

OFFICIAL REPORT OF PROCEEDINGS

Wednesday, 23 April 1986

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 DAVID AKERS-JONES, 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 LYDIA DUNN, C.B.E., J.P.

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

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

THE HONOURABLE DONALD LIAO POON-HUAI, C.B.E., J.P.

SECRETARY FOR DISTRICT ADMINISTRATION

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

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

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

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

THE HONOURABLE MARIA TAM WAI-CHU, O.B.E., J.P.

DR. THE HONOURABLE HENRIETTA IP MAN-HING, J.P.

THE HONOURABLE CHAN NAI-KEONG, C.B.E., J.P.

SECRETARY FOR LANDS AND WORKS

THE HONOURABLE CHAN YING-LUN, J.P.

THE HONOURABLE MRS. RITA FAN HSU LAI-TAI, J.P.

THE HONOURABLE MRS. PAULINE NG CHOW MAY-LIN, J.P.

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

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

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 JOHN WALTER CHAMBERS, J.P.

SECRETARY FOR HEALTH AND WELFARE

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

SECRETARY FOR TRANSPORT

THE HONOURABLE JACKIE CHAN CHAI-KEUNG
THE HONOURABLE CHENG HON-KWAN
DR. THE HONOURABLE CHIU HIN-KWONG
THE HONOURABLE CHUNG PUI-LAM
THE HONOURABLE THOMAS CLYDESDALE
THE HONOURABLE HO SAI-CHU, M.B.E., J.P.
THE HONOURABLE HUI YIN-FAT
THE HONOURABLE RICHARD LAI SUNG-LUNG
DR. THE HONOURABLE CONRAD LAM KUI-SHING
THE HONOURABLE MARTIN LEE CHU-MING, Q.C., J.P.
THE HONOURABLE LEE YU-TAI
THE HONOURABLE LIU LIT-FOR, J.P.
THE HONOURABLE NGAI SHIU-KIT, O.B.E., J.P.
THE HONOURABLE PANG CHUN-HOI, M.B.E.
THE HONOURABLE POON CHI-FAI
PROF. THE HONOURABLE POON CHUNG-KWONG
THE HONOURABLE HELMUT SOHMEN
THE HONOURABLE SZETO WAH
THE HONOURABLE TAI CHIN-WAH
THE HONOURABLE MRS. ROSANNA TAM WONG YICK-MING
THE HONOURABLE TAM YIU-CHUNG
THE HONOURABLE DANIEL TSE CHI-WAI, O.B.E., J.P.
THE HONOURABLE ANDREW WONG WANG-FAT
THE HONOURABLE JOHN RAWLING TODD, C.V.O., O.B.E., J.P.
SECRETARY FOR HOUSING

ABSENT

THE HONOURABLE CHEN SHOU-LUM, C.B.E., J.P.
THE HONOURABLE ALLEN LEE PENG-FEI, O.B.E., J.P.
THE HONOURABLE WONG PO-YAN, O.B.E., J.P.
THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, O.B.E., J.P.
THE HONOURABLE HILTON CHEONG-LEEN, C.B.E., J.P.
THE HONOURABLE DAVID LI KWOK-PO, J.P.

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR. LAW KAM-SANG

Papers

The following papers were laid on the table pursuant to Standing Order 14(2):

Subject *L.N. No.*

Subsidiary Legislation:

Hong Kong Airport (Regulations) Ordinance.	
Hong Kong Airport (Traffic) (Amendment) Regulations 1986-----	100
Air Navigation (Overseas Territories) Order 1977.	
Hong Kong Air Navigation (Fees) (Amendment) Regulations 1986 -----	102
Public Health and Municipal Services Ordinance.	
Public Health and Municipal Services (Public Markets) (Designation and Amendment of Tenth Schedule) (No. 2) Order 1986-----	103
Urban Council Ordinance.	
Urban Council (Fees for Official Signatures and Miscellaneous Services) (Amendment) By-Law 1986 -----	104
Public Health and Municipal Services Ordinance.	
Declaration of Markets in Urban Council Area (No. 2) 1986-----	105
Interpretation and General Clauses Ordinance.	
Specification of Public Office-----	106

Sessional Papers 1985-86:

- No. 51—Consumer Council Annual Report 1984-85.
- No. 52—Report of the Finance Committee on the draft estimates of expenditure
1986-87.

Other:

- Report of Working Party on the Development of a Chinese language foundation—
March 1982.

Statement**Consumer Council—Annual Report 1984-85**

MRS. CHOW: Sir, 1984-85 will be remembered as the year of major changes in personnel in the Consumer Council. Following the change of chairmanship in October 1984, the new Chief Executive, Mrs. Pamela CHAN, reported for duty

in May 1985. There were also changes in the membership of the council as well as personnel amongst the senior ranks of management.

All that, I am glad to report, is behind us, and we entered 1985 with a determination to break new grounds while preserving the strong foundations that past members and staff had worked extremely hard to build up.

Recognising the changing face of Hong Kong through districtisation of Government and other public services, we examined our own directions, if only to see whether our previously established policy of building up a presence in the districts is still a correct one. The figures spoke for themselves. We received 9 669 complaints and 65 255 enquiries at the 12 advice centres spread over the various districts. Our decision to regionalise such services is not only needed but also in great demand.

This is not to say that effective consumer protection can be achieved simply by the organisation of a public relations structure with the consumers. It is fundamental that the cause is supported by the whole community, by our legislature to expedite laws when they are needed, by our media to pass on information quickly and effectively, be it names of fraudulent traders or dangerous products, or materials of our campaigns designed to benefit the average consumer, by trades and industries which are far-sighted enough to value satisfied customers, and by the professions which are always ready to contribute their expertise to arrive at a fairer deal for the consumer. The Consumer Council sees its role clearly in the centre of all these parties as an initiator and a co-ordinator, safe-guarding the best long-term interest of the consumer.

Government business

Second Reading of Bill

APPROPRIATION BILL 1986

Resumption of debate on Second Reading (27 March 1986)

SECRETARY FOR TRADE AND INDUSTRY: Sir, I am greatly encouraged that in this debate no less than 15 Members have at least touched upon the problems of industry, and not a few of them focussed their attention on these matters in their speeches. While I may not be able to respond positively to all their suggestions today, I can assure Members that the Government welcomes their interest and that their ideas have received, and will continue to receive, the attention they deserve.

I can understand the gut feeling of Members that 'Government should be doing something about it' when they sense that our domestic exports, and hence our industries, are not booming as they did in 1984, when each succeeding

month led to a newer and more impressive record. Thus I am all the more grateful to Mr. Stephen CHEONG for pointing out both, that subsidising industry is not an option for us, and that 1986 may turn out to be a better year even than forecast.

In his Budget speech the Financial Secretary has already explained that his objection to Government intervention in industry is not philosophical but wholly pragmatic; Governments usually get it wrong. I should like to add a further pragmatic reason for not intervening in the market place in favour of any manufacturing industry. It is simply that an interventionist stance could prejudice Hong Kong's standing in the GATT and might, at least in theory, invite retaliatory action under the GATT Code on Subsidies and Countervailing Duties, thus rendering nugatory our efforts.

Of course, the Government does not 'shrug off its responsibilities' to industry. Any factory opening in a zoned industrial area is able to gain access by a formed public road, with electricity and water supplies available, and telephone communications not only to suppliers and agents within Hong Kong, but worldwide. The existence of this infrastructure in Hong Kong to meet industry's needs is ready proof of the Government's effectiveness in this regard.

The Government invests heavily in the workforce for industry through manpower training. Without meaning to steal any of the thunder of my colleague, the Secretary for Education and Manpower, I would mention that within the general policy of nine years free and compulsory education, increasing provision has been included for pre-vocational school places which better prepare school leavers for practical employment. The provision for 12 960 such places will be increased to 28 000 by 1991. The number of schools offering computer studies has increased from 30 in 1982 to 303 in 1986 while the total number of schools offering practical subjects now stands at 269, and later this year the Education Department will open a new practical education centre to cater for students from those schools which do not have the necessary facilities to teach practical subjects. All these developments will assist our students to prepare for a more technical and technological Hong Kong of tomorrow. Likewise, the number of full time equivalent student places at technical institutes operated by the Vocational Training Council will increase from the current provision of about 18 000 to 25 000 by 1989. Apart from supporting formal apprenticeship schemes in partnership with industry, the Vocational Training Council also provides a number of industry-wide training schemes for practical training at operative, craft, technician and technologist levels, catering for some 6 700 full time and some 2 400 part time trainees. In addition, four new training centres will be established this year—a precision tooling training centre, a jewellery industry training centre, an insurance training centre, and an electronic data processing training centre.

At the tertiary level, grants to our institutions of higher learning, through the UPGC, come close to \$2 billion this year. Among other things this will provide

places for 4 320 first year first degree places, and a 60 per cent increase in enrolment over 1985 at the City Polytechnic to make a total of 2 900 full time equivalent students there. Of course, the established institutions will also continue to grow, and the City Polytechnic on full development will have 13 500 full time equivalent places, like the Hong Kong Polytechnic at present. Meanwhile, there will be the establishment of the third university with its initial target of 5 000 places and room on full development for 10 000 places: our commitment to this third university, with its proposed grouping of professional schools emphasising science, technology, management and business studies, is particularly relevant in the present context of Government support for industry—for our industries of tomorrow.

Aside from manpower training our industrial support facilities include an on-going programme of techno-economic and marketing studies of various industries, as a means of identifying the factors which foster or constrain their growth. Studies have been made of the metals and light engineering industries, the electronics industry and the plastics industry, and a study on the textiles, garments and related industries will begin next month at an order of costs of \$1.8 million.

Partly as a result of these studies and of the applied research projects funded by the Government on the advice of the Industry Development Board, the Government has introduced or is seeking to create a range of direct support services for manufacturers. These include the services of the Hong Kong Design Innovation Company Limited, a company incorporated in October 1985 and supported by a Government credit line of over \$9 million, and the expertise of the Hong Kong Polytechnic, to provide manufacturers with consultancy services for product design and product innovation. The Finance Committee of this Council will this afternoon be considering proposals to invest some \$50 million in the Hong Kong Productivity Council to provide a new advisory service for manufacturers seeking to automate their production, and to expand the council's existing metals development service to include the promotion of precision tooling, so as to encourage producers and processors of metal products to improve the quality of their output.

On the advice of the Industry Development Board the Government has also created a range of technical back-up services for manufacturers. These include the creation of the Standards and Calibration Laboratory to be the custodian of Hong Kong's primary standards. The setting up cost of this facility to date is almost \$20 million and its running cost for 1986-87 is \$7 million. When accredited by the United Kingdom National Physics Laboratory, hopefully within the next few months, the Standards and Calibration Laboratory will be the first such institution in the Asia Pacific Region to be externally validated by an internationally recognised accrediting authority, and will enable manufacturers, through its calibration services, to achieve the traceability of standards at the manufacturing level to internationally recognised primary

standards. This is an important step forward for our manufacturing exporters, for it would enable them to make more refined products and better to comply with the requirements of their overseas buyers.

In parallel with this external validation of the Government's Standards and Calibration Laboratory, the Industry Department is poised to implement the Hong Kong Laboratory Accreditation Scheme (HOKLAS) which is costing, at present, \$3 million a year. HOKLAS aims at enabling secondary testing laboratories, in both the private and public sectors, to become sufficiently competent, so that on receiving accreditation the testing and certification services of these laboratories could be traced, in the case of standards, to the primary standards kept by the Government, and to internationally recognised quality assurance procedures for laboratory operations. Obviously, improved product testing services will assist our manufacturers in satisfying their overseas buyers, and overseas standards organisations, that specifications and necessary standards have been met, with all that that entails for the external acceptability of our products. Already 12 laboratories are actively seeking accreditation and a further 16 laboratories have also expressed interest in the scheme.

