

OFFICIAL REPORT OF PROCEEDINGS

Wednesday, 20th April 1977

The Council met at half past two o'clock

PRESENT

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR CRAWFORD MURRAY MACLEHOSE, GBE, KCMG, KCVO
THE HONOURABLE THE CHIEF SECRETARY
SIR DENYS TUDOR EMIL ROBERTS, KBE, QC, JP
THE HONOURABLE THE FINANCIAL SECRETARY
MR CHARLES PHILIP HADDON-CAVE, CMG, JP
THE HONOURABLE THE ATTORNEY GENERAL (*Acting*)
MR GARTH CECIL THORNTON, QC
THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR DENIS CAMPBELL BRAY, CMG, CVO, JP
THE HONOURABLE DAVID HAROLD JORDAN, CMG, MBE, JP
DIRECTOR OF COMMERCE AND INDUSTRY
THE HONOURABLE DAVID AKERS-JONES, JP
SECRETARY FOR THE NEW TERRITORIES
THE HONOURABLE LEWIS MERVYN DAVIES, CMG, OBE, JP
SECRETARY FOR SECURITY
THE HONOURABLE DAVID WYLIE MCDONALD, JP
DIRECTOR OF PUBLIC WORKS
THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, CMG, JP
DIRECTOR OF EDUCATION
THE HONOURABLE IAN ROBERT PRICE, CBE, TD, JP
COMMISSIONER FOR LABOUR
THE HONOURABLE DAVID GREGORY JEAFFRESON, JP
SECRETARY FOR ECONOMIC SERVICES
THE HONOURABLE ALAN JAMES SCOTT, JP
SECRETARY FOR THE CIVIL SERVICE
THE HONOURABLE EDWARD HEWITT NICHOLS, OBE, JP
DIRECTOR OF AGRICULTURE AND FISHERIES
THE HONOURABLE THOMAS LEE CHUN-YON, JP
DIRECTOR OF SOCIAL WELFARE
THE HONOURABLE DEREK JOHN CLAREMONT JONES, JP
SECRETARY FOR THE ENVIRONMENT
DR THE HONOURABLE THONG KAH-LEONG, JP
DIRECTOR OF MEDICAL AND HEALTH SERVICES
THE HONOURABLE ERIC PETER HO, JP
SECRETARY FOR SOCIAL SERVICES
THE HONOURABLE DAVID RAYMOND BOY, JP
SOLICITOR GENERAL (*Acting*)
THE HONOURABLE DONALD LIAO POON-HUAI, OBE, JP
SECRETARY FOR HOUSING (*Acting*)
DR THE HONOURABLE CHUNG SZE-YUEN, CBE, JP
THE HONOURABLE ROGERIO HYNDMAN LOBO, OBE, JP
THE HONOURABLE JAMES WU MAN-HON, OBE, JP
THE HONOURABLE HILTON CHEONG-LEEN, OBE, JP

THE HONOURABLE JOHN HENRY BREMRIDGE, OBE, JP
 DR THE HONOURABLE HARRY FANG SIN-YANG, OBE, JP
 THE HONOURABLE MRS KWAN KO SIU-WAH, OBE, JP
 THE HONOURABLE LO TAK-SHING, OBE, JP
 THE HONOURABLE FRANCIS YUAN-HAO TIEN, OBE, JP
 THE HONOURABLE ALEX WU SHU-CHIH, OBE, JP
 THE REV THE HONOURABLE JOYCE MARY BENNETT, JP
 THE HONOURABLE CHEN SHOU-LUM, JP
 THE HONOURABLE MISS LYDIA DUNN, JP
 DR THE HONOURABLE HENRY HU HUNG-LICK, OBE, JP
 THE HONOURABLE LEUNG TAT-SHING, JP
 THE REV THE HONOURABLE PATRICK TERENCE MCGOVERN, SJ, JP
 THE HONOURABLE PETER C. WONG, JP
 THE HONOURABLE WONG LAM, JP

ABSENT

THE HONOURABLE LEE QUO-WEI, CBE, JP
 THE HONOURABLE OSWALD VICTOR CHEUNG, CBE, QC, JP
 THE HONOURABLE PETER GORDON WILLIAMS, OBE, JP
 THE HONOURABLE LI FOOK-WO, OBE, JP

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
 MRS LOLLY TSE CHIU YUEN-CHU

Papers

The following papers were laid pursuant to Standing Order 14(2): —

<i>Subject</i>	<i>LN No</i>
Subsidiary Legislation:	
Antibiotics Ordinance.	
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Ferries Ordinance.	
Excluded Ferries (Hong Kong—Tsuen Wan—Tsing Yi) Regulations 1977	66
Ferries Ordinance.	
Excluded Ferries (Ma On Shan and Ma Liu Shui) Regulations 1977	67

<i>Subject</i>	<i>LN No</i>
Merchant Shipping (Oil Pollution) Act 1971. Oil Pollution (Compulsory Insurance) (Amendment) Regulations 1977.....	73
Public Revenue Protection Ordinance. Public Revenue Protection (Rating) Order 1977	74
Public Revenue Protection Ordinance. Public Revenue Protection (Stamp) Order 1977.....	75
Public Health and Urban Services Ordinance. Hawker (Permitted Place) Declaration No 6/1977	76
Fugitive Offenders Act 1967. Fugitive Offenders (United Kingdom Dependencies) (Amendment) Order 1977.....	78
Legal Officers Ordinance. Legal Officers Ordinance (Amendment of Schedule) Order 1977	79
Law Reform (Miscellaneous Amendments) Ordinance. Law Reform (Miscellaneous Amendments) Ordinance (Commencement) Notice 1977.....	80
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Metrication Ordinance. Metrication Amendments (Hong Kong Airport (Control of Obstructions) Ordinance) Order 1977	83
Lands Tribunal Ordinance. Lands Tribunal (Amendment) Rules 1977.....	84

Oral answers to questions

Assistant Inspectors (Graduate)—Special Schools

1. REV JOYCE M. BENNETT asked: —

Sir, with reference to the newspaper advertisement on 8th and 11th April 1977 for Assistant Inspectors (Graduate) to inspect and supervise special schools and classes for the physically handicapped, will Government state

[REV JOYCE M. BENNETT] **Oral answers**

- (a) why no specialist teaching qualifications, training and experience are stipulated, and
- (b) whether there is a policy to ensure that only those who are suitably qualified are engaged for such specialist type of work?

DIRECTOR OF EDUCATION: —Sir, the answers to the questions raised by Miss BENNETT are these: —

As to the first part, as the number of Cantonese-speaking personnel with specialist qualifications in special education is limited, no special training is stipulated in the advertisement. This is in order to open the field of recruitment as wide as possible to all interested qualified teachers with or without specialist qualifications. If the candidate selected does not have the specialist qualifications required, he will be given specialist training prior to taking up his duties. At the Selection Board a candidate's ordinary and specialist teaching qualifications, training and experience will be considered together with his motivation, personality and potential for the post. In this highly specialized field of education these qualities are as important as qualifications and experience.

As regard the second part all qualified candidates for these posts are very carefully interviewed by a board of specialists in special education. Great care is taken to ensure that only candidates who are suitable in all respects for work in special education are selected. No officer undertakes special education duties until he is fully qualified in his particular specialist field.

REV JOYCE BENNETT: —Sir, do you not think that some people with higher qualifications may not apply as it appears that the Government is not looking for qualified people?

DIRECTOR OF EDUCATION: —No, Sir.

REV JOYCE BENNETT: —Sir, will those well qualified enter the salary scale at a higher point?

DIRECTOR OF EDUCATION: —I will give Miss BENNETT a written answer on that question, Sir.

MR T. S. LO: —Sir, will Government please confirm that at present no special education duties are undertaken otherwise than by those who are specially qualified?

DIRECTOR OF EDUCATION: —I will confirm the answer that I have given within the ambit of the question, that is in respect of the Assistant Inspectors (Graduate). It is true that in special schools and special classes there are a limited number of teachers who are not fully trained, but within the ambit of this question, that is Inspectors and Assistant Inspectors (Graduate), indeed the personnel within the specialist cardinal in the office, these are all trained.

MR T. S. LO: —Thank you.

Welfare Supervisors

2. REV JOYCE M. BENNETT asked: —

Sir, with reference to the newspaper advertisement on 8th and 11th April 1977 for Welfare Supervisors to work and teach in institutions, including correctional institutions and rehabilitation centres for the mentally retarded and physically handicapped, will Government state: (a) why no specialist teaching qualifications, training and experience are stipulated, and (b) whether there is a policy to ensure that only those who are suitably qualified are engaged for such specialist type of work?

DIRECTOR OF SOCIAL WELFARE: —Sir, a Welfare Supervisor in a social welfare institution is an officer in the Welfare Class, undertaking duties on residential care. The posts advertised cater for holders of the Hong Kong Certificate of Education, but with a higher starting salary for matriculants. Any teaching undertaken by a Welfare Supervisor is on some basic school subjects and in small groups.

Not more than 25% of a Welfare Supervisor's time is spent on teaching. The greater part of his time is spent on supervision and on other residential care duties which are more related to social work than to education. He works under the supervision of a qualified social worker.

Programmes in these institutions include case work and group counselling, sports and recreation, teaching and vocational training. These activities are carried out as a means of character training and social rehabilitation, which are the responsibilities of Social Welfare Officers.

[DIRECTOR OF SOCIAL WELFARE] **Oral answers**

Welfare Supervisors after their appointment are required to under-go in-service training on residential work organized by the Social Welfare Department. Some have received two year full-time training at the Institute for Social Work Training. A considerable number of them have obtained qualifications as teachers through the In-service Courses of Training for Teachers organized by the Education Department. The present arrangement is that in each institution there is at least one qualified teacher to supervise the programme of classroom teaching. A Working Party is being set up to review the qualifications and conditions of appointment of all grades in the Welfare Class. No doubt, the qualification for the Welfare Supervisor will also be looked into.

REV JOYCE BENNETT: —Sir, does the Education Department send its Advisory Inspectors regularly to these institutions to help the Welfare Supervisors with their teaching duties?

DIRECTOR OF SOCIAL WELFARE: —Yes, we have officers from the Education Department coming to visit the institutions and they are always available for consultation.

MR T. S. LO: —Sir, on the same track, does the Government say that the bulk of actual teaching that is done to-day, is done by those without special training?

DIRECTOR OF SOCIAL WELFARE: —I think out of the 68 Welfare Supervisors now on the establishment, about 13 of them are qualified teachers. It is true that some teaching is at present being carried out by people who have experience but have no formal qualification in teaching.

REV JOYCE BENNETT: —Sir, in view of the number of teachers unable to get satisfactory teaching posts, will it not be possible to use more trained teachers in these institutions and then provide them with in-service social work training?

DIRECTOR OF SOCIAL WELFARE: —Sir, I will be awaiting the recommendation of the Working Party before I can deal with this question.

MR T. S. LO: —On the assumption that the Government considers the present position unsatisfactory, when does the Government expect the position to improve, materially?

DIRECTOR OF SOCIAL WELFARE: —Sir, I would not say that the present situation is entirely unsatisfactory, as I have pointed out that only part of the duties of these Welfare Supervisors is related to teaching. After the Working Party has fully reviewed the qualifications required for such posts, of course, Government will consider how to improve the present situation further.

MR T. S. LO: —Sir, I am sorry, this answer rather shocks me because it does seem to pose the proposition, and I would like to have it confirmed, that it is satisfactory for the teachers only to spend part of their time teaching, and even when they are teaching they are not fully occupied with teaching?

DIRECTOR OF SOCIAL WELFARE: —Sir, I don't think I understand the question.
(laughter)

MR T. S. LO: —Although the teacher who is not a qualified teacher he is not supervised, he is not helped, he is simply teaching with non-specialized ability. Is this true?

DIRECTOR OF SOCIAL WELFARE: —As I said earlier on, in each centre there is a qualified teacher who supervises the programme. In other words, the Welfare Supervisor is not a teacher. He is a Welfare Supervisor. He does some teaching but under the supervision of a qualified teacher.

First reading of bills

PROFESSIONAL ACCOUNTANTS (AMENDMENT) BILL 1977

HONG KONG EXAMINATIONS AUTHORITY BILL 1977

EMPLOYMENT (AMENDMENT) (NO 2) BILL 1977

HONG KONG AND YAUMATI FERRY COMPANY (SERVICES) (AMENDMENT) BILL 1977

"STAR" FERRY COMPANY (SERVICES) (AMENDMENT) BILL 1977

FERRIES (AMENDMENT) BILL 1977

OIL POLLUTION (LAND USE AND REQUISITION) BILL 1977

Bills read the first time and ordered to be set down for second reading pursuant to Standing Order 41(3).

Second reading of bills

PROFESSIONAL ACCOUNTANTS (AMENDMENT) BILL 1977

THE FINANCIAL SECRETARY moved the second reading of: —"A bill to amend the Professional Accountants Ordinance."

He said: —Sir, the purpose of the bill is to give legislative effect to three proposals put forward by the Hong Kong Society of Accountants which was established as honourable Members will remember on 1st January 1973 under the Professional Accountants Ordinance "to provide for the registration and control of the accountancy profession" in Hong Kong. The Ordinance and By-laws have since proved to be generally satisfactory. Nevertheless, in the light of experience in the past four years, the Society now considers that certain amendments are necessary in the interest of the general public and the accountancy profession.

The first proposal is in respect of the issue of practising certificates which are necessary for conducting statutory audits. At present, the Society is obliged to register as a professional accountant any member of the approved institutes set out in the Schedule to the principal ordinance and to issue a practising certificate provided that the applicant has had the prescribed practical experience. Members of the approved institutes are not required to have residential qualifications or knowledge of Hong Kong law and conditions. The Society considers that it should be empowered, before the issue of a practising certificate, to require an applicant to be ordinarily resident in Hong Kong and to have some knowledge of local law and practice. So clause 8 of the bill adds a new Section 29A to the principal ordinance. Ordinary residence is defined as 180 days continuous residence during the preceding twelve months. But the Society also considers that if an applicant has acquired substantial accounting experience, in Hong Kong or elsewhere, it should be able to dispense with these two additional requirements. The proposed amendment affects the issue of practising certificates only and in no way deters members of an approved institute from registration with the Society as a professional accountant.

At present, there is no provision under the ordinance for the registration of firms of accountants practising public accountancy. As it is common practice in Hong Kong for public accountants to practise their profession under firm names, the second proposal is to provide for the registration of firms of accountants on two conditions, namely,

that all partners of the firm who reside in Hong Kong shall be professional accountants holding valid practising certificates and that other provisions governing the registration of individual accountants shall apply mutatis mutandis to the registration of firms. Clause 7 of the bill adds new sections 28A, 28B and 28C to the principal ordinance to this effect. The proposal is in line with the recommendation contained in the Second Report of the Companies Law Revision Committee that "the appointment of a firm to be auditors of a company should be deemed to be the appointment of all duly qualified individuals who are from time to time members of the firm during the period of appointment".

The third proposal is contained in Clauses 8 and 14. Its purpose is to classify the present list of approved institutes set out in the Schedule to the principal ordinance in two parts: Part A will include accountancy institutes whose members will continue, as at present, to be eligible to apply for practising certificates; Part B will include accountancy institutes which cater for specialized fields and will consist of the Institute of Cost and Management Accountants and the Chartered Institute of Public Finance and Accountancy. Members of institutes in Part B will be required to pass examinations set by the Society before they are eligible to apply for practising certificates; but they will continue to be eligible to be registered as professional accountants.

This proposal will bring the situation in Hong Kong in line with that in the United Kingdom and other Commonwealth countries where the two institutes in question are not recognized for the purpose of company audit. The Society considers that this amendment will enable it to gain wider overseas recognition, and has said that the proposed amendment merely reflects the existing position to the extent that no professional accountant who is registered solely by virtue of membership of either the Institute of Cost and Management Accountants or the Chartered Institute of Public Finance and Accountancy has been granted a practising certificate.

The opportunity afforded by this bill has also been taken to introduce a number of miscellaneous amendments to the ordinance and By-laws, largely concerned with procedural matters.

*Motion made. That the debate on the second reading of the bill be adjourned—*THE FINANCIAL SECRETARY.

Question put and agreed to.

HONG KONG EXAMINATIONS AUTHORITY BILL 1977

THE DIRECTOR OF EDUCATION moved the second reading of: —"A bill to provide for the establishment of the Hong Kong Examinations Authority and connected matters."

He said: —Sir, this bill is neither lengthy nor complex and the explanatory memorandum sets out its main provisions in plain terms. I will direct attention therefore to the underlying concepts and objectives.

However much we may deplore certain particular aspects of examinations as we know them, it is clear that we cannot dispense with them entirely; and it is also clear that, in Hong Kong as elsewhere, as society develops certain major examinations which have achieved a degree of reliability and public acceptance in serving their original, limited objects, these tend to be used by ever-increasing numbers of people for an ever-widening range of purposes. For instance the University of Hong Kong entrance examination now serves not only to filter admissions to that University but as a measure of academic achievement at "A" level, as a criterion for entry to other universities and a measure of eligibility for various forms of employment. This is natural and unexceptionable in itself, but it leads to some awkward consequences: an undue strain is placed on the resources of the various examining authorities; who find themselves accused of failing to serve aims which they have not in fact espoused; and the various authorities pursue their separate ways without that degree of co-ordination which a more embracing view of society or education would entail. It is a fact that education is a very expensive activity, in the sense that it accounts for a substantial proportion of total public expenditure, and also one whose efficiency is difficult to measure. Examinations are the most obvious if not the only direct measure of educational performance having some claim to objectivity, and it is inevitable that they come to have a powerful and all-pervasive influence far beyond the intentions of their authors. In these circumstances it behoves us to ensure that public examinations are subject to the right kinds of public control and co-ordination. The present arrangements, under which the two universities and a division of my department separately provide three examinations, are from this point of view no longer satisfactory, and the time has come to establish a single body, broadly representative of the community, which will be able to hold in view the needs of the various institutions, the general objectives of social and economic educational policy, and the requirements of the individual student.

