

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 4 May 1988****The Council met at half-past Two o'clock****PRESENT**HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)

SIR DAVID CLIVE WILSON, K.C.M.G.

THE HONOURABLE THE CHIEF SECRETARY (*Acting*)

THE HONOURABLE THE FINANCIAL SECRETARY

MR. PIERS JACOBS, O.B.E., J.P.

THE HONOURABLE THE ATTORNEY GENERAL

MR. JEREMY FELL MATHEWS, J.P.

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

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

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

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

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

THE HONOURABLE CHAN YING-LUN, J.P.

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

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

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

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

THE HONOURABLE JOHN WALTER CHAMBERS, O.B.E., J.P.

SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE JACKIE CHAN CHAI-KEUNG

THE HONOURABLE CHENG HON-KWAN, J.P.

THE HONOURABLE HILTON CHEONG-LEEN, C.B.E., J.P.

DR. THE HONOURABLE CHIU HIN-KWONG, J.P.

THE HONOURABLE CHUNG PUI-LAM

THE HONOURABLE THOMAS CLYDESDALE, J.P.

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 DESMOND LEE YU-TAI
THE HONOURABLE DAVID LI KWOK-PO, J.P.
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
DR. THE HONOURABLE DANIEL TSE, O.B.E., J.P.
THE HONOURABLE ANDREW WONG WANG-FAT
THE HONOURABLE LAU WONG-FAT, M.B.E., J.P.
THE HONOURABLE GRAHAM BARNES, C.B.E., J.P.
SECRETARY FOR LANDS AND WORKS
THE HONOURABLE RONALD GEORGE BLACKER BRIDGE, O.B.E., J.P.
SECRETARY FOR EDUCATION AND MANPOWER
THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
SECRETARY FOR TRANSPORT
THE HONOURABLE EDWARD HO SING-TIN, J.P.
THE HONOURABLE GEOFFREY THOMAS BARNES, J.P.
SECRETARY FOR SECURITY
THE HONOURABLE PETER TSAO KWANG-YUNG, C.P.M., J.P.
SECRETARY FOR ADMINISTRATIVE SERVICES AND INFORMATION

ABSENT

THE HONOURABLE PETER C. WONG, C.B.E., J.P.
DR. THE HONOURABLE HO KAM-FAI, O.B.E., J.P.
THE HONOURABLE MRS. PAULINE NG CHOW MAY-LIN, 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):

<i>Subject</i>	<i>L.N.No.</i>
Subsidiary Legislation:	
Dutiable Commodities Ordinance	
Dutiable Commodities (Liquor) (Amendment) Regulations	
1988	124/88
Marine Stores Protection Ordinance	
Marine Stores (Amendment) Regulations 1988	125/88
Massage Establishments Ordinance	
Massage Establishments (Amendment) Regulation 1988	126/88
Boilers and Pressure Receivers Ordinance	
Boilers and Pressure Receivers (Exemption) (Consolidation)	
(Amendment) Order 1988.....	137/88
Factories and Industrial Undertakings (Cartridge-Operated Fixing	
Tools) Regulations	
Factories and Industrial Undertakings (Cartridge-Operated	
Fixing Tools) (Amendment of Schedule) Notice 1988	138/88

Sessional Papers 1987-88:

No. 56—The Government Minute in response to the Report of the Public Accounts Committee dated January 1988

Government Business**Second Reading of Bills****APPROPRIATION BILL 1988****Resumption of debate on Second Reading (21 April 1988)**

Question proposed.

SECRETARY FOR HEALTH AND WELFARE: Sir, one of the most prominent features of the Budget presented by the Financial Secretary on 2 March was the significant increase in the resources devoted to social services, both in absolute terms and as a proportion of total expenditure. The medical services' share of the total Budget rose from 9.4 per cent last year to 9.7 per cent in the current

year, while welfare spending (including social security) rose from 5.7 per cent to 6.3 per cent. As the Financial Secretary pointed out there are reasons why the increases are particularly sharp this year, but they are part of a continuing trend which is expected to result in medical expenditure reaching 10.9 per cent of the total Budget by 1991-92, and welfare spending reaching 7.1 per cent in the same year.

Most Members who spoke on these issues welcomed the increased allocation of funds, but Mr. NGAI Shiu-kit warned that Hong Kong should avoid becoming a welfare society; in his view it should be the Government's aim to facilitate the development of trade and industry so that each citizen can create his own wealth. I am sure that we would all agree with this, but I am glad that he also recognises that the Government must provide for those citizens, who, through no fault of their own, whether because of age, illness, disability or other reasons, are unable to share in the general prosperity. It is for this reason that a responsible government must provide adequate social services to ensure that the less fortunate members of our society are properly cared for. It does not seem to me to be unreasonable that a significant proportion of the fruits of Hong Kong's prosperity should be used for this purpose.

Mr. Stephen CHEONG proposed that means-testing should be used to ensure that help is concentrated on those who really need it. We do of course means-test the provision of some services, particularly those where cash payments are involved, such as public assistance and the fee assistance scheme for day nurseries, but we have to remember that means-testing is often difficult and expensive to administer, and therefore is not always cost-effective.

Medical and health services

Several Members made particular reference to the undoubted fact that the cost of providing medical services, particularly hospital services, is rising more rapidly than that of other social services and faster than the general rate of inflation. This is a problem which is facing health administrations throughout the world and which was brought out in the Scott Report on the hospital system. The consultants suggested that there might be a case for some adjustment to the proportions of the cost of these services which are met by the patient and the taxpayer respectively, with a significantly larger proportion being met in future from fees and other charges paid by patients. This would be a major change in the system and would need very careful consideration. The establishment of the Hospital Authority will make it possible for such changes to be considered, together with related issues such as the desirability of introducing a comprehensive medical insurance system.

I fully agree with Dr. IP and Dr. CHIU about the vital importance of preventive medicine and the promotion of health education. It is our intention to initiate the promised review of primary health care later this year. The relative roles of the public sector and private medical practitioners will be

examined, and the concepts of family medicine, health maintenance organisations and other possible approaches will all be addressed in this exercise.

Several Members asked for more information about the proposed establishment of the Hospital Authority. It was announced shortly before Easter that Sir S. Y. CHUNG had been appointed Chairman of the Provisional Hospital Authority which will start work in October this year. This body will have the task of making preparations for the establishment of the statutory authority. It is the intention that the Provisional Hospital Authority will consider and make recommendations to Government on the necessary legislation for incorporating the statutory authority, its formal relationship with Government, in particular the financial arrangements, as well as a regional structure which will provide a high degree of devolution of authority and responsibility to the regions and also the integration of the subvented hospitals. The Provisional Hospital Authority will not have any executive powers and the present system of hospital operation will continue until such time as the statutory Hospital Authority is formed, which we hope will be in 1989.

I fully accept that it is necessary as far as possible to allay the worries of the staff of the Medical and Health Department who will be affected by the changes. Proper channels of consultation with the staff have been established and there are now regular formal and informal contacts for views and ideas to be exchanged. All existing staff have been assured that they will be able to retain their civil servant status under the new system if they so wish, and that their present status will not be changed on the establishment of the Provisional Hospital Authority. There will need to be a great deal of further consultation before the new terms and conditions of appointment are accepted and implemented after the statutory Hospital Authority is established.

Miss TAM mentioned some of the consultants' recommendations which are capable of being implemented before the Hospital Authority comes into being. I can confirm that these recommendations are being considered for early implementation, and some have already been accepted as standards in the planning of new facilities.

Several Members referred to the high wastage rate of doctors in the public sector, especially in the subvented hospitals. This subject was discussed recently in the Medical Development Advisory Committee, and is a matter of considerable concern to us. It is no secret that a major factor in the movement of doctors from the public sector into private practice is the great difference in the monetary rewards obtainable in the two sectors. While we shall continue to consider improved career opportunities in terms of promotion and training for public sector doctors, which have already proved to be effective in persuading some doctors to stay, there is really no immediate solution to this problem.

In the longer term however, I am more optimistic that something can be done to improve the situation. One of the major objectives of setting up the Hospital

Authority is to create a uniform set of employment conditions for all staff in public hospitals; this will eliminate the present differences between the government and subvented hospital staff which must be at least partly responsible for the unacceptably high wastage rate of doctors in the subvented sector. I hope too that the new package will be more flexible than the civil service terms and that this will make it more attractive to the doctors.

I share Mr. CHEONG-LEEN's concern about the supply of dentists. It is my understanding that up to and including last year the graduates of the Prince Philip Dental Hospital were able to get jobs, but there is concern about the future. The Medical Development Advisory Committee has set up a Dentists Sub-Committee to look into this matter. The sub-committee consists of members representing the Dental Faculty of the University of Hong Kong, the Hong Kong Dental Association, the Medical and Health Department and my branch, and is expected to complete its report within the next few months. I hope that this report will give us a clearer picture of the situation, and enable us to decide what action needs to be taken.

I was interested in Mr. CHEONG-LEEN's suggestion that more use should be made of the private sector in meeting the Government's obligation to provide dental treatment for civil servants and pensioners. However, in view of the difficulties which occurred when this idea was previously tried, I doubt if it is a practicable proposition.

Both Dr. IP and Dr. CHIU referred to the British Military Hospital. No decision has yet been made on the future of this hospital, but if it is decided to redevelop the site, I would certainly support any proposal which would relieve the pressure on the very much overcrowded Queen Elizabeth Hospital.

Social welfare

I turn now to social welfare matters. The needs of the elderly figured prominently in the speeches of a number of Members and I agree that this is an area of major importance in the social welfare field. We have of course recently made a number of major improvements to social security benefits for the elderly which you, Sir, announced at the beginning of this session. This package of improvements included increasing the rates of old age allowance for those over 70 as from 1 April 1988 and extending the allowance on a phased basis to the 65-69 age group; this will begin this September.

Mrs. Pauline NG asked for the speedy provision of more care-and-attention homes for the elderly. This need is fully recognised and we are making every effort to meet the projected demand. In addition to purpose built homes, homes for the aged with care-and-attention places will also be provided in new public housing estates.

Dr. Daniel TSE referred not only to the need for more services for the elderly, but also to the general attitude of society towards the aged. Both Government

and the voluntary agencies have put considerable effort into programmes such as community care and family life education which are intended to promote respect for elderly people and I can assure him of government's continued support of these efforts.

Several Members voiced support for the legislative control of private homes for the elderly. In answer to a question in this Council last week I confirmed the Government's commitment to such legislation, with a target date of mid-1990 for its introduction.