I am grateful to several Members for reminding us the important roles played by the organisations which support the development of our trade and industry. Of course, it is the part of the Government's scheme of things to provide a range of institutional support services through these sterling organisations. I have already referred to funding for the Productivity Council. As regards the Hong Kong Trade Development Council, I am sure you, Sir, will wish me to inform Members that the entire TDC budget for 1986-87, including its trade promotion programme, costing \$53.4 million, or an increase of 16.5 per cent over the previous year, has been approved by Your Excellency under section 22 of the Hong Kong Trade Development Council Ordinance (Cap. 1114) as submitted, and adequate provision has been included in the draft estimates of expenditure to fund all its planned activities. I can also assure Members that the agreed activities of other organisations which serve to strengthen the infrastructure of Hong Kong's trade and industry will continue to receive adequate subvention so that they can continue to carry out such activities effectively.

Sir, the Government is very conscious that Hong Kong should not price itself out of the market as a result of proceeding too far and too fast with labour and environmental pollution legislation. Moreover, we take the point that it is not so much the impact of individual pieces of legislation but the cumulative effect of such legislation over a period of time that matters. As in all things there needs to be a balance; a balance however, which, as is the way of things, changes over time. As Mr. WONG Po-yan and Mr. Stephen CHEONG know, the economists in the Economic Services Branch have, from time to time, carried out assessments of the economic costs of labour and environmental pollution legislation, and the Industry Department also closely monitors the position. I am now considering with the Secretary for Economic Services and the Director of Industry how this information can best be made available.

Several Members spoke on the need to review the findings and recommendations of the Advisory Committee on Diversification, and the formation of another committee for the purpose has been proposed. The implementation of the accepted recommendations of the advisory committee has been the subject of regular monitoring by Your Excellency in Council, and it was only as recently as the middle of last year that the Executive Council was finally satisfied with the progress that has been made. Thus the seven years following the publication of the advisory committee's report has been a period of intensive activity closely monitored by the Executive Council, not a period of inactivity and silence. Furthermore, the ACD report's in-built mechanism for continuing planning, monitoring and advice is the IDB. Of course, the IDB with its secretariat in the Industry Department is now fully functional, and the Government does not see any case for yet another review body.

In regard to the suggestion that an unofficial should replace the Financial Secretary as Chairman of IDB, I need only say that this would be a reversal of a specific recommendation in the ACD report. Indeed, I think it would be fair for me to recall that many members of that committee considered that their securing of that particular arrangement in the ACD report was one of their most significant achievements in that it is a promise, if not a guarantee, of financial support for recommendations!

Professor POON further considers that the infrastructure supporting the manufacturing sector 'is rather disjointed and lacks a unified purpose', and suggests that a trade and industry commission be created, analogous to the Education Commission, to exercise better overall co-ordination between such bodies as the Trade Development Council, the Industrial Estates Corporation, the Productivity Council, IDB and so on. However, it is not clear whether any or all the statutory bodies concerned support his proposal.

Sir, the primary responsibility for formulating and co-ordinating the Government's trade and industrial policies rests with the Secretary for Trade and Industry. The present machinery works smoothly, notwithstanding an extensive network of Government departments, advisory boards and statutory bodies. This is because, as Professor POON has observed, there is a common core of membership amongst officials as well as unofficials. It may also be relevant for me to add that I hold membership of all of these important bodies, and attend their meetings or am represented at them. Additionally, my chairmanship of the Textiles Advisory Board, the Trade Advisory Board and the committees under-pinning the Industry Development Board strengthens the co-ordination and overview of policies. Apart from this there are three major differences between the educational and trade and industry bodies. The first of these is the distinctive nature of the UPGC with its strong representation of overseas academics of standing which has no parallel among the trade and industry bodies whose composition and organisational arrangements are also more homogeneous. Secondly, the TDC, HKPC, HKIEC as well as the heads of

public departments, are all subject to direction of Your Excellency, if necessary, which is clearly not applicable in the case of the autonomous universities. Thirdly, there was a general consensus within the educational community on the desirability for the Education Commission, whereas there is little evidence of this developing over the idea of a trade and industry commission. Accordingly, I am not convinced that the creation of a trade and industry commission would provide for better co-ordination, and not hinder it. No system is perfect, however, and I am grateful to Professor POON for reminding us that we should not be complacent.

Mr. Allen LEE highlights the importance of information technology and urges the Government to set up a working party, as he believes that information technology makes an important contribution to the overall development of Hong Kong's economy, but it is not clear from his remarks how Hong Kong may lose out by the absence of such group. However, the Director of Industry and I stand ready to discuss this further with him in an appropriate panel of Members or other suitable forum.

Of course, the Government recognises that information technology will be a major growth area, particularly as the use of such equipment will induce greater efficiency and productivity in the economy as a whole. The introduction of appropriate technology will also benefit those local manufacturers who produce the relevant hardware and software. Accordingly, the Electronics Sub-Committee of the Industry Development Board, under the chairmanship of the Director of Industry, is now actively considering what types of technology could usefully be introduced into Hong Kong, whether by way of attracting suitable overseas investment or by undertaking development work, so as to enable manufacturers of relevant equipment and components to upgrade their output. The findings and recommendations of the sub-committee will be submitted to the IDB for consideration and advice.

Two Members expressed dissatisfaction over the amount of funds devoted towards industrial investment promotion, and stressed that more should be done. While sympathising, I am also mindful that it is not just a question of having more overseas offices or spending more. The offices have to be in the right areas, they have to be staffed by able and motivated people, and they must be adequately supported by the One Stop Unit. With the existing network of five overseas offices the Industry Department has, over the past three years, achieved satisfactory growth rates in the quantum of overseas industrial investment in Hong Kong's manufacturing sector (*) and is likely to maintain

(*)	<i>Year</i>	<i>Completed Projects</i>	<i>Value of Investment (\$ million)</i>	<i>Job created</i>
	1983	7	12.05	309
	1984	10	40.15	348
	1985	18	286.30	728

the same momentum in 1986, for the department has on its books no fewer than 531 projects in varying degrees of interest and commitment. Of course, I agree that it is not just numbers that count. The need to bring about the transfer of useful technology is equally if not more important, and the Director of Industry will continue to bear this in mind in the operation of the industrial investment promotion programme.

Professor POON has drawn on the success of the Productivity Council's heat treatment unit to propose that the Government should consider setting up a sterilisation plant at an estimated cost of \$8 million. I am most grateful to Professor POON for this constructive suggestion. This project is, in fact, already being examined by the Industry Department in conjunction with the Productivity Council as regards the compatibility of various sterilisation facilities and processes. Indeed, the Industry Department is trying to interest an overseas medical products manufacturer to invest in Hong Kong, with a view to supplying both local and regional requirements. This operation, if it materialises, will have a sterilisation facility. I can assure Professor POON that this project enjoys high priority in the current year's industrial investment promotion programmes.

In the light of protectionist pressures which currently face international trade, it would have been remarkable if a number of Members did not touch on this subject in this debate. In this I am not disappointed, and I am particularly grateful to Mr. NGAI for his specific support of the Government's efforts in combatting protectionism and in keeping our overseas markets open to the products of our industry. I can assure Members that our offices in USA and Europe will continue to work unceasingly in support of the free and fair trade cause. Members will also be aware of the special efforts which the TDC have made to augment our efforts. Our overall operational efforts in this area are co-ordinated by a committee I have established with membership drawn from the Trade and Textiles Advisory Boards, with the addition of the Executive Director of the TDC. Views of our trade and industry organisations made available to the committee are an essential input for this important work. I wish to take this opportunity to thank once again the TDC and all other organisations for working closely with the Government in this critical area.

Sir, I support the motion.

SECRETARY FOR EDUCATION AND MANPOWER: Sir, after the comprehensive review of the education system by the Secretary of Trade and Industry, Members may have thought that I would remain in my seat. Alas, I have to disappoint them.

Members have spoken on a number of issues in the fields of education, technical education and industrial training and labour matters which I should like to respond to the points they have made in that order.

To take first the subject of education, Mr. LEE Yu-tai has said that, although this programme area accounts for some 18 per cent of total expenditure and is therefore generous, the distribution of resources between the various educational sectors could be improved. I agree with him that there is no room for complacency and the Education Commission is very much aware of the need to consider the question of allocation of resources between sectors as well as the overall quality of education. The Commission also has in mind the need to make provision for second-chance opportunities and will be addressing this matter in its report No.2 which should be completed around the middle of the year.

Mrs. Selina CHOW has made a particular point about the cost of a place in a government school as against a place in an aided school. It is quite true that the cost is higher, essentially because of higher staff overheads. It was largely for this reason that the Government decided in 1965 that, wherever possible, all new public sector schools should henceforth be aided rather than government-run. As a result of this policy, there will in the coming academic year be a total of 857 aided schools compared with 86 government schools. The proportion of government schools in the total will dwindle further in the years ahead as new schools are opened. There is fortunately no shortage of sponsors and it would be difficult to overestimate the contribution which sponsoring bodies have made to the development of the educational system. Should we go further and hand over the government schools to the aided sector? This has generally been considered from time to time, but the conclusion has been that the Government should continue to be involved in the day-to-day running of at least some schools. These provide a benchmark for the system as a whole and, perhaps more important, ensure that the Education Department remains in close touch with the realities of running schools.

Dr. Ho Kam-fai and Mrs. Pauline NG have both spoken about pre-primary education and have both emphasised the need to ensure that more kindergarten teachers are trained to an adequate standard. This need is recognised by the Government and the Education Commission is addressing the issue with a view to making recommendations in its report No.2. Mrs. NG's suggestions will, I am sure, be borne in mind in the course of that consideration.

Mr. LIU Lit-for has spoken kindly of the Government's early response to the recommendations contained in the commission's report No.1. I can assure him that a high priority will also be given to consideration of the recommendations to be made in report No.2.

Both Mr. LIU and Dr. Ho have picked up the one recommendation from report No.1 which has not so far been acted on, namely the institution of a Bachelor of Education degree course for primary school principals. This recommendation has not been rejected but it was felt that this particular issue should be considered further in the wider context of the Education Commission's further recommendations on teacher preparation.

Closely allied to the question of teacher preparation is that of the future of the colleges of education, which Dr. Daniel TSE has recommended be incorporated into other existing institutions of higher learning. The purpose of this would be to emphasise the status of teacher preparation as a discipline and to widen the professional perspective of prospective teachers. These are broad objectives to which the Government is sympathetic, although the means remain to be worked out.

Mr. SZETO Wah has reminded us that training the cooks is not enough and that we must pay attention also to the quality of the ingredients. I would not agree that curriculum development has been neglected, however, and professional teachers do already make a very valuable contribution in this area. His proposals for an independent curriculum council are nevertheless both interesting and timely. The Education Commission undertook in its report No.1 to review the process of curriculum planning and development during a later phase of its work and these ideas will be carefully considered in that context.

Mr. TAI Chin-wah has spoken of the problem with regard to provision of secondary school places in the north-west New Territories. Steps are being taken, in the light of helpful advice from the Tuen Mun and Yuen Long District Boards, to overcome this problem. Specifically—and in addition to various interim measures designed to ease the immediate problem—the opening of 17 new schools already planned for these two districts will be advanced as far as practicable and eight additional schools will be reprovisioned to Tuen Mun from areas of surplus provision.

The problem which we have encountered in Tuen Mun in particular illustrates the difficulties involved in plotting population trends, forecasting age structure and in formulating plans for the siting and construction of schools sufficiently far in advance. In Tuen Mun, the unexpected factor was not the build-up of population in absolute numbers but its highly atypical age structure when compared with that of the territory as a whole. To try to prevent the recurrence of such a problem elsewhere, we have established an interdepartmental working group with the primary task of refining population projections and adjusting the school building programme accordingly.

Mr. YEUNG Po-kwan has urged the Government to speed up implementation of its policy on language in education and has referred particularly to the publication of textbooks in Chinese. It will be the task of the Chinese Textbooks Committee, as stated in your address at the beginning of this session, Sir, to ensure the availability of good quality textbooks of appropriate standard in Chinese and I am glad to be able to advise Members this afternoon that my hon. Friend Mr. SZETO Wah has agreed to chair this committee. Arrangements to appoint the remaining members are in hand and it will commence its work shortly.