This is a task calling for the assembly, under a single aegis, of a wide variety of persons, not all of them engaged in education; and I

believe that the Authority proposed in clause 3 will provide the necessary breadth of vision and hold a proper balance between general and particular interests. It will also be able in due course to bring about a co-ordinated and consistent approach to the whole field of public examinations, avoiding administrative waste and spreading the benefits of professional expertise more widely. I should add that, since it is of paramount importance to avoid disruptions and operational break-downs, this rationalization must be achieved carefully and over a reasonable period of time.

That the examinations shall be the servant and not the master of the education system will be ensured not only by the composition of the Authority but by the requirement that it shall submit to the Government its budgets, and in particular its fee-proposals, for approval. I envisage that in addition to detailed annual budgets, the Authority will compile rolling five-year forecasts, and its longer term proposals for fee- or staff-increases can thus be examined, and its accounts of course will be audited and published. The activities and plans of the Authority, therefore, will be monitored by the Government, both from the point of view of harmony with general educational objectives and from that of the restraint of candidates' fees to a reasonable level. In this connection I should mention that the opportunity will be taken, subject to the approval of Finance Committee, to extend to the Sixth Form examinations the fee-remission now available only in the Certificate of Education Examination. It is proposed that the cost of this remission shall be borne by the public purse and not by the fee-paying candidates—and this is an additional reason why a close watch will be kept over examination fees generally.

May I in conclusion make the point that reorganization, however carefully planned, cannot increase the available pool of talent. At the best it can eliminate waste, raise morale, and generally improve "productivity". For the actual production, administration and marking of examinations our resources, especially human resources, are not unlimited. Success will therefore be dependent on the continued assistance of the many institutions and individuals who have given splendid co-operation hitherto. The establishment of the Authority will provide a framework within which they may achieve higher professional standards, to their own satisfaction and the public's benefit; but it is still the same universities, schools and teachers to whom we must look for this service.

*Motion made. That the debate on the second reading of the bill be adjourned—*THE DIRECTOR OF EDUCATION.

Question put and agreed to.

EMPLOYMENT (AMENDMENT) (NO 2) BILL 1977

THE COMMISSIONER FOR LABOUR moved the second reading of: —"A bill to amend the Employment Ordinance."

He said: —Sir, I move the second reading of the Employment (Amendment) (No 2) Bill 1977 which seeks to improve the provisions relating to severance pay in the principal ordinance. Members will recall that Part VA of the Employment Ordinance, dealing with severance payments in the event of redundancy, was passed by this Council on 14th August 1974.

The introduction, and acceptance, of this new concept was most timely in that, by establishing a legal minimum for severance payments in cases of redundancy, it prevented undue hardship and possibly even unrest during the recent recession. There is no doubt that this legislation made conciliation easier, enabled many disputes to be settled more quickly and took much of the heat out of them.

Since August 1974 more than 27,000 redundant employees are known to have received over \$13.7 million by way of severance pay, including ex-gratia amounts; and it is believed that many more have benefited in circumstances which were not reported to the Labour Department.

On 23rd June 1976, Dr S. Y. CHUNG asked the Acting Commissioner for Labour in this Council* whether in the light of a most unfortunate case of redundancy Government would consider the need for improving the terms of severance pay. The reply was that a review had been carried out and that proposals were being formulated for consideration in the first instance by the Labour Advisory Board and that it was intended to put these to Council this session.

The bill now before Council gives effect to this undertaking and proposes the following amendments to the existing arrangements—

- to increase the amount of severance pay per year of service from one-third of a month's pay to half a month's pay for monthly-rated employees, and from 10 days' wages to 13 days' wages for time-rated or piece-rated employees. (The latter would of course normally only work on, or be paid for, 13 days in a half-month after discounting the two weekly rest days within a half-month); and
- to extend the period of continuous service to be taken into account in calculating severance pay, from five to eight years prior to 23rd August 1974.

* Hansard 75/76 page 979.

These amendments, if approved by Council, will provide more equitable and meaningful severance payments for redundant employees and in particular more generous treatment for those with longer service. This latter point is most important because under the existing scheme those employees with more than 8 years of continuous employment receive an amount of severance pay incommensurate with their length of service.

In this Council on 10th November 1976 I said: "I am sure that honourable Members will agree that we should not rest until we are satisfied that Hong Kong is second to no comparable community in Asia in the provision of decent working standards."* I believe that the bill before Council is another step towards achieving those standards. Here I should mention briefly the provisions for severance pay in some Asian countries. Singapore and Malaysia rely on levels set by collective bargaining; the law merely provides for retrenchment benefits to be payable by the employers. The Philippines and South Korea have legislation providing for severance pay at the rate of one month's pay for each year of service. Taiwan provides for severance pay at rates ranging from one month's pay after one year's service to three months' pay after three years' service and ten days for every additional year beyond three years.

The employees' representatives on the Labour Advisory Board strongly supported the proposals to improve severance pay but some reservations were expressed by the employers' representatives, who nevertheless endorsed them. Of the four main employers' associations all except one originally accepted the improvements. Of the original three, one later withdrew its acceptance while agreeing to the principles involved, and sought a more gradual improvement. The fourth association, while not actively opposing the increase in quantum, considered that it was too soon for benefits to be increased.

However, it is interesting to note that among the arguments put forward against improved severance pay no one has advocated that employees should not have the right to expect a reasonable sum of severance pay after years of loyal service—and this will be provided by the proposed amendment. Indeed, as a prominent member of our community said the other day—"I cannot understand what all the fuss is about in relation to this bill. Most good employers are at present paying severance pay at least equal to, if not greater than, the level of the proposed improvements."

*Motion made. That the debate on the second reading of the bill be adjourned—*THE COMMISSIONER FOR LABOUR.

Question put and agreed to.

* Hansard 76/77 page 162.

**HONG KONG AND YAUMATI FERRY COMPANY
(SERVICES) (AMENDMENT) BILL 1977**

THE SECRETARY FOR THE ENVIRONMENT moved the second reading of: —"A bill to amend the Hong Kong and Yaumati Ferry Company (Services) Ordinance."

He said: —Sir, this bill, together with two other bills for which I will also be moving the second reading this afternoon, seek to transfer to the Commissioner for Transport certain powers over ferry operations similar to some of the powers already granted to him by the Public Omnibus Services Ordinance 1975 in respect of bus operations.

The two principal ferry companies operating in Hong Kong, namely the Hong Kong and Yaumati Ferry Company and the "Star" Ferry Company, run their services under ordinances which are exclusive to themselves. These ordinances have a long history and most of the Governmental powers contained in them are vested in the Governor in Council. This means that the Commissioner for Transport, who has overall responsibility for the day to day supervision of public transport, has only very limited powers over ferry operations and that most changes in even minor operational details of ferry services require the prior approval of the Governor in Council. The two companies are also responsible directly to the Governor in Council for the satisfactory running of their services and all the Commissioner for Transport can do, if he considers that a service provided is inefficient or inadequate, is to make representations to the Governor in Council.

In contrast, under the Public Omnibus Services Ordinance 1975, the bus companies are answerable directly to the Commissioner for the efficient operation of their services and the Commissioner has powers to control day to day operational matters, subject to the ultimate right of a company to appeal to the Governor in Council. The result is that, in the case of ferry operations, not only is the distribution of powers not in keeping with the principle of the controlled delegation of authority in appropriate matters to the Head of Department most closely concerned, but also the time taken for decisions on even minor matters is often unnecessarily long and complicated for this day and age.

The object of the present bill, and of the other two bills I will be introducing this afternoon, is to remedy this state of affairs by seeking to vest in the Commissioner for Transport powers over the day to day operations of the ferry companies more in line with those he already

possesses in respect of the bus companies. Ultimately, when the ferry companies' present franchises expire in 1979, it is proposed to enact new Ferry Services legislation, similar to the Public Omnibus Services legislation, similar to the Public Omnibus Services Ordinance, and to issue new franchises to the ferry companies under power granted by such legislation. The treatment of the ferry companies would then be more or less comparable to that of the bus companies.

The amendments to the principal ordinance in clause 3 of this bill seek to give additional powers to the Commissioner for Transport over the operations of the Hong Kong and Yaumati Ferry Company in respect of: —

- (a) changing calling points and routes of ferry services on a temporary basis;
- (b) introducing temporary services and setting conditions, including fares, for the running of such services; and
- (c) requiring the maintenance of records and their submission to the Commissioner on demand.

Clause 5 seeks to amend the Schedule to the principal ordinance to, inter alia, give the Commissioner powers to ensure adequate and efficient ferry services and to require the Company, when necessary, to operate a 24-hour vehicular ferry service between North Point and Kwun Tong.

Clause 7 empowers the Governor to give directions to the Commissioner in the exercise of his powers and also provides for the Company to have the right of appeal to the Governor in Council against any decision of the Commissioner.

I should add, Sir, that the above amendments are all acceptable to the Hong Kong and Yaumati Ferry Company.

*Motion made. That the debate on the second reading of the bill be adjourned—*THE SECRETARY FOR THE ENVIRONMENT.

Question put and agreed to.

**"STAR" FERRY COMPANY (SERVICES) (AMENDMENT)
BILL 1977**

THE SECRETARY FOR THE ENVIRONMENT moved the second reading of: —"A bill to amend the 'Star' Ferry Company (Services) Ordinance."

[THE SECRETARY FOR THE ENVIRONMENT] **"Star" Ferry Company
(Services) (Amendment)
Bill—second reading**

He said: —Sir, the purpose of this bill is to vest in the Commissioner for Transport powers in respect of the "Star" Ferry Company very similar to those I have just described in relation to the Hong Kong and Yaumati Ferry Company. In the case of this bill, however, I must point out that the "Star" Ferry Company have objected to the provisions in clause 3 relating to the keeping of records and of making copies of such records available to the Commissioner for Transport when required. The Government, on the other hand, considers that it must insist on this requirement, which has been accepted by the Hong Kong and Yaumati Ferry Company and is also required of the bus companies under the Public Omnibus Services Ordinance. I cannot accept that, in this respect, the "Star" Ferry Company should be placed in a privileged position in relation to these other companies.

*Motion made. That the debate on the second reading of the bill be adjourned—*THE SECRETARY FOR THE ENVIRONMENT.

Question put and agreed to.

FERRIES (AMENDMENT) BILL 1977

THE SECRETARY FOR THE ENVIRONMENT moved the second reading of: —"A bill to amend the Ferries Ordinance."

He said: —Sir, the Ferries Ordinance was enacted before the ordinances governing the operations of the two major ferry companies but, together with the subsidiary Ferries Regulations, it is still used to govern minor ferry services. This bill seeks, first, to amend the principal ordinance to enable regulations to be made to require the holders of licences for these minor ferry services to keep records. It also provides for the Governor to issue instructions to the Commissioner for Transport and for appeals against the Commissioners' decisions to be made to the Governor in Council. In addition, it is proposed to amend the Ferries Regulations to provide the Commissioner with powers over the minor services similar to those proposed for him over the services operated by the two principal ferry companies.

*Motion made. That the debate on the second reading of the bill be adjourned—*THE SECRETARY FOR THE ENVIRONMENT.

Question put and agreed to.

**OIL POLLUTION (LAND USE AND REQUISITION)
BILL 1977**

THE SECRETARY FOR THE ENVIRONMENT moved the second reading of: —"A bill to empower appropriate measures to be taken to prevent, mitigate and repair pollution of and damage to the waters, foreshore and adjoining areas of Hong Kong arising from oil spillage, and for matters incidental thereto and connected therewith."

He said: —Sir, this bill seeks to provide the Director of Marine, the Director of Public Works and any other competent authority appointed by the Governor, with powers to prevent, mitigate and repair any pollution of, and damage to, the waters, foreshores and adjoining areas of Hong Kong arising from oil spillages. At the present time the Director of Marine and the Director of Public Works are vested with similar powers under the Emergency (Requisition) Regulations. These regulations, however, are really a hangover from wartime emergency legislation and are not appropriate for present day circumstances. But, before they can be revoked, the powers which are necessary to deal effectively with oil spillages need to be put into other legislation and this is the purpose of the present bill.

Part II of the bill seeks to provide powers to enter and requisition land and property. But clause 4 lays down that this Part shall not come into operation except by order of the Governor and that such an order shall remain in force for thirty days, subject to the Governor's powers to revoke the order and to make further orders. This clause also provides that the order need not be published in the Gazette prior to its commencement, as it is necessary to give the competent authorities powers to take immediate action in response to a major oil spillage. An order will, however, be given such publicity as the Governor thinks fit and it will have to be published in the Gazette for information as soon as is convenient.

Part III of the bill makes provision for the payment of compensation to any person who sustains loss or damage arising from the exercise of the powers provided under Part II. Clause 9 specifies that compensation is payable out of the general revenue of Hong Kong, while clause 10 provides for the recovery from the owner of the vessel, installation or container from which the oil escaped or was discharged, of any costs incurred by the Government, including the amount of any compensation that may reasonably have been paid. Clause 11 details the offences and the maximum penalties which may be imposed if a person, without reasonable excuse, obstructs anyone authorized to exercise powers under the ordinance or fails to comply with a direction.

*Motion made. That the debate on the second reading of the bill be adjourned—*THE SECRETARY FOR THE ENVIRONMENT.

Question put and agreed to.

APPROPRIATION BILL 1977

Resumption of debate on second reading (30th/31st March 1977)

Question proposed.

THE SECRETARY FOR HOUSING: —Sir, in supporting the motion, I am glad to report a continuation of the vigorous pursuit of our long-term housing programme, the overall objective of which is to improve housing conditions in Hong Kong. I noted that in this debate, at least one Member described housing as still being the major problem in Hong Kong, and another chided us for devoting a relatively small proportion of our budget to housing. Other Members however pointed to the many projects in the pipeline, which will result in more than half our projected population living in public housing. In particular, I am glad to see that there was a good reception for the Government's Home Ownership Scheme, and it is gratifying that it has attracted a good deal of favourable comment by public and media since it was first announced.

Mr LOBO has suggested setting our sights higher for the Home Ownership Scheme, by extending the special mortgage terms generally to buyers of small flats in the private sector, or indeed of flats in the main public housing programme. An extension to persons in the selected income range who wish to buy suitable private-sector flats would appear to be logical, but we must learn to walk before we can run. Even within the limitations as presently conceived, the demand for these special mortgage terms from buyers of Housing Authority or joint venture scheme flats would be very large indeed, and it would be prudent to maintain these limitations for the first year or two, to let us see how the commercial banks and other lending institutions cope with the demand. But I can assure Mr LOBO that we will keep his suggestion in mind.

On the same subject of the Home Ownership Scheme, Mr BREMRIDGE was worried lest we forget the importance of producing attractive and marketable flats. I am glad to be able to reassure him that the Working Party on Home Ownership did in fact identify this as a very important part of the scheme. I can assure him that the

Housing Authority will strive to design schemes that will be as attractive as any produced by good private developers. And, as regards the marketing of flats, I am happy to say that the Authority has, among its Unofficial Members, men of considerable experience in the property field on whose advice it can draw.

Mr CHEONG-LEEN touched on a major issue when he suggested that the length of the ban on resale of these flats should be extended from five to seven or eight years to avoid abuse or speculation. There is certainly plenty of room for disagreement on what period would be fair both to the buyers and to the community, while remaining realistic to enforce. However, anything more rigorous could well make the scheme much less attractive to buyers, and it was for these reasons that the Executive Council recently advised that a five year period should be adopted.

Mr LOBO referred to the possibility of the Housing Authority requiring its better-off tenants to apply for flats under the Home Ownership Scheme. I have no doubt that the Authority will give every encouragement to its more prosperous tenants to join the Home Ownership Scheme, and many enquiries from tenants of existing estates have already been received. One of the recommendations by the Working Party on Home Ownership is that tenants of public housing estates who surrender their tenancies should be treated as a special category. Every flat thus vacated will mean one more rented flat for a less prosperous family in need of public housing.

Mr LOBO has expressed his support for the new financial arrangements between the Housing Authority and Government. These arrangements are primarily designed to straighten out the previously complicated accounting arrangements, while indicating clearly the value of Government's contribution to the public housing programme, and simplifying the Authority's cash flow problems. These proposals take into account the Authority's obligations and problems and are designed to put the Authority's financial structure on a more rational basis in future. In this process, the Authority will be able to determine rents on more logical grounds and not largely on the basis of the costs of individual estates. The Authority has recently set up a Rent Policy Steering committee to undertake an overall view of rents in all its estates, and to formulate general principles for rent fixing in the future.

Mr CHEONG-LEEN has suggested speeding up the redevelopment process in the Housing Authority's old estates. While this is undoubtedly desirable, our primary aim for the next few years must be to increase the total stock of public housing, and the emphasis will

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remain on new construction. Moreover, redevelopment and the associated rehousing operations disturb the existing social and economic life of tenants and must therefore be carefully planned and timed to minimise such disruption. There are already four redevelopment schemes in progress and the main concern is not so much speed but rather the needs and convenience of tenants affected by redevelopment.

However, it must not be thought that the occupants of these older estates have no opportunity to improve their housing conditions. The Housing Authority is setting aside a quota of new flats for relief of overcrowding and encouraging tenants in old estates to apply for transfer to better flats in the improved environment of new estates.

In its primary task of new construction, the Authority is continuing to expand its output. During the financial year 1977-78, new contracts will be let on 32 schemes including five home ownership schemes to an estimated total value of over \$1,300 million. To maintain progress on this scale, more sophisticated monitoring systems are being introduced and I can assure Members that every effort will be made to meet these expenditure targets during the year.

Sir, I support the motion.

DIRECTOR OF PUBLIC WORKS: —Sir, in moving the Second Reading of the Appropriation Bill the Financial Secretary indicated the principal reasons for under-expenditure on Public Works Non-Recurrent heads of the Estimates for 1976-77. Miss DUNN, in her speech in support of the motion, requested a further breakdown of the elements contributing to the under-expenditure.