Mr. CHEONG-LEEN suggested an increase in the number of subsidised child care places as a means of encouraging more women to join the labour force. At present, there are 278 child care centres providing nearly 30 000 places for children under six, and there are plans to provide additional aided nursery places at a target rate of 1 600 places per year.

Mr. HUI Yin-fat and Mrs. Rosanna TAM referred to social work manpower and training. Mrs. TAM pointed out the difficulties in long-term planning because of the fluctuation in the supply of social workers. It is true that there has been a continuing shortage of trained social workers during the 1980s and unfortunately this situation is expected to persist during the next few years. Planning of new services will have to take this into account. The Advisory Committee on Social Work Training is to discuss this issue in June and will, I hope, give advice on both a short-term and a long-term strategy to cope with this problem.

Mr. HUI stressed the need for social workers to be provided with in-depth training to assist them to respond to the increasing range and complexity of their responsibilities. Specialised and advanced training in the form of full-time overseas courses are provided but inevitably only a limited number of staff can be so trained each year. In addition, short courses and workshops are constantly being provided locally in specialist areas such as child abuse and delinquency.

As to the idea of a registration system of social workers, I understand that the profession and the Hong Kong Council of Social Service are considering a voluntary system, and I shall certainly follow these developments with interest.

Mr. David LI claimed that the voluntary agencies receive only 20 per cent of the funds provided for social welfare purposes, while providing more than 70 per cent of welfare services, a state of affairs which he ascribed to the inadequacy of the current subvention policy. I fear that in his efforts to praise the voluntary agencies for their resourcefulness—something which, incidentally, I would not for one dispute—Mr. LI has not taken account of the fact that a large proportion of the total expenditure in the Social Welfare Department and subvention heads is in the form of social security payments and not direct welfare services. If we exclude the social security payments from the calculation and compare like with like we find that of the total Budget allocated for the provision of welfare services, about 69 per cent consists of subventions to the

voluntary agencies, which is very close to the 70 per cent quoted by Mr. LI. I am grateful to Mr. LI for giving me the opportunity to put the record straight on this point.

Mr. HUI has again expressed concern at the disparity between the fringe benefits available to staff of subvented organisations and the public service. This is a complex area and there is little I can add to what the Financial Secretary said in this Council on 10 February. As he pointed out, fairness between the two groups does not necessary imply uniformity.

Mrs. Rosanna TAM referred to the need to study the impact of changes in population distribution when considering the provision of welfare services. Planning of such services in general, and in particular for the new towns, already takes account of the demographic characteristics of each area. Examples of this are nurseries, children and youth centres, elderly centres and outreaching social work. In the case of outreaching social work, account is taken of the size of the youth population and the crime rate, as well as the population density of the service area. However, experience points to the need be rather more flexible in welfare planning and we have already made a start by adopting such an approach in the planning ratio for children and youth centres, and a similar approach may be possible for other welfare facilities such as social centres for the elderly.

Mrs. TAM also pointed out the need to pay special attention to the needs of certain groups in new towns, such as young housewives and single parent families. I believe that social workers are generally sensitive to the social problems of people who are moving into new residential areas and programmes are provided to meet the specific needs of the more vulnerable groups, very often by mobilising local resources.

Environmental protection

On these occasions, I usually complain that very few Members have made any reference to the subject of environmental protection. This year, I am glad to say, a few more Members than usual have spoken on pollution and related problems, and I hope that this reflects a greater interest in this difficult subject. Certainly the Government is paying much more attention to these problems and this is demonstrated by the more than 100 per cent increase in the estimates for the Environmental Protection Department, although admittedly the number of dollars and cents is low when compared with my other responsibilities.

Much of the increase is due to two major new initiatives; the implementation, after many years of planning and discussion, of the agricultural waste disposal scheme, the first phase of which will come into effect on 24 June; and the provision of resources for the implementation of the Noise Control Bill which was endorsed by the Environmental Pollution Advisory Committee last week and I hope will be introduced into this Council in time for it to be enacted before

the end of this session. Once this Bill becomes law we shall then have a comprehensive set of environmental legislation covering all the main aspects of pollution control—air, water, noise and waste disposal.

I note Prof. POON's concern about the deterioration of our environment and agree with his observation that urgent and serious intervention is needed. It is for this reason that the Government intends to spend more than \$10 billion on environmental infrastructure over the next decade. However, I cannot agree with his suggestion that the enforcement of pollution controls is a negative approach to the problem. Our experience is that industry takes little notice of advice on pollution reduction methods before the introduction of legislative controls.

I understand that this has been the experience elsewhere in the world and I see no reason why Hong Kong should be different in this respect. Indeed, it is not uncommon for industry, especially the more responsible and larger companies, to welcome controls, providing they are properly enforced, because it places all those involved in the same sector on an equal footing.

Referring to the livestock waste control scheme, Mr. Andrew WONG repeated his view that it would have been cheaper and more effective to impose a total ban on livestock keeping. Sir, while such a policy is superficially attractive, it would not be acceptable, I believe, in Hong Kong to close down a whole sector of the economy in this way, without giving those concerned the opportunity to comply with the standards required. I must repeat that we are not against livestock keeping as such, but only against the serious pollution caused by the present uncontrolled, and indeed illegal disposal of livestock waste.

Mr. CHEONG-LEEN referred to the water quality at the beaches. I dealt with this at some length in my answer to Mr. CHEUNG Yan-lung's question last week and do not propose to repeat what I said then. This is a serious problem, for which we have short-term, medium-term and long-term remedies. But it will not be satisfactorily solved until the installation of a mains sewerage system in the southern part of Hong Kong Island is completed.

Several Members referred to the apparently slow pace of remedial measures against pollution in areas such as Kwun Tong. While welcoming Members' concern, it must be emphasised that despite the strengthening of the environmental protection and the commitment of substantial resources, significant improvements to the environment will, after years of neglect, inevitably take some time to become apparent. Prof. POON made the point that pollution problems can be avoided at no great cost if environmental factors are taken into account at the planning stage. He is of course quite correct, but where this has not been done it is often a long and expensive business clearing up the mess.

Sir, I support the motion.

SECRETARY FOR EDUCATION AND MANPOWER:

Education—general

Sir, in your speech at the opening of this session you pointed out that education is a vital element in economic and social progress. Your view is clearly shared by many speakers in the current debate.

Those speaking on higher education have tended to emphasise the need to continue our present rapid expansion. Those speaking on the school system have put more emphasis on quality, suggesting specific areas where they would like to see improvements. This reflects the position on the ground. In the tertiary sector, in spite of our rapid growth there is still a large unmet demand. In much of the school sector we now have sufficient places and are in a better position to concentrate on improving quality. However we do still suffer from a problem of imbalance. We tend to have too many places in the older urban areas, too few in the rapidly developing new towns. One of our first priorities must be to correct this imbalance. As you said in October, we hope to complete 80 new schools by 1993 and most of these will be in the areas of greatest need.

Higher and technical education

Naturally I welcome Members' enthusiastic support for our new Hong Kong University of Science and Technology. I also welcome their support for yet further expansion of our higher education system. This is an area where we have grown extremely fast. Twenty years ago we had only about 4 700 full-time or equivalent places. We now have about 34 000, an increase of more than seven times. Many parts of the world are now cutting down on higher education, but we plan to continue our rapid growth. As you said in October, we hope to be able to provide about 55 000 places by the mid-'90s. We are now beginning to look at further plans which would continue our growth to the end of this century.

If one looks at degree places only, our expansion has been and continues to be equally remarkable. Twenty years ago we were providing for less than 2 per cent of the age group. Our current figure is about 5 per cent. We expect this to increase to about 10 per cent by mid-'90s and to continue increasing until the end of the century.

Technical and vocational education are growing equally fast. I will not repeat the figures, which were given by you, Sir, in your speech in October. As you then said, they are impressive by any standard.

Research

Sir, Mr. Allen LEE emphasised the importance of research and development in higher education. I share his views. In the coming academic year, we will, for the first time, set aside funds specifically for research in our tertiary institutions. The sums involved will be \$30 million in the first year, \$40 million in the second and \$50 million in the third. If we can find the resources, further increases can

be expected in later years. In addition, we will try to encourage a substantial provision of post-graduate places, particularly in science, technology and management. About 16 per cent of places at the two older universities are now at the post-graduate level. The new Hong Kong University of Science and Technology is planning for about 20 per cent of its initial student intake to be at this level. As we move towards meeting the basic demand for places, we can expect the proportion at the post-graduate level to increase. However, research is not just a matter for the public sector. If we are to remain competitive, it is vital that industry should also increase its investment in research and development. I also hope there will be increasing research links between industry and our tertiary institutions.

Primary and secondary education

I now turn to the school sector. It is true that in the past decade we have concentrated mainly on providing enough places. We felt this was the most urgent task. We therefore did all we could to increase places, not only by building schools as fast as we could and training more teachers, but also by such expedients as bisessional schools and floating classes. The result has been a very substantial improvement in the educational opportunities open to our children and in their general level of educational achievement. Ten years ago only two thirds of our children were able to study beyond primary school in the public sector and only one in six could go beyond Secondary III.

Since the introduction of nine years free education in 1978, almost 100 per cent now complete Secondary III; 70 per cent go on to Secondary IV or some form of technical education; and a third are able to continue full-time education beyond Secondary V.

The same point is made perhaps even more vividly by the results of the recent by-census. The proportion of the population with secondary education or above averages 56.6 per cent, but ranges from 16.7 per cent for those over 55 to 95 per cent for those aged between 15 and 19.

Despite what some Members may feel, while greatly expanding places we have not neglected quality. Indeed we have made many significant improvements, many of them were introduced by means of pilot schemes as suggested by Dr. TSE. At the risk of seeming long-winded, I think I must list some of these measures. They include the establishment of the Institute of Language in Education; the expatriate English language teacher pilot scheme; the immersion course in the United Kingdom for local secondary school teachers of English; additional graduate teachers of Chinese in small secondary schools; the incentive award scheme to encourage the production of good Chinese textbooks; remedial teaching; additional teachers for split class teaching of computer studies, art and design, and music at the senior secondary level; class library schemes in primary schools; the promotion of civic education and related activities; and school-based curriculum development. If I make the list any

longer, I fear that Members may feel that even my speech is stronger on 'quantity' than 'quality'. I hope I have said enough to make it clear that we are steadily improving the quality of teaching in our classrooms.

Nevertheless, I do agree with those Members who feel that we can now afford to put even more emphasis on improving the quality of our education. I would like to mention some areas where we have further specific improvements in mind.

