondly, on the expenditure

side, I urge the Government to critically review its entire policy of overseas training. From the replies given to my questions in examination of the Budget estimates, I am not satisfied at all that all that can be done is being done to 'localise' training of civil servants—e.g. I fail to see how U.K. can train our I.C.A.C. officers better than we can, when they do not have an I.C.A.C.!

As a simple man, I offer three simple thoughts in concluding—i.e.

- (a) The Government should have a simple set of financial statements so that simple people like me (and dare I say it in her absence, like the Honourable Lydia DUNN) can understand;
- (b) as I already said before in this Council, we should keep our tax system as simple as possible to make life simpler for businesses; and
- (c) where private enterprises can provide a public service better and more efficiently than Government, we should consider privatising those sector. On this point, I fully support, and in agreement with, other Members such as the Honourable Mrs. Selina CHOW who spoke in favour of privatisation earlier on before me.

With these words, I support the motion.

SIR ROGER LOBO:—Sir, there was no great public outcry over the proposals made by our Financial Secretary when he delivered his Budget four weeks ago. Some grumbles and complaints, but no great squeals of agony.

He projected through chosen words his concern to all, but particularly to those who were going to be hit.

With the emphasis on economy and improved productivity, we are all well aware that various government departments have fought very hard indeed with the Finance Branch to secure the funds allocated to them.

The Unofficial Members of this Council took many hours going over the Draft Estimates prior to the four public hearings held in this Chamber. They asked 221 oral and 359 written questions with over 200 supplementaries arising from replies. I should add—there were more questions which my colleagues wanted to ask but for various reasons including time constraints, they will pursue these in another manner and another place.

Yesterday and this afternoon, my Unofficial colleagues have commented on many aspects of the Budget, and I shall not attempt to summarise all their views here.

There was approval, support and also reservations and disagreements as there were also praises and criticisms in some specific areas in regard to the proposals, illustrative of the individuality we bring to this Council. I shall confine myself to commenting on the basic principles and the impact the Budget is likely to have on the average man in the street.

It is heartening to see that Government remains firmly committed to a free market economy, to the provision of an infrastructure within which enterprise can flourish and, I quote: 'to the care of those who cannot care for themselves'.

The need to balance revenue and expenditure is clearly understood by almost everyone in Hong Kong. In this regard, I was glad to hear that the Budget is not 'just a string of figures' and that Government sees equity and efficiency as guiding principles, to be pursued with a 'calm and reasoned approach'.

Unfortunately, at this time, increases in taxes are inevitable, but the Financial Secretary acknowledges that enterprise and hard work are stimulated by low direct taxation, and he has declared that those who create wealth for Hong Kong are neither unreasonably penalised nor discouraged.

I am pleased that Government is alleviating the burden of the middle income group. I refer now as the 'sandwich society', because one of my colleagues has just upgraded their status.

The tax concessions for this group may not be as much as one might ideally wish; nonetheless, they are a positive indication of Government's care for those tax payers and should be welcomed especially at a time of upward pressure to increase revenue. This concession means Government giving up many millions.

But, of course, he has balanced this by imposing tax on soft drinks and on cosmetics and we receive representations. We are told that cosmetic items and perfumes are more popular with visitors than to our local fair sex who obviously need less to improve their qualities; (*laughter*) that some 80 per cent of perfume and 50 per cent of cosmetic items are purchased by tourists through retailers; that our neighbouring cities have done away with duty on such goods; that Hong Kong has little to offer other than shopping and we are taking yet another step towards discouraging visitors by minimising this attraction. Sir, my colleagues have spoken at length on this issue.

As regards the tax on soft drinks, my colleagues have also given voice to the representations made to us. I have deliberately chosen to mention soft drinks for fear of becoming involved in a tongue-twisting problem and end up by describing it as non-alcoholic Bremridge (*laughter*) which is a contradiction in terms (*laughter*). So for now, it is bread and water only for tax dodgers.

Many sectors of our community are relieved to see that most of the proposed increases are moderate, reflecting in the Financial Secretary's words 'a conscious acknowledgement of public concerns'.

The sizeable expenditure on social services, bears out Government's stated commitment to care for those less well-off members of the community, and those who are waiting patiently for public housing should be pleased to note that the production of flats is progressing on-course and their days of waiting are numbered.

Sir, I believe the Financial Secretary's Budget proposals are reasonable, although some trades and certain sectors of our community will be affected and they may not think it so.

My colleagues have spoken on many subjects, and they have offered several imaginative and positive contributions based on their personal experience and expertise, and I trust careful attention and consideration will be given to all that has been said during these two days of debate, I must say the last to be held in this Chamber. We will, of course, keep on monitoring public expenditure through the Finance Committee, the P.A.C. and other forums, and we look forward to hearing the Administration's reaction to our views.

With these remarks, Sir, I support the motion.

Motion made. That the debate on the second reading of the Bill be adjourned—THE CHIEF SECRETARY.

Question put and agreed to.

Motions

BETTING DUTY ORDINANCE

THE FINANCIAL SECRETARY moved the following motion:—

In exercise of the powers conferred by sections 3(4) and 6(3) of the Betting Duty Ordinance, that, with effect from 1 April 1985, the Betting Duty Ordinance be amended—

(a) in section 3(3)—

(i) in paragraph (a) by deleting '83.25' and substituting the following—

'83'; and

(ii) in paragraph (b) by deleting '77.6' and substituting the following—

'77'; and

(b) in section 6(1)—

(i) in paragraph (a) by deleting '9' and substituting the following—

'9.5'; and

(ii) in paragraph (b) by deleting '15' and substituting the following—

'16'.

He said:—Sir, I move the three motions standing in my name in the Order Paper. I have already explained in my Budget speech the background to my proposals to increase the Betting Duty, Air Passenger Departure Tax and Business Registration Fees. These motions now seek to give effect to these increases.

BUSINESS REGISTRATION ORDINANCE

THE FINANCIAL SECRETARY moved the following motion:—

In exercise of the powers conferred by section 18 of the Business Registration Ordinance, that the Schedule to the Ordinance be amended in item 1 by deleting paragraph (e) and substituting the following—

'(e:) on or after 1 April 1983 and before 1 April 1985.....	\$350	7
(f:) on or after 1 April 1985.....	\$500	7'.

He said:—I move the third motion standing in my name on the Order Paper.

Question put and agreed to.

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 3 April 1985.

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