

**OFFICIAL REPORT OF PROCEEDINGS****Wednesday, 16 April 1980****The Council met at half past two o'clock****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)  
SIR CRAWFORD MURRAY MACLEHOSE, G.B.E., K.C.M.G., K.C.V.O.

THE HONOURABLE THE CHIEF SECRETARY  
SIR JACK CATER, K.B.E., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY  
SIR CHARLES PHILIP HADDON-CAVE, K.B.E., C.M.G., J.P.

THE HONOURABLE THE ATTORNEY GENERAL  
MR. JOHN CALVERT GRIFFITHS, Q.C.

THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS  
MR. LI FOOK-KOW, C.M.G., J.P.

THE HONOURABLE DAVID AKERS-JONES, C.M.G., J.P.  
SECRETARY FOR THE NEW TERRITORIES

THE HONOURABLE LEWIS MERVYN DAVIES, C.M.G., O.B.E., J.P.  
SECRETARY FOR SECURITY

THE HONOURABLE DAVID WYLIE McDONALD, C.M.G., J.P.  
DIRECTOR OF PUBLIC WORKS

THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, C.M.G., J.P.  
DIRECTOR OF EDUCATION

THE HONOURABLE DAVID GREGORY JEAFFRESON, J.P.  
SECRETARY FOR ECONOMIC SERVICES

THE HONOURABLE ALAN JAMES SCOTT, J.P.  
SECRETARY FOR HOUSING

THE HONOURABLE THOMAS LEE CHUN-YON, C.B.E., J.P.  
DIRECTOR OF SOCIAL WELFARE

THE HONOURABLE DEREK JOHN CLAREMONT JONES, C.M.G., J.P.  
SECRETARY FOR THE ENVIRONMENT

DR. THE HONOURABLE THONG KAH-LEONG, C.B.E., J.P.  
DIRECTOR OF MEDICAL AND HEALTH SERVICES

THE HONOURABLE ERIC PETER HO, J.P.  
SECRETARY FOR SOCIAL SERVICES

THE HONOURABLE JOHN CHARLES CREASEY WALDEN, J.P.  
DIRECTOR OF HOME AFFAIRS

THE HONOURABLE JOHN MARTIN ROWLANDS, J.P.  
SECRETARY FOR THE CIVIL SERVICE

THE HONOURABLE GERALD PAUL NAZARETH, O.B.E.  
LAW DRAFTSMAN

THE HONOURABLE WILLIAM DORWARD, O.B.E., J.P.  
DIRECTOR OF TRADE, INDUSTRY AND CUSTOMS

THE HONOURABLE JOHN MORRISON RIDDELL-SWAN, J.P.  
DIRECTOR OF AGRICULTURE AND FISHERIES

THE HONOURABLE DAVID ROBERT FORD, M.V.O., O.B.E., J.P.  
SECRETARY FOR INFORMATION

THE HONOURABLE JOSEPH CHARLES ANTHONY HAMMOND, J.P.  
COMMISSIONER FOR LABOUR (*Acting*)

THE HONOURABLE OSWALD VICTOR CHEUNG, C.B.E., Q.C., J.P.

THE HONOURABLE ROGERIO HYNDMAN LOBO, C.B.E., J.P.

THE HONOURABLE LI FOOK-WO, C.B.E., J.P.

THE HONOURABLE JOHN HENRY BREMRIDGE, O.B.E., J.P.

DR. THE HONOURABLE HARRY FANG SIN-YANG, C.B.E., J.P.

THE HONOURABLE LO TAK-SHING, O.B.E., J.P.

THE HONOURABLE FRANCIS YUAN-HAO TIEN, O.B.E., J.P.

THE HONOURABLE ALEX WU SHU-CHIH, O.B.E., J.P.

THE REVD. THE HONOURABLE JOYCE MARY BENNETT, O.B.E., J.P.

THE HONOURABLE CHEN SHOU-LUM, O.B.E., J.P.

DR. THE HONOURABLE HENRY HU HUNG-LICK, O.B.E., J.P.

THE HONOURABLE LEUNG TAT-SHING, O.B.E., J.P.

THE REVD. THE HONOURABLE PATRICK TERENCE McGOVERN, O.B.E., S.J. J.P.

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

THE HONOURABLE WONG LAM, O.B.E., J.P.

DR. THE HONOURABLE RAYSON LISUNG HUANG, C.B.E., J.P.

THE HONOURABLE CHARLES YEUNG SIU-CHO, J.P.

DR. THE HONOURABLE HO KAM-FAI

THE HONOURABLE DAVID KENNEDY NEWBIGGING, J.P.

THE HONOURABLE ANDREW SO KWOK-WING

THE HONOURABLE HU FA-KUANG, J.P.

THE HONOURABLE WONG PO-YAN, O.B.E.

**ABSENT**

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

THE HONOURABLE ALLEN LEE PENG-FEI

**IN ATTENDANCE**

THE CLERK TO THE LEGISLATIVE COUNCIL  
MRS. LORNA LEUNG TSUI LAI-MAN

**Papers**

The following papers were laid pursuant to Standing Order No. 14(2):—

*Subject* *L.N. No.*

## Subsidiary Legislation:

Shipping and Port Control Ordinance. Merchant Shipping (Fees) (Amendment) Regulations 1980.....	80
Prisons Ordinance. Prisons (Cape Collinson Correctional Institution) Order 1980.....	81
Training Centres Ordinance. Training Centre (Consolidation) (Amendment) Declaration 1980 .....	82
Employment Ordinance. Employment of Children (Amendment) Regulations 1980 .....	84
Immigration Ordinance. Immigration (Amendment) Regulations 1980 .....	85
Employment Ordinance. Women and Young Persons (Industry) Regulations 1980 .....	86
Public Health and Urban Services Ordinance. Public Health and Urban Services (Civic Centres) (Amendment of Thirteenth Schedule) (No. 2) Order 1980.....	87
Public Health and Urban Services Ordinance. Public Health and Urban Services (Public Pleasure Grounds) (Amendment of Fourth Schedule) (No. 2) Order 1980.....	88
Tax Reserve Certificates (Fourth Series) Rules. Tax Reserve Certificates (Rate of Interest) Notice 1980 .....	89

## Sessional Papers 1979-80:

- No. 44—Traffic Accident Victims Assistance Fund—
- (a) Report of the Director of Social Welfare Incorporated
  - (b) Receipts and Payments Account and Balance Sheet
  - (c) Certificate of the Director of Audit (published on 16.4.80).

No. 45—Government Minute in response to the Report of Public Accounts Committee dated January 1980 (published on 16.4.80).

## **Government Business**

### **First reading of bills**

**CRIMINAL PROCEDURE (AMENDMENT) BILL 1980**

**IMMIGRATION (AMENDMENT) BILL 1980**

**IMMIGRATION SERVICE (AMENDMENT) BILL 1980**

**PLACES OF PUBLIC ENTERTAINMENT (AMENDMENT) BILL 1980**

**URBAN COUNCIL (AMENDMENT) BILL 1980**

**ROAD TRAFFIC (AMENDMENT) BILL 1980**

**CRIMINAL PROCEDURE (AMENDMENT) (NO. 2) BILL 1980**

**OATHS AND DECLARATIONS (AMENDMENT) BILL 1980**

**CUSTOMS AND EXCISE SERVICE (AMENDMENT) BILL 1980**

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

### **Second reading of bills**

**APPROPRIATION BILL 1980**

#### **Resumption of debate on second reading (27 March 1980)**

SECRETARY FOR HOUSING:—Sir, in this debate several Unofficial Members have spoken on housing; the light they have thrown on problems which sometimes seem intractable is both welcome and stimulating.

Mr. LOBO spoke with compassion about the elderly, and suggested that more should be done to provide special accommodation for them. On 31 December 1979 there were 200,000 people aged 60 or over in Housing Authority estates, representing about 10% of the total estate population,

which is the same proportion as old people represent in our community as a whole. In line with Government's policy of 'care in the community', most of them are accommodated with their families. While the main objective of the Housing Authority is to provide homes for families, the Authority is very much aware of the housing problems which many elderly single people and couples face, and it is already committed to an expanding hostel programme which by 1986 will provide 5,000 places. Single elderly persons may also enter public housing through the compassionate quota, on the recommendation of the Director of Social Welfare or the Director of Medical and Health Services; and through a scheme introduced last September, groups of three or more unrelated elderly persons may apply for housing through the waiting list. I believe, however, that the Authority will wish to do more as other priorities permit.

In speaking of adult education, Mr. LOBO urged priority in the allocation of premises in public housing estates for the development of adult education by non-profit making voluntary agencies. I am not aware of any difficulties such organizations may at the moment have in this regard, but will gladly have any cases looked into. Most estates, of course, have schools within their boundaries, and subject to the approval of the Director of Education, accommodation for adult education could most suitably be provided in these schools.

I share Mr. LOBO'S evident concern about sites for temporary housing and his worry whether the \$36.5 million included in the Estimates for temporary housing purposes will be enough. The shortage of public housing in the urban area, that is both permanent and temporary housing, means inevitably that increasing numbers of people eligible only for temporary housing are having to move to the new town areas.

There are 97,000 person spaces in existing T.H.A.s and we estimate that by 1985 demand will have increased to 134,000. While the provision of permanent, self-contained housing in a well planned environment remains our aim, it is clear that due to population pressure and notwithstanding the size and pace of the housing programme, a considerable stock of temporary housing will be needed for many years; and the absence of sites in the urban area dictates that most of this will be provided in or near the new towns.

The situation is continually made worse by large numbers of recent immigrants who establish their homes on the periphery of urban Kowloon, where job opportunities, schools and other facilities are available. Government shares Mr. LOBO'S concern about the squatter structures in which these people live, not only from the environmental, control and clearance points of view, but also because of the increased risk in the event of natural disasters or fires.

The \$36.5 million provided for temporary housing for the current financial year will be used for the construction of additional T.H.A.s and to replace existing units which have to be given up as a result of development. During the year, five new areas are expected to be completed with a capacity of 7,800 persons. Separate provision of \$14.76 million is made under Head 40, Subhead 103, for the management and maintenance of temporary housing and temporary industrial areas. My staff is continually searching for additional sites for future temporary housing areas and an interdepartmental group was recently set up to help in this subject. I need hardly recall to Members' minds the many different claims for additional land which are urged, rightly urged, in this Council from time to time.

We would, I think, all agree with Mr. LOBO that everything possible should be done to assist families to buy their own homes. In this connection, Government is already committed to a programme of over 40,000 flats by 1985-86 under the Home Ownership Scheme for families with monthly incomes up to \$5,000 per month. The strong response for flats advertised under the Private Sector Participation Scheme last November and in February for flats under the Home Ownership Scheme is continuing evidence of substantial demand for home ownership from this income group. An increase in home ownership flat production, therefore, looks like a strong priority, when we are in a position to expand the public housing programme.

Dr. Henry HU reminded us of the problems of boat dwellers, and asked that more should be done for them. Our policy, Sir, is that housing is offered automatically to people who live on house-boats (that is as opposed to working boats) when they are affected by development clearances and provided they surrender their boats. Boat-squatters who are not affected by development clearances are offered temporary housing if on inspection by the Marine Department their boats are certified to be in such a condition that the occupants may be rendered homeless. Under this system, 2,676 persons from 310 boats have been offered rehousing since November 1977.

The opportunities for boat-squatters to obtain rehousing are the same as for land-squatters. Families whose boats are situated in areas which are not likely to be affected by development clearances can apply through the waiting list, like other members of the public, and are actively encouraged to do so. We must all share Dr. HU's anxiety about the unsatisfactory conditions in which these boat-dwellers live, but as the supply of public housing cannot yet meet demand in full, there have to be priorities in allocation, and it is, I am afraid, difficult to justify placing this particular group in front of other groups in equally poor housing conditions.

Mr. Charles YEUNG observed that the ten-year housing programme is expected to fall short of the target by a large margin; that there has not been any comprehensive plan to provide adequate housing to meet demand; and that Government's land production programme has concentrated on

industrial demand with little attention to the general housing need. On the latter two points, may I invite reference to the speech in this Council of the Secretary for the Environment on the 13 February and to the last part of my speech on the 14 November. As these were rather long speeches, I will resist the temptation to quote from them.

Our public housing programme, Sir, is by no means a one-off, limited-period effort. The ten-year programme which was initiated in 1973 will be completed by 1986, due in part to the necessary build-up of land, staff and other resources for such a programme, but mainly due to the oil recession in the mid-1970s and to the economic situation which developed in 1978-79. The programme has no terminal date: but rather, we are committed to a given rate of production for a four-year ongoing period, and this is rolled forward annually.

The current annual target is 35,000 flats, and, as Mr. NEWBIGGING mentioned, we came within 6% of achieving this target last year, while actually doubling the production over that of the previous year. Mr. YEUNG suggested that more funds should be provided for the programme and Mr. F. K. Hu asked for the target to be increased. Government's commitment to housing is evidenced by the fact that the public housing programme receives more than any other programme in terms of land and money. As has been made very clear in this Council, Sir, by yourself and by others, the constraints on the programme are not financial, they are economic. The target is not immutable and it will be increased when it is economically feasible.

I mentioned that the housing programme is on a 4-year basis and rolled forward annually. Nevertheless, we have to look even further forward. During recent months I have been leading a group studying the demand for housing in the public and the private sectors, the present public housing programme and estimated private sector production. The findings of this group will be correlated with land and other relevant policy areas to produce a review of housing with policy recommendations to the end of this decade and, more tentatively, beyond that.

Mr. F. K. HU made a number of points. Redevelopment of old estates does indeed mean the loss of flats by demolition, but one old flat lost against one new flat gained is not a simple arithmetical nil gain in housing stock: it means that a 120 sq. ft. room with shared facilities in an overcrowded block over 20 years old has been replaced by a new 350 sq. ft. self-contained flat in a planned environment with full amenities.

As for movement on the waiting list, the position is as follows. In 1979-80, 24,500 new applications were received and registered. During the year 10,000 flats were allocated to applicants coming up to the top of the list but 6,000 other families on the list were also rehoused through coming up in other categories (for example, clearances and disaster victims). 9,000

applications were found ineligible on investigation. For the first time in many years, therefore, the number of families on the waiting list was actually, if only marginally, reduced. This is a step forward, and a movement which we shall accelerate. The average waiting time has improved slightly to seven years, or to five years for families who accept housing in Tuen Mun.

In regard to the capital financing of public housing, I appreciate Mr. HU'S arguments, but in fact, as I have already mentioned, funds have not been a limiting factor in production, and the 1977 financial arrangements between the Government and the Housing Authority made unnecessary the inclusion of a capital financing element in rents. The Housing Authority's rent policy, as correctly stated by Mr. HU, derives from its statutory liability to ensure that rents cover recurrent cost, such as rates, management, maintenance and minor improvement costs. Prudent budgeting ensures a small, a relatively small, margin in terms of the sums we are dealing with, and any surplus in effect goes towards major improvements and redevelopment. Even so, the estimated cost of the redevelopment programme alone in 1980-81 at \$206.7 million considerably exceeds the estimated recurrent surplus of \$66 million; and the balance will come from general revenue.

The method by which the Authority matches tenants' rents to their incomes is to maintain a large stock of housing at varying levels of rent, so that tenants can be allocated, or can transfer to, a flat where the rent is appropriate to their means. To do it the other way round, as Mr. F. K. HU suggests we might consider, and we have considered this many times, to increase or rebate individual rents to match tenants' incomes, would require considerable administrative machinery to carry out means testing at regular intervals. The difficulty of establishing actual incomes would lead to inequities and considerable ill-feeling. If, as I think may also be the case, Mr. HU considers that tenants of longstanding now able to pay higher rents should make way for poorer families, then the allocation of 50% of home ownership flats production to applicants in rented public housing does encourage this. In 1980-81, for example, more than 4,000 rented flats will be freed for reallocation in this way.

Finally, Sir, Mr. WONG Po-yan noted that Government has recognize the necessity of subsidizing public housing for the lowest income group. This intervention in the property market is necessary because free market forces would not, at least within a reasonable time-span, provide reasonable basic housing for that group. And this intervention must continue, Sir, until reasonable housing conditions obtain throughout the community.

I support the motion, Sir.

COMMISSIONER FOR LABOUR:—Sir, in their speeches to this Council on 27 March 1980 Dr. HO Kam-fai and Mr. WONG Po-yan both expressed grave concern about the increasing number of industrial accidents. They also stressed that the responsibility for improving the situation rests with employers



and workers as well as the Government. I share their concern about the situation and I agree that more effective action must be taken by all three parties concerned.

With regard to the Government's role, I should like to assure Dr. HO that the staff of the Labour Department have been working extremely hard to ensure that both management and labour are properly observing the regulations pertaining to industrial safety. Last year the Factory Inspectors conducted 38,851 visits and inspections to industrial undertakings for this purpose. In addition, they carried out 3,784 investigations and follow-up visits in connection with industrial accidents. These resulted in 3,397 prosecutions. This policy of vigorous enforcement will be maintained.

Dr. HO suggested that amendments to the legislation may be necessary to deter those workers who deliberately defy safety rules in order to boost their earnings and sterner penalties may be required for employers who are repeated offenders. The existing legislation does in fact already provide for penalties against workers who deliberately defy certain safety regulations or requirements, for example, the wearing of safety helmets on construction sites and the guarding of machinery in factories, and the present penalties for breaches of the safety legislation range from \$500 to \$10,000. A general review of these penalties is now being undertaken and proposals for increases in some of them are likely to be made later this year.

I have noted Dr. HO's comments about the staffing of the Factory Inspectorate Division and the Prosecutions and Training Division and I am pleased to say that plans are in hand to increase the number of Factory Inspectors from 140 at present to about 250 by 1984. These plans are being implemented steadily. During the last financial year 20 new inspectors were recruited and action is now in hand to recruit a further 30, at least, this financial year. However, it takes three years to train a Factory Inspector properly. It will therefore be some time before these new inspectors are able to make a significant impact on the situation. The strength of the Prosecutions and Training Division was increased substantially last year and I am satisfied that it can now cope adequately with all the cases referred to it.

I agree with Dr. HO that publicity is a most effective weapon in preventing industrial accidents and I can assure him that, in conjunction with the Information Services Department, we have been employing most of the means he has suggested to publicize this subject and we shall continue to do so. This year's provision for the promotion of industrial safety represents only part of a 5-year programme for the promotion of industrial safety covering the period from 1978-79 to 1982-83, on which it is planned to spend a total of \$3,000,000. Last year's provision was larger than this year's because we held a major exhibition in July 1979 covering the whole field of industrial safety. This year, we intend to hold a more specialized, but rather smaller, exhibition on construction safety, which will not be quite

so expensive to stage. We also plan to produce several films and television messages on different aspects of industrial safety for both publicity and training purposes; and a number of safety posters, as well as conducting several special safety campaigns. If the funds provided for these purposes prove to be insufficient, or if it proves possible to include more activities in this year's programme, I shall seek the necessary additional financial provision. I should also stress that this publicity programme is in addition to the regular efforts of the Labour Department's Publicity Unit, which conducts a continual programme of press interviews, radio and TV discussions, and press releases. Many of these aim to draw the attention of management and labour to the importance of safe working practices.

Mr. WONG suggested that industrial safety should be promoted at a more localized level in the industrial areas and that brief explanatory booklets should be distributed to workers. In fact some local exhibitions and other forms of promotion have already been organized. For example, in 1979 a mobile unit staging puppet shows on industrial safety made 44 appearances in 15 industrial districts throughout Hong Kong, Kowloon and the New Territories. Also, booklets on industrial safety are available to everyone at the district offices of the Labour Department and safety posters are sent to factories and are displayed in industrial areas, at M.T.R. stations and City District Offices. We shall continue to spread the message of industrial safety in these ways as widely as possible.

I agree with Dr. HO that at the work place level safety committees are an effective means of reducing industrial accidents, provided that they are fully supported by both employers and workers. The Labour Department encourages the setting up of such committees, and the Factory Inspectorate is very willing to offer advice and help in setting them up. In fact, many large industrial establishments already have such committees and the Factory Inspectorate keeps in close contact with them.