The first relates to Mrs. CHOW's point about bisessional primary schools. We have set up an inter-departmental working group which will try to identify realistically the various phases by which the policy of unisessionalism in primary schools can be implemented.

The second area of improvements I have in mind relates to teacher preparation and language improvement. It is now our aim to increase our teacher training capacity to enable 80 per cent of graduate teachers to be professionally trained by 1994, and 90 per cent in the longer term; to provide degree courses and graduate teacher posts for practical, technical and cultural subjects; to introduce a degree course for heads and senior teachers of primary schools and special schools; and to seek funds for the provision of one additional graduate teacher of Chinese in each of the larger secondary schools. Mrs. FAN mentioned her disappointment that we had not yet managed to find the resources for this. I fully share her disappointment on this point and will do my best to obtain funds for this as soon as I can.

A third area where we hope to introduce improvements is with floating classes. Mrs. Pauline NG would like to see them abolished. I am afraid they are likely to be with us for some time, mainly because of the geographical imbalance in the demand for school places. As a general rule, parents much prefer to have their children educated near home rather than having them travel some distance to schools with available places. However, even allowing for this constraint, there is room for considerable improvement on the present situation. We have recently approved a new 'schedule of accommodation' for each new secondary school so as to provide them seven additional teaching rooms. We will also alter existing standard design schools to provide three additional rooms in each as soon as we can. These measures will, I hope, considerably ease the pressure now caused by floating classes.

A fourth area where I hope to see improvements is with our policy towards private schools. The Education Commission has been examining ways to improve the situation. Its recommendations will be contained in Report No.3 which is due to be released in June. While I have no desire to add to the flow of press leaks about the contents of the report, I can see no reason to conceal that it is our aim to develop a strong private sector with standards at least equal to those in government and aided schools.

Labour shortage

Some Members spoke about the labour shortage. I in no way wish to play down the problems of our employers, particularly those in the more labour intensive areas; but I would like to remind Members of a point that you, Sir, made in your speech in October, that this is the negative side of what is basically a very positive situation. Our labour shortage arises directly from the success of our economy. Those parts of the world still suffering from long-term large scale unemployment would love to change their problem for ours.

It is also good to remind ourselves that one of the reasons for our thriving economy is the flexibility and adaptability of our workforce; in particular, their willingness to accept cuts in take-home pay when times are bad. This enables us to recover from recession much faster than some of our competitors. Our present situation of full employment and hence, labour shortage, has made wages rise and so enabled our workers to share in our general prosperity.

However, I appreciate that this is no comfort to employers, desperate for workers, and that some would like to see us take radical measures, such as the import of labour. The Government's views have been fully explained in this Council, most recently by the acting Secretary for Trade and Industry on 14 October 1987, in reply to a question from Mr. SOHMEN. I do not think it is necessary for me to repeat what Mr. YEUNG said on that occasion or even to summarise it. Mr. SOHMEN himself, though critical of the Government's view, gave a very fair summary of it in his own speech. As he said, we believe that the best solution is for employers to attract more people into work by improving pay and working conditions and to economise on labour by investing in labour saving equipment and improving productivity.

One argument, which is sometimes used is that we could make our economy grow faster by importing workers. This seems to me to miss the point. We could, no doubt increase our total GDP by importing workers. But if we imported large numbers of comparatively unskilled workers at comparatively low wages, any increase in total GDP would tend to be at the expense of GDP per person; and it is GDP per person that matters when it comes to the prosperity of our people. No doubt some employers would prefer to import workers and so slow down the rise in wages; but it is far from obvious that this would be in the interests of our workers or our people as a whole.

Rehabilitation

Another source of labour of which we are still not making full use is the one referred to by Dr. IP in her speech. We still have many handicapped people who are quite capable of doing a good job but, in spite of the labour shortage, cannot find work. The fact that employers vary greatly in their willingness to take on handicapped people, shows, I believe, that part of the problem is still due to prejudice on the part of some employers. We clearly still need more public education in this area. The Rehabilitation Development Co-ordinating

Committee, of which Dr. IP is the chairman, will be concentrating on this area during the coming year and it will also be the theme of one of our major publicity campaigns.

Industrial safety

Both Dr. CHIU and Mr. PANG spoke on industrial safety. I fully share their views on the vital importance of this subject which, as I have said before in this Council, is literally a matter of life and death. I agree with them, too, on the importance of enforcement, of publicity and of tripartite co-operation between employers, employees and the Government. These are all key points in our policy in this area. This subject was fully discussed in the adjournment debate on this subject on 19 November 1986. I gave my views in detail in my speech winding up that debate. I do not think it is necessary for me to repeat everything I said then, but I would like to try to clear up one or two apparent misunderstandings and remind Members of the progress we are making in this area.

Dr. CHIU spoke of the low level of penalties for industrial safety offences in terms which seemed to imply that this was within the government's control. However, the problem, as I see it, is not with the legal maximum fines, but with the level of fines actually imposed which average about 5 per cent of the legal maximum. As Members know, this is a matter for the courts. In spite of what the media may sometimes say or imply our courts are genuinely independent and there is no way that the Administration can control the level of fines imposed.

Another area where there tends to be misunderstanding is on our industrial accident statistics. In the adjournment debate in November 1986, I explained why I believe that our overall industrial accident figures are a very misleading indicator of actual long-term trends. One problem is that they are too comprehensive, including every accident from the most trivial to the extremely serious. Another problem is that our recent major improvements in employee compensation arrangements have made it much more worthwhile for employers to report accidents. The result has been an increase in reported accidents which does not necessarily bear any relation to the actual number of accidents taking place.

Our recently introduced new category of 'major accident' statistics will in due course give us a much better indicator of the real trend of serious accidents. However, it has not yet been in effect long enough to give us any indication of long-term trends.

Thus, at present our only reliable indicator, in my view, of long-term trends, is the fatality figures. These are subject to temporary upturns at times like the present, when the construction industry is under heavy pressure. However, the long-term trend has for some years now been encouragingly downward. Even allowing for the recent increase, which I believe will prove to be temporary, our

present fatality figures are still a substantial improvement on the equivalent figures for 10 years ago.

This encouraging trend reflects, I believe, the efforts we have put in on enforcement, on training, and on publicity. It also reflects the success of the Labour Advisory Board's tripartite Sub-Committee on Industrial Health and Safety in changing attitudes to safety at work.

One recent measure which will, I hope, help continue the encouraging trend is the safety officer legislation enacted by this Council in October 1986 and applied in stages in December 1986 and December 1987. What I find particularly encouraging is the Construction Industry Training Authority, which is controlled by the industry itself has taken an active part in support of this legislation by training safety officers and safety supervisors.

Another encouraging feature has been the success of our measures to deal with pneumoconiosis. The incidence of this disease has fallen by two thirds in the last five years. This has enabled the levy from which pneumoconiosis compensation is funded to be reduced from 0.2 per cent in 1980 to 0.05 per cent now. I shall be speaking in more detail on this point later this month when I move a resolution in this Council to reduce the levy still further. Again, I find it encouraging that the construction industry itself took the initiative in recommending that the scope of the fund should be extended to include preventive measures such as research, publicity and education.

I hope that our comparative success in reducing fatalities and in dealing with pneumoconiosis shows that the efforts we put into industrial health and safety are worthwhile. I hope too that the establishment of the Occupational Safety and Health Council will make our efforts even more effective. The legislation to set up this council was held up for a while by difficulty in reaching agreement with the insurance industry on the method of funding. However, I am glad to report that we have now reached agreement and I am, therefore hopeful that we shall be able to enact this legislation during this session.

Sir, I support the motion.

SECRETARY FOR DISTRICT ADMINISTRATION: Sir, I am grateful for the constructive comments and suggestions made by a number of Members regarding housing, sports, cultural and arts activities, and building management.

On the subject of housing, I can assure Mr. F. K. HU that the Housing Authority will continue to upgrade the standard of flats produced under the Public Housing Programme. In addition, new rental public housing and home ownership schemes will provide residents with a comprehensive range of facilities and ancilliary amenities, while older estates which are not due for redevelopment in the near future are being improved wherever possible. The Housing Department also regularly updates the designs of housing blocks to ensure that they satisfy prevailing demands and expectations. In this connec-

tion, Members may wish to note that the design of a new generation of block types will be finalised in the next few months.

One other point referred to by Mr. HU is the need to retain some of the better blocks in the older public housing estates in the process of redevelopment so as to provide housing for those who can only afford a lower level of rent. As the Housing Authority redevelops the remaining old resettlement blocks and former government low cost housing estates between now and 2001, blocks completed after 1973 will remain in use and these should provide an adequate supply of relatively cheap accommodation to cater for this need. Some of the older blocks built before 1973 and those which have been converted to provide self-contained accommodation will also be retained.

With regard to Mr. WONG Po-yan's point of increasing the production of flats under the Home Ownership Scheme and Private Sector Participation Scheme, Members may wish to note that there is still a sizeable outstanding demand for rental public housing. This demand arises from applicants on the general waiting list, squatters, households living in temporary housing areas and cottage areas, families living in illegal structures and households sharing accommodations in private pre-war and early post-war buildings. It is expected that this very substantial demand for rental public housing will be satisfied by 1996 under the long-term housing strategy. The Housing Authority nevertheless recognises that there is also a strong demand for home ownership. To meet this demand, the Housing Authority will work out a balanced programme which will take account of various housing needs of the public and will use its resources flexibly in implementing this programme. Meanwhile, rental flats can continue to be transferred to the home ownership programme and a new Home Purchase Loan Scheme is being implemented. The Housing Authority aims to satisfy all existing and new housing demands in all categories by the year 2001.

Many Members have expressed a desire to see Hong Kong make further strides in arts. They feel that as Hong Kong is making significant achievements in international trade and finance, so should we strive for improvements to our cultural life.

We are already in a very exciting time of creativity and dynamism in the performing arts, with enthusiastic support and contribution by many highly motivated participants in all fields of the performing arts. Many fine performances are staged regularly by the Hong Kong Philharmonic, Hong Kong Chinese Orchestra, Hong Kong Ballet, Hong Kong Repertory Theatre and Chung Ying Company, just to name a few. They deserve all the encouragement and support that the Government can give.

A substantial increase in funding will be necessary to keep these performing groups going. Over the years, Hong Kong has made good progress in the provision of facilities and training opportunities for young artists. It is now time for these groups to be given priority.