I have also taken this opportunity of laying before Members for their information copies of the Report of the Working Party on the Chinese

Language Foundation. While, as stated in the covering memorandum to the report, the Government has decided in the light of developments since 1982 not to proceed with the establishment of a Chinese Language Foundation at the present time, the work of the Chinese Textbooks Committee will be instrumental in achieving one of the major objectives envisaged in the report.

Coming on to the subject of technical education and industrial training, Dr. TSE queries whether our efforts in this field are adequately co-ordinated given the involvement in various aspects of the Education Department and the Board of Education, the Vocational Training Council and the University and Polytechnic Grants Committee.

These various bodies do, of course, have quite distinct and clearly-defined functions to perform. The Education Department and the Board of Education are concerned with the provision of general education to the secondary level (including general education with a more technical orientation, as provided by the prevocational schools). The Vocational Training Council is responsible for provision of industrial training and of technical education from the craft to the lower technician level, while the function of the UPGC is to advise Government on all aspects of tertiary education.

The proper co-ordination of these combined efforts is indeed of paramount importance and this was a point stressed by the Panel of Visitors under Sir John LEWELLYN. Co-ordination is achieved in practice through the policy branch and through the Education Commission—the terms of reference of which refer specifically to the need 'to co-ordinate and monitor the planning and development of education at all levels'—and also through the various channels of communication, formal and informal, between the institutions concerned.

Mr. CLYDESDALE, Mr. SOHMEN and Mr. TAM have all stressed the importance of technical education and industrial training to our economic growth and development. My colleague, the Secretary for Trade and Industry, has already referred in the course of his own remarks to Government's efforts in this field.

The establishment of the Vocational Training Council in 1982, to replace the Hong Kong Training Council, was a significant step forward. The council, under the energetic chairmanship from its inception until last month of Dr. Francis TIEN, has been pursuing a major programme designed to identify—through a network of 19 training boards and seven general committees—the manpower and training requirements of the main industrial and commercial sectors of the economy and to develop and expand the training facilities available to meet these requirements. I should mention also in this context the valuable work which is being done, too, by the Clothing Industry and Construction Industry Training Authorities in providing trained manpower in these important sectors.

Dr. TSE noted in his speech that most diploma and certificate courses have now been transferred from the polytechnics to the technical institutes and

wonders whether some adjustment to staff qualifications will not be required. Minor changes may be necessary but the range of qualifications of staff at the polytechnics and institutes do overlap to a considerable extent. The object of the exercise has been rather to enable the two types of institution to specialise at the most appropriate course level.

The Secretary for Trade and Industry referred earlier on to the establishment of the third university. Action is now in hand to set up a planning committee which will have oversight of the planning and implementation of this important project. I am expecting that the chairman and the secretary general will be appointed in the very near future and that the full committee will be appointed and in operation by the autumn of this year. The first intake of students should be no later than the 1994-97 triennium.

Turning finally to labour matters, Mr. TAM Yiu-chung has advanced some useful arguments in favour of a central provident fund. Some of the contrary arguments were touched on by implication in Mr. Stephen CHEONG's speech when he referred to the need for caution in introducing labour legislation so as not to discourage industrial investment. There are also a number of unknowns in this particular equation: such as, for example, whether the majority of employees in Hong Kong would wish to contribute a significant proportion of their earnings to what is in effect a centralised compulsory savings scheme.

I said during the policy debate last December that the Government was reassessing the arguments both for and against a central provident fund. That reassessment is nearing completion and the results of it will, I hope, provide a basis for further discussion of this complex issue.

Both Dr. HO Kam-fai and Mr. PANG Chun-hoi have meanwhile spoken of the need to strengthen the factory inspectorate. That need is recognised and accepted. The policy of zero or very low growth in the size of the Civil Service in recent years has, of course, applied to the Labour Department as much as to other government departments and during this period emphasis has been placed upon ensuring that the existing strength of the inspectorate is deployed to maximum effect. The resources which it is proposed be made available to the Labour Department in the current year should enable it to make some increase in the establishment of the factory inspectorate in line with a programme of phased expansion to take account of the increased workload of the inspectorate. Meanwhile, recruitment to fill 12 existing vacancies is in hand.

Sir, with these remarks, I beg to support the motion.

SECRETARY FOR HEALTH AND WELFARE: Sir, Miss TAM, Dr. IP, Dr. CHIU, and Dr. LAM all referred to the consultants' report on the delivery of medical services in hospitals. This important report was published last month for public discussion and comment. While it will clearly take a considerable time to reach a decision on the major recommendation for an independent hospital authority, I agree

with Miss TAM and Dr. IP that the report contains a number of recommendations which could be implemented without waiting for this decision to be taken. We shall be examining these proposals as a matter of urgency.

The consultants have recommended a number of changes to the structure of hospital charges and the views expressed by Members on this subject will of course be taken into consideration together with the comments of the medical profession and the general public.

Dr. CHIU expressed disappointment that the report was silent on the subject of primary health care, although he rightly pointed out that this subject was not within the consultants' terms of reference. In drawing up the terms of reference for the review care had to be taken to ensure that the consultants' brief was manageable. With this in mind, it was decided that the review should be confined to a study of the organisation and management of the hospitals, where weaknesses in the system were apparent and where expansion plans are likely to impose even greater strain in the future.

Several Members made suggestions on how our existing medical services might be improved. In doing so, they often touched on matters which have been addressed in the consultants' report and, while these will be the subject of study in that context, several of them are issues which have been receiving attention from the Medical and Health Department for some years. For example, Mr. TAI made a plea for the re-designation of under-utilised beds in subvented hospitals for use by convalescent patients. At present 2 630 beds out of a total of 9 603 beds in subvented hospitals are available for convalescent patients from government hospitals and efforts are being made to secure more beds for this purpose.

Various steps have also been taken to alleviate the problem of overcrowding in the acute hospitals. These include the re-designation of beds between specialties and the provision of further staff and facilities in accident and emergency departments.

I agree with Miss TAM and Dr. IP on the need to ensure that patients do not stay in hospital any longer than is necessary. The average length of stay in the major regional hospitals is 4.5 to five days which is already short. There are of course cases where elderly or chronically ill patients, who could be looked after elsewhere, occupy acute hospital beds. However, as I have recently stated in this Council, the solution to this problem depends on providing more places in infirmaries and care and attention homes, and in expansion of the community nursing and home help services.

Mr. TAI queried the adequacy of the funds made available for subvented hospitals and in doing so he has quoted the unit costs of some government regional hospitals and subvented district hospitals. Such a comparison may be misleading. Regional hospitals are equipped and staffed to cater for more complex acute cases and thus inevitably cost considerably more than district

hospitals. The figures he quoted are not therefore a reliable indicator of the adequacy of the funds provided for each hospital. That said, the Government is committed to improving the facilities in subvented hospitals, including these in the New Territories, where the Yan Chai and Pok Oi Hospitals are both currently undergoing major extensions. Another factor is of course the difference in staff conditions of service between government and subvented hospitals, which is addressed in the consultants' report.

Dr. LAM proposed that the Government should consider whether it would be more cost-effective to privatise out-patient services. A similar suggestion was made in last year's Budget debate. Even if Dr. LAM's assumptions on the cost-effectiveness of out-patient clinics are correct, there are good reasons why this service should continue to be operated by the Government. The out-patient clinics play a major role in the prevention and control of epidemic and endemic diseases. This is a public health function, which in line with international practice should continue to be carried out by the Government.

Mr. PANG queried the amount provided in the estimates to meet the travelling expenses of staff in the Prince of Wales Hospital in view of the low occupancy rate of the departmental quarters attached to the hospital. A travelling allowance is payable under Civil Service Regulations to all civil servants working in the New Territories who live in Hong Kong or Kowloon. The Prince of Wales Hospital spent \$0.93 million in meeting the cost of this allowance in 1985-86. In view of the increase in the number of staff employed in the hospital, an additional sum of just over \$0.5 million has been provided in the estimates for 1986-87.

The under-utilisation of quarters is a separate problem. These quarters can normally only be allocated to staff who have to be housed for operational reasons. In the case of the Prince of Wales Hospital there is a total provision of 1 036 quarters for approximately 3 300 staff. We expect the occupancy rate to improve during the year as the hospital comes into full operation, but more than two thirds of the employees in the hospital will still need to commute to work, and those who live in Hong Kong and Kowloon will be entitled to a travelling allowance.

Dr. IP's speech as usual provides much food for thought. I shall, however, confine my comments to the views she has expressed on the School Medical Service. Her other suggestions will be considered in the context of implementation of the consultants' report.

Dr. IP queried the justification for the continuance of the School Medical Service in view of the improvements in child health in the community and the fall in the percentage of children under the age of 12. However, in the last five years the number of children participating in the scheme has risen from 170 000 to 349 000. Each child makes an average of three visits a year to the doctor which in turn means over a million attendances, which is 20 per cent of the

total attendances at government out-patient clinics. Considerable additional resources would be required if the existing network of government out-patient clinics had to absorb this extra workload. While I accept that the existing participation rate of 44 per cent of all eligible school children could be improved, I believe the scheme still plays a very useful role in the health care of our young population and should be retained. The matter of dental services for the elderly is a separate issue which has recently been discussed in the Council in the context of a question from Dr. IP.

I now turn to social welfare matters. Several Members drew attention in the debate to the shortfalls in the provision of various welfare services and Mr. Y. F. HUI questioned whether there is a government commitment to welfare in the same sense that there is a commitment to the provision of school places and housing units. I would like to reassure Members that there is such a commitment, to provide both financial assistance to those who are least able to help themselves, the poor, the elderly and the disabled, as well as direct services for those who need them, particularly for the elderly, for offenders and other vulnerable young people and for families who have problems they cannot cope with on their own.

This commitment was spelled out in the 1979 White Paper and the programmes to implement it are set out in the Five Year Plan for Social Welfare Development which is updated each year. Part of the problem is that it is much more difficult to establish the demand for welfare services than it is, for example, for school places. Planning ratios are essential as a basis for these programmes, but inevitably they have to be based on assumptions on how many people are likely to need a particular service. We do review these plans from time to time; the Social Welfare Advisory Committee recently endorsed a strategic plan for the provision of housing for the elderly and at present working groups are re-examining the school social work and residential child care arrangements. I am also considering, with the Director of Social Welfare, what other areas need review.

Mr. YEUNG Po-kwan, Mr. LIU Lit-for, Mrs. Rosanna TAM and Mr. CHAN Ying-lun all expressed concern about the school social work service and in particular the present ratio of one school social worker to 4 000 students.

It has been accepted since 1982 that an improvement in the quality of school social work and a better manning ratio are desirable. But it was considered at that time that the improved manning ratio of one social worker to 2 000 students should only be applied after all schools were covered under the existing ratio, and in the context of the overall shortfall of trained social workers.

Since that time there has been some concern within the Government about the most effective means of delivery of the service, and I believe that it would not be appropriate to change the manning ratio until this question has been resolved. We have therefore established a working group with members from

the Government, the schools and the voluntary agencies to review the arrangement, and I hope to receive its recommendations shortly.

Mr. F. K. HU, Mrs. Rosanna TAM, Mr. Y. F. HUI, Mr. LIU Lit-for and Mr. CHAN Ying-lun all commented on the financing of social welfare services. As I have said the Government remains fully committed to meeting the policy objectives and targets set out in the 1979 White Paper and in the Five Year Plan for Social Welfare Development, but the pace at which we can proceed must depend upon the funds available, on the willingness of suitable agencies to undertake services, the availability of suitable sites or premises, the availability of trained manpower and on the lead time required to plan and develop purpose-built services in specialised areas.

On the financing of individual services, it is inevitable that a large share of the available resources must go towards maintaining existing services at current standards. This means that new services and improvements to standards have to compete for the remaining funds. The priorities are decided in consultation with the Subventions and Lotteries Fund Advisory Committee. I agree with Mrs. TAM that the Social Welfare Advisory Committee should be more closely involved in determining broad priorities in the social welfare field and we are now considering how best to achieve this.