I support wholeheartedly Mr. WONG's call to employers to pay more attention to the training of their workers in industrial safety. The Industrial Safety Training Centre of the Labour Department offers various safety training courses free of charge to industrial employees. Last year the staff of the Centre conducted 180 courses for 6,200 persons, gave 62 safety talks to students in vocational training centres and schools, and organized 25 safety courses for apprentices. I would like to see more employers and trade organizations taking advantage of the Centre's facilities to provide safety training for their workers.

It is true that in the longer term industrial safety depends very much on education and the Director of Education has informed me that already the general concept of safety is included in the syllabuses of social studies, science and technical subjects. although the emphasis in social studies is on the need for safety in industrial concerns rather than on the teaching of specific safety measures. In the teaching of all science and technical subjects

the importance of safe working practices in laboratories and workshops is stressed. Safe working practices are also emphasized in all the courses of the prevocational schools, the technical institutes and the Polytechnic, and industrial safety is included in the syllabuses of appropriate full-time courses. In the case of the training centres operated by the clothing and construction industries, the subject of safe working practices is included in all the courses.

In conclusion, Sir, may I say that I too have been glad to see the surge of interest in the promotion of industrial safety which has been shown by several workers' and employers' organizations recently. I hope very much that this interest will be maintained and that it will lead to an early improvement in the situation. We in the Labour Department will certainly do our best to ensure that this does happen.

Sir, I support the motion.

DIRECTOR OF MEDICAL AND HEALTH SERVICES:—Sir, on this occasion I shall resist the temptation of discussing in detail the considerable progress that has been made in the development of the medical and health services in accordance with our plans. In this connection, however, I must again dwell briefly on the subject of population growth, particularly the rate at which this growth has occurred in the past year and its crucial impact on the provision of medical and health facilities for us in Hong Kong. 1979 has been an extraordinary year in this respect. According to figures released by the Census and Statistics Department, the increase in population numbers has been maintained steadily at around 80,000 per annum for almost a whole decade from 1970 to 1978. In 1979, however, a sudden and dramatic addition of more than 300,000 people to the Hong Kong population, partly due to births but mainly to immigration, brought the population growth rate up from an average of 1.9% in the previous 9 years to 6.4% in 1979. This is reflected directly in the significant increase of 13% admissions into our hospitals as compared to 5.6% in 1978. To say the least, such increase must be unsettling to any planners for services and facilities. The Medical and Health Department, by nature of its work, is among those Government departments in the forefront in bearing the brunt of this sudden and massive population onslaught. However, I must hasten to assure honourable Members that steps have been and are being taken within the purview of the Medical Development Advisory Committee (M.D.A.C.) to review and update whenever necessary our plans for the future. This will no doubt necessitate the resetting of targets and possibly point to shortfalls in certain directions. I need hardly say that whenever and wherever possible, measures will be taken to minimize the effects of such acute population pressure on the service.

On a more optimistic note, I am happy to report that good progress has been maintained in our development programme. In only a few months' time, we shall be able to see the completion of two of our more prominent

projects, namely, the South Kwai Chung Hospital, formerly known as the Psychiatric Wing of the Princess Margaret Hospital and the Dental Teaching Hospital, to be followed later by the Sha Tin Teaching Hospital. I should also like to reassure honourable Members that in our plans for medical and health development, considerable improvements both in the quality and quantity of the service have been recommended and accepted by the M.D.A.C. and when these plans come to fruition, given the necessary resources and that no undue and sudden demands are further imposed, I am confident that Hong Kong will have a medical service that we can all be proud of.

I turn now to the specific points which have been raised by my honourable Friends, Mr. LOBO, Dr. FANG and Miss BENNETT.

Dr. FANG and Miss BENNETT have both expressed concern about the position of subvented hospitals and the resources being devoted to those hospitals. I should like to assure them at once that subvented hospitals have an important role to play in the provision of medical and health care services in Hong Kong as the Medical and Health Department and sub-vented hospitals are joined together in partnership to provide those services. It is to our mutual advantage that the maximum use is made of all our resources and my Department is as conscious as are the managements of subvented hospitals of the need for those hospitals to have proper staffing and facilities in order to discharge their role.

A heavy responsibility falls upon the managements of subvented hospitals not only to identify the resources they need but also to ensure that those resources are used in the most effective and economical manner. My Department can and will help to provide advice, guidance, expertise and knowledge but the essential and direct responsibility for the day-to-day operations lies with the managements of subvented hospitals.

In view of the working relationship between the Government and the subvented system of medical institutions, it must be stated clearly that there is no deliberate policy by Government to downgrade the status of subvented hospitals. On the contrary, as I have stated previously in my speech on 15 November 1979 in this Council, I am of the opinion that the quality of identical clinical units performing the same level of work in both the regional and subsidized district hospitals should not be different. However, *inter alia*, because of the higher level of sophistication in the fields of services and a wider range of services at the regional hospitals, the overall cost per bed for regional hospitals when compared with that of the district hospitals must perforce be higher. It must also be realized that the staffing ratio for any particular clinical unit serves only as a general guideline for the purpose of planning. Whether the unit is in a Government or a subvented hospital its actual staffing needs will have to be assessed in the working situation. Thus, should there be any real case for improving the staffing ratio in any particular unit, be it Government or subvented, it is the

responsibility of the administration of that hospital to make a good case for staffing and other resources and which will no doubt have my support.

As mentioned by Dr. FANG, I have recently proposed that the services of some subvented hospitals, whenever possible, should be upgraded so as to enable them to assume the role of acute general hospitals. Honourable Members will be glad to hear that this policy has the endorsement of the M.D.A.C. and the necessary steps have been taken to translate policy into concrete action. On the whole, subvented hospitals have provided effective services in the past and I am confident that they will continue to do so in the future.

As for the question of care and attention for people who no longer require medical attention as such, I agree in principle with the observations of my friends, Mr. LOBO and Dr. FANG that there are people in hospitals who require mainly tender loving care and that both socially and economically it would be more appropriate for them to be taken care of, either in care and attention homes, or their own homes, rather than in a hospital environment.

Regarding Dr. FANG's suggestion on departmental responsibility for the operation of care and attention homes, my colleague, the Secretary for Social Services, will speak on the definition and division of responsibilities between departments later on. I have therefore only one observation before leaving this subject and that is that although my colleagues in the Medical and Health Department do dispense tender loving care in liberal doses as part of their treatment routines, this distinctive quality fortunately is not the monopoly of my Department (*laughter*).

Mr. LOBO suggested that there should be a wider extension of the visiting nursing system to help such cases. He may be interested to know that once the pilot project in community nursing has proven to be successful, my Department has since April 1979 provided for a Community Nursing Service as part of our normal service. Also, the 7 voluntary organizations involved in the pilot project are continuing to play their part in this field. There are now about 100 community nurses in the service for the benefit of suitable cases in the urban areas as well as in Tsuen Wan. Plans are also in hand to extend this service to other parts of the New Territories. An additional 75 nurses will be trained each year within the next 4 years according to the expansion programme. Further expansion beyond 1983 is now under active consideration.

Turning now to Dr. FANG's suggestion that the benefits of the School Medical Service should be extended to students in Forms IV to VII, I am given to understand that the School Medical Service Board has in the past considered the scope of participation on the part of the school children. Apparently, the reason for the present system whereby the School Medical Service gives coverage to pupils in the primary schools and to

those in Forms I to III is because it is in keeping with the Government's policy of providing 9 years of aided education. As suggested, the School Medical Service Board may be asked to review this matter. By happy coincidence, my friend is currently the Vice Chairman of the School Medical Service Board. This will no doubt facilitate discussion of the subject if it is brought up again for consideration.

Both Dr. FANG and Miss BENNETT in their masterly exposition on subvented hospitals have expressed their hopes that the Financial Secretary will make available adequate finances to improve the staffing standards and facilities in the hospitals. In sharing their hopes, I am confident that this plea will not fall on deaf ears when the hospitals concerned are able to present good and reasonable cases for funds. I may add that I for one have much confidence in the fairness and generosity of my colleague, the Financial Secretary and my high regard for him in these respects remain constant and undiminished (*laughter*).

SECRETARY FOR SOCIAL SERVICES:—Sir, on industrial training I fully take the point made by Mr. Allen LEE about the need for an early start to the industry-wide training scheme proposed by the Training Council. Although the Government has still not come to a final conclusion as to the precise method of financing such a scheme, it has no doubt that a scheme as envisaged by the Training Council should be launched as soon as possible. Accordingly, I have written to the Training Council requesting it to proceed with the detailed planning of the facilities needed, and of their location, on the basis that the necessary finance will be forthcoming when needed. I hope this will result in an industry-wide training scheme coming to fruition in the shortest possible time.

#### *Technical Education*

Mr. LEE also expressed his disappointment that many full-time and part-time day courses in technical institutes are not filled in the current academic year.

Priority has always been given to part-time day release courses and in October 1979 some 10,300 places were available by this mode of study, but enrolment was only 8,000, due to a shortfall in the number of apprentices sponsored by industry. However, a number of classes were started in some disciplines even though they were only partially filled. In saying this I must also emphasize that there has been a dramatic increase in the numbers taking part-time day release courses in recent years: from 500 in 1970 to 1,800 in 1975, to 8,000 in 1979. But there does appear to be room for additional support by industry in certain fields.

Difficulties in the recruitment of staff resulted in 1,000 full-time places not being available for offer: 3,100 places being available against a possible 4,100 and an eventual enrolments of 3,000 in October 1979. While recruitment

difficulties particularly for technical personnel in short supply are not likely to disappear altogether, the new procedures outlined in the Budget Speech, and elaborated on by Mr. LO, should assist in enabling the posts required for the 1980-81 academic year to be created and filled more quickly.

#### *Adult Education*

Mr. LOBO has asked what progress has been made in implementing the 1978 White Paper on Senior Secondary and Tertiary Education on Development of Adult Education. Members will recall that the White Paper links the development of retrieval adult education courses with assisting voluntary organizations to complement and supplement the Education Department's own courses through a scheme of subvention; and in this connection the possible use of borrowed school premises by the voluntary agencies after normal school hours should not be overlooked. Before finalizing its own proposals for a list of retrieval courses which could qualify for financial assistance, the Education Department invited voluntary agencies known to be interested in adult education to submit their proposals for consideration. Present indications are that 16 voluntary agencies will be responding. When these returns have been analysed the Education Department will prepare proposals for submission to Finance Committee which will, naturally, also have regard to the criteria set out in the 1978 White Paper.

Secondary education courses operated by the Education Department's Adult Education Section in Government and aided school premises have expanded, particularly at the senior secondary level. This academic year there are 130 classes in operation and this number is forecast to increase to 146 in 1980-81. 70% of these classes are at the senior secondary level. The intention is to develop courses at this level so that they cover the full secondary curriculum and I am pleased to report that from September 1980 the full complement of science subjects will be offered using borrowed laboratory facilities in 16 centres and that arrangements are being made for the part-time employment of laboratory technicians for these evening classes. Six additional supervisory posts have been included in the 1980-81 Draft Estimates and two senior inspector posts for Chinese and English subjects have been established.

#### *Subvention Policy*

I should like to thank Miss BENNETT for her tribute to the unified code of aid which ensures acceptable standards in all of our aided schools. This gesture is much appreciated by all concerned in the Education Department as well as the Government Secretariat, and I should add that the heads of our aided schools, too, have contributed to the evolution of this code. However, it is also fair to say that as the various schools are more or less homogeneous entities, a code of aid is feasible and, as Miss BENNETT has acknowledged, this code is working satisfactorily. But this need not, and indeed cannot, be the answer in other areas where the services provided,

or the institutions providing them, are more heterogeneous. As the saying goes, there are horses for courses.

It is entirely in this spirit that the deficiency grant system has been developed for our major subvented hospitals. This recognizes the individual character and particular needs of each institution. They are also large institutions. For instance, the provisions included for the Tung Wah Group of hospitals in Head 53 of the 1980-81 Draft Estimates stand as \$150.3 million for recurrent expenditure and \$22.6 million for special expenditure: a total of nearly \$173 million. This sum is larger than the total provision in 47 out of the full list of 71 Heads of Expenditure. Like every single Government department these hospitals are asked to submit their requirements for posts, equipment and other resources to meet their service needs for the following financial year, and the Government undertakes to meet the full cost of their agreed services not covered by their recognized income.

The White Paper 'Social Welfare in the 1980s' makes it clear that the Government considers that more systematic arrangements for financing social welfare services being provided by the voluntary agencies are required, in order to give an assurance of adequate financial support for the organizations providing them, and for greater accountability. A Government working party has been examining ways and means of achieving this, and I expect to receive its report shortly. There will then be full consultation with the voluntary sector before any final decisions are taken.

#### *Monitoring of Social Services Policy*

Mr. LOBO has referred to the need to monitor public policy constantly to ensure that the expectations of the community are met as far as possible and that we are moving in the right direction, particularly in the social services field. Several other Members, including Mr. WU, Dr. HU and Mr. Peter C. WONG have touched on various aspects of planning for the development of the social services, and Miss BENNETT has reminded us that a community will be judged by the way it is prepared to invest its money in caring for the sick and the elderly, for the injured and the handicapped. Whilst acknowledging that there is no room for complacency, may I say that this Government's record in the social services field is something in which we may all take some pride? And it may be helpful if I describe briefly how our policy in this general area is monitored and improved on all the time.

We now have comprehensive statements of Government policy in the major areas of the social services: all published after public consultation and debate. In the field of education the 1974 White Paper set out a blueprint for the provision of three years of junior secondary education for all, which has now been achieved, while the 1978 White Paper covered the development of senior secondary and tertiary education. The Green Paper on Primary Education and Pre-Primary Services which has been finalized



and is in the course of being printed will complete the picture when, after any necessary amendment in the light of public consultation, it becomes a White Paper. To make doubly sure that our plans are on the right lines and before they have progressed too far, we envisage an overall review as advised by the Board of Education, to look at our education system as a whole. Discussions are in progress on the modalities for the assembly of a suitable team for this task. In the area of medical services and rehabilitation we have the 1974 and 1977 White Papers respectively, while social welfare policy is set out in the White Paper published in April last year.

The various White Papers are comprehensive statements of the broad policies which the Government proposes to implement in each area. For detailed planning purposes we have a series of programme plans and other planning documents, which turn the basic policies into practical programmes setting out estimates of demand for services, planning ratios, building programmes, staff training arrangements and all the multiplicity of elements which are necessary to ensure that, as far as possible given the various constraints within which we have to operate, the Government's stated policies are implemented.

These plans and programmes are subject to a virtually continuous process of monitoring and review. Each year the Social Welfare Department reviews its five-year development plan in consultation with the Council of Social Service and rolls it forward for a further year after the advice of the Social Welfare Advisory Committee is obtained. Similarly, the Medical Development Advisory Committee and the Rehabilitation Development Co-ordinating Committee carry out annual reviews of the plans in their spheres, while school building programmes are continually monitored and, as mentioned earlier, we have an overall review of education in prospect. In all these processes the latest relevant data are reviewed, progress checked, and the relative priorities adjusted.

Without procedures of this kind the annual budgeting process would be infinitely more difficult. Clearly our processes are geared to the inclusion of the necessary provisions each year to cover existing and new services, and I do not accept that the simplistic measure of proportions of total expenditure mentioned by Mr. WU point to any major shift away from the social services. Indeed, any formal linking of expenditure on the social services to fixed percentages of total expenditure can even be dangerous when the pendulum swings the other way. In such times of economic recession expenditure on the social services, especially social security, must increase in absolute as well as proportionate terms. So in thanking Mr. WU for his concern, I would rather not be hooked on fixed percentages of total expenditure, but prefer instead to ensure that agreed programmes are funded to enable the quickest possible progress to be made. By and large this criterion has been met for the social services in the 1980-81 Draft Estimates.

I would not like to give the impression that all these monitoring and review procedures are simply part of a soulless bureaucratic machine: a point made by Dr. HU. While for planning and budgetary reasons we need to consider the overall position in broad terms, we are conscious that statistics represent people. I can assure Dr. HU that the comprehensive network of family service and children's centres, and other supporting services, to cater for children in need of guidance, and the programme plan for services for the elderly are important areas for annual review under the procedures I have just outlined. Inter-departmental arrangements for bringing to the notice of street sleepers the services available to them are also checked from time to time. Finally, individual cases of hardship do receive the detailed consideration they deserve, both to provide the help immediately needed, and also for consideration of whether the system for helping vulnerable groups is in need of improvement.

#### *Institutional Care for the Elderly*

Mr. LOBO and Dr. FANG both referred to the large number of elderly people who do not require hospital care but who are occupying hospital beds. I agree that where care can be provided for these people by their families this should be encouraged. Indeed this strategy has been outlined in the White Paper 'Social Welfare into the 1980s'. Improved cash benefits, a range of community services (including community nursing, home help, day care centres and social centres), and hostels for the elderly have been introduced or widened in scope to encourage families to look after their aging members or to enable old people on their own to live independently, and in dignity, in the community for as long as possible. However, where this is not possible either because these old people have no family, are no longer able to live independently or are in poor health, they should be given personal and nursing care in an institutional setting. The main problem at the moment is that there is a shortage of such homes; in particular, there are only 335 care and attention places in existence. However, priority is being given to the provision of more facilities of this type, and 2,000 additional places are planned for the next five years. These will certainly relieve the pressure on hospital beds when available.

Dr. FANG also suggested that care and attention homes should be made the responsibility of the Director of Medical and Health Services rather than the Director of Social Welfare. At first sight this may appear to be a demarcation problem. However, when I looked into it, the problem turned out to be one of nomenclature or definition rather than of demarcation.

When I had the honour of opening a care and attention home a few weeks ago, I discovered that about 30 percent of the old people there were bed-ridden, while nearly 70 percent had varying degrees of mobility. To this majority they are in a good home with a useful fall-back facility when their mobility should become further impaired. The tender loving care of that home was mainly personal care with some nursing.

Following a recent inter-departmental review of admission criteria and of existing cases, it has been concluded that where the distinction needs to be drawn is between those cases who require only personal care with minimum nursing care, and those who require a greater degree of nursing care but not regular medical care. Those in the former category would in future be accommodated in homes for the aged which are, and will remain, the responsibility of the Social Welfare Department. In order to avoid the need to relocate elderly inmates when their health and mobility deteriorate, it is intended that such homes for the aged should, in future, include a small care and attention section wherever possible. As regards those in the latter category requiring more substantial nursing care, they would be placed in infirmaries or nursing homes to be run by or subvented through the Medical and Health Department.

To demonstrate further that this is mainly a problem of nomenclature, we already have in the Medical and Health Department the Siu Lam Hospital. This well run institution is under the charge of a Senior Nursing Officer supported by nursing, paramedical and auxiliary medical staff. A doctor visits two to three times a week. There is also the Cheshire Home, subvented under the Medical Subventions Head, which is under the care of nursing staff with visiting doctors performing voluntary service.

So I am glad to say that I have no disagreement with Dr. FANG, and thanks to his prodding we have cleared up a nomenclature or definition problem. We shall be attempting to define more precisely the revised admission criteria and the facilities needed for each type of institution, with a view to submitting firm proposals for consideration by the Medical Development Advisory Committee, the Social Welfare Advisory Committee and the Rehabilitation Development Co-ordinating Committee.

#### *Welfare Class Review*

On the welfare class review, I can assure Dr. FANG that the Government accepts the principle, for the purposes of subvention, that where staff in subvented social welfare agencies hold the same qualifications and perform similar duties as their counterparts in the Social Welfare Department, they should be remunerated on the same salary scales as comparable Government staff. It has also been pointed out by the Director of Social Welfare in this Council on 14 November 1979 that 'it is neither desirable nor appropriate to seek to impose a departmental structure on the voluntary sector, given the different characteristics of the two, the multitude of agencies involved, the diversity of services provided and the need to preserve the traditional flexibility of voluntary agencies'. As a result, and with the agreement of the voluntary sector, a similar review of the staff structures and salaries in the voluntary agencies commenced in February 1980. This task is being under- taken by a steering committee, supported by a working group, both consisting of representatives from the Government and the voluntary sector. On the question of retrospective application of salary adjustments arising out of

the current review, I would observe that before the steering committee makes its recommendations on ranks and structures for the voluntary agencies and the effective date of implementation of changes, if any, it would be premature for the Government to give assurances as to when any new salary scales should become effective. It should also be borne in mind that not all new salary scales in the Social Welfare Department were introduced with effect from 1 April 1979; the salary scales for certain new ranks became effective only in November 1979.

