

OFFICIAL REPORT OF PROCEEDINGS.**Meeting of 6th March, 1958.**

PRESENT:HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)

SIR ROBERT BROWN BLACK, K.C.M.G., O.B.E.

HIS EXCELLENCY THE COMMANDER BRITISH FORCES

LIEUTENANT-GENERAL SIR EDRIC MONTAGUE BASTYAN, K.B.E., C.B.

THE HONOURABLE THE COLONIAL SECRETARY

MR. CLAUDE BRAMALL BURGESS, C.M.G., O.B.E.

THE HONOURABLE THE ATTORNEY GENERAL

MR. ARTHUR RIDEHALGH, Q.C.

THE HONOURABLE THE SECRETARY FOR CHINESE AFFAIRS

MR. JOHN CRICHTON McDOUALL.

THE HONOURABLE THE FINANCIAL SECRETARY

MR. ARTHUR GRENFELL CLARKE, C.M.G.

THE HONOURABLE PATRICK CARDINALL MASON SEDGWICK

(Commissioner of Labour).

THE HONOURABLE DAVID RONALD HOLMES, M.B.E., M.C., E.D.

(Director of Urban Services).

THE HONOURABLE ALLAN INGLIS

(Director of Public Works).

DR. THE HONOURABLE DAVID JAMES MASTERTON MACKENZIE, C.M.G., O.B.E.

(Director of Medical and Health Services).

DR. THE HONOURABLE CHAU SIK NIN, C.B.E.

THE HONOURABLE CHARLES EDWARD MICHAEL TERRY, O.B.E.

THE HONOURABLE LO MAN WAI, C.B.E.

THE HONOURABLE NGAN SHING-KWAN, O.B.E.

THE HONOURABLE DHUN JEHangIR RUTTONJEE, O.B.E.

THE HONOURABLE CEDRIC BLAKER, M.C., E.D.

THE HONOURABLE KWOK CHAN, O.B.E.

DR. THE HONOURABLE ALBERTO MARIA RODRIGUES, M.B.E., E.D.

MR. MAURICE DEREK SARGANT *(Deputy Clerk of Councils).*

MINUTES.

The Minutes of the meeting of the Council held on 12th February, 1958, were confirmed.

PAPERS.

THE COLONIAL SECRETARY, by Command of His Excellency the Governor, laid upon the table the following papers: —

<i>Subject.</i>	<i>G.N. No.</i>
Sessional Paper, 1958: —	
No. 9—Annual Report of the Grantham Scholarships Fund Committee for the period 1.9.56 to 31.8.57.	
Draft Estimates of Revenue and Expenditure for the year ending 31st March, 1959.	
Memorandum on the Estimates, 1958/59.	
Report of the Sub-committee of Finance Committee on the Public Works Programme for the year 1957/58.	
Hong Kong Annual Report, 1957.	
Emergency Regulations Ordinance.	
Emergency (Principal) (Amendment) Regulations, 1958	A. 11.
Emergency (Principal) Regulations, 1949.	
Emergency Regulations (Commencement) Order, 1958	A. 12.

ADDRESS BY H. E. THE GOVERNOR.

H. E. THE GOVERNOR: —It is just six weeks today since I returned to Hong Kong. This is a very short time within which to survey, at first hand and to one's own satisfaction, the immense hive of activity which our Colony represents. On the occasion of my installation I told you of the great happiness which I

experienced in returning to Hong Kong which, ever since my previous service here, has held a special place in my heart. I now wish to add to that and to say that I am also relieved that I have had previous experience of Hong Kong, and that within recent years; it has helped me in these last weeks, particularly as it is apparent that the subjects of most immediate interest to Hong Kong are still those which occupied our attention when I was serving here before, and, in the special circumstances of Hong Kong, it is inevitable that this should be so. In this Chamber, six weeks ago, I referred to the brilliant administration of my predecessor, Sir Alexander Grantham, and I wish to repeat my acknowledgment today. The review which I have been undertaking underlines the success of his administration and the wisdom of the policies laid down during his period of office. I have no doubt whatever that we should be most unwise to vary the general principles of policy already laid down, and that means acceptance of certain tasks of a monumental, as well as of a momentous, nature which relate directly to our greatly inflated population. Sir Alexander, last year, commented particularly on this difficult question and described it as a problem of people. Whichever way we turn in reviewing our commitments we come slap up against it. Just as I am certain that the policies were rightly taken in accepting the necessity for planning and expenditure arising out of the presence amongst us of so many people, so I am convinced today that we must go on accepting these commitments. To stop in the middle now would mean that we should go off at half-cock and this could have serious results on our economy and on our social life.

We have had special worries in these last years while attempting, fortunately with success, to restore a balance to our economy following the grievous effects upon it caused by trade embargoes. These worries have been complicated by the refugee problem and we have throughout these last years been dealing with a complex of issues. In terms of population, where are we today? Well, it is estimated that we have reached the figure of 2,677,000 souls, of whom 83% live in the built-up urban areas of Hong Kong, Kowloon and New Kowloon. We do not pretend that these figures are accurate, but it is most unlikely that we have over estimated. We believe that during 1957 the population increased once again by more than 100,000 persons; and, once again, we are bound to attribute a large proportion of this increase to immigration. Of the total estimated increase, which

is said to be 142,000, we can only account for some 78,500 as the natural increase of the population by the excess of births over deaths. The difficulties of housing 142,000 persons in any one year are in themselves formidable enough, but of course this number represents an addition to those already with us who are without any regular housing at all; and it is calculated that that number is still in the neighbourhood of 325,000. I am glad to report that, during the past year, Hong Kong made appreciable progress in housing. The building boom of the last few years continued and we all have much to be thankful for in the activities of private enterprise. During 1957 more than \$175 millions of private capital were spent in building costs alone; this is the highest figure for any year since the war and of this sum more than \$126 millions were spent in the building costs of domestic accommodation. The efforts of large employers to provide accommodation for their employees continued during the year, and a number of firms have been engaged in building flats for their employees. In its own role as employer, Government has continued to encourage its local servants by the provision of loans to form co-operative building societies and, by the end of last year, there had been registered 85 such co-operatives with a total membership of 1,575; approval was given for projects involving loans of more than \$46 millions. More schemes are under consideration. The Hong Kong Housing Society, our oldest established low-cost housing association, has more flats under construction at Hung Horn and at Sheung Li Uk, and it is also expanding its estate at Healthy Village while undertaking site formation for more flats at Kwun Tong and at Tsuen Wan. The Housing Authority as we all know opened its first estate at North Point at the end of last year; it hopes to open the Cadogan Street estate during this year and it is engaged on site formation work at So Uk in Kowloon, with two other projects under examination. These activities have called for a marked increase in the Authority's staff and this is reflected in the Budget before us. As honourable Members are aware, the Authority, from its various schemes, reimburses the Government for the cost of the staff of the Housing Authority, who are Government servants and provided for in the Estimates. The Housing Authority and those Government architects who have been engaged on resettlement projects have already made a number of experiments in design and construction, and we may yet see the adoption of some of these designs in the future on a more general basis.

We regard our housing as twofold in nature, because we have to concern ourselves not only with those sections of the community now living in overcrowded tenements or seeking accommodation in the ordinary way, but also with our squatters. For the latter, we have continued the policy laid down in 1954 by which the Public Works Department, using Government funds, constructs alternative accommodation for squatters in seven-storey blocks. Since we took that decision we have completed multi-storey accommodation for more than 160,000 persons. We have released, in consequence, no less than 250 acres of land which we can now use for permanent development for housing schemes, schools, welfare centres, public playgrounds, factories, and for the public works schemes to provide new roads, drains and water supply systems. There is no doubt in my mind about the rightness of our decision in 1954, and there is no doubt in my mind about the necessity for pursuing this policy vigorously until all the squatters who are occupying the sites required for the Colony's ever expanding needs have been cleared and resettled. Although slowed down somewhat by site formation difficulties, we succeeded in completing during the year multi-storey accommodation for 28,000 persons as well as new cottages in the cottage resettlement areas for a further 3,000. By the end of this month there will be more than 78,000 squatters in these cottage resettlement areas, and more than 161,000 in the multi-storey blocks; a total of 240,000 persons. From the reports I have received it appears that the number of persons still living in illegal structures is also about 240,000 persons, that does not take into account the number, said to be 65,000, living on the rooftops of private tenement buildings. We face, therefore, a building programme of magnitude for the next three or four years. In addition to the completion of the three estates still under consideration, it is hoped to establish five new estates, four on the mainland and one on Hong Kong Island, and, when we have completed these schemes, probably by 1962, we shall have provided, in 14 cottage resettlement areas and 11 multi-storey estates, accommodation for 450,000 persons.