Mr. HUI considered the standard cost subvention system to be an improvement over the previous discretionary system, but felt that certain weaknesses remained. I agree that problems have arisen, and after three years' experience of the standard cost subvention system, I feel that the time is now right to examine its fundamental principles and to consider whether changes are required. A review of this kind will shortly be underway. Meanwhile, on the advice of the Social Welfare Advisory Committee, modifications will be introduced this year to remedy some of the operational deficiencies to which Mrs. TAM has drawn attention. I agree with her entirely that it is undesirable for large surpluses to be accumulated in agencies' accounts. We intend to recover these surpluses as soon as they are identified from agencies' audited accounts and this money will then be available for reallocation to other approved social welfare projects.

As regards the categorisation of social welfare services for subvention purposes, 72 per cent of all service units have been placed in category I, which means that the Government meets 100 per cent of the recognised cost. Although social centres for the elderly, as a category II service, do not attract 100 per cent financial support from Government, there is strong community support for such projects and many agencies are prepared to operate on this basis. Only three appeals for additional funds were received by the Social Welfare Department in 1983-84 and in 1984-85. In all of these cases, the department was able to make satisfactory alternative financial arrangements for the agencies. As I have said in this Council on several previous occasions, additional funds will be considered for any agency which experiences genuine hardship.

Mr. HUI suggested that the claw-back of interest from unused subventions may create cash flow problems for voluntary agencies. This requirement applies to all subvented social services (not just social welfare services) and the agencies were given adequate notice. No more than half a million dollars was clawed back during 1985-86 and I do not think that a sum of this size should pose insurmountable difficulty for individual agencies.

I turn now to Mr. HUI's comments on the Lotteries Fund. Recent measures to streamline application procedures and in particular to entrust fitting-out works to the Housing Authority should do much to ensure that welfare premises are brought into operation as soon as possible after completion. But the demand on the Lotteries Fund to meet the capital costs of new social welfare projects is likely to increase, and I do not think that there is scope for diverting part of the fund to support agencies recurrent expenditure. It is true, as Mr. HUI pointed out, that the percentage share of the total proceeds of the lotteries which goes into the Lotteries Fund has dropped; so far there is still enough money in the fund to meet the requirements, but I intend to watch the position very closely.

Mr. CHAN Ying-lun expressed disappointment about the lack of growth in the area of outreaching social work, and voiced concern about the shortfalls in the provision of social centres and multi-service centres for the elderly.

At present there are 18 outreaching social work teams deployed in high priority areas by eight welfare agencies with an establishment of 180 full time social workers. However, recruitment difficulties in this particular area of social work have led to the service being understaffed for several years. Further expansion would therefore be difficult at present, but we do intend to review the effectiveness of outreaching social work, taking account of research recently undertaken by the Chinese University.

I turn now to the provision of social centres and multi-service centres for the elderly. There are at present 100 social centres, including those within multi-service centres. Seven more social centres and two multi-service centres will be opened during the current financial year. The planning targets are 12 social centres and three multi-service centres in each year thereafter. By these measures the shortage of these facilities should be reduced substantially by 1990.

Mr. LIU expressed concern about the availability of residential care places for the elderly. There are some serious shortfalls in this area, particularly in the vital category of care and attention homes, but our plans provide for the estimated demand to be met almost in full within the next five years.

Accommodation for the able-bodied elderly is now the responsibility of the Housing Authority, which will be providing 150 sheltered housing places in every new housing estate with 3 000 flats or more. The first such project will start operating later this year at the Hang On Estate in Sha Tin.

Mr. F. K. HU suggested that, with the improved manpower situation, the Social Welfare Department should discontinue forthwith the recruitment of non-social work trained graduates. I can assure Mr. HU that the department will always give preference to suitable graduates who have been trained in social work. However, if such candidates cannot be recruited in sufficient numbers, it must have the flexibility to consider graduates trained in other disciplines. If recruited, they would of course be expected to undertake formal social work training if they wish to advance in their career, and this is a condition of their employment.

Finally, Sir, I am grateful to Mr. TAI Chin-wah, who was the only Member to mention the important subject of pollution control. He suggested that we should concentrate less on pollution control by means of legislation and more on the provision of the necessary infrastructure and services. The existing level of infrastructure is very high already; the total commitment involved in all the projects for environmental improvement in the public works programme is of the order of \$4,000 million. The recurrent cost of services in this field—including the operating costs of various facilities and the full cost of refuse collection services—runs into many hundreds of millions of dollars a year. Clearly we need both public-financed infrastructure and pollution control legislation.

Sir, I support the motion.

SECRETARY FOR HOUSING: Sir, on the subject of public housing, two main interlinked themes have emerged in this debate. The first centred on the need for a fresh look at the public housing programme, its objectives and whether the emphasis should shift from the provision of rental to more home ownership accommodation. The second was concerned with public financing of the housing programme, the Housing Authority's future financial strategy, and the contribution expected from those occupying public housing.

Some Members spoke of the achievements of the public housing programme: how over the past six years, the annual production target of 35 000 flats was consistently exceeded and a new target of 40 000 units per annum was established and more than met in 1985-86. But they and others also questioned whether the continued provision of heavily subsidised rental housing is still justified in the light of the changing circumstances and the growing affluence of our population. Some called for a fresh look at the public housing programme. That call is opportune. We have been reviewing our public housing strategy for the future. The review is continuing and results will have to be considered carefully.

What I can say, at this stage, is that those in real need of subsidised housing will continue to be offered it. Last December, as part of our review, we identified an estimated outstanding demand for some 334 000 rental flats to meet the needs of those on the waiting list, for the nearly half a million squatters counted

in last year's survey and for those families living in older public housing blocks that have been scheduled for redevelopment. It will take us into the mid-1990s before the bulk of this rental housing demand can be supplied, assuming that current production targets are maintained. However, because of the growing standards of living and the rising affluence of our population, I envisage that more and more people will want and will be able to afford to buy their own homes. Thus, the way forward will be to increase the less subsidised home ownership element of the programme, leaving more of the Government's limited resources for other social programmes.

We are conscious of the fact that increasing home ownership does contribute to a balanced, successful housing programme which, as Mr. SOHMEN pointed out, encourages economic growth and social stability. At present, the demand for home ownership is high. In considering how to meet any sustained demand, I agree with Mr. HU and Mrs. CHOW that we shall need to review the role of private developers in meeting this requirement to ensure that we make the best use of the sources of housing production, both public and private which are available to us.

In pursuing home ownership, however, we must not ignore the redevelopment of old estates. Mr. CHEUNG Yan-lung has rightly pointed out the need to speed up this programme area. It is the Housing Authority's declared policy to improve its older estates where the living conditions are not up to present day expectations. Members are aware of the authority's accelerated programme for the redevelopment of all Marks I and II public housing blocks and its programme to redevelop 26 blocks having sub-standard concrete. Demolition of all these blocks is expected to be completed in about four years. We shall soon be planning how to tackle the remaining older estate blocks and as we advance into the 1990s, I envisage that redevelopment of these blocks will gradually take a more prominent position in the public housing programme.

Let me now turn to the second theme: the financial aspects of public housing. Mr. F. K. HU and Mr. Hilton CHEONG-LEEN spoke about the Housing Authority becoming self-financing. This, of course, has always been the authority's aim and it is progressively being achieved. The authority's contribution to its annual capital expenditure was 47 per cent in the last financial year and is forecast to reach 69 per cent by 1989-90. Thus, progressively, the authority should be able to borrow less from the Development Loan Fund and leave more resources available for other programme areas.

On the matter of the costs of the public housing programme, as Mr. S. L. CHEN has rightly pointed out, the \$3.4 billion budgetted expenditure for 1986-87 represents only the estimated expenditure for construction and does not reflect the value of land which Government provides free for public housing development. The full value of land is shown in the Housing Authority's accounts as a Government contribution. By the end of the 1984-85 financial year this had amounted to \$18.3 billion.

As a step to the Housing Authority's eventual financial self-sufficiency, Mr. HU suggested that the Home Ownership Scheme, which is entirely Government funded, should be transferred to the Housing Authority to give it the benefit of the surplus, generated by the scheme. This suggestion, which would clearly have wide financial and policy implications, will need to be carefully considered by the Administration.

As a further means of improving the authority's finances, Mr. SOHMEN and Mr. HU both suggested that tenants should be allowed to buy the rental flats which they occupy. This suggestion has its attractions but as both Members acknowledged, there are administrative and management problems; there are financial drawbacks also. Our older rental properties have inadequate facilities, and are in need of eventual redevelopment to modern day standards, so they are not suitable for sale. The newer estates offering good modern living conditions could, of course, be sold and would, undoubtedly, attract interest. But they are part of our accommodation stock for rehousing people on the waiting list, squatters and others, and if we were to sell these we could prolong our programme to house those in need of permanent accommodation, and make this more costly in the long run. Therefore, it is considered that the current policy of producing new and higher standard HOS flats for purchase by the better-off tenants is right for the present. In a few years time, when the majority of the inadequately housed have been accommodated, we can review this proposal.

The question of rents is a major one. I agree with the view that although rent increases for domestic premises must be gradual, reasonable and always affordable, there is, nevertheless, a case for tenants to contribute more, within their means, towards the cost of their subsidised housing. Members of the Housing Authority are very conscious of the high public expenditure on the housing programme. At the same time, they accept that the authority must continue its responsibility to rehouse those in need and with limited means. An ad hoc committee of the authority, chaired by Mr. CHAN Ying-lun, is in the process of reviewing domestic rent policy.

The question, raised by Mr. S. L. CHEN and Mr. F. K. HU, of reducing housing subsidy to those public housing tenants who have improved their financial situation, has been the subject of wide consultation by way of a green paper. Not unexpectedly, many tenants objected, but the majority supported the principle. The authority's ad hoc committee on housing subsidy, under the able and experienced leadership of Mr. HU, is now examining public comments, and will report to the authority later this year.

Another idea for improving the authority's finances was Mr. Kim CHAM's suggestion for privatising the management of public housing estates as a means to lower costs. I would say that many of the authority's estate management functions have already been privatised, namely, cleansing, maintenance and security services; and the authority is now considering the feasibility of

privatising the management of its car parks. However, the authority considers that its present system of management is generally cost-effective and efficient and, very importantly, that it fulfils a social function.

Estate management is not confined to rent collection and providing efficient repair and maintenance services alone. Housing staff have, over the years, established a good landlord and tenant relationship which enables them to receive tenants' views and to explain the authority's policies. In addition, they maintain close contact with district boards, mutual aid committees and residents' associations. Their activities have ensured a generally stable and contented community.

I would assure Members, however, that the authority is aware of the need for cost-effectiveness and will continue regularly to review its estate management services and that further privatisation will be considered where it is feasible and cheaper to introduce it without lowering the standard of service. But I doubt, in practice, whether in the private sector there are sufficient persons qualified and experienced in housing management who could undertake the proper management of the many estates now housing nearly half of Hong Kong's population.

The management of home ownership properties, on the other hand, is different, and I agree with Mr. CHEONG-LEEN that this should not remain a permanent responsibility of the Housing Authority. The authority has been encouraging HOS home owners to consider undertaking the management of their own properties but there has been a marked lack of response probably because home owners are generally satisfied with the services offered and as it is difficult for them to organise an efficient management system at the present low cost which they are paying. We shall nevertheless continue to encourage home owners' groups to manage their own affairs.

For my final point, let me deal with the quite separate issue raised by Mr. POON Chi-fai. He asked why some temporary housing areas were demolished and then apparently reconstructed within a few months. The Housing Authority has a programme to redevelop some old temporary housing areas which aims at replacing dilapidated old temporary housing areas with new ones built to current standards. Two such temporary housing areas are being redeveloped and I think that these are the cases to which Mr. POON has referred.

Sir, in concluding, I should like to summarise the Government's housing aims for the years ahead. Housing strategy is under review but I am able, nevertheless, to say that the public housing programme will continue to provide for those in need of rehousing, modern, multi-roomed flats in well-planned estates offering good facilities in a superior living environment; and, that rents will remain reasonable and affordable. As to the provision of more flats for those wishing to purchase, I confidently expect that production of home ownership type flats at affordable prices will gradually increase to meet the present high

demand and aspirations of potential purchasers. Our strategy review will help us determine how this can best be achieved and how, together with the private sector, we can aim to provide decent accommodation for all who live in Hong Kong.