### *Integration of Immigrants*

Mr. WONG Lam, Dr. HO and Mr. HU are all agreed that many newcomers, whether they be legal or illegal immigrants, do not readily fit into Hong Kong society for one reason or another, and that a proportion of them tend to be less productive than the generality of Hong Kong's residents. While Mr. WONG and Mr. HU seem to favour repatriation of the illegal immigrants and overstayers, or to prevent their entering the work force, Dr. HO urges the Government to embark on training schemes and creating jobs for them. As the Secretary for Security will be responding to issues involving immigration policy, I shall confine myself to commenting on Dr. HO's suggestions.

Apart from eligibility for cash grants under our social security arrangements for which qualifying periods of residence are required, newcomers (and even temporary stayers) are not prevented from joining retrieval courses run by the Adult Education Section of the Education Department and other voluntary bodies, or of using other public services. They can also join vocational training courses offered by our technical institutes, the various training authorities and the voluntary bodies. Indeed, as many of these courses are heavily over-subscribed, there are many thinking people who are asking why these newcomers are not prevented from diluting the chances of our youth who must surely have a better claim to our limited resources. In the light of these considerations I do not see how the Government can be justified in discriminating in favour of newcomers at the expense of Hong Kong belongers, which appears to be what Dr. HO is asking for.

### *Rehabilitation*

Dr. FANG expressed concern about the delay in the creation of certain posts needed by the Labour Department to take over from the Social Welfare Department and to expand the Selective Employment Service. He also referred to additional posts of physiotherapist and occupational therapist for the Medical and Health Department.

It is true that there has been delay in putting these proposals to Finance Committee. As mentioned in the Budget Speech, the Finance Branch received requests from the service at large for the creation of over 19,000 new posts for 1980-81. The need to determine priorities among these proposals meant that some proposals were inevitably delayed.

However, I am glad to be able to report that the paper seeking the creation of new posts for the Selective Employment Service has been circulated to members of Establishment Sub-Committee and subject to their endorsement this will be considered by the Finance Committee on 30 April 1980. I am confident that, barring unforeseen circumstances, the new service will be in operation by this summer.

The additional posts of physiotherapist and occupational therapist are a little lower down on the list awaiting drafting for the Establishment Sub-Committee. However, the new procedure for the creation of posts mentioned in the Budget Speech, and elaborated on by Mr. LO, means that the Director of Medical and Health Services now has delegated authority to create these posts as soon as possible. Indeed, in anticipation of this, recruitment has already been set in motion.

#### *Ambulances*

Even if there is nothing I can add to my reply in this Council on 12 March 1980 to Mr. Peter C. WONG's plea for a complete switch-over to air-conditioned ambulances, I must commend him on his persistence (*laughter*). However, I am glad to be able to say that in anticipation of Mr. WONG's continuing interest, I had suggested to the Director of Fire Services that it might be preferable for him to combine the provision for the two air-conditioning units for trial purposes with funds being voted for new vehicles to buy two new ambulances with factory installed air conditioners.

Sir, I support the motion.

SECRETARY FOR THE ENVIRONMENT:—

#### *Land*

Sir, although I detect in this debate a certain acceptance on the part of my Unofficial Colleagues that the Government's performance in land production and sales is improving (*laughter*), Mr. F. W. LI and Miss DUNN have continued to express concern about the organizational arrangements within Government for land administration. Mr. LI has called for serious consideration to be given to the establishment of a system of unified control of all major issues related to land administration, policy, planning, development, production and allocation, either in the form of a separate branch or department. Miss DUNN, after listing a long string of bodies dealing with land in one way or another, has reiterated her call for a separate Lands Department and has challenged me to redeem an earlier promise and come clean on what the Government's thinking is on this question. And they are both only repeating a plea for a separate Lands Department made by the Public Accounts Committee of this Council only a few months ago.

The first thing I would say to Mr. LI is that there is already one Branch in the Government Secretariat dealing with all aspects of land policy, that is

the Environment Branch (*laughter*). The fact that the Branch deals as well with other closely related matters is a strength, not a weakness (*laughter*), as this assists in the overall co-ordination of the planning and development process.

The argument lies, rather, at the departmental level and it centres round whether there should be a separate Lands Department to bring under one body all matters relating to land administration, control, allocation and sales. This question was gone into in detail three years ago in 1977 and, at that time, considerable advantages were seen in establishing one department responsible for all land matters. If this could have been set up at a stroke, with all its elements in place and with all its relationships with other departments and entities in full working order, it would certainly have simplified administration and thus been an improvement. But this unfortunately would not have been the case.

First, it would have sacrificed the concept of a full inter-disciplinary Public Works Department because, even with a Lands Department, the actual production of land, being an engineering process, would remain with the P.W.D., leaving the Lands Department as one of the clients of its services. The integration within a single department of land administration, planning for various uses within particular areas, and land production, would have been broken.

Secondly, within the New Territories, and particularly in the new towns, multi-disciplinary teams of engineers, town planners, estate surveyors and administrators have been built up to produce and form land, to plan layouts and to hand sites over to clients such as the Housing Department, or to arrange for their sale to the private sector. These teams are drawn from the New Territories Development Department's Project Managers' offices, that is from the P.W.D., for engineers and planners and the District Offices for estate surveyors and administrators. The process has worked extremely well in producing formed and serviced land for new town development. I admit that it could no doubt work equally as well if the surveyors and planners were to come from a Lands Department but, at the time, it was not considered worth-while to take the risk of transitional difficulties arising and upsetting the smooth working of this machine.

Thirdly, within the urban area, the provision of land is again a multi-disciplinary process involving engineers, surveyors and planners and, as I have explained, all these are now concentrated within the P.W.D. and are thus subject to that Department's overall direction. To reform the structure by having the surveyors and planners reporting to another body, a Lands Department, again held the risk of at least transitional disruption.

It was therefore decided, at least for the time being, to leave these structures alone at the departmental level and instead to build up the central policy and monitoring role within the Environment Branch. This, together

with the establishment of the Special Committee on Land Production and the studies to which it has given rise, has during the intervening period significantly improved our machinery for land production and its monitoring, as well as the operation of the land sales programme. More recently, the establishment of the new Strategic Planning Unit within the Environment Branch should improve the machinery for rather longer term planning of future development options and the associated land production and allocation.

In other words, what we are now beginning to focus on is not just land as such, but the total pattern of physical development within the public sector and the various options and sequences available. Naturally, as land is Hong Kong's scarcest resource, land development and administration must play a crucial part in this process and a unified Lands Department is one of the administrative options open as a means of improving the machinery for getting things done. But what we have to look at is our total machinery for development in terms of setting objectives and assessing the means available for their achievement over various periods of time. It is this overall machinery which is now in need of a careful study. The Chief Secretary has therefore authorized me to say that he will be setting in train a review of the whole of the Government's development and planning machinery, including land administration, with a view to making proposals to Your Excellency in Council later this year. A senior officer with considerable experience in land administration will be assisting in this review in the course of the summer and my Unofficial Colleagues' views will be sought on the issues involved.

Next, our land statistics. Both Miss DUNN and Mr. NEWBIGGING have spoken with feeling about the complexity and apparent unreliability of these statistics. I sympathize with them in this and, indeed, must on occasions confess to a certain fellow feeling of bewilderment myself (*laughter*). All I can say is that this considerable mass of information is now being sorted out and I hope soon to be putting to the Special Committee on Land Production a glossary and a standard presentation for future land statistics. We will do our best in this endeavour to produce more order and uniformity but I am afraid that, because they record the forecast results of a large number of different processes, all our statistics on land will always remain rather complex and difficult to interpret.

May I now mention Mr. WONG Po-yan's suggestion that the Government should sell land to small industrial co-operatives by private treaty at fair market prices. We have certainly looked at something along these lines in the past and have recently examined it again. I doubt, however, whether the adoption of this procedure would result in the small industrialist being able to obtain accommodation any more cheaply than he does now, even if the full market value of land is interpreted as something less than its actual market price. There is presently a very wide range of industrial accommodation available in the market, and the sales of certain industrial lots with

special conditions which the Government is now undertaking will increase the number of factory units of under 100 square metres which will be made available. As I have stated before in this Council, Sir, the Government's aim is to get as much land as possible, including industrial land, on to the market and to see that it is developed as rapidly as possible so as to increase the supply of accommodation and stabilize prices and rents. I am afraid, however, that it is not always easy to hold together a group of individual entrepreneurs in a co-operative development, even when their interests appear to be united. So the use of this method of factory development on any significant scale could lead to difficulties. There is at present a good supply of industrial accommodation on the market, including premises for the small industrialist, and I do not think that the proposals put forward by Mr. WONG, if implemented, will assist very greatly in the development of our industry on a competitive basis, which is, after all, what the game is about.

### *Transport*

I turn now, Sir, to transport. Miss DUNN has claimed that we are not spending enough on roads and Mr. Charles YEUNG says that more should be spent on roads in the New Territories. And Mr. NEWBIGGING has welcomed an early start being made on the Hong Kong Island Eastern Corridor. I certainly support their general intentions and believe firmly that the provision of good road and other communications, both in the urban area and in the New Territories, is an economic and social imperative.

But looking at the record this is what has happened. On average through the decade of the 70s expenditure on roads in current price terms has increased by 28 per cent per annum, that is from \$60 million in 1970 to \$500 million in 1979. Even in real terms the growth has been in excess of 15 per cent per annum. And over the last five years almost a half of this expenditure has been in the New Territories if expenditure on roads within new town layouts is included. The reason for the relatively low proportions quoted by Mr. YEUNG is that he has not taken account of road expenditure included in the new towns and public housing component of the Public Works Programme from which, for instance, such major projects as the Tuen Mun Road and the Tsuen Wan By-pass are being financed.

It is true that over the past year the starting dates for certain road projects have been put back, but this was largely because any additional rapid increase in expenditure would only have further over-taxed the resources of the road construction industry. This, in turn, would not only have further increased contract prices but it would have also slowed down work on other projects and added to inflationary pressures on the economy. I can assure Miss DUNN and Mr. YEUNG, however, that all the projects in the road programme will proceed in the order of priority laid down for them. This will eventually include, among other projects, the whole of the New Territories circular road linking all the new towns.



In considering the size of our investment in roads, however, we must not forget also the tremendous commitment that is being made to a modern, high capacity and interlocking rail network—and I emphasize the word ‘interlocking’. The opening of the Modified Initial System of the M.T.R. has already shown what this can do to improve our public transport. The Tsuen Wan extension is now being built just as rapidly and, equally important, is the modernization and electrification of the K.C.R. This will be essential to serve the million or so people who will be living in the eastern New Territories in the late 80s and the interchange station at Kowloon Tong will play a key role in integrating the two railways into one effective network.

Similarly, I believe that a rail system along the north shore of Hong Kong Island and linking into the M.T.R. in Central is equally imperative and urgent. Whether this should take the form of a short Island Line of the M.T.R., running some 8 kilometres from Western Market to Taikoo Shing, or a so called Light Rail Transit system, running 14 kilometres from Whitty Street to Chai Wan, has still to be decided. The arguments on both sides are complex and they are certainly not as clear cut and simple as Mr. NEWBIGGING and some others highly placed in the private sector would have us believe (*laughter*). What is not in doubt is the need for a considerable increase, both in the capacity and speed of movement, of public transport along this corridor and I am convinced in my own mind that one or the other rail system will have to be built, and the quicker the better.

Of at least equal importance to the rail based system, however, is the provision of adequate bus services and on that I think that Miss DUNN and I are in full agreement. Where further explanation is needed is on her call for an assurance that the bus companies will improve their services after the recent fare increases. Here I would answer as follows.

First, there are more buses on the road now than ever before and certainly more *new* buses than ever before. Secondly, more buses are at present on order by both companies than ever before and it is expected that almost 600 new buses already ordered will be delivered in the coming twelve months. Thirdly, at the time of the recent fares revision, the Government signed agreements with both companies to provide for improvements in the ordering of new buses, vehicle maintenance, spare parts, the provision of depots, the recruitment of drivers and mechanics and improvements in management. Progress in meeting these commitments is being closely monitored by the Commissioner for Transport and I will be very surprised if, as a result of these agreements, significant improvements in bus services do not become apparent in the course of this year and next.

I would emphasize, however, one condition that must be met before really significant improvements in bus services can take place. This concerns road congestion. There is no doubt that road congestion has considerably worsened in many locations since 1977 and that it is continuing to get worse. I will return to this in more general terms shortly but, on the specific question

of buses, there is no doubt that the increasing congestion on the roads is slowing down the movement of buses and making it more difficult for them to meet schedules. The result is that more buses are making fewer journeys. This means that, to speed up the flow of buses and thus increase their carrying capacity, consideration will have to be given to the adoption of more bus priority measures, including bus only lanes, even at the expense of worsening conditions for private cars and taxis. Otherwise we are in danger of a vicious circle of more buses, slower journey times, yet more buses, higher fares and so on.

The worsening of road congestion can be simply ascribed to the growing numbers of vehicles trying to use the roads. At the end of 1976 a total of 192,000 vehicles were registered and this rose to 208,000 at the end of 1977, 233,000 in 1978 and 261,000 in 1979. Following an actual decline in the recession years in the mid-70s the growth rate of private cars has now again risen to almost 15% a year, of goods vehicles to 10% and taxis to about 13%. The overall growth rate of all vehicles is now running at almost 12% per annum.

Sir, given these figures, I fully accept Miss DUNN's prediction that the numbers of private cars will continue to increase. But in 1979 the total number of private cars registered increased by 20,000 and in recent months they have been growing by as much as 2,000 a month. As a community we cannot continue to tolerate this rate of increase, which is way ahead of any realistic assessment of our ability to expand the road network. Certainly, no amount of road building and no amount of traffic management measures could accommodate this rate of growth for long without catastrophic and debilitating traffic jams all day long. The average growth in the length of our road network is about 2% a year and, even taking into account road widening and other qualitative improvements, it cannot be more than 3%. So even a doubling of real expenditure on roads, which could not be accommodated, either in terms of physical construction or in the use of resources, would fall far short of meeting the problem. In my view, therefore, we cannot continue indefinitely with unrestrained growth in vehicle numbers and in vehicle usage if we are to continue to keep people and goods moving on the roads, and we will need to address ourselves seriously to this problem before very long.

Sir, with these words, I support the motion.

SECRETARY FOR SECURITY:—Sir, two Members have spoken during this debate of their understandable concern at the high level of both legal and illegal immigration from China. Both Mr. WONG Lam and Mr. F. K. HU have urged that more should be done to curb this inflow. Naturally I share their concern. With the onset of the warmer weather, which in the past has been an encouragement to illegal immigrants, in particular, it is opportune

to take stock. Those of us involved with this intractable problem on a day to day basis do so frequently.

The Security Forces continue to maintain a high degree of watchfulness and a constant and highly effective system of patrols on land, sea and air. This is demanding, arduous and sometimes tedious work, but those of us who have seen these operations know that they continue to be undertaken with dedication, skill, imagination and great efficiency. They involve many elements and units of the Royal Hong Kong Police, H.M. Forces and the Auxiliary Services whose deployment, operational techniques and command and control are all kept under close scrutiny at all levels to ensure maximum effectiveness. As a result, the evasion ratio, that is to say the proportion of those arrested compared with those who succeed in evading arrest has been kept at a greatly reduced level of one to nought point nine (1:0.9) in the last six months, compared with much higher figures of previous years.

In this new financial year financial provision has been included in the Estimates which will:

- first enable the strength of the Police Force to be increased by up to 900 officers. This will assist the Police to meet its commitments in the expanding urban areas, maintain its contribution on the border and on the flanks as well as at sea;
- second meet Hong Kong's share of the cost of the existing Garrison of 4 Infantry battalions, the R.A.F. Wessex Squadron and the 5 R.N. patrol craft as well as an instalment of Hong Kong's share of the cost of their replacement;
- third provide for reinforcements by additional rifle companies—and this month there are six such companies here—a small R.M. raiding squadron, 2 hovercrafts, a fast patrol boat and additional helicopters;
- fourth finance the cost of 9 new sector patrol crafts and crews for the Marine Police: the first 3 launches will be available by early next month;
- next re-equip the Auxiliary Air Force with 3 Dauphin twin-engined helicopters to replace the Allouettes, and
- finally construct an illuminated chain link border fence 22 kms long and 5 metres high from Sha Tau Kok to Lon Ma Chau. This will be completed by June, and will be reinforced by watch towers where necessary. Plans to extend the fence the further 13 kms to Tsim Bei Tsui are also well advanced.

All this represents a substantial and significant deployment of resources and a considerable deterrent.

Apart from the border fence, the two main priorities for the expansion of the Hong Kong Government's operational contribution to illegal immigration operations at this stage will be the Marine Police and the re-equipment of the Auxiliary Air Force with bigger helicopters. Accordingly proposals are being considered for a substantial replacement and expansion programme for the Marine Police fleet. In addition urgent studies are being pursued to provide improved communication and radar. And the Dauphin helicopters will be in service in August.

At the same time, bearing in mind the Garrison's internal security role as well as its role in support of the civil power generally, a re-examination of its size and composition is in progress and discussions on its expansion and its cost are proceeding with the Ministry of Defence.

As a result of these efforts Hong Kong is undoubtedly a much more difficult place to enter illegally than it ever was before. It remains the objective of all of us involved in this operation to make it even more so. I was relieved to note the figures of 4,700 arrests in March which represented a reduction in the figure of 6,600 in March last year. This was the first month since the high rates of inflow started in which there was a reduction in arrests compared with the corresponding month in the preceding year. Nevertheless the figures remain unacceptably high.

The action which we take in Hong Kong to prevent illegals entering is only part of the story. The counter measures which the Chinese Authorities themselves are taking are of the greatest possible importance. Representations continue to be made on the level of illegal and legal immigration. We know of and see patrolling operations on the Chinese side of the border and we believe that the numbers apprehended on the Chinese side are greater than those who cross the border illegally. The announcement and introduction of the new criminal code in China under which leaving China illegally is made an offence is a further deterrent: so are recent convictions of, and the imposition of long sentences of imprisonment on, persons engaged in organizing illegal emigration from China.

Both Mr. WONG Lam and Mr. HU also urged the administration to reconsider its policy under which those illegal immigrants who evade arrest are at present permitted to remain in Hong Kong. The advantages of any change in policy must be weighed against the possible disadvantages. These would include the effect of the implementation on the general public, the possible need to transfer manpower and resources from other law enforcement functions to implement the new policy and the effects of a change of policy on law and order generally. A new policy involving the return of evaders raises major issues which are already being discussed in public. Obviously this policy, like all other immigration policies and operation deployments and plans, is kept under review by the Administration.

Sir, I support the motion.

SECRETARY FOR THE CIVIL SERVICE:—Sir, in his remarks on rehabilitation Dr. FANG once again urged the Government to take a lead in providing employment for disabled members of the community. I agree with him that the Government must set a good example in this regard, especially now that more public funds are being spent in preparing disabled people to take their proper place in society.

The civil service has made a special effort to employ the disabled, and I believe that our record stands comparison with any other employer in Hong Kong. For some time it has been our policy to give disabled persons a degree of preference for jobs over other applicants. Recently, we have gone one stage further and authorized the appointment of disabled persons even when they are unable to perform all the duties of a particular rank. Altogether the civil service now employs 660 registered disabled persons: in addition we are employing many others with minor disabilities.

When the new Selective Placement Unit is set up in the Labour Department, I believe that we shall succeed in employing more disabled people in the civil service, though there is regrettably still much prejudice to be overcome.

Dr. FANG referred to the problem of finding employment for disabled graduates from our two universities. Since January this year my staff have been in close touch with Hong Kong University on this question and we have carried out a special study to identify the kinds of work which blind graduates can and cannot perform. I am happy to say that a blind third year student at Hong Kong University has now been provisionally selected for appointment as an Executive Officer. If all goes well we propose to employ him in Civil Service Branch on staff management work. Another blind third year student is being considered for appointment as a Court Interpreter.

