

**OFFICIAL REPORT OF PROCEEDINGS****Meeting of 24th February 1966****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)  
SIR DAVID CLIVE CROSBIE TRENCH, KCMG, MC  
THE HONOURABLE MICHAEL DAVID IRVING GASS, CMG  
COLONIAL SECRETARY  
THE HONOURABLE MAURICE HEENAN, CMG QC,  
ATTORNEY GENERAL  
THE HONOURABLE JOHN CRICHTON McDOUALL, CMG  
SECRETARY FOR CHINESE AFFAIRS  
THE HONOURABLE JOHN JAMES COWPERTHWAITTE, CMG, OBE  
FINANCIAL SECRETARY  
THE HONOURABLE KENNETH STRATHMORE KINGHORN  
DIRECTOR OF URBAN SERVICES  
THE HONOURABLE ALEC MICHAEL JOHN WRIGHT  
DIRECTOR OF PUBLIC WORKS  
DR THE HONOURABLE TENG PIN-HUI, OBE  
DIRECTOR OF MEDICAL AND HEALTH SERVICES  
THE HONOURABLE WILLIAM DAVID GREGG  
DIRECTOR OF EDUCATION  
THE HONOURABLE JOHN PHILIP ASERAPPA  
DISTRICT COMMISSIONER, NEW TERRITORIES  
THE HONOURABLE DAVID WHINFIELD BARCLAY BARON  
DIRECTOR OF SOCIAL WELFARE  
THE HONOURABLE JAMES TINKER WAKEFIELD  
COMMISSIONER OF LABOUR  
THE HONOURABLE DHUN JEHANGIR RUTTONJEE, CBE  
THE HONOURABLE KWAN CHO-YIU, CBE  
THE HONOURABLE KAN YUET-KEUNG, OBE  
THE HONOURABLE SIDNEY SAMUEL GORDON, OBE  
THE HONOURABLE LI FOOK-SHU, OBE  
THE HONOURABLE FUNG HON-CHU, OBE  
THE HONOURABLE TANG PING-YUAN  
THE HONOURABLE TSE YU-CHUEN, OBE  
THE HONOURABLE KENNETH ALBERT WATSON, OBE  
THE HONOURABLE WOO PAK-CHUEN, OBE  
THE HONOURABLE GEORGE RONALD ROSS  
THE HONOURABLE SZETO WAI  
THE HONOURABLE WILFRED WONG SIEN-BING  
MR ANDREW McDONALD CHAPMAN (*Deputy Clerk of Councils*)

**ABSENT**

THE HONOURABLE DAVID RONALD HOLMES, CBE, MC, ED  
DIRECTOR OF COMMERCE AND INDUSTRY

## MINUTES

The Minutes of the meeting of the Council held on 9th February 1966, were confirmed.

## PAPERS

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

<i>Subject</i>	<i>LN No</i>
Sessional Paper 1966: —	
No 4—Annual Report by the Director of Public Works for the year 1964-65.	
Draft Estimates of Revenue and Expenditure with Explanatory Memoranda for the year ending 31st March 1967.	
Report of the Establishment Sub-Committee of Finance Committee for the year 1966-67.	
Report of the Public Works Sub-Committee of Finance Committee for the year 1966-67.	
Report on the Public Service 1966.	
Hong Kong Annual Report 1965.	
Report of the Working Committee on Export Promotion Organization 1965.	
Annual Report of the Li Po Chun Charitable Trust Fund for the period 1st September 1964 to 31st August 1965.	
Stamp Ordinance.	
Stamp (Bank Authorization) Order 1966 .....	12
The Money-Lenders Ordinance.	
Order of Exemption .....	13

## ADDRESS BY HIS EXCELLENCY THE GOVERNOR

Honourable Members of the Legislative Council, it falls to me now to give you some account of the events of the past year, and perhaps venture a forecast as to what the coming year may hold for us.

May I start by saying something of the work of this Council, and the legislative programme which is behind us, for, in spite of the many other important matters in which members of this Council must interest themselves, Council's legislative function remains of primary importance. Last year, 53 Ordinances were passed, several being of major importance and complexity. I quote as examples: the Contracts for Overseas

Employment Ordinance, the Limitation Ordinance, the Inland Revenue (Amendment) Ordinance, the Hotel Accommodation Tax Ordinance, the Buildings (Amendment) Ordinance, the Resettlement (Amendment) Ordinance and the Magistrates (Amendment) Ordinance.

The staffing position in the drafting section of the Legal Department improved during 1965 but the Department as a whole is still some 25% under strength and this, together with the absence of experienced draftsmen on leave, will inevitably handicap the section's capacity during this year. I would like here to pay a tribute to the Attorney General and the legal draftsmen for the careful way in which they perform their difficult and exacting duties under pressure.

One constitutional change affecting this Council was recently made when the Commander, British Forces ceased to be an *ex-officio* member, thus breaking a long Council tradition.

During the year, several interesting and important debates were held here. The debates on education policy, social welfare policy and the cross-harbour tunnel, in particular, elicited a variety of valuable and useful views. It was naturally not to be expected that complete unanimity of opinion would be expressed in these debates, but as a result of them a number of useful modifications to the original proposals were made, and I am sure the issues involved are now more widely understood.

But the work of honourable Members by no means ceases when they leave this chamber. I am most grateful to them for all their help, not only in the Finance Committee and its Sub-Committees, but also in numerous advisory committees; and I am grateful also for all the multifarious other public duties which they so willingly perform. I know very well what great demands membership of this Council makes on the time and on the energy of all members.

1965 will be remembered for the events associated with the failure of two banks earlier in the year. The story is too well known to make it necessary for me to recall it in detail. I am glad however that a great deal of the economic uneasiness of which these events were a part, and which they aggravated, appears now to have been very largely dispelled. Even in the building industry and the property market there are now, I believe, some welcome though still small signs of recovery to be seen.

Towards the end of the year, we found ourselves in difficulties with the United Kingdom over the terms of the restraint undertaking which regulated our exports of cotton textiles and cotton manufactured goods. Again, I think I need not recapitulate in detail, but I was happy to see that the effects of the denial of carry-over were, thanks to the sterling

efforts of all concerned, substantially mitigated by the shipments made before 31st December.

With the expiry of the 1962-1965 restraint undertaking, new proposals for Britain's cotton textile trade covering the period 1966-1970 were proposed by the British Government. These proposals leave Hong Kong with its own quota of 185 million square yards, including some products of a minor nature which are being restrained for the first time. Pending acceptance of the proposals, interim arrangements for the first six months of 1966 were brought into force. Negotiations covering the longer period are still going on, and I very much hope will be brought eventually to a not unsatisfactory conclusion.

Other negotiations continue with various countries on matters affecting our export trade: and we continue to direct our efforts towards ensuring that we get to know of any threatening developments in sufficient time to enable us to minimize possible adverse effects on our trade.

Despite everything, our trade figures for 1965 were most encouraging. Domestic exports rose 13.5% to \$5,027 million; and re-exports were valued at \$1,503 million, giving a 12.9% rise in total exports to \$6,530 million. Total imports rose by 4.8% to \$8,965 million. Thus, our external trade continued to grow at a fast, albeit slightly reduced, rate. The year's trade figures also show a further increase in the demand for Hong Kong products in the USA, which for seven years now has been our most important market; a further drop of 11% in exports to the United Kingdom; and a slower rate of increase of exports to the EEC and EFTA countries, particularly to the latter. They also once again illustrate the extent to which Hong Kong relies on the developed countries for her markets, rather than on developing countries with less purchasing power and a tendency to protect their own light industries.

When last speaking of the work of the Department of Commerce and Industry, I referred to the year as "a year of blueprints". Since then much has been done to translate these plans into reality. The report of the Working Committee on the Export Development Council has been presented, the Executive Director designate has been appointed, and much else has been done to enable the organization to make a start. A manager and secretary-accountant have been appointed to the Export Credit Guarantee organization, and a local office should be set up early next year. The provisional Productivity Council was established early last year, and a working group is tackling the task of preparing for a statutory Council.

Throughout these discussions, and in many other matters, the Director of Commerce and Industry has been in close consultation with

many people in business and industry, and particularly with the members of the Trade and Industry Advisory Board and the Cotton Advisory Board. I am most grateful to all these gentlemen. I know that they have devoted much time and effort to helping the Director with their advice, and I very much appreciate their ready co-operation.

The general health of the Colony has remained remarkably good during the past year. The crude death rate, at 4.7 per thousand, is one of the lowest in the world; partly because our population is a comparatively young one. The infant mortality rate—which is a good indication of general health—has fallen to 23.7 per thousand, which is only a little higher than the rate in the United Kingdom. Meanwhile the birth rate has also fallen to 27 per thousand; a tribute to the work of organizations interested in this field, and an indication of a trend often associated with a rise in the general standard of living.

The incidence of communicable diseases has been satisfactorily low. For the first time in 5 years, no case of cholera was reported in spite of its continued recurrence in neighbouring countries. The incidence of diphtheria has continued to fall, without the usual sharp rise in the winter months. The death rate from tuberculosis again fell from 39 per 100,000 in 1964 to 34 per 100,000 in 1965, as against 120 per 100,000 ten years ago.

A casualty department has now been opened in the Kwong Wah Hospital, with medical and ancillary staff provided by Government. A small but significant easing of the load at the Queen Elizabeth Hospital has resulted. The casualty unit to be associated with the proposed Tang Shiu Kin Hospital in the Morrison Hill area should, when completed, ease the pressure on the Queen Mary Hospital casualty department.

Medical projects completed during the year include three health centres and a new out-patient department at the Pok Oi Hospital in Yuen Long. The Kowloon Hospital was reconstructed and brought back into use; and Phase I of the Wong Tai Sin Infirmary of the Tung Wah Group of Hospitals was opened. These projects together provided over 500 more hospital beds, mainly for convalescent and long-stay patients, as well as 48 extra maternity beds. It is now generally accepted that we need three major types of general hospitals; namely, acute hospitals with full specialist cover; convalescent hospitals for those cases which do not need active medical treatment and intensive nursing care; and hospitals of the infirmary type for chronic and infirm cases. This is a realistic and economical policy, in line with modern trends.

Next, year, two more health centres, a home for mentally retarded children and a spastic children's home should near completion. Alterations

and extensions to other institutions, and these projects, will together provide another 500 beds of various categories.

Over the past 10 years, recurrent expenditure from public funds on the services provided by the Medical and Health Department and by subvented organizations has risen from \$33 million to over \$144 million in the current year. This more than 4-fold increase well illustrates the financial problems we have to face in the further development of our medical and health services alone.

One fact recently brought to light by the Working Party on the Medical Clinics Ordinance is that there were nearly 4 million attendances last year at non-Government clinics, and that an average charge of \$3 per consultation was made at these clinics. At the same time over 6 million visits were made to Government clinics, where a charge of only \$1 covers not only consultation but also medicine and all necessary treatment and investigations. This disproportion between the fees charged and the services provided in the two types of clinic has inevitably raised the question of the fees paid by patients attending Government clinics or admitted to Government hospitals.

It is obviously necessary to provide well trained doctors and nurses to staff all our new institutions. The intake of medical students into the Hong Kong University has now expanded to 120, while, in the field of nursing, a working party is considering the Platt Report on the education and training of nurses. The possibility of establishing a central nursing school is being investigated.

Since our debate on education policy, the Director of Education has been engaged in putting the policies then decided upon into effect. The total number of students in schools is now more than 900,000; that is to say one person in every four in Hong Kong is now attending an educational course of one kind or another.

At this time last year, there were nearly 560,000 children attending day primary schools, of whom some 58% were enrolled in government and aided schools. By September 1965, the number had increased to 580,000 and the proportion in government and aided schools had increased to 60%. Since then, about 30,000 additional places in private schools have been brought on to subsidy, thus increasing the proportion of primary school children receiving a subsidized education at low fees to 65% of the total enrolment. It now appears also that it may be possible to revert to an entrance age of 6 years in less than the 4 years earlier anticipated. In addition, some 43,000 pupils attend special afternoon classes or primary night schools, and, of these, 23% receive a subsidized education. Three classes have been established in Government primary schools for children with learning difficulties, and are providing valuable experience in education sub-normal children.

A record number of 14,000 new secondary places in assisted private schools was provided during the year. Almost 46,000 pupils are now enrolled in School Certificate and in Matriculation courses in Government and aided day schools, and more than 114,000 in private schools. The aim of providing aided secondary education to school certificate level for from 15% to 20% of the children completing the primary schools course has been criticized as being inadequate, but it implies the opening of a new 24-classroom aided secondary school every two months for the next six years. We shall do well to meet even this aim—and here I would remark that very few countries have been able to do as well, and, of these, none has anything like the fantastically high ratio of school children to economically active population that we have here in Hong Kong. I would add that the view sometimes expressed to the effect that the extent of our financial and other resources should not be allowed to have any bearing on our educational system, strikes me as contributing nothing to the development of a sound educational policy.