The PWNR heads contain a vast number of items covering a very wide range of activities and project types and explanations of the under-expenditure can most easily be dealt with under broad headings. I will therefore try to highlight the main areas and give the proportions of each in relation to the total.

Under-expenditure on clearances, acquisitions, resumptions and compensation amounted to about \$130M or slightly more than 30% of the total. Of this sum \$23M is attributable to PWD's inability to conclude land and property resumptions in the urban areas due to the unwillingness of owners to accept Government offers during a period when market values were rising. A further \$75M was underspent

because of delays in programmed clearances with consequential delays in payment of compensation and commencement of works on site. Approximately \$29M of this figure relates to the New Towns of Sha Tin and Tsuen Wan, \$28M to urban highway projects and \$18M to various building and civil engineering projects located throughout the territory. Another \$20M could not be spent because of delays in works programmes and compensation payments brought about by objections raised under the Streets (Alteration) Ordinance.

The second largest element, representing 26.6% of the under-expenditure or \$114M, is attributable to tender prices being so far below estimates and to provisions allowed for fluctuations and settlement of final accounts remaining largely unspent. It must be remembered that the estimates for 1976-77 were prepared in October 1975 when labour, materials and tender prices had already hit a low level and were beginning to show an upturn and the estimates therefore allowed for rising costs. However, as the Financial Secretary stated in his speech, the expected sharp rise in prices did not materialise even with the demands being made on the construction industry.

The third largest factor in the under-expenditure was slippage. Over the year contractors failed to meet their programmes due to organizational and labour problems, the effects of exceptionally wet weather and in particular cases to abnormal site conditions and delays in obtaining materials and plant on schedule. The overall figure for slippage amounted to about \$109M or 25.5% of the total.

Changes in the design and scope of projects by client departments and PWD offices causing reductions in cost or delays in starting works induced an underspend of \$54.5M or 12.7%.

Over-estimation of financial requirements by other Government departments for such items as furniture and equipment and works under their direct control amounted to \$30M. Provision under various heads to allow for works to be carried out during the year which can now be seen to have been over-optimistic accounted for a further \$20.5M. These items taken together represent 11.8% of the total under-expenditure.

Work on the Aberdeen Tunnel project was programmed to start in the latter half of 1976. The programme was however held up while consideration was being given to a proposal that the tunnel be constructed and operated by private enterprise. As honourable Members are aware it was eventually decided that Government should itself proceed with the scheme but because of the time lost works could not

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be put in hand during the financial year and \$35M was left unspent. The time required to obtain approvals on some other projects was longer than had been allowed for in programmes resulting in later starts and under-expenditure of \$11.5M. These programme changes accounted for approximately 11% of the deficiency.

During the year attempts were made to retrieve the position and make use of the funds made available by the growing under-expenditure on programmed items by injecting new items and accelerating works on certain projects. The results of our efforts produced additional expenditure of \$113M but this was eroded by further miscellaneous items of under-expenditure and finally only about 18% of the overall deficiency was retrieved. Prior to 1975 it was usually possible to maintain expenditure levels as there were no limitations on the types of new items which could be injected and because the staffing position was generally more favourable. However with the limitations of the priority system and staff availability it was not possible during the 1976-77 financial year to inject items which could produce quick or heavy expenditure. I should point out, Sir, that I am not arguing against the priority system which I consider to be basically sound. I am merely indicating that it does reduce flexibility to some degree.

Miss DUNN also questioned whether the Public Works Department is adequately staffed and organized for its vast responsibilities.

In common with most other Government departments, the PWD was greatly affected by the limitations placed on staff recruitment and expansion imposed early in 1975. These limitations, coupled with the competition from and attraction to employment in other sectors, undermined the Department's ability to meet all of our programmes. At the 1st April 1975 the Architectural Office had a shortfall on establishment of Architects of 16%, Building Services Engineers 18%, Quantity Surveyors 19% and Structural Engineers 26%. During 1976 vacancies for Structural Engineers were reduced by about half, but the situation deteriorated still further in respect of Architects with the position at 1st March 1977 showing vacancies of over 30%. However, response to current recruitment exercises being carried out both locally and overseas indicates that we should come close to filling most if not all of the vacancies over the next few months.

In the Civil Engineering field the professional staff deficiency in April 1975 was running at over 15%. Fortunately recruitment during

the latter part of 1976 was so successful that by the 1st March this year strength matched establishment. The full effects of this improvement should become evident during the current financial year.

We are continuously examining the adequacy of staff to meet works programmes and are, for example, at present producing detailed assessments of staff requirements to implement the 10-year Medical Development Programme.

We are also constantly reviewing our procedures and organization with a view to providing a more efficient public service and are being assisted in this task by a departmental Management Services Unit staffed by officers of the Organization and Methods Division of Finance Branch.

Sir, I consider that the Public Works Non-Recurrent provision for 1977-78 does realistically reflect the capacity of the Public Works Department and I feel confident that we can achieve our aims.

Sir, I support the motion.

DIRECTOR OF MEDICAL AND HEALTH SERVICES: —Sir, it is a happy coincidence that my Friends, Dr FANG and Mr CHEONG-LEEN should raise some relevant points within the context of the tale I am about to tell regarding the development plans for the medical and health services, the accompanying problems and the action that is to be taken from now onwards over the next 5 years and in the longer term, beyond this period, to the middle of the next decade. I am most grateful therefore to my Friends for the opportunity to clarify and elaborate on those matters as and when I come across them in my comments to follow.

The provision of good and efficient medical and health services is a major activity of good Government and in Hong Kong this has always been the aim. The considerable problems involved in providing adequate facilities for the dynamic urban areas with an ever-increasing population are made even more complex by the simultaneous need to provide for the new and rapidly growing towns in the New Territories. The first essential step therefore is to ensure that a professional and administrative structure exists within the Medical and Health Department to cope with all the challenges that lie ahead and to meet the demands for better and improved services.

Accordingly, action has been taken to provide for this structure by the introduction of the Regionalization Scheme, the first phase of which has commenced on 1st April 1977 with the establishment of three

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Regional Offices in Hong Kong, Kowloon and the New Territories, each of which is now under the direct charge of an Assistant Director and supported by a regional management team.

The aims of regionalization may be set out briefly as follows: — Firstly, under the Regional Assistant Director all preventive and curative services are co-ordinated to provide a comprehensive and integrated service in his region.

Secondly, existing facilities and manpower can be put to optimal and more efficient use within the region.

Thirdly, special services such as the accident service could be administered and better co-ordinated at regional levels.

In regard to the first aim, the Regional Assistant Director is now in a better position to co-ordinate both preventive and curative measures on the spot and respond immediately to special circumstances. In the event of an outbreak of an infectious disease for example relevant information on the patients in the hospitals and clinics can be fed directly to the regional health team who will then be able to trace contacts and take all the necessary preventive measures to contain the outbreak locally within the region. Vice versa, any useful epidemiological findings emerging from investigations by the health team are made available to the medical officers attending their patients. Routine investigations of problems and complaints in the hospitals and clinics can also be dealt with more quickly and effectively without undue reference to Headquarters.

In regard to the second aim, regionalization may be called rationalization, *i.e.* rationalization of the resources so that facilities are provided where they can be best used, that resources are not unnecessarily duplicated and that one service complements another.

For the individual patient, regionalization also offers a more convenient and efficient service. The patient will normally be first seen in a general out-patient clinic and if found to be in need of specialist attention will be referred to a specialist in a polyclinic serving that region and within reasonable distance of his home. If in-patient treatment is necessary, the patient will then be referred to a district hospital in the same region or to the regional hospital depending on the level of treatment required. Subsequently, when his condition permits, he will either be discharged home or may be transferred to a non-acute bed for convalescence in a district hospital.

By judicious use of all resources available and under the control of management on the spot, it is hoped to relieve congestion in the regional hospitals and to make better use of under-utilized facilities in some district hospitals. Under this scheme it is also possible to spread more evenly the case loads between Government and Government-assisted hospitals and in this way provide a more balanced service in each region based upon the regional hospital. In accordance with this principle a determined effort is now in progress to eliminate the use of temporary beds in the Queen Mary Hospital and the Queen Elizabeth Hospital. I may add that this practice of using temporary beds is a very old one and has been plaguing us for as long as one can recall, most certainly from the time when I first set foot in the Queen Mary Hospital as a medical student more than twenty years ago. With this all-out effort and the goodwill and co-operation of all concerned, we should be able to solve this classic problem in our two major hospitals by the end of the year.

In the implementation of this scheme, there will be certain areas where it is necessary to upgrade facilities and increase staff. To this end, to relieve congestion in the Queen Mary Hospital, some 130 beds at the Grantham Hospital are being made available for the Hong Kong University Medical and Orthopaedic Units. Further, some 106 additional beds at the Tung Wah Hospital are being made available for the University Surgical Unit. The relevant proposals are being considered by Finance Committee later this afternoon.

To relieve congestion in the Queen Elizabeth Hospital and to make better use of the facilities that already exist in Kowloon, the Buddhist and Pok Oi Hospitals have been brought into operation on a deficiency grant basis.

In regard to the third aim, I should like to take up the matter of the accident service which has been mentioned by my Friend, Dr FANG.

The accident service calls for the establishment of a 2-tier system in which the more severe cases are seen and treated at a Designated Accident Centre (DAC) which in effect is the casualty department of the Regional Hospital, and the less serious cases are managed at Accident Centres (AC) at the District Hospital level. In fact, this system has already been implemented and has been operating satisfactorily for quite some time. Whilst on this subject, I should like to comment on the ambulance service which incidentally is not "essentially a transport service". As in most other developed countries, our Ambulance personnel are trained to recognize a patient's condition, give stabilization treatment on the spot if indicated and continue this during

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conveyance to hospital. Such training is known as "Ambulance Aid". It is considerably more advanced than "First Aid" and includes all aspects of modern ambulance treatment, ambulance nursing and patient care and comprehensive instruction on both manual and mechanical methods of life-support. Moreover, ambulances are fitted with two-way radio and carry modern ambulance equipment including piped oxygen, analgesic gas, resuscitation apparatus, burns dressings and inflatable splints.

Thus, in the circumstances of Hong Kong where distances are comparatively short and the ambulance service efficient our primary aim must be to ensure that ambulance aid is given to emergency cases on the spot and that such cases are conveyed to designated accident centres or accident centres which are properly equipped and staffed to deal with them with the least possible delay. Nevertheless, the need for improvement of the present service will be kept under constant review and Dr FANG may rest assured that Hong Kong has an ambulance service which is professionally and technically of a high and adequate standard.

Sir, turning now to our efforts to improve the medical and health services, it is essential that we recognize the major problems confronting us and to face these squarely.

As I see it, these are the continuing demands for hospital beds, for consulting rooms in the out-patient service and the related problems of the supply of professional nursing and para-medical staff as well as the capabilities of the construction industry and competing claims of other social services for financial and other resources.

Special demands are made by the rapidly growing agglomerations in parts of Kowloon, specifically East Kowloon and Kwun Tong and the New Territories. Fortunately, the population on the Island is expected to increase less dynamically and the basic facilities are adequate to cope with growth.

Thus, plans are in hand to provide more in-patient and out-patient facilities in accordance with the areas of most demand. I shall enumerate these improvement projects briefly.

The East Kowloon Polyclinic Phase I is due to open soon and this will be followed by Phase II which should be completed in 1979-80. A further 2 clinics will be provided in this area within the next 5 years.

Planning for a health centre in East Kowloon which will provide 210 beds is under way and this project is due for completion in 1980-81.

Discussions are also proceeding with a view to providing an extra 330 beds for convalescence and chronic patients within the Tung Wah Group of Hospitals.

In the longer term, an additional proposal for a general hospital in the East Kowloon area which will provide 1,000 beds is under consideration.

In the West Kowloon area, 2 existing clinics will be reprovisioned and expanded within the next 5 years.

As for the New Territories, the rapidly growing areas are the new towns of Sha Tin, Tuen Mun, Kwai Chung/Tsuen Wan.

In Sha Tin the medical facilities in the pipeline consist of a general hospital providing 1,400 beds which incorporates the teaching facilities for the new Medical Faculty of the Chinese University. A new polyclinic and 2 general clinics are also scheduled to be completed within the next 5 years.

In the Tuen Mun area a general hospital providing 1,200 beds is scheduled to be built in 1983-84 and will be supported by a polyclinic which will be developed in 2 phases.

In the Tsuen Wan/Kwai Chung area a further 3 general clinics are planned for completion in conjunction with the urban development plans for the area, namely, Lei Muk Shue in 1979; Ha Kwai Chung in 1981-82 and Tsing Yi in 1985.

In addition to these developments within the Government hospital and clinic system, there are also plans for expansion in Government-assisted hospitals.

With a grant of \$14 million in capital subvention, the construction of the Caritas Medical Centre extension project with an anticipated provision of 600 beds is in progress and work is expected to be completed in 1978.

In order that the Kwong Wah Hospital may be upgraded to a full regional hospital, it is essential that services such as clinical pathology, physiotherapy, occupational therapy, improved X-ray services, together with an addition of 40 beds for orthopaedic cases should be provided. All these services will be incorporated in the new clinical pathology building, construction of which will commence this year.

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Planning for a new blood transfusion centre which is necessary for the improvement in the collection, examination and distribution of blood and manufacture of blood products has commenced and should be completed within the next 4 years.

In view of the decreasing incidence of tuberculosis in recent years and the increasing importance of the subject of cardio thoracic medicine a proposal to convert the Grantham Hospital into a major cardio thoracic centre is under active consideration.

Thus, within the development programme as described above, there is a continuous pattern of improvement as shown in part by the improving ratio of beds to population, although at certain points in time between the completion of projects there may be an apparent worsening of ratio temporarily because of the increasing population in the meantime. However, the bed to population ratio will increase from 4.2 in 1976 to 5 by the end of the planning period (1985) and in the case of clinic consulting rooms the number will increase from 220 in 1976 to 341 in 1985.

Following endorsement by the Medical Development Advisory Committee (MDAC) the Government has agreed to subvent the Community Nursing Services which are being undertaken by certain voluntary agencies and to evaluate the services in its third year. My Friend, Dr FANG has suggested that there is no necessity for such evaluation. The fact is, however, that this service is being undertaken by 6 separate agencies with varying programmes of work and varying levels and numbers of staff resulting in different degrees of impact on the utilization of hospital beds as well as the general health care of the patients.

There is, however, a need for an agreed programme of work among all agencies and to evaluate how these services can be best fitted in to complement and improve existing facilities and in particular whether and to what extent community nursing services can reduce pressures on hospital beds by relieving expensive in-patient institutions of patients who can be cared for at home. There will, in fact, be a continuous evaluation of the service commencing from the first year of its operation and if there is sufficient evidence to show that the service is attaining its objectives the original three-year period could be modified to allow for an earlier expansion programme.

In regard to the provision of clinic services, aside from the development of new projects, an immediate and practical measure that I have in mind to cope with the heavy demands in certain areas in the extension of the evening clinic services. Proposals for extra evening clinic sessions in areas where there are large demands are now being looked into.

There are, of course, constraints upon the medical and health programme. One of the main ones is the provision of the necessary staff. My Friend, Dr FANG has made specific reference to the subject of doctors in Government Service, a subject which has been very much in my own mind recently.

There are certain principles which should be adhered to in the consideration of this important but complex subject. To begin with, the basic aim must be for a stable situation where there is a cadre of efficient and proven career officers at all levels on the permanent establishment who comprise the "back bone" of the Service and who are able to provide and maintain the standard of the Service over the years.

There will, however, be a certain turnover among Medical Officers at all levels, and this is beneficial in that the Service does not become stagnant. It must also be remembered that the hospitals and clinics within my Department provide valuable training areas for the young doctors who desire to obtain further experience in the general field or in some specialties before deciding to remain either in Government Service or to go into private practice. In this connection, analysis of data over the last 5 years reveals that on the average more than 75% of the medical officers who have resigned have seen service in the Medical Department for only 1 to 4 years.

However, aspirations for reasonable terms and conditions of service and job satisfaction among Medical Officers must be borne in mind because no Service wishes to retain members who are dissatisfied and frustrated. Sensible proposals on these matters from relevant quarters will therefore always be considered very carefully.

Last but not least, the public interest must be guarded. Thus, in specific areas and certain specialties where recruitment is particularly difficult, contract terms can be offered instead of pensionable appointment to suitable officers who are willing to undertake these functions for a time, but do not wish to make a career in the Service.

Taking a broader view of the matter, the number of doctors in the Services has been increasing steadily over the years and the overall

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supply of doctors for Hong Kong will also be much improved with the addition of 100 doctors graduating from the Chinese University annually from 1987 onwards in addition to the 150 who are already being produced by the Hong Kong University. Recent steps taken overseas to stop recruiting medical staff from outside their own countries are likely to encourage more local people to remain in Hong Kong.

In so far as nurse training is concerned a new nurses training school capable of producing an additional 100-150 nurses per annum will be built at the Princess Margaret Hospital in order to cater for the needs of the new hospitals and clinics which are scheduled to be completed in the 1980s. I am also happy to report that we are having some success in recruiting trained psychiatric nurses who are Hong Kong belongers back from training in the United Kingdom.

Both in-patient and out-patient facilities require a large complement of para-medical staff and in its 1976 review the MDAC has endorsed training policies designed to produce such staff in sufficient numbers to man existing and new facilities. To this end, existing training facilities within the Department can be expanded and we are considering measures to provide additional training locally hopefully to be implemented next year.

The building programme of my Department is a considerable undertaking and the maintenance of the time schedule will depend very much upon the capacity of the Public Works Department and the building industry bearing in mind their other commitments and calls upon their services.