I think it may be of interest to Members to know that experience in other countries suggests that blind graduates may be particularly well suited to staff management work and also to staff relations work: indeed it appears that they have some advantages over sighted persons on this type of work. It is true that they do need special equipment, such as an Optacon, which I understand is a portable reading device which converts the image of a printed text into a vibrating tactile form that a blind person can feel with one finger. We shall be supplying this and other types of equipment. We shall do all we can to make a success of this experiment, and in due course we shall look forward to sharing our experience with other employers in Hong Kong.

I should now like to respond to a remark by Mr. WU on efficiency in the civil service. He said that he looked forward to some tangible return on the heavy increase—nearly 48% in expenditure on civil service training. He was referring in fact to the central vote of \$17 millions to cover external training expenditure, the bulk of it overseas. Most of this year's increase

is required to meet steeply rising costs, particularly for accommodation, travel and tuition. Further substantial increases in costs are now expected, particularly in Britain, where tuition costs are, I believe, being increased by as much as 300%, so that even with the enlarged vote we face the prospect of a decrease in the amount of overseas training we are able to undertake.

Since I believe this training to be necessary, and since we are already doing it as economically as possible, I see no alternative but to press my case for supplementary provision.

It occurred to me, listening to Members' speeches earlier in this debate, that in a great deal of what we set out to do, it is not economic or fiscal constraints which tend to limit our achievement, but rather the shortage of key staff in the upper levels of the civil service.

The traditional civil service philosophy is that recruitment now into this year's vacancies in the lower ranks will, in due time, produce sufficient officers of merit and experience to fill the upper ranks. There are however grounds for believing that this theory does not work in practice in the situation facing us in Hong Kong; where we have a civil service still expanding from a small base, extremely high rates of growth sustained now over many years, and an overall shortage of key personnel in the public and private sectors combined.

This problem was recognized a few years ago in relation to the Administrative Class and it was decided then to adopt a deliberate policy of recruitment to meet likely future demands.

That policy is now beginning to bear fruit: the Administrative Class will have grown from 200 officers in 1977 to over 300 by the end of 1980, so enabling us to meet a variety of fresh staff commitments which could not have been foreseen 2 or 3 years ago. We have thus been able to provide experienced officers for the new Kwun Tong Project, a new Recreation and Culture Division in Home Affairs Branch, a new Staff Management Division in Civil Service Branch, and a new Staff Development Section in the Medical and Health Department, to take a few examples. At the same time we have reinforced the policy branches in the Secretariat, as well as the New Territories Administration, the Urban Services Department and the Trade, Industry and Customs Department.

I am now considering whether to adopt a similar recruitment policy for the Executive Class, whose 1,000 members fulfil a vital role in the management of the civil service, as well as in several key policy and operational areas. As an immediate step I am proposing this year to offer appointment to an additional 60 or so university graduates so that we may be better able to meet future commitments, particularly in city district work and staff management.

I suspect that there are other areas in the civil service where our policy of recruiting to fill existing vacancies in the lower ranks is a principal cause

of under-management and over-stretch. We shall now try to identify these areas, working through the new Departmental Establishment Committees to which Mr. LO referred in his speech. We shall then have to work out solutions appropriate to each case.

Concern has been expressed by Unofficials at the speed with which the total number of civil servants is growing. My own view is that in most cases present establishments are not excessive in relation to commitments; but that by strengthening the policy and management levels we stand a good chance of improving the level of achievement. That in turn should reduce the rate at which the civil service would otherwise need to grow in future.

Sir, I support the motion.

THE CHIEF SECRETARY:—Sir, I offer my sincere congratulations to Unofficial Members for their speeches which (as we have come to expect in these debates) reflect the careful and constructive consideration given by them to the budget proposals.

The fact that we have come to expect such excellence makes it the more praiseworthy that our Unofficial Members continue to apply themselves so effectively and expertly to the increasingly onerous and complicated problems with which they are involved in governmental terms.

The observations of Members clearly reflect their acceptance that this was a good Budget, perhaps I may say a popular Budget. May I also term it a sensible Budget; I am sure that the Financial Secretary will personally be at least as gratified as is this Government at its reception by both Unofficial Members and by the public in general.

Taking a number of subjects under review, I refer first to *Recreation and Culture*:

Mr. Alex WU suggested that Government's policy with regard to the promotion of the arts should be re-examined, and that the Recreation and Culture Division of the Government Secretariat should work for greater coordination of effort and direction. I agree. That is of course why Government decided to establish the new 'Recreation and Culture Division'. The task of the new Division is to ensure that Government's own activities in these two areas are effectively co-ordinated; and to examine, through the drawing up of the programme plan on music and the performing arts, the questions of direction, co-ordination, manpower and finance, in some detail.

Consultations have already been held with the UMELCO Cultural Affairs Group, under the chairmanship of Mr. WU. The guidance and support Unofficials have offered in this task are much appreciated. We must await consideration of the programme plan's recommendations before we adopt a wholly co-ordinated and long-term approach, particularly in terms of

finance; but in the meantime, as Mr. WU is aware, Government is already committed to promoting the arts, not only through the Cultural Affairs Division of the Urban Services Department and the Music Office, but also through annual subventions to the Hong Kong Philharmonic Society and the Hong Kong Arts Festival. Consideration is also currently being given to continuing to provide financial assistance to the Conservatory of Music. Members are, of course, aware of the considerable work of the Urban Council in this field also.

Mr. F. K. HU mentioned that the provision of recreational training by the Recreation and Sport Service has proved to be very popular and has been welcomed by the community at large. He suggested, however, that there is still a general shortage of recreational facilities to meet the demands of those who have completed their training. Mr. WONG Po-yan also urged that recreation facilities should be urgently provided. I can assure both Mr. HU and Mr. WONG that adequate sites have been reserved both in the urban areas and in the N.T. new towns for recreational development such as sports grounds, indoor games hall and facilities for other active recreational purposes. However, it must be pointed out that, whilst we all can readily agree that new facilities should be provided, it is necessary too to ensure that our existing recreational facilities are being used to the maximum. I understand that a working party on the Council for Recreation and Sport on 'Maximization of the Use of Facilities for Recreation' under the chairmanship of Mr. F. K. HU is currently looking into this question.

I note Mr. HU's reference to the special survey on transport and leisure pursuits, to be conducted by the Census and Statistics Department in November 1981, and agree with him that this should be a useful exercise in helping to work out long-term plans for the provision of recreational facilities on a more systematic basis.

On '*Legal Assistance and Advice Schemes*', I am pleased to acknowledge Mr. Peter WONG's support for the Legal Assistance and Advice Schemes and I share his view that both schemes have proved themselves. He chides the Government for not pressing ahead with them at a faster rate, but, as he himself says, the provision for these schemes has grown in 18 months from \$1.5 million for services at three Magistrates' Courts and two advice centres, to \$3.6 million for services at four Magistrates' Courts and five advice centres. Expansion beyond this would require the further provision of additional financing by the Government and of additional qualified personnel by the legal profession, and the schemes will have to compete for these resources in the usual way. The Management and Administrative Committee, which supervises the schemes on behalf of the Law Society, has submitted a report which contains proposals for expansion and Mr. WONG can rest assured that these will be carefully and sympathetically considered when the report is laid before the Executive Council for advice in the near future.



*The Civil Service*

I now turn to the civil service. There are a number of points to be made following on the remarks of the Secretary for the Civil Service.

The civil service has grown to be both large and diverse. It has 140,000 staff in 48 separate departments. It is now, more than ever, necessary to strike the right balance, or perhaps I should say the best balance, between control from the centre on the one hand, and devolution to and within departments, on the other. This is rather more difficult than is generally appreciated, although I am sure that anyone with long experience of working with really large organizations will confirm this.

Some matters must clearly continue to be decided at the centre; for example: new legislation; important questions of policy or major public works. Other matters need to be subject to some degree of control from the centre in order to ensure uniformity; for example civil service appointments, pay and conditions of service and so on.

There is certainly room for greater devolution than at present, not only from the centre to departments, but also within departments from their headquarters to the regional level and it is Government's firm policy to encourage and to assist this to happen. If, however, devolution is to be properly and usefully carried out, it needs to be accompanied by increased flexibility and by exercise of wider discretion. Taken together, these should lead to greater recognition of the diversity and individuality which are the strengths of the civil service: it should also help to strengthen the pride of staff in their departmental identity.

The very basis of good and successful management is good communication. Good communication depends upon intelligent and thoughtful human contact, good understanding. None of us must ever forget that we are dealing with people. Whether we are controlling or are being controlled, we react to, or are reacted to, largely according to the personal experience we give or we receive. This can be an exhilarating experience or a deadening one. Either can last a long time. So, in considering devolution I most earnestly insist that properly handled it can encourage the vital human touch in the administrative machinery.

Devolution then in careful hands can be in every way a strengthening influence on the body corporate: and while it necessarily involves more direct responsibility by individual departments, it must not in any way lead to a lessening of overall responsibility on the part of Central Government.

In practice this should not occur, for devolution can only make sense if the centre effectively monitors the performance of departments to ensure that work is carried out effectively and that programme objectives are achieved on time. These concepts of devolution, flexibility, discretion and monitoring are nowadays essential working tools for the progressive administrator, and

the Chief Secretary's Committee will be giving increasing attention to their implementation throughout the civil service.

I know that I speak for all Members of this Council when I say that we recognize the importance of providing the civil service with salaries and conditions of service which are regarded as fair, both by civil servants themselves and by the community which it serves and which pays them. The past year has seen an unparalleled increase in the effort which is being devoted to these important matters, and I think this is recognized and appreciated by civil servants generally at all levels. I take this opportunity of assuring them that we intend to continue in this way. I also give my assurance that we shall play our full part in developing an ever more constructive relationship between management and staff associations.

The review and updating of pay and conditions of service is a never-ending task, and this Government as a good employer (which is certainly what it must be) will surely not fail to find areas ripe for improvement.

In this task we are being ably assisted by the Standing Commission on Civil Service Salaries and Conditions of Service, now under the chairmanship of Sir S. Y. CHUNG, and by the Standing Committee on Directorate Salaries and Conditions of Service under the chairmanship of Mr. G. R. Ross. The wisdom and experience which these two bodies are bringing to bear on numerous difficult issues are invaluable contributions to the better management of the civil service, and we are most grateful to them.

In this context, as I could in so many others, I here pay tribute, Sir, to Sir Y. K. KAN who as Chairman of the Standing Commission during its first year of operations gave so much of his energy, as well as his wise counselling and the benefit of his long experience.

Sir, I now wish to thank most heartily and sincerely all the members of the Hong Kong Civil Service for their loyalty and their hard work. And for most, as I know, it can be very hard work. Also many of them perform duties which are dangerous, unpleasant or at the least onerous, often working under extremely difficult conditions. I have the highest personal regard for them. I am sure that all Members of this Council will wish to join with me in thanking them and in assuring them of our continuing full support.

Sir, I support the motion.

(4.18 p.m.)

HIS EXCELLENCY THE PRESIDENT:—I think perhaps that at this point honourable Members might like a short break before the Financial Secretary's speech. Council will resume in 15 minutes.

(4.34 p.m.)

HIS EXCELLENCY THE PRESIDENT:—Council will resume.

THE FINANCIAL SECRETARY:—

OUTLINE

	<i>Paragraphs</i>
(1) Introduction	1-2
(2) Priorities of Public Policy and the Decision-making Process	3-13
(3) Control of Public Expenditure:	
(a) Value-for-money criterion	14-15
(b) Cash limits	16-17
(c) New procedure for creation of posts	18-20
(d) Management of the Public Works Programme	21-24
(e) Exhibition Centre	25-27
(f) Role of the private sector	28-30
(4) Fiscal Policy:	
(a) General	31-33
(b) Personal taxation	34-48
(5) Budgetary Policy for 1980-81	49-57
(6) Management of the Economy	58-62
(7) Present State of the Economy:	63
(a) External sector	64
(b) Prices	65-68
(c) Monetary aggregates	69-70
(d) Immediate outlook	71-76
	<i>Pages</i>
Annexes	741-749

(1) *Introduction*

Sir, this has been a gratifying and unusual debate: gratifying, because several Unofficial Members were kind enough to imply in their speeches that they found some of the footnotes and annexes to the Budget Speech helpful and of interest; unusual, because the only disagreements between us that I could detect were disagreements of emphasis rather than substance.

2. So the task of winding up the debate is less daunting than in previous years. I shall not, however, be uncharacteristically brief for there are many points for me to pick up; and, in response to Miss DUNN's call 'to monitor the course of our economy closely over the next few months', I shall conclude this speech with a report on the present state of our economy as revealed by

the latest statistics available to me. Apart from my mid-term report in September when I shall, as usual, update my Budget Speech forecasts, I shall seek other opportunities during the year to keep honourable Members informed on how we are faring. To this end also, I should mention that, from now on, the Economic Review Committee will be publishing two quarterly reports (in May and November) as well as a half-yearly report (in August) and the annual report (on budget day).

(2) *Priorities of Public Policy and the Decision-making Process*

3. Mr. LOBO reflected the tone of several later speeches when he opened the debate with a call for ‘public policy (to be) monitored constantly to ensure that it is meeting (the community’s) expectations (of progress and change) or is at least proceeding as fast as possible in the right direction’. Responsibility for the making of public policy—which I described last year as a highly argumentative process<sup>(1)</sup>—initially lies with the Administration, but it is not alone in having a duty to ensure that it is ‘flexible in the allocation of priorities if circumstances change’ (to quote Mr. WU). That is a duty which the Administration and Unofficial Members must share together, but in the full knowledge that we cannot, as Mr. LOBO so rightly said, ‘solve all our problems at once’. That is true even in a situation in which there is—or appears to be—a plenitude of purely financial resources. The fact is there will always be an upper (and a lower) limit on the growth rate of public expenditure imposed by the need to ensure that the growth rate of the economy is not impaired, just as changes in the growth rate must be compatible with the process whereby the economy adjusts to internal and external disequilibrating forces.

4. In the 1970s, such were the pressures to develop our recurrent services, particularly our social services, that we had to bear two considerations constantly in mind in the management of the public finances: *first*, to limit the growth rate of recurrent expenditure so as to leave room for capital expenditure; and *secondly*, to generate a sufficient surplus on recurrent account to help finance the deficit on capital account so as to avoid an undue recourse to debt. We were reasonably successful in this first endeavour in that the ratio of recurrent expenditure to capital expenditure, at 72:28, broadly conformed with our guideline ratio of 70:30; and, as regards the second endeavour, only in one year, 1974-75, was the surplus on recurrent account insufficient to finance the deficit on capital account. In all other years, we ran overall surpluses and so ended the decade with ‘free’ fiscal reserves<sup>(2)</sup> equal to 31% of estimated expenditure on General Revenue Account of \$18,332 million in 1980-81<sup>(3)</sup>.

---

(1) *C.S., 1979, paras. 24-26.*

(2) *B.S., 1980, paragraph 121 in Appendix II.*

(3) *B.S., 1980, paragraph 53 and f.n. (57).*

5. But, in the 1980s, it is already evident that we could get ourselves locked into a level of capital expenditure which is not sustainable in financial terms, and which also implies a danger that the growth rate of recurrent services may have to be unduly restrained, particularly as the inescapable implications for recurrent expenditure of certain types of capital works (e.g. hospitals and schools) are considerable<sup>(4)</sup>. So, in the 1980s, the question of priority of expenditure between recurrent services and capital works will be a difficult question and will involve a shift of emphasis: from limiting recurrent expenditure to limiting capital expenditure as a proportion of total expenditure, for it is the latter which is likely to exhibit a natural growth momentum. Apart from the cost of developing our increasingly extensive and sophisticated social and economic infrastructure in the 1980s<sup>(5)</sup>, the outstanding contractual commitments in respect of projects within the two Public Works Programme components of the capital account (*excluding* the cost of land acquisitions) and the Housing Authority's capital works programme will be of the order of \$14,000 million at the end of this financial year<sup>(6)</sup>. So I can assure Miss DUNN that, on both priority as well as budgetary grounds, I *shall* be considering whether our guidelines need to be revised 'to provide a new framework within which to discipline our thinking'<sup>(7)</sup>.

6. In the last two years, 1978-79 and 1979-80, the ratio of recurrent expenditure to capital expenditure was 67:33 and 64:36, both well below the average ratio for the decade of 72:28; in 1980-81, as Mr. CHEN reminded us, the ratio will fall further to 59:41, despite a 27% increase in total expenditure. So I do not see how Dr. HU can argue that there is, presently, an over-emphasis on recurrent services within total expenditure. Equally, I cannot agree with Mr. YEUNG that, whether or not there was a relative under-emphasis on capital works in the 1970s, there is room for a greater emphasis than envisaged in 1980-81 and in the new three-year forecast period, 1981-82 to 1983-84<sup>(8)</sup>. And, incidentally, when quoting what he described as 'total capital expenditure on road projects (in) the New Territories', as the Secretary for the Environment has pointed out, he overlooked expenditure on roads which is included, largely, in the development packages

---

(4) *Thus, whilst recurrent expenditure in 1980-81 will only absorb 75% of recurrent revenue (as opposed to the upper limit set by Guideline (2) of 80%), recurrent revenue will only finance 79% of total expenditure instead of the minimum set by Guideline (1) of 88%; and the ratio of the surplus on recurrent account to capital expenditure at 49% will be much less than the minimum set by Guideline (3) of 60% (c.f. 1974-75 when the ratio was 55% but, in that year, capital revenue was only sufficient to finance 24% of capital expenditure—as opposed to an estimated 90% in 1980-81—and so an overall deficit of \$378 million emerged, compared with a budgetted for surplus in 1980-81 of \$2,904 million).*

(5) *B.S., 1980, paragraph 212.*

(6) *See Appendix VIII to the Estimates for 1980-81.*

(7) *B.S., 1980, paragraph 163.*

(8) *B.S., 1980, f.n. (92) and paras. 216-219.*

for the new towns amounting to \$185 million in 1980-81<sup>(9)</sup>. Whether, as he also suggests, *total* expenditure could be higher is a question of budgetary policy to which I shall refer in a moment.

7. Of course, the argumentative decision-making process does not come to an end once agreement has been reached on the right balance between recurrent services and capital works. In fact, it is within the recurrent account and within the capital account and as between programme areas that the realities of the cross-pressures which make life so interesting emerge in all their naked fury (*laughter*).

8. As Mr. LOBO said, '(in) Hong Kong nothing stands still' and I agree with him that our very progress creates 'new situations and new problems'. So we must be, to quote Mr. WU again, 'flexible in the allocation of priorities if circumstances change'. I would add that we should be ready to adjust our views as to the priorities best suited to the public interest from time to time and to adjust them, as Dr. HU said, 'at the right time before it is too late' so as to head off 'public frustration' (to quote Mr. Peter WONG) and to prevent 'patience wearing thin' (to quote Miss DUNN out of context) (*laughter*). The difficulty is to get everyone to agree to adjustments, even in favour of small projects, and those who think otherwise are, I am afraid, out of touch with reality. I am *not* saying there will not always be room for argument, preferably rational argument, within the Administration—up to, but not beyond, the point of decision—and in this Council and elsewhere as regards the priority to be accorded to recurrent services as opposed to capital works, to one programme area as opposed to another, and to specific targets within any programme area.

9. Thus Mr. LOBO seemed to think that the \$2,981 million to be spent by all concerned on public housing in 1980-81 could somehow be bettered at the expense of something else, but was wise enough not to say what. Likewise, Miss DUNN, having attacked the size of the capital account one minute went on to plead for more expenditure on the transport infrastructure the next but, in common with Mr. LOBO, she did not offer any

---

(9) See Head 74 *Public Works Non-recurrent: New Towns and Public Housing (other than Housing Authority)* in the Draft Estimates for 1980-81. Mr. Yeung's figures relate only to expenditure provided for under *Public Works Non-recurrent: Engineering (which is Head 73 in the Draft Estimates for 1980-81)*. Thus, total capital expenditure on road projects in the New Territories has been as follows:

Year	\$ mn	% of total expenditure on road projects
1975-76	87	31
1976-77	106	49
1977-78	107	38
1978-79	144	37
1979-80 (R.E.)	136	29
1980-81 (Estimates)	219	36

helpful suggestions as to where room might be made for such additional expenditure. I am not actually being critical of either Mr. LOBO or Miss DUNN (*laughter*) for the fact that I, too, am not entirely happy with the balance of expenditure within the capital account is indicative of how difficult and contentious are questions of priority, unless there is to be no limit on the growth rate of public expenditure which would imply that the health of our economy rated no priority in our thinking. Yet, self-evidently, it must, for as no less an authority than Adam Smith said: 'No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable.' So, whilst I would not actually disagree with Miss BENNETT when she contended that—a community will be judged by the way it is prepared to invest its money in caring for the sick and elderly, for the injured and the handicapped', I think she is guilty of a gross over-simplification.