On the sports front, the need for additional funds to enable further development is well recognised. The Government is particularly concerned about the future direction in which Hong Kong should move in the area of sports promotion and development. A consultancy was thus commissioned last year and the report will soon be available for consultation with interested parties. It is hoped that a decision on this important issue will be made before the end of the year.

Both Mr. CHENG Hon-kwan and Mr. CHUNG Pui-lam expressed concern about the problems associated with existing deeds of mutual covenant. An inter-departmental working group is currently examining various options to resolve these complicated problems and is expected to complete its deliberations and recommendations within the next few months. These recommendations will then be put to district boards and to the legal and other concerned professional bodies for comment.

Mr. CHUNG Pui-lam urged that the Multi-Storey Buildings (Owners Incorporation) Ordinance be amended to provide for better management of private buildings. Following extensive consultation with district boards and interested professional institutions, the City and New Territories Administration has earlier firmed up its proposals for this Ordinance to be amended, and an amendment Bill to this effect is being drafted. The Bill will, among other things, provide for easier formation of owners' corporations and for greater participation by tenants in managing their buildings. At the same time, more stringent accounting, auditing and tendering procedure will be introduced. The Bill is expected to come before this Council in autumn this year.

Finally, I would like to reassure Mr. CHENG Hon-kwan that office-bearers of owners' corporations and mutual aid committees should not in normal circumstances incur legal liabilities in discharging their duties as long as they act in good faith and exercise reasonable diligence. In addition, district offices will continue to give owners' corporations and mutual aid committees every possible assistance and support to enable them to carry out their functions effectively. Apart from paying them visits, our liaison officers frequently attend meetings of their office-bearers, providing them with guidance and advice where necessary. With the provision of additional liaison officers in the current financial year, we will further strengthen our work in this area.

With these remarks, Sir, I support the motion.

SECRETARY FOR ADMINISTRATIVE SERVICES AND INFORMATION: Several Members, notably Mr. Hilton CHEONG-LEEN, Mr. David K. P. LI, Mr. Mr. Allen LEE, Mr. CHAN Kam-chuen and Mr. Thomas CLYDESDALE referred to the 'brain drain'. In reply, I would like to engage in some plain speaking on the twin subjects of emigration and brain drain.

I will describe first of all what is it we know or believe about the present situation. Then I will explain why our knowledge is incomplete. Next, what we

are doing to improve our knowledge. And finally, what we can and cannot do about the overall problem.

As hon. Members and Hong Kong people know well, but overseas commentators sometimes forget, Hong Kong has been a jumping off point for emigration for over 100 years. In recent times, between 1980-84, the net outward movement of Hong Kong residents (excluding movements to and from China) was approximately 20 000 per annum. In 1985, it was just over 11 000; in 1986 about 13 500; and last year just under 27 000. Taken together, the figures for the last three years are within historical averages. None the less, the Government is concerned for two main reasons. First, because the number did rise last year and seem likely to remain at higher levels at least for the next few years because some overseas countries have offered more attractive terms for immigrants, including those from Hong Kong. Secondly, because there is some evidence of an increase in the proportion of those leaving who are from the middle management sector, hence the term brain drain.

Having said that, the best estimate we can make is that in 1987, the number of Hong Kong students graduating from local or overseas tertiary institutions exceeded the net number lost through emigration by a fairly wide margin. Last year, our tertiary institutions produced no fewer than 4 822 fresh local graduates. The forecast for this year is 5 725, for 1989 is 6 470, for 1990, 7 240 and for 1991, 8 270. Thereafter, the pace will accelerate as new learning institutions come on stream. In addition to graduates produced locally, a large number of Hong Kong young people go abroad to study and return to work here after graduation, my own three children included. Of course, there are also losses as graduates are among those who emigrate, and gains when some of them return after obtaining a foreign passport. Taking all these factors into account, and after making a series of heroic assumptions on such matters as the proportion of those going overseas to study who successfully graduate, what proportion of them return to Hong Kong, what proportion of emigrants, and returned emigrants, are graduates, our best guess is that in 1987, our community achieved a net gain in the number of graduates of the order of 3 000.

On the surface, that figure may seem encouraging. But there is no room for complacency. A fresh graduate gained does not equate immediately with an experienced man lost. And I would be the first to admit that our information on the situation is at best patchy, and less than totally reliable. The reason Hong Kong Government does not have comprehensive figures is because of the complete freedom of movement enjoyed by Hong Kong people and the mobility of the population. We need no permission to travel; no approval to go to this or that place; no need to account to anyone for our movements. The success of a Hong Kong person's desire to emigrate is predicated only on his ability to obtain approval from the destination country. He needs no permission from us. So the only statistics directly under the control of Hong Kong Government are those originally obtained for other purposes which also incidentally shed some

light on migration trends, or which can be partially adapted for that purpose. Some information is also obtained through voluntary returns.

The result of these inadequacies is that all the figures I have quoted are only estimates, and many of them must be quoted on a net basis. They should all be treated with a degree of caution.

I will not dwell too long on what we do not know because Members will be more interested to hear what we are doing to plug the gaps. Sir, because of the high degree of interest that has recently been shown in this subject, and because of the importance of the subject for Hong Kong's future, a special task force has been established within the Government Secretariat to consider how to improve our knowledge of emigration matters. A core group has already met, and gradually all relevant branches and departments will be brought into play. The purpose is purely one of information gathering and hence the Information Division of my branch has responsibility for organisation; all other departments and branches, of course, retain their own responsibilities.

In assembling the data, we will take steps to ensure that there will be no encroachment on the freedom of the individual. It is overall trends about which we need more information, not more detailed knowledge about a particular person. For this reason, I cannot give an assurance that the task will be easy nor that results will come quickly.

As the accuracy of our information improves, so the departments and branches involved in manpower planning will be better able to fine-tune their ongoing programmes. But even without precise knowledge of the scale of the problem, there are some things we do know about possible remedies.

You, Sir, ruled out one remedial measure at your press conference two weeks ago and I would like to repeat those words today. There is no question of trying to stop people leaving Hong Kong. If people want to leave, they must be allowed to leave. That will always be the policy of this Government. Indeed the freedom to come and go is guaranteed in the Joint Declaration.

The best action the Government can take to stem emigration is to maintain and enhance the standard of living and quality of life of Hong Kong people. If people see for themselves that Hong Kong is still a good place to live and work, those contemplating emigration may think again while those who have already gone to obtain their insurance policy will want to come back.

Specifically, on the matter of qualified personnel, some Members referred to the need to train up replacements for those leaving. The Government is already doing a great deal in this area and plans to do more. As I mentioned earlier, the output from our existing tertiary institutions is increasing year by year, and we are firmly committed to the establishment of a third university and to the creation of an open learning institute. These efforts and our various training programmes will continue and expand.

But in the final analysis, emigration is about two things: opportunity and confidence.

If Hong Kong people feel they have greater, or as great, opportunities within Hong Kong as they would have somewhere else, then—all other things being equal—they will stay. If they feel the grass is greener on the other side of the fence, and they have the chance to go, they will leave.

Confidence is not something that is created, or indeed destroyed, overnight. It is something that is gained or lost by a steady accumulation of events over a long period. It is of course the responsibility of many organisations and individuals. As far as the Hong Kong Government is concerned, I hope that Members will accept that we have done and will continue to do, everything in our power to maintain people's sense of confidence in the future of this territory. I know that for their part the authorities of the People's Republic of China understand the key role which they play in strengthening confidence in the future. Finally, Sir, I would stress the importance for confidence of looking at problems such as this both squarely and objectively. They should not be minimised; neither should they be exaggerated.

Sir, with these remarks, I support the motion.

SECRETARY FOR SECURITY: Sir, in the course of this debate, seven Members have spoken forcefully on the subject of Vietnamese refugees. Their remarks reflect the frustration of the community generally on this issue, and I can assure Members that the Administration understands this feeling.

The major focus of this frustration must, however, be the economic and social circumstances which perpetuate the flow of people from Vietnam in small boats. In this connection, the United Kingdom, the major resettlement countries and our neighbours in the region have continued to urge Vietnam to take the necessary steps to stop this unhappy traffic, but with little success. Hong Kong, for its part, has conducted working level discussions with other countries of first asylum in the region, with the aim of finding out how similar problems are handled in different places and assessing the likelihood of a common approach on these matters.

Meanwhile Hong Kong once again faces the prospect of increasing numbers of boat people arriving on our shores. Over 2 600 have arrived this year, 1 381 in April alone. And resettlement countries, which have collectively done so much to ease the burden over the last decade, and to whom we are grateful, find themselves unable or unwilling to maintain their previous levels of assistance. Offtake this year has been only 839. This adds to the burden for Hong Kong. Some resettlement countries are now saying that most of those arriving no longer fall within their criteria for resettlement, that most boat people are no longer fleeing political, religious or racial persecution, but to a large extent are simply people seeking a better life.

Here in Hong Kong we have, at no little cost, maintained an exemplary record of accepting Vietnamese boat people. Since 1975, more than 116 000 refugees from Vietnam have sought and been granted first asylum in Hong Kong.

Hong Kong has met its responsibilities fully for 13 years. I understand the concern expressed by Members that our humanitarian principles should not be exploited. This is not just a matter of money, although, as Members have rightly pointed out, Hong Kong seems to bear a disproportionate share of the financial burden for this international problem.

Sir, I am grateful to Mrs. FAN and the Members of the Legislative Council ad hoc group for their concern, for the time and effort they devote to the Vietnamese refugee problem. The points which Members have raised in their speeches about funding and the financial costs to Hong Kong, about the need for increased resettlement, Hong Kong's unenviable position as a place of first asylum, and the United Kingdom's own role in these matters, have been well taken and are being actively considered. The Government has drawn the attention of all parties concerned to the present situation and is seeking practical and appropriate solutions to the immediate and long-term problems which now affect Hong Kong.

Turning now to the subject of prison industries, Mr. Hilton CHEONG-LEEN has rightly suggested that they should diversify to seek orders from the private sector, to make the industries self-financing and the prison workers more competitive and flexible.

Prison industries have been developing in this direction for some time. At present, they have orders not only from government departments, but also from other public bodies such as the Urban Council, Vocational Training Council and the Tung Wah Group of Hospitals. The department has proposed a consultancy study on the future direction and development of prison industries, including the feasibility of expanding further into orders from the subvented and private sectors. There are already 18 different trades in prison industries, which suggests that prisoners are already exposed to a reasonably wide range of skills and working environments.

As to the question of being self-financing, the Commissioner of Correctional Services recently referred to this during the Finance Committee's examination of the Draft Estimates for 1988-89. He pointed out then that the value of services and products of prison industries, calculated at commercial value, exceeded the total cost of production (inclusive of administrative overheads) by some \$15 million annually from 1982 to 1984 and around \$30 million annually from 1984 to 1987.