With these remarks, Sir, I support the motion.

SECRETARY FOR LANDS AND WORKS: Sir, Mr. CHENG Hon-kwan was most pertinent in his comments on the tendering process. He suggested that evaluation of tenders should be comprehensive; that as part of this process, a contractor's current workload and his capacity to take on additional work should be assessed and that the acceptance of the lowest tender should not be regarded as a sacred principle.

I could not agree more with the points he made. Government tender procedures do, in fact, involve qualitative and quantitative evaluation of tenders, the underlying objective being to select, on the basis of the best value to Government, a tenderer who is considered to be financially and technically capable of successfully completing the contract. The result of a tender evaluation exercise may well be that the lowest tender is not accepted.

Three Members have commented on Government's practice with regard to employing consultants. Mr. POON Chi-fai, in criticising the use of consultant companies, suggested that it would be better to have Civil Service growth rather than employing consultants. In the same vein, Mr. PANG Chun-hoi questioned whether funds spent on employing consultant firms was money well spent. I note, however, that Mrs. Selina CHOW thinks otherwise, although I do not agree with her that in-house jobs are inherently more prone to slippage than those carried out by consultants.

I would like to take this opportunity to reiterate Government's policy in this regard. Consultants are employed only when we do not have in-house capacity or expertise to carry out the work ourselves. Whilst the recruitment of more staff might appear to be the more economical solution in the short term, it could lead to under-utilisation of staff resources when the workload is reduced. This would not be consistent with the Government's aim of restricting the growth of the Civil Service and increasing productivity. The Government decided to employ consultants to undertake much of the planning of the new towns, because additional staff resources were needed immediately to get the programme launched with the necessary impetus, but there was uncertainty as to how long these resources would be needed.

However, where we are reasonably sure that the workload is on-going, I share Mr. POON's views that, in normal circumstances, an expansion of the Civil Service should be considered.

Mr. CHEUNG Yan-lung has commented the lack of provision of basic facilities in the older parts of Hong Kong, especially Western District. I understand his

concern, but I hope that some of the constraints on new development in the older parts of the urban area are appreciated.

Most such areas are densely populated and most of the land is in private ownership. Opportunities for improvement within the existing developed area are limited. Nevertheless, good use is made of the limited opportunities which do become available. To illustrate the efforts being made to improve Western District as a whole, I should mention that the Urban Council is building a complex which will include a market, a centre for the elderly, a youth centre, an auditorium, a theatre, an exhibition hall, rehearsal halls, squash courts and an indoor games hall. This complex is scheduled for completion in mid 1988 at an estimated cost of \$192 million.

Opportunities also exist in the planning of new reclamations to make good deficiencies. For example, in the particular case of Western District, the Western reclamation will shortly be completed. Land use proposals, now being finalised in consultation with the district board, will include an indoor recreation centre, a district community centre and a district park. These will reduce considerably the present shortfall of community and open space within the Western District.

To remove the noise and smell nuisances caused by the wholesale poultry market in Forbes Street and Davis Street in Kennedy Town, the temporary reprovisioning of the poultry market of the Western reclamation is now in hand; the new temporary poultry market is due for completion in December this year. Plans are also in hand to move the cattle depot to the Kennedy Town Abattoir towards the middle of this year.

Although there are no immediate plans to complete the main trunk road through Western District, road access to Western District will be greatly improved when the upgrading of Connaught Road is completed in late 1989. Work on this project will start in the second half of this year.

I hope the various projects I have mentioned will illustrate the efforts being made to improve Western District as a whole; progress is being achieved at a steady pace, given the constraints on new development in an older part of the city.

Mr. TAI Chin-wah has suggested that the Government should formulate a long-term policy for the better use of available land so as to expand the industrial and agricultural potential of our territory. The Government recognises the need to utilise limited land resources carefully in order to meet the requirements of a growing population and a developing economy. It was primarily with these objectives in view that a long-term territorial development strategy was endorsed by the Executive Council in 1984.

In the process of formulating that strategy, various sub-regional studies were undertaken to review the development potential of different parts of the territory. These studies considered the potential of land not only for urban development,

but also for recreation, agriculture and other uses. To give effect to the approved development strategy, layout plans will be prepared to provide guidelines for the future use of land outside new towns.

Mr. LAU Wong-fat has referred to the need for Government to have a comprehensive long-term plan to improve the facilities of villages and areas outside the new towns.

I agree that a long-term programme to bring about improvements to these areas is necessary. Initial work has already started. Layout plans are now being prepared to guide development in areas not already covered by detailed plans. Four pilot schemes for village development (at Pak Kong in Sai Kung, Tin Sum in Sha Tin, Sheung Shui in North District and Tong Fong in Yuen Long) have been selected. In addition, there is a pilot scheme at San Hing Tsuen in Tuen Mun to upgrade existing residential and industrial development. The results of these pilot schemes, once available, should assist the formulation of a comprehensive long-term programme to improve the facilities in rural areas.

Sir, I support the motion.

SECRETARY FOR DISTRICT ADMINISTRATION: Sir, I am grateful to Mrs. Rita FAN, Mrs. Pauline NG, Mr. LAU Wong-fat and Mr. LEE Yu-tai for their constructive comments and suggestions regarding district administration, civic education and developments in the New Territories.

As Members are aware, district boards were created to achieve better co-ordination and more responsive administration at district level by providing for greater public participation in the management of local affairs. The boards have demonstrated their value in helping to improve the living environment of individual districts and in building local communities with vitality and a sense of purpose and identity. In pursuit of these vital objectives, district board members have been forthcoming and effective in reflecting the views and aspirations of the local residents and this effort must continue with the full support of Government.

It therefore follows that Government should provide all the necessary assistance and support for district board members in the performance of their work. This is, I believe, what Mrs. Pauline NG and Mr. LEE Yu-tai had in mind when they renewed the calls earlier made by several other Members of this Council that consideration should be given to providing financial assistance to those board members who wish to set up their own offices to meet local residents. We are now in the process of examining in detail the justifications for such an allowance with a view to formulating proposals in the near future.

Mrs. Pauline NG also proposed that the ambit of funds allocated to district boards should be changed to include recurrent expenditure arising from such projects as the installation of street lighting in squatter areas and the provision of study rooms. I should like to point out that the Housing Department has

agreed to meet recurrent expenditure for street lighting installed by district boards in urban squatter areas. As regards recurrent expenditure that may arise from other minor environmental improvement projects, there is a likelihood that such recurrent commitments will subsequently take up a disproportionate amount of the limited funds available and thus seriously affect the boards' capability to finance other worthy projects.

Clearly, Mr. LEE Yu-tai's question that extra staff resources should be provided to improve secretarial service to district boards stems from the same concern for the better functioning of the district administration scheme. In this connection, additional posts of Executive Officers and Chinese Language Officers have been created this financial year to relieve the heavy workload presently imposed on the secretariats of the boards.

Mrs. Rita FAN has suggested that Government should take on a more active role in the very wide and important field of civic education. In this connection, I am glad to say that all the arrangements are being finalised for the establishment of a committee on the promotion of civic education. The new committee will be comprised mainly of unofficials and it is hoped that appointments will be made very shortly. The committee's function is to offer advice not only to Government but also to community organisations on the objectives and scope of civic education outside the formal school system. The intention is to stimulate initiatives from the community in promoting civic responsibility and to provide the necessary guidelines and support.

In a related field and as indicated during the debate on the Motion of Thanks held in December last year, there has been much discussion on the possible establishment of a new central body for youth activities. It is now intended that a central committee on youth should be established in May this year. Like the Committee on Civic Education, the new body will be a non-statutory one comprising mainly unofficials and will advise Government on matters relating to youth development. The committee will provide a focal point for, among other things, discussion and research on the needs and aspirations of Hong Kong's young people.

I share Mr. LAU Wong-fat's concern about the need to improve living conditions in some parts of the New Territories outside the boundaries of the new towns. In this respect, initiatives are now being taken by the Government, as has already been mentioned by my friend, the Secretary for Lands and Works.

Mr. LAU has also advocated that the Local Public Works Programme be extended to improve villages in the rural parts of the New Territories. This programme provides for simple access roads and footpaths, drainage systems and other basic facilities and for maintenance of existing projects—a major requirement. We agree with Mr. LAU that works of this kind are still required in the rural areas and that the scheme should continue. The present annual

provision of \$14.7 million is not sufficient and we are currently examining the case for a future increase.

With these remarks, Sir, I support the motion.

ATTORNEY GENERAL: Sir, Mr. Martin LEE spoke critically about progress towards localisation in the Legal Department. I should like to answer him, particularly since I see him back in the Chamber after his recent visit to another place.

We now have in chambers 73 Hong Kong lawyers out of a total strength of 234 counsel. There is not far short of one in three. Five years ago we only had 22 out of a total strength of 120, and that is not much more than one in six. But we still do not have enough local lawyers, particularly experienced local lawyers. So we shall continue our efforts to train, encourage and retain the local lawyers who join the public service. It is, Sir, the Government's policy to see my chambers staffed in senior positions predominantly by local lawyers as soon as practicable. But at the same time, as Mr. LEE himself pointed out, the quality of the services provided by my chambers must not be prejudiced by pushing localisation too hard. So it is a question of time. Our first priority is to remain a strong, effective, working department providing a wide range of forensic and advisory services and, to that end, I have no doubt that we shall still need experienced and expert expatriate lawyers to do the more specialised work and to train up and pass on their knowledge and expertise to local counsel for many years to come.

Those are our objectives. But let us at the same time be clear about the basic problem that we are trying to overcome.

The key to the difficulties lies in the simple fact conceded by Mr. LEE. Private practice in Hong Kong is generally more lucrative than Government service. Certainly this is true for the most able and most industrious. This means that many of our young local counsel are tempted to leave Government service soon after their training is complete. It also means that only rarely does a local lawyer want to leave private practice and join my chambers.

In September 1985, we advertised a post of Deputy Principal Crown Counsel at a salary of \$34,500 per month. The terms and conditions of this post including housing, free medical treatment and education allowance are identical for both local and expatriate candidates. The only difference is over leave arrangements. There was not a single application from a Hong Kong lawyer, not one. I repeat what I have said, Sir, in other places in other times I would be delighted to hear from any local lawyer of experience who regards himself as qualified to serve in the directorate of my chambers.

I also deny emphatically Mr. LEE's allegation that 'top posts' in the Legal Department have been denied to local lawyers. Accepting, of course, what he has said about maintaining the quality of our service, I do not believe there has

been a single instance in my time where an experienced local lawyer has been denied appointment or promotion to a senior post which he was qualified to fill on merit. The fact that there are so few 'top posts' occupied by local lawyers is a consequence both of our failure in the past to keep more able counsel in chambers and to develop their experience, and of our failure to attract experienced lawyers from the private sector into the vacant posts.

Nor is our failure to attract more local lawyers due to more favourable terms being offered to expatriates. Salaries are, of course, identical. Newly qualified local lawyers do not have quarters provided but, of course, we do not recruit newly qualified expatriate lawyers and, therefore, there is no comparison of like with like at this level. From the rank of Senior Crown Counsel, the terms and conditions of service are identical, except leave arrangements. I do not know if Mr. LEE is suggesting that local Crown Counsel should have *home* leave passages or that expatriates should not. But this disparity is not peculiar to the Legal Department; terms and conditions of service are common to the whole of the public service. Are lawyers to be treated in a special way? We must solely accept that if we need experienced expatriate lawyers, we must expect to provide them, as to other expatriate public servants, with special leave arrangements.

Sir, the problem is, largely a question of money and it does no good at all to ignore the obvious. If I could treble the salaries of my Directorate staff, I might well attract senior local lawyers but this would not be attractive to the Finance Committee.