Pending substantial agreement on the revision of the codes of aid, the level of fees remission in secondary schools has remained unchanged. Approval has, however, been given to the policy by which sponsors of new secondary schools will be eligible to receive an 80% grant towards the capital cost of new school projects. This should assist in bringing total fees in new aided schools down more nearly to the level of government school fees.

Lastly, it may be of interest for me to mention that the new building for the Wool Section at the Technical College, the working drawings for which are now in an advanced state, will contain facilities for the introduction of courses in commercial and industrial design, the need for which has been growing more and more apparent.

The general Statement of Aims and Policy for Social Welfare in Hong Kong, which was debated in this Council, is being followed up by a small planning unit in the Social Welfare Department. A plan for the development of each aspect of our social welfare services is in process of being drafted and discussed jointly by the Department and the Hong Kong Council of Social Service. I greatly welcome this example of co-operation and am grateful to the Hong Kong Council of Social Service for its participation.

Another joint venture of the Council and the Department is a survey of urban family life, to be financed by a grant of \$1 million from the Lotteries Fund. The survey should help to enable us to design our social services more closely to fit the needs of the community. At the same time, the Council of Social Service is embarking on a study of the needs of people in Chai Wan, to help in the planning of the proposed community centre there.

Since last June when the net proceeds of Government lotteries, amounting to some \$7½ million, were transferred to the Lotteries Fund, 11 social welfare projects costing nearly \$7 million have been approved on the advice of the Social Welfare Advisory Committee. The Fund should continue to prove a valuable means of getting new social welfare projects initiated.

Lady Williams, Professor Emeritus of Social Economics at London University, has recently completed a visit to advise whether a full-scale survey of our social welfare services would be feasible and valuable. Her report should be of much help in future planning. Co-ordination of our varied social welfare services and agencies is not an easy matter. In the Hong Kong Council of Social Service a notable innovation has been the setting up of a series of divisions each including all those agencies which work in a particular field. The Department of Social Welfare, for its part, has established the first of a series of regional offices, where a staff of trained caseworkers offers integrated family welfare services. Both these developments are greatly to be welcomed, and should help to streamline our social welfare activities.

As much progress as was possible has been made during the past year on the implementation of the 1964 White Paper on squatter control, resettlement and Government low-cost housing.

New legislation came into force in October 1965, and while Class I and Class II areas, which were described as “transit centres” and “licensed areas” in the White Paper, had not formally come into being by the end of 1965, people were already being accommodated in the existing re-site areas in accordance with their eventual designation. Although 23,161 persons from these areas were resettled during the year, their places were taken by nearly 26,000 new comers; so that the resite area population on December 31st was still about 83,000, of whom 25,000 are likely to be resettled within the next month or two. The existence of these arrangements for the homeless, coupled with the very sharp drop in the number of tenements under Exclusion Order and with the rent advance scheme for tenants of dangerous buildings, has resulted in a practical cessation of new domestic squatting. Most new illegal structures were unauthorized extensions to tolerated structures and re-erections by persistent squatters, rather than completely new squatting. Moreover, the reorganized squatter control division is now up to strength, giving better control. The illegal structures still remaining in the urban areas and in Tsuen Wan are therefore broadly only those which were found to be in existence in the course of an extensive survey made at the end of 1964. Nevertheless, the number of squatters in these areas at the end of 1965 was estimated to be still nearly 524,000.



The rent advance scheme for tenants of dangerous buildings has on the whole been fairly successful. It came into effect in May 1965, and was applied both to tenants of buildings newly declared dangerous, and to other former occupants of demolished buildings who had in some cases been in resite areas since 1963. By the end of the year, some 16,200 people will have been resettled under this scheme.

The financial difficulty experienced by some contractors recently has delayed some site formation work and the completion of some of the new blocks scheduled for the year. However, several new blocks are expected to reach completion very soon, and I hope that momentum will quickly be restored. At the end of December, the estates housed 740,165 people; an increase of 113,300 over the year; and the total resettlement population was 815,083 or over one-fifth of the Colony's population.

Four new resettlement factory blocks of a larger type came into occupation during the year, bringing the amount of space in Resettlement Department flatted factories to nearly 1.3 million square feet. A start was made in providing larger electrical supplies and moulded circuit breakers to these factories to localize breakdowns.

By the end of 1965, the Government low-cost housing programme had produced 14,048 flats for 67,261 people on 6 estates; an increase of 4,146 flats over the previous year. Work on two more estates has started.

The advisory Housing Board which is to keep under review the Colony's general housing situation was established in June and its first report is now awaited.

At the end of 1965, the Housing Authority had housing available for 132,561 people in 22,086 flats, representing an increase during the year of 1,120 flats for 6,775 people.

The Hong Kong Housing Society was able to complete almost 5,000 flats during the year housing 30,944 people. The Society now houses some 82,632 people in 13,353 flats.

I must apologize to honourable Members for producing so many somewhat confusing figures. It is impossible however to convey the full extent of the progress we have made in our housing plans without them. To sum up, I think I can say that we have made considerable and encouraging progress in spite of being somewhat hampered by unexpected difficulties.

The weather in 1965 not only permitted us to continue to supply water for 24 hours a day, but it enabled the Public Works Department to have a very active year. Good progress in particular was made with

the Plover Cove Scheme and with new roads and road improvements. In addition to actual construction, a great deal of thought has been put into investigating the needs of traffic and transport, and into the planning of improvements. The Passenger Survey Unit continued its work throughout the year and is now working in very close co-operation with the consultants who have been appointed to carry out an engineering feasibility study of various transport systems. While on this subject, I must mention our new arrangements for obtaining advice on transport matters through the Transport Advisory Committee, and the Commissioner for Transport. This Committee will keep a comprehensive range of transport matters under review, and the new arrangements will I feel be an improvement on the old; in spite of the very useful work done by the two previous Committees that are now replaced.

Work on 4 new towns is now proceeding at various stages. At Kwun Tong, site formation, reclamation, roads and drainage works are almost complete; and much development both residential and industrial has already taken place. At Kwai Chung, the main site formation contract will be completed later this year. The decision to develop Castle Peak and Sha Tin into new self-contained towns, each with an eventual population of about 1,000,000 persons, is now being implemented. The Town Planning Board has been working on the town zoning plans for these two new towns, and the engineers of the Public Works Department have already started to prepare their works programmes. The first major contract for site formation works should be let during 1967.

For the first time since the war, the real estate market has shown signs of supply exceeding demand for both land and completed buildings. The immediate causes of this situation are familiar to us all; but it is as well to remember that deliberate policy has played its part also. Land shortage has been with us for a very long time. In the 1950's four major decisions were taken. These were, first, to embark on a rapid expansion of public works, to make large acreages of Crown land available for sale as quickly as possible. Second, it was decided to encourage and plan for more intensive development of our limited land resources, both public and private, and more intensive development than had hitherto been attempted either in Hong Kong or elsewhere. Third, the redevelopment of certain classes of private land was encouraged by allowing modifications of Crown Lease restrictions on attractive terms. Lastly, it was decided to build a great deal of low-cost housing and factory space with public funds. These four policies are, I believe, a very important underlying cause of the more favourable supply position now; though overlaid by the present condition of the real estate market, where there has been a pause for adjustment following very rapid expansion. This pause has been reflected in the concession made last November of a free extension of 12 months of the

time limits laid down by Exclusion Orders and Building Covenants in sale and grant conditions. When the demand for land is renewed, it should be ready and waiting if the schemes which appear in the Public Works programme—including the new towns at Sha Tin and Castle Peak—mature.

The year also saw a decision to authorize the construction of a cross-harbour vehicle tunnel and, on a more negative note, a decision not to accept the only tender made for the ex-dockyard land and to revoke the statutory plan for its comprehensive development. A revised plan is now being prepared and will include proposals for the development of the central reclamation.

The condition of old and dilapidated buildings continued to be a source of worry. 279 closure orders were obtained during the year. When buildings had to be demolished, the advances of compensation payable from public funds helped to ease the hardship for the former domestic tenants.

A report on the problems involved in slum clearance and on the effects on the redevelopment of building sites in the urban areas of the Buildings (Amendment) (No 2) Ordinance 1964, has now been presented and is being examined.

Expenditure on public works non-recurrent has increased from \$176 million in 1959-60 to \$593 million in 1965. We must inevitably ask ourselves soon whether the Department can continue to expand its capacity at this rate, and whether we can continue to provide the money to enable it to do so. Water supplies and resettlement have been the biggest items of expenditure in recent years; expenditure on water may drop somewhat although it will continue to be heavy, but expenditure on resettlement and Government low-cost housing is likely to increase. Moreover, we shall no doubt have to give greater consideration to communications. Our traffic is increasing, new areas are being developed and the demands on our transport systems grow day by day. This rapidly increasing rate of expenditure is a problem which I am sure will be exercising honourable Members during this debate.

In urban affairs, new equipment and an easier trend in the recruitment of labour have contributed to a welcome improvement in the condition of the streets of the city. Another 145 acres of public open space have been developed during the year, bringing the total acreage to 477 for the urban areas and 186 for the New Territories. The new Statue Square Gardens are under construction and work should shortly start on a number of major amenity projects, including the 45 acre Ta Kwu Ling Park, the 5 acre Perth Street sports ground and the 7 acre Yeung Uk Road sports ground in Tsuen Wan.

The staff of the New Territories Administration have been under great pressure in dealing with the multifarious and difficult problems which arise as development there proceeds. As the Colony's need for land for development grows, it is clear that we must turn more and more to the New Territories to provide the space. Many millions of square feet of private land have had to be acquired and some 15 or so villages have had to be resettled already. Let us not forget what this costs in terms of personal discomfort to many people whose property and way of life has been disturbed in the wider public interest. I would like to take this opportunity of thanking the people of the New Territories and their representatives for the understanding and good nature with which they have on the whole co-operated with the New Territories Administration in making these developments possible.

1965 was, I am glad to say, a comparatively good year for both farmers and fishermen compared with previous years. Local farmers are now having to rely increasingly on greater productivity and are shewing an increasing interest in mechanization. Appliances such as small rotary cultivators and automatic rotary sprinklers have recently aroused considerable interest.

The new vegetable market at Cheung Sha Wan has provided greatly improved market facilities, and plans are going ahead for handing over to farmers a good share of the responsibility for their own "on the floor" marketing. Improved efficiency, combined with favourable prices and increased production, has enabled the Vegetable Marketing Organization to end the year in a sound financial position.

The annual overall catch of marine fish showed an increase of nearly 5% over 1964. The first 66 ft single stern otter trawler, financed from the Fisheries Development Loan Fund, was launched during the year and is now operating most satisfactorily. Several other applications for loans for the construction of similar types of vessels are being processed.

In contrast with 1964, the Fish Marketing Organization's accounts for the year shewed a surplus. The new fish market at Cheung Sha Wan will be opened in 1966 and plans for two new markets have been prepared. In addition to various Departmental training courses, the Fish Marketing Organization is now responsible for 11 primary schools; and a new secondary school, with a strong bias towards subjects of special interest to fishermen, will be opened in 1966.

Discussions on the more comprehensive and planned use of the countryside have made some progress. We must clearly think how best not only to preserve the natural flora and fauna of the Colony and provide facilities for the study of local species, but also to make areas of countryside available for recreational use. How to reconcile this

with all the other purposes for which under-developed land is needed is by no means easy; but I sincerely hope that these conflicting needs can be reconciled and that practical proposals will emerge.

May I now turn very briefly to the year that is before us. One matter with which we must concern ourselves is the difficult question of local authorities. It is a matter which has exercised me greatly for some considerable time; since an effective method of providing controlled channels for the exercise of local initiative in the management of purely local affairs is a valuable—indeed an almost essential—adjunct to the government of any country.

I think it would be as well if I first indicated what is meant by a local authority. It is a body, such as the present Urban Council, to which the Legislature allots certain prescribed powers and duties, to be exercised and performed within a specified geographical area. The powers enjoyed by a local authority of this type derive solely from the Legislature. It follows that the Legislature retains the responsibility and the necessary authority for reviewing and, when occasion arises, modifying the powers exercisable by the body which it creates. The position of local authorities therefore is not basically dissimilar from that of other statutory authorities—such as, for example, the Tourist Association or the Housing Authority—a number of which have been created in recent years for the purpose of managing certain of the affairs of the community. These and local authorities of the Urban Council type all have the common feature of providing scope for participation by members of the community in the administration of affairs: but whereas the general run of statutory authorities are basically functional in nature, local authorities are both multi-functional and regional.