So far I have spoken only of what might now almost be called the conventional type of resettlement accommodation: where they use the upper floor domestic rooms of varying sizes for accommodation, and the ground floors are available for a great variety of small businesses. As honourable Members are aware, however, multi-storey resettlement buildings are so designed that they can easily and cheaply be converted into self-contained

flats, and one variation from the conventional type of accommodation has struck me as being noteworthy, namely the completion of a large resettlement factory building, which has 94,000 square feet of workshop space for the resettlement of squatter factories and workshops, mainly for those using power-driven machinery which cannot easily be fitted into ground floors of normal resettlement buildings. In doing this we are both maintaining a contribution to the productive capacity of Hong Kong, and we are assuring continuing employment for industrial workers. The average rent blocks of this kind is intended to cover all recurrent costs and to provide for the recovery of the original capital expenditure in twenty-one years, with interest at 5%; and if this experiment is successful we would appear to be justified in putting up further buildings of this type in or near resettlement schemes.

I have dwelt at some length and in some detail—although most of it I think you are probably familiar with—on housing in its twofold form, because it is the direct and immediately obvious problem presented to us by the presence of so many additional people in our midst. As honourable Members realize only too well, however, it does not represent the sum total of what has to be undertaken, and the study of any large resettlement estate provides in itself an illustration of this. The large ones, many of which have a population as great as that of a county town in England, have to be administered. It is a matter of no surprise to me, but one which I am very happy to record, that many of the voluntary agencies and charitable organizations, which already do so much good work in various parts of the Colony, have realized the great need for welfare and educational work in these estates and are seizing the opportunities presented. As every new building is completed, one large rooftop with its penthouses is now immediately allocated to a voluntary agency wishing to open a boys' and girls' club or a primary school. There is now a waiting list of applications for the rooftops of buildings which have not yet been completed. Other organizations are concerning themselves with medical services; for instance, the Shek Kip Mei Fire Relief Committee made a substantial contribution towards the construction of a Government health centre.

When we regard the whole area of the Colony, we see the magnification of what we have to do in providing social services for the community, and it is an enormous task; a great burden to be accepted by this small Colony of ours—small I say

geographically, but big in heart. But, before leaving this particular subject, I should like to refer you to one serious problem lying in the nest of problems which our swollen population and intense efforts to expand our industries have built for us in Hong Kong. There is no use blinking the fact that the water situation, which for so long now has been critical for us in Hong Kong, is going to continue to be critical and that, apart from the personal inconvenience which the people of Hong Kong continue to experience in consequence, shortage of water is a great obstacle lying across the path of our programme for industrial development. We must have water for this and we must continue to expand our industries if we are to keep our economy stable and strong and to absorb our ever increasing population. We have practically completed work on the Tai Lam Chung Scheme with the exception of the catchwaters; we shall require another three years to finish these. We have been drawing an average of 16 million gallons of water each day from the new reservoir since March of last year and, when all the catchwaters are ready, it should be possible to draw from the same source an average of 27 million gallons each day. It has become increasingly certain, however, that the strain on our resources of water, even when we are supplementing these by the additional supplies from Tai Lam Chung, will not be eased sufficiently to meet our requirements, the requirements which arise from the new housing schemes and the siting of these on higher levels, from the development of light industry, and from the demand imposed both by an increasing awareness of the value of hygiene and by improved standards of living. As you know, a firm of specialists is now engaged on determining whether the foundations for another large reservoir scheme at Shek Pik on Lantau can be made waterproof. The consulting engineer's report received last year indicated that this scheme was not going to be an easy matter. If the report proves to be unsatisfactory, then we face a most serious situation, and, even if we can go ahead at Shek Pik, I fear that we shall still have to look for other sources of supply.

As I said at the beginning, I do not think that we can let up in our programme, and to that I would add that, not least of all the services to be provided, although it may be expensive, is the provision of additional water supplies—and it is my fervent hope that we shall be able to find sources of supply within our territory.

I should now like to refer to other major questions which have come specially to my attention in these past weeks of review. Tuberculosis is clearly our most dangerous disease, and the opening by Sir Alexander Grantham of the new Anti-Tuberculosis Association's Grantham Hospital marked a valuable contribution towards its solution. This is a large, well designed and fully equipped hospital which is now giving increasing support in the campaign against tuberculosis. The B.C.G. vaccination programme is expanding in scope and, by increasing resistance to the disease, is a valuable means of preventing the spread of infection. Recently, following Sir Harry Wunderly's visit, the Medical Department introduced prophylactic treatment with INH of children showing evidence of exposure to infection, although without actual signs of the disease; it is hoped that this prophylactic treatment may prevent the development of the active disease which is responsible at present for the very large proportion of deaths of young children. It is most gratifying to find that an increasing number of local Kaifong Associations and similar bodies are promoting the building of clinics in their districts. This is a welcome expression of self-help and merits our support and co-operation. The presence of these clinics will augment the medical services and I think it is appropriate also, at this time, to acknowledge further acts of generosity on the part of the Hong Kong Jockey Club both in building and donating to Government the large new clinic and maternity hospital at Taipo and in presenting a launch, specially designed as a floating clinic, to serve the needs of the remoter islands and coastal areas of the New Territories, and to answer calls by the fishing fleets at sea. In 1957 there was recorded by far the largest expansion in the number of new clinics in any one year since the war. We hope, in this present year, to see the materialization of a very important clinic scheme in the long awaited large and well-equipped new polyclinic at Sai Ying Pun. In addition to all the normal general out-patient services, it will provide specialist consultant services, a new tuberculosis out-patient clinic with radiological facilities, and a new public laboratory which will be equipped to deal with all routine investigations, particularly those connected with the purity and safety of food products. Honourable Members will be aware of the projects of the Directors of the Tung Wah Hospital Group, both in relation to the new wings to be added to the Tung Wah

Hospital itself and to the planning for the rebuilding of the Kwong Wah Hospital. These are important—I should really say invaluable—contributions to our medical services.

There is also the work on the second phase of the new Mental Hospital has already started, and I am very glad indeed to be able to report that we are now about to embark on the great project in Kowloon, the new hospital for 1,300 beds.

These and other projects which I won't detail here call for additional staff and elaborate training programmes; the latter will have to continue to expand over the next few years if we are to find sufficient trained staff to man our new institutions. That we are getting somewhere, however, with our medical services is shown by an examination of our mortality figures. The number of births registered during 1957 was over a thousand more than in the previous year, while the total number of deaths remained for all practical purposes the same. Infant mortality dropped to the lowest rate yet recorded of 55.6 deaths for each thousand live births. As we know, of course, this gratifying advance in our health standards carries with it other commitments, but it is a tribute to our Medical and Health Services and it illustrates the intensification of their influence on the population of Hong Kong.

In education we are now in the fourth year of a seven year plan, based on the premise that primary schooling should be available to all children between the ages of six and eleven years inclusive. The aim of the plan is to ensure that, by the end of 1961, the number of primary school places in all schools in the Colony will equal the number of children of normal school age in that year. It is hoped that, during the plan's fourth year, we will not only have exceeded the quota of 33,000 places fixed for this year but have eliminated a deficit carried over from last year. The provision of facilities for education, whether it be at the primary level, the secondary level or the higher education level, is of course not only influenced by the funds available but is also influenced, as we all know too well, by available sites. We realize that such sites as we have will have to be developed to the absolute maximum and that we may have to build larger schools on smaller sites than at present, building them up, if necessary, to five or six storeys.

I was delighted to hear about the opening of the fine new Technical College on the Hung Hom reclamation and also of the extent of our indebtedness to the generous assistance given by local commercial and industrial organizations. The increased accommodation available has permitted expansion, both in the number of technical courses and in the number of students, and this now covers day and evening classes in textile technology and a pre-sea training course to prepare for cadetships at sea. We have also noted a marked increase in enrolment in secondary technical schools and this may compel us to consider the practicability before long of providing an additional secondary technical school.