The only other general matter of relevance is the fact that Hong Kong is still undeniably short of able and experienced local lawyers. As a whole, the community is still heavily dependent on lawyers from overseas in the firms of solicitors, at the bar, in Government service and on the bench. As a community, we must consider, as a matter of urgency, ways and means of increasing still further the numbers of local law graduates and the numbers of local lawyers obtaining professional qualifications. These shortages only aggravate the pressures on the most talented to go where the rewards are highest.

Having said all that, I am not despondent. I am in general well satisfied with the quality of the local lawyers in my chambers. Most of them, it is true, are inexperienced but they are highly motivated. I think they sense that 'Now is their time'. If I can keep them long enough, I am sure that most of them will prove to be of directorate material, and come to occupy senior posts in the years ahead.

Sir, there is one other matter, on an entirely different plane, that I should mention. Mr. YEUNG PO-kwan spoke about the Royal Hong Kong Auxiliary Police Force, a subject on which he is very knowledgeable. I thank him for his generous praise of the force but his enthusiasm has led him to anticipate a government decision to make the site the force is using temporarily as its headquarters and training centre at Kowloon Bay into a permanent allocation. This

is certainly our intention and a proposal is being looked at sympathetically by the Director of Buildings and Land, i.e. I welcome the support Mr. YEUNG has shown for the move.

Sir, I support the motion.

CHIEF SECRETARY: Sir, in this debate, seven Members spoke about the growth of the Civil Service, training and remuneration of civil servants and employment of local people in the Judiciary service, matters which fall to me as Chief Secretary to respond.

With regard to the growth of the Civil Service the Government has, since 1983, pursued a strict programme of restraint, limiting staff increases to essential services and increasing the productivity of the Civil Service through value for money studies. As a result, the growth has been held to a low single digit figure in the last three years. In 1985-86 about 1 200 additional posts were created on a total establishment of about 180 000. This increase is less than 1 per cent. During the course of this year the Civil Service is expected to grow by 2 to 2.5 per cent but, Mr. WONG Po-yan may be assured that we will continue to exercise restraint and introduce measures to ensure a cost-effective Civil Service. This will not, and might not however, be at the expense of morale and quality. Balanced against the need for restraint must be the fact that we are becoming a more complex and sophisticated society which requires a responsive public service adequately staffed to do the job the community requires and expects of it.

Sir, if I may digress somewhat, although there may be occasional short-comings as in any large organisation, I believe Hong Kong is well served both by its public servants and its administrative system and that this is one of the vital components and contributors to the way of life we enjoy. We must keep it this way, and only gradually introduce necessary changes with the longer-term composition of the public service in mind.

Training is part of the process of ensuring value for money, to ensure that the ability of staff at all levels is fully developed and used; and that Hong Kong has a Civil Service of high calibre and quality. A wide variety of training opportunities is available to civil servants—from courses to improve the performance of specific duties, to improve general administrative skills and to prepare for increasing responsibilities right to the top of the service.

During this financial year, 14 000 civil servants will receive in-service training organised by the Civil Service Training Centre and by individual departments. A further 11 000 will benefit from courses run by outside institutions.

In addition, overseas training programmes are provided where suitable programmes are not available locally or when there are insufficient places to

meet the demand. Such training broadens their outlook and is important for all managerial staff. This year, over 600 officers will go overseas for various courses.

In the administration of Hong Kong more use is being made of Chinese alongside English and language training has assumed an increasing importance. Both English and Chinese instruction is arranged. There are courses in Putonghua and written Chinese for local officers; and there are Cantonese training courses for overseas officers, in particular, Administrative Officers, Police Inspectors, judicial officers and others who are required to speak Chinese in the course of their work.

Mr. Peter POON and Mr. Helmut SOHMEN have reminded us of the need to pay the Civil Service fairly but not excessively and to avoid the possible seesaw effect of calls for parity from the public and private sectors. Because of this, the Standing Commission on Civil Service Salaries and Conditions of Service will conduct a pay level survey this year to find out whether the present levels of remuneration of civil servants, including both salaries and fringe benefits, are broadly in line with those of employees in the private sector. The survey findings, together with the standing commission's recommendations, will be available early in 1987. Staff associations and those interested in the private sector will be invited to advise the standing commission on matters concerning the pay level survey at various stages through an advisory committee.

In future to avoid a repetition of the disagreements we have recently experienced, pay level studies in respect of directorate officers and non-directorate staff will be synchronised. The Government will also shortly invite the standing commission to review the Civil Service consultative machinery. This will include an examination of the representation of non-directorate staff in the staff councils. The last comprehensive review was undertaken by the standing commission in 1980. All those concerned will be given ample opportunity to forward their views.

Both Mr. YEUNG Po-kwan and Mr. Martin LEE expressed concern about the shortage of local officers in the judicial service, I have recently, in answering a question in this Council, described the measures taken to encourage the intake of Cantonese-speaking magistrates and judges. To recapitulate, the entry qualifications for magistrates have been relaxed and direct approaches have been made to members of the legal profession to invite them to join the service. Some headway has been made: the number of judicial officers on local terms of service has increased from 19 to 35 over the last six years. In addition, a review of the terms and conditions of appointment of judicial officers is now being pursued in consultation with the Chief Justice with a view to attracting more local officers to the bench.

Mr. CHEUNG Yan-lung suggested that the Government should provide, that is build or buy, more of its own office accommodation. This is our objective. An

office building programme is moving ahead, with a target of 70 per cent self-sufficiency by 1991. The Government also purchases office space as and when there is an opportunity to do so at a reasonable price.

Dr. CHIU Hin-kwong referred to the British Military Hospital as a 'white elephant'. The hospital is a necessary part of the garrison and is funded, as Dr. CHIU rightly points out, under the Defence Costs Agreement. The point at issue is the terms on which civilian patients should be referred to it. That they are referred to it represents an effort to make full use of it. But the doubts and concerns expressed are understood and the Secretary for Security is now examining this question in its various aspects with the aim of putting forward proposals for more cost-effective use and to arrive at firm conclusions.

Mr. Martin LEE, Mr. YEUNG Po-kwan and Mr. Peter WONG suggested that legal aid should be administered by the legal profession, independently of the Government but with the continued use of public funds.

The provision of legal aid was the subject of a recent report by an inter-departmental working group chaired by the Deputy Chief Secretary, which has been sent to both the Bar Association and the Law Society for their views. Their views will be incorporated and commented upon in a draft consultative document to be published for public comment. I shall not therefore at this stage reply in detail to the points made by Members, which will be covered in the consultative document, and will no doubt be the subject of further public discussion before decisions are taken.

Sir, this is the first Budget debate in this Chamber with its new and enlarged membership. It follows several days of scrutiny of the draft estimates in public, following allocation of programme areas to groups of Members. The debate has been marked by that same spirit of concern and enquiry which now is a regular part of Finance Committee meetings, which also take place in public. Accountability in public for the management of the public finances of Hong Kong has become an important feature of our system and I must thank Members most sincerely for the time and effort they have spent over the past weeks in safeguarding the public interest during the course of this debate.

With these remarks, Sir, I have much pleasure in supporting the motion.

4.15 pm

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

4.37 pm

HIS EXCELLENCY THE PRESIDENT: Council resumes.

FINANCIAL SECRETARY: Sir, as usual I will first bring you up-to-date on the latest state of the Government finances. I have always stressed the difficulties of forecasting outturn given the limited information available to us at the time of preparing the Budget. This year has proved to be no exception. We aim at a fail-safe, conservative view at each stage.

In my Budget speech I indicated that some of the revenue forecasts might prove to be too conservative and that we had also been cautious about the impact of the fall in the economic growth rate in 1985 on profits tax and related areas of revenue. Both these observations have subsequently turned out to be right and the major areas requiring updating are indeed in respect of increased land revenue and improved yields from profits taxes.

At the time of preparing the Budget speech the exact amount of land revenue required to be shared between the future SAR Government and the Hong Kong Government was not finally decided. It has however recently been agreed that revenue from certain land transactions which had been decided upon prior to 27 May 1985 need not be shared. As a result approximately \$250 million related to these transactions has now been credited to the general revenue account instead of to the Capital Works Reserve Fund.

The amount of tax collected has exceeded the revised estimate by approximately \$1 billion. Profits tax alone accounts for more than \$700 million of this sum, a good part of which is due to a decrease in hold-over claims compared to what had previously been anticipated. This coupled with an improvement in the already competent processing and issue of profits tax assessments has thus boosted our tax yield significantly.

Although an additional \$200 million expenditure, incurred in respect of the Tregunter case, partly offsets the effect of these changes, unexpectedly no provision was required for a Civil Service pay adjustment, that is to say the last financial year. The surplus on general revenue account for 1985-86 is consequently expected to increase from the \$98 million indicated in my Budget speech to \$1,177 million—say \$1.2 billion (1). This represents a further swing of only just over 1 per cent of Government's total turnover of expenditure plus revenue and means that we go into 1986-87 in a stronger financial position (2). I hope that my estimate of a Budget surplus of \$348 million for 1986-87 may also prove to be on the conservative side. It is, however, much too soon to say. Civil Service pay requirements are certainly higher than projected.

Many Members of this Council have commented on my forecasts of the 1986 economic prospects. Some considered my forecast growth rates of exports and re-exports a little conservative; others considered them to be optimistic. There

(1) See Appendix A.

(2) The total swing is from a forecast deficit of \$961 million to a surplus of \$1.17 billion—\$2.131 billion. This is not significant on a turnover of \$80 billion. Luck has gone our way. It will not always do so. Thus the need for smoothing is reinforced.

is no consensus view either inside or outside this Council. In truth we are subject to external forces.

As I pointed out, the forecast of domestic exports is the most crucial part of the whole exercise. It is also the most difficult because of the impact of factors which are simultaneously outside our control and difficult to predict—not least because of the trend towards protectionism. On this last point, I can assure Members that the Government will continue to do its best to protect Hong Kong's trading rights and interests through formal negotiations and informal lobbying.

As regards trade generally, domestic exports and re-exports to our major markets in the first two months of this year were lower than was implicit in my forecasts. But because export statistics for the early months of a year tend to be affected by seasonal factors, we should not be unduly discouraged by this. Indeed, preliminary figures suggest that the performance of domestic exports has improved in March. You will not find this comment in the printed text of my speech because the figures have only just become available. Domestic exports in March were actually about 22 per cent higher in money terms than in March 1985. Contrarily re-exports were just under 6 per cent lower. Although not too much should be read into one month's good performance for domestic exports, I do not think these figures are a flash in the pan in terms of the recovery which they suggest.

There have for some time been signs that there will be a continued improvement in export performance in the coming months. Retained imports of raw materials and semi-manufactures, after declining for four quarters on a year-on-year comparison, grew again in the fourth quarter of 1985, and the growth rate accelerated sharply in the first two months of this year. The declining trend in the order book positions in the manufacturing sector appears to have bottomed out. In particular, the order book positions of the textiles and clothing industries have registered significant increases since the second half of 1985. The latest information collected from industrialists suggested that they were becoming more optimistic about export prospects for the rest of this year, particularly in the second half. As a result of the fall in oil prices, the 1986 growth rates for some of our major export markets, particularly the United States, have recently been revised upwards. Hong Kong's domestic export performance should benefit from enhanced growth in these countries.

On the other hand, early indications of the way that the measures understandably adopted by China to restrict imports and to control the use of foreign exchange reserves are working suggest that my forecast growth rates for domestic exports and re-exports to China might have underestimated the adverse effect of such measures on Hong Kong's export performance.

It is nevertheless far too early to contemplate revising either of these forecasts or that for the GDP. They stand unchanged. The appropriate time for any revisions will be the mid-year review in September.

Some Members expressed their concern that private sector investment in plant and machinery was increasing too slowly. I would share their concern if last-year's fall of 3 per cent was repeated this year. However, I am forecasting a growth rate of 3 per cent for 1986. Last year's poor performance was, I believe, in part a reaction to the 24 per cent growth rate recorded in 1984 as industrialists adjusted their productive capacity to the reduced export demand for Hong Kong's products in 1985.