The local authority problem here becomes more apparent as time goes on. We are no longer just the twin cities of Victoria and Kowloon, but have already added a third growing city—Tsuen Wan. Before very long we shall be adding two more—Castle Peak and Sha Tin. Other semi-urban or urban centres such as Yuen Long are developing. Some manner of providing the people of such places with a method of influencing purely local affairs would therefore seem desirable; moreover it seems likely that the time has come to take another look at the Urban Council itself. I do not wish to suggest for a moment that the Council has not functioned vigorously in its present form—of course it has. But there are features in its present make-up which are somewhat unusual and which might be amended with advantage.

I have accordingly studied all that has been said on these matters with interest. Very little in the way of a consensus of opinion has, however, emerged; and most of the opinions which have been voiced have not only been generalized but often contradictory. In a matter of such complexity, of course, this is only to be expected.

Nevertheless, I think I can detect the emergence of a fairly general view, to the effect that the time has come for some rethinking on this subject; and to the effect that any changes made should not be precipitate or over adventurous. Furthermore, I have consulted the Executive Council in very general terms, and I have ascertained from the Secretary of State that, since no major constitutional changes nor any changes involving this Council or the Executive Council are contemplated, no objections would be raised by him to a review of our present arrangements in the field of local authority administration. However, Her Majesty's Government's position must of course be reserved until concrete recommendations are forthcoming.

What these recommendations should be is now the question. As I have said, a variety of views have been expressed—and I will not deny that I have my own preliminary views also, although I am by no means wedded to them as yet. I think therefore that the debate must continue for a little longer, to see if something nearer a consensus of opinion will not emerge. In the meanwhile, a further study of the problems will continue amongst officials with the eventual object, if possible, of marrying any firm and general views which maybe expressed with the technicalities and realities of the situation in Hong Kong, and thus obtaining coherent proposals for further study and debate.

Here I must emphasize that in a matter so complex as this there is no room for vagueness. General ideas must be translatable into law and effective practice. Practical questions, indeed, are at the root of most of the problems; and no discussion of this subject is of great value unless positive views are expressed on such subjects—which I mention in no particular order—as the composition of local authorities and the method of selection of their members; the relationship of local authorities to Executive Council and to this Council; their relationship to Heads of Departments; their relationship to existing and spontaneous local bodies of longer foundation; and the means by which their functions are to be carried out—that is to say, whether by existing departments or through their own employees. Other practical questions are the degree of financial autonomy to be granted to local authorities and how the proper financial safeguards are to be applied; and, in the case of the new towns, how to bear in mind the legitimate interests of the original inhabitants of the New Territories who are, or will later be, living in an urban area. Further similar problems will occur to anyone who thinks over these matters carefully. We will be trying to get views on all these things in the months to come, and we shall in particular take special steps to seek the views of that large section of the community which is not normally given to public expressions of opinion. I make no apology for suggesting we hasten reasonably slowly in this matter. What we do, we must do right; good judgment is much more important than haste here.

And now, as to our economic prospects for next year. While I can of course only express a personal view, I myself firmly believe that 1966 will be another successful year of consolidation and growth for our economy. It is true that we are faced with a number of uncertainties as to the restraints which may or may not be placed on our export trade; but I feel confident that in the majority of cases we shall be able to negotiate arrangements which will not be too harmful. I believe also that we shall see some upturn in the property market—as I have said, there are slight signs of this already. I do not think we shall return to the level of activity in this market that obtained in 1964, and indeed I do not know that I would be particularly happy to see these conditions return too quickly. But a steady and solid recovery in the property market is certainly something which we would all like to see, and this I believe will happen.

For the rest, we shall push forward with the plans we have already prepared in many fields; but there is one warning that I must give. The cost of all these plans is becoming very very heavy, as will have been seen from some of the figures I have already quoted. As our plans mature, recurrent costs are bound to go up very sharply indeed, and it is no good whatever thinking that complex and advanced facilities can be provided without the money to sustain them. If Government is to continue to be urged to expand and improve the services provided for the community, as we would all like to expand and improve them, then the money must come from somewhere; either by increased contributions towards the cost from those who benefit from the services most directly, and can afford to contribute, or from natural expansion of the revenues as our economy grows, or from increased taxation; or, more probably, from all three. I know that these are problems to which the Financial Secretary will be referring in the course of his speech, and the magnitude of them will no doubt become apparent as we study the Estimates in more detail. I am sure also that honourable Members will address themselves most seriously to these matters during the course of this debate and their examination of the Estimates.

Before I conclude, I would like once again to pay a tribute to the good work done during the year by all sections of the Civil Service. Civil Servants have to put up with a good deal of criticism which is often very unfair; but I would like to assure the Service generally that the good work they do does not pass unnoticed, and is appreciated. The general reputation of the Service here is high; and its members earn much unspoken gratitude for hard unobtrusive and efficient services to the community. The Service is, I know, looking forward to a decision on the recommendations of the last Salaries Review, and this, I hope, will not now be too long delayed.

1966 will, I am confident, be another year of solid and steady progress in which we will continue to build up Hong Kong into a

modem and prosperous community for the well-being of all sections of her people. Let us hope chiefly for peace and stability throughout this region that we may all advance together to our mutual benefit.

And now, I wish honourable Members every success in their deliberations both during this important debate and in meetings of this Council during the year.  
(*Applause*)

### **RESOLUTION REGARDING THE DRAFT ESTIMATES OF REVENUE AND EXPENDITURE FOR 1966-67**

THE FINANCIAL SECRETARY moved the following resolution: —

Resolved that the draft Estimates of Revenue and Expenditure for 1966-67 be referred to a Select Committee composed of the Colonial Secretary (Chairman), the Financial Secretary and all the Unofficial Members.

He said: —Sir, I presented last year's budget in the shadow of the bank runs which occurred last February. I said then that such events inevitably leave scars and that, although I was confident that they would heal quickly, they could meanwhile have some effect on the next year's revenue; but I could not hazard a guess at what that effect might be. In the event my prognosis has been fairly well realized.

It is not appropriate for me when presenting the Budget to indulge in a lengthy account of our economic state but some account of it, or speculation on it, is desirable for a proper consideration of our financial prospects. Looking back on these events from the distance of a year, one can see their origins and nature rather more clearly than at the time. I am not referring to the immediate causes, which lay in the bad banking practices of the two banks which then failed, but to deeper causes. In a sense our local events were part of a pattern observable in much of the developed world (and frequently in much more serious form than here), a pattern of over-rapid expansion of credit and consequent strains in and pressures on economies; over-investment in real estate development and over speculation in stocks and shares; and, of course, the political situation in South-East Asia, sterling difficulties and the British import surcharge had brought a degree of economic unease in late 1964 and early 1965.

In recent years credit has been rather too easy in Hong Kong for good banking and commercial discipline in some sectors of the economy. This relative ease of credit was caused by a number of factors. The banking system brought into use substantial facilities previously unused and did so to an excessive degree. For example, in 1958 bank loans and advances amounted to only 58% of deposits but this had grown to 71% by the end of 1964; this in itself causing some additional expansion



through the credit-creating processes of bank lending. Then, the man in the street had for the first time a fair margin for saving in his pay and much of his savings went into the banking system. Investors in real estate were able to recover their capital costs over relatively short periods, so that credit was constantly turned over. All this caused an unreal situation, where many people assumed that once credit was accorded it would never be recalled; where many people assumed that credit would always be forthcoming to meet any demand; and where some banks themselves assumed that their deposits would continue to grow as rapidly as ever and were accordingly over-generous both with their immediate advances and with their promises of future loans. This led to an unhealthy state in some sectors of the economy where the inefficient and incompetent were never called to account; and those bankers who were responsible for failing to call them to account were themselves not called to account. It also led to inflationary pressures on the economy and strains on our resources. An economy with virtually no liquidations or bankruptcies is not really in a healthy state.

Basically it was excessive real estate development that finally caused the break. It is clear that the vast number of redevelopment schemes which came forward in 1963 and 1964 under the impetus of our new building regulations could never have all found finance within the statutory building periods, no matter what might have been suggested by the financial evidence required by the Tenancy Tribunals and duly presented to them by applicants; and, as overbuilding of certain types of flats made these flats more and more difficult to dispose of, the tightening credit situation was aggravated by the slowing down of that recirculation of credit on which the previous expansion had been partly based. I once suggested that it might be desirable to restrain real estate development by licensing, but this was clearly never practical politics in Hong Kong.

Developers have blamed the so-called credit squeeze on the bank troubles. While this is partly true in certain cases where lending banks' existing deposits were converted by depositors into cash or transferred to other banks, it would be much truer to say that developers themselves, and those bankers who lent too freely to them, caused the credit squeeze, and aggravated our banking troubles, by freezing so much of our available resources in the form of not readily realizable and temporarily unproductive assets. For, while bank deposits have not risen quite as rapidly as in some recent years, they have risen quite fast enough to meet ordinary demands for credit. The increase of deposits in 1965 was \$759 million or nearly 12%; advances increased rather less, by about \$426 million or 9%, of which about half was in the first quarter of the year. Both these figures are substantially understated because the Canton Trust's figures are included for the beginning of the year but not for the end of the year. The lower percentage increase

in advances reflects, among other things, the general aim of banks to strengthen their positions. At the end of the year the ratio of advances to deposits had fallen from the high level of 76.4% it reached in the abnormal circumstances of April last year to 69.5% or 1½% less than at the beginning of 1965; while the overall ratio of specified liquid assets as defined in the Banking Ordinance had reached 43.8% compared with the statutory minimum of 25%. The currency circulation has gone up during the year by \$340 million or 24%. It is now clear that most, but probably not all, of the notes which went into hoards last spring have now been absorbed into normal circulation; although it seems likely that there has been a general increase in the public's, and the banks', preference for the liquidity represented by notes. Our currency circulation has previously been abnormally small in relation to bank money.

While there have been these temporary difficulties, largely caused by excessive real estate development, which it will take time to digest, and while these difficulties have had their repercussions in other sectors of the economy, its mainstays, those parts of it on which our living standards basically depend, industry, commerce and tourism, have gone ahead with a vigour which is remarkable in the circumstances. The words "recession" and "depression" have been freely used during the course of last year and, while it is true that some sectors of the economy have receded, the whole economy has done so only in the relative sense of growing less fast. When you have been running at 12-15% and slow down to a trot at, say 6-8% (which is a very rough guess at last year's rate) you have the impression of going backwards—although rivals continue to envy you your speed.

The events of the last year have shown dramatically the great basic strength of our economy and its remarkable resilience; and unpleasant as has been the medicine we have administered to ourselves, it is a powerful and for that reason fast-working medicine (I have always said that we can expect no easy way out of any economic difficulties we may get into); and I feel sure that we are emerging from our recent troubles in a much healthier state, with some of the diseased parts of our economy excised and some of its strains and stresses alleviated; and can look forward with confidence to renewed, and more solid, growth.

There is one satisfactory symptom of our recent state of health which I think is worth special mention. I had feared that, if we were in such a depressed state as the pessimists would have it, we might be living on our savings; that our balance of payments might have become seriously adverse, this being in any event one of the stages in our natural deflationary remedy. The evidence is that this has not been so. The Colony's sterling assets, which are a measure of this and largely represent the backing of our note issue and the liquid assets on which

the structure of our bank credit is based, actually rose during 1965 from £ 235 million to £ 280 million, no mean result in a "depression". The medicine has not been as unpleasant as it might have been and our cure much more rapid.

This leads me to one further general financial and economic point, a facet of monetary policy in our exposed type of economy. I have often said that we have an un-Keynesian economy in the sense that we cannot spend our way out of depression; to try to do so would merely cause an immediate balance of payments crisis—unless of course we were spending funds obtained from outside Hong Kong rather than merely printing our own money as so many countries do nowadays. On the other hand, I have been abjured to invest all our official reserves inside Hong Kong; advice I have not altogether ignored, nor altogether accepted. During our bank runs and the consequential degree of temporary deflation of credit in February to May last year, it was forcibly borne in on me that the leverage Government can exert in these circumstances towards relieving the economy from the effects of such a deflationary trend as we experienced, is directly proportionate to the liquid foreign assets at the disposal of Government for support of the internal money supply. Resources locked up in unrealizable local assets are of no use whatever for this purpose. In the event, the support we had to give to the liquidity of certain banks to prevent a more severe deflation of credit was fairly limited (at its height it amounted to £ 13½ million or \$216 million and is now substantially less) but I was at all times conscious of the need to husband our resources in case a greater need arose, and of the more powerfully beneficial effect our action could have had, had our resources abroad been greater.

I am therefore now more than ever convinced that it is essential in our economic interest that the Government's reserves should be substantial and be held to a great extent abroad. This is after all what central banks do with their countries' reserves. This is one of the few elements of modern monetary policy we can safely indulge in, even if it is in the severely orthodox form of saving before we spend. This half of the Keynesian thesis at least we can practise.