It is certainly our intention to continue to operate and develop prison industries in this direction. But I should, perhaps, remind Members that however desirable the principle of cost-effectiveness, the basic objective of

prison industries is to assist in the internal management of institutions by keeping prisoners purposefully employed.

Both Mr. CHUNG Pui-lam and Mr. YEUNG Po-kwan have offered comments on the requirements of the police force.

Taking Mr. CHUNG's point first, the police force continues to grow steadily to meet the territory's needs, and over the next few years we shall be implementing an additional limited expansion programme to enable the police to take over the anti-illegal immigration duties of the Garrison on the border. I can assure Mr. CHUNG that the quality of police equipment is given very serious consideration. It was in fact, the subject of favourable comment in a recent report on the Royal Hong Kong Police Force by the Inspector General of Dependent Territories' Police. We are also committed to ensuring that the forces guarding our border against illegal immigration (currently the Army, but later the police) should have all the necessary equipment and technical aids to assist them in this vital work.

On police pay and morale, Members will be aware that the Governor has commissioned a committee, under the chairmanship of Mr. RENNIE, of which Mrs. Rita FAN of this Council is a member, to review the pay and conditions of service of the police and the other disciplined services. Pay is obviously one very important factor in maintaining good morale.

Mr. YEUNG has suggested that the establishment and daily turn-out of the auxiliary police force should be adjusted to equip them for increasing demands and commitments. I can assure Mr. YEUNG that the deployment of the auxiliary police force is kept under review. We accept the need to ensure that it is consistent with the general growth and development of the police force in line with the shift in population towards the new town areas. We are looking at both the future growth in the establishment of the auxiliary force and at the daily quota of auxiliary duties.

Finally, Sir, on fight crime matters, Dr. HO Kam-fai expressed concern about the means of calculating the allocation of funds for district fight crime committees.

There is certainly no squeeze on funds for this purpose. Funds earmarked for 1988-89 amount to \$533,000, an increase of 20 per cent over last year's allocation. These funds are included within the district officers' services votes, a flexible arrangement which has worked well in the past. When apportioning funds within their votes for their fight crime committees, the district officers take full account of the social, demographic and geographic characteristics of their districts, and in particular the level of crime in the district. It is always open to these committees to seek additional sponsorship from the private sector or from their district boards, and the Information Services Department can make available special grants of up to \$8,000 for fight crime publicity campaigns.

But although current arrangements are working well, we are certainly prepared to consider improvements. The Secretary for District Administration has agreed to review the current allocation procedure and, in consultation with Finance Branch, to consider whether there would be advantage in a new separate subhead for the work of district fight crime committees.

Sir, with these comments, I support the motion.

SECRETARY FOR TRANSPORT: Sir, I welcome the constructive suggestions made by Miss Maria TAM on the urgent need for a positive policy on priorities and restraints, and the general support shown by several Members for the further, and timely, expansion of investment in our transport infrastructure.

It is clearly government's intention that the transport system must continue to improve and expand to meet changing needs and increasing aspirations. The current policy objectives remain valid. They are: first, the improvement of the road system; second, the expansion and improvement of public transport; and third, more economic use of the road system. These objectives are inter-related and each is complementary to the other.

The 1988-89 Budget continues to give transport high priority. For example, expenditure on capital works projects under Highways Department is estimated to cost nearly \$1.2 billion and, together with projects in the new towns, current and projected expenditure on our transport infrastructure programme is running at almost \$1.5 billion per year, or more than one fifth of the total public works Budget.

The above exclude additional expenditure arising out of the accelerated programme of the Kwun Tong By-pass and approach roads for the Tate's Cairn Tunnel to facilitate the tunnel's early opening in mid-1991. Nor do they include projects undertaken by the private sector, that is, the Eastern Harbour Crossing and the Tate's Cairn Tunnel.

It is our aim to continue to encourage the private sector to take part in the development of major transport infrastructure projects, so long as these serve the public interest and can be done effectively and efficiently. But not all projects are of relevance or interest to the private sector unless they are financially viable and commercially attractive. Government must continue to shoulder the major share of responsibilities for improving and expanding the basic infrastructure and to take the initiative in planning ahead.

Sir, we fully accept that there are severe physical and environmental limitations to building more roads in the built-up areas, and that roads are becoming more expensive to build. So parallel efforts must continue to be made to expand and improve our public transport services.

Sir, Hong Kong can justly be proud of its public transport system, which offers a broad range of modes providing relatively speedy, reliable and cheap

services for over 9 million passengers a day. It is the envy of many other major cities where public transport is more costly and probably less efficient. I believe, Sir, that the basic ingredients of our success lie in the right mix of regulation and incentives. Our basic philosophy has been, and still remains, that the Government will let private enterprises, companies or corporations operating on prudent commercial principles run these services, under a general regulatory framework but with minimum bureaucratic interference or control. At the same time, we have an inter-modal co-ordinating policy which aims at maximising the use of the mass carriers as the more efficient road users, encouraging the use of off-street modes, ensuring as far as possible, a wide geographical spread of services, removing duplication of services, keeping fares as low as possible and consistent with commercial viability. There is also maximum flexibility, within existing arrangement, in adjusting services to changing needs. Experience has shown that this policy has worked well and has achieved the right balance of services. With changing circumstances, the policy can be further refined but its overall aim remains valid.

Sir, the third element in our transport policy is the use of traffic management and traffic engineering techniques to ensure the most economic use of our limited road space. There are three obvious areas where these techniques are applied: tunnels, district traffic management studies and other traffic engineering measures.

I need not repeat here the various measures recently taken at Lion Rock Tunnel to improve traffic flow, except to stress that ongoing improvements will continue to be made to achieve long-term relief. Details of the consultants' latest report have just been released for public consultation. Studies are also in hand to relieve congestion at the Cross-Harbour Tunnel, and a report is expected in July.

District traffic management studies provide the basis for local traffic management and engineering works. Main studies completed or in progress include the Tsim Sha Tsui study, studies in east Kowloon and north-west Kowloon, and studies in Western District on the Island. The results provide a basis for introducing such practical measures as traffic engineering schemes, flyovers, pedestrian footbridges or subways to ease traffic flow.

The effects of traffic engineering measures are cumulative and often localised, and hence less dramatic. They range from erection of traffic signs and placing of road markings to computerised area traffic control systems. Underpinning these measures is the collection of traffic data. The selection of the most appropriate remedy often depends on the availability and reliability of such data, collected through both regular and ad hoc surveys. They have proved to be a valuable tool in helping to formulate plans and policies to tackle traffic congestion. They also provide a more objective and scientific yardstick against which congestion can be measured. For example, a traffic flow index measures the speed of vehicles and throughput along certain traffic corridors. The compilation of this

index is now done annually and should prove to be a more reliable and useful indication of congestion than just visual observation by the man-in-the-street.

But in the final analysis, major policy initiatives are necessary to achieve more economic use of the road space and this problem must be faced squarely and tackled with vigour. Fiscal measures applied in 1982 and 1984 respectively have achieved significant results, but their effects are beginning to wear off and fresh initiatives are now required.

One of the main purposes of the Second Comprehensive Transport Study is to examine all possible options and to recommend policies and strategies on restraints, or means of ensuring more economic use of road space. The report is likely to come out later in the year and will recommend, among others, policy initiatives to tackle congestion in the long term. It would be naive to assume that we can simply build roads and highways and get ourselves out of traffic congestion. We can never achieve that. Indeed, the more roads we build, the more suppressed demand for use of vehicles will be released. A policy on restraints and on priority in use of road space is hence inevitable. This is not going to be popular, nor will it be readily accepted by those affected by it. It is for this very reason that the public need to understand fully the choice of a number of options, and the consequences of each. The solutions are not going to be palatable nor will they be acceptable, but are generally necessary in the overall interest. This will be the subject of a Green Paper to be published by the end of this year. Sir, I look forward to a full, frank and useful debate on this paper and a production in the end of a long-term policy on tackling traffic congestion which can be implemented with general public support.

Sir, I support the motion.

SECRETARY FOR LANDS AND WORKS: Sir, if there is a common theme in all the suggestions and comments on lands and works matters made by my colleagues in this debate, it is change and the need to adapt to it. This is scarcely surprising as it is hard to recall any period when the whole of the economy and the environment seemed to be undergoing such dynamic change as it is now undergoing. It is the aim of the Administration by planning public investment and adjustment of policies to meet the challenges imposed by, for instance, the massive increase in the throughput of the port, the radical changes of emphasis in manufacturing industry, the spectacular growth of the financial and service industries and the increasing obsolescence of much of our urban infrastructure and building stock. That I suspect is the reason why most of these points were addressed in some detail in Your Excellency's speech in opening this legislative session.

One such change motivated Mr. Stephen CHEONG's plea for a third industrial estate. This proposal has already received the support of the Industry Development Board, and definition of various sites and development programmes for forming at least one of these sites, probably in the south-eastern part of Junk

Bay New Town, is being worked on as a matter of urgency. As regards the demand for waterfront sites for industry, it is clear that we do not presently have nearly enough waterfront sites for all those who need them. The scale of demand has shown that, whoever is to be the final user, very large areas of land need to be formed from the sea as soon as possible. Suitable areas have been identified and feasibility studies will start shortly. Obviously we must aim to have these studies completed as soon as possible, so that formation can proceed and sales planned in consultation amongst others with the Land Commission.

I also agree with Mr. HU Fa-kuang that comprehensive plans should be drawn up in urban redevelopments to provide a proper mix of users in order to achieve the most efficient use of land, especially since comprehensive redevelopment is the guiding principle in the planning and development of new towns, and forms an important part of urban renewal. For example, a comprehensive redevelopment plan now underway in the central Kowloon public housing estates at Wong Tai Sin, Lok Fu, Wang Tau Hom and Tung Tau, is being planned to achieve a better housing mix by the introduction of home ownership housing units and Private Sector Participation Schemes. In this sort of redevelopment, we pay great attention to the adequacy of community facilities as well as taking into account transport and other infrastructure.

In the slightly longer term, the Metroplan is being prepared as a means to ensure that the replanning, redevelopment and new development in the whole metropolitan area will be undertaken comprehensively, and a better balance and a better environment are achieved. We will be publishing an introductory document on the metroplan on 20 of this month, which we hope will elicit from the public and professional bodies and people and other people the kind of helpful suggestion made in this debate by Mr. HU.