The rate of inflation at present is around 3 per cent, which makes my forecast of 5 per cent on average for 1986 seem high. It allowed, however, for some further depreciation of the Hong Kong dollar against other major currencies during the year, which may or may not occur. Despite the unfavourable consequences for inflation, the depreciation of the Hong Kong dollar has been useful in restoring the competitiveness of our exports. Although Hong Kong is not a major importer of oil or oil products, the fall in oil and coal prices has been a favourable factor as far as inflation is concerned and may well result in an outcome lower than my forecast of 5 per cent.

I turn now to the course of the debate. In response to the many valuable points raised which fall for reply by me, I propose to deal with Miss DUNN's speech specifically in recognition of her position.

It is a happy conclusion to four years of severe adjustment while maintaining all major programmes that there is little in her helpful comments with which I disagree.

With great respect, she seems to me to be balanced in her advice about setting the Budget in the context of a longer-term forecast, about basing budgetary strategy on revenue rather than expenditure (which at last is possible) and about the balance between revenue and expenditure. I totally share her general views about the importance of curbing inflation, though we may have to concede a temporary one year hiccup to reflect the generally helpful fall in the value of the US dollar. I am possibly even tougher than she on the need for Government frugality in the constant pursuit of restraint in public sector expenditure. This seems to me to be the key to so many problems from which other economies suffer.

She is perhaps a little unkind about transfers to and from funds. Those transferred in the last financial year arguably reflect one-off treatment as capital of windfall extraordinary land revenues, while the \$800 million transfer from the Home Ownership Fund in this financial year represents the outcome of good management. I also like her am irritated by the failure of the ratio of public sector expenditure to GDP to fall below 16 per cent as I had expected. This only shows last year's unhappy GDP outcome. I accept that this is only an excuse, though it is true. The growth in public sector expenditure on consolidated account last financial year was 3.2 per cent in real terms. The effects of tight control are clear.

She is right about maintaining and indeed increasing the real value of the surpluses—and thus funds. In smoothing good with bad years a surplus of about \$1 billion annually should ideally be aimed at. We have clearly made a good start. She may also be reassured by the appreciation that in the medium range forecast projected expenditure of \$2 billion may be over conservative—that is to say may be over stated: \$1 billion each for MTR equity injection and the Government bond redemption. It is however too early to be other than cautious. Moreover, other possible financial commitments lurk in wait, for example, over the provision of hospital care. I not only accept Miss DUNN's concern about my two-handed approach to consolidated accounts and national income accounts but I am equally worried about the use of my third hand, which I use to hold the till shut. I am also always concerned about future forecasts, which being usually wrong tend to obscure the fact that wise men and women stack up reserves or savings when they can.

I have already spoken in this Council about most of Miss DUNN's fair points concerning the Exchange Fund. It is very large, very safe and very liquid. The equity holdings in Hong Kong, which she mentioned, arose only from transfer at arm's length from the Financial Secretary Incorporated in 1982-83 as I scraped the barrel in an effort to find desperately needed general revenue. There is also the significant holding of 20 per cent of Cable & Wireless (HK) Limited, which is worth far more than we first paid for it. A study has for some time been underway on the disposal of some or all of these holdings. They are arguably not appropriate to the Exchange Fund, though some difficult aspects of policy are clearly involved. Any deals will again be at arm's length on the strength of impartial outside advice.

I wish Miss DUNN and my successor success with the necessary review of the relationship between consolidated and national income accounts. It is a horribly complex area, which requires esoteric expertise.

After the ulcers and high blood pressure generated by five years of budgetary, currency and banking problems, my expectation of life may be limited. But precedent is at least reassuring. Miss DUNN (or at least I hope so) will be pleased to know that all Financial Secretaries appointed since 1937 are still alive, fortified equally no doubt by gin, friendship with Unofficials and good humour.

I shall now deal with the other issues to which I need to reply. I will try and cover all important points in generalisation without referring to specific Members. If I miss a particular Member's fervent thrust it is by inadvertence and not design. I shall seek to give an overall view and then deal with monetary issues, taxation including both policy and detail, and then round up other points. Arguably about the most important issue for Hong Kong is the outlook for the economy about which I have spoken earlier. It is good.

Members will appreciate that the Budget and medium range forecasts are presented by the Government. They are not a personal foible of the Financial

secretary although his views are persuasive. I will not, therefore, make any implications which my successor might not accept. It must be generally helpful to continuity and thus stability that he has been closely involved in the preparation of the past three Budgets and shares my general views—including the importance of maintaining the currency link.

In my opening years in office it surprised me how in this annual debate several Members in the same speech could simultaneously promote lower taxation, tighter limitation on spending *and* a greatly increased contribution from revenue for their particular interests. We have had the same experience in this debate. I now quite appreciate that this approach reflects only the very real pressures on Members and their reflection of them to the public—and in some cases to their constituents. It is for the Government to provide the necessary balance. Few Members do not accept the paramount need to create wealth before dividing it. All see the purpose of putting Hong Kong's finances back into a state of equilibrium, backed by appropriate reserves. Most accept the imperatives of low taxation and especially low direct taxation.

I turn now to monetary and allied issues. It is the Government's firm policy to maintain the currency link to the US dollar at \$7.80. As an inevitable outcome of flotation to expose the Hong Kong dollar again to huge international speculation would I submit be quite irresponsible. Hong Kong needs stability. Moreover we can have no idea whether the Hong Kong dollar in the absence of the link would rise or fall. Its value would probably shift like a yo-yo. Moreover it should not be forgotten that the previous system provided no control of the money supply—one factor in the property collapse.

Several intelligent if disputatious suggestions have been made about monetary aggregates, promoting the capital markets, and other arcane matters. I am not sure that it would help if I replied in philosophical bent in this speech and I suggest that in the first place a study might be conducted by a sub-committee of the Hong Kong Association of Banks. If a consensus can be found, which may be difficult, it could be presented to the Banking Advisory Committee. If they agree, the Government must find their joint views persuasive. They are both important statutory bodies. I was amused by another suggestion about the provision of long-term credit on the cheap. If only money grew on trees! The teasing source of this regurgitation knows my views. They are simply that the consequential burden on the revenue is unacceptable.

I have made no proposal for significant increases in taxes in real terms this year. My main purpose is to maintain the yield. To this end banking and DTC fees, like vehicle and petrol taxation, have gone up only moderately in money terms.

I fully share the view expressed about the importance of the Securities Commission. It is an excellent, broadly based body with a first class chairman. Securities and banking issues are closely allied. It is for this reason that later this summer the Commissioner for Securities like the Banking Commissioner will

report to the Secretary for Monetary Affairs. Their concerns will therefore be fully co-ordinated. Of course adequate staffing is essential. Finally I welcome the helpful comments in the speech of the elected banking Member on the use of the Exchange Fund. It was not generally mentioned by the media.

And now for taxation. I will not repeat my Budget speech. Bearing in mind the priority of promoting trade and encouraging investment in industry the significant factors affecting taxation policy seem to be:

Firstly: Direct taxation must be kept low, however progressive it is. There must be no unnecessary fettering of initiative or hard work.

Secondly: Indirect taxation while regressive usually allows a degree of choice. For example, salaries tax cannot be avoided; that on cigarettes or soft drinks or alcohol easily can be.

Thirdly: At the end of the day there has to be a subjective balance between the two broad forms of taxation. 60:40 on empirical evidence seems to suit Hong Kong. It offers a balance between regression and progression. More important, it is reasonably productive of revenue.

Fourthly: The overall purpose of taxation is to raise sufficient revenue to balance the Budget—and balance means a target of a reasonable surplus, if necessary spread over a period.

Fifthly: Within the broad band of indirect taxation, taxes should, I believe, be raised mainly for revenue purposes. Apart from cross-harbour tunnel, vehicle and petrol taxes where prevention of unacceptable congestion is an important issue, there is indeed no social engineering involved.

I think that people in Hong Kong are fed up with new or changed taxes and seek the stabilisation made possible again by balanced Budgets. While thereafter in theory indirect taxation can be adjusted by mathematical calculation plus social sensitivity, it is not so easy in practice to make generally acceptable major changes. For example, if we eliminate taxes on soft drinks and perfumes, where do we find \$278 million per year? I am not alone in disliking the high air passenger departure tax, but what other source affords \$550 million a year? The Jockey Club goose cannot be squeezed too much. Value added or sales taxes in theory offer an alternative approach, but I caution against major change without great study and consultation.

As for the direct taxes, the Government will consider carefully the future case for further increasing personal allowances when the budgetary situation allows, for larger investment allowances (which consort ill with low direct taxation and create complexity), the case for separate tax for married women (which would be expensive), for deductions for selective allowances such as private medical expenses, medical insurance and mortgage interest (which are expensive in terms of revenue and administration), and so on and so forth. But-at the end of the day a balance has to be struck. For every concession there

needs to be an equal addition either in the shape of a new tax or an increase on an existing tax. On the whole, as I have said, I prefer stability. I do not pretend that the present balance is perfect. But change might be for the worse.

Let me give my parting views in this area. I hope that in the next year or two it may be possible to reduce corporate profits tax to the standard rate of 17 per cent. In my opinion this merits higher priority than changing consumer taxes or complicating with detail the relatively simple direct taxes.

I do not like the concept of an independent tax commission. It seems to me that responsibility rests with the Government and cannot be shared. Debate should then take place inside the Legislative Council who must agree these matters themselves.

I will comment only en passant upon aid to industry because the Secretary for Trade and Industry has ably yet again presented our policies. They have stood the test of time, though we must be open to gentle change if necessary. I believe that we must continue to build up our infrastructure in particular in the educational field. I believe that there is general agreement that investment in a third university is wise, though, surprisingly only one Member mentioned it. Few would have preferred as an alternative a comparably expensive programme of direct intervention in what would possibly be a series of expensive white elephants. Resources are anyway limited and always will be limited. Hong Kong cannot afford research institutes of shipbuilding and repair (once our biggest industry), of sugar refining (once the biggest in Asia), of artificial flowers and wig manufacturing. All once important have collapsed. I still think that in general business is best conducted by motivated businessmen in a low tax economy supported by a well educated workforce and a good infrastructure.

I have consequently long shared the general view that the Government should not be involved in activities that can arguably be done better in the private sector. In general, privatisation is good. But problems abound. Choosing my words carefully, permanent civil servants do not seem to be enthusiastic about being asked to leave Government employment except with generous compensation. Disestablishment is not easy.

I would now like to deal with a number of unrelated comments which do not fit neatly into any particular category. Several Members spoke about the need to build up the value of the fiscal reserves in real terms. I certainly agree. I cannot however accept the advice of one Member that the growth rate of public sector expenditure should be limited to 75 per cent of the growth rate of GDP. While I am a conservative I cannot believe that this would marry with public aspirations. Smoothed public sector growth just below long-term GDP growth seems a balanced objective.

I entirely share the views of several other Members on the importance of the value for money studies. This is an innovation by Finance Branch, which has my total support. It has been extremely successful.

There was comment on the increase in manufacturing wage rates between 1982 and 1985. If one looks at payroll per person engaged—which includes such earnings as overtime pay, irregular bonuses and allowances—an increase of 16 per cent in real terms was recorded for the manufacturing sector over these years, representing an average increase of 5 per cent per year in real terms. Of course some get more and some less in any average. The services sector has fared even better.

One Member complained that there had been no forecast of capital works programme expenditure over the next five years. It is in fact included in Table 2 to Appendix A in the annex to the Budget speech.

In general terms I am sympathetic to the views expressed about the case for bringing in small service charges at the border so that those who use the many and increasing facilities should pay their proper share of the rapidly growing administrative and particularly capital costs. This would of course be a charge not a tax. The present situation could be argued to be one which requires subsidisation of travellers by non travellers. As Members will all understand, however, this is a sensitive area in which there are divergent views. Consequently a study is now underway. There will be no early conclusion.

One Member spoke about the need for qualitative improvement as well as quantitatively increasing public sector expenditure. I entirely agree but within the resources available.

There was a suggestion that the five-year forecast was not sufficiently detailed. I note this comment though I am not sure that I agree with it. It is after all only a planning tool not a detailed prognosis.