10. Incidentally, Sir, I would join the Secretary for Housing to remind Mr. YEUNG there is no such thing any longer as a ten-year housing programme: instead we have a clearly defined and ambitious four-year programme aimed at producing 35,000 flats a year. This programme is rolled forward annually and green pages 30-34 of the Budget Speech deserve close study. Whilst I welcome Mr. F. K. HU's suggestion that the Housing Authority should endeavour to generate such a positive cash flow as to reduce its calls upon the Development Loan Fund for its building programme, like him I doubt whether it is realistic, on economic or financial grounds<sup>(10)</sup>, to set for the moment an annual production target higher than 35,000 flats for the time being; although I would add that every effort must be made to ensure that this target is achieved and, also, that I can see no end to our public housing programme for many years.

11. Several Unofficial Members put in special pleas for special attention to be paid to particular problem areas: Mr. LOBO hinted that not all the programmes and projects provided for within the \$2,943 million earmarked for education in the Draft Estimates for 1980-81 are entirely relevant to present day circumstances. He also drew our attention to 'the problems of the care of the elderly'. So did Dr. FANG and Dr. HU; and the later also expressed concern about other 'less fortunate members of our community' such as neglected children and street sleepers. To look after the disadvantaged is unquestionably the responsibility of any government and it is incumbent upon us to ensure that a sufficiency of funds is available for them and that we do not become too preoccupied with dramatic programmes of improvement and prestigious capital works. So we come back, Sir, all the time to the question of priority in theory and in practice.

---

(10) *Building costs are still increasing rapidly and additional funds may be required in 1980-81 to enable the Housing Authority to let a larger number of new contracts than originally envisaged in order to safeguard the achievement of the production target in the forecast years.*

12. I was not quite sure whether Miss BENNETT was simply stating that there are deficiencies in the range, quantity and quality of our various services (and such a reminder of the obvious is always timely); or whether she was pleading for an increase in total expenditure; or whether she was criticizing the Government's intended priorities as reflected in the Draft Estimates, in which case I think she should be a little more specific. I am afraid that those who seek a higher priority for, say, pre-primary education, or even for expanded facilities for the disabled and the aged must realize that, unless there is to be no budgetary discipline at all, another service or services must be accorded a lower priority. Mr. WONG Po-yan put this point very well: given, he said, that 'there is still a long list of social commitments that must be met', public funds 'must be used very carefully and selectively'. I would pick up Dr. FANG's reference to the 60% increase in the provision for the recurrent costs of rehabilitation services in 1980-81 by saying that this is a good example of how we pick our targets and then proceed to tackle them. Nor does the existence of what Miss BENNETT described as our 'vast (fiscal) reserves' remove the need for budgetary discipline. They are only there to be spent in the circumstances set out in the Budget Speech<sup>(11)</sup>. And I would remind Miss BENNETT that we earned \$1,000 million in interest on our fiscal reserves in 1979-80. This accounted for about 7½% of total recurrent revenue and was sufficient to finance no less than 66% of the total cost of subventing primary, secondary and special schools in 1979-80.

13. This brings me, Sir, on to an apparent misconception shared by Miss BENNETT with Mr. WU about the role of that favourite Aunt Sally, the Finance Branch. As Financial Secretary, and as an ex-Deputy Financial Secretary, I am inevitably defensive on their behalf, and intend to remain so. I must stress that it is not for me or the Finance Branch alone to heed 'to clamour ... for further improvements (to our services)' as suggested by Miss BENNETT and I can assure Mr. WU that we alone do not decide 'the fate of ... expenditure proposals made by responsible departments'. It is the Government as a whole which decides priorities, that is to say, which new services should be financed with the funds available after providing for commitments in respect of existing services and expanding them to meet demand at existing standards. I can assure Mr. WU that departments are not in the least inhibited in putting forward bids for funds for new services<sup>(12)</sup>, most of which are anticipated anyway in major policy decisions taken by Executive Council, by legislation enacted by this Council and, particularly so far as the social services are concerned, and

---

(11) *B.S., 1980, paragraph 120 in Appendix II and paras. 209-212.*

(12) *Indeed, they are positively invited to do so in the five-year forecast call circular issued each year in April as part and parcel of the decision-making process (see, for example, paras. and 4 of Financial Circular No. 7/79 of 19th April 1979).*



publicized in various White Papers<sup>(13)</sup>. For 1980-81, \$150 million was allowed for new services in the recurrent account, total bids coming to about twice this figure; and, in addition, a proportion of the \$350 million available in the recurrent Additional Commitments vote will be spent on new services. At the same time, about \$240 million of the \$3,359 million in the capital account for the two components of the Public Works Programme is for new works, and up to about \$200 million available in the capital Additional Commitments vote will be spent on new works. I know of no evidence to support Mr. WU's fear that the budgetary process may 'stifle initiative'. Indeed, faced with an unending stream of bids for funds even outside the annual estimates season, I sometimes wish it would.

### (3) *Control of Public Expenditure*

#### (a) *Value-for-money criterion*

14. I am, however, in sympathy with Mr. WU's emphasis on 'the need to promote efficiency and quality in the services we do operate' and Dr. HU's call for '(improved) supervision ... to ensure that public money is spent according to established policies' for a better performance is not, by any means, solely dependent on more money and more staff. Although I would not go so far as Mr. F. K. HU when he said that the rapid expansion of the civil service in recent years coupled with a 'lack of competition and comparison' means that 'we are not getting value-for-money', I take Mr. WONG Po-yan's points that our services and facilities should be of 'reasonable quality and of moderate standards' and provided at 'the most economical cost' and that, to this end, the Administration should 'improve its internal financial and monitoring system so as to maximize output'.

---

### (13) Education

1974: *Secondary education in Hong Kong over the next decade*

1978: *The development of senior secondary and tertiary education*

1980: *Primary education and pre-primary services* (Green Paper, shortly to be published)

#### Medical and Health

1974: *The further development of medical and health services in Hong Kong* (Note: the aims of this White Paper are reviewed annually by the Medical Development Advisory Committee.)

#### Social Welfare

1973: *The way ahead*

(Note: this White Paper is supplemented by the Social Welfare Five-Year Development Plan which is rolled forward annually.)

1979: *Social welfare into the 1980s*

(Note: this was an amalgamation of three Green Papers published in 1977, namely, *Help for those least able to help themselves*, *Services for the elderly*, and *Development of personal social work among young people in Hong Kong*.)

#### Rehabilitation

1977: *Integrating the disabled into the community: a united effort* (Note: reviewed biennially by the Rehabilitation Development Co-ordination Committee.)

15. I, myself, Sir, stressed in the Budget Speech that ‘the greater the volume of public sector transactions, the greater the scope for public funds to be disbursed inefficiently and for assets to be under-utilized’<sup>(14)</sup>. It is this realization which has led us to proceed with the establishment of a Financial Information System<sup>(15)</sup> designed to establish the true cost of services. Furthermore, since 1978, honourable Members, through the Public Accounts Committee, have been associated with the Director of Audit’s wide ranging ‘efficiency audits’ which are concerned to establish whether appropriated funds have been spent in such a way as to secure the public interest.

*(b) Cash limits*

16. In a sense linking the annual appropriation exercise, on the one hand, and the pursuit of cost-efficiency, on the other, is the application of the cash limits system, that is to say, a general insistence—with or without exceptions—that the provisions under the various heads of expenditure are limiting, the cost of new or amended policy decisions taken during the year, and of a higher than expected rate of inflation, being financed from savings or, if genuinely not available, from the two Additional Commitments votes<sup>(16)</sup>. It is true that the inspiration, as it were, for the cash limits system, both this year and last, was budgetary policy, but there is a cost-efficiency objective too implied in the requirement that departments must quote offsetting savings.

17. In response to her view that, on budgetary policy grounds in particular, ‘cash limits (must be) observed by departments’, Miss DUNN will be glad to hear that, where offsetting savings cannot be quoted, applications for supplementary provision during this year will not be approved under delegated powers if and when the provision of \$800 million available under the two Additional Commitments votes is exhausted. In this way, Finance Committee will be associated with any decisions involving the breaching of the cash limits regime<sup>(17)</sup>.

*(c) New procedure for creation of posts*

18. I am grateful to Mr. LO, speaking in his capacity as Chairman of the Establishment Sub-Committee, for his observations on the experimental administrative arrangements announced in the Budget Speech<sup>(18)</sup> whereby,

(14) B.S., 1980, paragraph 214.

(15) B.S., 1980, Annex (10).

(16) Head 54 Miscellaneous Services Subheads 100 and 260 Additional commitments (the former being for recurrent expenditure and the latter for capital expenditure: see also B.S., 1980, f.n. (135)).

(17) In other words, the cash limit to be observed on total expenditure on General Reville Account is \$18,441,723,000.

(18) B.S., 1980, paras. 206-209 in the printed version of Budget Speech.

subject to certain restrictions, heads of departments will, in future, be able to create a certain number of posts in ranks other than the directorate<sup>(19)</sup>.

19. I should like to emphasize one of the points made by Mr. LO. The underlying intention of the delegation is to give heads of departments responsibility and freedom to reorganize and streamline their departments, to facilitate a shake-out of posts and, generally, to reorganize the structure of their establishments in such a way as to achieve maximum efficiency. As Mr. LO said, each department must examine all the functions and activities presently undertaken so as to determine whether in the light of changing priorities, posts and the staff in them are being properly deployed or, indeed, whether they are necessary at all. In order to reassure Mr. WU, I would like to think that, only after a head of department has satisfied himself that all avenues for redeployment, deletion and offsetting of posts have been explored, will he exercise his newly acquired delegated powers.

20. In the first year, these delegated powers have been very generously defined. Controlling Officers were, last week, given authority to create an additional 12,300 posts in 1980-81, that is to say, two thirds above the number created in 1978-79 and 1979-80<sup>(20)</sup>. In these circumstances, it is now clearly up to Controlling Officers to make a success of the experiment. As I said in the Budget Speech, I do hope they will, for otherwise we shall have to revert to the previous arrangements.

*(d) Management of the Public Works Programme*

21. Mr. YEUNG referred to the 'slow' progress of certain public works projects, and, in particular, he mentioned the section of road from Au Tau crossroads to Fanling *via* Mai Po which 'has remained in the Public Works Programme for the last 15 years (with) the date for commencement still uncertain'. The history of this specific project is set out in Annex (2) to the printed version of this speech.

22. But I welcome this opportunity of explaining why the sections through Kwu tung and from Wo Hop Shek to Tai Po Tau have not been funded despite having been in Category A for more than two years, since this, as Mr. YEUNG realizes, is indicative of the growing bottleneck in the Public Works Programme. The fact is that, in recent years, the total value of all projects in Category A of the Public Works Programme has grown far faster than the acceptable, and permitted, growth rate of Public Works Non-Recurrent expenditure<sup>(21)</sup>.

---

(19) See also Financial Circular No. 5/80 of 1 April 1980, reproduced at Annex (1).

(20) Of 7,513 and 7,714 posts respectively. But the figure of 12,300 posts covered by the delegated powers is considerably less than the total number of requests presently known to Finance Branch of 19-20,000 posts (see B.S., 1980, paragraph 209 in the printed version of Budget Speech).

(21) See Annex (3).

23. Under normal circumstances, the authority given to include a project in Category A would imply an intention to implement that project within a reasonable time frame and, until about 1977, this intention was usually fulfilled. Since then, however, a very large number of projects have been upgraded to Category A, reflecting not only the increasing size of the programme, but also the improved planning capability of the Public Works Department. The sheer number, and particularly the presence of very expensive projects, means that all projects can no longer be undertaken within a reasonable time frame after being included in Category A<sup>(22)</sup>. Consequently, I am now considering a revision of Public Works Programme procedures with a view to linking the timing of upgradings to Category A to the availability of funds, without at the same time inhibiting the planning process.

24. But, until the very large backlog of commitments is cleared, considerable restraint will be necessary, and the number of new projects that can be proposed for inclusion in Category A must be limited strictly to those which, for one reason or another, cannot be deferred. Since 1976-77, the funds available for starting new projects have averaged just over 8% of total expenditure under the Public Works Non-Recurrent heads. I expect it will take at least four years to reduce the outstanding commitment of \$15,200 million to a manageable size, and this means that each Category A project not yet started will have to be examined very carefully to ensure that its priority in relation to other items in the programme has been correctly assessed.

*(e) Exhibition Centre*

25. Mr. TIEN put forward a seemingly ingenious proposal for a viable trade exhibition centre. He began by writing off Government departments as 'notoriously bad at running businesses', which reminded me of that other ancient half-truth that businessmen are notoriously bad at public administration (*laughter*), and then went on to suggest a public corporation, M.T.R.C. style, to construct and manage the centre. So far so good but, thereafter, his proposal becomes more contentious: the corporation should pay for the full value of the land involved by issuing the Government with equity, and then negotiate with 'real estate, construction, banking and other business interests for the creation of the ... project'. I am not entirely clear what is meant by 'creation' and I presume Mr. TIEN has in mind substantial commercial development as well as the exhibition centre itself. Be that as it may, his conclusion is that 'no question of subsidy would arise' and the

---

*(22) The new procedures will be aimed at reducing the Category A commitments over a period of time to a manageable level more in line with the permissible growth rate of public Works Non-Recurrent expenditure. At the same time, this would ensure that, once Finance Committee authorizes the inclusion of a project in Category A, it will be implemented within a reasonable period of time.*

end result would be a project that would pay for itself with profits being credited to general revenue by a grateful Financial Secretary (*laughter*).

26. I wish it were as simple as that. I am told that those interested in an exhibition centre have their eye on a very expensive prime site, the full market value of which will be considerably higher than the cost of the development to be put upon it. Were we to follow Mr. TIEN's suggestion, the Government would *not* get cash down for this site. I do not know what he would classify as a 'subsidy'. But I, personally, would regard a situation in which the equity in a business could not be marketed<sup>(23)</sup>, because the yield from the total investment in the business was so low, as indeed implying a subsidy (and Mr. TIEN actually envisages a negative return for an unspecified initial period). I am afraid the Mass Transit Railway Corporation is not a very helpful precedent from Mr. TIEN's point of view for the Government obliged the Corporation to pay *cash* for the full market value of the Admiralty and Post Office sites for the very reason that they were prime sites; and, even if we had not done so, the relative importance of the land element in the capital development of the mass transit railway project is nothing like that in the exhibition centre.

27. Nevertheless, Mr. TIEN's suggestion will certainly be studied by the departments examining the report of the consultants appointed to consider the viability of an exhibition centre. Their task is to put forward a view on what to do, why, how and when and then the Administration will seek the advice of Executive Council. If all this takes a little longer than Mr. TIEN would like, I can only say that we are talking in terms of thousands of millions of dollars in a situation where the likelihood of viability is not self-evident<sup>(24)</sup> and, if it was, I am sure that private enterprise—in association

(23) *Except for asset stripping purposes and we certainly could not allow that to happen.*

(24) *Contrast, the M.T.R.C. which, even so, has a very high gearing, viz:*

As at end February, 1980:	<i>\$ mn</i>	<i>\$ mn</i>
Equity		
<i>Cash/Prepaid expenses</i>	<i>800</i>	—
<i>Land: Kowloon Bay</i>	<i>335</i>	—
<i>Rates</i>	<u><i>10</i></u>	<i>1,145</i>
 Loan outstanding		 <i>6,849</i>
 Gearing	 <i>6:1</i>	
Expected position in 1983 (after completion of Tsuen Wan Extension):		
Equity	<i>\$ mn</i>	<i>\$ mn</i>
<i>Cash/Prepaid expenses</i>	<i>800</i>	—
<i>Land: Kowloon Bay/Tsuen Wan</i>	<i>505</i>	—
<i>Rates</i>	<u><i>118</i></u>	<i>1,423</i>
 Loans outstanding		 <i>11,816</i>
 Gearing	 <i>8:1</i>	

perhaps, with the Trade Development Council, which frequently asserts ‘case proven’—would have produced an exhibition centre long ago (*laughter*). For this reason, it is really asking too much of the Government ‘to prove (the) project right or wrong (by allowing) it to proceed’. We really cannot be that cavalier with public funds, and certainly not for the purpose of subsidizing the cost inputs of the private sector, and it would be no use for the proposed corporation to be run ‘consciously along business lines’ if the Government’s investment could not be recovered and, worse, if the centre’s operating costs and debt service charges could not be matched by its operating income.

*(f) Role of the private sector*

28. Mr. TIEN is well aware, of course, that it has never been this Government’s policy to ‘(run) businesses’ unless circumstances so dictate: as land requirements do in respect of the waterworks undertaking; as social considerations do in respect of the public housing programme, a task too large and too non-profit oriented for the private sector; and as political and security considerations do in respect of the Post Office, the K.C.R. and the abattoirs. Although I do not accept that we have ‘(run our) businesses (badly)’, the fact is that the decision-making processes of an administrative bureaucracy cannot easily be reconciled with the relatively simplistic, almost mechanistic, discipline imposed on the management of commercial enterprises by profit and loss accounting concepts.

29. By contrast, if the Hong Kong Government has always consciously, albeit pragmatically, defined the boundaries of the public sector and sought to contain our activities within them, we have not hesitated to associate private initiative and efforts with the provision and operation of public services and, in 1980-81, \$2,214 million will be disbursed to subvented organizations in the education, medical and social welfare fields, representing nearly 50% of estimated total expenditure from public funds in these fields. But Miss BENNETT seems to think that this process of ‘sharing in responsibility between the Government and the voluntary agencies ...for the life of our community’ should automatically mean that public funds should be applied uniformly to Government institutions and institutions operated by non-Government organizations, at least those subvented on a deficiency grant basis; and I suspect Dr. FANG was making the same point as Miss BENNETT when he said that ‘(if) subvented hospitals (are to) share the load of overstretched Government hospitals ...(they must not be) limited by (inadequate) finances (for staff and equipment) and poor conditions of service for their staff’.

30. I think, Sir, it must be accepted that the role of subvented organizations in our network of educational, medical and social welfare services is, for historical reasons, an evolving one. I am sure these organizations value, and would not lightly accept an erosion of, their independence. It follows, as a corollary, that there is no necessary obligation on the general taxpayer to

finance their institutions in exactly the same way, and to the same extent, as Government institutions and this applies even to those organizations subvented on a deficiency grant basis. This is not to say that we take an inflexible view as to the relevance of our present rules of subvention for, clearly, as the activities of subvented organizations are progressively related to the targets set by our programme plans there must be certain implications for those rules if the organizations are properly to play their assigned role.

*(4) Fiscal Policy*

*(a) General*

31. I did not win universal support for not tapping any of our reserves of taxable capacity, Mr. CHEN taking the view that the sooner we anticipated a decline in revenue from land transactions the better, and he thought I should have '(grasped) this opportunity to ...improve the yield from indirect taxes' and thereby 'correct the (present) imbalance in the ... ratio of direct to indirect taxation'. Although the ratio of recurrent revenue to total expenditure in 1980-81 is estimated to be as low as 79%<sup>(25)</sup> and thus, as Mr. CHEN was quick to point out, the guideline of 88% (Guideline (1)) will soon be breached, recurrent expenditure will absorb only 75%<sup>(26)</sup> of recurrent revenue or safely within the guideline of 80% (Guideline (2)). At the same time, given the low price elasticities of demand for dutiable commodities and motor vehicles, I took the view, and Dr. HU has agreed with me, that increases in the rates of indirect taxes concerned would be inflationary<sup>(27)</sup>, via their impact on wage levels and the propensity to save, and not deflationary, as suggested by Mr. CHEN and Mr. LI Fook-wo who spoke of my 'failure to tap ...some of the funds which contribute to the inflationary growth of domestic demand'. I would digress here, Sir, with reference to Mr. CHEN's point about the balance of the tax system, to observe that, in fact, my personal tax concessions slightly improved the ratio of direct to indirect taxation: from 63:37 according to the Revenue Estimates, as printed, to 62:38 after the tax concessions are taken into account. Miss BENNETT clearly thought that my warning about the need eventually to boost recurrent revenue was not good enough for the absence 'year after year' of tax increases made her uneasy and she spoke of the 'danger (of) citizens (being) unaccustomed to financing ...expenditure from current taxation'.