Standards at Chinese secondary schools, and further opportunities for leaving such schools, are matters which have been receiving particular attention during this last year. It is encouraging to find that the Chinese School Certificate has now gained greater recognition for employment purposes and that it is accepted for entry into an increased number of Government and other posts, although for some of the latter posts a credit in English is still necessary. Government has decided to make annual awards to the best students at the Chinese School Certificate Examination of 15 scholarships and 40 bursaries for entrance to selected post-secondary colleges in Hong Kong.

More schools mean more teachers, and to help in meeting this Government hopes to start work this coming year on a new building for the Northcote Teacher Training College to provide for an output of 300 teachers a year which will be in addition to the output of about 300 teachers a year now coming from the Grantham Training College.

On trade, I do not find the trade figures for 1957 need be regarded by us as a matter for gloom. It is true that the value of imports exceeded the figures for 1956 by 12.8%, while our exports, conversely, were 6% lower than in the preceding year. This represents an adverse balance of visible trade of nearly \$777 millions more than in 1956, but these figures do not take into account our invisible earnings from banking, insurance and all the other services associated with a port and with the entrepôt trade. We have no precise means of knowing what the invisible earnings of these services and of the tourist industry are, and, in the circumstances of Hong Kong, I incline to the view that as

long as what we buy we can pay for almost on the nail with cash already in hand we can be satisfied, and that our real concern arises when our imports fall excessively for no reason which we can readily explain. Again, although our exports were not so high last year as in 1956, they were nonetheless higher than in any other year since the Korean War boom of 1951, and the greatest part of the difference between the export figures for 1956 and 1957 can be accounted for by a reduction in the value of goods sold to Indonesia, whose political and economic difficulties during the period made that country an unpredictable market for our merchants. Lastly, a significant part of the increase of imports arises out of capital investment in machinery, transport equipment, and the like; and this is all to the good. The value of goods for export made, or partly made, in Hong Kong exceeded the 1956 figures by more than \$11 millions, despite some falling off in prices, and this represents about 26% of our total exports. I believe however it is safe to say that the real value of Hong Kong products is about 40% of total exports. This is a very encouraging sign, as is the fact that our manufacturers continue to branch out into new lines and to improve on those already established. We were able to show many of these lines to advantage at the World Trade Fair in New York and at the Autumn Trade Fair at Frankfurt. On the occasion of the Annual Exhibition of the Chinese Manufacturers' Association last year Sir Alexander Grantham suggested that the time had come for Hong Kong to have a federation of all its manufacturing industries. I am glad to hear that public response to the proposal has been gratifyingly favourable, and I am also glad to report that a strong and well-balanced committee, which was set up to examine and report on it, has already begun its deliberations. Underlying the formation of this committee and the reappraisal of our policy is the consciousness of the need to maintain and expand overseas markets for the products of our industries. Government has endeavoured to help by providing land for new factories as well as for those factories which have need to expand, and, as honourable Members know, we are exploring the possibility of further reclamation schemes as a result of which, if the portents are favourable, we may obtain further suitable land to meet our industries' requirements. This, of course, means in turn an acceptance by our factory owners of

the need to move out into the less congested parts of the Colony to build factories, factories in which I hope we shall see the resources of technology and modern management techniques applied to the full.

We start this new year with two shadows still hanging over our industry and trade. One is the gradual formation of the European Free Trade Area and the other is the continued pressure from Lancashire for the restriction of imports into the United Kingdom of cotton cloth from Hong Kong. It is still too early to tell how the Free Trade Area, as eventually determined, will affect the Colony's trade, but you may be sure that Government will do everything in its power to ensure, as far as possible, the mitigation of any ill effects. I do not know whether Lancashire interests will make a further attempt to negotiate some voluntary arrangement with their counterparts here and in other countries; it may well be that this particular storm will blow over as the dyeing and finishing sides of the Colony's industry expand and absorb more and more of the unfinished cloth now going to the United Kingdom. Whatever the outcome of these and other troubles that may face our manufacturers and traders, I am confident that they will overcome them, as they have overcome others in the past, and I am sure that in this they will have the support of all of us here today.

I am afraid that last year was not a good one for farmers in the New Territories. They faced the disastrous consequences of floods, typhoons and greatly reduced prices for pigs and poultry. Nonetheless agricultural production is being maintained at a high level, and this was well demonstrated, I understand, by the range and quality of the New Territories' products at the Agricultural Show last January. The soil survey, which is now being undertaken, and the land utilization survey, completed some three years ago, are of great service in deciding the elements of our agricultural expansion. Increased production during the last four or five years has resulted from better farming practices, and of equal importance have been the organization of marketing, the extension of co-operative societies and the provision of credit in the form of loans to farmers—in which connexion I should like particularly to mention the Kadoorie Agricultural Loan Fund and the J. E. Joseph Trust Fund. The Kadoorie Agricultural Aid Association has continued to give valuable assistance during this year.

Marked progress has been made during this year also in the major engineering project of the airport at Kai Tak. All reclamation and marine works have been completed and the runway pavement half completed. At the moment we hope that it will be possible to bring the new runway into operation in August or September of this year.

Time does not permit me to dwell upon the work which the Urban Council has carried out during the year, but I have been studying reports of its work and I should like to thank its members for the time and effort which they have continued to devote to public affairs.

Honourable Members will be glad that we have now completed our negotiations with the Military for the taking over of the Murray Barracks, Murray Parade Ground and the Detention Barracks, with certain agreements for reprovisioning. A public intimation of this was made last week. It is also gratifying to be able to forecast the early re-opening of the Clearwater Bay Peninsula to members of the public. This area, which has served for some years as a storage area for the Army, has recently been released by the Military Authorities and, as soon as the road running through it has been put in order, it will once again be available for general use.

While we are on the subject of military lands, there is one development which is in many people's minds but on which there is comparatively little that I can say. I refer to the closure of the Royal Naval Dockyard. I regret the necessity for the closure as much as anyone of those directly affected by it. It is, however, necessary; there is no other course, and we must now accept that fact. I appreciate also that the re-adjustments following on the closure must cause apprehension and anxiety to many employees, but I can assure you that the Government is doing everything in its power to mitigate actual hardship. The patient and laborious work of the Employment Liaison Office has been strikingly successful so far and, if we are to continue this success in the future in finding new jobs, we shall require still further co-operation from employers and from the Dockyard workers themselves: the employers in finding new openings, and the workers in co-operating with those who are trying very hard to find new jobs for them.

There has, I regret to say, been evidence that some of those whom Government is able to help have been persuaded not to accept new employment. There has been extensive and patent misrepresentation of the re-employment position. It is such activities as these that are the impediments to the smooth re-adjustment towards which Government, the Naval authorities and the employers of labour are working. I condemn these activities without reservation because they are detrimental to the interest of the Dockyard employees, to the efforts of Government on their behalf and to the interests of the whole Colony.

Before concluding, I have to report a decision recently taken by the Secretary of State. He has approved a considerable relaxation in the financial control which he exercises over Hong Kong. In 1948 the Colony was released from Treasury control and given a large measure of autonomy over its own finances. The control which the Secretary of State still retained at that time was that his approval was required for the annual Estimates, for supplementary provisions exceeding \$1 million in the case of capital expenditure and \$¼ million in the case of recurrent expenditure, for the issue of any loan and for any expenditure involving important points of principle. The Secretary of State has now informed me that, in view of the good standing, financial and administrative, of the Colony, he will further relax his control and will no longer require the Estimates to be submitted for his approval; nor will he require supplementary provisions to be authorized by him. On the other hand, he wishes to extend the principle of demi-official consultation which is already in use, and I have agreed that the Financial Secretary will keep the Finance Department of the Colonial Office regularly and fully informed about this Government's financial policy and about the way that this policy works out in practice. The Financial Secretary will take account of the views of the financial advisers of the Secretary of State in advising this Government on policy.

This is a very important and considerable extension of our financial independence, and of course it brings with it its responsibilities; but I am confident that honourable Members will gladly share in these responsibilities, particularly in the

sphere of examination of the Government's proposals for expenditure in Appropriation Bills, so as to ensure that we employ the Colony's resources in the best possible manner for its development and for the benefit of its people.

Finally, I should like to take this opportunity of expressing my admiration for the achievements of the people of Hong Kong; for the remarkable and resolute way they have tackled their economic and social problems, and for the manner in which they have fulfilled, and are continuing to fulfil, their obligations to the more unfortunate of our fellow men who are amongst us. Whether or not eventually we receive aid from other sources, I know that the people of Hong Kong will continue to do their best and, by any standards, Hong Kong's best represents a very fine achievement. (*Applause*).