Now let me proceed to the details of our public accounts. I am afraid that they are going to be unusually long and complicated this year.

At the time of last year's budget the revised estimates for 1964-65 forecast a surplus of \$8 million. I said then that experience suggested that the final figure might be rather higher and on the last day of the budget session I said that it would be \$50 million at least. In the event, the actual surplus was \$77¾ million, which was reduced to \$61¼ million by depreciation of investments, leaving a General Revenue Balance of \$823 million at the beginning of the current financial year; to which should be added \$138 million in the Revenue Equalization Account,

making \$961 million in all. The difference between the revised estimates and the actual results is largely accounted for by underspending; many Heads of Departments are reluctant to admit, right up to the last moment, that they are going to underspend their votes, in case this influences the treatment of their estimates for the following year. Receipt of an unbudgeted \$15 million from taxi licences was another factor.

At the same time the revised deficit of \$44 million in the Development Loan Fund, taking into account a small appreciation of investments, but excluding the transfer during the year of \$150 million from the Exchange Fund surplus, finally turned out at \$39 million. This left \$51 million in free assets in the Fund against outstanding commitments of \$229½ million for various schemes of housing, education, etc.

The year's total net surplus in the public accounts was therefore \$22¼ million.

Now let me turn to the current year, 1965-66. The original estimate of expenditure was \$1,711 million, and of revenue \$1,651 million, giving an estimated deficit of \$60 million, the smallest estimated deficit for many years. These figures did not include any provision for the results of the 1965 Salaries Commission.

This year's original estimate of recurrent, as opposed to capital, revenue, was \$1,419 million, representing an increase (excluding the increase in water charges) of 7½% over the revised estimate for 1964-65. I remarked at the time that this represented a slightly higher rate of growth than I had assumed in previous budgets, but was still rather below the growth rate of about 12% we had experienced in recent years. I also remarked that, much of the previous slack in the economy having been taken up, it would be even more imprudent than usual to count on maintaining the same percentage rate of growth. This was without taking any account of the possible effect of the bank runs.

In the event, in spite of our much advertised "depression", the estimate has once again proved somewhat pessimistic. The revised estimate of recurrent revenue is now \$1,500 million which is \$81 million over the original estimate, and \$158 million or 12% over the actual figure for 1964-65. This seems to indicate a not inconsiderable expansion of economic activity rather than the state of universal depression some commentators have implied.

It is true, of course, that some substantial part of this increase is due to Earnings and Profits tax, for which the revised estimate is \$17 million over the original estimate or \$35 million over the actual revenue for 1964-65; and that this reflects last year's results rather than those

of the current year. I had been a little apprehensive that shortage of ready cash this year, or perhaps, rather, the temptation to use a reputed general shortage of cash as a plausible excuse for delaying payment, might make collection rather more difficult than usual but my apprehensions have not in practice been seriously realized.

It is also true that a substantial part of the increase reflects the increase in water charges, although, here, because the new rates were introduced later than I had intended, the revised estimate is \$4 million down on the original. The increased water charges account for some \$20 million of the increased revenue or 1½% of the 12% increase in total recurrent revenue.

But there have been substantial increases where rates have not been increased; for example, duty on hydrocarbon oils is \$5 million over the original estimate, Post Office revenue \$10 million, Air Services \$2 million and the Kowloon Canton Railway, \$1 million. The biggest increase of all has been in Rates where the estimate is now \$27 million over the original estimate or \$53 million over last year's actual revenue. Some of this latter figure reflects the revaluation carried out in 1964-65, but the main cause of the increase is that, while it is true that the number of vacant flats increased somewhat during the year, the number of new flats occupied for the first time has also been well maintained. Our real estate "depression" is characterized more by a temporarily excessive increase in supply than by any substantial reduction in demand for new premises; and by a tendency at present for the general public to rent rather than purchase.

Stamp duties, which rely to a large extent on property transactions and an active stock exchange, have fallen off and the revised estimate at \$62 million is \$8 million below the original estimate and \$13 million below last year's actual figure.

When we look at capital revenue, however, the picture is not so bright. The revised estimate is \$102 million compared with the original estimate of \$232 million. The main element in these is Land Sales, for which the original estimate was \$191½ million (which included a substantial sum for the Old Naval Dockyard). This always seemed rather optimistic to me but the original figure proposed was \$245 million and I did not feel justified in cutting it further. The revised estimate is now \$65½ million. This is a sad fall from recent levels, its cause being temporary saturation of the market for housing; but even so it must be borne in mind that this is higher than the figure for any year prior to 1961-62; and that, because of the present saturation, Government has deliberately refrained from putting new land on sale this year. Very few lots have been put up for auction other than industrial lots for which there has been a continuing demand in some areas.

The other main element in capital revenue is Estate Duty which is now estimated at \$10 million less than the original figure. This, of course, depends largely on fortuitous circumstance, but the difficulty at present of realizing some kinds of assets at short notice has made it necessary to give time to pay in some cases.

The overall revised revenue estimate is, then, \$1,602 million or \$49 million less than the original—in the circumstances of the year not really a bad result at all.

Expenditure results have also been distorted this year quite substantially by abnormal factors. The revised total figure is \$1,791 million or \$80 million *over* the original estimate. This in itself is very unusual.

One of the main distorting influences has been the loans totalling \$31 million made to the creditors of the Ming Tak and Canton Trust banks. By Government accounting practices these, although loans, must be recorded as expenditure, and their repayment as revenue. It is expected that about \$4 million will in fact be repaid this financial year.

Another unusual payment was \$15 million to settle a long outstanding claim by the contractors who built the Shek Pik dam. This relates to work done some years ago.

Again, the setting up of the Lotteries Fund meant the transfer of \$10 million from General Revenue to the Fund; and, although the money remains almost wholly intact in the Fund, the transfer must be treated as expenditure from General Revenue.

A further complication in assessing this year's results is the payment during the year of certain sums as retrospective salary awards in respect of twenty-one months of previous years; these sums totalled \$37 million, including payments both to civil servants proper and to the employees of subvented organizations whose salaries and wages are tied to Government's in more or less degree. Against this must be set, however, the probability that under the Salaries Commission proposals substantial sums will be payable next year in respect of arrears for this year. If we take account at this stage only of sums necessary to bring salaries for 1965-66 up to the levels already paid in 1964-65 by virtue of the Salaries Commission's interim award, the payments still due would amount to about \$21 million. I will deal with the implications of further awards later. Some \$7 million has also been paid this year to artisans and below in anticipation of a decision on the Salaries Commission's final recommendations, but that payment properly falls in the current year.

So far as more normal matters are concerned, the main noteworthy features are over-expenditure on Public Works and on Education. The original estimate for Public Works Non-Recurrent, excluding the special

£ 6 million Services Works Programmes, was \$562 million; but it is expected that, excluding the \$15 million claim for Shek Pik, a total of \$580 million will in fact be spent. This is to be compared with \$490 million last year. The good weather experienced during the year was specially favourable to engineering projects and progress was faster than expected, particularly on the Kwai Chung Development Scheme and the Plover Cove Reservoir.

Expenditure on Educational Subventions, excluding Universities, has increased by about \$15 million over the original estimate or \$27 million over last year's actual expenditure. Part of this is due to increased salaries but a substantial amount is also due to the taking on to subsidy, over and above the coming into operation of new subsidized schools, of 30,000 existing places in private primary schools, as a first step in the implementation of the new Education Policy.

The revised estimated deficit for the current year 1965-66 is therefore now \$190 million as against the original estimate of \$60 million. But to assess the true deficit for the year one should properly make adjustments for the abnormalities and distortions I have described. This would bring the true estimated deficit in respect of this year down to \$122 million; the remainder of the apparent deficit either being repayable in the near future or more properly set off against surpluses already accrued in the previous years in which the expenditure should have fallen. The final out-turn may be rather better, as I suspect once again that many departments have over-estimated their revised expenditure; but not, I fear, very significantly better. Honourable Members may still be assured of a substantial deficit.

The revised estimates of revenue, expenditure and deficit are all very much closer to the original estimates than in any recent year. Indeed, excluding the special factors I referred to earlier, expenditure is within 1% of the original, and both revenue and deficit are within 3% of the original. Although I made a particular effort to ensure that estimating of expenditure was more realistic than in previous years, I will not claim much credit for this accuracy as the make-up of the figures is substantially different. But I think it does point the moral I have tried to stress previously, that we cannot plan our programmes of expenditure on the assumption of a continuation of the extraordinary and unpredictable rates of revenue growth which, in recent years, have turned substantial estimated deficits into substantial actual surpluses.

There remain this year's Development Loan Fund results. The original estimates put the deficit at \$38 million. The revised estimate is a deficit of only \$19 million. The difference is largely due to reduced drawings of loans by the Housing Authority and Housing Society. The former's net drawings are now likely to be only \$4.4 million, compared with the original estimate of \$12 million. This will leave the Fund at

the end of this year with free assets of \$33 million against outstanding allocations of \$203 million.

The overall deficit on public account for 1965-66 is therefore now estimated at \$209 million compared with an original estimate of \$98 million, while on an adjusted basis it is \$135 million.

It is not expected that there will be much change in the value of investments, although what change there will be is likely to be in the direction of appreciation; so that it is expected that the reserves represented by the General Revenue Balance and Revenue Equalization Fund will have fallen from \$961 million to \$771 million.

There is one further relevant figure I should give in this context. The disposable surplus in the Exchange Fund increased from \$240 million to \$312 million during the calendar year 1964, an increase of \$72 million. It seems likely that the Fund will continue to earn a substantial annual surplus but, although these funds are virtually certain to be available when required, they are of a rather different nature from the General Revenue Balance and cannot be treated as part of it.

That completes the past and the present. It is now time to look at the future. The printed Draft Estimates have been in the hands of honourable Members since Wednesday last week. Putting together the Estimates has been a more than usually difficult exercise, and I must congratulate Mr. Mervyn THOMAS, whose task it was for the first time, on the efficiency with which he carried it out. On the revenue side, the relative, slowing of our upward economic growth increases the uncertainties of forecasting; on the expenditure side, there is the major question hanging over us of decisions on the Salaries Commission Report and there are a substantial number of educational policy matters still outstanding for decision, such as teachers' salaries. There are therefore many more provisional elements in the budget than usual.

Revenue is estimated at \$1,602 million which is \$90 million more than this year's revised estimate. But one substantial element in this increase is the \$15 million which it is estimated will be repaid from the loans to the creditors of the Canton Trust and Ming Tak banks. A further \$23 million of the increase is from water charges, \$15 million of which is due to the application of the new rates to a full year for the first time. As usual Earnings and Profits Tax are difficult to estimate, the more particularly for next year, as tax is based on this year's results and, if one were to believe all one has heard this year about businesses operating at a loss, one would cut the estimate severely from this year's revised figure of \$355 million. I think myself that there has been a great deal of exaggerated talk on these lines and, taking into account a probable increase in Salaries Tax, in the case of civil servants if of no others, I have put the figure at \$361 million or \$6 million over this year's revised figure.



The only really significant other increase is in Rates where valuations of new premises, and the continuing steady rate in first occupation of them, clearly indicate substantial additional revenue. In the first three quarters of this financial year the increase in the Colony's total rateable value due to first valuation of new premises was \$155 million compared with \$140 million in the same period last year; and there are 29,000 new premises still awaiting first valuation. It is noteworthy also that in the calendar year 1965 the cost of new building works completed exceeded \$1,000 million for the first time. The revised estimate of Rates this year is \$220 million and I have estimated \$243 million for next year.

Land sales are another very difficult head to estimate. This year's revised figure is \$65½ million and, taking into account both the instalment payments already due on existing leases and the probability of some significant recovery in the land market before the end of the next financial year, we have put next year's figure slightly higher at \$67½ million, \$2 million up.

One head on which the estimate is substantially down is interest; it is \$10 million lower than this year's revised figure. It will be obvious that the deficit incurred this financial year and the consequential running down of reserves must have a substantial effect on revenue from interest.

The total estimate of recurrent as opposed to capital revenue is \$1,576 million. If this is reduced by the increase in water charges, it amounts to an increase over this year's revised recurrent revenue of about 4%. This compares with an increase of 7½% forecast in this year's recurrent revenue estimates over actual recurrent revenue in 1964-65 and the increase of about 10½% which we now think will be achieved. These estimates are, of course, made up of such a wide variety of items that aggregate figures of this sort are of uncertain value. And, while I continue to believe that, with the fuller employment of our resources which we have achieved in recent years, spectacular future growth is now very improbable, I do feel that, with the return of economic confidence and a relaxation of some of the recent abnormal strains, a rather better result is by no means out of the question. I cannot, however, put this into figures nor pin-point just where in the estimates an additional yield is possible or probable.