In regard to my Friend, Mr CHEONG-LEEN's remarks on the dental service, the first steps in fact have been taken in the revision of the policy to make this service available to the public with the laying of the Foundation Stone of the MacLehose Dental Centre by Your Excellency in January this year. With the graduation of the Dental Nurses from the Training School which forms part of the Centre in 1980, the school-going population as members of the public will be able to derive the benefit of both conservative as well as curative dental care. Further, as we are aware, a dental school will be established in the Hong Kong University and within its teaching and service areas members of the general public will be able to use this facility on a "walking-in" basis. With these developments, may be possible for dental services to be extended.

On Mr CHEONG-LEEN's other point—the administration and management of medical institutions is considered a specialty nowadays and as such the Hospital Secretaries and other administrative staff are normally required to undergo special courses in the administration of these institutions. Within the curriculum of these courses leading to recognized qualifications are management development programmes.

Sir, with your permission, I should like to conclude by quoting the immortal Bard that "The good (that men do) is oft interred with their bones" and lest the same fate should befall all that have been achieved by my colleagues both within and outside the Department, I should like to inform this Council of the latest state of health of our community. Statistics such as bed: population ratios and consulting room numbers are important indices in so far as they measure the input of the service programme. However, in the final analysis the true indicators of health of a community must be the internationally recognized indices such as statistics on morbidity, birth rates and infant mortality rates. The crude birth rate has fallen from 25.5 in 1966 to 17.2 last year and the infant mortality rates from 24.9 to 14.3 over the same period, and the pattern of diseases is such that we have shifted from the era of communicable diseases to the age of degenerative diseases, such as cancers, heart and cerebro-vascular diseases as is the pattern in the developed countries.

In all of Asia, by these standards, we are second only to Japan and better than a number of advanced countries in the world.

While I do not advocate complacency we may be forgiven for taking a little pride in such achievements.

Sir, I have pleasure in supporting the motion.

DIRECTOR OF SOCIAL WELFARE: —I am indeed very grateful to Mr LOBO for giving me an opportunity to address this Council on three subjects which have been my concern recently. I refer, first of all, to his remark on the very large number of branch offices in the Social Welfare Department. This is to a great extent a legacy of the very rapid expansion in several fields which the Department has experienced since 1970. As we have developed so quickly, the demand for office space to administer our new schemes has outstripped our ability to plan for and obtain sufficiently large offices to accommodate several services. For example, there are now 26 field units for social security; the development in youth and community work has resulted in a drastic increase in the number of community and welfare facilities

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especially in public housing estates, in addition to the many centres that have already existed in family services, rehabilitation and probation work.

Our expansion has also led to strains in supervising so many scattered outposts of the Department and I feel the time has now come for us to undertake a thorough review of our services with the aim of setting up regional offices each designed to deal with a wider range of needs. My preliminary proposals for such regionalization are now being considered in the Government Secretariat. I hope that before long, we shall be able to reorganize the Department to provide a service designed to serve our clients rather than the expediencies of the moment and to relieve some of the bewilderment with which people in trouble approach us.

On the subject of processing applications for subventions which Mr LOBO referred to, the Hong Kong Council of Social Service has recently held a two-day seminar on this very subject to study how best to relieve the load on all who have to examine requests for subvention and to bring about more security for voluntary agencies to plan their development. I am looking forward to their recommendations and I am sure that their proposals on rationalization and simplifying procedures will receive serious consideration by the Government and the Social Welfare Advisory Committee. Mr LOBO's suggestion for improving the way in which we deal with subventions will certainly be borne in mind in this review. Moreover, decentralized administration of the Department on to a regional basis should allow my officers to get into closer and more effective liaison with the many voluntary agencies operating in the field.

Honourable Members will no doubt remember that the Financial Secretary in his Budget Speech already suggested that some priority should be given to lowering the age limit of old people to qualify for infirmity allowances. I, too, feel that the time has come for us to reconsider the qualifying age whether they are living with their families or residing in an old people's home. The original intention of not applying the infirmity allowance to those who live in homes for the aged was to provide some incentive for them and their families to remain as long as possible in a natural family environment rather than having to live out their days in an institution. However, it has transpired that many of those who are living in such institutions have no one outside to care for them. This concern for the elderly is also

reflected in the speeches of Miss Ko Siu-wah and Dr Henry HU, and they will be pleased to hear that as one of the proposals to be considered in the Programme Plan for the Elderly, I have recommended that we should extend infirmity allowances to those in old people's homes. There is, I am sure, scope for establishment for the elderly, and the Department is discussing such projects with interested voluntary agencies and I anticipate that more hostels will be established where suitable accommodation can be made available in public housing estates. As for the elderly who can still live independently, I have been able under existing arrangements to refer suitable cases to the Housing Department for compassionate rehousing.

Mr Hilton CHEONG-LEEN in his speech asked whether people on public assistance could enjoy private dental services and be provided with glasses, paid for by the Public Assistance Scheme. My answer is that a discretionary grant can be made to cover the cost of glasses or dentures upon medical advice, provided the charge is reasonable. If the charge appears too high, the grant is restricted in the case of dentures to an amount that is normally charged by dental clinics run by welfare agencies at about \$15 per tooth. A public assistance client can get up to \$40 for a pair of glasses. Charitable funds are also available to assist persons in special circumstances to acquire spectacles or dentures.

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

DIRECTOR OF COMMERCE AND INDUSTRY: —Sir, fortunately for me, the responsibilities of the Commerce and Industry Department are limited, and we work within a framework of general economic policy for which the Financial Secretary is responsible. It therefore falls to him to reply to those Members who raised questions about that policy, which means that I should be able to keep this speech fairly short and hope to be through it in about 35 or 40 minutes, if I read fast. But before I get down to do it.

I hope the Financial Secretary won't mind if I trespass a bit to express a personal view. Dealing as I have to do with Hong Kong's trade relations with other Governments and conscious as I have to be all the time that Hong Kong wields no heavy retaliatory weapons, I am convinced that we cannot plan our economic destiny. Even those countries that believed they could do this have realized in the last few years that they too are subject to forces they cannot control. You cannot meaningfully plan what you cannot control.

[DIRECTOR OF COMMERCE AND INDUSTRY]

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Sir, it is not just that our policy of allowing industry to develop freely to take advantage of short-term world market demands has served us well up to now. It is, I believe, the only policy for Hong Kong. Our job in the Department is to encourage and assist that development but not to try to direct it into particular channels.

We are concerned to encourage and assist the diversification of products to which Mr CHEONG-LEEN referred and the Trade Development Council has been promoting diversification of markets. We both have had some success.

But we are not going to produce "planned growth rates of the real products for major industries" (Mr CHEN's phrase). There would be no point in doing so unless we were prepared to use Government authority and finance to see that those rates are achieved.

What we are going to do is to put more effort into the "active promotion of industrial development", which Mr James WU said we must "pursue with full vigour". In the last few years we and the Hong Kong General Chamber of Commerce have expanded our activities in this field, in association with the Trade Development Council. In 1976 we sent missions to Australia, Switzerland, the Federal Republic of Germany, the United States and Japan.

As a result of these and the earlier missions, eleven new factories have been established in Hong Kong, manufacturing products as diverse as forged steel valves, electric switch boards and switchgear, liquid quartz crystals and synthetic leather products.

I hope soon to be able to implement a re-organization and strengthening of the Department, which will enable us to increase our efforts. But even in advance of this, the Chamber, the Trade Development Council and the Department plan to send out a total of six industrial investment promotion missions to Australia, the United States, Canada, West Germany, Switzerland, France and Japan during 1977.

In organizing these missions we shall continue to select as our targets companies which if they set up here, would widen our industrial base and raise the level of technology. This is the nearest we get—and it isn't very close—to planning industrial developments. Selective encouragement—but at the same time we shall always be ready to assist any potential industrial investment, whether the source is local or overseas.

As I have often said, it's our job to encourage and assist. It's the potential investor's job to decide—to make his own decision and to stand or fall by it.

On the commercial relations side, Mr TIEN—echoed by the Senior Unofficial Member—Dr CHUNG, raised what is indeed a matter of great importance to Hong Kong—the future of the Arrangement Regarding International Trade in Textiles, commonly known as the MFA or Multi-Fibre Arrangement.

This Arrangement has provided the framework for the negotiation of all our bilateral textile agreements. As the Financial Secretary mentioned in the Budget Speech about two-thirds of our textile and clothing exports are controlled under these agreements. That's about one-third of our total exports, produced by about one-third of our industrial work force.

For the developing countries that export textile products the MFA itself represents in technical terms a derogation from their GATT rights. In plainer language that means that under the MFA they can be compelled to accept restrictions on their textile exports that could not be justified or imposed in the same way under the GATT itself. The GATT is the General Agreement on Tariffs and Trade, and most of the world's trading countries are parties to it.

The basis of the MFA is the concept of "market disruption". Where an importing country can show that its domestic industry is being seriously damaged or is actually threatened with serious damage by a sharp and substantial increase or imminent increase of imports of particular products from particular sources and at prices substantially lower than the prevailing level—where an importing country can produce evidence of this the exporting country concerned is obliged to agree to limit its future exports and if it refuses to do so then the importing country can refuse to accept the disruptive imports.

There are provisions to establish a minimum level below which the trade cannot be restricted, to provide for increases in that level in future years; and to provide flexibility when more than one product is restricted.

There is also a provision under which exporting and importing countries can make bilateral agreements on mutually acceptable terms to eliminate "real risks" of market disruption. This means that such agreements can be made well before market disruption has occurred or is actually threatened.

[DIRECTOR OF COMMERCE AND INDUSTRY]

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Our agreements with the United States and with the European Economic Community are of this type.

From what I have said I hope it is clear that, as Mr TIEN said, the MFA is already a restrictive instrument.

Nevertheless from reports published in Brussels and from other sources, it appears that some members of the EEC want to make it more restrictive, although as at least one of them has acknowledged, thanks to the agreements that the EEC has made under the MFA, "in terms of coverage, there is no doubt that the textile industry enjoys a greater degree of protection than in the past". These countries have claimed that the MFA provided inadequate protection for domestic industry during a recession and that their policy is to seek various amendments to it.

Whatever view one takes of the position of some European textile industries, it seems to us that their difficulties cannot be blamed on the MFA itself because, although the MFA came into force on 1 January 1974, the EEC did not start negotiating bilateral agreements until 1975—we concluded our agreement in July 1975—and some of them weren't completed until 1976. This means that 1976 was the first full year in which any of these agreements was operative.

Among the proposals for amendment are two that would, in our view, involve fundamental changes to the basic concepts of the MFA. These are a proposal to relate the growth in quotas to the degree of import penetration and another to impose global quotas on all "disruptive or potentially disruptive" imports.

The first of these would involve abandoning the basis of market disruption, namely damage to domestic industry, caused by sharp and substantial increases in imports. It is quite possible—and has indeed happened—for "import penetration", that is, the proportion of imports in total consumption, to increase, even though domestic production and sales—and sometimes export sales as well—are also increasing and the domestic industry is flourishing.

The second proposal—"global" quotas—would involve setting a limit on all "disruptive" or "potentially disruptive" imports, regardless of whether the imports from any particular source were actually causing or threatening any damage to domestic industry,—and of course this strikes at that basic concept of the MFA which says that action may be

taken only against imports of particular products from particular sources that are actually causing or threatening disruption. And indeed, since the "global" quotas would in fact affect only certain parts of the globe, selected by the importing country, they would strike at the heart of the GATT itself, which is based on the principle of non-discrimination.

I don't think it is envisaged that the global restrictions would include other members and the EEC, a member of EFTA, or Lome Convention countries. We believe therefore that they would be generally ineffective but damaging to us.

The Hong Kong Government is naturally very concerned about these proposals and has made its views known very clearly to Her Majesty's Government about them.

We agree with Mr TIEN that any further weakening of the MFA in these and other ways would create situations where developing exporting countries might be placed in an even weaker negotiating position for the future.

Mr TIEN has also asked for a Government statement on the position regarding the future of the MFA and an assessment of likely progress in the discussions in Geneva.

The Arrangement expires on 31 December this year. It provides that the Textiles Committee, which consists of all the participating countries should meet not later than one year before that to consider whether the Arrangement should be extended, modified or discontinued.

The Committee accordingly met in Geneva at the end of November last year to consider this. Although a number of participating countries expressed dissatisfaction with the Arrangement—or rather, for the most part, with the way it had been applied in practice—the majority including Hong Kong were prepared to extend it without modifications.

The EEC however has made it clear that while it is prepared to extend the Arrangement, it wishes to seek modifications to it. Among these are modifications on the lines I have already described.

However, the members of the EEC have not yet been able to agree amongst themselves on precisely what modifications they would wish to propose. Consequently we are no further forward now than we

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were in December, when the Textiles Committee meeting that I attended adjourned. No date has yet been set for the next meeting.

Uncertainty about the international framework for our export business in textiles and clothing in 1978 and subsequent years will therefore continue to be with us for some time to come, but I am sure as one can be that there will be a framework. Practically everyone is agree that the MFA should be extended. The only disagreements—though they are of course major disagreements—are on the terms.

We—and many others—will resist any changes that would have a more restrictive effect and personally I cannot see agreement being reached on all the more restrictive proposals that the EEC has indicated that it may seek.

So we are going to have to live with restrictions on our textile exports for some years yet and we are going to have to live probably for some months with uncertainty about what the terms of those restrictions will be for next year and the years after that but I believe that the most likely outcome will be something that the textile and clothing industry can live with.

On the other hand if I am wrong about this, and if all the restrictions that some participating countries would like to see came into effect they would have a serious effect on the growth potential of our industry, with all that that would entail in effects on our total economic growth and on the further increase in prosperity that the people of Hong Kong have earned by their efficiency, resourcefulness and plain hard work. And, if the MFA were to go this way, it would create a very unhealthy precedent for other sectors of trade. This could set the world on a downward slide into widespread protectionism.

I therefore can assure this Council and indeed everyone in Hong Kong that the Government will continue its efforts to persuade those of our trading partners who are doubtful about it that the MFA as it exists now already provides for as much restrictions on legitimate trade as we can reasonably be expected to accept, and that this will be in the interests not only of Hong Kong and of other developing countries, but in the interest of the growth of world trade, on which the developed countries also depend.

Sir, I support the motion.

THE FINANCIAL SECRETARY: —

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Sir,

(1) *Budgetary Strategy*

(a) *Objectives*

Notwithstanding the academic view that the 1977-78 budget was "dull, unexciting and unimaginative", it was constructed with certain objectives in mind. These objectives sought to strike a balance between "economic constraints and social imperatives" (to quote Miss Ko Siu-wah) and between "realism and idealism" (to quote Mr Q. W. LEE) and "to take full advantage of the (present) healthy state of our economy to build a healthy community" (to quote Dr HU).

2. The first objective of the budget was to provide for a real growth rate of the order of 15% to make up for the fact that in 1976-77 it was only 8% (and disappointingly so) and in 1975-76 it was only 1% (and largely deliberately so) as compared with the guideline growth rate of 10% based on historical experience. I am confident we can exceed the 10% guideline growth rate in 1977-78 without serious implications for the economy and without disregarding the value for money criterion. The second objective of the budget was to maintain our fiscal reserves⁽¹⁾ at around \$3,700 million as at 1st April 1977, but not to seek to augment them deliberately by budgetting for a surplus. This objective had regard to the fact that, at this enhanced level, our fiscal reserves are now adequate—or, at any rate, adequate for the time being—to secure our contingent liabilities, finance seasonal deficits and cover any short term difficulties that might arise⁽²⁾. The third objective was to implement certain tax concessions and reforms justified in their own right on administrative or social grounds. The fourth objective of the budget was to achieve a balance, or near balance, on monetary grounds.

3. These four objectives of the 1977-78 budget are consistent with the general objectives of budgetary policy in Hong Kong⁽³⁾ and I did not detect any quarrel with them from anything said by those honourable Members who spoke in the debate. I was, in fact, gratified by Mr

(1) *That is, the balances available for appropriation, if need be, over and above the general revenues of the Colony as represented by the General Revenue Balance which is the excess of the Government's financial assets over its short term liabilities. Our fiscal reserves are not to be confused with the assets of the Exchange Fund.*

(2) *See B.S., 1977, paragraphs 106-107.*

(3) *As defined in B.S., 1977, paragraph 91.*

Q. W. LEE's recognition of the compatibility of sound budgetary, fiscal, economic and monetary policies and the Government's pursuit of a better quality of life, through public expenditure, for the community as a whole. I was gratified too by his endorsement of the way in which we seek to set the annual budget simultaneously in the context of revenue and expenditure in the current year and the three preceding years and then in the context of a forecast of revenue and expenditure over the three years following the budget year.

(b) Guideline ratios

4. Mr Q. W. LEE also endorsed the way the budget is actually constructed in terms of certain guideline ratios. These ratios seek first, to define the size of the public sector; secondly, to ensure that the budget itself is constructed within certain constraints as regards the relationship between the recurrent and capital accounts and the financing of the capital account; thirdly, to define the balance of the fiscal system; and, finally, to achieve steady progress by fixing upon an annual growth rate of expenditure in real terms which is practicable and by maintaining a certain relationship between our fiscal reserves and General Revenue Account expenditure⁽⁴⁾.

5. The total effect of these guideline ratios within which the budget is constructed is that, taking one year with another, Hong Kong budgets have a neutral effect on the growth rate of the money supply after making due allowance for any necessary increase in our fiscal reserves. This is as it should be. I say this because I believe there should not be any unplanned monetary consequences from our decisions on revenue and expenditure; rather, decisions to increase expenditure should be reflected in decisions to raise the necessary revenue. And, incidentally, any decisions that ought to be taken about the Hong Kong dollar are taken in the light of their monetary consequences and it is only in the management of the exchange rate that a positive monetary policy can be said to exist in Hong Kong.