Turning now to the rural areas, I would reiterate what I said in this Council in February 1988 that the Administration is looking at a more comprehensive approach towards improvements to rural areas outside new towns, and this covers a review of policies and programmes necessary to achieve these. Improvements are currently taking place under the local public works and the urban fringe improvement programmes. Most of these involve fairly small scale works which are relatively easy to implement. However, a number of items in the urban fringe improvement programme covers more extensive works which often involves land acquisition, and the time-scale for this is somewhat longer than for minor items in the local public works programme. The result is that these works have not progressed as quickly as one would have wished and in the light of experience gained over the past year, I am currently looking into ways of expediting the programme including setting up a dedicated staff team specifically for rural improvements. Mr. LAU Wong-fat's very constructive suggestion of a Rural Development Committee to monitor and help bring forward the urban fringe improvement programme will also be considered.

Regarding sewage and drainage, I am sure that I will receive the support of the Secretary for Health and Welfare in saying that the Government is in earnest in its intention to reverse the tide of the present deterioration of the quality of our local waters and streams. The sewage strategy which Your Excellency referred to at the opening of this session is a very serious enterprise which must and will lead to improvement.

In the meantime, continuous improvements are made by the Civil Engineering Services Department in the drainage and sewerage systems and a direct labour force is retained for the earliest possible clearance of blockages.

Before I proceed to mention various other matters related more to the nitty gritty of development and land administration, I would like to say something regarding the attitude we have adopted towards professional registration for architects, engineers, surveyors and planners. It is true, as Mr. CHENG Honkwun said, that the progress has been slow, but the time has been taken partly by the Administration's efforts to obtain common agreement on what might be termed as consistency with the professional bodies on what registration involves. The Administration sees statutory registration both as a safeguard of professionalism and as a form of consumer protection. Our aim is to ensure that registration will mean broadly, but not necessarily precisely the same for each of these four professions, so that the public in accepting the concept of a registered professional will have sufficient assurance that a professional on one of Hong Kong's register is qualified, competent to practise and has an effective institutional watchdog for his activities. I believe we are making considerable progress, and I am optimistic that we will be able to introduce the first registration Bill within the next legislative session if not more than one.

And now, Sir, for what I just termed nitty gritty. Mr. CHAN Ying-lun raised the question of the adequacy of ex gratia allowances for squatter clearances and clearances of fire victims. It has always been and will always be a contentious matter of principle as to just what should be paid to people who do not own the land they use and from which they must be cleared, but who often have enjoyed its use for a long time, and in some cases have probably contributed something to the overall economy. I can only say that practical systems for assessing payment have been developed over a long period and are subject to the constant scrutiny of the Finance Committee and these are continually updated both with regard to method of assessment and to rate.

Mr. Edward HO also raised the question of the effect of the housing programme on the labour supply situation in the construction industry.

Our records indicate that the number of manual construction workers engaged in public housing is below the 1982 figure. This has been manifesting itself in some public housing contract delays, particularly on new works projects and repair programmes. To counter this, the Housing Department intends to fully implement semi-mechanised methods of construction this year, and new

housing designs are being prepared which take advantage of this. Discussions are also being held with concerned organisations to explore means to overcome worker shortage.

Sir, I also endorse Mr. HO's views about using local consultants for government projects. I confirm that wherever possible local firms with local experience are used. Experience of local conditions and requirements actually places a consultant at an advantage in his submission for a project. New consultants should be engaged from abroad only when expertise is not available locally.

Finally, we have the old chestnut of unauthorised building works. The Buildings Ordinance Office is now geared up to undertake large-scale clearances on a district-by-district basis in accordance with recently changed policy. Priority Demolition Teams have also been set up to take rapid action against works which pose a danger to life or property. The team will pay particular attention to stopping and demolishing new works in progress, before they or the result of the work can be sold or occupied.

But we are also involved in a programme of publicity aimed at owners and residents about the dangers of unauthorised building works and encouraging self-enforcement among building management bodies, in the hope that people will eventually understand that it is not in their interests to infringe the law or to tolerate its infringement by their neighbours.

Sir, with these remarks, I support the motion.

FINANCIAL SECRETARY: Sir, I have at times stressed that my approach to the Budget is to view it as a continuous process, and so I have already commenced planning for next year. Many of the comments made by Members in this debate will help me in my thinking, even though I may not be able to respond to all those comments today.

In the course of this speech I shall, as usual, be updating some of the economic and financial background to my Budget proposals in the light of recent developments. Where things have changed, I will comment on the likely impact on my planning for the future.

The economy

First, the economy. A number of Members have warned of the risk of rising inflation and its inherent dangers. Miss DUNN warned that both the inflation forecast for 1988-89 of 7 per cent and the inflation assumption underlying the Medium Range Forecast of 5.5 per cent might be too low. Other Members including Mr. Kim CHAM, Mr. Edward HO, Mr. David LI and Mr. POON Chi-fai warned that the current tight labour market and, in particular, the pressure that will be put on it by the planned expansion in the Civil Service will contribute to inflation.

I share some of their fears in the light of the current uncertainty about the prospects for the world economy, and the recent tendency for prices to edge up. In putting together my Budget package, I was aware of the risk that increased spending and reduced taxation could provide an undersirable stimulus to the economy given that it was already operating close to its capacity limits. I took the view, however, that because the overall growth rate of the economy was expected to slow down, the limited degree of stimulus involved in the package presented was tolerable.

The trend of slower growth in domestic exports began towards the end of last year. In the first quarter of this year, the growth rate of domestic exports and also of retained imports has continued to slow down. These trends suggest that the growth rate of the economy is indeed slackening. Thus, despite continued growth in the US economy and in our other markets at present, it would be premature for me to consider revising my forecasts for either GDP growth or inflation.

Over the longer term, the link between the US dollar and the Hong Kong dollar should mean that there is a tendency for the inflation rate in Hong Kong to follow that in the United States, although there may be significant deviations from time to time. The US inflation rate is currently around 4 per cent and tending to rise, but if the US economy slows down in 1989 or 1990 as expected, the inflation rate should fall again. Thus, inflation in Hong Kong can also be expected to fall in due course. So, the assumption of 5.5 per cent inflation for the Medium Range Forecast might well turn out to be pessimistic.

Nevertheless, Sir, I accept that inflation remains a concern. Dr. Conrad LAM asked what Government was doing to avoid aggravating inflation. The open, free market nature of our economy means that there is little Government can do to restrain inflation beyond seeking to ensure that its own spending and revenue-raising activities do not add to inflationary pressures. This is never easy to achieve but the caution underlying my budgetary strategy was partly motivated by a desire to ensure that we did not add to inflationary pressures. The message is clear: in present circumstances, there is little or no room for further reductions in taxation or significant increases in spending.

Revised Expenditure and Revenue Estimates for 1987-88

Sir, whilst it will be some weeks before the Government accounts for 1987-88 are finally closed, the early indications are that the expenditure out-turn for the year has been much as expected. Some delays in capital purchases are largely offset by slightly higher spending in other areas. Overall, the variation from the revised expenditure estimates tabled on 2 March will be considerably less than 1 per cent. A fuller exposition is given in an Appendix to the printed version of this speech.

As several Members have correctly observed, our revenue has performed even better than I predicted. Significant gains have been experienced in three

areas—profits tax, company registration fees and stamp duty. When we prepared our revised estimate for profits tax yield in 1987-88, there was good reason to believe that tax receipts in the second half of the year would be significantly affected by the aftermath of the October stock market crash, bearing in mind the gloomy prognostications that were current in the months immediately after the crash. This has not, however, proved to be the case and, as we have seen, corporate results have continued to go from strength to strength. We have also witnessed a reduction in tax arrears encouraged, perhaps, by improved company liquidity and relatively low interest rates. The result is an improvement in estimated profits tax receipts for the year from the revised estimate of \$13.1 billion to \$15.4 billion.

Of less significance, company registration fees have been boosted by some \$350 million due to a substantial one-off yield from a major company restructuring that took place towards the year end. Stock market turnover, having fallen after the market crash, recovered sharply towards the year end. As a result, out-turn on stamp duty improved further from my revised estimate of \$5 billion to \$5.3 billion.

Of a more technical nature, the new financing arrangements which have been applied to the Housing Authority with effect from 1 April 1988 have required some preparatory adjustments in the government's accounts for 1987-88. In particular, the value of contributions made in earlier years to the Home Ownership Fund has been transferred back to General Revenue Account. The remaining balance on the fund will pass to the Housing Authority as part of its initial capital under the new arrangements. The amount drawn back into General Revenue Account is just under \$1 billion. The result is to inflate the General Revenue Account surplus by that amount and to reduce fund balances correspondingly.

Overall, the impact of the various factors I have just mentioned is to increase the estimated General Revenue Account surplus for 1987-88 to \$10.6 billion. The total of the fund balances, however, will now remain virtually static, rather than grow by the \$1.5 billion indicated in my Budget presentation. Overall, therefore, the result is a consolidated surplus of \$10.6 billion compared with the earlier revised estimate of \$7.6 billion.

Implications for 1988-89 and beyond

In terms of their impact on 1988-89 and beyond, some of the adjustments I have mentioned are one-off and have no implications beyond 1987-88. However, the boost the profits tax receipts is a further indication that our economy survived the pressures of the stock market crash relatively unscathed and is a hopeful sign for further improvement in revenue yield in 1988-89.

Profits tax is inevitably one of the more volatile elements of our revenue. The difficulty we face in forecasting profits tax revenue is that the bulk of receipts come in over the last few months of the fiscal year. However, Sir, we are undertaking a review to improve our profits tax revenue projections.

I agree with Mr. Martin LEE that the unexpected consolidated surplus is not an occasion for great rejoicing. In the context of planning the Budget, we do not like to see either an unpredicted surplus or an unpredicted deficit. I have explained why, on this occasion, the surplus was much larger than forecast, and I hope that Members will understand that forecasting becomes peculiarly difficult in the face of global events of such magnitude as those of last October. For reasons that I have already touched upon, I do not believe that even in the light of this additional surplus further tax reductions should have been proposed. It is more appropriate that the additional amount should be used to build up our fiscal reserves. In this connection, Members will recollect that in my Budget speech I pointed out that over the Medium Range Forecast period the reserve balances will fall as a percentage of annual spending from about 77 per cent to 65 per cent ⁽¹⁾.

Comments on expenditure proposals

Before I deal with revenue, I would like to address some of the points made about my Budget strategy and, in particular, my strategy for Government expenditure. In doing so, I thank Members for their supportive comments with reference to our efforts to develop and sharpen the format of the estimate documents. Our efforts in this respect will continue.