**RESOLUTION REGARDING THE DRAFT ESTIMATES OF
REVENUE AND EXPENDITURE FOR 1958-59.**

THE FINANCIAL SECRETARY moved the following resolution: —

Resolved that the draft Estimates of Revenue and Expenditure for 1958-59 be referred to a Select Committee composed of the Colonial Secretary (*Chairman*), the Financial Secretary and all the Unofficial Members.

He said: It is customary on the occasion of the introduction of the Budget for a survey of the Colony's financial position to commence with the last published accounts. These have now been in the hands of honourable Members for some months, and if Council will bear with me, I will first of all endeavour to follow up my forecast of twelve months ago by reference to the actual results disclosed in these accounts.

In my address to this Council on the 27th February last year I gave a revised figure of \$493.3 millions as the estimate of revenue for 1956/57. The final result came out at \$509.7 millions—a record figure. This is the first time that the revenue of the Colony has topped the five hundred million mark. It was indeed a year of records. The largest single excess on any subhead of revenue was in respect of Estate Duty, the yield from

which was \$24½ millions, a record. The revenue from duties of all kinds came to \$97.3 millions as against the revised estimate of \$94½ millions. Again a record. Interest on moneys lent or invested topped \$20 millions for the first time. Land Sales yielded almost \$15 millions; another record. As against these very satisfactory increases the yield from Earnings and Profits tax fell to \$89.4 millions, or \$10½ millions under the original estimate. This has been the worst year for Earnings and Profits tax since 1951/52.

The final figure for expenditure turned out to be \$469½ millions, as against the revised estimate of \$484 millions. The total would have been even less but for the transfer of \$10 millions to the new Local Loans Fund, and the expenditure of something over a million as a result of the Kowloon disturbances of October 1956. Once again there was considerable under-expenditure on Public Works Non-Recurrent, although not on the scale of previous years; the provision of \$126 millions was underspent only by a little over \$13 millions. Recurrent Educational Subventions were over-estimated by almost \$3½ millions, and Non-Recurrent Educational Subventions by almost \$6 millions.

The result of the year's working was therefore a surplus of \$40.1 millions. In addition, our investments, when revalued on the 31st March last, showed an appreciation of \$6.6 millions, so that at the end of the year our General Revenue Balance—cash and investments—had gone up to \$358.2 millions. At the commencement therefore of the present financial year, the sum of the General Revenue Balance and of the Revenue Equalization Fund, which together constitute the Colony's uncommitted reserves, was \$495,877,000.57, a figure which is very close to the actual revenue figure of \$509.7 millions for the year just then ended.

It may be of interest to honourable Members—it will, I know, be of interest to one honourable Member—if I point out that, at the beginning of this financial year, we had in the Colony, in cash and deposits at the bank, a total of almost \$148 millions.

During the year the Colony's public debt increased from \$63¼ millions to almost \$73 millions. The cause of this increase is of course the money that we have drawn from the interest-free

loan made available by Her Majesty's Government for the new airport. The amount so drawn was \$10.6 millions, but this increase in our indebtedness has been offset slightly by the annual drawing of the bonds issued in 1934 and in 1940. It will be of interest to honourable Members that the 1934 loan will be finally paid off next year, so that if any of these bonds were obtainable, they would represent a very good investment at the last quoted price of 89. The Sinking Fund, which is being built up for redemption of the Rehabilitation Loan of 1947, now stands at over \$14 millions, as against outstanding indebtedness of \$46,666,000. Finally I should add that Her Majesty's Government has requested that the airport loan of £ 3,000,000 shall be repaid by annual instalments of £ 200,000, the first instalment to be made in the financial year 1961/62.

The Dollar Note Security Fund again showed a loss on the year's working, but the accumulated deficit was slightly reduced thanks to the fact that the investments of the fund showed an appreciation during the year. It is possible that the fund will show a somewhat larger deficit during the present year, as an effort is being made to improve the standard of the note issue and to withdraw the many dirty notes in circulation. This has meant placing very large orders for new notes to replace them and to build up an adequate reserve.

We managed to survive our annual crisis at Chinese New Year without any difficulty, but once again the circulation figures for notes and coins were well up. At Chinese New Year last month the figure for dollar notes in circulation with the public was 43.4 millions as against 40.3 millions twelve months ago. The number of 50 cent coins—I mean the number of coins, and not the value of the coins—was 11.9 millions as compared with 10.6 millions; for 10 cent coins the figure was 103.8 millions as against 96.3 millions; and even for 5 cent coins the circulation went up from 23.8 millions to 26.6 millions. It seems to be the case that we now can expect a steady increase in the maximum note and coin circulation each year.

So far as the issue of bank notes is concerned, the total of certificates of indebtedness held by the three note issuing banks under Section 4 of the Exchange Fund Ordinance on the 31st December, 1956, stood at \$665,141,173.59, exactly the same figure as twelve months previously. On the same date the

assets of the Exchange Fund covered this liability to the extent of over 111%. Just over one third of these assets was in the form of cash or money at call or short notice.

Before I leave the financial year 1956/57 I want to draw attention to the Waterworks operating accounts which are set forth at Appendix F to the memorandum on the estimates on page 220 of the volume that honourable Members have before them. It will be seen that for the first time since we started keeping accounts in the present form the Waterworks undertaking shows a loss on working. This loss came to three quarters of a million dollars. It is true that during that year water restrictions were very severe and we were unable to sell anything like the amount of water that we should have liked, but it will, nevertheless, be noticed that sales of water brought in only \$300,000 less than the year before. With additional water available from Tai Lam Chung reservoir it is probable that the results of the present year may be more satisfactory, but on the other hand there is as yet no provision in the accounts for amortization of the heavy capital expenditure that has been incurred on Tai Lam Chung, this step having been deferred until the scheme is complete. When this capital charge begins to appear in the accounts it may well be that the increase in revenue from sale of water will be more than offset by the additional Sinking Fund contribution, and then an increase in the price of water will be inevitable. However, a decision on this matter can be deferred until we have the results of the present year's working.

An additional point about the water accounts is that we still charge only 3½% on the capital advances necessary for the large scale construction programme now in hand. This low rate of interest is in effect a subsidy, but seeing that it has been used since these accounts were started, and seeing that interest rates may fall in the not too distant future, it is not proposed to alter it.

Now, Sir, I would pass on to the present financial year.

The most encouraging feature of this year is the very good recovery in Earnings and Profits Tax after the depressing result of 1956/57 when collections totalled only \$89.4 millions. It is now expected that this year will produce \$105 millions, an increase of 17½%. It seems to be the case that profits during the year 1956 have been somewhat higher than in the previous year,

and part of the increase of over \$15½ millions is, as might be expected, due to increased receipts from Property Tax, thanks to the vast amount of building and rebuilding that has been going on.

Once again there is a very considerable increase in revenue from luxury taxation, almost all in duties of various kinds. Entertainments Tax so far is up by only 6% on last year, but tobacco once again is well up. Actual collections of tobacco duty over the first forty weeks of the present financial year show that the takings are up by \$65,000 a week on last year, that is approximately 8%. It is now expected that this subhead alone will reach \$46 millions—once again a record.

It may be of interest to honourable Members, as an example of how the Colony has changed since the war, that the actual total revenue of the Colony in the year 1939 was less than this figure, being only \$41,478,061. Of that total \$11,156,450—over 25%—came from duties of all kinds. For the present year, on the revised figures, duties account for only 19% of the total estimated revenue of roughly \$557 millions.

Liquor duty is also up. Collections over the same period of forty weeks show an increase of \$52,000 a week or almost 12%. The remaining types of duty also show increases, but smaller ones. If we take the duties on Hydrocarbon Oils, on Proprietary Medicines and Toilet Preparations, and on Table Waters altogether, the increase is \$35,000 a week, or approximately 5½%.

The total revenue from duties of all kinds under Head 1 of the revenue estimates is now estimated at \$106 millions for the present year, as against the actual figure of \$97.3 millions for last year. This figure exceeds by a million dollars the revised estimate for Earnings and Profits Tax but, judging from the latest returns, it is not at all unlikely that when the final results are available, it will be found that Earnings and Profits Tax will have re-established its position as the main revenue producer. Up to and including last Saturday the total receipts under this head came to \$102¼ millions.

Questions have been asked in the past as to how much revenue we might reasonably expect annually by way of tax on earnings and profits. I have obtained a few figures from the Inland Revenue Department which may be of some interest to honourable Members.