6. It is true that the 1977-78 budget does not conform very closely to the guideline ratios. Thus recurrent expenditure will absorb nearly 85% of recurrent revenue (c.f. the guideline ratio of 80%), the surplus on recurrent account will finance only 55% of capital expenditure (c.f. the guideline ratio of 60%) and the ratio of recurrent expenditure to total expenditure will be 76% (c.f. the guideline ratio of 70%). These are quite serious breaches of the guideline ratios, but capital revenue will be very buoyant in 1977-78, financing 47% of capital

(4) B.S., 1977, paragraphs 92-107.

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expenditure (c.f. the guideline ratio of 20%) and, therefore, it was possible for me to produce a balanced budget, making these breaches acceptable. But recurrent expenditure must not be allowed to absorb too large a share of recurrent revenue indefinitely, because capital expenditure is so vital to our economic and social development.

7. Dr CHUNG, Mr BREMRIDGE and Miss DUNN also endorsed the budgetary strategy generally but, in case there are any lingering doubts, may I just make one point: that when actual revenue and expenditure on either recurrent or capital account differ, even quite substantially, from the estimates, it does not necessarily follow that the guideline ratios have been breached or need to be revised. And in reply to Mr F. W. LI I see no need for a review of the absolute guideline figures for the various components of the capital account. What we must do is to estimate more accurately and eliminate, as far as possible, the causes of unwarranted underspending.

(2) *Underspending on the Public Works Programme*

(a) *Extent*

8. So I come, Sir, to the vexed question of underspending on capital account: the Director of Public Works has already clearly analyzed the reasons for the shortfall in 1976-77 and, by implication, has drawn a distinction between those factors over which we have control and those over which we have no control. Some factors in this latter category, such as the weather and clearance difficulties, are always present and, therefore, can only be blamed for shortfalls in particular years if their effect is unusual. I can assure Miss DUNN and Mr F. W. LI that the Estimates are believed to be realistic, that is to say, when they are prepared they are believed to reflect the spending capability of departments. The Finance Branch and I are just as concerned with this aspect as with economy and value for money.

9. On recurrent account our record is a good one: over the four years 1973-74 to 1976-77 actual expenditure was 114%, 114%, 96% and 102%⁽⁵⁾ of the Approved Estimates⁽⁶⁾ in each of those 4 years. On capital account we have not done so well: over the same four years, actual expenditure was 125%, 98%, 79% and 75%⁽⁵⁾ of the Approved Estimates⁽⁶⁾.

(5) *Revised Estimates.*

(6) *Authority to spend in excess of the Approved Estimates was, of course, given by supplementary provision.*

10. So the questions posed by Miss DUNN and the implied charge made by Mr F. W. LI that, in the last two years, I have over-estimated capital expenditure in order to come up with unexpected surpluses, deserve a reply; and this reply they will get and this reply must concentrate on the two Public Works Programme components of the capital account for they comprise 80% of total capital expenditure.

11. We lifted the level of expenditure on the two Public Works Programme components of the capital account from \$773 million in 1972-73 to \$1,148 million in 1973-74 (and this exceeded the approved estimate of \$1,050 million) in that year. In 1974 absolute guideline figures for the various components of the capital account, including these two main components, were fixed for the budget year 1974-75⁽⁷⁾ and the then three forecast years 1975-76 to 1977-78⁽⁸⁾. At the same time, the package concept⁽⁹⁾ for development of the New Towns was introduced and a new priority system devised⁽¹⁰⁾. In 1974-75, expenditure on the Public Works Programme rose further from \$1,148 million in 1973-74 to \$1,538 million in 1974-75, compared with the approved estimate of \$1,408 million.

12. So in these two years, 1973-74 and 1974-75, not only did we lift expenditure on the Public Works Programme to higher levels, but we also exceeded the Approved Estimates. By contrast with these two years there followed two years of underspending: in 1975-76 the provision inserted in the Estimates was \$1,626 million, but actual expenditure was only \$1,272 million. In 1976-77 the following year the provision inserted was \$1,602 million, but we shall spend only \$1,174 million⁽⁵⁾.

(b) Reasons

13. Leaving aside those factors mentioned by the Director of Public Works which caused unusual slippage in these two years, I believe that we must look to the innovations introduced in 1974 to manage the Public Works Programme for more deep seated reasons for underspending in the last two years. The package concept provides for balanced development thus ensuring that we have, for

(7) *B.S., 1974, paragraph 101.*

(8) *The absolute guideline figures were, in fact, slightly modified in each year; and in 1975-76 the capital account was broken down into seven components (see B.S., 1975, f.n. (73)) and in 1977-78 into eight (see B.S., 1977, f.n. (129)).*

(9) *Report of the Public Works Sub-Committee of Finance Committee for 1974, page 209.*

(10) *Ibid, page 186.*

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example, schools and roads ready for people to use as the New Towns grow as well as housing. This means, however, that the risk of slippage is greater because the co-ordination of the various and diverse projects within each package is complicated. Thus, for example, one difficult clearance can delay the implementation not just of the project concerned, but of all projects within a package. The likelihood of such interruptions was under-estimated and so the provision sought in each of these 2 years was based on unwarranted optimism. As the basic engineering works for each package are completed, the danger of slippage arising from such interruptions should diminish because building works are less vulnerable.

14. As regards the effect of the priority system I can only repeat what I said in the Budget Speech, namely, that our high priority projects tend to be more complicated than low priority projects and this has had an effect on expenditure performance. At the same time, in our anxiety to maximise the benefit of our investment in the Public Works Programme we have been somewhat reluctant to feed in low priority projects which could be proceeded with quickly simply to boost expenditure. In the past, the main qualification for upgrading a project to Category A⁽¹¹⁾ was readiness to implement rather than priority.

15. I must make, Sir, a further admission: having fixed the absolute guideline figures for the various components of the capital account, including the two Public Works Programme components, we tended to assume that these figures represented not only what was acceptable in budgetary terms, but also what could be spent. I believe we have not made the same mistake in 1977-78 and that the Estimates are more realistic. Whether I am proved right or wrong in the event, Miss DUNN is not being entirely fair when she asserts that this belief is no more than a bureaucratic assertion.

16. Having been so frank with honourable Members, I would just add one defensive point: the Finance Branch and I are caught in a dilemma. If we take a particular view of what we believe to be a realistic level of provision, we can be—and very frequently are—accused of exercising unnecessary restraint. If we veer towards a less realistic view and underspending results, we still get into trouble! That reminds me of two procedural changes introduced in mid-1976 and in April 1977 which should be helpful in 1977-78: first, as part and parcel of

(11) *Thereby conferring authority for the creation of a new subhead in one of the PWNR heads of expenditure in the Estimates.*

our stringent expenditure control in 1975-76, the Finance Branch decreed that supplementary provision required for an existing or new project had to be offset by savings identified on other projects for it was essential, on general economic policy grounds, that expenditure was contained in that year within the Approved Estimates. This had the unforeseen effect of inducing a marked degree of caution on the part of the Public Works Department because of the difficulty of identifying savings (a difficulty which, with hindsight, we should have foreseen). The result was that works did not proceed as fast as the total provision available for the Public Works Programme would have permitted. The requirement to identify savings in specific subheads was removed with effect from mid-1976.

17. Secondly, when we introduced in 1975, at honourable Members' request, the vote-on-account system, it was necessary to impose a ban on departments entering into new commitments until the enactment of the Appropriation Ordinance. This effectively meant the loss of a working month and had an effect on performance. As from 1977-78 we have taken the view that, as projects in the PWNR heads of expenditure are in Category A and, therefore, have individually been authorized by Finance Committee already, it is unnecessary to await the enactment of the Appropriation Ordinance and so new commitments may be entered into as soon as practicable.

(c) Staffing and organization

18. So much for procedures. Miss DUNN also asked about the staffing and organization of the departments mainly concerned with spending on capital account. The Director of Public Works has explained the position in the Public Works Department in regard to the large number of approved posts which are vacant. I would add that substantial increases in posts have been approved during 1976-77 in both the New Territories Development Department of the Public Works Department and the New Territories Administration which should significantly improve the speed of progress with public housing and new towns projects. The organization and establishment of posts in departments are constantly being reviewed by the Finance Branch, but the number of applications for additional posts now in hand is such that there is a need for the Finance Branch to be strengthened in order to cope with these applications with reasonable despatch, as well as reasonable care, contrary to what Mr BREMRIDGE may perhaps think, all of us at management level in the Civil Service are concerned to strive continuously for cost-effectiveness and cost efficiency⁽¹²⁾ and so proposals

(12) B.S., 1977, paragraph 92.

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to this effect to strengthen the Finance Branch to enable it to exercise its complementary functions efficiently will soon be put to the Establishment Sub-Committee.

(d) Monitoring procedures

19. Miss DUNN was not only critical of our spending performance and concerned that the Government's intentions, as expressed in the Estimates, were all too frequently not being "fulfilled", but both she and Dr CHUNG also enquired about our arrangements for monitoring progress on public works projects.

20. Let me begin by pointing out that the Public Works Programme in Hong Kong is very well documented. It is laid out for all to see in the Annual Report of the Public Works Sub-Committee; and, from the Public Works Non-Recurrent heads of expenditure, in the estimates the history of, and present position on, each project on which work has started is available for ready reference. In addition, the quarterly reports of the Public Works Department contain notes on the progress to date on all projects in the Programme⁽¹³⁾ with, where possible, an anticipated completion date; the Priority Schedules, which are updated annually, record the priority rating of all projects not yet in the Estimates; and, finally, the New Towns Development Programmes, which are reissued annually, provide full details, by project and package, of the development strategy for the New Towns. These three sets of documents are all pursued by the Public Works Sub-Committee.

21. So there is ample material to form a basis for monitoring. It is unrealistic, and indeed inappropriate, to expect members of the Public Works Sub-Committee to perform this function as well as their function of assessing the content of the Public Works Programme and recommending upgradings although Members can, and do, ask about progress on individual projects. Main responsibility for monitoring must lie with Secretaries in charge of programme areas and heads of departments who are, after all, the clients and they should not forget it. And while the Finance Branch, which provides the secretariat for the Public Works Sub-Committee, should and does exercise an overall monitoring function, it must remain the direct responsibility of the Public Works Department, as the spending agency, to ensure that

(13) That is, no matter whether the project is in Category A, B or C.

"intentions" are "fulfilled". The overall monitoring function of the Finance Branch ties in with the interest that both I and the Finance Branch have in expenditure generally via the monthly accounts. The monthly accounts are published in the *Official Gazette* but, if it would be helpful, I shall arrange for a commentary on our expenditure performance on both recurrent and capital account on, say, a quarterly basis, to be circulated to Members of Finance Committee.

(3) *Social Welfare*

(a) *Role of voluntary agencies*

22. Sir, I detected, from various remarks made by several honourable Members, a feeling that the Government did not take the role which voluntary agencies could play in the development of our network of social welfare services seriously enough. Mr F. W. LI called on the Government "to rely (in the future) on the voluntary sector to carry out a greater proportion of the new commitments in our social (welfare) programmes". Mr LOBO suggested that the time had come "to review the procedure for dealing with applications for (social welfare) subventions". Miss KO Siu-wah proposed that "the methods of appropriation" for social welfare services should be changed and in particular that plans for expansion "should be tied to a more steady source (of income) than the existing arrangement". Taking up his favourite theme of stop-go, Dr CHUNG described Miss KO's call for a triennial or quadrennial block grant system as "a very reasonable request" deserving of "sympathetic consideration".

23. The present procedure for determining the one-line vote for recurrent expenditure on social welfare subventions is described in the Memorandum Note on Head 81 Subventions: Social Welfare⁽¹⁴⁾.

24. I would not, as Financial Secretary, be averse to see the present arrangements for determining social welfare subventions reviewed, particularly as there is to be a review this year of our social security schemes. At present, subventions are made on a lump sum discretionary grant basis and it may be that certain services which are regarded as complementary to the Government's social security schemes (e.g. homes for the aged) should be subvented on a unit cost basis. I say this because, in the absence of the voluntary agencies, the Government would have to provide these services in kind and this would not necessarily be desirable. I say this because, in many fields, the agencies can operate more effectively than Government departments. Thus the role of agencies providing some particular services would be clearly

(14) See paragraph 3 on page 712 of the printed Estimates.

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defined and their financial position secured, leaving agencies providing other services to rely on voluntary subscriptions augmented by discretionary grants. I suggest that the Director of Social Welfare might well pursue these ideas with the Social Welfare Advisory Committee in the coming months.

(b) *Provision for social welfare*

25. This year the Finance Branch was asked to include \$59 million in the Draft Estimates to maintain existing social welfare services provided by the voluntary agencies and for already agreed improvements. The provision sought in the Draft Estimates of \$68 million includes \$9 million for certain new services, particularly the first stage of implementation of the Child Care Centres Ordinance, which were given priority by the Chief Secretary's Committee⁽¹⁵⁾.

26. I am not aware that the provision sought in the Draft Estimates is inadequate for the maintenance and improvement of existing services and for the new services projected for 1977-78. The Director of Social Welfare has already been told that additional provision will be made available for refunds of rates in 1977-78 given the likelihood that rate bills will increase; and, if the Social Welfare Advisory Committee is of the view that the provision available in 1977-78 for approved services, either existing or new, is inadequate, then I would be very ready to listen to them. But I am afraid I must have a properly documented case and not just an assertion, with due respect to Dr HU and Miss KO, that the provision is inadequate.

27. Miss KO has correctly pointed out that the total provision for social welfare in 1977-78 is only slightly more than the approved estimate for 1976-77, mainly due to a decrease in the estimate for public assistance. But she stopped short of further pointing out that, excluding provision for social security, the provision sought for all other social welfare services in 1977-78 of \$134.7 million is 26% more than the approved estimate of \$106.8 million in 1976-77. And we must not forget that the provision for payments under our social security schemes is no more than a realistic guess of what will be required on the basis of information available at the time the Draft Estimates are prepared. A substantial increase in payments arising from factors outside our control will inevitably lead to a need for supplementary provision.

(15) *B.S., 1977, f.n. (168).*

And in this context, I was surprised that Miss KO made no reference to the expansion of the Public Assistance Scheme to cover unemployed adults, which represents a very significant potential commitment on public funds.

28. Miss KO made several references to "stop-go" and "ups-and-downs" and "the absence of steady progress" and alleged that the implementation of the 1973 Five Year Plan had to be to quote her "shelved" in 1974 and 1975. Adjusting expenditure on social welfare subventions to 1973 price levels, and comparing actual expenditure with expenditure envisaged in the Plan, the following picture emerges: actual expenditure has increased from \$25.2 million in 1973-74, to \$33.3 million in 1974-75, to \$38.1 million in 1975-76, to \$43.7 million in 1976-77, to an estimated \$52.2 million in 1977-78. Yet, on the same adjusted basis, the Plan envisaged expenditure of only \$23.7 million in 1973-74, \$28.6 million in 1974-75, \$31.3 million in 1975-76, \$33.8 million in 1976-77 and \$36.4 million in 1977-78. I would not wish to over-play the fact that we have done better, much better, than intended four years ago inasmuch as we have spent, in real terms, 25% more (that is to say, \$192.5 million compared with \$153.8 million). However, as Miss KO has chosen to criticise our performance in relation to the original Plan, I feel obliged with respect to point out that her criticism is not consistent with arithmetic facts.

29. She further alleged that our "present practice (is to look) at only one year at a time" implying that this involves a form of Dr CHUNG's stop-go: this allegation is not supported by the figures I have just quoted, which reflect a steady expansion in real terms. The Estimates are, of course, prepared on an annual basis, but they are prepared in the context of the Government's various plans and the Five-Year Forecast. As Your Excellency has stressed on various occasions in recent years, our whole approach is based on the premise that once we enter into commitments on recurrent or capital account we have every intention of seeing through, subject always to the state of the economy.

30. So I do not, and cannot, accept Miss KO's concept of block grants or her analogous reference to the financing of the Universities and the Polytechnic, despite Dr CHUNG's weighty endorsement. They would inject an unnecessary element of rigidity into the forward planning of social welfare services without giving agencies any greater sense of security as regards existing services than they have at present. And, incidentally, capital expenditure on the Universities and the Polytechnic is determined on a project, not a block grant, basis. The social welfare voluntary agencies have access to the Lotteries Fund for capital expendi-

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ture. They are quite independent of General Revenue for this purpose and so, even if it were necessary to delay some capital expenditure projects because of my guideline that at least 60% of capital expenditure should be financed by the surplus on recurrent account, they would certainly not be social welfare projects. As I said in the Budget Speech⁽¹⁶⁾, there is considerable scope for the Social Welfare Advisory Committee to come forward with ideas for projects over and above those presently planned because, at 31st March 1978, the balance in the Lotteries Fund will be of the order of \$22 million.

(c) *Subvented agencies' pay policy*

31. Miss KO, Dr FANG and Dr HU raised several points regarding the existing rule in our subvention policies which requires that the salaries of staff employed by subvented agencies must not exceed the salaries of comparable civil servants.

32. Miss KO urged that "the practice of underpaying staff employed by voluntary agencies must be stopped" because she said it is unjust. If this practice does exist, it can only exist in agencies subvented on a discretionary grant basis; for, in the case of agencies subvented on a deficiency grant basis, the Government does meet the financial consequences of parity of salaries where it is established that the staff involved are doing jobs comparable to jobs in the Civil Service and have comparable qualifications as their Civil Service counterparts.

33. It must be remembered that, in the case of agencies subvented on a discretionary grant basis, the subvention represents financial assistance towards the overall cost of activities which are deemed to be subvention-worthy. Such agencies retain a degree of independence not enjoyed by agencies subvented on a deficiency grant basis. Their budgets are not subject to approval, and they are free to employ as many persons as they wish with whatever qualifications they deem necessary. The Government clearly could not accept the financial commitment to achieve and maintain parity of salaries for staff in such agencies without, at the same time, requiring the same degree of control as is exercised over agencies subvented on a deficiency grant basis, and I am not at all sure that such control would be desirable or would be welcomed by the agencies themselves.

(16) B.S., 1977, paragraph 78.

