

**OFFICIAL REPORT OF PROCEEDINGS****Thursday, 15 April 1982****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 CHARLES PHILIP HADDON-CAVE, K.B.E., C.M.G., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY  
MR. JOHN HENRY BREMRIDGE, O.B.E.

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

THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS  
MR. DENIS CAMPBELL BRAY, C.M.G., C.V.O., J.P.

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

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.  
SECRETARY FOR LANDS AND WORKS

THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, C.M.G., J.P.  
SECRETARY FOR EDUCATION

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

THE HONOURABLE ALAN JAMES SCOTT, C.B.E., J.P.  
SECRETARY FOR TRANSPORT

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

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

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

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

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

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

THE HONOURABLE DONALD LIAO POON-HUAI, O.B.E., J.P.  
SECRETARY FOR HOUSING

THE HONOURABLE GRAHAM BARNES, J.P.  
REGIONAL SECRETARY (HONG KONG AND KOWLOON), CITY AND NEW TERRITORIES  
ADMINISTRATION

THE HONOURABLE SELWYN EUGENE ALLEYNE, J.P.  
DIRECTOR OF SOCIAL WELFARE

THE HONOURABLE COLVYN HUGH HAYE, J.P.  
DIRECTOR OF EDUCATION

THE HONOURABLE IAN FRANCIS CLUNY MACPHERSON, J.P.  
REGIONAL SECRETARY (NEW TERRITORIES), CITY AND NEW TERRITORIES  
ADMINISTRATION

DR. THE HONOURABLE JAMES WILLIAM HAYES, J.P.  
COMMISSIONER FOR LABOUR (*Acting*)

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

DR. THE HONOURABLE HO KAM-FAI, O.B.E., J.P.

THE HONOURABLE DAVID KENNEDY NEWBIGGING, O.B.E., J.P.

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

THE HONOURABLE WILLIAM CHARLES LANGDON BROWN, J.P.

THE HONOURABLE CHAN KAM-CHUEN, J.P.

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, J.P.

THE HONOURABLE CHEUNG YAN-LUNG, M.B.E., J.P.

THE HONOURABLE MRS. SELINA CHOW LIANG SHUK-YEE, J.P.

THE HONOURABLE MARIA TAM WAI-CHU

**ABSENT**

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

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

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

THE HONOURABLE ALLEN LEE PENG-FEI, J.P.

THE HONOURABLE ANDREW SO KWOK-WING, J.P.

THE HONOURABLE HU FA-KUANG, J.P.

THE HONOURABLE JOHN JOSEPH SWAINE, O.B.E., Q.C., J.P.

**IN ATTENDANCE**

THE CLERK TO THE LEGISLATIVE COUNCIL  
MRS. JENNIE CHOK PANG YUEN-YEE

**Second reading of bill****APPROPRIATION BILL 1982****Resumption of debate on second reading (14 April 1982)***Question proposed.*

DIRECTOR OF EDUCATION:—Sir, this debate has not been without allusion and metaphor and I am tempted to add a classical dimension to it by remarking that my task this afternoon is to steer a careful, if hazardous, course betwixt the Scylla of Miss Joyce BENNETT on the one hand and the Charybdis of Mrs. Selina CHOW, not forgetting the watchful Cyclops-eye of Mr. WONG Lam. But to leave the world of myth and metaphor, let me say directly that I am indebted to these Members for their concern with education, a concern I share.

I also share Miss BENNETT's vision of improving social services and standards of living and her belief in the value of co-operative and co-ordinated efforts. In particular, I agree with her on the need to maintain the valuable working partnership between the voluntary bodies and the Government which has been a corner-stone in the development of our social service programme, in no area more so than in the growth and development of our education system over the last thirty years or so. Miss BENNETT has acknowledged in this partnership the necessity for a degree of control by the Government of the activities of the voluntary bodies. However, she has expressed grave concern at what she alleges to be recent attempts by the Government to make that control complete.