I now come to the expenditure estimates. This year, because of expected deficits, I addressed a special plea to Heads of Departments to keep their estimates as modest as they reasonably could in the light of their essential needs or of planned policies of expansion. It seemed to me necessary and desirable to treat next year as a year of consolidation rather than of growth. They have responded admirably and I am grateful to them; but, even then, I and my colleagues have had to wield the traditional axe a little more forcibly in some cases than has been usual in recent years; although not, I hope, in a way that anyone

considers unreasonable. I have also had to insert provisional sums in some subheads of the Estimates where it has not been possible, in the time available, to consider them as carefully as is desirable. I shall mention specific cases later.

On the other hand, one feature of the present trend in public finance is that, the unhealthy strains on the economy having been removed, Departments are finding that the plans they already have in the pipeline are beginning to generate expenditure rather faster than we have recently been accustomed to. In particular, construction and engineering work has been speeded up and staff has become rather easier to recruit. It is a little embarrassing to me, although very natural in economic terms, that such a trend should coincide with a less buoyant revenue; but that does, incidentally, exercise a stabilizing influence on the economy as a whole, if it does not go beyond what we can afford.

Next year's total estimate of expenditure is \$1,878 million or \$86 million more than this year's revised estimate. But I have already explained that this year's figures are inflated and I shall be later comparing an adjusted figure for next year with the adjusted figure I have already given for this year.

The main increase is, as was to be expected, in Personal Emoluments, where the estimate at \$618 million, is \$62 million over last year's. Next year's estimates, however, include provision for the payment of salaries on the basis of the Salaries Commission's interim award of 12½%, while no such provision has yet been made in respect of this year either in this year's accounts or in next year's estimates. If the necessary adjustments are made for salary arrears, etc. paid this year, the difference between the two years is \$78 million rather than \$62 million. This is a 14% increase.

This is a very substantial percentage increase, even although, because of the adjustments I have made, it owes nothing to the effects of the Salaries Commission; although, of course, the absolute amounts have been affected by it in both years.

But we cannot blame our Establishment Sub-Committee for this substantial increase in expenditure. I suggested that we might work to a guide-line of a 3% increase in the number of new posts over last year's establishment, including new posts created during the year. The Sub-Committee in fact kept the increase down to a 3.5 % or 2,376 new posts, of which almost a half were in the Police Force. This is a very much lower figure than in any recent year, and I am very grateful to the Sub-Committee for their work.

This new staff probably costs about \$24 million of the \$78 million increase. The remainder is largely accounted for by the "creep" in

costs as we call it (although sometimes it seems more like a brisk trot) which results both from incremental salary scales and from the need to make, for the first time, a full year's provision for a substantial number of posts created during the previous year or during the course of the current year, but recruited late in the year. There have also been a number of regrading exercises in individual departments and these always seem to increase costs. Downward regradings are naturally not very popular. There is usually some slack in the formal calculation of estimates of Personal Emoluments because of such factors as late recruitment and I am usually able to prune them substantially to give a more realistic indication of likely actual expenditure; but this year I have felt able to do so to the extent of \$10 million only.

For Other Charges Annually Recurrent the estimate, at \$534 million, is \$55 million over this year's revised figure. Because the salaries paid by subsidized organizations are now such a significant part of these charges, the same kind of adjustment for salary arrears must be made as in the case of Personal Emoluments. This would make the increase \$64 million, rather than \$55 million. This is an increase of 14%, the same figure as for Personal Emoluments.

A very substantial part of this increase is a consequence of our new Education Policy. The recurrent cost of Educational Subventions increases from a revised estimate of \$146 million for this year (and an original one of \$135 million) to \$172 million for next year, an increase of \$26 million. As aided schools are directly affected by changes in civil service salaries, a true comparison requires some adjustment of these figures; the true increase is \$35 million or 24%. It is a measure of the growth of the subsidized sector of our educational system that just about as many teachers will have been brought into the aided schools system for the first time, this year and next, as the total increase in civil servants proper, including the Police Force.

These Education estimates are however provisional as there are a number of outstanding matters arising from the Education Policy Review which have not yet been decided; and, in particular, there was no time before the Estimates went to press to take a decision on the number of existing private school places which might be put on an aided basis next year. It seems likely that the provisional estimate of expenditure will prove to be a minimum, rather than a maximum.

It will be noted from Appendix C that the percentage of total public expenditure in the Estimates to be devoted to Education is increased. I shall not be surprised if our critics remark that they are glad that the percentage to be spent on education has gone up, but why has Government reduced the percentage on other services?

The figures for Medical Subventions and for some of the Commerce and Industry subheads must also be regarded as provisional,

partly because, here too, there has not been adequate time for proper study of proposals; and in the latter case there is the probability of a re-organization of our export promotion arrangements which will require a major recasting of the estimates and, I hope, a new revenue head. The provisional sums for this purpose exceed this year's estimates and I shall endeavour to ensure, so far as is possible in this difficult transitional period, that nothing impedes the smooth development of our promotional effort.

I take this opportunity of drawing honourable Members' attention to the work of the Sub-Committee on the Report of the Working Committee on Export Promotion Organization 1965, which was laid on the table earlier this afternoon.

There is also a major increase in Public Works Recurrent from \$75 million to \$82 million. My honourable Friend the Director of Public Works has scrutinized his estimates with great care but, with the rapid increase in the public domain for the maintenance of which he is responsible, his financial commitments increase in proportion.

The third traditional category of expenditure is Special Expenditure, that is expenditure of a capital or once for all nature. The main element in this is Public Works Non-Recurrent. Next year's estimate of \$592 million compares with this year's revised estimate of \$595 million. The apparent decrease of \$3 million must be adjusted by adding \$15 million, to take account of the old claim for Shek Pik paid this year, making a net increase of \$12 million next year.

When faced with the probability of a substantial deficit, the natural reaction is to stamp on the brake in the one field of expenditure where rapid readjustment can be effected. I have resisted this temptation; but I have eased my foot a bit on the accelerator. In the autumn I suggested to my honourable Friend the Director of Public Works that, with an expenditure target of \$550 million in mind (that is slightly more than in 1965-66, if certain works undertaken for others are excluded, in particular Service Works) we should make the most thorough review of the works under planning in order to establish which, if any, might, in present circumstances, be postponed; waterworks and housing were not to be included in this review. The review was undertaken and it suggested that, with the postponement of a very few less essential engineering works and by excluding from the ceiling one or two exceptional items, this target could be achieved. This approach to the problem was later endorsed by the Public Works Sub-Committee, to whose members I am very grateful for their assistance. The voluminous annual report of the proceedings of the Sub-Committee has been tabled to-day.

As another measure to ensure proper priorities in changing circumstances, we have instituted a further running review of the

Programme, conducted jointly by the Public Works Department and the Colonial Secretariat, at the stage when working drawings have been completed and we are about to go to tender. At present the final stage in the process of decision is that of upgrading to Category A of the Programme, that is the decision to proceed to prepare working drawings.

Other Special Expenditure is estimated at \$132 million against a revised figure of \$160 million this year, a reduction of \$28 million. This apparent reduction must, however, be adjusted to take account of two exceptional payments last year which did not constitute, real expenditure, that is \$31 million lent to the creditors of the Canton Trust and Ming Tak banks and \$10 million transferred to the Lotteries Fund. Without these, there is a net increase next year of \$13 million or 10%. The main increases are in Educational Subventions, \$6 million, and in the Services Building Programme, \$7 million. One notable decrease is in coinage expenses which are estimated at \$500,000 next year compared with \$6.6 million last year. The issue of these coins into circulation takes place principally at Chinese New Year when there is a general expansion of the currency. This year the expansion of bank notes and \$1 coins showed a normal increase over previous years but there was hardly any demand at all for 50 cent coins and below. I am at a loss to account for this phenomenon. It certainly does not suggest lack of money in people's pockets but it does mean that we have no need to order further supplies of these coins next year.

The revenue and expenditure estimates together suggest, therefore, a deficit of \$186 million in 1966-67 compared with a revised figure of \$190 million for this year. This deficit must be adjusted, however, by the addition of the \$15 million repayment of loans to Canton Trust and Ming Tak Bank creditors which is not true revenue, making an adjusted deficit of \$201 million next year, compared with the adjusted revised deficit of \$122 million for the current year.

We have had estimated deficits before of nearly, but not quite, this magnitude which have turned into surpluses because revenue has been underestimated and expenditure over-estimated. As I have already said, it is possible that there may have been an under-estimate of revenue for next year although probably not a very substantial one; but I am virtually certain that there is no slack of any size in the expenditure estimates unless there are unforeseeable events such as extremely bad weather which might set back seriously our spending on Public Works. That there is a deficit this year, of which there is no doubt whatever, may convince everyone that this is a serious conclusion, not to be taken as lightly as in previous years.

There remains the Development Loan Fund. Its receipts are estimated at \$36½ million and its payments at \$77½ million, of which

\$62 million is for housing of various kinds; this produces an estimated deficit of \$41 million. Outstanding commitments at the end of the year would be \$126 million. I suspect that this deficit, which would leave the Fund \$8½ million overspent at the end of the next financial year, is over-estimated. I intend in any event to propose during next year a further injection of money into the Fund from the surplus of the Exchange Fund, of an amount which will probably be covered by the surplus earned by that Fund during that year, leaving the present surplus of \$312 million intact. As this should keep the Development Loan Fund solvent at least until the end of 1967 and will not reduce the present Exchange Fund surplus, I shall not consider either fund further in connexion with these estimates.

There is one potential major commitment for next year and for subsequent years which I have not taken into account at all in these estimates. I refer to the final report of the Salaries Commission. No decisions have yet been taken on it. If the Commission's recommendations were accepted as they stand, the cost of arrears in respect of the current year would be approximately \$35 million, and in respect of next year the cost would be \$44 million, making a possible additional \$79 million payable next year. The difference between the two figures arises largely from the payment last month to Scale I employees of certain sums on account. The estimated cost includes the application of the Commission's recommendations to those subsidized organizations whose wage and salary scales are linked to Government's.

There is also, I should remind honourable Members, a further sum of \$21 million almost certainly required for arrears of the Commission's interim award in respect of 1965-66. This is not shown in the estimates and will be additional to the forecast deficits as they appear in the Estimate. But the sum has been taken into account in calculating the adjusted deficits and can therefore, in that context, be properly regarded as a charge against reserves.

The Commission's terms of reference required them to have regard to the Colony's financial resources when making their recommendations. The Commission's view on this are contained in Chapter II of their Report which is entitled "The Background: Social, Economic and Financial".

I must confess that I find it difficult to agree with some of the economic doctrine propounded in that chapter, at least in its application to Hong Kong. I will not go into these difficulties of mine to-day. But I think I must take the liberty of commenting on what I consider two major defects in the Commission's consideration of the requirement of its terms of reference to which I have referred. Firstly, the Commission were unwilling to take into account the automatic effect of civil service salary increases on certain subsidized organizations. The magnitude of

this failure is highlighted by the phenomenon I have already mentioned, that this year and next we are likely to have created as many publicly financed posts in aided schools as in the rest of the public service put together. The Commission calculated that the effect of their recommendations was to increase public emoluments over the 1959 level by \$90 million a year; in fact the increase is more nearly of the order of \$125 million.

The second major defect I see is that the Commission were unwilling to take into account the fact that our public services are still inadequate, by something like one third on my own private estimate. The Commission related their view of the adequacy of our financial resources to the cost of the present level only of our public services. This may be in order if it can confidently be assumed that the expansion of our public services, to fill the present gap as well as to provide for future needs, can be regulated to keep time with the future expansion of our resources. But our plans in fact call for a much more rapid expansion that is conceivably possible on this basis; and the danger of inflating wage and salary costs is that it may necessitate either a slowing down of the expansion of public services or the imposition of excessive taxation or both.

The Commission stated that they were unable to say whether their recommendations would make necessary any increase in taxation; and although they were aware of the probability of a deficit this year, they considered this a temporary phenomenon. I am not so sanguine but this remains to be seen when decisions are taken.

I would like now to digress for a moment. I spoke at some length last year on housing, probably at excessive length. The two main points I made were the inequitableness of differential standards of subsidized housing and the need to ensure that subsidized public housing left open an adequate field for private housing. I also promised that, as soon as we had completed our Five Year Forecast of Revenue and Expenditure, I would see whether any further funds could possibly be promised for the near future. I am afraid that, as may probably be deduced from this Budget, the results of this exercise are not such as to make any promise possible at this time. There is one helpful financial development in the encouraging results so far of the Resettlement rents-in-advance scheme; it should produce \$6 million this year, and is estimated to produce \$4 million next year, but it is not enough by itself to change the situation. I have, in any case, myself never been entirely convinced that we shall be able to finance, in the period indicated, the vast plans for Resettlement and Low-Cost housing we are now engaged on. It is possible to argue that there should be a change of direction in these plans and no doubt we will get valuable advice from the Housing Board on this in due course; I am also happy to see that the Housing Authority proposes to reconsider its own role.