These figures are complete up to the 31st December last year, but it must be realized that they are subject to variation in view of such complications as personal assessment and revision of assessment, which can affect the figures for any particular year for years afterwards.

The number of assessments issued in respect of the year of assessment 1954/55 was 71,911, and total tax assessed was \$78.1 millions. For the year of assessment 1955/56 there were 73,630 assessments and total tax assessed was \$81.5 millions. For the year of assessment 1956/57 there were 86,438 assessments for tax totalling \$89 millions. For the present year of, assessment, 1957/58, and it must be remembered here that the figures only go up to the 31st December last, the number of assessments issued in the nine months was 79,096, and the tax assessed to that date was \$84.7 millions. Bearing in mind that the tax assessed for any year of assessment is usually in respect of profits for the preceding year, it will be seen that prosperity does seem to have increased steadily from 1953 onwards.

It appears then that unless economic conditions deteriorate very badly we can reasonably count on between \$80 and \$100 millions a year from the operation of the Inland Revenue Ordinance. For the first two of the four years which I have covered, actual tax collections far exceeded the assessment figures I have given, being swollen by arrears from earlier years. But it will be noted that the actual collections of tax during the year 1956/57 tallied very closely with the figure for assessments for that year which I have already given. It is easy therefore to jump to the conclusion that the department is now fully up to date, and that all arrears have been collected; but perhaps it is yet a little early to make such a deduction.

Of other items of revenue, stamp duties are now expected to produce \$24 millions this year as against \$21½ millions for last year, due in large part to the continued high prices being paid and received for land. The same cause is responsible for the large increase in the estimate for Land Sales, where revenue is now expected to approach \$20 millions as against just under \$15 millions for last year. Indeed the latest indications, since the estimates were sent to the printer, show that the final figure may well be in excess of \$25 millions. A lesser increase in

revenue is expected from the Railway where the estimate of \$6 millions has now been revised to \$8 millions. This is entirely due to an increase in the number of passengers travelling.

Two years ago I mentioned the difficulties that we were experiencing in meeting the demand for sand in the Colony. It will be recollected that the beaches were becoming depleted and that we had had to start dredging from the seabed. At that time the situation was so difficult that we decided to increase the price of sand from \$8 to \$10 per cubic yard in order to encourage private interests to commence thinking on the lines of importing sand from elsewhere.

I am glad to say that since then the position has greatly eased. We have now found fairly substantial seabed deposits which can be worked with the help of new dredging equipment available to our contractor, and the latest assessment of the position is that sand supplies now available will be sufficient to meet probable demand for the next ten years. It is extremely dangerous to make forecasts of this kind. The demand over the year 1957 averaged 50,000 cubic yards a month, and there is evidence that during the first few weeks of this year the demand has been increasing. Nevertheless, I think the position is fairly safe for a few years to come.

The increase in price that was made two years ago has had the desired effect, and a number of people have now become interested in importing sand from elsewhere. So far imports have been relatively small, but they have helped. The purpose of the increase in price having been accomplished, the price of sand was brought back to its original figure as from the 16th December, 1957. But despite this reduction, receipts from the sale of sand are expected slightly to exceed the estimate.

This will, I expect, be another year of records. Duties will be a record again; so will Land Sales; so will Rates; so will Post Office receipts; so will Stamp Duties. Earnings and Profits Tax may possibly also be a record. And total revenue will also be a record. The revised estimate is \$556.6 millions as against the original figure of \$507½ millions.

Against this revised revenue estimate, the estimate of expenditure has been revised downwards from \$561.2 millions to \$555.6 millions, a fall of \$5½ millions. A number of departments show

reductions of varying amounts in their estimates, but a few have increased, the most noteworthy being the Stores Department, which expects to spend \$17 millions more than estimated. This is not really true expenditure in that the money has gone into unallocated stores, large stocks of which came forward after the Suez crisis and have not yet been issued. With the considerable accumulation of stocks at the moment it is possible to order a little less now, and the over-expenditure this year will help us financially in the future. Public Works Recurrent are expected to cost \$6½ millions more than originally estimated, thanks largely to heavy expenditure on repairing damage caused by the floods, and by the two typhoons. Miscellaneous Services are expected to cost \$3½ millions more than was estimated, mainly because of the additional money that was made available for farmers in the New Territories, who suffered so severely during the spring of last year. As against these increases, Public Works Non-Recurrent, a Head of expenditure which can usually be relied upon for substantial savings, will cost \$20 millions less than expected.

Thus with a revised revenue estimate of \$556.6 millions, and a revised expenditure estimate of \$555.6 millions the result of the year is expected to be a surplus of just over a million dollars.

I may say at once, Sir, that I feel confident that this figure will in fact be greatly exceeded. During the twelve months from January, 1957, to December, 1957, actual revenue was approximately \$575 millions, and actual expenditure was almost \$520 millions, showing a surplus of \$55 millions for the period. I find it difficult to believe that the outcome of the period from 1st April, 1957 to the 31st March, 1958, will be so very different from the results of the calendar year as the printed estimates indicate. The revised revenue estimate which I have given looks a little low in the light of the revenue returns for the past three or four weeks, but the revised expenditure estimate, for which I have to rely on the departments, is almost certainly too high. So far as I can ascertain at the moment it looks as if the final result of the year may well be a surplus of fifty millions.

I feel that the probable results of the year's working cannot be regarded as other than satisfactory. We shall once again meet all our expenditure, recurrent and capital, out of revenue, and shall still have something over.

Before, Sir, I go on to next year, 1958/59, I should like to dispose of the Development Fund.

The total assets of the Fund on the 31st March, 1957, amounted to \$133¾ millions. Of this amount only about a third, \$47.8 millions, was out in loans and advances, the balance of \$85.9 millions being still available. Of these loans and advances, the Housing Authority accounted for \$23.8 millions, the Hong Kong Housing Society, \$8.8 millions and local officers' Co-Operative Housing Societies, \$11.5 millions.

The income of the Fund from interest on loans, investments and bank deposits during the year came to \$3¾ millions.

The last published accounts of the Fund showed the position on the 31st December last. The total of the Fund had grown to \$147.2 millions, the income for the nine months being over \$13 millions. But of this \$13 millions, \$10 millions constituted a windfall from the funds formerly under the control of the Custodian of Property, the transfer of which to the Development Fund was approved by this Council on the 31st July, 1957.

On the 31st December the total of loans and advances from the Fund had increased to \$60½ millions. It is of interest that the amount expended on the reclamation at Kun Tong was \$3.8 millions, but already \$2.7 millions had been recovered by sales of sites, so that the net advance shown in the capital account was only just over a million. The total of advances to the Housing Authority had grown to \$32.7 millions, and that of local officers' Housing Co-Operatives to \$16 millions. The success of the Co-Operative Housing Societies formed by local officers has been remarkable, and reference to Appendix 1 to the estimates will show the very great response that has been made by these officers to Government's offer of help by way of land and finance. This is, I think, yet another example of the enterprise that seems to be so characteristic of Hong Kong residents. It will not pass notice that although the Housing Authority was constituted in April, 1954, that is, almost four years ago, it has, up to the 31st December last, succeeded in spending only \$32.7 millions.

It will be seen from Appendix 1 of the estimates that the allocations from the Development Fund total \$192½ millions, whereas the Fund itself on the 31st December stood at only \$147 millions. I do not think there is any particular need to worry

about this over-allocation at the moment; we have \$87 millions available in liquid form, and it is probable that many of the allocations will not be taken up for a long while to come. Meanwhile, the Fund is still earning income, and some of the advances and loans are starting to come back.

Now Sir, I would go on to the next financial year, 1958/59.

It will be noticed that the layout of the Revenue Estimates for the forthcoming year shows a number of changes. The changes do not affect the first three Heads which produce most of the revenue, but they do very much affect some of the other Heads. The reason for this is that the Revenue Estimates have been increasingly cluttered up with a number of very small items of a few hundred or a few thousand dollars. Moreover, the Head described as Miscellaneous Receipts was becoming a little large; a fact which in itself indicated that some reclassification was necessary. Accordingly an attempt has been made to clear up all the small subheads and to group as many as possible of them under the collecting departments. For example, Urban Council licences are shown together on pages 11 and 12. Vehicle and Drivers Licences are grouped together under "Police" on page 11, and so on. The breakdown of the new subheads is shown on the left-hand side for information for next year, but will not be included in future estimates, although any particular figures of course will always be available from the Treasury if they should be required. I trust that honourable Members will agree that the new layout is more workmanlike, and that it is not really necessary to spend our time, and our energy, in setting forth and in scrutinizing annually the precise amounts that we expect to collect, for example, by issuing licences to shops selling frozen or chilled confections, or to bird shops; or by way of fees charged for supplying meteorological information.