As to my strategy reflected in the Medium Range Forecast, Miss DUNN pointed to a number of warning signs. She referred specifically to the assumption on inflation over the forecast period and I have already indicated why we are using a 5.5 per cent trend assumption. Nevertheless, in producing the Medium Range Forecast, we have tested its sensitivity to a range of inflation assumptions. These tests indicate the government's overall financial position is not significantly affected by changes in the rate of inflation.

Miss DUNN supports a revenue-led Budget. Like her I certainly support the concept of living within our means. However, if we have to describe the Budget as being led by anything, I would prefer to talk in terms of its being led by underlying trends in our economic growth.

Several Members, and Dr. Conrad LAM and Mr. NGAI Shiu-kit in particular, touched on the need to develop our systems for resource planning and allocation. This is indeed something to which we have been paying considerable attention. Our aim is to develop systems that focus on significant issues without becoming involved in a bureaucratic paper-chase. We are making progress and further developments are taking place in the budgetary cycle that has already commenced for 1989-90.

A number of Members, including Mr. F. K. HU, have referred to the growing use of statutory authorities for providing services to the public. It is true that existing authorities have tended to be developed on an ad hoc basis. Work has

(1) 1988 Budget speech, paragraph 51.

been initiated within the Administration to define an overall framework within which the Government will exercise its continuing policy and financial interest in these authorities.

In this context, I wish to refer to the continuing concern expressed by Miss DUNN over our definition of public sector expenditure. We have found that, given the growing significance of statutory authorities in the overall equation, the development of our views on government's relationship with these statutory authorities is an essential precursor to considering any changes to our consolidated account definition. I do not, however, wish to hold out much hope for a single definition of public expenditure. As I said last year, there are, quite legitimately, different aspects of the public sector that we need to measure. What I think we will be able to achieve, however, is a clearer understanding of the make-up of the statistics and the context in which they are to be used.

Sir, I now turn to comments on the more specific aspects of expenditure proposals in the Budget. My colleagues have responded to comments on individual services, but there are some matters that I would like to cover myself.

A number of Members echoed my concern about the growth in the size of the Civil Service. Mr. David LI stressed the adverse effects that a rapidly expanding Civil Service could have on the economy. I share Members' worries, though as I said in my Budget speech, the rate of growth expected in the short term is probably unavoidable. I fully accept that we cannot and must not disregard our annual growth target of 2.5 per cent for too long. We must, however, ensure that the necessary services are provided, and moreover, in the most cost-effective manner. Despite the somewhat depressing forecast contained in the Medium Range Forecast for the year 1987-88 to 1991-92, it is my intention to return to a more modest growth by 1990-91 ⁽²⁾.

Sir, in the absence of the Chief Secretary, Sir David FORD, I wish to comment upon a number of other civil service matters on his behalf. Mr. Martin LEE suggested that a commission might examine fringe benefits with a view to furthering localisation. We have, of course, a standing commission which is charged with the task of keeping civil service salaries and conditions of service under review. I would, however, offer a word of caution: there is clearly disquiet among civil servants concerning the possible 'erosion' of their conditions of service. While such concern is in my view misplaced, we must recognise that, if in the coming years we want a Civil Service which is well-motivated and whose morale is high, regard has to be paid to the perception as well as the reality. Great care must be taken in matters relating to adjustments to fringe benefits to ensure that signals are not misread either by civil servants or those we would like to attract into the service. Regarding Mr. LEE's proposal for a cash allowance in lieu of housing to attract local lawyers, a review of measures designed to further the localisation of the Legal Department as well as a full review of civil service housing benefits is currently underway.

(2) 1988 Budget Speech, Appendix A.

Mr. Helmut SOHMEN had something to say about movement of staff between the Civil Service and the private sector. May I say in reply that the Government accepts that in principle cross-fertilisation of this kind is a good idea. Over the past 15 years or so, several middle-ranking officials have been seconded to the private sector. Two are seconded at present and we intend to increase this to four a year if possible. However, we would prefer reciprocal arrangements and the difficulty seems to be to find private firms who will release staff for secondment to government departments. The permanent loss of trained and experienced staff to the private sector is a different matter, however. The Government is as concerned about this as any other employer would be. Where, occasionally, the departure of a senior officer may lead to a conflict of interest, we will take all reasonable steps to ensure that such conflict does not occur. I would add that, in general, a reasonable period of sanitisation should suffice.

I welcome the observations of both Mr. CHENG Hon-kwan and Mr. Edward HO as to the importance for our future of infrastructural development projects needed to support the continuing development of our economy. We must not, however, let our enthusiasm for major new projects outstrip the ability of the economy or government resources to support them.

Sir, as Members know, the various airport consultancy studies are well underway. By the end of this year, the findings on the ultimate development potential of Kai Tak and the need and timing for a replacement airport will be available. Other studies on possible locations for a new airport are continuing. As regards port development, the completion of Container Terminal 7 in 1993 will roughly double existing handling capacities. We will need to take a decision later in the year on the siting of Terminals 8 and 9 in order to keep pace with our expanding port trade. There is no doubt that we will need to invest heavily in both port and airport development if our economy is to continue to grow. The studies now underway will ensure that the issues involved are addressed thoroughly so as to enable the right decisions to be made at the right time.

I have noted the comments made by several Members on a new Defence Cost Agreement. As you mentioned on your recent return from London, Sir, we believe that we now have the basis for an agreement; but there remains a good deal of work to be done on the detail before we are in a position to consult Members of this Council in Finance Committee on the financial acceptability of the new arrangements. I am not therefore able to give a full response to Members' comments today, but I can say that the new Defence Costs Agreement will be built around a reduction in Hong Kong's share of the apportioned costs.

Trade and industry

No fewer than 13 Members spoke on industry. Members will recollect that I referred to the vital contribution to our economic success made by this sector when I delivered my Budget speech.

Mr. Richard LAI commented upon the absence of a comprehensive industrial development plan. The question is: do we need one? I continue to believe that market forces must be the prime determinant of the direction to be taken by our manufacturing industries. Businessmen, not bureaucrats, should make business decisions. It is partly because businessmen enjoy this freedom in Hong Kong that our manufacturing industries have been so successful.

But this does not mean that our manufacturers lack Government support or that the support is unplanned. We give a high priority to providing an adequate infrastructure and the necessary training facilities. A well-trained labour force is of paramount importance. We also provide manufacturers with services aimed at improving both productivity and quality. We do this in a rational manner, keeping the quality and level of such support under review in the Industry Development Board under my chairmanship, and maintaining for this purpose the programme of industrial studies which have been very helpful in identifying areas where improvements are needed.

Mr. Stephen CHEONG, Mr. HO Sai-chu, Prof. POON, Mr. CHUNG Pui-lam and Mr. POON Chi-fai all stressed the need to help our industries achieve a higher measure of quality and efficiency through automation. I share their sentiments. So does the Industry Development Board.

As regards quality support services financed by Government, they are already well developed. However, on the advice of the Industry Development Board, the Director of Industry is now considering what more needs to be done to promote quality in manufacturing.

As regards productivity, the Hong Kong Productivity Council is already providing consultancy services on automation systems, and will soon be opening up laboratory services on the automation of printed circuit board production. Research is being undertaken by the two universities in the automation of the design of moulds and dies. And although I do not disagree with Prof. POON when he praises computer aided design and manufacturing techniques, I would comment that they are already quite well established in Hong Kong; and here again the Productivity Council is helping to spread these techniques more widely.

A number of Members including Mr. CHUNG Pui-lam, Prof. POON Chung-kwong, Mr. POON Chi-fai, Mr. Jackie CHAN, Mr. NGAI Shiu-kit and Mr. Richard LAI, suggested that additional support should be provided to local industry through an increase in capital allowances for expenditure incurred on the provision of plant and machinery. As I noted in my Budget speech, there was no reluctance on the part of manufacturers to invest in 1987, and I do not believe that the selective inducement of an increase in capital allowances is what is needed at this time. I repeat that I consider that the reduction proposed in the rate of tax on corporate profits will provide appropriate and proper encouragement to all those in business.

Prof. POON again raised the question of funds for implementing the recommendations of the Committee on Science and Technology. Sir, this committee is advisory not executive. Key departments are represented on it. When projects or policies are identified which merit implementation, and I am sure there will be many, it will be for the relevant department to seek funds in the normal way.

Several Members pressed for the earlier establishment of a science park or technology centre. I am pleased to say that in relation to this project, the Industry Development Board has recently endorsed recommendations that an urban multi-storey technology centre should be established. However, it is essential that this initiative is well thought through, that the facility is tailored to Hong Kong's needs, and that the long-term commitment required to support it is fully understood and recognised.

Mr. Allen LEE stressed the need to do more to promote investment in Hong Kong, particularly to achieve the transfer of technology. I entirely agree with Mr. LEE on the importance of this work. Whether we devote sufficient resources to it is difficult to say, but we are strengthening our efforts in this field. In 1988-89, the Budget for these activities is about 15 per cent up, and provides for the implementation of a number of proposals for improving and expanding our inward investment promotion programme. That said, I fully accept that we need to continue to improve the quality of our investment promotion activities in the face of increasing worldwide competition.

Tourism

Sir, Mr. SOHMEN referred to the new subvention arrangements for the Hong Kong Tourist Association. I entirely agree with him that the association has done an excellent job in promoting Hong Kong as a premier tourist destination and I am confident that the association will continue to do so under the revised arrangements. I am grateful to all those involved. There is, of course, no question of singling out the Hong Kong Tourist Association for more stringent financial controls than those relating to other similar bodies. Indeed, the new arrangements do no more than bring this association into line with such bodies. Mr. SOHMEN cited the Hong Kong Trade Development Council as a comparison. The Ordinance governing the Trade Development Council requires that its budget and programme be approved by you, Sir, every year. A similar requirement will soon be introduced for the Hong Kong Tourist Association in pursuance of the recommendations of the Public Accounts Committee. Incidentally, whatever the origin of the hotel accommodation tax, I hope that Members will agree that in today's circumstances, it is no longer appropriate for revenue to be hypothecated. The new subvention arrangements are sufficiently flexible to ensure that the association can continue to enjoy an appropriate degree of autonomy.