34. So I come to Dr FANG's claim that "the voluntary sector in general cannot compete with Government in terms of fringe benefits and career prospects" with the result that they have difficulty in recruiting high calibre staff, and to his suggestion that "it may be necessary to offer a higher salary to compensate for limited fringe benefits and career prospects".

35. In the case of agencies subvented on a deficiency grant basis, even where parity of salaries has been established, experience has proved that to achieve parity of treatment of fringe benefits is difficult. The reason is that the fringe benefits applicable to civil servants are not necessarily appropriate outside the Civil Service and, where certain fringe benefits have been recognized (for example, contributory provident fund schemes), separate and detailed control is required. But to increase salaries paid by voluntary agencies beyond comparable Civil Service levels would be contrary to Civil Service practice of distinguishing between remuneration in cash and in kind and, the moment this kind of trade-off was allowed, established subvention principles would be eroded for exceptions tend to set precedents which, in the fullness of time, become sacrosanct rules. In the circumstances, I am afraid the Government must continue to insist on a proper distinction being maintained by subvented agencies between salaries and fringe benefits.

(d) *Care of the elderly*

36. I suggested, Sir, in the Budget Speech⁽¹⁷⁾ that some priority should be given to lowering the age limit of eligibility for infirmity allowances. And I am sure we were all glad to hear from the Director of Social Welfare this afternoon that the needs of the elderly are to be identified in detail. Of course, the extra cost of lowering the age of eligibility for cash payments will be considerable and it is not for me to say what priority it should be given in relation to other forms of assistance. If the age qualification for infirmity allowances were lowered to 73, expenditure would be of the order of \$100 million in the last year of our present forecast period, 1980-81, compared with \$72 million under the present age eligibility of 75. If the age eligibility were lowered to 70, expenditure would total about \$140 million in 1980-81, virtually double that involved if the present age eligibility of 75 were to be retained. These calculations assume, moreover, that the monthly payment will stay at \$90. I mention these figures sympathetically *not*, in any way, to prejudge the issue, which will be carefully considered during the forthcoming review of our social security schemes, I mention them simply to give honourable Members an indication of what is involved.

(17) B.S., 1977, paragraph 171.

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(e) Accountability of voluntary agencies

37. Both Mr LOBO and Mr F. W. LI said that voluntary agencies should be accountable for their funds, the latter going so far as to say for all their funds. In general terms, voluntary agencies are subvented from public funds in return for certain specified services which are provided by these agencies to further the Government's approved policies and targets. The Government has every right to expect value for money from such subventions. But, voluntary agencies can, and do, legitimately engage in activities which are outside the Government's approved policies and targets and which are not, therefore, deemed to be subvention-worthy. To the extent that such activities are financed from donations, I do not see how the agencies can be held accountable to the Government for the funds expended on them. I consider that to require subvented agencies to account to the Government for all their funds would be an unjustified infringement of the independence of the agencies.

(4) Public Accounts Committee

38. Mr F. W. LI urged that immediate and positive action be taken to establish a Public Accounts Committee and made a number of helpful suggestions regarding its functions and composition as a Select Committee of this Council.

39. Briefly, the main justification for having a Public Accounts Committee is this, as the Director of Audit is increasingly undertaking what is generally known as "value for money" audit, the time is appropriate for the Legislative Council to complement its role in approving measures for raising revenue and in voting funds for expenditure, by associating itself more closely with the manner in which funds are subsequently collected and spent. I should stress the words "more closely", for a Public Accounts Committee would have the opportunity of examining the Director of Audit's report and of hearing heads of departments' explanations in greater detail than is possible under the present system, whereby summary comments on the Director's annual report are tabled in this Council.

40. Accordingly, what the Government intend to put forward for the consideration of Executive Council and of this Council, is a proposal for the establishment of a small Select Committee of this Council serviced by a Deputy Clerk of Councils, with the Director of Audit, the

Director of Accounting Services and the Deputy Financial Secretary in attendance. Amendments to the Audit Ordinance would be necessary and so I do not think the new procedure proposed could take effect before the Director's report on the accounts for the current financial year is submitted.

41. The Committee would select from the Director of Audit's annual report those matters which it wished to examine. The Committee would call upon the Accounting Officers concerned (and, in the case of subvented organizations, request representatives of those organizations) to appear before it to account for the relevant transactions. In conducting its examination, the Committee's main aim would be to establish the circumstances surrounding the matters reported on by the Director of Audit and to consider what remedial measures had been or should be taken. In the Government's view, the Committee should be concerned, therefore, with principles, systems and procedures rather than with details and personalities.

42. The Committee would submit to the Governor, as President of this Council, a report containing such comments or recommendations as it saw fit, which would be laid at the same time as the Director of Audit's report itself.

43. The Committee's report would replace the comments at present prepared by Finance Branch on behalf of the Governor. Thereafter, the Finance Branch, as the organ of the Government responsible for the control and management of public funds, would take, or arrange to be taken, such action as the Administration considered appropriate on the Committee's comments and recommendations.

(5) *Economic Policy*

(a) *Planning versus non-interventionism*

44. Miss DUNN is correct, Sir, when she said that this Government adheres to a philosophy of positive non-interventionism, that is to say, we take the view that it is futile and damaging to the growth rate of the economy for attempts to be made to frustrate the operation of market forces, particularly as it is so difficult to predict, let alone control, market forces applicable to an open economy. But this philosophy is coupled with a view that the Government has certain quite specific obligations.

45. First, we cannot ignore the macro-economic and, in particular, the monetary, consequences for the whole economy of our budgetary and fiscal policies (and would not do so indeed even if we adhered to

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an unqualified policy of non-intervention). I explained in the Budget Speech⁽¹⁸⁾ how the financing of public expenditure has monetary consequences that are closely linked to the management of the Exchange Fund. We have a very real obligation to pursue a monetary policy that is not damaging to the economic well being of Hong Kong and, as I shall reiterate shortly⁽¹⁹⁾, we have a deliberate, if limited, policy of intervention in the foreign exchange market.

46. Secondly, we do not believe market forces will always operate efficiently without some guidance and even the existence of legal constraints: so, for example, we control profits and/or charges of the non-competitive sector of the economy; we have regulated for many years the banking industry and it may be appropriate for us to extend a limited degree of regulation over other institutions in the financial sector; we have set down a framework within which the securities industry must operate; we have legislated in advance for trading in commodities; and, in common with all other governments, we have a body of law which regulates the formation and performance of contracts.

47. Thirdly, we believe that the Government has an obligation to bring together industry and commerce, employers and employees, trade associations and even the academic world with a view to ensuring that all concerned are in a position to take those decisions for which they are responsible in as informed a manner as possible. Thus we have established a network of advisory bodies covering a wide range of activities where the private interest can only be maximised and the public interest secured by a free interchange of information and views. For example, our bilateral textile agreements are negotiated and administered by the Commerce and Industry Department with the advice of the Textiles Advisory Board; our statistical services are developed having regard to the private sector's view as to what is helpful and practicable as well as the Government's requirements for policy guidance in many fields; and through the Labour Advisory Board the views of both sides of industry are made known to the Commissioner of Labour before legislative proposals are brought forward.

48. Fourthly, and rather obviously, we believe the Government must play an active role in the provision of those services and facilities essential to life in a civilized community and for which charges cannot be raised on the basis of individual usage (such as law and order,

(18) *B.S., 1977, paragraph 29.*

(19) *See paragraphs 67-71 below.*

defence, preventive health, fire services, sanitation, and a basic network of roads and drainage). We also believe that there are certain services and facilities which it is either more convenient and more efficient for the Government to provide or which should be provided, as a matter of policy, as a charge, wholly or partly, on public funds. The most obvious examples here are, of course, in the fields of housing, education, medical and health services and social welfare. Thus, taking the three classic factors of production, land, labour and capital in turn, the Hong Kong Government operates in the following ways: we are the main providers of land for development for both public and private purposes but, as I shall mention later⁽²⁰⁾, we now believe there is scope for a more forward looking and comprehensive approach to land production. As regards labour, whether or not our educational system beyond junior secondary level is as closely geared to employment opportunities as it might be, it is our intention that it should be so geared and I shall revert to this subject also in a moment⁽²¹⁾. Finally, as regards capital, we invest in the social and economic infrastructure on a vast scale by providing roads, water supplies, transport facilities and housing.

49. Over and above these activities which are concerned with making available, or augmenting, the supply of factors of production to the community, the Government has also organized certain business services in default of the private sector doing so. We have established an Export Credit Insurance Corporation so as to make available terms competitive with those available to exporters elsewhere; we have established, and finance from hypothecated public revenue, an export promotion service and a tourist promotion service, which it would have been difficult for the private sector to organize on a co-operative basis; and we have promoted increased productivity in industry by the establishment of the Productivity Council. In addition, we subvent a wide range of institutions established by the private sector but which might not survive without assistance from public funds, such as the Hong Kong Shippers Council, the Design and Packaging Councils and even the Hong Kong Management Association.

50. It may be that the network of advisory boards and committees and of statutory bodies through which the operation and development of the economy is assisted and to a military extent guided needs to be brought together at a level below the supreme policy making body of Government, the Executive Council, and this legislative making body. But the case has certainly yet to be made out. Certainly the terms of reference suggested by Mr WU duplicate those of existing bodies; and

(20) See paragraphs 51-62 below.

(21) See paras. 63-66 below.

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I imagine that those who advocate an Industrial Development Council or some such body do not really mean what they sometimes seem to imply, namely, that a bureaucratic decision-making process should replace the market mechanism so far as the operation and development of the economy are concerned.

(b) *Land*

51. I turn now, Sir, to three particular aspects of the Government's role in the Hong Kong economy which were raised in specific terms by various honourable Members: land, manpower planning and the management of the Hong Kong dollar. Mr James WU, Mr Hilton CHEONG-LEEN, Miss DUNN and Dr CHUNG expressed dissatisfaction with the Government's approach to the production and sale of land to the private sector generally, and especially in relation to industrial land. I can understand their dissatisfaction and Miss DUNN was right to remind us that land is a vital factors of production and not just an asset for sale for revenue purposes. But I would add a rider: in Hong Kong's situation, formed and serviced land is, and always will be, a scarce and costly factor of production and its price is bound to reflect its scarcity.

52. Hitherto we have relied on a planning process geared to meeting the social needs of the population (for housing, schools, hospitals, open space, and so on) and all other public sector requirements (for roads, Government buildings and so on) up to given standards. Although this planning process has included the provision of sufficient land for industries in high rise buildings, the amount of land available for sale to the private sector, whether for commercial, residential or industrial use, has tended to be a residual. In other words, the land production process has been project oriented, based on physical planning standards, and the emphasis has tended to be on public sector needs. It is nevertheless true that under this system or, as some honourable Members might be tempted to say unfairly, in spite of it, the industrial expansion of Hong Kong, largely in high rise buildings, has been remarkable.

53. The physical difficulties involved in making land available for industry have contributed to the Government's inability to make available a supply adequate to meet the demand. Consequently, prices for industrial land have generally been high. This has not altogether been disadvantageous, for high prices have encouraged intensive development of land, particularly by the use of high rise buildings.

54. But this in turn has tended to exclude the development of those industries which cannot operate in high rise, multi-storey buildings. So in 1973 the Government decided that certain of these industries ought to be encouraged so as to raise the level of technology, to provide increasing opportunities for skilled male workers and to provide essential materials for existing light industries. The Commerce and Industry Department had in fact found that overseas industrialists interested in establishing manufacturing facilities, which would have brought these advantages to Hong Kong, in the Far East were being put off Hong Kong because of the high price of land and were turning instead to our neighbours.

55. Under our policy for special industries, applicants for industrial land meeting certain carefully defined criteria may either tender for land on a restricted user basis or, if tender is inappropriate, be offered land by private treaty on the advice of Executive Council.

56. Then, as a further extension of this policy, we moved into the development of industrial estates. The purpose of these estates has been discussed in recent weeks in the debate on the second reading of the Industrial Estates Corporation Bill and was summarized as being to broaden Hong Kong's industrial base by catering for those industries which cannot operate in high rise buildings.

57. But here, Sir, I must sound in a warning. By Hong Kong standards the land available in these estates will be relatively cheap. So the Government and the Corporation will be rigorous in ensuring that the enterprises established in them will indeed be such as significantly to upgrade the technological standards of Hong Kong industry and increase the skills and productivity of the labour force. There simply will be no cheap land, easily available to all and sundry.

58. Although these changes in policy have been welcomed, they remain both project oriented and consequently piecemeal. I suggest that our circumstances now require us to reverse our traditional approach, that is to say, we should begin by establishing the quantum of our limited land resources, and then plan how and when they should be made available to the private as well as the public sector.

59. So we are proceeding, or propose to proceed, as follows: first, consultants have been briefed to establish the maximum amount of land that could be made available by extending the reclamation already in hand at Sha Tin and funds have already been voted for this

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purpose⁽²²⁾. Secondly, an urgent study will be put in hand to establish the amount of formed land that could be produced below defined ceilings of cost over and above that resulting from the development schemes already in hand. From this study will be excluded the following: Lantau, to which I will revert shortly⁽²³⁾; land production involving excessive social disruption through clearances; Hong Kong Island, since the possibilities of producing land additional to that required for public purposes are so limited; and, finally, areas likely to be designated as Country Parks. Once we have the results of this study we will know how much land we can produce without tackling, at very great expense, the development of Lantau. While I am unable to give a figure at this stage, this study should indicate that there are possibilities of forming land on a scale not known in Hong Kong in recent years.

60. If and when the land thus produced is inadequate to Hong Kong's needs, the only remaining potential for development lies on the north coast of Lantau, which combines comparative ease of reclamation with good access to the harbour, and which would not interfere with the Government's intention of preserving South Lantau for recreational purposes. But the development of Lantau would involve very heavy investment in a bridge, access roads and provision of services. We already have a preliminary and generally favourable study by consultants of the feasibility of a bridge. But before we could reach a decision on the desirability of such massive investment we need a more definitive and comprehensive study. So, thirdly, we have in mind a study to ascertain how much land could be produced by formation and reclamation on the north coast of Lantau. This study would have to cover the feasibility and cost of the construction of a bridge as well as the cost of accompanying roads and services, including the cost of surmounting the traffic problem that might be generated between the point at which the route from Lantau reaches the mainland and the urban area of Kowloon. In view of the many years of leadtime involved in the development of Lantau, we think it would be prudent to appoint consultants in the near future to undertake this study. If Executive Council agrees with the administration, a paper seeking financial authority for the study, will be put to the Finance Committee of this Council.

(22) *Head 70 PWN: New Towns and Public Housing, Subhead 765, Sha Tin New Town—Stage II, Investigation. Approved project estimate: \$4 million; anticipated expenditure to 31st March 1977: \$2 million; Draft Estimates 1977-78: \$1.5 million.*

(23) *See paragraph 60 below.*

61. But to revert, Sir, to our intention to produce, meanwhile, the maximum amount of formed land in Kowloon and the mainland New Territories: we are proceeding immediately with an urgent study, conducted by a special group, comprising the existing membership of the official Land Development Policy Committee, but augmented by several Unofficial Members of this Council. If, as a by-product of the main objective of the study, some changes in the Government's present administrative arrangements for the conduct of land transactions are suggested, then this would also be helpful.

62. Sir, in commending these ideas and intentions to honourable Members, I would conclude by reminding them that the formation and development of land, as of any other factor of production, require the investment of substantial resources and these will have to be found within the means available to us, but such investment will prove to be, I am sure, very worthwhile.

(c) *Manpower planning*

63. Mr CHEN stressed the importance of having both an accurate assessment of the demand for trained manpower and the need for a realistic plan for developing the supply. He also called for a greater degree of co-ordination between technical education and industrial training.

64. I agree with Mr CHEN in spirit, but I should perhaps qualify this by saying that the task of accurately assessing the demand for trained manpower is very much a matter for industry. It is precisely because of this that the task has been placed fairly and squarely in the hands of the Hong Kong Training Council, and it is up to the Council to decide on our present and future requirements.

65. As regards manpower training to meet foreseen requirements, the Government and industry generally have complementary roles to play. These roles are reflected in the Government's provision of suitable educational institutions and the courses they provide, on the one hand, and by the arrangements by which employers release staff for full-time or part-time training, on the other hand. So a working partnership between the Government and industry already exists and this partnership should ensure that expenditure on technical education and industrial training are kept in balance.

66. But we must not be seduced by the glamour and techniques of manpower planning. With all the complex forces which determine the present and future profitability of any industry in our economy, the need for a proper response to uncertainty in forward planning is, I

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trust, self-evident. The success of our export oriented economy has been, and will continue to be, dependent on our ability to exploit quickly and effectively the opportunities for profitable growth. So we must aim for flexibility by striking a balance between highly specialized training and more general training so as to secure the mobility of our labour force.

(d) *Management of the Hong Kong dollar*

67. Miss DUNN raised the difficult question of whether the Hong Kong dollar is too strong, that is to say, whether the exchange value of the Hong Kong dollar is consistent with the maintenance of our competitive position in export markets.

68. She referred to the strength of the Hong Kong dollar "being sustained by monetary factors". She may be right and she may be wrong, but the question is: can it be avoided? If there is a tendency for strong capital inflows into Hong Kong to strengthen and sustain the exchange rate, aggressive deployment of the Exchange Fund's resources will not remove the problem. Intervention increases the amount of Hong Kong dollars in the hands of the non-bank private sector. That is to say, intervention involves accommodating the money flows trying to cross the foreign exchange market into our economy and results in our foregoing the benefits of being insulated from higher world inflation, through a strong currency, in return for a very much more liquid economy that finds it relatively easier in the very short run to price its exports competitively. I certainly did describe in the Budget Speech the resources of the Exchange Fund as "substantial", as Miss DUNN reminded us, but I should perhaps also have pointed out that the Fund's Hong Kong dollar assets are limited and they cannot be replenished while the trend is for the Hong Kong dollar to strengthen.