For next year the estimate of revenue is \$554 millions, a figure which is roughly \$2½ millions below the revised estimate for the present year. This reduction is more than accounted for by the fact that the estimate for Earnings and Profits tax has been put at \$100 millions as against \$105 millions in the revised estimates for this year. I am assured on all hands by business people that profits during the year 1957 are on a lower scale than for the previous year, and if this is correct then there must be a corresponding reduction in revenue for the next financial year, but it

will be very interesting to see whether this belief is borne out by the ultimate results. The estimated yield from Duties is put at \$2¾ millions above the revised estimate for the present year, but the two largest increases are under Heads 2 and 9. Head 2, as Members will remember, is Rates, and here the expected revenue for next year exceeds \$70 millions for the first time. In the financial year 1954/55 the actual yield from rates was just under \$50 millions; now for 1958/59 we expect to receive over \$70 millions, a very clear indication of how the Colony has developed during the past three years. If the present rate of development continues, it is not difficult to imagine that before many years are past, Rates may well become our most important single source of revenue. The increase on the other Head, Head 9, is due to a further rise in the estimated receipts by way of interest on loans and investments. The figure for next year is \$26 millions. If I may delve into history again, it is the case that this sum—so to speak, our unearned income—exceeds by \$2½ millions the total revenue for the whole Colony in the year 1929, less than thirty years ago, the year in which I was first appointed to the service of this Government. In certain details the estimates of revenue may be regarded as conservative, but I think that the overall figure is fairly reasonable.

There is one reservation that I must make here. The estimated yield from Business Registration fees, which are included under the Inland Revenue Head 3, is \$6 millions. The administration of the Business Regulation Ordinance has been bedevilled by one problem after another during the whole period the ordinance has been in operation, and we now have another problem in that it has become quite clear that for many small businesses the fee of \$200 is too high. Consideration is being given to amending the law in order to reduce the fee, and to redefine what we mean by a business. The necessary legislation will take some time, and meanwhile we shall carry on as we are going, but if we do proceed on these lines, revenue from this source will fall far short of the estimated \$6 millions.

In the expenditure estimates it will be noticed that there is one new Head, the Social Welfare Department. This department was formerly a member of the household of the Secretary for Chinese Affairs, but a divorce has now been effected; and as is usual in such cases, both parties to the divorce find that it is more expensive to live apart. (*Laughter*). On the other hand there

is one deletion from the estimates in that the Custodian of Property division of the Treasury disappears. With the clearance of much of the old custodian work during the past year, the maintenance of a separate division is no longer necessary, the remaining work being handled by the Accountant General.

So far as figures are concerned, of all the major expenditure Heads, only one is down for next year. It is the Kowloon Canton Railway, the estimate for which is less by a million dollars than the approved estimate for the present year. The reason for this is less capital expenditure; and reduced recurrent expenditure, thanks to the introduction of diesel electric locomotives in replacement of the inefficient steam engines which have been in use since the war.

Practically all the other Heads are up. The Police estimates are up by \$10 millions on this year, reflecting the great expansion of the force. Included in Police Other Charges, Special Expenditure, is an item for parking meters, the amount provided being a million dollars. It is Government's intention that the building of multi-storey car parks shall be followed, if not accompanied, by the introduction of metered parking in the streets, and especially in the busier streets in the centre of the town. It is proposed that the charge shall be 50 cents for each two hours' parking, a point which should be borne in mind when the charges for parking in the multi-storey car parks are the subject of discussion, or of grumbling, for the charges in the multi-storey car parks must be related to the charges for street parking. I might perhaps add that a further supply of 50 cent coins has already been ordered for this purpose. (*Laughter*).

The Education and Medical Departments are up by \$6½ millions each; Miscellaneous Services are up by \$4½ millions; of this amount \$3¼ millions are attributable to a grant to the Local Loans Fund, which is likely to run short of cash during the next year; Subventions are up by \$4 millions, of which \$600,000 are for the Tourist Association; the Public Works Department estimates are up by \$3½ millions, and it is especially to be noted here that all of this is due to a large increase in establishment, necessary for the increased responsibilities of the department. Public Works Recurrent are up by \$3½ millions, reflecting the increased maintenance necessary for more public works of one kind or another. It has been necessary to increase the vote for

maintenance of buildings not only because of many more buildings which now have to be maintained, but also because of increased prices. A further two millions have been provided for road maintenance, bringing the total vote up to \$5 millions, as my honourable Friend, the Director of Public Works, is gravely concerned about the deteriorating standard of our roads. The Post Office is up by \$2½ millions, and the Urban Services, Head Office and Sanitary Division is up by \$1½ millions. The Prisons Department is up by a million and is now becoming quite a costly department, the total estimate for next year being \$8½ millions. Five other departments are up by half a million dollars each, and even the Gardens Division of the Urban Services Department is up by \$200,000; all our new parks and playgrounds have to be maintained.

I want to invite the attention of honourable Members to the estimates for the Treasury under Head 42. It will be seen that the estimate for the forthcoming year has been considerably increased and that additional staff have been provided. The reason for this is that the organization of the Treasury has failed to keep up with the very considerable increase in the amount of money to be accounted for both by way of revenue and expenditure, and also in the volume of stores handled. During the past couple of years treasury inspections and audit examinations have disclosed that the standard of stores accounting in several departments is below what it should be. It has also been found that in several instances accounting rules and regulations, which are designed fundamentally for the safeguarding of public funds, were not being observed. There was indeed a serious defalcation in the District Office Taipo during the present year. Accordingly, it is proposed to reinforce gradually the inspection and examination side of the Treasury, and provision is made for additional Inspectors, Stock Verifiers, and Examiners. The duty of this additional staff will be to visit departments, and to apply all possible checks to see that public money is safeguarded, and to see also that it is being spent in the manner intended by this Council when it approves the annual estimates. I commend this increased provision to this Council as a very necessary insurance.

There is another important aspect of financial control to which no real solution has yet been devised. When preparing the annual estimates it is a matter of very great difficulty to decide whether an application for special expenditure is really justifiable.

Requests for additional staff are gone into very thoroughly by a committee in the Secretariat which goes through them, post by post, with the head of department concerned. Similarly, requests for replacements of transport or for additional transport are also gone into by a committee in the Secretariat. But so far no adequate method has been devised to deal with requests from departments for such things as typewriters, or filing cabinets, or office equipment, and so on. The Police, for example, asked for provision to be made in the estimates for the purchase of 107 typewriters. Short of deputing people to go round departments to check up in each case, it is almost impossible to judge the merits of requests such as this, and Council, in voting the funds for these purposes, is dependent on the word of the head of the department concerned, who, in his turn, is dependent on the efficiency of his subordinates. It is possible and I have hopes that the Treasury Inspection and Examination Branch, at a later stage, might be able to take on some of this work, but for some time to come they will have their hands fully occupied in seeing that the standard of accounting is being maintained.

Honourable Members, and the public generally, will find much of great interest in Public Works Non-Recurrent. There are no less than 141 items in the long list of public works, and the total commitment shown is over \$750 millions. Of this commitment it is expected—my honourable Friend the Director of Public Works expects—that \$183 millions will be spent during the forthcoming year.

The make-up of this large Head is based on the report of the Public Works Sub-Committee which is today in the hands of honourable Members. Government has gone even beyond that report because not only have the priority A items been included in the estimates, but a few priority B items have also been added. Subsequent to the report, the Director of Public Works felt that he could get on with some of the priority B items during the forthcoming year, and I trust that honourable Members will forgive me for anticipating their agreement. Some of them were resettlement housing projects. The commitment for resettlement housing generally in the estimates is \$80 millions and it is expected that over \$22 millions will be spent next year. I need hardly emphasize that this commitment of \$80 millions is far from being our total commitment; it is the immediately foreseeable commitment.