32. Well, Sir, I'm afraid I do not believe that tax rates should be increased for psychological reasons, regardless of our fiscal needs. And anyway, simply because the capital account is, at present, almost self-financing should not

---

*(25) Or 82% before allowing for the net cost of the 1980-81 tax concessions of \$491 million.*

*(26) Or 72% before allowing for the net cost of the 1980-81 tax concessions.*

*(27) B.S., 1980, paragraph 172.*

lead us to suppose that the yield from direct and indirect taxes and from fees and charges at existing rates does not, even at the present time, play a large role in our affairs<sup>(28)</sup>. Although I would not go as far as Dr. HU and predict that ‘our existing taxable capacity is likely to (be sufficient) over the years without having to resort to ... changes’, I entirely agree with him that our reserves of taxable capacity—repeat taxable capacity—‘should only be tapped when additional revenue is needed’. A predictable fiscal environment and stable rates of charge have been the twin pillars of our fiscal policy for many years and, by encouraging a fast growth rate of our economy—through the release of human effort and the encouragement of enterprise and investment—have led to growth rates in yields which have been sufficient, and more than sufficient, to finance our recurrent services and to assist in the financing of our capital works programmes.

33. This is not to say that a budget which does not propose any increases in taxation is a ‘good’ budget and one that does is a ‘bad’ budget as implied perhaps by Dr. HO and Dr. FANG. I agree, in other words, with Mr. SO’s observation that ‘whether a budget is good or not cannot be assessed on the basis of a reduction or an increase in taxation (alone)’.

*(b) Personal taxation*

34. Sir, before I get involved in defending both the underlying philosophy of the relief offered to personal tax payers this year and the arithmetic of the tax liability of persons in various personal circumstances and on different incomes, I must deal with Mr. WONG Lam’s chivalrous attempt ‘to inspire (married women) to rejoin the labour force’ (*laughter*). *To begin with*, I know of no evidence that the absence of a system of separate assessment on the abolition of the working wife allowance in 1973, as part and parcel of the reform package which abolished selective allowances, has led to women, skilled or unskilled, leaving the labour force. Of a total of over 289,000 demand notes for salaries tax issued in 1979-80 only about 56,000 involved working wives and, of these, about 48,500 would have derived some benefit from a working wife allowance. The remaining 7,500 would not have benefited because they were already on the standard rate of tax. In proportionate terms, these figures are not materially different at all from those disclosed for 1972-73, the last year for which a working wife allowance was granted.

35. *Secondly*, I maintain my general objection to selective allowances and specifically to the working wife allowance and honourable Members will find a helpful bibliography on the subject in footnote<sup>(29)</sup> to the printed version of this speech.

---

(28) *Recurrent revenue in 1980-81 is estimated to be 79% of total expenditure and 68% of total revenue.*

(29) *B.S., 1973, paras. 74-79; C.S., 1973, paras. 57-59; B.S., 1978, Annex 15; and C.S., 1978, paras. 23-26.*



36. *Thirdly*, as regards this year's package of concessions in the field of personal taxation, I began by deciding to increase the rate of personal allowance for the taxpayer to \$12,500 and to reduce to zero the rate of claw-back of the supplementary allowance. This meant that a single man or woman would enjoy a total basic allowance of \$15,000. But because the total basic allowance for a married man, whose wife may or may not be working, would only be \$27,500, including the supplementary allowance of \$2,500 for each, and the wife's allowance of \$10,000, I felt I had to consider whether the wife's allowance also needed to be revised.

37. I realized that, not to do so, might encourage a revival of demands for change in the taxation treatment of married women. So I decided not to take that risk and to rely on our commitment to the system of aggregation of the incomes of married couples, and to the treatment of the family as a convenient tax unit, bearing in mind that the family concept is particularly important in Hong Kong where the total income of the unit is normally employed to the benefit of the household. The arguments for and against this system of aggregation have been rehearsed on numerous occasions in the past<sup>(30)</sup>, and there is no doubt in my mind that it is the preferred arrangement given the essential simplicity and high thresholds of our personal tax system.

38. But that is not to say that the Commissioner of Inland Revenue and I do not have regard to the need to remove, wherever possible, such anomalies as may arise as a result of this system of aggregation. On the recommendation of the 1954 Inland Revenue Ordinance Review Committee, the wife's allowance was increased from \$5,000 to \$7,000, to equate with the rate of personal allowance. This was done because it was thought to be unfair that, while two single persons each received a personal allowance of \$7,000, on marriage the aggregate of the allowances was reduced from \$14,000 to \$12,000. Notwithstanding this degree of relief available in respect of all wives, but introduced specifically to recognize the position of working wives, a special working wife's allowance was brought into effect in 1970. This was promptly repealed in 1973 because we took the view that to base an allowance on the concept of the additional cost of maintaining the home in special circumstances of choice, offends the principle that allowances should not be varied according to the condition of, and the standard of living expected or enjoyed by, different classes of taxpayers. Consequentially, in the same year, the rate of personal allowance was increased from \$7,000 to \$10,000 in order to avoid the anomaly of the aggregate allowance after marriage being less than the total personal allowances available to both parties before marriage.

---

(30) See, for example, Chapter 3 of the Report of the Third Inland Revenue Ordinance Review Committee.

39. The same anomaly would have arisen again this year if the basic personal allowance only had been increased to \$12,500. So, I also proposed that the wife's allowance should similarly be increased from \$10,000 to \$12,500.

40. Having set the new personal allowances for single and married persons, I turned my attention to the question of child allowances, and the dependent parent allowance, again bearing in mind the family concept inherent in our personal taxation system. Without that concept, of course, the arguments for granting these allowances *at all* would be of very doubtful validity and, indeed, I was tempted to wonder whether there is any justification for further increases in these allowances. Lest I be accused of favouring the single man and the married man without children at the expense of the family man, I wisely decided that I should, in all fairness, raise the child and dependent parent allowances in sympathy.

41. In the event, it would seem that, certainly in regard to child allowances, I have been unable to avoid criticism on two counts. *First*, Mr. LI Fook-wo questions the need to have raised the child allowances at all, and accuses me of flying in the face of the Government's population policy, by providing, in effect, an incentive for large families. Mr WONG Lam also expressed the view that my proposals 'may unintentionally encourage the birth rate', although he does concede that the increased allowances for the first and second child should be as I have proposed. *Secondly*, and in complete contrast, Mr. LEUNG regards all my proposals, including those for children and dependent parents, as being 'rather on the low side'! Clearly, this is an area in which one is unlikely to find unanimity, although I do take comfort from Mr. So who, in my view quite rightly, said that birth control should not be encouraged by 'disincentives', through the fiscal system, but rather saw 'responsible family planning (as being achieved by fostering) a sense of responsibility in parents...through publicity and education'.

42. There is not, however, any cause for alarm: in 1979-80, allowances were granted under salaries tax for a total of 134,000 children, of whom 67,900 were first children and 41,600 were second children, whilst only 17,100 allowances were granted for a third child. Thereafter, the figures drop dramatically and, for six to nine children, a total of only 456 allowances were granted at a cost to the revenue of some \$120,000 only. Clearly, there is no evidence that the fiscal system encourages parents to have large families.

43. As regards the dependent parent allowance, Mr. LEUNG also entered a plea that the age criterion should be lowered from the present level of 60 to 55, which, he claims 'is the normal retirement age in Hong Kong'. I believe him to be in error (*laughter*). It may well be that in the public sector, and in some commercial organizations, 55 is the *official* retirement age but, increasingly, staff, both in the public and the private sectors, continue with their

employers, and to their employers' gratitude (*laughter*), for much longer. And those who do retire often do so in order to take up other employment. I believe that the majority of people continue in employment well beyond the age of 55 and it is as well that they do because Hong Kong needs their experience (*laughter*). Honourable Members will recall that, when the dependent parent allowance was reintroduced last year, the age criterion was set at 60, *or below* the age of 60 where the parent is eligible for a disability allowance. I believe that age criterion more accurately reflects the age at which people actually retire today in Hong Kong, than does 55, an age which is, perhaps, vaguely reminiscent of the old sailing ship days, when expatriates retired early from the supposed rigours of life in the East.

44. Having dealt individually with my four proposals, I now have to defend the total package for Mr. LI Fook-wo described its effect as 'barely (matching) the erosion in purchasing power in real terms', although he supported it '(with) reluctance' adding a request for it to be 'reviewed periodically in the light of revenue returns'; Mr. LEUNG thought it might be just about 'barely acceptable', but '(unlikely to) remain so for long'; and, whilst Mr. WONG Lam and Mr. SO accepted my package, they sought an assurance that allowances would be revised periodically to take account of inflation.

45. Given that the thresholds for personal taxation are as high as they are, I see no need to fine tune allowances in accordance with changes in the purchasing power of money incomes. But, to avoid fiscal drag and to keep those on incomes at the lower end of the scale out of the tax net, I do, and I shall, review the allowances periodically and revise them to the extent that our budgetary situation permits. This year's package of proposals<sup>(31)</sup> raised the threshold for a single person from \$12,500 to \$15,000, for a single person with, say, one dependent parent from \$16,500 to \$20,000, for a married man from \$25,000 to \$30,000, for a married man with, say, two children from \$32,000 to \$39,000, and for a married man with, say, two children and two dependent parents from \$40,000 to \$49,000.

46. The new allowances will benefit 315,000 personal tax payers to a greater or lesser extent and keep another 60,000, who would otherwise be caught, out of the tax net. They were pitched at a level which had regard to their impact on the effective rates of tax at various income levels<sup>(32)</sup> and the consequential cost to the revenue. Some have argued, for example, that the personal allowances should have been increased for a single person, not from \$10,000 to \$12,500, but to \$25,000, for a married man, not from \$20,000 to \$25,000, but to \$50,000; and that child allowances should have been increased not from \$4,000 to \$5,000 for the first child, but to \$8,000, not from \$3,000 to \$4,000, but to \$7,000 for the second child and not from \$2,000 to

---

(31) *B.S., 1980, paras. 192-195.*

(32) *B.S., 1980, Annexes (13), (14) and (15).*

\$3,000, but to \$5,000 for the third child. But those who have argued along these lines simply do not realize how expensive their ideas would be: no less than \$1,380 million in 1980-81<sup>(33)</sup> (or 76% of the estimated yield from personal taxation before allowing for any concessions) compared with the cost of my package at \$426 million<sup>(34)</sup> (which, even so, represents 24% of the estimated yield from personal taxation before allowing for the concessions).

47. Accusations in the press that I have been 'niggardly' and 'miserly' led me to wonder whether those who take such a poor view of me ever take the trouble to look at the actual liability of persons in various personal circumstances: thus a single man on an income of \$20,000 will now pay \$250 in tax, an effective rate of tax of 1.25%; a single man on \$25,000 with one dependent parent will pay \$250, an effective rate of 1%; a married man with two children on \$44,000 will pay \$250, an effective rate of 0.57%; and a married man with two children and two dependent parents on \$54,000 will also pay \$250, an effective rate of 0.46%. Some, of course, will still persist and ask: but what do I get for my \$250 or my \$2,500 or my \$25,000 (and there are many who do, in fact, ask such a question, including some of those 14,000 tax payers paying at the standard rate of 15% who will contribute no less than 40% to the total yield from salaries tax and personal assessment in the year of assessment 1979-80)? The answer to this question is quite simple: a share, commensurate with your needs and circumstances, of \$10-12 billion worth of public services and the use of a vast range of public assets on the development of which we are currently spending \$7-9 billion *per annum*.

48. I sometimes wonder also whether my continuing failure to convince salaries and personal tax payers that their 'burden'—that much over-used word—is a figment of their imagination is due to a feeling they harbour that, irrespective of their tax liability, not only should the thresholds define levels of income below which they should not pay tax, but also allowances should be pitched at a level commensurate with the cost of maintenance. Perhaps some even think that allowances should be pitched at such a level that the *tax saved* should be commensurate with the cost of maintenance, in which case there would hardly be any taxpayers left in the system (*laughter*)!

(5) *Budgetary Policy for 1980-81*<sup>(35)</sup>

49. Mr. LI Fook-wo Mr. CHEN, Miss DUNN and Mr. NEWBIGGING all expressed doubts about the wisdom of budgeting for a growth rate of public expenditure in real terms on Consolidated Account of 13.4% and on General Revenue Account of 12%, both rates being well in excess of the forecast

---

(32) *Even the cost in a 'full' (i.e. an ordinary) year would be \$810 million at present levels of chargeable incomes.*

(34) *Or \$264 million in a 'full' year.*

(35) *A schedule showing the action required/in hand in order to follow up proposals made decisions announced in the Budget Speech is at Annex (4).*

growth rate of G.D.P. in 1980 of 9%. I accept the validity of Miss DUNN's stricture that, in theory, in this the fifth year of the present upswing phase, the emphasis of budgetary policy should be at least to hold the relative share of the public sector at its 1979-80 level of just under 19%. Unlike Mr. NEWBIGGING, who agreed that the risks involved should be accepted 'within disciplined limits, in order to deal with our social and economic imperatives', she doubted the wisdom of doing so. I must confess her well argued attack did lead me to wonder whether I had under-estimated the risks (and, as she so rightly pointed out, 'the public sector can always bargain resources away from the private sector because the public sector does not have to operate within the constraints of a profit and loss account'). Yet I am sure she readily appreciates that the build up of our commitments on capital account left me with no alternative, but to accept the risks involved at any rate *pro tem*. Let me assure her again that Finance Branch will make every effort to ensure that cash limits on both recurrent and capital account are observed. In the event that they have to be breached, the authority of Finance Committee will be sought even for additional provision which could otherwise be authorized by delegated powers<sup>(36)</sup>.

50. Just in case there is a lingering doubt in anyone's mind that the Government's expenditure proposals on both General Revenue Account and Consolidated Account fall short of the maximum effort consistent with macroeconomic considerations, may I ask them again to read the relevant paragraphs of the Budget Speech<sup>(37)</sup>? Although I do not agree that I have taken undue risks with the economy, my sympathies are more with those who expressed concern about the growth rate of public expenditure, than with, for example, Miss BENNETT and Mr. YEUNG who took a contrary view. Mr. YEUNG went so far as to argue that inflationary pressures could be a small price to pay for more housing and better transportation facilities 'in the shortest possible time'.

51. The fact that I am budgetting, at the same time, for an overall surplus of \$2,904 million in no way invalidates the view that the Government's expenditure proposals reflect a maximum effort: indeed, recurrent revenue is estimated to be sufficient only to finance 79% of total expenditure, nine points below the minimum of 88% laid down by Guideline (1), whereas in every year in the 1970s, except in the recession year, 1974-75, when it was 86%, it has been well above the guideline<sup>(38)</sup>. This is acceptable so long as the deficit on capital account (i.e. capital expenditure less capital revenue) remains unusually low and that is where there is a *contrast* to be drawn between 1980-81 and the recession year 1974-75. In both years Guidelines (1) and (3)

---

(36) See paras. 16-17 above.

(37) B.S., 1980, paras. 96-101, 131-132, 134-140, 141-146, 160-164 and 214-215; and Annexes (4) and (11).

(38) B.S., 1980, Annex (8).

were or are estimated to be breached: the ratio of recurrent revenue to total expenditure (Guideline (1)) was, or is estimated to be, 86% and 79% respectively; and the ratio of the surplus on recurrent account to capital expenditure (Guideline (3)) was, or is estimated to be, 55% and 49% respectively, compared with the guideline of at least 60%<sup>(39)</sup>. But, whereas in 1974-75 the ratio of capital revenue to capital expenditure at 24% was the lowest recorded in the 1970s<sup>(40)</sup>, in 1980-81 it is estimated to be as high as 90%.

52. That is the nub of our present situation: in 1980-81 the ratio of capital revenue to the surplus on recurrent account will be as high as 184%<sup>(41)</sup>, having averaged 39% over the first seven years of the 1970s and 77% in the last three years. When it returns to a more normal level we must not find ourselves locked into a level of capital expenditure which is not sustainable. So, whereas I can agree with Miss DUNN that, in macro-economic terms, the level of capital expenditure in 1980-81 *could* be inflationary in its impact, I must take issue with Mr. LI Fook-wo when he implied that I envisaged 'land sales (remaining) a key factor in our budgetary policy'. The very fact that the surplus I am budgeting for in 1980-81 of \$2,904 million, which is equal to as much as 80% of the surplus on recurrent account, is surely evidence that I do *not* regard our present buoyant financial situation with equanimity. If I did that surplus could easily be spent, albeit at a severe cost in terms of our financial and economic stability and provided we were prepared to have scant regard for the value-for-money criterion<sup>(42)</sup>. Even Miss DUNN did not go that far inasmuch as she most unkindly quoted certain key passages in the Budget Speech back at me<sup>(43)</sup>.

53. Miss DUNN also treats me more fairly than Mr. LI Fook-wo in her assessment of budgetary policy in 1979-80: like me<sup>(44)</sup>, she judged it to be a success, referring specifically to the fact that the external trade account was virtually in balance. Mr. LI Fook-wo contended that my predicted surplus of \$2,500 million in 1979-80<sup>(45)</sup> was due in part to the rephasing of expenditure on capital account as well as flushing revenues. He quite overlooked the fact that actual expenditure is likely to exceed the approved estimate by over \$1,000 million for reasons explained in the Budget Speech<sup>(46)</sup>; and then went

---

(39) *Before allowing for the cost of the 1980-81 revenue concessions the comparable ratios are:*

*Guideline (1) 82%*

*Guideline (3) 56%*

(40) *Although this guideline (Guideline (5)) was not breached (at least 20%).*

(41) *Or 161% before allowing for the cost of the 1980-81 revenue concessions.*

(42) *B.S., 1980, paragraph 89 in Appendix II.*

(43) *B.S., 1980, paras. 95 and 163.*

(44) *B.S., 1980, paras. 68-73.*

(45) *In fact, it now looks as if it will be about \$2,700 million.*

(46) *B.S., 1980, paras. 49-51.*

on to argue that ‘the margin by which land sales revenue...surpassed (the estimate) is a fair reflection of the extent to which the 1979-80 Budget’s anti-inflationary policy failed’. I do not take his point: given the demand for land, if we had fulfilled our land sales programme (and the main reasons why there was a shortfall were either technical or related to timing<sup>(47)</sup>, the revenue yield and, therefore, the surplus would have been larger. By Mr. LI Fook-wo’s logic, this would have implied an even greater degree of failure of the 1979-80 budget’s anti-inflationary policy. He argued further that the estimate of revenue from land transactions of \$6,169 million in 1980-81, being 116% up on the revised estimate for 1979-80<sup>(48)</sup>, demonstrated that this year’s Budget ‘is more than likely to be inflationary’. Again, Sir, I fail to understand his logic: I stressed repeatedly in the Budget Speech<sup>(49)</sup> that the estimate of land sales revenue was heroic and spelled out my assumptions. Whether or not they prove to be correct, the influence of the much more ambitious land sales programme on the revenue estimate should not be overlooked. Mr. LI Fook-wo also seemed to suggest that only if *less* revenue was raised from a *larger* land sales programme could any budget be deemed to be anti-inflationary but, even if this were a realistic proposition, given the demand for land, this could not be the end result for more land in the hands of developers means increased demand for the output of the building and construction industry.

54. Revenue from land transactions in relation to budgetary policy brings me on to the subject of statistics of land production and the problem of compiling accurate land sales programmes without which it is virtually impossible sensibly to estimate revenue from land sales; and this becomes particularly serious because when the estimate of land sales revenue is a large proportion of the estimate of revenue from all land transactions and a significant proportion of the estimate of total revenue<sup>(50)</sup>. So, in our present circumstances, it is critical to achieve accuracy, at least on the supply side: Miss DUNN’s and Mr. NEWBIGGING’s complaints are well directed.