69. I do not wish to suggest that, in the regulation of the exchange value of the Hong Kong dollar, through the Exchange Fund, we are not faced with an extremely difficult choice of action: quite the contrary and, indeed, the choice has become much more difficult in recent years. In this context, in the Budget Speech⁽²⁴⁾, I traced the history of the Hong Kong dollar in recent years and referred also to the implications for the foreign exchange market of the development of Hong Kong as a regional financial centre. The forces acting on the exchange value of the Hong

(24) B.S., 1977, paragraphs 8-12, 15-16 and 27-32.

Kong dollar have become more complex and the balance of those forces has changed. Not only have capital flow grown absolutely, but relatively as well in relation to the more traditional influences of trading transactions and capital flows are much more likely to exercise a destabilizing effect on the exchange rate. We have responded to these new circumstances by developing appropriate management arrangements for the Exchange Fund, whose assets are now widely diversified; and, consistent with our view that the exchange value of the Hong Kong dollar must be determined, in the longer term, by market forces, these management arrangements will be further developed as necessary.

70. At the same time, interest rates must be—and indeed they have become—more responsive than in the past to developments in the foreign exchange market. Thus, when the Hong Kong dollar appreciates sharply, a reduction in interest rates will not only dampen down inward flows, but also assist our export competitiveness since industry's financing costs are reduced. I accept that, sometimes, exchange rate expectations may be confirmed by interest rate adjustments to such an extent that the influence of the adjustments is offset, but normally this is not so.

71. Yet institutional changes and exchange rate policies as such cannot insulate us from the effects of economic developments in the rest of the world. We can only try to respond as best we can in our overall interests. In the long run, as Miss DUNN points out, the results will always be the same. But, in the short run, we have a choice to make. In a world of floating exchange rates it would be dangerous for us to peg our currency to one reserve currency. The difficulties inherent in managing a floating rate have led us to our policy of leaving the rate to be determined by long run factors in the market with intervention by the Exchange Fund only occurring when we judge the rate to be influenced by wayward or erratic factors.

(e) Administration of the Securities and Banking Ordinances

72. Mr BREMRIDGE pleaded for additional professional staff for the Office of the Commissioner for Securities. The present 12 posts, 14 if the Commissioner and the Assistant Commissioner are included, were created as part of a re-organization of the Office in 1976-77. Of the 12 posts, three have been filled by serving officers, whilst nine have been filled by outside recruitment. I accept that what Mr BREMRIDGE referred to as "the large and growing financial importance of Hong Kong" may dictate a larger Office. But, wisely I think, the Commissioner wants to see his re-organized Office and his new recruits settle down before he decides whether or not he can justify additional posts

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and, of course, neither he nor I can prejudge the staff implications of any steps taken, by legislation or otherwise, to control insider trading. (At this point, Sir, I must comment on the perplexing and confusing events of the past few weeks surrounding proposals to merge certain of our stock exchanges. It is most regrettable that no tangible progress has yet been made towards the voluntary amalgamation of our exchanges, which is the expressed wish of the Securities Commission. As the Government must be concerned at all times with the public interest, it views the current situation with misgiving and apprehension).

(6) *Economic Outlook*

73. Mr WU and Mr TIEN both rightly emphasized the need for caution in assessing the outlook for the economy in 1977. The trade statistics for January and February do suggest a very slightly lower growth rate for exports in 1977; but this is probably only a reflection of the timing of shipments at this particular time of the year. The unusually high volume of exports recorded in December reflected to some extent a desire by exporters to utilize their textile quotas before the end of the year and it would not be surprising if the provisional estimate for the GDP in real terms in 1976 shows a somewhat higher growth rate than the preliminary estimate of 16%. However, because the timing of shipments was brought forward, the growth of exports in the early months of 1977 will be lower than expected with the possibility of a slightly lower growth rate for the GDP in 1977 than the forecast in the Budget Speech⁽²⁵⁾; but the actual level of the GDP by the end of 1977 is unlikely to be very different.

74. Mr Hilton CHEONG-LEEN pointed out that our main competitors, Korea and Taiwan, have both consistently achieved higher growth rates than those seen in Hong Kong. This is not necessarily a cause for concern. Indeed, I believe Hong Kong can only benefit from being a member of a thriving and prosperous region. If Korea, for example, has a large pool of labour available in a low productivity sector such as agriculture then, by moving it into manufacturing, it would not be surprising if the growth rate there continued to be higher than in Hong Kong. This is to their advantage, but not necessarily to our detriment. There would be a cause for concern if the success of these other countries was preventing us from keeping our labour and capital fully employed. I see no evidence that this is so, yet. In 1976 I do not

(25) B.S., 1977, paragraphs 33-41.

believe our exports could have been much better. The economy was fully employed and yet higher employment was restricted by the growth in the labour force. The high rate of investment recorded—a 29% increase over 1975 in real terms—is only consistent with an economy working very close to its productive capacity.

(7) *Taxation*

(a) *Introduction*

75. Finally, Sir, I turn to the subject of taxation. This is a subject which, inevitably perhaps, lands me in trouble whether I am seeking to finance the Government's approved policies and programmes by raising rates of charge and it lands me in trouble even if I am proposing to reform some part of the fiscal system in order to relieve the burden on some groups of taxpayers or to achieve a greater degree of equity or to simplify the administration of the ordinances concerned. But I do not propose to be drawn today by the several references made during this debate to the Report of the Third Inland Revenue Ordinance Review Committee. The Government's views, which will, of course, be measured and balanced, will be made known in due time; but, just in case Mr BREMRIDGE thinks I have turned over a new leaf, he may rest assured that the good humoured way in which he says I have taken the Committee's recommendation that my proposal for a dividend withholding tax, should be abandoned is a little more apparent than real: understandably so, for I still think I am wrong, I am right (*laughter*) and everyone else is wrong and it wasn't a fraudulent slip. But, so be it.

(b) *Depreciation allowances*

76. So I shall confine myself to the fiscal questions related to this year's budget, beginning with Mr Hilton CHEONG-LEEN's suggestion that depreciation allowances should be more generous. Statistics kept by the Commissioner of Inland Revenue show that, over the last three years of assessment, namely, 1973-74 to 1975-76, balancing allowances granted in respect of plant and machinery were in a remarkable degree of equilibrium with balancing charges⁽²⁶⁾, indicating that the initial and annual allowances have been pitched about right. In non-technical terms, this means that, on disposal or scrapping of machinery, the amounts of depreciation allowances under-allowed were just about cancelled out by the amounts over-allowed. We must also bear in mind that the substantially increased allowances, introduced as recently

(26) *Balancing allowances were \$86 million and balancing charges were \$83 million.*

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as the year of assessment 1974-75⁽²⁷⁾, have not yet had a chance fully to work themselves through the system. In the future, therefore, there is likely to be a swing in the direction of balancing charges, indicating that the allowances are somewhat over-generous and, certainly, I can see no evidence that our allowances inhibit investment decisions in any way.

(c) *Rates and rateable values*

77. Now on the subject of rates, Dr CHUNG produced a table analyzing some typical examples of rated premises. When the Commissioner of Rating and Valuation provided these examples he drew attention to the dangers of drawing general conclusions from a few examples. Although he has to take a general view of the market, each assessment has to be separately determined in the light of all the circumstances surrounding the property and any other factors which relate to any particular class of property.

78. Dr CHUNG asked for a clarification of the sharp increase in rateable values on this occasion when he produced his table. The reason is, I think, quite clear: it is the very sharp increase in open market rents over the first half of this decade, and this was explained by the Commissioner last November, prior to the issue of notices of rateable values, when he spoke to the Hong Kong Management Association. When I referred in my Budget Speech to misleading comment⁽²⁸⁾ I had in mind that, although prominence was given to the overall increase in assessed values of about 80%, very little attention was given then, or has since been given, to the detailed explanation he gave of the revaluation exercise. May I quote then from the Commissioner's speech:

"Rateable values are based on open market rents, and we have to ignore controls, but even in the uncontrolled domestic sector many of the rents, at the time we were seeking information, that is to say early in 1972, had not moved up to the new rental levels then being established. It was, therefore, necessary to take a fairly conservative view of domestic rents at that time, and rateable values in the current valuation lists, particularly in the case of domestic premises, tend to reflect the levels of the very early seventies. Despite controls, domestic rents, in line with the soaring economy, continued to escalate, with the result that Government had to introduce even more extensive controls at the end of 1973, and these controls are still with us today. With the boom of

(27) B.S., 1974, paragraphs 144-146.

(28) B.S., 1977, paragraph 190.

1971-74 over and the economy back to a healthy state after two rather depressed years, rents generally are more stable and certainly we have had a rather better atmosphere for the carrying out of a revaluation. However ... generally, rents for all classes of real property are at a higher level than at the beginning of the seventies and, as a result, the revaluation is going to mean increased assessments for nearly all ratepayers."

And would Father McGovern please note the Commissioner said increased assessments?

79. Perhaps, even more than the magnitude of the increases in assessed rateable values, the aspect which has led to most misunderstanding is the assessment of some rent-controlled premises beyond the rents actually being paid. I explained in the Budget Speech⁽²⁹⁾ why this must be so if the rates burden is to be fairly apportioned between ratepayers, and I hope no further clarification is necessary.

80. I find myself somewhat bewildered by Father McGovern's irreverent remarks on rating and rent control. He certainly does not seem to have a rapacious greed for facts. The reality of the rating system is self-evident in that rateable values are derived from real rents, that is rents which have been agreed between landlords and tenants. The one thing our rent control system does not do, unlike the situation in many other parts of the world, is to preclude an open rental market because it is limited in scope and restricts increases only; and, furthermore, it is possible for landlords and tenants freely to agree increases in rents. There are no restrictions on the amount of rent a landlord may charge for a fresh letting and all premises built since the end of 1973 have been excluded from such controls. All this means that we still have a healthy private sector involved in building flats for sale and to let. Indeed, what is most encouraging are the forecasts of new flats to be built by the private sector this year and next: up 53% in 1977 over 1976 and up a further 21% in 1978 over 1977. It is by increasing the supply of new housing that we shall improve the balance between supply and demand, not by the extension of rent controls. I would note in passing that there are no rent controls for post-war non-domestic premises, which account for about half the total rateable values in the lists.

81. FATHER McGOVERN thinks our rent control legislation has an inflationary effect. While it is true that rent controls on post-war domestic premises provide for a rent increase of up to 21% every two years, this is a maximum and no increase is permitted above the fair

(29) B.S., 1977, paragraph 191.

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market rent as estimated by the Commissioner of Rating and Valuation. There is, therefore, no question of rents automatically increasing by 100% in $7\frac{1}{2}$ years or 200% in less than 12 years. Because of the way our rent controls operate through the factor system, the actual average increase certified by the Commissioner in 1974 was 16.35% and in 1976 it was 15.84%; that is to say, a compound rate over four years of only 7.75% per annum. It should be remembered that rents, for those effectively controlled, even after the increase due last year, are on average still only about 65-70% of open market rents. It is up to landlords to defend themselves from Father McGOVERN's charges of rapacious greed and highway robbery, but I do not see why they should be denied the right to seek a remunerative return on their investment and this is dictated by many factors. If we want a rental market in Hong Kong which can contribute to an evident need we must allow landlords reasonable increases in rents from time to time.

82. What Father McGOVERN has quite failed to grasp are the different roles played by the percentage rates charges and assessments of rateable values⁽³⁰⁾. Rateable values provide the measure by which the rates burden is apportioned as between ratepayers. The overall level of rateable values is quite immaterial in this context for the rates burden is determined by the percentage charges. The economic and social realities Father McGOVERN would, and quite rightly, have us take into account are largely the function of the percentage rates, not the rateable values. Such realities are, in my view, fully taken into account in our rating system as can be seen by the distribution of the rates burden between the various classes of ratepayers⁽³¹⁾ and the impact of the increased rates on the cost of accommodation⁽³²⁾. For instance, the average general rate for a small tenement floor in 1977-78 is \$38.25 per month, compared with an average general rate for a house at \$614.50 per month.

83. Rates are a tax based on occupiers, that is to say all occupiers and not just tenant occupiers, and are one and will remain so and of our most important indirect taxes: they contribute and they should contribute around 30% of total revenue from our several indirect taxes. The occupier of premises benefits from various public services, the cost of which is partly and only partly financed from rates revenue. Landlords

(30) *B.S., 1977, paragraph 190.*

(31) *B.S., 1977, Annex (11).*

(32) *B.S., 1977, paragraph 207.*

are already directly taxed under the Inland Revenue Ordinance on the rents they receive and it is, therefore, only logical that rates should fall on occupiers. So I fail to see how Dr CHUNG can claim that Father McGOVERN has argued "with considerable logic" that the burden is unfairly put solely on the occupiers of premises. (*laughter*)

84. Mr James WU argued that, as the Government permits only 10% per annum cumulative increases in controlled rents of post-war domestic premises, the $33\frac{1}{3}\%$ maximum increase in rates payable in 1977-78 over 1976-77 should be lowered to 25%. The logic of this comparison escapes me. Rents are a contractual payment by a tenant to a landlord for the use and occupation of premises. Rates are an indirect tax on occupiers of premises. In any event, even without applying the relief scheme, with the reduced rate percentages recently approved by this Council even without applying the relief scheme, the average increase in rates payable is only 15% and for many ratepayers their rates bill in 1977-78 will in fact be less than in 1976-77.

85. Those who will benefit from the scheme of relief are ratepayers who occupy premises where the increases in rateable values for 1977-78 are considerably above the average, and it should be borne in mind that it is these ratepayers who have benefited most from the postponement of the revaluation. Given the revaluation, I was concerned to provide a measure of relief consistent with the revenue requirements from this source (which should contribute around 10% of total recurrent revenue).

86. In settling on a suppression factor of $33\frac{1}{3}\%$ for the relief scheme, I had regard to two considerations: the burden on individual tax ratepayers⁽³³⁾; and the desirability of eliminating these temporary reliefs—which are basically repugnant to any decent tax system—as soon as possible. Nevertheless, because of the special circumstances surrounding the assessment of pre-war rent-controlled premises⁽³⁴⁾ I felt obliged, in respect of such premises, to propose an extension of the relief scheme after 1978-79. Obviously, in any scheme of relief, there will be a number of views as to the extent of relief to be granted. The scheme proposed, in my view, adequately cushions the impact of large increases and allows ratepayers sufficient time to adjust to increased rate payments.

87. Before leaving the subject of rates I should just refer to objections and appeals against rateable values. The Rating Ordinance provides that any person may lodge a "proposal" to have a rateable value

(33) *B.S., 1977, Annex (11).*

(34) *B.S., 1977, paragraph 203*

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reduced, and ample opportunity has been given for both landlords and occupiers to lodge such proposals with the Commissioner of Rating and Valuation. The number of proposals submitted was 45,000 or about 10% of the total number of assessments in the valuation lists. Despite academic claims to the contrary, there is no particular significance in this figure, for it costs nothing to lodge a proposal.

88. The Commissioner has three months in which to deal with proposals. After re-examining the rateable values, he will issue notices of decision and if anyone is dissatisfied with the Commissioner's decision he may then appeal to the Lands Tribunal.

89. Rates must be paid notwithstanding the lodging of a proposal or appeal, and this must be so, for to permit ratepayers to delay payment would not just affect revenue receipts, but would be unfair to those ratepayers who have not lodged proposals. In any event, rates are payable quarterly so that no ratepayer, even if his rateable value is subsequently reduced following a proposal or appeal, is likely to pay in total, within the fiscal year 1977-78, more than the correct amount of rates due.

(d) *Personal taxation*

90. Sir, our system of personal taxation was last reformed in 1973 at a cost to the revenue of \$17 million or over 7% of estimated revenue from salaries tax and personal assessment in 1973-74. In the 1973 Budget Speech⁽³⁵⁾ I proposed the abolition of all selective allowances (that is to say, lower income relief, the working wife allowance, the dependent parent's allowance and the deduction for life insurance) in return for improved basic allowances, improved child allowances and a revision of the schedular platforms. The purpose of this reform package was to achieve greater equity and to simplify, and to lessen the cost of, administration. When winding up what had been a somewhat lively debate, I said I hope to avoid the turbulent waters of personal tax reform for some years to come⁽³⁶⁾.

91. Honourable Members will forgive me, I hope, if I express some disappointment with the reception given to the concessionary reforms I proposed this year. It was a somewhat lukewarm reception even though the cost to the revenue is \$64 million or 9% of estimated

(35) *B.S., 1973, paragraphs 64-85.*

(36) *C.S., 1973, paragraphs 54-92.*

revenue from salaries tax and personal assessment in 1977-78 of \$735 million. Furthermore, this lukewarm reception has been coupled with renewed pleas for the reintroduction of the dependent parent's allowance by Mr WONG Lam and Mr Hilton CHEONG-LEEN, supported by Dr CHUNG. (*laughter*)

92. For those taxpayers on a marginal rate of tax of 30%, the Dependent Parents' Allowance was worth \$600 in tax saved and for those on a marginal rate of 5% it was worth \$100 in tax saved. I have said repeatedly that I am certainly not careless of customary attitudes and local circumstances generally. But, quite apart from the objection to selective allowances generally in our tax system, this particular selective allowance was so abused and so difficult to administer as to leave me little alternative but to seek its abolition as part and parcel of the 1973 reform package. I would also remind honourable Members that, following the abolition of all selective allowances in 1973, the Commissioner of Inland Revenue was able to reduce the manning scale of the Salaries Tax Sections of his department by one quarter.

93. To refresh honourable Members' memories, I have attached at Annex (1) to the printed version of this speech extracts from the 1973, 1975 and 1976 debates dealing with this subject. I am afraid I have nothing further to add today to what I said on those three occasions.

94. One point which has particularly surprised me is the way in which comment on this year's reform proposals has focussed on the relief accorded to those who will remain within the tax net to the exclusion of any interest in the 50,000 taxpayers to be removed from the tax net and the 10,000 potential taxpayers who would otherwise be brought into the net in the year of assessment 1977-78. Thus the total number of salaries and personal taxpayers in 1977-78 will be about 205,000 rather than 265,000.