There is one point I would like to stress about funds for housing. It has often been alleged recently that Government has reduced the sums it is making available for housing, other than Resettlement and Government Low-Cost housing. This is not true. What is true is that we have not found ourselves able to *increase* the flow of public funds above the level originally planned for the period 1964-70; but we have never at any time proposed to reduce that flow. It is, of course, typical Hong Kong language to describe a refusal to increase as a reduction; I have even heard a refusal to subsidize described as taxation.

The Housing Authority has recently discussed the possibility of borrowing funds for housing. I have myself discussed this proposal with the Commissioner for Housing and have promised whatever help I can properly give. But I think I should sound a note of warning. I believe the Authority amortizes its building costs over forty years at present as does Government for Resettlement and Low-Cost housing. Unfortunately the only money that one can raise for a period as long as that is money raised by Government's compulsory powers of taxation; it cannot be raised by borrowing. If an attempt were made to base rents on the repayment periods likely for Authority borrowing, they would have to be very substantially increased indeed over the present level. On the other hand, it is likely that the Authority would be able to borrow in anticipation of the flow of reinvestible funds which will accrue to it over the period of the loan; and this would not have the same serious implications for rent levels. But this kind of borrowing is very limited in scope in that it is largely a once for all operation. That does not mean that it is not worthwhile doing.

I am afraid that none of the other various expedients recently suggested for squeezing out more funds for housing can really work. One suggestion has been that interest and land premia received in rent payments should remain with the Housing Authority for reinvestment rather than be paid back into the Development Loan Fund and General Revenue respectively. But, when we consider what public money we can afford to put into housing, we take into account all our revenues and all the calls on them. If the Development Loan Fund did not receive the interest payments and General Revenue did not receive the land premia, we would simply have that same amount less to spend or lend and the net effect would be nil. We already have to take into account the fact that the Authority has no obligation to pay back the capital of its loans. What we cannot do is count the same money twice.

Another idea which has been propounded is that we should make one single further substantial addition to the permanent loan fund of the Authority and then that fund would, by revolving, provide all the finance required for the future. Leaving aside the question where we would find this single further substantial sum, we have tried the idea already and it has failed. It was hoped that the original, what now



appear, modest loans to the Authority would provide a revolving capital fund sufficient for future self-finance. When towards the end of 1962 we raised this fund very substantially by \$104 million to a potential \$260 million to be advanced by 1970-71, we thought that this should surely provide an adequate revolving fund; and indeed by 1970-71 it will be producing a pretty substantial annual sum for continued expansion. But, quite naturally in view of the great successes they have had, the Authority's appetite grows with building; and I doubt, and I say this in no spirit of criticism, rather the reverse, I doubt if the Authority will ever be so self-satisfied as not to want to do more.

We have thus a situation where the revised estimates for 1965-66 and the draft estimates for 1966-67 show a deficit over the two years of \$376 million. If I adjust this figure also for the distorting effects of this year's unusual transactions, this two year deficit is reduced to \$323 million, the remaining \$53 million being a proper charge against surpluses which accrued in previous years, (to which will probably have to be added a further \$21 million for arrears of the Salaries Commission interim award for 1965-66). There also remains the possibility of a further charge of \$79 million in respect of the final recommendations of the Salaries Commission which would bring the two year deficit up to \$402 million again. Total reserves at the end of the next financial year would then have come down from \$1,201 million two years before to \$804 million, to which must be added this year's Exchange Fund surplus making a total of \$881 million. These last two figures do not take into account the Salaries Commission's final recommendations which would further reduce them to \$725 million and \$802 million respectively. This is an uncomfortably rapid rate at which to run down our reserves. It was once our aim to have a year's expenditure in hand but on these estimates we would have less than half of this by the end of the next financial year.

We have projected these estimates forward to the financial year 1969-70 in the exercise which has come to be known as the Five Year Forecast of Revenue and Expenditure. This is, as honourable Members are aware, an exercise in gazing at a very cloudy crystal ball; but I am somewhat heartened in that the Forecast, although compiled many months before our revised estimates for this year, or our draft estimates for next year, produced results which are fairly close to these estimates in totals, even if the composition of the totals is considerably different. The Forecast suggests that at present tax rates, our overall deficit will tend to increase substantially over the three years from 1967-68 to 1969-70; and that over that period the total deficit will be of the order of \$1,000 million, not taking into account the possible implementation of the Salaries Commission's final report, which would add, perhaps, \$150 million to this total. This sum exceeds our total reserves.

One of the danger signs is that our rate of recurrent spending is showing signs of accelerating in spite of efforts this year to keep it a little more in check. From 1960-61 to 1963-64 it tended to, be about 10% a year compound; in 1964-65 it went up to 19% and for both 1965-66 and 1966-67 it is estimated at 14%. This was a trend which it was not too difficult to accept during years when our recurrent revenue was increasing at an even greater pace. As I have said more than once, however, now that our existing resources of men and money are more fully employed, the scope for very rapid growth of revenue has been much reduced.

I do not say that this means that there is no scope for increased public services. There clearly is. My fear is rather, if I may repeat what I have said year after year, that we are developing public services which are too expensive per unit (both in recurrent terms and in capital terms), and of too high a standard, for our means, if we are to extend them as they should be extended. Many of our services cost more than do similar services in Europe, because, although we have a substantial quantitative deficiency of public services, the decision-takers and policy-makers, both inside and outside Government as I have said before today, being themselves from the better-off (to use a popular euphemism) sectors of our society, not only demand the highest standards of provision of public services to meet what they consider their own essential needs (for example, in public car parks); but also find it difficult to think of provision for the rest of the population in terms of standards relative to our real total resources. We tend to the opposite situation to that made familiar by Professor Galbraith; we tend to public affluence and private squalor. I am not, of course, advocating the reverse of this, but something in between which is proportionate to our means.

The staffing costs of our public services are also disproportionately high in relation to our means. I am not expressing any judgement as to whether civil servants deserve their salaries, only as to whether we can afford to pay these salaries and adequately expand our services.

There is one particular aspect of the situation which cause's me considerable apprehension, the tendency to demand that subsidized services be extended, at these high standards, to all citizens irrespective of need. It seems to me that we have three choices; first, public services of high standard and cost but of limited scope, leaving unfilled a substantial part of the present gap, not necessarily benefiting those in real need and benefiting many who are not in need at all (this has been our historical approach); second, public services to meet the requirements of all, with the beneficiaries making a contribution by way of fee according to their means, and with adequate provision for complete remission in suitable cases; or third, universal public services provided for rich and poor alike on terms the poorest can afford; that

is, the welfare state where all benefit and the whole cost is met by the taxpayer in general. I think it is well-known that I am an advocate of the second approach, although my views on it are somewhat influenced by this other question of the standard of provision. If that standard is high enough to satisfy the well-to-do, as for example in our aided schools, particularly at the secondary level, the demand for and the unit cost of subsidy will be all the greater. "State universalism", as I have heard it called, may be something that a rich country can afford, although I have doubts even about that unless it is very rich. The analogy occurs to me of the American millionaires' golf club of which I have heard, where there is no annual subscription and individual members sign no cheques and pay no cash, no matter what they consume; then at the end of the year the total cost is shared equally among all members—an ideal arrangement if you can afford it. Reaction to such "state universalism" is, however, now beginning to make itself felt in the west.

What "universalism" would certainly mean in our context is a very high rate of direct taxation and one extending much further down the income scale than at present. In such circumstances, not only would substantial reliance on indirect taxation be palpably unfair, but it could not possibly generate enough revenue. This is what the advocates of indiscriminate subsidy of the best may be leading us towards. I myself remain wholly convinced that Hong Kong's prosperity, and therefore our hopes of adequate public services, cannot survive under such a tax regime because of its economic effects and I remain firm in my convictions; first, that our public services are excessively expensive and growing rapidly more so; second, that those who benefit from them should pay directly, according to their means, for what they get. This is, of course, more absolutely and more obviously so in the case of economic or commercial services than in the case of social services, although I feel that this is somewhat of an unreal distinction in some respects and one that is liable to lead to false conclusions. If we do not adopt the course I advocate, I believe that, sooner rather than later, we will be faced with the alternative of curtailing our plans for the expansion of public services or of introducing potentially ruinous rates of taxation—which would, in any event, tend themselves to cause just such a curtailment of public services because of their inhibiting effects on our economy.

On the other hand, while I am apprehensive about the rapid increase of our commitments to recurrent expenditure, it is true that both in this year's and in next year's estimates, the margin between recurrent revenue and recurrent expenditure is still substantial; indeed, it continues absolutely higher than in recent years, although next year it is lower proportionately to expenditure than in any year since 1962-63; and the indications from the Five Year Forecast are that the margin

will continue to fall, certainly in relative terms, and probably also in absolute terms.

It cannot be denied, however, that our deficits for this year and next arise basically by virtue of the capital account. Not only have land sales fallen off very substantially, but also our capital expenditure has suddenly accelerated from \$547 million last year to \$687 million this year and an estimated \$706 million next year.

This situation therefore raises the old question—should we not be trying to meet these deficits, at least in part, by borrowing. I recall that I spoke of doing so in my first budget in 1962 when it looked as if a period of deficits was approaching.

I have myself some substantial reservations about borrowing. In the first place, except in the event of borrowing abroad, borrowing does not throw the cost of development on to future generations, as some believe; it tends rather merely to redistribute the burden; not that, I feel, that we to-day in Hong Kong have any very clear moral right in any case to try to pass capital costs on to the future if that were possible, the assets handed on to us being almost wholly free of debt. Much of the strength of our economy to-day derives from the prudently orthodox policies we have pursued in the post-war years.

Secondly, there are strong grounds for attempting, if one can, not to mortgage the future. It is certainly cheaper in aggregate terms not to do so and it secures one from the temptation of assuming too heavy a burden of debt. Many of the developing countries to-day have put such a weight of debt on their own shoulders as to jeopardise their economic future. I have calculated in our own case that, if we had financed our capital deficits in the last twelve years from borrowing rather than from recurrent surpluses, we would now be paying over \$300 million a year in servicing our debt—almost the whole of our present current surplus. One other facet of this is that much of our increase in current revenue derives from our debt-free investment, in waterworks, in housing, etc.

Again, one of the dangers about governmental borrowing is that there is a temptation to borrow for investment in capital projects which can never generate adequate income to redeem the debt or which do so at too slow a rate; and the burden of debt and the problem of its refinancing grows rapidly.

The trouble is that, in this age of inflation, there is very little possibility of long-term fixed interest borrowing, what there is, is usually an illusion based on a government's power to create the money it borrows by inflationary processes, a policy which we must rigidly eschew. It is fatal, in our circumstances at least, to borrow short and invest long; yet this is the temptation governments are prone to fall

into. One of the reasons for this is that governments are always reluctant, under political pressures, so to price their services as to make possible the redemption of loans, over the life of the loans, from income generated by their investment, even if it is economically feasible to do so. We for our part may be able to borrow, at not unreasonable rates of interest, for periods of say, ten years. No doubt there are some projects which we could finance on this basis; but could we use such funds to finance housing, for example, where we have been lending to the Housing Authority and Society for periods of forty years, without raising rents to unacceptable levels? Could we finance our water supply, where we amortise the capital cost of our reservoirs over fifty years, without raising the price of water to unreasonable levels? The unwelcome truth is as I said already that to-day just about the only cheap, and certainly the only long-term, money available to us is money raised by the state's compulsory powers to tax.

There are, however, I would agree, a number of Government projects which it would be possible to price nearly enough on the basis of the borrowing terms we are likely to be able to get, to make the method reasonably economic. Car parks come to mind and possibly some of our transport investment on main roads or civil aviation; also site formation schemes like Kwai Chung, so long as too much land is not alienated for public housing over long redemption periods. But they are fairly limited and do not include the major fields of housing and waterworks; nor, of course, those fields of public investment which are not directly revenue-producing. It is possible, too, to finance longer term schemes by a combination of short-term loan and tax money, so arranged that the loan finance, although not the tax money, is redeemed in an appropriate time.

Next year we will be considering further what we can hope to do and can afford to do, in this direction; and, as I have said, already, we will do what we can to assist the Housing Authority in this respect. Government and Authority will have to co-ordinate their borrowings so as not to compete for the funds available. I propose also to consult further with the World Bank, on whom I called in Washington last September. I am hopeful that a small economic mission from the Bank will visit us in June this year to bring up to date the Bank's knowledge of the state of our economy. Honourable Members will recall that four years ago the Bank came to the conclusion that we were worthy of credit but did not need it. I am confident that the first verdict will be reached again but cannot judge as to the second.