55. An essential difficulty is that information is required by different people for different purposes and can puzzle the unwary, such as Mr. NEWBIGGING (*laughter*). He compared the estimates of land production in the Budget Speech<sup>(51)</sup>, which are explicitly and deliberately expressed in terms of *gross*

---

(47) *For example, tenders received in March 1980 were not dealt with until April.*

(48) *The estimate of revenue from land sales in 1980-81 is \$5,168 million, or 132% up on the revised estimate for 1979-80.*

(49) *B.S., 1980, paragraph 159 and f.n. (145).*

(50) *The estimate of land sales revenue in 1980-81 is 84% of revenue from all land transactions and 25% of total revenue. By contrast, in the first three post-recession years, 1976-77 to 1978-79, the comparative percentages were 52% and 7% and, even in 1979-80, they were only 77% and 13%.*

(51) *B.S., 1980, paragraph 146.*

areas<sup>(52)</sup>, with those in the reports of the Special Committee on Land Production, which are expressed in terms of net areas, except for housing estates, and include land released from temporary uses<sup>(53)</sup>.

56. But I would entirely agree with Miss DUNN and Mr. NEWBIGGING—and so, I guess, does the Secretary for the Environment—that the present situation is unsatisfactory: we have to decide for what purpose the information is required; we have to determine the nature of the information required to achieve that purpose; and then we have to ensure that appropriate records are maintained. So, I wish well the working party of the Special Committee on Land Production charged ‘to examine present methodology and the presentation of future forecasts’ if for no other reason than that making estimates of land sales revenue for budgetary purposes will be less harrowing than at present (I hope).

57. Having said that, I am confident that the various estimates of revenue and forecasts of land sales (and land production) in the Budget Speech have been calculated on a consistent basis and, provided all other things are equal, will prove to be accurate<sup>(54)</sup>. I am foolish enough to be so heroic despite Mr. NEWBIGGING’s censorious remarks about the shortfall between the Budget Speech forecasts of land sales in the last four years, 1976-77 to 1979-80, and actual sales, the shortfall ranging from 35% to 29%. He is in error, however, in supposing that the shortfall in 1977-78 was 62%: he compared land sales with the forecast of land sales *plus* private treaty grants. However, his error is my fault for I did not distinguish between sales and private treaty grants in the 1977 Budget Speech<sup>(55)</sup>. The reasons for the shortfalls in these four years are numerous, but last year a Land Sales Target Committee was established to monitor sales in relations to the six-monthly programmes and

---

(52) *For Finance Branch is interested in the end product of development works expenditure.*

(53) *For the Special Committee on Land Production is interested in when land is being made available for various uses.*

(54) Land production:

1970-71 to 1979-80: *B.S., 1980, paragraph 97 and f.n. (106) in Appendix II.*

1980-81 to 1983-84: *B.S., 1980, paras. 145-146 and f.n.s. (140) and (141).*

Land sales:

1979-80: *B.S., 1980, paragraph 46.*

1980-81: *B.S., 1980, paras. 156-157 and f.n.s. (146-149).*

1981-82 to 1983-84: *B.S., 1980, paragraph 158 and f.n.s. (150) and (151).*

(55)	Budget Speech Forecast (acres)	Actual Sales (acres)	Shortfall (%)
1976-77	55	38	31
1977-78	N.A.	34	Unknown!
1978-79	88	57	35
1979-80	134	95(*)	29

Note: (\*) *Revised estimate.*



I hope that, in future, we shall at least be warned in good time if shortfalls are likely<sup>(56)</sup>.

*(6) Management of the Economy*

58. Both Miss DUNN and Mr. CHEN stressed the vulnerability of our externally oriented economy to factors beyond our control and the unusual degree of uncertainty that continues to characterize the likely course of the world economy. When my forecasts of the growth rates of the several components of the G.D.P. prove to be inaccurate I hope they will remember that, of the three virtues, the greatest is charity (*laughter*). Forecasting today reminds me of the bewildered umpire at Wimbledon, faced with a couple of professional tennis players of unpredictable temperament: 'Please don't ask me' he said, 'what the score is, I'm not even sure what game it is we're playing' (*laughter*). In these circumstances, I would be the last to take undue risks with the economy by allowing the growth rate of expenditure on either recurrent or capital account to crowd out the private sector and/or divert labour away from manufacturing sector or, for that matter, abate my faith in the market-disciplined free enterprise economy for, as Miss DUNN put it, 'our manufacturing industries need to be (today) more flexible and cost efficient than ever before'.

59. This brings me on to Mr. Allen LEE's concern that there should be 'a centralized training scheme ... to train our labour force in order to increase our productivity and move into more sophisticated products'. I share his concern, both as Financial Secretary and as Chairman of the Advisory Committee on Diversification, that an appropriate supply of suitably skilled labour should be available to be combined with capital investment and we are about to seek the advice of Executive Council on the relevant recommendations of the Advisory Committee<sup>(57)</sup>. Quite apart from the dilution of the social wage and the threat to the growth rate of real incomes *per capita* resulting from the present growth rate of the population, as mentioned by Mr. WONG Lam and Mr. F. K. HU, we must also avoid a situation in which there is an imbalance between the supply of, and demand for, skilled and unskilled workers in the labour force, thus leading to a relative shortage of skilled workers as the economy expands under the impetus of the faster growth rate of the labour force as a whole. I think Dr. HU was making this point when he referred to '(turning the) burden (of immigrants) into an economic asset'.

---

(56) *As regards Mr. Newbigging's two examples of statistical inconsistencies in the 1979 and 1980 Economic Background documents and in the 1979 Budget Speech respectively:*

- (a) *land sales in 1978 quoted as 52,000 square metres and then 181,000 square metres: the first figure referred to sales in the urban areas only and this was not made clear in f.n. (17), paragraph 5.22 in the 1979 Economic Background document;*
- (b) *paragraph 87 and f.n. (98) of the 1979 Budget Speech referred to total revenue from land sales (including private treaty grants) of 249 acres in 1978-79; and paragraph 164 and f.n. (180) of that speech clearly distinguished between land sales as such (of 58 acres) and private treaty grants.*

(57) *Report of the Advisory Committee on Diversification (1979), paragraph 399.*

60. Mr. WONG Po-yan referred to another factor of production, land. He argued that ‘the present system of industrial land allocation’ led to financial resources being ‘(diverted) to shoulder the burden of unreasonably high prices for industrial land and factory premises’ thus preventing ‘manufacturers (spending) more on new technology and modern equipment’. The Advisory Committee on Diversification did not recommend any change in the present system of disposal of industrial land<sup>(58)</sup>, but did agree that ‘the supply of industrial land (should be increased) so that its scarcity is no longer a deterrent ... to investment in plant and machinery ... (and) to diversification’<sup>(59)</sup>.

61. Dr. HU seemed to think that the Government was still insufficiently well informed about—and perhaps not even really sufficiently interested in—the tertiary sectors of our economy<sup>(60)</sup>, but I can assure him he is mistaken; and, incidentally, Sir, no one should be in any doubt that we were profoundly distressed by the C.A.A.’s decision not to license our own Cathay Pacific Airways on the London/Hong Kong route. Mr. CHEUNG’s robust words of protest, therefore, were well directed and I can assure honourable Members that this Government is actively supporting C.P.A.’s appeal to the Secretary of State for Trade. At the same time, I would remind Dr. HU that some industrialists fear that the pace of the diversification process in the 1970s has led us to be careless of the continuing role of the manufacturing sector ‘as the backbone of our economy for the foreseeable future’ (to quote Mr. NEWBIGGING).

62. It is true that, until recently, our understanding of the tertiary sectors has been limited by the rudimentary nature and coverage of our statistics, but we are now in the process of rectifying this with our benchmark surveys to establish the detailed structure of the different sectors. These surveys will be followed up by regular surveys to measure current performance<sup>(61)</sup>. In addition, the proposed Monetary Statistics Ordinance<sup>(62)</sup> will enhance our

---

(58) *Ibid*, paragraph 300 and Annex (32).

(59) *Ibid*, paragraph 296.

(60) *Despite the various references in the Budget Speech: see, for example, B.S., 1980, f.ns. (29) in Appendix I and (19).*

(61) *In the coming two years, for example, the following major benchmark/follow-up surveys in respect of the tertiary services sectors will be conducted:*

1980 *Survey of import and export of services*

1980 *Survey of the wholesale and retail, import and export, and restaurants and hotel sector*

1981 *Survey of import and export of services*

1981 *Survey of the wholesale and retail, import and export, and restaurants and hotels sector*

1981 *Benchmark survey of the transport, storage and communications sector and the financing, insurance and business services sector.*

(62) *B.S., 1980, paras. 43-44 in Appendix I.*

understanding of the financial sector. But I reserve my position on whether the end results will be a greater emphasis on 'monetarism' or any other facile prescription so beloved of some commentators, particularly those who mistakenly believe, for one unworthy reason or another, that there is an inevitability about Government intervention in the economy's markets, who feel uneasy in our somewhat idiosyncratic institutional arrangements, who denigrate our pragmatic approach as being *ad hoc* and who argue, without giving any thought whatsoever to the implications of what they are saying, that we should 'anticipate', rather than respond to, 'problems'. Meanwhile, we must concentrate on the various monetary and economic exercises foreshadowed in the Budget Speech which are listed, together with the follow-up action required on fiscal matters, in Annex (4) to the printed version of this speech.

(7) *Present State of the Economy*

63. In the Budget Speech, I made an assessment of the immediate outlook for the economy as we entered 1980, using statistics available to me at that time<sup>(63)</sup>. Statistics that have become available since then largely confirm that assessment.

(a) *External sector*

64. As regards the *external sector*: the timing of the Lunar New Year means that there must be some reservations on conclusions drawn from a comparison of trade in the first two months of this year with the first two months of last year. Nevertheless, on a year on year basis, in the first two months of this year total exports continued to grow faster than imports and by a significant margin, so that the visible trade 'gap' continued to narrow<sup>(64)</sup>. Assuming that export and import prices increased at the rates experienced recently, the growth rate, in real terms, of domestic exports in the first two months of this year was as high as 25%. By contrast, the growth rate, in real terms, of imports was 19%. But, whilst during the course of 1979, imports of raw materials, semi-manufactures and capital goods were assuming increasing importance in the growth of total imports<sup>(65)</sup>, this was not the case in the first two months of this year. The growth rate of imports of consumer

(63) *B.S., 1980, paras. 85-95.*

(64)	<i>Jan and Feb 1979 (\$mn)</i>	<i>Jan and Feb 1980 (\$mn)</i>	<i>Increase (%)</i>
<i>Domestic exports</i>	6,286	9,128	45
<i>Re-exports</i>	2,639	3,835	45
<i>Total exports</i>	8,925	12,963	45
<i>Imports</i>	11,048	15,256	38
<i>Visible trade deficit</i>	2,123	2,293	—
<i>Visible trade 'gap'</i>	19.2%	15.0%	—

(65) *B.S., 1980, paragraph 80.*

goods appears to have picked up again<sup>(66)</sup>, but it is still too early for any trend to be discerned.

(b) *Prices*

65. As regards *prices*: consumer prices have, in the first two months of this year, continued to increase rapidly<sup>(67)</sup>. But, in a sense, the situation is less worrying than the one we faced a year ago, even though the rate of increase in consumer prices was less than that being experienced now<sup>(68)</sup>. The reason is that a better balance is being achieved between the demand for, and supply of, domestic resources, particularly so in the labour market. Furthermore, but obviously not necessarily in the overall interest of the economy, as the very rapid growth rate of domestic exports experienced in 1979 is unlikely to be sustained through 1980, activity in the manufacturing sector will not contribute to domestic inflation this year as it did in 1979, when there was a strong shift in the distribution of resources in favour of the manufacturing sector. So there is reason to believe that domestically generated inflation will ease off and this is why I took the view that the Government's expenditure proposals for 1980-81 were 'just about tolerable'<sup>(69)</sup>.

(66) *Growth rates of imports in real terms (%)*:

		Food- stuffs	Con- sumer goods	Fuels	Raw materials and semi- manu- factures	Capital goods	All imports
1979/1978:	Q1	3	24	-1	23	26	19
	Q2	6	14	21	17	43	18
	Q3	10	6	25	15	56	17
	Q4	5	4	-10	13	20	9
1979/78:		6	11	9	17	36	15
1980/1979:	Jan and Feb(*)	13	25	36	14	23	19

Note: (\*) *Provisional estimate.*

(67) *Rates of increase (%)*:

		C.P.I. (A)	C.P.I. (B)	Hang Seng C.P.I.
1979/1978:	July	12	12	15
	August	13	13	14
	September	15	14	14
	October	13	13	14
	November	14	15	15
	December	16	15	16
1980/1979:	January	16	16	15
	February	21	20	18

(68) *For example, rate of increase (%)*:

		C.P.I. (A)	C.P.I. (B)	Hang Seng C.P.I.
1979/1978:	January	7	7	8
	February	7	7	9
	March	9	9	10

(69) *B.S., 1980, paragraph 100.*

66. It is true that the rate of increase in consumer prices in the past year or so has been accelerating. But, during this period, the rate of increase in world prices has been accelerating too. So, whilst the easing of the pressure of demand on domestic resources was taking time to work through the system to dampen down domestically generated inflation, world prices were exercising an additional unfavourable influence on prices in Hong Kong; but, as Mr. LI Fook-wo implied, and as Mr. WONG Lam so aptly put it 'there is not much Hong Kong can do in the face of imported inflation'.

67. In fact, movements in the exchange value of the Hong Kong dollar in the past nine months have been useful in dampening down the rate of increase in import prices without seriously hampering export competitiveness. The import-weighted exchange rate index appreciated by 8.3% between the end of July last year, admittedly a low point, and the end of March this year, while the export-weighted index appreciated less, by 5.6%<sup>(70)</sup>.

68. So, despite accelerating world prices, the rate of increase in import prices in Hong Kong has recently shown signs of slowing down<sup>(71)</sup>. Although import prices in the first two months of this year still averaged about 16% higher than in the first two months of last year, the increases in recent months have not been very significant. During the fourth quarter of last year, for example, import prices, as measured by the unit value index of imports,

(70) *Trade-weighted exchange rate indexes (18 December 1971=100)*

	<i>As at end of</i>	<i>Import- weighted</i>	<i>Export- weighted</i>	<i>Trade- weighted</i>
1979:	March	87.7	99.3	92.6
	April	88.1	99.4	92.9
	May	87.3	98.2	92.0
	June	85.6	96.5	90.2
	July	83.4	94.3	88.0
	August	85.5	96.4	90.1
	September	86.0	96.8	90.6
	October	88.4	98.6	92.8
	November	89.3	98.5	93.3
	December	88.4	98.3	92.7
1980:	January	90.7	100.8	95.0
	February	90.2	99.4	94.2
	March	90.3	99.6	94.3

(71) *Unit value index of imports (1973=100):*

<i>As at</i>	<i>Index</i>	<i>Quarterly rates of increase annualized (%)</i>
1978 December	149	15
1979 March	158	26
June	168	28
September	176	20
December	178	5
1980 January	178	2
February(*)	179	2

Note: (\*) *Provisional estimate.*

increased by just over 1% or at an annual rate of about 5%. During the three months ending February this year, it is provisionally estimated that, Lunar New Year notwithstanding, import prices were increasing at an annual rate of only 2%. But, just as the acceleration of import prices during the first half of 1979 was still working its way through to the retail level at the beginning of this year, so it will be some time before this slowing down in the rate of increase will benefit consumers.

(c) *Monetary aggregates*

69. However, as regards the *monetary aggregates*: the growth rates of the money supply and of credit to the economy have remained high. The growth rate of M3, which had been accelerating throughout last year<sup>(72)</sup>, was 5.3% in January and 2.6% in February. The growth rate of total credit to the economy<sup>(73)</sup>, after slowing down somewhat in the middle of last year, accelerated in the fourth quarter and in January and February this year it was 6.6% and 4.7% respectively. These rapid growth rates in recent months were however more a reflection of technical and seasonal conditions in the money markets than of any underlying expansion.

70. It is not easy to identify the precise impact on the economy of movements in the monetary aggregates, and it is doubtful whether there can be, at this point in time, when the structure of our economy and of the financial sector is changing so rapidly, an objective view, for example, as to the optimum growth rate of the money supply. Nevertheless, the recent growth rates of the monetary aggregates are sufficiently high to make an early reduction in interest rates unlikely<sup>(74)</sup>; certainly, they warrant the most careful monitoring, which will be assisted by the forthcoming improvements in our

---

(72) *Quarterly growth rates (%)*:

	<i>M3(*)</i>
1979 Q1	5.1
Q2	5.4
Q3	6.6
Q4	9.8

Note: (\*) *Notes and coins held by the public (excluding those held by banks and d.t.cs.) plus demand, savings and time deposits with banks and deposits with d.t.cs. (but excluding deposits from banks and d.t.cs.).*

(73) *Quarterly growth rates (%)*:

	<i>Total credit to the economy(*)</i>
1979 Q1	7.7
Q2	5.6
Q3	6.9
Q4	10.6

Note: (\*) *Total loans and advances in Hong Kong by banks and d.t.cs. (but excluding loans to banks and d.t.cs.).*

(74) *The Best Lending Rate offered by the principal banks in Hong Kong was raised from 14½% to 16% on 11 March 1980, reducing the differential with the prime rate offered by leading banks in the U.S. on 1¾ points. But since then the differential has widened to 4 points.*

monetary statistics. But, meanwhile, the fact that the exchange value of the Hong Kong dollar, particularly on a trade-weighted basis, has been stable during the past six months, despite widening interest rate differentials between Hong Kong and, say, the United States<sup>(74)</sup>, has meant that there has been no adverse exchange rate effect on the Hong Kong dollar prices of imports.

*(d) Immediate outlook*

71. Having, Sir, dealt with how the economy has been developing in recent months in respect of trade, prices and the monetary aggregates, I must now try to assess whether the latest developments are consistent with the view of the economy in 1980 that I took in the Budget Speech.

72. I forecast that the growth rate of imports would be, in 1980, slightly faster than the growth rate of total exports so that the visible trade 'gap' would widen slightly. So far, from statistics available up to February, these trends have not yet surfaced. This is not surprising given that order-book positions held up well in the second half of 1979. However, in view of the increasing uncertainties about how the international trading scene will develop in the coming months as monetary policies in the U.S. and elsewhere become more restrictive<sup>(75)</sup>, there must be some doubt as to whether the encouraging performance in the first two months of this year can be sustained, a doubt which I took into account, of course, in my Budget Speech forecasts for visible trade.

73. In other words, I expect that there will be a reversal of recent trends in the not too distant future. I could, of course, happily be proved wrong. In fact, if the growth rate of imports of raw materials and semi-manufactures is taken as a leading indicator of export performance, the prospects for the next few months should be very reasonable; for, although the growth rate of imports of raw materials and semi-manufactures has slowed down in recent months, the increases are still high in absolute terms<sup>(76)</sup>.

74. I must here, Sir, emphasize again—this time for Mr. NEWBIGGING's benefit—that, in assessing the prospects for our visible trade account, it is the visible trade 'gap', that is the proportion of the value of imports not covered by receipts from total exports, rather than the absolute size of the

---

(75) *B.S., 1980, paras. 109-113. A recent authoritative forecast of the growth rate of world trade in the second half of 1980 over the second half of 1979 is 1.5% (c.f. the second half of 1979 on the second half of 1978 of 5.4%).*

(76) *Growth rates, in real terms, of imports of raw materials and semi-manufactures:*

		(%)
1979/1978:	Q1	15
	Q2	21
	Q3	24
	Q4	23
1980/1979:	January	19
	February(*)	6

Note: (\*) *Provisional estimate.*

deficit that we should be looking at. As the total value of our trade is growing rapidly, so will the absolute size of the visible trade deficit, all other things being equal. It is true that I forecast that the visible trade 'gap' in 1980 will widen to 14% from 12% in 1979, but this has to be seen in the light of our historical experience which, apart from the immediate post-recession years, 1976 and 1977, shows a range of 10% to 16% in the 1970s. It is true also that, taking the visible and invisible trade account together, the forecast of a deficit of \$3,000 million, as Miss DUNN pointed out, is six times the deficit in 1979. But I have no doubt that a deficit of this size can be financed. I might, incidentally, point out that the value of visible and invisible trade, on each side of the account, is well in excess of \$100,000 million and there are further substantial flows of funds in the other components of the balance of payments account.