There was also a suggestion about double taxation problems. Because of our low rate of tax, coupled with the territorial source criterion, it has long been the Government's view that conventional double tax agreements have no place in our system. There was another suggestion about tax refunds. We will look into the possibility. A third suggestion concerned an advance clearance scheme by the IRD. Already it has been decided that advance rulings will be given in relation to the possible application of the recently enacted anti-avoidance provisions.

Several suggestions were made that really apply to the new Banking Bill. I hope to be able to address them in the subsequent debate.

I find it difficult to accept the accusation that the medium range forecast postulates growth of 4.5 per cent in GDP. This is simply not true. We have made this an immediate underlying assumption. If it proves to be misplaced it can be adjusted each year as the medium range forecast is rolled forward. I am myself optimistic for the future.

I am deeply grateful for the kind personal comments that have been expressed by many Members, most of whom are also candid friends—the best sort. They should be extended to my wife who has carried many burdens not least me. I have done what I can to promote and safeguard the prosperity and stability of Hong Kong. I have never allowed myself to forget both present issues and the future interests of the 6 million people who will live here in and after 1997. And I said several years ago that I know that the view from a temporary housing area is not the same as that from the Peak.

For my few remaining weeks and for my able successor's term of office my parting plea is: 'Don't shoot the pianist: he is doing his best'. We are all colleagues in a Council in which there is no divide between Government and opposition. We are all on the same side in promoting the stability and prosperity of Hong Kong and I warmly echo the views of the Chief Secretary about Members' time-consuming and responsible contributions.

I beg to move.

Question put and agreed to.

Bill read the Second time.

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

APPENDIX A

GENERAL REVENUE ACCOUNT

REVISED ESTIMATES 1985-86

	<i>Printed</i> <i>Revised Estimates</i>		<i>Updated</i> <i>Revised Estimates</i>	
	(\$mn)	(\$mn)	(\$mn)	(\$mn)
<i>Recurrent Account:</i>				
Revenue	35,443		36,380	
Expenditure	<u>29,326</u>	<u>6,117</u>	<u>29,280</u>	<u>7,100</u>
<i>Capital Account:</i>				
Revenue	4,468		4,750	
Expenditure	<u>10,487</u>	<u>-6,019</u>	<u>10,673</u>	<u>-5,923</u>
Surplus		<u>98</u>		<u>1,177</u>
<i>Component</i>		<i>Printed</i> <i>Revised</i> <i>Estimates</i> (\$mn)	<i>Updated</i> <i>Revised</i> <i>Estimates</i> (\$mn)	
Personal Emoluments		10,959	10,960	
Personnel Related Expenses				
Pensions		1,245	1,230	
Other		1,206	1,200	
Departmental Expenses		3,005	2,980	
Other Charges				
Defence Costs Agreement		1,344	1,340	
Other		3,524	3,520	
Subventions		<u>8,043</u>	<u>8,050</u>	
Total Recurrent Expenditure		<u>29,326</u>	<u>29,280</u>	
Plant, Equipment and Works				
Defence Costs Agreement		36	40	
Other		370	370	
Other Non-Recurrent		459	670	
Subventions		569	540	
Transfers to Funds				
Capital Works Reserve Fund		5,800	5,800	
Development Loan Fund		1,300	1,300	
Student Loan Fund		30	30	
Mass Transit Fund		<u>1,923</u>	<u>1,923</u>	
Total Capital Expenditure		<u>10,487</u>	<u>10,673</u>	

SMALL CLAIMS TRIBUNAL (AMENDMENT) BILL 1986**Resumption of debate on Second Reading (9 April 1986)**

DR. IP: Sir, I will speak only on the two principal provisions of this Bill. The first provision is to increase the monetary jurisdiction of small claims tribunal from \$5,000 to \$8,000. This provision, as fully explained by the Attorney General at the Second Reading of the Bill, is unanimously supported by Unofficial Members; it is understood that both the Bar Association and Law Society have also been consulted on it and both bodies supported the principle.

The second provision proposes to amend the time limits for the hearing of a claim. At present the rule is that a case cannot be heard earlier than 10 days or later than 60 days after the filing of the claim unless both parties agree; the proposed amendment removes the 10-day bar and increases the limit of 60 days to 90 days. Members support the removal of the 10-day bar as it will enable consumers, particularly short stay tourists, to obtain speedy redress against malpractices by unscrupulous retailers. Members, however, are not convinced of the arguments to increase the 60-day limit to 90 days and an ad hoc group was set up to further discuss the issue with the Administration.

The main concern of Members is that the essence of a small claims tribunal is that it should allow small claims to be pursued in a quick and inexpensive manner and these characteristics should not be unnecessarily tampered with. The proposed 90-day limit appears to be too long for the efficient functioning of such a tribunal. The ad hoc group set up to study the Bill has had the benefit of lengthy and detailed discussions with the Registrar of the Supreme Court. As a result Members are keenly aware and deeply concerned that the heavy workload of the tribunals makes it difficult to meet the 60-day limit and a further increase in workload which is anticipated from the increase in jurisdiction, will worsen the situation. It is understood that on occasions the statutory time limit for setting cases down for hearing can only be complied with by an administrative arrangement whereby organisations which wish to file large batches of claims at one time are requested to stagger the filing. Although this administrative arrangement is never applied to claims by private individuals the situation is regarded as unsatisfactory by the Registrar of the Supreme Court; and Members of the ad hoc group wholeheartedly agree with him.

Nevertheless the solution, as we see it, does not lie in extending the statutory time limit; for to do so would be to erode one of the fundamental principles on which the Small Claims Tribunal legislation is based—that persons with small claims should have speedy access to a judicial tribunal. The better course, in our view, is to retain the present statutory time limit and to deploy sufficient resources to meet it. If it proves to be the case that existing staffing levels are clearly inadequate to make the legislation effective then the Administration will no doubt consider recommending an increase in public expenditure in order to make the legislation work, and if so, and if such recommendations are justified,

Members will support this recommendation. For the moment, however, it is the view of the ad hoc group that the principle of speedy access to small claims tribunals must not be eroded—and it is on this basis that I shall be moving an amendment in Committee of retain the present limit of 60 days.

Sir, with these remarks, I support the motion.

ATTORNEY GENERAL: Sir, on behalf of the Government, I would like to thank Dr. Henrietta Ip and Members of the ad hoc group for devoting so much attention to the details of this Bill.

I recognise that the problem of meeting the irregular flow of work in the Small Claims Tribunal can be overcome in more ways than the one which was proposed by this Bill. The further enquiries made by the ad hoc group of the Registrar of the Supreme Court have shown that the existing time limit can be met if additional resources were to be made available. I understand that the Registrar of the Supreme Court has begun to examine the present staffing levels of the Small Claims Tribunal so as to assess the additional resources that will be needed to enable all claims to be heard within 60 days.

Accordingly, the Government will support the amendments which will be moved by Dr. Ip in the light of her assurance that Members of this Council will support any increase in public expenditure that may be required if the present time limit is to be retained.

Question put and agreed to.

Bill read the Second time.

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

PNEUMOCONIOSIS (COMPENSATION) (AMENDMENT) BILL 1986

Resumption of debate on Second Reading (9 April 1986)

DR. CHIU: Sir, the Pneumoconiosis (Compensation) (Amendment) Bill 1986 conditionally enables the dependants of a pneumoconiosis victim who dies from a cause other than pneumoconiosis to claim compensation on his behalf even without a certificate issued by the medical board before his death. The proposed provision does signify a certain amount of improvement.

The payment of compensation, whatever the amount may be, can never make up for the irreversible damage to the victim and loss to his family. Although the amendment is well received, yet the Bill itself is quite remedial in nature. Would it not be more constructive if preventive measures were also introduced and be dealt with simultaneously?

At present, some Government departments are taking care of public education on industrial safety. However, the construction and quarry industries in Hong Kong and the workers in high-risk areas need to be further educated about known methods for protection against and early detection of health problems. Protective measures and programmes for spreading information about them need to be evaluated. All these positive actions will not only be beneficial to the Hong Kong work force but they are also essential to the Hong Kong Government in deciding on the amount of levy.

Actions like these have financial implications. I wonder whether or not we can make use of the interest generated from the Pneumoconiosis Compensation Fund for this purpose?

Being the biggest employer of construction workers in Hong Kong, the Building Contractors Association has all along been concerned about the well-being of its employees. I, therefore, believe that the association will accept the aforesaid ideas.

Where the funds come from is merely a technical problem. The most important thing is that pneumoconiosis must be prevented before it is too late. This is what we ought to do and do quickly.

With these remarks, Sir, I support the motion.

SECRETARY FOR EDUCATION AND MANPOWER: Sir, Dr. CHIU supports the (Amendment) Bill as far as it goes, and I am grateful for his support. He also urges the Government to consider further amendments to the Pneumoconiosis (Compensation) Ordinance to allow a proportion of the fund's levy income to be spent on education and publicity to encourage workers in high-risk industries to take protective measures against the danger of contracting pneumoconiosis.

This is at first sight an attractive suggestion, and has indeed been made previously in this Council by the hon. Ho Sai-chu on 4 December 1985, in connection with a proposal to reduce the rate of the levy imposed under the Pneumoconiosis (Compensation) Ordinance. On that occasion I pointed out that the arrangements made for compensating victims of pneumoconiosis should not be viewed in isolation but should be seen in their context as an aspect of employees' compensation generally. Under the Employees' Compensation Ordinance, an employer is required to pay a specified sum, or a determined percentage of that sum, by way of compensation. He is not in addition subject to a levy to finance educational and publicity activities to promote industrial health and safety. In the case of pneumoconiosis employers are held collectively responsible for compensation, and pneumoconiosis victims are compensated from a fund financed by a levy on the construction and quarry industries. This arrangement is necessary because the disease, which is specific to these two industries, can take many years to make its presence felt, and it is therefore difficult, if not impossible, for the liability for the payment of compensation to be attached to an individual employer. However, this difference apart, the

principles for compensation of pneumoconiosis victims should accord with the principles adopted generally for employees' compensation. In other words, the construction and quarry industries should not be expected to contribute by way of levy substantially more than is necessary to ensure that all pneumoconiosis victims receive the appropriate compensation. Diversion of a proportion of levy income into education and publicity work would in effect be requiring one sector of industry to finance activities which are elsewhere funded out of general revenue, and might be considered unfair by the industries concerned.

Nevertheless, I recognise that the additional work in question is desirable, that it may not be financed in the immediate future through public funds, and that it could, with minor amendments to the Ordinance, be financed out of the levy on the construction and quarry industries. Accordingly, I am prepared to consult the views of these industries on Dr. CHIU's proposal. It is possible that prevention now might result in fewer compensation cases, and hence a lower rate of levy, later. If they are generally agreeable, I would be prepared to consider appropriate amendments to the Ordinance.

Question put and agreed to.

Bill read the Second time.

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

Committee stage of Bills

Council went into Committee

SMALL CLAIMS TRIBUNAL (AMENDMENT) BILL 1986

Clauses 1 to 6, 8 to 12 were agreed to.

Clause 7

DR. IP: I move that clause 7 be amended as set out in the paper circulated to Members.

Proposed amendment

Clause 7

That clause 7 be amended by deleting '90 days' and substituting the following—
'60 days'.

The amendment was agreed to.

Clause 7, as amended, was agreed to.

PNEUMOCONIOSIS (COMPENSATION) (AMENDMENT) BILL 1986

Clauses 1 to 5 were agreed to.

Council then resumed.

Third Reading of Bills

THE ATTORNEY GENERAL reported that the

PNEUMOCONIOSIS (COMPENSATION) (AMENDMENT) BILL 1986

has passed through Committee without amendment and the

SMALL CLAIMS TRIBUNAL (AMENDMENT) BILL 1986

has passed through Committee with an amendment, and moved the Third Reading of the Bills.

Question put on the Bills and agreed to.

Bills read the Third time and passed.

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT: In accordance with Standing Orders I now adjourn the Council until 2.30 pm on Wednesday 30 April 1986.

Adjourned accordingly at twenty-five minutes past Five o'clock.

Note: The short titles of motions bills listed in the Hansard Report have been translated into Chinese for information and guidance only; they do not have authoritative effect in Chinese.