Accustomed as I am to Miss BENNETT's rhetoric, the vehemence of her assertions on this occasion surprised, and indeed perturbed me. In language which was nothing if not forceful she painted a threatening picture of the Government, and in particular the Education Department, betraying the trust of school sponsors by imposing a number of new, restrictive regulations and unilaterally altering long established and accepted Codes of Aid. But after generalizations about trust, incentive accountability, and reasonable controls and supervision, it came down to a specific sponsor, of a specific school, who had had a specific bone to pick with the Education Department over the appointment of a Principal. This was presented as a major threat to the entire Aided Sector, which might have had some substance if the specific issue had not been settled, if an obdurate Education Department had refused to budge on a

clause of the Letter of Assurance required of sponsors of new schools (which incidentally restored to the Director of Education discretion in the appointment of Principals which he had enjoyed in the good old days of partnership, and trust invoked by Miss BENNETT), and if this was indeed a matter of principle in which there was major confrontation between an inflexible administration and the Aided Sector. But the issue had already been amicably resolved. A compromise on this matter of Principals, and principle, acceptable to both sides, had been found *before* Miss BENNETT raised it as a major issue in this Council.

Sir, I know you will forgive me for answering Miss BENNETT in some detail on an administrative matter which perhaps should have been taken up in another place, but it was cited here with the suggestion that the entire Aided School world was in danger. I am happy to reassure Miss BENNETT, that her fears, and those of her sponsor, are unfounded. Miss BENNETT, and the Aided School world at large can also be assured, if assurance is necessary, that the Codes of Aid, currently under review, will not, indeed cannot, in this climate of co-operation and trust, be unilaterally altered. An updating and simplification of procedures is in mind, and I must correct the impression that has been given that Aided Schools are being deprived of their freedom to act. It must be remembered, however, that, as a result of certain links between the conditions and terms of service of the Government and the aided teaching staff, and of the requirements of approved official policy, there are some conditions (and 'regulations' perhaps) which have to be applied to the Aided Schools as part of the public sector. It might be that there are those who find them at times irksome, unwanted. However, they never have created, nor will they create a situation in which the Aided Schools have no freedom and therefore no ability 'to initiate and develop new projects to benefit the people'. With regard to Miss BENNETT's specific reference to the Government's 'recent attempt' to inspect all the accounts of sponsoring bodies, I would only comment that the Director of Audit was given right of access to the books and accounts of aided schools and sponsors in 1978, only after the various schools councils concerned had been fully consulted.

Still on the theme of control, I find myself puzzled by Miss BENNETT's demand for more, not less, control in what might be termed the more professional, curricular areas of our schools. I am sorry that she is disappointed in the guidelines on remedial teaching issued by the Education Department, finding them insufficiently prescriptive. The guidelines have deliberately concentrated more on ways of arranging, within the constraints of time-tables and facilities available, for the remedial language teaching to take place. And even in this area it was thought that due recognition had to be given to the need for individual schools to be left with sufficient freedom and flexibility to meet their own particular needs. With regard to content and methods it has been assumed that the teachers themselves are in the best position to adjust and to adapt to meet the needs of the children in their charge. Specific problems require their own remedies and cannot be covered in centrally issued sets of regulations and

guidelines. The Inspectors in the language sections of the Advisory Inspectorate are able and are pleased to offer assistance to teachers to meet specific problems being faced. The real solutions in remedial teaching are usually arrived at by trial and error by the teachers in the classrooms. It is a function of the Advisory Inspectorate to act as disseminators of any effective ideas they have been privileged to observe there and believe to be appropriate to a particular problem.

While on the topic of the Advisory Inspectorate, I should like to comment briefly on its staffing. It has been recognized that the Advisory Inspectorate, if it is to carry out all the tasks expected of it, needs more manpower. In the 1981-82 year an additional nine professional posts were created. In the 1982-83 Draft Estimates over \$3.5 million have been included for more additional professional and support staff which could mean some 45 new posts, the majority of which will be for the implementation of 1981 White Paper proposals. Probably of more significance, however, is the fact that the structure of the Advisory Inspectorate is being revised. This should lead to a strengthening and re-shaping to enable it more effectively to carry out its many advisory tasks.

Mrs. CHOW commented on the apparent lack of commitment on the part of the Government to the important work of curriculum development. I fully agree with the importance which Mrs. CHOW places on this area. However, I must correct Mrs. CHOW's impression of the size of the existing commitment to curriculum development, which, I can assure her, is not limited to the appointment (at a cost of \$57,000) of a kindergarten adviser. Within the Advisory Inspectorate there is a Curriculum Development Section with a full-time staff of ten (seven professional and three supporting staff). The task of this Section is to service and to co-ordinate the work of the Curriculum Development Committee which consists of a Main Committee of some 30 members, official and unofficial, and a total of 60 Subject Committees. All inspectors of schools are involved, to varying degrees, in the work of curriculum development. The present C.D.C. system is also being reviewed to assess its appropriateness and how it can be improved. Also, beginning in September this year will be the setting up of teams of teachers, seconded from the schools, to work on curriculum development projects.