75. I do not think that a revision of the forecasts on rates of increase in prices is necessary at this stage, despite the very rapid rates recorded in consumer prices in the first two months of this year. As I mentioned earlier, a tendency should soon develop whereby domestically generated inflation will ease off now that a better balance between the demand for and supply of resources is being achieved. Furthermore, the effects of the favourable movements in import prices in recent months should begin to surface shortly. But, even if this latter phenomenon takes time to work through and even if, later on, it is nullified by a further acceleration in the rate of increase in world prices, there is a good prospect that, meanwhile, domestically generated inflation will ease off.

76. In this connection, since I do not expect the growth rate of total final demand this year to be out of line with the growth rate of G.D.P.<sup>(77)</sup>, nor the growth rate of private consumption expenditure to be out of line with the growth rate of real income this year and last year<sup>(78)</sup>, I do not think there is a need, contrary to what Mr. WONG Lam said, for the Government to 'consider finding ways to discourage the community's desire to consume and, at the same time, encourage (saving)'. In fact, the growth rate of private consumption expenditure in 1979, at 7.7%, was actually less than what one would expect it to be, given the growth rate of real income in 1978 and 1979 of 9.2% and 11.1% respectively<sup>(79)</sup>. However, I cannot rule out the possibility of a sudden acceleration in the growth rate of private consumption expenditure this year; and, so, for this and other reasons, I can assure Miss DUNN again that we shall continue 'to monitor the course of our economy closely'.

77. Sir, I beg to move.

---

(77) *B.S., 1980, f.n. (114).*

(78) *B.S., 1980, f.n. (120).*

(79) *B.S., 1980, paragraph 10 and f.n. (10).*



ANNEXES	<i>Reference in speech</i>	<b><i>Pages</i></b>
(1) Financial Circular No. 5/80—Creation of Posts	f.n. (19)	740
(2) History of <i>NH 4(2)</i> ‘New Territories circular road improvements, Au Tau to Tai Po Road at MS 17½’	para. 21	745
(3) Comparison of the growth of Public Works Non-Recurrent Category A commitments with Public Works Non-Recurrent expenditure	f.n. (21)	746
(4) Follow-up action required by the Budget Speech	f.n. (35) & para. 61	747

*Annex (1)*

1 April 1980

FINANCIAL CIRCULAR NO. 5/80(\*)

*CREATION OF POSTS*

This Circular introduces new arrangements whereby, subject to certain limitations, Controlling Officers will be able to create posts. These arrangements are designed to extend the powers of Controlling Officers so as to give them more flexibility in the management of their departmental establishments. It is proposed to fix, annually, a limit to the exercise of this delegation, in the form of a ceiling on the size of departmental establishments, and to give Controlling Officers power to create posts within this ceiling in addition to those listed in the approved Estimates.

2. With effect from a date shortly to be notified by memorandum and for a trial period ending 31 March 1981 Controlling Officers are authorized:

- (a) to redeploy or delete posts, *other than Directorate posts*; and
- (b) to create new posts *other than Directorate posts*, either on a permanent or supernumerary basis, up to a maximum to be notified annually and subject to the arrangements set out in this Circular.

This authority may, in no circumstances, be exercised by anyone other than the departmental Controlling Officer as designated in the approved Estimates.

*Maximum number of posts which may be created*

3. At the beginning of the financial year each Controlling Officer will be advised of the ceiling on the size of his departmental establishment. This ceiling *less* posts shown in the approved Estimates (excluding Directorate posts) will represent the *net* number of new posts the Controlling Officer may create within the year. This ceiling will *exclude* Directorate posts. In no circumstances may Controlling Officers create posts unless sufficient funds including reserved funds (see paragraph 9(c)) are available to meet resulting expenditure for the remainder of the year for both the new posts *and* for posts already approved.

*Redeployment of posts*

4. Before Controlling Officers exercise their authority to create new posts they should consider whether their requirements can be met through internal redeployment of posts already approved in the same rank. In order to facilitate redeployment, the restriction on redeployment other than in respect of some general grades is abolished, and Controlling Officers may redeploy approved posts freely without reference to the Departmental Establishment Committee (see paragraph 8(a)). In respect of the general grades other than

---

(\*) *This is an abridged version of the original Circular and only one appendix is attached*

those headed by the Secretary for the Civil Service, the head of the grade should be consulted before the redeployment is effected. In respect of the general grades headed by the Secretary for the Civil Service, Controlling Officers are required to inform the Secretary for the Civil Service as to the nature of the redeployment.

*Statement of deployment*

5. Controlling Officers are required to submit a statement of deployment to Finance Branch on the following two occasions:

- (a) in the context of the Five-Year Forecast annual submission; and
- (b) in the context of the Draft Estimates annual submission.

In each case, the nature of the return will be laid down in the appropriate call circular.

*Departmental Establishment Committees*

6. Posts may only be created by a Controlling Officer after obtaining the advice of a Departmental Establishment Committee (D.E.C.). Each department should now take the necessary steps to set up a D.E.C. whose terms of reference will be:

- (a) to advise the Controlling Officer in respect of the exercise of his delegated authority to create posts; and
- (b) to consider any other matters relating to the departmental establishment, and to comment, as appropriate, to the Controlling Officer.

7. The following arrangements for the operation of D.E.C.s should apply:

(a) *Membership*

D.E.C.s should be chaired by a deputy head of department (or equivalent). The secretary shall be provided by the department. Membership is at the discretion of the Controlling Officer but should include the Departmental Secretary and will include representatives from the Civil Service Branch and Finance Branch. There may also be policy branch representation should the appropriate policy Secretary so wish.

(b) *Preparation of papers*

Committee agenda items recommending creation of posts should be prepared by the secretary of the D.E.C. in the same format as is currently required for staff submissions to Finance Branch (see Financial Circular No. 4/73), and should be submitted to members two clear weekends before the meeting. They should contain sufficient information and background on which members can reasonably be expected to base a recommendation to the Controlling Officer.

(c) *Directorate posts*

Where proposals for new posts involve the creation of a post or posts on the Directorate Pay Scale, approval for the directorate post(s) should

be obtained from E.S.C. in accordance with existing arrangements *before* the staff submission for the non-directorate posts is submitted to the D.E.C.

(d) *Submission of D.E.C. recommendations to the Controlling Officer*

The case for the new posts, together with the minutes of the D.E.C., will then be referred to the Controlling Officer who, after taking fully into account the advice of the D.E.C. as recorded in those minutes, will decide whether he should exercise his authority to create the posts.

*Redeployment of posts and offsetting*

8. (a) *Redeployment*

Before staff submissions are prepared for the D.E.C., departments should consider very carefully the opportunities for redeployment of posts within the same rank (see paragraph 4 above). If redeployment is not a practicable solution to the meeting of operational requirements the staff submission should contain sufficient argument to show why this is so.

(b) *Offsetting*

Before exercising their powers to create new posts, Controlling Officers should explore the possibilities for offsetting the new posts by the deletion of existing posts, the need for which no longer exists. Departments should continually monitor their establishments to identify such posts in advance of the regular General Review of the department (see paragraph 14(b)). In recommending the creation of new posts, D.E.C.s should satisfy themselves that these possibilities have been explored.

*Creation of new posts*

9. When the Controlling Officer is satisfied that there is a genuine need for new posts which cannot be met by redeployment or offset in whole or in part by deletion of existing posts he should, before exercising his delegated authority, take the following action:

- (a) ensure that the annual ceiling set on the size of the departmental establishment is not exceeded;
- (b) satisfy himself that adequate funds are available for the rest of the year for both existing posts *and* the posts he intends to create;
- (c) if funds are available but reserved, seek the Deputy Financial Secretary's authority for dereservation of the funds on G.F. 170. This authority must be obtained *before* the posts are created; and
- (d) in the case of general grades posts, obtain the agreement of the heads of these grades. Again, this agreement must be obtained *before* the posts are created (or deleted).

10. When the conditions set out in paragraph 9(a)—(d) have been met the Controlling Officer may create the posts. Concurrently, he will advise the Secretary for the Civil Service and the Deputy Financial Secretary by memorandum that he has created certain posts specifically confirming that he has met the conditions specified under (a)—(d) in paragraph 9, as appropriate. The memorandum should be signed personally by the Controlling Officer and copied to the Director of Accounting Services and the Director of Audit.

*Supplementary provision*

11. Unless additional provision is required as a result of the increase in the number of posts (after allowing for any savings from unfilled vacancies etc.) there is no need for Controlling Officers to submit a G.F. 122. Financial and Accounting Regulation 354 will, accordingly, be amended. Financial Circulars Nos. 4/71 and 7/72 are hereby cancelled. A Special Warrant in respect of posts created under delegated authority is, however, still required and will be prepared in Finance Branch.

*Supernumerary posts*

12. Controlling Officers should only create supernumerary posts in accordance with the criteria laid down in the Appendix to this Circular.

*New ranks*

13. The delegation of powers provided for in this Circular does not permit Controlling Officers to create new ranks, or to alter approved salary scales.

*Staff Inspection Reviews*

14. (a) *Special Reviews*

If a Controlling Officer wishes to seek posts in excess of the departmental ceiling, i.e. in excess of his delegated authority, it will be necessary for him to make a submission of Finance Branch in accordance with existing arrangements—see Financial Circular No. 4/73. Such submissions will, as at present, require the approval of E.S.C. after examination by Finance Branch. This examination will involve a detailed establishment review. Only in very exceptional circumstances will additional posts be provided during the period that this Special Review is under way.

(b) *General Reviews*

As an integral part of the arrangements set out in this Circular for the delegation of authority to Controlling Officers to create posts, departments will, in future, be subject to a regular in-depth review of their departmental establishments. The detailed arrangements for these reviews, the results of which will be submitted to E.S.C./F.C., are currently under consideration and will be announced shortly.

*Appendix**Creation of Supernumerary Posts*

Supernumerary posts should only be created for the following purposes:

- (a) for a replacement for an officer on leave;
- (b) to accommodate an officer engaged on a short-term assignment, e.g. an Administrative Officer detached from his normal duties to assist with the preparations for a Royal visit;
- (c) when doubt exists as to the ranking of a post or the numbers required; and
- (d) where the post is to cover recruitment of a specialist for a specific post for a limited period.

2. Whenever possible, supernumerary posts should be held against permanent posts. In this way there will be no increase in the size of the departmental establishment.

3. When it is not possible to hold supernumerary posts against permanent posts there will be a temporary increase in the departmental establishment. However, this increase must be accommodated within the approved departmental establishment ceiling.

*Annex (2)*HISTORY OF *NH4(2)* 'NEW TERRITORIES CIRCULAR ROAD IMPROVEMENTS, AU TAU TO TAI PO ROAD AT MS 17½'

An item covering the whole New Territories circular road was included in Category B of the Public Works Programme in 1965; it was only an investigation item and it was not until May 1969 that the scope of this item was amended to cover the section of road from the Au Tau junction to Sha Tin. Even then it was intended to be a parent item to be upgraded in sections from time to time and was included only in Category C with no commitment as to funding.

2. This parent item, which is now known as *NH4(2)* 'New Territories circular road improvements, Au Tau to Tai Po Road at MS 17½', has had many amendments and alterations since 1969. The most important of these are:

November 1972

Section of road from Sha Tin to Tai Po Road at MS 17½ deleted and included as a separate item in the Public Works Programme

June 1977

Sections of the road from MS 17½ to Lam Kam Road, from Lam Kam Road to Wo Hop Shek, and a small section through Kwu Tung upgraded to Category A as *NH4(11)*, *NH 4(9)* and *NH 4(10)* respectively

June 1979

Fanling by-pass section from Wo Hop Shek to Fan Kam Road upgraded to Category A and included in *NDE 14(2)* to be funded from the New Towns and Public Housing head of expenditure.

3. The parent item, which now only covers the section of road from the Au Tau junction to the Fan Kam Road junction, *excluding* a small section through Kwu Tung, is presently in Category B with BII priority. *NH 4 (10)* 'New Territories circular road improvements—section through Kwu Tung' is in Category A, but with AII priority only, and no funds have, therefore, been included in the Draft Estimates for 1980-81 and *NDE 14 (2)* 'Fanling development, package 3, engineering works', which includes the Fanling by-pass from Wo Hop Shek to the Fan Kam Road junction, is in Category A with provision in the Draft Estimates for 1980-81 of \$10.84 million. Only a small portion of the funds are for the actual road works, however. The sections of road southwards from Wo Hop Shek are also in Category A with token provision in the Draft Estimates for 1980-81.

*Annex (3)*

## COMPARISON OF THE GROWTH OF PUBLIC WORKS NON-RECURRENT CATEGORY A COMMITMENTS WITH PUBLIC WORKS NON-RECURRENT EXPENDITURE

	\$ million					
	1975	1976	1977	1978	1979	1980
Category A commitments at 31 March	6,541	5,895	7,505	8,804	14,303	15,200
	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
P.W.N.R. expenditure	1,147	1,128	1,437	2,274	3,150	3,800
Growth in Category A commitments(*)	+501	+2,738	+2,736	+7,773	+4,047	—

Note: (\*) *The annual growth is equal to the commitment at 31 March plus the previous year's expenditure less the previous year's commitment. That is to say, the growth in 1975-76 is equal to \$(5,895+1,147-6,541) million=+\$501 million*

The growth in Category A commitments from 1975-76 to 1976-77 of \$501 million was offset by expenditure in 1975-76 to \$1,147 million, resulting in a reduction in total commitments from \$6,541 million to \$5,895 million at the beginning of 1976-77. From then onwards, the annual growth in commitments has far exceeded the corresponding annual expenditure giving rise to a rapid increase in commitments carried forward. In 1976-77 and 1977-78, commitments increased twice as fast as expenditure and, in 1978-79, there was a massive increase in commitments equal to 3½ times expenditure in 1978-79. Thus, despite a continuous and substantial growth in Public Works Non-Recurrent expenditure since 1976-77, amounting to an average of over 35% *per annum*, the total commitment for projects in Category A has grown from \$6,541 million at 31 March 1975 to \$15,200 million at 31 March 1980.



*Annex (4)*

## FOLLOW-UP ACTION REQUIRED BY THE BUDGET SPEECH

*(a) Monetary**B.S.  
paragraph  
reference**Decision**Follow-up action**Probable timing*44 in  
Appendix I

Collection of monetary statistics

1. Banking Advisory Committee/Deposit-taking Companies Advisory Committee consulted.
2. Amending bill being drafted.
3. Executive Councils advice to be sought.
4. Amending bill to be introduced into Legislative Council.

223

Revision of Banking Ordinance and Deposit-taking Companies Ordinance

2. Amending bill to be drafted.

1. Proposals finalized within Government and now to be put to the relevant Advisory Committees.
3. Executive Councils advice to be sought.
4. Amending bill to be introduced into Legislative Council.

April/May 1980

225

Possible incorporation of Exchange Banks' Association by statute

1. Discussions due to begin with the Exchange Banks' Association shortly.

228

Determination of interest rates

1. To be considered within Government.
2. Financial sector to be consulted.

*(b) Economic*

225

Prudential supervision of the insurance industry

1. Draft bill on further interim controls being discussed within Government.
2. Executive Council's advice to be sought.
3. Amending bill to introduced into Legislative Council.

June 1980  
July 1980 or October  
1980

<i>B.S. paragraph reference</i>	<i>Decision</i>	<i>Follow-up action</i>	<i>Probable timing</i>
225	Revision of the Companies Ordinance	<ol style="list-style-type: none"> <li>1. Amending bill drafted.</li> <li>2. Executive Council's advice to be sought.</li> <li>3. Amending bill to be introduced into Legislative Council.</li> </ol>	<p>June 1980</p> <p>Bill to be published in July 1980, with 1st/2nd Reading in Legislative Council in July 1980 or October 1980</p>
223	Disclosure on share-holdings	<ol style="list-style-type: none"> <li>1. Agreed by Executive Council in principle.</li> <li>2. Proposals now to be put to the Securities Commission.</li> <li>3. Amending legislation to be drafted.</li> <li>4. Executive Council's advice to be sought.</li> <li>5. Amending bill to be introduced into Legislative Council.</li> </ol>	<p>Mid-April 1980</p> <p>Next session</p>
223	Fringe dealings in gold	<ol style="list-style-type: none"> <li>1. Draft drafting instructions to be put to Securities Commission.</li> <li>2. Amending legislation to be drafted.</li> <li>3. Executive Council's advice to be sought.</li> <li>4. Amending bill to be introduced into Legislative Council.</li> </ol>	<p>Mid-April 1980</p> <p>October 1980</p> <p>October 1980</p>
223	Unification of stock exchanges	<ol style="list-style-type: none"> <li>1. Draft bill being discussed within Government.</li> <li>2. Executive Council's advice to be sought.</li> <li>3. Amending bill to be introduced into Legislative Council.</li> </ol>	<p>June 1980</p> <p>July 1980 or October 1980</p>
223	Gold futures market	<ol style="list-style-type: none"> <li>1. Executive Council's advice sought.</li> <li>2. Trading rules to be prepared for approval of the Securities Commission.</li> </ol>	<p>February 1980</p> <p>June/July 1980</p>
<i>(c) Fiscal</i>			
174	Increase in fees for certified copies or extracts of business registration documents	<ol style="list-style-type: none"> <li>1. Revenue Protection Order published.</li> <li>2. Amending bill to be introduced into Legislative Council.</li> </ol>	<p>27 February 1980</p> <p>May 1980</p>

<i>B.S. paragraph reference</i>	<i>Decision</i>	<i>Follow-up action</i>	<i>Probable timing</i>
186	Pooling of capital expenditure for calculating depreciation allowances	<ol style="list-style-type: none"> <li>1. Draft bill agreed within Government.</li> <li>2. Executive Council's advice to be sought.</li> <li>3. H.K. Society of Accountants to be consulted.</li> <li>4. Amending bill to be introduced into Legislative Council.</li> </ol>	<p>May 1980</p> <p>May 1980</p> <p>June 1980</p>
186	Interest tax relief for trustees	<ol style="list-style-type: none"> <li>1. Amending bill being drafted.</li> <li>2. Executive Council's advice to be sought.</li> <li>3. Amending bill to be introduced into Legislative Council.</li> </ol>	Next session
186	Taxation treatment of Certificates of Deposits	<ol style="list-style-type: none"> <li>1. Amending bill being drafted.</li> <li>2. Executive Council's advice to be sought.</li> <li>3. Amending bill to be introduced into Legislative Council.</li> </ol>	Next session
188	Contrived cessations of business	<ol style="list-style-type: none"> <li>1. Amending bill drafted.</li> <li>2. Executive Council's advice to be sought.</li> <li>3. Amending bill to be introduced into Legislative Council.</li> </ol>	<p>Mid-May 1980</p> <p>June 1980</p>
190-197	Personal taxation: increase in personal, child and dependent parent allowances	<ol style="list-style-type: none"> <li>1. Amending bill drafted.</li> <li>2. Executive Council's advice to be sought.</li> <li>3. Amending bill to be introduced into Legislative Council.</li> </ol>	<p>May 1980</p> <p>June 1980</p>
198	Interest tax liability of credit unions: exemption in respect of interest received on loans to members	<ol style="list-style-type: none"> <li>1. Drafting instructions agreed.</li> <li>2. Amending bill to be drafted.</li> <li>3. Executive Council's advice to be sought.</li> <li>4. Amending bill to be introduced into Legislative Council.</li> </ol>	<p>April 1980</p> <p>May 1980</p> <p>June 1980</p>
200	Increase in the exemption limit from \$400,000 to \$600,000 for estate duty purposes	<ol style="list-style-type: none"> <li>1. Amending bill drafted.</li> <li>2. Executive Council's advice to be sought.</li> <li>3. Amending bill to be introduced into Legislative Council.</li> </ol>	<p>May 1980</p> <p>May/June 1980</p>
202	Increase in the limit for concessionary rates of duty on conveyances of low value properties	<ol style="list-style-type: none"> <li>1. Revenue Protection Order published.</li> <li>2. Amending bill to be introduced into Legislative Council.</li> </ol>	<p>27 February 1980</p> <p>May 1980</p>

*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).*

### **Suspension of sitting**

HIS EXCELLENCY THE PRESIDENT:—In accordance with Standing Orders I now suspend the Council until 2.30 p.m. tomorrow afternoon.

*Suspended accordingly at one minute to six o'clock.*