I may add one further comment. It has been suggested from time to time that, having no local medium in which to hold their liquid assets, banks would welcome the opportunity of lending substantial sums to Government, provided, and I stress the proviso, they were permitted to classify them as liquid assets for the purposes of the Banking

Ordinance. I am afraid that I totally disagree with this idea. It is potentially inflationary, in the bad sense, as it will tend to build up the supply of credit to undesirable levels and put a strain on our external resources. I am, indeed, approaching the conclusion that our 25% liquidity ratio, if banks did not, as they do, in practice work to a higher figure, might well be too low for this same reason. Furthermore, and this is a facet of the first objection, Government's consent to its loans being treated as liquid assets would involve it in an obligation to discount or repurchase these loans on demand, should banks run short of liquidity for any reason—as they might under the very impetus of Government borrowing, and its effect on our balance of payments. To do this a government must be able to create money against the security of its own obligations, bluntly, to print it; and, as I have said many times, we cannot do that without getting into trouble very quickly. I am afraid that the temptation to use this device must be resisted.

I should add that Government loans or loans guaranteed by the Government are already classified as liquid bank assets if they have no more than five years to run to maturity.

No doubt I shall be regarded as unduly cautious in taking this view of borrowing, although, in fact, it is a policy of economic strength and economic virtue, not of weakness; but the strength of my conviction about this can be measured by the strength of my other conviction, with which it is in conflict, at least in the short and medium term, my conviction that low taxation can often generate more additional revenue by its stimulating effect on the economy than can increased taxation—a theory now being startlingly substantiated by America's present policy of tax reductions. I believe that our taxes *must* remain relatively low and it is only with the greatest reluctance that I would propose any substantial increases in them.

We now come to the most important business of the day—given the virtual certainty of a substantial deficit for the second year running, and given the limitations on long-term borrowing, and given, finally, the importance of keeping taxation as low as possible, particularly at the present moment, what increases do I propose in taxation? For I think that it is not possible to deny that we must cover some of the gap by increased taxation. We cannot let reserves fall too quickly or too far and to delay the imposition of additional taxation longer would almost certainly involve a sharper rise when the time inevitably came. I am therefore proposing a total increase in taxation amounting to about \$90 million or an increase of a little under 6% in terms of next year's estimate of recurrent revenue at present tax levels. This is the minimum I think I could reasonably propose, taking into account all relevant present circumstances.

I have on many occasions been abjured to eschew direct taxation and concentrate on indirect. I am very conscious of the weight of the arguments in favour of this approach, but also very conscious of the weight of the arguments against it, based on social equity. However, it is the case, I fear, that direct taxation is the most fruitful source of revenue left to us, even accepting that the maximum we can impose without danger of damage to the economy is low by standards elsewhere. This maximum is usually put at 20%. But I am not proposing anything approaching that figure to-day. What I propose is that the standard rate be increased from 12½% to 15%, the rate, incidentally, to which my predecessor but one originally proposed to raise it when it was last raised sixteen years and two days ago; although, in the event, it was then raised from 10% to 12½% only. I regret very much that it has fallen to me to renew his proposal after so many years, but I do so at this time with the thought that possible, if taxes must be increased, an increase in this particular tax is particularly appropriate at this time, when most sectors of the economy are doing well and a few not so well; for a tax on profits has the advantage of falling not indiscriminately on all but on those who can demonstrably most afford to pay. It is estimated that the increase proposed will yield \$56 million next year and \$67 million in 1967-68, when the increased rate will apply to practically all assessments.

Our Salaries and Profits Tax has its well-known inequities which tend to increase with an increase in the rate. One of the main criticisms against it is that payers of Salaries Tax in general have less opportunity of avoiding, or even evading, the tax than those who enjoy other forms of income. Under the present sliding scale of application of the standard rate to salaries (which is in the Second Schedule to the Ordinance and applies equally, of course, to recipients of other forms of taxable income who elect for personal assessment) the proposed increase of 20% in the standard rate would automatically increase by 20% the total tax payable by each taxpayer throughout the scale. To put it in another way, the tax on each segment of chargeable income would increase by 3% stages, instead of 2½% as at present.

One curious historical note on this is that in 1950, at the time when an increase in the standard rate of tax was last proposed, the existing scale went up by stages equivalent to one quarter of the standard rate, so that the maximum rate of double the standard rate was reached in eight stages of 2½%. The increase of the standard rate from 10% to 15% then proposed (that is an increase of 50% in tax) would have resulted, as the law then stood, in each stage being increased from 2½% to 3¾%. Then Financial Secretary proposed, however, to temper the effect on Salaries Tax and Personal Assessment by extending the eight stages to ten stages, thus reducing the rate on each stage to 3%; with a few special exceptions in the high salary range this would have increased

tax payable by only 20% instead of the standard 50%, i.e., exactly the same as the automatic effect to-day of raising the standard rate to 15%. But when the final decision was taken in 1950 to limit the increase in the standard rate to 12½%, the proposed new ten point scale was retained resulting mathematically in 2½%, not, 3%, stages; so that payers of Salaries Tax and Personal Assessment then paid no addition a tax whatsoever unless their incomes were so high that they were already above the eighth bracket.

Although the automatic effect to-day would be to produce the result proposed as a concession in 1950, I take the view that some further concession can be justified to-day. But I do not think it can take the extreme form, as it did in 1950 with very limited exceptions, of imposing no increase of tax at all on payers of Salaries Tax and Personal Assessment below the point at which the standard rate on gross income is chargeable. I think that there are grounds for arguing, particularly in the light of the present financing of our social services, that all persons with taxable income should pay something more. The concession I propose therefore is a new sliding scale which would involve an increase in tax of only 10% at the bottom, increasing gradually to reach the full 20% increase in standard tax only after the eleventh bracket of \$5,000. Let me make it clear that these percentages do not refer to the rate of taxation on salaries and personal assessment but to the percentage increase in the amounts of tax actually charged; these amounts already being concessionary by reason of the application of the sliding scale to salaries and personal assessment. What I am proposing then is, in effect, a concession on a concession.

Let me quantify the kind of effect I propose. Take a married man with two children. He pays no tax at all at present on a salary (or a personal assessment) up to \$1,500 a month, and I am not proposing that this total exemption should be changed. If he earns \$2,000 a month, he pays at present just under \$15 a month in tax; under my proposals he would pay 10% more or an extra \$1.50 a month. In the middle ranges, a man in the same family circumstances earning \$5,000 a month (which puts him well into the top range of salaries) pays \$412.50 a month at present. Under my proposals he would pay an extra \$53.75 a month or 12½% more. The full 20% increase would not apply until his salary reached \$7,000 a month, when his tax would go up from \$875 a month to \$1,050 a month, an increased of \$175 a month. I should make it clear that I am describing the approximate effect of the sort of new scale I envisage. Final proposals may vary slightly from this.

There is one further amendment it is proposed to introduce which will be potentially beneficial to all but a few payers of Salaries Tax. Tax is normally paid on assessable income received during the basis period for a year of assessment; and that income does not necessarily



coincide with earnings arising from employment in that period. Because of the incidence of the sliding scale, any employee, part of whose emoluments is deferred from one year to another and thereby aggregated for tax purposes, can find himself liable to more tax than if he had received his emoluments when they were earned. This effect is particularly noticeable with end-of-contract gratuities or retiring bonuses; and, of course, with arrears due to retrospective increases in emoluments. It is also clearly of particular relevance when rates of tax are altered upwards between the earning of, and the receipt of, income. It is proposed therefore to amend the law so that, within certain limits, such payments are spread backwards and taxed as if they had been received at the time they were earned. I will not conceal the fact that this change has been precipitated by the salary arrears which may accrue to civil servants as a result of the Salaries Commission; nor that a few higher paid employees may be rather worse off under the new arrangements if aggregation into one year had otherwise brought them over the top of the sliding scale on to the standard rate.

One further amendment we are proposing is that pensions payable from Hong Kong funds to non-residents should cease to be specially exempted from tax. The present exemption is wholly contrary to the philosophy of our tax system, which is based on source of income, not on residence of the receiver of income. The normal effect of the present exemption is, in any case, to transfer to tax authorities elsewhere tax properly payable here. With generally higher pensions we are now losing substantial sums in tax. It is most unlikely that any pensioner will suffer extra tax in consequence of the change, as most countries, including Britain, give unilateral relief against double taxation in such cases. Indeed, pensioners in some countries like Australia will gain considerably, as pensions received from abroad and liable to tax abroad are wholly exempted from tax in these countries even if their tax rates are higher than ours.

I would like to mention two other matters connected with the Inland Revenue Ordinance.

First, as I proposed last year when introducing a bill to amend some of the provisions of the Ordinance, we are about to set up a Committee to advise on a number of matters of a more technical or controversial nature, which have been raised by professional and commercial bodies, and which we could not take decisions on in time for incorporation in last year's bill.

Secondly, the present tax system is recognized as increasingly inequitable as the rate of tax rises; but on the other hand, it was made plain to me some years ago, on grounds I have difficulty in wholly accepting, that an orthodox full income tax would not command the support of a substantial part of this Council. Since it became clear to

me that I would have to propose an increase in the standard rate this year, I have been wondering whether it might not be possible to devise a variation of our present system which would allow a rather greater degree of progressiveness in the incidence of tax, while leaving the standard rate of profits tax as low as we must endeavour to keep it for economic reasons. One possible solution which has occurred to me is a separate tax on dividends, i.e., a tax on distributed profits in addition to the present corporation profits tax. This would bring us into line with American and British tax systems in taxing both dividends and profits and doing so separately, and we could maintain the distinctive feature of our own system by not requiring aggregation of income, while still protecting the small rentier through his right to Personal Assessment. There are certainly snags; for example, there would be discrimination against corporation profits as opposed to other business profits, and certain difficulties would arise connected with non-residents. But the idea may be worthwhile pursuing.

I now turn to my other tax proposals for next year. Very few people will be surprised that I should propose an increase in tobacco duties, in view of the unusual action we took under the Protection of the Revenue Ordinance a month ago to prevent withdrawals from bond in anticipation of the Budget. The present rates, which have been only slightly modified since 1960, are very low compared with those in most countries, ranging from under 30 cents to 40 cents a packet of twenty, depending on the origin of the tobacco and the place of manufacture. In Malaya, for example, the tax is nearly three times ours.

Some years ago I spoke of the disproportionate effect on the cheaper brands of cigarettes of increases in duty at so many dollars a pound of tobacco. We have since then considered the practicability of a system of duty based at least in part on value rather than on the weight of tobacco, but I have been advised by my honourable Friend the Director of Commerce and Industry that he does not consider it practicable, not, at least, without serious danger of loss of a revenue, and I accept his advice. I may add a brief historical note. When tobacco duties were first introduced in 1916, they were partly on an ad valorem basis but this proved unsatisfactory and they were revised to a straightforward weight basis in 1918. There is one palliative which is might be possible to apply in some circumstances. It is a fact that the great majority of our cheaper cigarettes are manufactured in Hong Kong from imported raw tobacco, although not all cheap cigarettes are made in Hong Kong and not all Hong Kong made cigarettes are in the cheaper category. It is also a fact that, because of the differential duties on raw and manufactured tobacco, we already charge a lower duty per packet on Hong Kong made cigarettes. This has, of course, its protective side which we do not like to stress, and which was largely introduced in 1949 when the tobacco factories

established here to supply China were having to reduce their output rapidly and severely. The last substantial increase in tobacco duties in 1960 raised the duty on both types by the same absolute amount; and in 1964, when we made some slight amendments to offset the decision not to apply duty to the weight of the filter in filter-tipped cigarettes, we further impaired the relative position of the Hong Kong made and, therefore, cheaper cigarettes. Imported cigarettes have in fact been securing a larger share of our growing market and now have nearly half of it, but this is, of course, partly due to other factors, such as rising standards of living.

Unfortunately one of the factors we have to take into account is that, in practice, the price of a packet of twenty cigarettes can move only in multiples of ten cents; so that, if duty is increased by an amount substantially higher than the equivalent of ten cents a packet the manufacturer's or dealer's profit may be unreasonably cut; while, if the duty is increased by an amount substantially less than the equivalent of ten cents a packet, profits may be unreasonably increased. In practice, therefore, other things being equal, duty can only be changed by multiples of approximately \$2 a pound.

In order to introduce the palliative I have mentioned, I would have to propose a \$2 a Pound difference in the increase in duty on unmanufactured and manufactured tobacco. But, if I proposed an increase of \$2 on manufactured tobacco only and left the duty on unmanufactured tobacco unchanged, this would produce less than half the revenue I think it desirable to raise; while if I proposed an increase of \$2 a pound on unmanufactured and \$4 a pound on manufactured tobacco, it would produce more extra revenue than I think it necessary to raise at present.