The largest single item of expenditure is, once again, the airport, for which \$35 millions have been provided. The revised estimate of the cost of the airport, as shown against subhead 129, is \$110 millions, and I should point out that this figure does *not* include the cost of the terminal facilities. We have run into some difficulty in planning for the terminal building. The proposals put up by the Director of Civil Aviation, when translated into terms of hard cash, resulted in an estimate of cost of \$26 millions for the terminal area and its buildings. This was a figure which Government was unable to accept without the fullest justification, and the proposals were sent back with a view to reducing the cost substantially. This may well mean some delay in the provision of the terminal facilities, but this delay will I am afraid have to be accepted; until the new building is ready the present building will have to serve.

Water is going to take a great deal of money, \$36 millions. Of this sum the Tai Lam Chung scheme will need \$16 millions. The reservoir itself is now complete, but the work on building catchwaters and providing the necessary distribution facilities will go on for some years yet. There is a provision of \$11 millions for the new reservoir at Shek Pik. The result of the tests as to the practicability of the project, now in hand, should be known within another month or so.

I want to dwell on the water situation for a few moments, at the risk of repeating what Your Excellency has already said, because it does look as if the position may well, yet again, become very serious within the course of the next few years. One somewhat alarming factor, which is responsible for the expenditure next year of \$3 millions under subhead 126 for saltwater flushing, is the fact that with the very considerable building development that has been going on in Kowloon it has been noticed that the ground water table has been falling. As Members are aware, the use of mains water for flushing is not allowed where well water can be obtained. Now with the heavily increased demand, it has been found that well water is no longer obtainable in many areas during the dry season, and the Water Authority has been driven, in certain cases, to allow the use of mains water for flushing, resulting in additional demands on our water resources amounting *already* to over a million gallons daily. This is a matter for concern, and to deal with the immediate problem it is necessary to put in salt-water flushing systems at once.

Yet another cause for concern is the fact that with development mainly in Kowloon on higher ground, and with higher buildings going up on the higher ground, the existing service reservoirs can no longer supply water to the upper floors in certain areas, and not even to the lower floors of projected new developments. Accordingly, it is now necessary to provide additional service reservoirs on higher ground. Four of them will be necessary, and two are provided for next year to deal with the immediate problem.

Again, at Aberdeen, development is held up because the water filtration and distribution system there can no longer cope with even the present population of that area. Accordingly, it is necessary to provide money to augment the present system so as to enable development, both residential and industrial, to proceed.

All these factors are clearly indicative of a steeply rising demand for water, not only because of increased population, but also because of the increased standard of living, and even more because of industrialization. There can be much more factory development, and much quicker factory development, if we can supply water, and it is now becoming clearly apparent that even the new Shek Pik scheme will be quite inadequate for the Colony's needs if it proves practicable, and when it is finished. We shall have to start thinking very seriously about finding other sources of water supply in the immediate future. The matter must be regarded as one of urgency. We must, I feel, do our utmost to see that industries are established here if we are to provide employment, not only for our present population, but for our new population that is coming forward at the rate of 90,000 a year. Without water there can be little hope.

Outside resettlement housing and water there are many other items of considerable interest in the list of public works. Under Education there is a list of no less than twenty four schools and colleges on which work either will be finished, or will proceed, or will commence, during the forthcoming year. This impressive list is evidence of what we are trying to do for education in the Colony. The Medical and Health list is also of very great interest. The Mental Hospital will be well under way next year, and it is expected that \$6 millions will be spent on the new Kowloon General Hospital and quarters. I understand that quarters will be the first step, but it is also hoped to start work

on the basement of the main hospital. For those who are interested in such matters there is also quite a long list of latrines and bathhouses. Whilst caring for the living, healthy and sick, we are also thinking of the dead. The new mortuary in Kowloon will probably approach completion during the forthcoming year, and a start will be made on the Colonial Cemetery at Chai Wan, and on a crematorium in the same region. After much delay the scheme for the abattoir at Kennedy Town has now been reconsidered by the Urban Council and the decision has been made that instead of one large abattoir for the whole Colony there shall be two smaller such institutions, one at the designated site at Kennedy Town, and the other at Cheungshawan.

There is a long list of Government buildings, offices, magistracies, fire stations, post offices, and so on. An effort is being made to decentralize the administration as far as possible and three of the new magistracies will have additional accommodation for offices. It is hoped that a start may be made on a large block of Government offices at Caroline Hill, and it is also probable that a start may be made on the long delayed City Hall.

There is another big bill for new roads and for reconstruction and improvement of existing roads. I am afraid that people who travel regularly on the Castle Peak Road are going to be seriously inconvenienced once again, for the Public Works Department proposes to start work very soon on rebuilding the first section of the road from Laichikok up the hill to the gap. There is also provision of a million dollars for building a subway under Connaught Road so that passengers to and from the Star Ferry pier will not have to cross against the traffic. It will be interesting to see whether the reaction of the Hong Kong public to a subway will be any more favourable than it is in other cities of the world.

There are no less than five major reclamations under way at Tsuen Wan, Cheungshawan, Chai Wan, Hung Hom, and along the water front in the Central District. It is intended that the Central reclamation, which now accommodates the Star Ferry piers, shall be extended down the whole water front to the neighbourhood of the harbour office, and it is hoped that much of this new land may be sold and that a substantial profit may ultimately be realized on the cost of reclamation. Provision, under the same heading of Reclamations and Piers, is also made for the start of work on a second vehicular ferry service across the harbour.

Included under Miscellaneous Items is a token figure against an item called Reprovisioning of Military Establishments for which the total estimate is \$18 millions. This, as already announced in the press, is the probable cost of reprovisioning the military establishments in Murray Barracks and the Detention Barracks, and of the bills which will be incurred at Shamshuipo.

The total estimate of expenditure, including the heavy bill for Public Works Non-Recurrent, is \$641½ millions. I mentioned earlier that the estimate of revenue is \$554 millions, so that there is an estimated deficit for 1958/59 of \$87½ millions.

Now, this is a very large sum. There will probably be something of a tendency to regard a deficit of this order as a matter of little significance in the light of the history of the past two or three years, when we have budgetted for a deficit which in the event turned out to be a surplus; and there is every justification for a certain amount of complacency. But not too much. I do indeed expect that savings, considerable savings, will be shown at the end of the year on the expenditure figures. For example, provision for Fuel, Light and Power, under all departments has been estimated on the basis of the surcharge at the beginning of this year, so that with the recent small, very small, reduction in the surcharge, it is not unreasonable to expect that some of these votes will be underspent, if heads of departments show reasonable care in the use of electricity. I have little doubt that many of the posts provided for in the estimates will remain unfilled for a considerable proportion of the year. And I expect too, that the provision for Public Works Non-Recurrent will not all be spent. But I would emphasize that a part of this deficit is due to increased provision for personal emoluments, and reference to Appendix 1 to the memorandum will show that the total increase in staff for the Government service for the forthcoming year is 4,347. It is this increase in personal emoluments and the consequential increase in Other Charges, Annually Recurrent, which must, I think, give cause for some little concern for the future.

On the other hand it is true that were it not for the very heavy bill for capital works we should still be in a very happy position. There is a deficit of \$87½ millions, but the bill for Public Works Non-Recurrent is \$183 millions. The position really is that we can finance all our recurrent expenditure and

all our special expenditure out of revenue, and we can also finance new public works to a limit of \$96 millions without incurring even a paper deficit. We therefore propose to finance the balance of \$87½ millions of capital expenditure out of our reserves if it should prove necessary, and our reserves are at present sufficiently large for us to contemplate this contingency without any concern. In other words, I see no justification for any increase in taxation at present. I trust that, with a large budgetary deficit, nobody will have the temerity to suggest that there should be any reduction in the already low level of taxation, (*Laughter*) although, as I have indicated, there will be a concession on Business Registration.

Before I conclude, Sir, I want to refer back to a point I raised twelve months ago, when I mentioned the possibility of dividing the Budget into two sections, capital and recurrent. The matter has since been the subject of a good deal of consideration—it was indeed a subject of discussion when I was in London. I would ask honourable Members now to turn to Appendix B of the memorandum on the estimates on page 216 of the volume that they have before them. In that appendix is set forth a comparative statement of income and expenditure, recurrent and capital, in fairly simple form. On the lower half of the page on the right hand side, it will be seen that total capital expenditure in the financial year 1956/57 was \$165 millions, this sum comprising Special Expenditure, Capital Subventions, Public Works Non-Recurrent, Colonial Development and Welfare Schemes and Miscellaneous. To balance this capital expenditure we have on the other side five items of revenue concerning whose capital nature there can be no real dispute. But we have also included two further items, Estate Duty, and the 3% Excess Stamp Duty on conveyances, both of which, I think, might reasonably be regarded as revenue of a capital nature. All these items together produced only \$61½ millions, so that capital revenue fell short of capital expenditure by just over \$103 millions; this sum had to be found from recurrent revenue.