95. Out of 205,000 salaries taxpayers and personal assessment tax payer still in the net about 150,000 will benefit to some degree and Annexes (14) and (15) to the Budget Speech demonstrate the effect on specimen income of the supplemented basic allowances and the improved child allowances. In the case of the supplemented basic allowances, the maximum benefit is enjoyed by married taxpayers with incomes of \$3,000 per month (\$36,000 per annum) that is to say, taxpayers in the lower middle income class. Thus, for example, a married man with two dependent children will pay 30% less in tax (\$385 as opposed to \$550); and when account is also taken of the improved child allowances he will pay 44% less (\$310 as opposed to \$550).

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Under these proposals his effective rate of tax (a married man with two children by effective rate of tax I mean tax as a percentage of gross of income. Under these proposals his effective rate of tax is reduced from 1.5% to 0.9%.

96. Or let us look at the position from the standpoint of the tax threshold: under my proposal to supplement basic allowances, the threshold in Hong Kong will be \$12,500 for single taxpayers and \$25,000 for married taxpayers. Even if I accepted the philosophy in the Radcliffe Commission Report quoted by Mr Q. W. LEE, which I do not or not necessarily anyway—the allowances are certainly adequate "to equip and sustain a healthy and efficient citizen, not merely to keep him alive". Furthermore, I would invite honourable Members to consider tax thresholds elsewhere: in Singapore (all converted to Hong Kong dollars at a fair rate of exchange) \$5,750 and \$7,650 for single and married taxpayers respectively; in Malaysia, \$4,220 and \$6,330; in Japan, \$12,560 and \$16,640; and in the United Kingdom, \$6,350 and \$16,100. And, of course, in all these countries the tax system is not only sharply progressive, but reaches very high effective rates, whereas in Hong Kong the rates applicable to our schedular system rise from 5% on the first platform of \$10,000 of net chargeable income to 30% above the fifth platform of \$10,000 and the overall effective rate is limited to 15% of gross income. Thus the effective rate of tax for a married man will increase from 0% at incomes of \$25,000 and below, to 2.28% at \$36,000, to 5.50% at \$48,000, to 8.33% at \$60,000 and then eventually to 15% at \$90,000.

97. It is against this background that I am surprised that Mr Q. W. LEE, Mr WONG Lam supported by Dr CHUNG (*laughter*) are somewhat dissatisfied with the budget proposals and fail to understand why they advocate an increase in the supplementary allowances, coupled possibly with a higher clawback factor. On the one hand, they have overlooked the effect of my proposals on the number in the tax net and have proposed a modification which would increase the number dropped out. For example, if the supplementary allowances were increased to \$3,750 and \$7,500 for single and married taxpayers respectively, a further 20,000 taxpayers would be removed from the tax net and the additional cost to the revenue, including the effect on the tax liability of those left in, would be \$55 million in 1977-78 and \$33 million in 1978-79 over and above the cost of the proposed supplementary allowances

of \$2,500 and \$5,000, namely, of \$41 million and \$24 million in 1977-78 and 1978-79 respectively⁽³⁷⁾.

98. On the other hand, Mr Q. W. LEE and Dr CHUNG proposed a higher clawback which would diminish the benefit to those whose salaries exceed the supplement. It is true that the application of a higher clawback of, say, 25% would reduce the additional cost of these higher supplementary allowances by about \$9-10 million (only) in 1977-78 and \$6-7 million (only) in 1978-79, but my main objection to higher supplementary allowances would remain, namely, that the number of taxpayers and potential taxpayers dropped out would be too many. So I cannot agree to a further reduction in the number of taxpayers and administrative considerations do not necessitate this. The only question to be considered, therefore, is whether the clawback should be reduced to give some further relief to those left in the net. Quite unenthusiastically, for I dislike having to change my mind for no very good reason, but in deference to Unofficial Members, I now propose a clawback of 15% rather than 20% at a further cost to the revenue of \$10 million in 1977-78 and \$7 million in 1978-79 making the total cost of the proposed concessions, including the improved child allowances, \$74 million (or 10% of estimated revenue from salaries tax and personal assessment in 1977-78) and making the total cost in 1978-79 \$45 million. These figures of \$74 million in 1977-78 \$45 million in 1978-79 compared with the cost of my Budget Speech proposals which involved the clawback of 20%. The cost of these proposals would be \$64 million and \$38 million in those two years.

<i>(37) for 1977-78:</i>	<i>\$ Million</i>
<i>Supplementary basic allowances for final 1976-77 salaries tax</i>	22
<i>Personal assessment for 1976-77</i>	2
<i>Supplementary basic allowances for provisional 1977-78 salaries tax, less $\frac{1}{4}$ payable in 1978-79</i>	17
	—
	41
<i>(c.f B.S., 1977, f.n. (222) where the total cost is given as \$64 million including the improved child allowances)</i>	—
 <i>For 1978-79:</i>	 <i>\$ Million</i>
<i>Supplementary basic allowances for provisional 1978-79 salaries tax, less $\frac{1}{4}$ payable in 1979-80</i>	17
<i>Plus: cost of supplementary basic allowances in respect of the second instalment of tax payable carried forward from 1977-78, say</i>	5
<i>Personal assessment for 1977-78</i>	2
	—
	24
<i>(c.f B.S., 1977, f.n. (223) where the total cost is given as \$38 million including the improved child allowances)</i>	—

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99. The effect of this gesture will be to raise the point where the supplementary basic allowance for a single man is eliminated from \$25,000 to \$29,167 and for a married man from \$50,000 to \$58,334 thereby shifting the relative burden of salaries tax even further upwards. Amended versions of Annexes (14) and (15) to the Budget Speech are attached as Annexes (2) and (3) to the printed version of this speech but, just taking the case of the married man earning \$36,000 with two dependent children, his tax liability will be \$282 compared with \$310 under the Budget Speech proposal and \$550 at present.

100. Incidentally, Sir, just in case honourable Members conclude that if a reduction of five percentage points in the clawback will only cost \$10 million in 1977-78, it is not worth bothering with a clawback at all, let me point out that a clawback of 10% would cost an additional \$37 million and no clawback at all would cost an additional \$117 million. Thus the cost of new basic allowances of \$2,500 and \$5,000, without a clawback would be \$158 million in 1977-78 and \$91 million in 1978-79. When account is also taken of the improved child allowances the cost would become \$181 million (or 25% of estimated revenue from salaries tax and personal assessment in 1977-78) and \$105 million in 1978-79. The reason for the sharply increasing cost of a lower and lower clawback is, of course, that the effective rate of tax is reduced further and further up the scale; and this is clearly unacceptable on fiscal grounds and unnecessary on equity grounds.

(8) *Conclusion*

101. Sir, this has been an unusual debate. I do not believe honourable Members have found themselves in serious dispute with the Government on our budgetary, fiscal, economic or monetary policies. But, in a series of telling speeches, they have raised a large number of valid and substantive questions which they believe—and rightly—to be of concern to the public interest. So the absence of serious dispute has not meant that this debate has been "dull, unexciting and unimaginative". And, apologetically, I must confess that this winding up speech has had to be the second longest since my winding up speech in 1972.

102. If honourable Members are a little less perceptive, I promise to try to keep next year's winding up speech much shorter. But I am not suggesting that honourable Members should be less perceptive or, of course, less critical if they consider next year's budget to be deserving of criticism. I am talking about 1978-79. We may not have a parliamentary

system of government in Hong Kong, but we have evolved a system in which Unofficial Members of the Councils, and all those who sit on our network of advisory boards and committees, are associated with the decision-making process. In operating this system of ours, based as it is on a continuing process of consultation and debate, I believe a quite unique partnership between bureaucracy and the community at large has been evolved. It may not always be operated perfectly, but it does have a style of its own and I believe it engenders a general confidence that the Hong Kong Government is seized with a real sense of responsibility: that is to say, that the Hong Kong Government is concerned to pursue, and in a consistent manner, policies which are relevant to our circumstances and sympathetic with the predilections of the various sections of this community.

103. Sir, I beg to move.

**EXTRACTS FROM THE FINANCIAL SECRETARY'S SPEECHES
IN BUDGET DEBATES DEALING WITH DEPENDENT
PARENT'S ALLOWANCE**

Budget Speech, 1973, paragraphs 79-80

"79. The cost to the revenue in 1973-74 of the suggested new allowances, the new platforms of net chargeable income and schedular rates and the consequential extension of the period of effectiveness of allowances is estimated to be \$21 million. There is, therefore, ample margin of extra relief to cover the withdrawal of two other selective allowances which are not easy to check and administer or are not equitable in their incidence.

80. I refer to the dependent parent's relief and deductions for life insurance and similar expenditure. As regards the dependent parent's relief: experience shows that the risk of abuse and the cost of administering this allowance does not justify its continuance, especially with the increased allowances now proposed. Estimated savings in a full year would be about \$2.5 million."

Concluding Speech, 1973, paragraphs 65-71

"65. Let me say straight away that I do not regard filial loyalty and support for one's parents as the sole prerogative of people living in Hong Kong. The fact that this allowance has been restricted to parents residing in Hong Kong on the rather hopeful grounds that it would at least be possible to check the income of such parents has been resented by those people who support parents in China and elsewhere.

66. When my predecessor proposed the dependent parent allowance in the 1970-71 budget speech, he said:

'I propose that allowances be introduced for the widowed mother of either the taxpayer or his wife or for the father of either who is dependent for reasons of age or incapacity I think the case for this allowance is strong enough to take a degree of risk although I must warn that if our experience is bad we may have to reconsider the concession.'

The proposal was finally enacted as an allowance if a taxpayer or his wife maintained or contributed to the maintenance of a parent and that parent was wholly or partially dependent on the taxpayer or his wife. The parent could have an income up to \$2,000 per annum before the allowance was lost.

67. The Commissioner of Inland Revenue's experience in administering this allowance has not been a happy one. It was anticipated that it might be an open invitation for the unscrupulous to chance a claim anticipating full well the administrative difficulties and cost of a foolproof checking system. It became obvious at once that to check all claims would be impossible. Deliberate attempts to mislead the Revenue have included claims where—

- (a) parents were found not to be residents of Hong Kong;
- (b) parents' income was proved to be in excess of \$2,000 per annum;
- (c) parental relationship was not established;
- (d) claims were made for deceased parents;
- (e) incorrect statements were made that nobody else contributed or was entitled to claim;
- (f) overstatement and wrong estimation of actual contributions were made.

On challenge, some taxpayers withdrew claims in order that a brother or sister suffering tax at a higher rate might get the maximum allowance and relief, contrary to the proviso to Section 42B(1) (g) of the Ordinance.

68. It is also suspected that taxpayers living with parents are claiming, as dependent parent contributions, what in reality are their contributions to the family housekeeping accounts for their own maintenance.

69. Administrative difficulties have included:

- (a) the correct interpretation of the word "parent";
- (b) verification of a parent's income especially where dividend and foreign income may be involved;
- (c) the use of alias names;
- (d) the neglect of claimants to check contributions of other brothers and sisters;
- (e) whether or not intermittent gifts amount to contributions for maintenance.

Almost invariably insufficient evidence is given on the return form to establish claims and correspondence becomes necessary.

70. From what has transpired so far, it is the Commissioner's opinion that the number of wrong claims is unacceptably high and, where it is impossible to judge the genuine from the false, I think it is better to reincorporate this allowance into a wider allowance for everybody, and to scrap the provision rather than try to amend it.

71. In 1971-72 the average claim granted amounted to \$2,240 for the single person and \$2,407 for the married person and it appears that the actual percentage of taxpayers claiming was less than 20%. These average claims are covered by the increased personal allowances, for 100% of taxpayers, except for the single person with a gross income of up to \$30,000 where there is only partial compensation but, as I said, the tax paid by single persons in this range is very low in absolute terms and will not cause hardship. For example, a single person on \$30,000 a year will be paying only \$1,500 in tax in 1973-74 at an effective rate of 5%."

Concluding Speech, 1975, paragraph 46

"46. My honourable Friend Mr Hilton CHEONG-LEEN raised the question of dependent parents allowance. I must confess I thought I had disposed of the whole question of selective, as opposed to the basic personal, allowances at rather tedious length when I concluded the debate on the second reading of the 1973 Appropriation Bill. As regards dependent parents allowance, as such, there was the further point that taxpayers were abusing the allowance to an extent which, added to the inherent difficulties the Commissioner of Inland Revenue was finding in administering it, left me little alternative but to seek its abolition, but I did this as part and parcel of a general over-haul of our system of personal taxation at a cost to the revenue of \$16.8 million."

Concluding Speech, 1976, paragraph 8

"8. My honourable Friend Mr Hilton CHEONG-LEEN raised, for the second year running, the question of dependent parents' allowance. I said in reply to him last year that I thought I had disposed of the whole question of selective, as opposed to the basic personal, allowances at rather tedious length in 1973. I nonetheless repeated the main point that taxpayers had abused this particular allowance to an extent which, added to the inherent difficulties the Commissioner of Inland Revenue had found in administering it, left me little alternative but to

seek its abolition. I stressed then that the allowance had been abolished in 1973 as part and parcel of a general overhaul of our system of personal taxation at a cost to the revenue of \$16.8 million. I regret that my honourable Friend still finds it hard to understand why I am not prepared to reinstate this allowance—and I certainly deny that I am disrespectful of traditional customs—but there is nothing I can add to the detailed explanation of my position which I gave when I wound up the 1973 budget debate."

Annex (2)

**EFFECT ON SALARIES TAX OF THE INCREASED
ALLOWANCES TAKING SPECIMEN INCOMES**

<i>Marital status and children</i>	<i>(a) Income (p.a.) (\$)</i>	<i>(b) Present tax (\$)</i>	<i>(c) Tax after increased basic allowance (\$)</i>	<i>(d) Reduction (b)-(c) (\$)</i>	<i>(e) Tax after increased child allowance (\$)</i>	<i>(f) Reduction (c)-(e) (\$)</i>	<i>(g) Total reduction (d)+(f) (\$)</i>
Single	12,000	100	—	100	—	—	100
Married.....	12,000*	—	—	—	—	—	—
Married +1	12,000*	—	—	—	—	—	—
Married +2	12,000*	—	—	—	—	—	—
Married +3	12,000*	—	—	—	—	—	—
Single	24,000	900	822	78	822	—	78
Married.....	24,000	200	—	200	—	—	200
Married +1	24,000	50	—	50	—	—	50
Married +2	24,000*	—	—	—	—	—	—
Married +3	24,000*	—	—	—	—	—	—
Single	36,000	2,400	2,400	—	2,400	—	—
Married.....	36,000	1,100	765	335	765	—	335
Married +1	36,000	800	482	318	432	50	368
Married +2	36,000	550	357	193	282	75	268
Married +3	36,000	450	282	168	182	100	268
Single	48,000	4,600	4,600	—	4,600	—	—
Married.....	48,000	2,700	2,467	233	2,467	—	233
Married +1	48,000	2,250	2,017	233	1,867	150	383
Married +2	48,000	1,875	1,642	233	1,445	197	430
Married +3	48,000	1,650	1,445	205	1,245	200	405
Single	60,000	7,500	7,500	—	7,500	—	—
Married.....	60,000	5,000	5,000	—	5,000	—	—
Married +1	60,000	4,400	4,400	—	4,200	200	200
Married +2	60,000	3,900	3,900	—	3,600	300	300
Married +3	60,000	3,600	3,600	—	3,200	400	400

* already exempt

**EXAMPLES OF THE CALCULATION OF SALARIES TAX WITH
THE INCREASED ALLOWANCES**

Example 1 Single person earning \$22,000 a year

Salary.....	\$22,000
Less: Single allowance.....	12,500
	9,500
Add: "Claw back" (15% of \$9,500).....	1,425
	\$10,925
Tax thereon.....	\$592

Example 2 Single person earning \$26,000 a year

Salary.....	\$26,000
Less: Single allowance.....	12,500
	\$13,500
Add: "Claw back" (15% of 13,500).....	2,025
	\$15,525
Tax thereon.....	\$1,052

Example 3 Single person earning \$13,000 a year

Salary.....	\$13,000
Less: Single allowance.....	12,500
	\$500
Add: "Claw back" (15% of \$500).....	75
	\$575
Tax thereon.....	\$28

Example 4 Married person, with no children, earning \$40,000 a year

Salary.....	\$40,000
Less: Married allowance.....	25,000
	\$15,000
Add: "Claw back" (15% of \$15,000).....	2,250
	\$17,250
Tax thereon.....	\$1,225

Example 5 Married person, with one child, earning \$45,000 a year

Salary.....	\$45,000
Less: Married allowance.....	25,000
	\$20,000
Add: "Claw back" (15% of \$20,000).....	3,000
	\$23,000
Less: Child allowance (as increased).....	4,000
	\$19,000
Net chargeable income	\$19,000
Tax thereon.....	\$1,400
	\$1,400

Question put and agreed to.

Bill read the second time.

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

Unofficial Member's bill

First reading of bill

THE SCOUT ASSOCIATION (AMENDMENT) BILL 1977

Bill read the first time and ordered to be set down for second reading pursuant to Standing Order 41(3).

Second reading of bill

THE SCOUT ASSOCIATION (AMENDMENT) BILL 1977

MR LOBO moved the second reading of: —"A bill to amend The Scout Association Ordinance".

He said: —Sir, this bill is to allow the scouts of Hong Kong to continue with their very useful activities in their new role as a separate member of the World body. It has been confirmed that with effect from the 16th of April this year they ceased to be an overseas branch of British Scouting. The necessary changes, together with one or two measures to tidy up the principal ordinance, are set out in the Explanatory Memorandum.

Motion made. That the debate on the second reading of the bill be adjourned—MR LOBO.

Question put and agreed to.

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT: —In accordance with Standing Orders I now adjourn the Council until 2.30 p.m. on Wednesday, the 4th of May.

Adjourned accordingly at ten minutes to six o'clock.