Another course would be to increase the duty on manufactured tobacco alone and do it by \$4 a pound. But this would, I think, in the first place be unduly protective; and, for this reason, and also because so sharp an increase in duty is likely to cause a reduction in consumption, although not perhaps in the long run, the yield would be inadequate.

I find myself forced back, therefore, for immediate purposes, to proposing the same increase on all forms of tobacco. I propose therefore an increase of \$2 a pound on all tobacco, other than Chinese Prepared Tobacco where special considerations arise. Making a small allowance for reduction in consumption due to the increase in tax, the yield is estimated at \$22 million.

When the increase I now propose has been absorbed, a further increase may be appropriate some time in the not distant future. I would hope that it might be possible, on that occasion, to take the

course that attracts me but which I have been forced to set aside on this occasion.

This morning Your Excellency signed an order under the Revenue Protection Ordinance bringing these new duties into provisional effect from 2 p.m. to-day.

I have considered also whether or not there should be an increase in liquor duties, but it seemed to me, and I hope this does not merely reflect my personal tastes, that liquor duties are already disproportionately high in relation to those on tobacco and I do not propose an increase.

There is one small further change proposed in connexion with liquor and tobacco. My honourable Friend the Director of Commerce and Industry proposes to reduce somewhat the generosity of the concessions he allows travellers from Macao in bringing in these commodities free of duty. The number of passengers arriving from Macao has grown enormously in the last year or two and the nature of the business of most of them has also changed. I do not think that they can properly claim the full traditional privilege of bona fide travellers. At present the duty waived is estimated to be in excess of \$2 million. My honourable Friend will make known in due course his new arrangements. Their effect is difficult to estimate but they should increase the yield of these duties by about \$¼ million.

To complete the total of \$90 million increased taxation I have said I am aiming at, I propose further an increase of 30 cents a gallon in duties on motor spirit and also on diesel oil for road vehicles other than those operated by the two public bus companies. This is estimated to produce about \$12 million a year additional revenue.

I must repeat what I said last year when commenting on certain suggestions made by my honourable Friend, Mr. Y. K. KAN, that this tax should be regarded, not as payment by motorists for roads, traffic control and other such services, but simply as a tax on consumption like any other tax on consumption, for example, that on fuel oil used for the production of electricity. This concept has unfortunately been confused by comparisons with the setting up of the British Road Fund in the 1920's with the proceeds of a then new tax on petrol, and Churchill's subsequent raid on it. Historically in Hong Kong it has always been a general tax, having been first introduced in 1930 for general revenue purposes.

Even with this additional tax the price of petrol will still be very low compared with that in most countries which do not produce oil themselves. And, if the modest increase I propose has any beneficial effect on traffic congestion, which I doubt, that will be an added benefit.

It will be particularly noted that the increase does not apply to public transport, except to that part of it, such as taxis, which is more closely analogous to private transport.

I have considered whether we should not now make the change foreshadowed by my predecessor in 1960 and bring the duty on diesel up to the same level as petrol. The present gap is 50 cents. But, while there is clearly no reason why the comparatively few private diesel car owners should benefit from a lower duty, I think the change might put too heavy a burden on commercial traffic, particularly when accompanied by the general increase I now propose; while the other major users, taxis and public cars, possibly have a slight claim to preferential treatment because of their semi-public nature.

As in the case of tobacco, Your Excellency signed this morning an order under the Public Revenue Protection Ordinance bringing the new rates provisionally into effect from 2 p.m. to-day.

These increases, totalling \$90 million, would have the effect of reducing next year's estimated deficit from \$186 million to \$96 million, not counting any further payments against the recommendations of the Salaries Commission (which are a potential maximum of \$100 million extra).

There are, however, a few other revenue changes which we shall be proposing to make during the year. These are all concerned with charges in the nature of fees for services rendered rather than with taxes. I have already to-day stressed the fiscal importance of ensuring that our public services are self-supporting, except where there are strong social grounds for subsidy at the expense of the general taxpayer. The changes involve, among others, a number of Post Office charges, same Immigration fees and increases in parking charges in multi-storey car parks. One I should specifically refer to is a proposal to increase the annual licence fee for motor cycles and motor car by amounts ranging from \$10 for a motor cycle and \$25 for the smallest cars to \$150 for the, largest cars. The cost to the community of providing for traffic control, traffic aids, etc., is growing rapidly and there is a good case for increasing our relatively low fee. The increase, which I propose should take effect from 1st April, should produce about \$2½ million a year at present.

There is a complication about this proposal. The regulations make provision for a three-year licence, at the option of the owner. This option is very little exercised but, now that owners know of the proposed increase, many will naturally want to take advantage of it between now and 1st April. The Governor in Council has accordingly made a regulation suspending the three year option between now and

the end of March. Some owners, whose licences are due to expire soon, will, of course, be able to save a little of the increase; but I have preferred to propose 1st April as the effective date, rather than to-day, in order to give the Governor in Council, who is the statutory authority, time to consider the matter in the context of the Estimates.

The total yield of all the increases in fees and charges we have in mind is about \$10 million. The proposals will be formally submitted to the appropriate Councils when they are ready and I need not particularise them to-day.

The tax changes I have proposed have nothing in them that is at all revolutionary. They tap sources of additional revenue which we have all, I think, regarded as being there to hand when the time came that we needed them. I have, however, suggested for consideration one new adaptation of our existing Salaries and Profits Tax. There is one other tax I have given some thought to recently, which may have merits in our circumstances. It is not unknown elsewhere, being in force in Australia, the United States and Malaya. I refer to what is popularly known as a Payroll Tax, that is, a tax on employers of labour proportionate to their salary and wages bill. This tax seems to be associated elsewhere with specific or general social service expenditure and is often of the same nature as the employers' contribution to social security schemes in other countries. It has the advantage in a full-employment economy of promoting productivity and the most economic use of labour. Here, it could also make a useful contribution to the finance of the expansion of our educational, medical and social welfare services, possibly with special reference to the finance of industrial training. This last is financed in Britain by compulsory levies, often on a payroll basis, on all firms in a particular industry; but it may be argued that in Hong Kong the industries most in need are those least able to provide finance and that a generalised tax is more appropriate. A further point is that one of the foreign criticisms of unfair competition which our industry finds it most difficult to rebut is that raised by industry in advanced countries on the grounds of the heavy burden of compulsory social service contributions they pay, compared with their total absence in Hong Kong—however generous the voluntary benefits afforded by many of our employers. A further advantage is that it is fairly easy to administer and act as a modest check on overstatement of wages paid for which deductions are claimed in profits tax returns. The tax's disadvantage is that it is charged whether an employer is operating at a profit or a loss and has a heavier incidence on labour-intensive than on capital-intensive enterprises. It is difficult to estimate the yield but at a rate of 1% it might be about \$20-\$25 million. I have preferred in this budget to stick to the old favourites (if that word is ever permissible to describe taxes) but it might well be an appropriate first device, if and when we have to raise still more revenue.

That concludes, Sir, my presentation of next year's Budget and my proposals for changes in taxation. I must apologise for having taken up so much of honourable Members' time this afternoon.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

### COMMISSIONS OF INQUIRY BILL 1966

THE ATTORNEY GENERAL moved the First reading of a Bill intituled "An Ordinance to provide for commissions of inquiry and for purposes connected therewith."

He said: —Your Excellency, this Bill replaces the existing Ordinance which was first enacted eighty years ago. The Bill follows closely the legislation on this subject which has existed for some years in other Far Eastern territories, such as, Sabah, Singapore and Sarawak; and I should add that in its present form it has the approval of the Secretary of State.

Sir, two Commissions appointed under the existing Ordinance in recent years illustrate the widely divergent purposes of such Commissions. The Electricity Commission appointed in June 1959 to advise Government on the form and extent of control to be imposed on the two electricity supply companies was in essence a public enquiry which permitted interested parties to air their points of view at length; the task of the Commission was principally to receive the material presented and marshal it into a report. On the other hand, the CHAN Kin-kin inquiry appointed in February 1963 to inquire into the alleged ill-treatment of CHAN Kin-kin by the Police, was of a more inquisitorial nature with the Commission endeavouring to establish matters of fact.

Sir, this Bill has been drafted, therefore, to provide for Commissions suitable for both kinds of inquiry. Thus, for example, if one were appointed for the same sort of purpose as the Electricity Commission, members of the public would find that Clause 4(b) would afford them the right to submit and have considered any document which was not scurrilous or offensive. This provision is not of course intended to permit the Commission to widen the scope of its inquiry, the limits of which are established by the Governor in Council under Clause 3. Again, Sir, an inquisitorial type of proceeding may well raise problems of security; and for this reason the Commission would be empowered under Clause 4 to exclude any person from any part of the proceedings and to prohibit the publication or disclosure of matter presented to it.

For the same reason the right of any person whose conduct is the subject of an inquiry to be legally represented, would not be limited

under Clause 6 by the power which the Commission is afforded under Clause 4(1) to exclude any person from any part of the proceedings; and also by the authority given to the Commission under Clause 6 to decide just how much of the evidence and articles and documents presented to the Commission should be heard and seen by the legal representative or his client.

It will be remembered, Sir, that under the existing Ordinance the question arose as to whether you can appoint a single Commissioner; a matter which was finally resolved affirmatively in the Privy Council. Clause 2 makes it clear that the Commission may consist of one or more Commissioners.

The only other point which calls for comment is that in order to assist a Commission to obtain the fullest information, the protection afforded to witnesses has been increased. Thus Clause 7 provides that evidence given by a person may be used against him neither in civil nor in criminal proceedings except where he is charged with an offence under the Perjury Ordinance or proceeded against under Clause 8 or 9 of this Bill for contempt. If, however, the Commission sees fit to warn a witness that he is not obliged to incriminate himself with respect to any particular matter, then that person could no longer claim protection under Clause 7 if he chose to proceed to give self-incriminatory evidence.

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 Electricity Supply Companies Commission showed that the existing Ordinance is inadequate. It was, therefore, considered desirable to replace this Ordinance by one based on a more modern legislation in use in other territories. This Bill seeks to do this.

#### **DENTISTS REGISTRATION (AMENDMENT) BILL 1966**

DR TENG PIN-HUI moved the First reading of a Bill intituled "An Ordinance further to amend the Dentists Registration Ordinance 1959."

He said: —Your Excellency, the Government Senior Dental Specialist will be retiring shortly and his post will be taken over by a Government Dental Specialist. This will necessitate two minor amendments to the Dentists Registration Ordinance.



Section 4(2)(b) of the Ordinance prescribes that the Government Senior Dental Specialist shall be a member of the Dental Council of Hong Kong and section 31(3) gives the Government Senior Dental Specialist power to authorize in writing the performance of minor dental work by dental nurses employed in the public service.

The purpose of this Bill is to enable a Government Dental Specialist to be appointed to the Dental Council in place of the Government Senior Dental Specialist and to enable the Government Dental Specialist to give the authorizations prescribed by section 31(3) of the Ordinance.

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: —

Under paragraph (b) of subsection (2) of section 4 of the Dentists Registration Ordinance 1959 (hereinafter referred to as the principal Ordinance) the Government Senior Dental Specialist is a member of the Dental Council and during his absence from the Colony or his inability to act a government dental specialist appointed by the Director shall be a member. The present Government Senior Dental Specialist is due to retire in the near future and his post will be taken over by a Government Dental Specialist

2. Clause 2 of this Bill therefore seeks to amend the principal Ordinance so as to provide that a government dental specialist appointed by the Director shall be a member of the Dental Council under paragraph (b) of subsection (2) of section 4 of the principal Ordinance.

3. At present under subsection (3) of section 31 of the principal Ordinance dental nurses employed in the public service may perform minor dental work of such a character as may be authorized in writing by the Government Senior Dental Specialist. By clause 3 of the Bill it is sought to amend the principal Ordinance so as to provide that this authorization may be given by a government dental specialist appointed by the Director.

### **PUBLIC RECLAMATIONS AND WORKS (AMENDMENT)**

#### **BILL 1966**

MR A. M. J. WRIGHT moved the Second reading of a Bill intituled "An Ordinance to amend the Public Reclamations and Works Ordinance 1956."

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 3 were agreed to.

Council then resumed.

MR A. M. J. WRIGHT reported that the Public Reclamations and Works (Amendment) Bill 1966, 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 into law.

#### **FORESHORES AND SEA BED (AMENDMENT) BILL 1966**

MR A. M. J. WRIGHT moved the Second reading of a Bill intituled "An Ordinance further to amend the Foreshores and Sea Bed Ordinance."

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 4 were agreed to.

Council then resumed.

MR A. M. J. WRIGHT reported that the Foreshores and Sea Bed (Amendment) Bill 1966 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 into law.

**NEXT MEETING**

HIS EXCELLENCY THE GOVERNOR: —That concludes the business for today.  
The next meeting of Council will be held on 10th March.