Turning now to the upper part of the sheet, recurrent revenue, which includes all the other heads and subheads of revenue, came to \$448 millions. Recurrent expenditure came only to \$304½ millions, or considerably less than three quarters

of recurrent revenue, and a surplus of a little over \$40 millions remained after the contribution of \$103 millions to the capital side.

The fundamental purpose of capital and recurrent budgets is, I imagine, to make it clear, both to Members of this Council, and to the Secretary of State, how far recurrent revenue is adequate to meet recurrent commitments, present and future, whilst at the same time meeting at least a proportion of capital costs. This elementary survey is open to attack at many points on accounting grounds, but I trust that it will commend itself to honourable Members as showing the overall picture. It is well to guard against failing into the error of believing that the position so disclosed is a thoroughly satisfactory one. Recurrent revenue can be very vulnerable to even a slight recession in economic activity, whether in Hong Kong or elsewhere, particularly in certain items which are higher at the moment than they should be because of special local circumstances; recurrent expenditure, on the other hand, is something like Old Man River; it just keeps rolling along, and can be restrained only by very special measures.

On the same sheet are set forth the estimates of how the figures will turn out for the present year 1957/58, and for the forthcoming year 1958/59, the figures being derived from the draft Estimates now before Members. I trust that the final outcome for the next year will not be quite so gloomy as the estimates indicate.

Finally I would like to make an acknowledgment. It is to Mr. T. S. D. Whitley, Executive Officer, who this year has prepared the estimates, the memorandum on the estimates, and the report of the Public Works Subcommittee. He has, in the course of this work, had to assume responsibilities far above normal, and I can, from personal knowledge, vouch for the fact that he has worked very many hours of overtime in getting everything ready for today. I am sure that honourable Members will join with me in expressing my appreciation of his services. (*Applause*).

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

WORKMEN'S COMPENSATION (AMENDMENT) BILL, 1958.

MR. P. C. M. SEDGWICK moved the First reading of a Bill intituled "An Ordinance to amend the Workmen's Compensation Ordinance, 1953."

He said: Sir, the background and purpose of this short amending Bill are explained in the Objects and Reasons. I should perhaps add that the Workmen's Compensation Ordinance is a complex piece of social legislation and that when it was first enacted in 1953, its application was deliberately restricted to occupations in which the risk of accident was greatest. This limitation was however only intended as a temporary measure pending the accumulation of experience in the administration of the Ordinance and it was Government's policy from the outset to extend the benefits of the compensation provisions in due course in the broadest manner possible. The Ordinance has now been in force for over four years and during that time no fewer than 14,000 compensation cases have been settled either in the Labour Department or in the Courts and nearly \$3,700,000 has been paid out in compensation. Employers and workmen are now generally aware of their rights and obligations under the Ordinance and the machinery for dealing with claims is working smoothly and well. Furthermore, it is known that many employers are of their own initiative using the rates of compensation laid down in the Ordinance as a guide in granting compensation to employees who may receive injuries in the course of and arising out of their employment but who are not in categories named in the First Schedule to the Ordinance. In addition, the three Services have been paying compensation on the basis of the Ordinance to all their locally engaged civilian staff earning \$700 a month or less, irrespective of whether or not they are in occupations covered by the First Schedule. In view of these facts, the Hong Kong General Chamber of Commerce, the Employers Federation and the Chinese General Chamber of Commerce were consulted and all expressed themselves in favour of the abolition of the First Schedule. The Labour Advisory Board endorsed these recommendations which have also been welcomed by the Secretary of State for the Colonies.

The effect of the removal of the First Schedule, which contains a list of twenty-six categories of specified forms of employment, will be to bring the scope of workmen's compensation in Hong Kong into line with the position which obtained in the

United Kingdom before the introduction of national insurance and with that which obtains in many other parts of the British Commonwealth. It is believed that since the more hazardous trades are already included in the First Schedule, the cost of this amendment to the community should not be heavy. On an actuarial basis the risk to office workers, shop assistants and others to whom it is now proposed to extend the protection of the principal Ordinance is only a small percentage of the risk to those employed in industry but accidents unfortunately do arise out of and in the course of such employment and it is considered that financial protection should be provided as widely as possible. Difficulties are however considered likely to arise if the Ordinance is applied to certain categories of agricultural workers not at present included in the First Schedule and if this Ordinance is enacted, it is proposed to recommend to the Governor in Council an appropriate exclusion Order under Section 2(1)(f) of the principal Ordinance.

The application of the First Schedule to Government servants has caused a number of anomalies in that certain members of a Department might be covered by the Ordinance, while other members were not. These anomalies will now be removed and Clause 4 of the Bill has the effect of giving, where appropriate, all persons in the service of the Government drawing less than \$700 a month, or their dependants in cases where such an officer is fatally injured on duty, a choice between an award under the Workmen's Compensation Ordinance or a pension or gratuity in respect of the injury under the Pensions Ordinance. In this connexion some minor consequential amendments will be required to the Pensions Ordinance and Regulations and a further amending Bill on this subject will be introduced into this Council in the near future.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a First time.

Objects and Reasons.

The "Objects and Reasons" for the Bill were stated as follows: —

The purpose of this Bill is to extend the right to compensation under the Workmen's Compensation Ordinance, 1953, to include all persons employed in manual labour irrespective of

the nature of their employment and to all non-manual workers whose average earnings do not exceed HK\$700 per month. The position of persons who are at present specifically excluded from the operation of the Workmen's Compensation Ordinance will not be affected, namely, non-manual workers earning over HK\$700 per month, casual workers employed otherwise than for the purpose of an employer's trade or business, outworkers, members of an employer's family dwelling in his house, domestic servants, any class of persons excluded from the provisions of the Ordinance by order of the Governor in Council, and any person (or in the case of death his dependants) who has received a pension or gratuity under the Pensions Ordinance (Chapter 89) in respect of the same injury.

2. The reasons which have given rise to this proposed legislation lie in the fact that when the Workmen's Compensation Ordinance was enacted it was considered that it might be too difficult in practice to enforce its application generally in the case of injuries arising out of and in the course of all kinds of employment and therefore its application was restricted to the more hazardous employments specified in the present First Schedule to the Ordinance. However, experience of the operation of the Ordinance, during the past three years since its enactment, shows this restriction to be unnecessary.

INLAND REVENUE (AMENDMENT) BILL, 1958.

THE FINANCIAL SECRETARY moved the Second reading of a Bill intituled "An Ordinance to amend the Inland Revenue Ordinance, Chapter 112."

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a Second time.

Council then went into Committee to consider the Bill clause by clause.

Clauses 1 to 5 were agreed to.

Council then resumed.

THE FINANCIAL SECRETARY reported that the Inland Revenue (Amendment) Bill, 1958 had passed through Committee without amendment and moved the Third reading.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a Third time and passed.

SUPPLEMENTARY APPROPRIATION (1956-57) BILL, 1958.

THE FINANCIAL SECRETARY moved the Second reading of a Bill intituled "An Ordinance to authorize a supplementary appropriation to defray the charges of the financial year ended the 31st day of March, 1957."

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a Second time.

Council then went into Committee to consider the Bill clause by clause.

Clauses 1 and 2, the Schedule and the Preamble were agreed to.

Council then resumed.

THE FINANCIAL SECRETARY reported that the Supplementary Appropriation (1956-57) Bill, 1958 had passed through Committee without amendment and moved the Third reading.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a Third time and passed.

ADDRESS BY THE GOVERNOR.

H. E. THE GOVERNOR: —That concludes the business for today, gentlemen. But I am certain that you will all wish me to comment on one subject before we break up. The Honourable

Mr. Cedric Blaker is attending his last meeting of Legislative Council this afternoon after five years of devoted service to us during which he has given us valuable and constant advice and given us the benefit of his experience. That advice and that experience have been available for us in other walks of life in the Colony because he has given readily of these and also in the many branches of the Community's life during the whole of his life here. To him and to his wife I am sure you will all wish me to express our hope that he will have many happy years in retirement, continuing prosperity and all the best of good future. (*Applause*).

ADJOURNMENT.

H. E. THE GOVERNOR: —Council stands adjourned until 26th March.