Airline designation

This brings me to Mr. SOHMEN's references to the difficulties faced by the travelling public in getting seats to Beijing and many other regional and

international air destinations. Given the steady increase in the number of travellers to and from Hong Kong over recent years, we are undoubtedly faced with a problem. But to assert that such difficulties are caused by the Government's policy on airline designation is to ignore the realities of life in the hard-nosed world of international aviation. Our airline designation policy reflects these realities. It is simply not in the gift of the Hong Kong Government alone to distribute additional rights to its carriers. Such rights must be negotiated government to government in what is often a difficult and long drawn-out process.

Furthermore, it is not the policy of the Government to deprive an existing carrier of its rights for no reason other than to give a second carrier a piece of the action. An important aspect of the policy, however, which must not be overlooked, is the flexibility to designate additional airlines where circumstances permit. As a result, and I hope that Mr. SOHMEN will bear me out, the Government has successfully obtained rights for Dragonair to serve points in Japan, Thailand and the USA. We are in the process of seeking rights for the airline to serve certain points in China which are not served by Cathay Pacific. And as Dragonair's plans evolve, we are in continual discussion with the airline on how best to seek rights for them to other destinations in the region.

Comments on revenue proposals

I turn now to Members' comments on my revenue strategy and proposals for 1988-89.

I have listened with particular interest to Members' views on my remarks that a measure of tax diversification, together with some rationalisation of existing indirect taxes, may well be a practical proposition in Hong Kong. In this regard, Mr. SOHMEN suggested that I would be damned if I sought to broaden the tax base, and damned if I did not. From the comments of some Members on this issue, it appears that I am to be demned anyway merely for suggesting such a possibility, and for appearing to 'rock the boat'—a boat which Miss DUNN at least accepts may be entering choppy waters in the medium term.

Mr. Martin LEE rightly pointed out that I did not actually propose the introduction of a sales tax either for this year or in the foreseeable future. There is no need for me to repeat all that I said before; I refer Members to the relevant paragraph in my Budget speech and in particular to the last sentence where I remarked: 'There is, therefore, much more to be done before I am able to present any proposals, I repeat, any proposals for public debate. ⁽³⁾'. Sir, by referring to this matter in my Budget speech, I had hoped to generate a more philosophical and less political response. Because there was no specific proposals, before this Council, I do not consider it necessary to answer each and every point made by Members. Of course, many of the comments made were

(3) 1988 Budget speech, paragraph 50.

entirely valid, and indeed have been uppermost in our minds in putting our ideas together. Clearly, the inflationary impact of any indirect tax would have to be carefully assessed and I would certainly be very hesitant about introducing such a tax during a period of rising inflation.

The point I was making in my Budget speech was that a measure of tax diversification could well lead to a more stable tax regime. By this, I mean a tax regime more resilient and better able to withstand difficult times without major adjustments either in rates of tax or sources of revenue. Furthermore, it would give me the opportunity and scope for rationalising some of the existing indirect taxes. In other words, I might be able to reduce or abolish some of the existing indirect taxes, and indeed might also be able to reduce some direct taxes. I would not wish to suggest a trade-off at this stage, but it is worthwhile bearing in mind the possibilities. Clearly, a tax regime based on lower direct taxes would be more conducive to investment.

It would be remiss of me not to think along these lines against the possibility of a less buoyant financial position than we enjoy at the present time. Mr. David LI, in a speech full of sound and fury, spoke of the likely effect of a sales tax on the less advantaged members of our community and referred emotively to rice, congee and noodles. This was at best unfair and at worst misleading in the light of the fact that no specific proposals were before this Council for debate. Miss DUNN suggested that my proposal should be put on the back burner; as every good housewife knows, that which is on the back burner often simmers gently until it is cooked to perfection.

I repeat what I said both this year and last; that is, that I am not proposing to alter the balance between direct and indirect taxes without the most careful consideration of the financial and economic effects. Nevertheless, I am grateful to those Members who have encouraged me to continue with my studies. To draw upon the words of Mr. Martin LEE, I hope my motives will now begin to be properly understood.

And now to the separate taxation of working wives. In my Budget speech I said I was prepared to consider further how such separate taxation might best be introduced. I certainly did not reject the idea as some Members suggested. Given the now almost unanimous support in this Council for this measure, I am able to make a firm commitment to introduce separate taxation for working wives as soon as practicable; administrative arrangements to give effect to this commitment are already in preparation.

Members will recall that I warned that there are a number of difficult questions to be resolved, options to be considered, and technical procedures to be completed before separate taxation can be introduced. Nevertheless, I am confident that satisfactory solutions can be achieved through consultation with

the OMELCO Standing Panel on Taxation under the chairmanship of Mr. Peter POON. I am grateful to him for his offer of assistance. My target date for implementation of separate taxation is 1990.

Sir, I cannot leave this matter without commenting briefly on Mrs. Rita FAN's remarks that representations by Members on the question of separate taxation were overlooked.

As Mrs. FAN rightly said, the OMELCO Taxation Panel addressed me on this issue in February 1987. I subsequently argued against separate taxation both in my 1987 Budget speech, and in my concluding speech, in which I gave a detailed response to Members' comments. In those circumstances, and at that time, it would have been quite illogical to carry out further work on this matter in the light of what I had said.

After I delivered my concluding speech in last year's debate, I did not hear further from Members of this Council until November 1987. Members then again urged that consideration be given to introducing separate taxation for working married women. By that time, it was too late to introduce new proposals into my 1988-89 Budget strategy. In any event, I was conscious of the fact that some Members had earlier advocated an allowance for working married women and, bearing in mind the fact that I had decided to grant an allowance this year, I felt that I should indicate that the allowance was designed to put money in the pockets of working married women while we considered the best method of implementing full separate taxation. In doing so, I recognised the possibility, however remote, that some might have preferred the allowance route as an answer to the problem in view of its simplicity and the fact that it had received some support earlier. However, Sir, the debate on this year's Budget has been helpful to me in conveying the political views of Members and the public on this subject and I am grateful to all those who have spoken.

Sir, Dr. HO Kam-fai, Mr. David LI, Mr. Hilton CHEONG-LEEN, Mr. POON Chi-fai and Mr. HUI Yin-fat have again suggested that tax relief be provided for home purchase payments. We have in Hong Kong very low taxation, which I consider should remain neutral in its effect, and not be unduly distorted in favour of particular classes or groups of individuals. Whilst I am, of course, sympathetic to those buying their own homes with mortgage finance, I would point out that, taken together, my Budget proposals this year provide significant assistance to the middle-income group, not least to the 100 000 or so persons who will benefit from the relaxation in the rates of stamp duty applicable to small and medium-sized properties.

Mr. SOHMEN commented on the problems the 1986 US Tax Reform Act may pose for Hong Kong based shipowners. The shipping industry makes an important contribution to our economy and the Government would be con-

cerned at any potential threats to this sector's survival and growth. We are consulting the US authorities on this complex issue in an effort to assess the effects of the legislation on Hong Kong based shipowners. Thereafter, we shall evaluate the remedies available to the Hong Kong Government. I do agree with Mr. SOHMEN that we will need to weigh carefully all relevant factors. I hope to be in a position to take a decision on this matter during the course of this year.

Conclusion

In conclusion, I would like to respond to the suggestion made by a few Members that my Budget lacked a theme; that it was a book-keeper's Budget and that it lacked foresight and innovation. Maybe, in somewhere as undeniably exciting as Hong Kong, we have come too readily to expect drama as the norm. But, it is the successful avoidance of drama that is the essence of my strategy. I believe that stability and continuity are what Hong Kong needs in its fiscal management. I consider that is both what my Budget strategy is delivering and what this community wants—a low and predictable tax regime, strong reserves combined with steady growth in public expenditure.

Lastly, Sir, in debating this year's Budget proposals a number of Members, including Miss DUNN, called for a review of the structure and operation of our taxation system. I am conscious of the need to ensure that the structure of our taxation system is kept up-to-date, and that its operation remains responsive to the changing needs of our community. During the course of this debate, Members have touched upon many issues that point the way to reform. At the outset of this speech, I observed that what has been said will help us in our thinking. That is one of the great benefits of this debate. I thank all those Members who have spoken so helpfully.

Sir, I beg to move.

Question put and agreed to.

Bill read the Second time.

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

Appendix

*General Revenue Account**Revised Estimates 1987-88*

	<i>Printed Revised Estimates</i>		<i>Updated Revised Estimates</i>	
	(\$mn)	(\$mn)	(\$mn)	(\$mn)
<i>Recurrent Account:</i>				
Revenue	49,650		53,830 *	
Expenditure	35,924	13,726	35,890	17,940
<i>Capital Account:</i>				
Revenue	914		1,030	
Expenditure	8,550	-7,636	8,380	-7,350
Surplus		6,090		10,590
<i>Component</i>		<i>Printed Revised Estimates</i>		<i>Updated Revised Estimates</i>
		(\$mn)		(\$mn)
Personal emoluments		13,480		13,530
Personnel related expenses				
Pensions		1,420		1,340
Other		1,519		1,510
Departmental expenses		3,602		3,600
Other charges				
Defence Cost Agreement		1,526		1,490
Other		4,087		4,130
Subventions		10,290		10,290
Total Recurrent Expenditure		35,924		35,890

* Including transfer from Home Ownership Fund \$1,000 million.

<i>Component</i>	Printed Revised Estimates (\$mn)	Updated Revised Estimates (\$mn)
Plant, equipment and works		
Defence Cost Agreement	53	50
Other	523	430
Other non-recurrent	654	610
Subventions	720	690
Transfers to funds		
Capital Works Reserve Fund	5,080	5,080
Development Loan Fund	1,000	1,000
Student Loan Fund	20	20
Mass Transit Fund	500	500
Total Capital Expenditure	8,550	8,380

CRIMINAL PROCEDURE (AMENDMENT) BILL 1988

Resumption of debate on Second Reading (27 April 1988)

Question proposed, put and agreed to.

Bill read the Second time.

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

POST OFFICE (AMENDMENT) BILL 1988

Resumption of debate on Second Reading (27 April 1988)

Question proposed, 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.

CRIMINAL PROCEDURE (AMENDMENT) BILL 1988

Clauses 1 and 2 were agreed to.

POST OFFICE (AMENDMENT) BILL 1988

Clauses 1 and 2 were agreed.

Council then resumed.

Third Reading of Bills

THE ATTORNEY GENERAL reported that the

CRIMINAL PROCEDURE (AMENDMENT) BILL 1988 and the

POST OFFICE (AMENDMENT) BILL 1988

had passed through Committee without amendment. He moved the Third Reading of the Bills.

Question on the Bills proposed, put 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, 11 May 1988.

Adjourned accordingly at twenty minutes to Five o'clock.

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