Mrs. CHOW also remarked on the Junior Secondary Education Assessment system, in particular on the unhealthy stress it creates among children, teachers and parents. In this concern she was joined by Mr. WONG who saw both the Secondary Schools Placement and Allocation procedures and the J.S.E.A. as distorting influences, harmful to the quality of our basic education programme. Mr. WONG is right to emphasize our need to secure the standards of what we provide and I can only assure him that the Government, and the Education Department in particular, fully recognize this need. He mentioned the confusion created in the secondary schools arising from the greater range of ability with which these schools now have to cope. The actual situation is not as bad as Mr.

WONG has depicted. However, there is room for improvement, as was pointed out in the recent Report of the Working Party which reviewed the S.S.P.A., and as a result of that Report and of the public consultation on it, ways are now being studied within the Education Department to effect some reduction in the ability ranges for which the secondary schools have to provide.

But to return to Mrs. CHOW. She said that she did not think parents or teachers could ever treat the J.S.E.A. lightly, as the Director of Education had hoped. I must point out that such a hope was not expressed by the Acting Director at the meeting of this Council on 10 March. What he did say was that if more publicity were given to the system of assessment so that people were better informed as to its actual nature and purpose and what it does, then the fears about it could be reduced. This seems to me to be a reasonable view to express. Now that we have completed the first full cycle of the J.S.E.A. and studied what happened it can be seen that it did not cause the major upheaval and movement of pupils that some had feared. What now needs to be further emphasized is that this is *not* a public examination, but that it is a system of allocation based on internal school assessments which are scaled to ensure comparability of school standards. I note that Miss BENNETT has advised that we should introduce a new, centrally organized *public examination* to fill the Form IV places not filled by the schools themselves. Such a measure, I believe, would not only have the most unfortunate educational effects but would introduce an unacceptable degree of inequality of opportunity among our Form III pupils. Without more detailed knowledge of what is being proposed, however, it is not really possible to form a clear picture of the full size of the exercise to be mounted, but I doubt if any such exercise, putting aside for the moment the questions of educational effects and fairness, would result in any greater cost effectiveness. Nor do I see how the proposed system would cure the so-called problem of vacant Form IV places. I say 'so-called' as the number of such places as reported soon after the start of the current school year was only about 1% of the total number of places available in the schools. Some wastage, resulting from such factors as emigration and the decision to discontinue senior secondary studies to go out to work, has to be expected. And vacant places may be filled at the discretion of heads of schools.

I am aware that there are quite a few members of the community (and Mrs. CHOW and Mr. WONG appear to be among them), who are somewhat puzzled that, with the achievement of a public sector primary and Forms I-III place for all and a much enlarged provision of Forms IV-V places, we cannot leave the promotion of children through the system and the choice of schools to the schools and the parents; in other words, abolish the S.S.P.A. and J.S.E.A. systems. What seems to be forgotten, however, is that a junior secondary place for all does not mean places for all of equal *acceptability*. Nor is there a public sector Form IV place for all who wish it. There is, therefore, still a considerable amount of competition for the available places. *Some* selection and allocation is

still required. These have to be done through systems which are not only efficient, but which give all children as much equality of opportunity as can humanly be achieved. So long as there are schools of unequal reputation and standard, and as long as there are insufficient places of the right kind to go around (and this usually means an aided place), there will have to be systems of selection and allocation. The methods we have devised are the best and fairest possible under the circumstances, but, of course, circumstances can change. Nothing would please me more than to abolish the S.S.P.A. and J.S.E.A., when this is possible; but while we have them, let's not make them worse. Parents are more worried than pupils, but this is not to say that we in education do not care. Of course I'm worried when a mother like Mrs. CHOW is worried; and I am concerned when teachers talk of the distortion of the curriculum by the S.S.P.A. Academic Aptitude Test and J.S.E.A. Scaling Test. I can only appeal to parents *not* to pass on their fears to their children, and remind teachers that *they* are the ones distorting the curriculum by unnecessary drilling. This is no counsel of despair but a matter of commonsense. Parents and teachers *can* make things better, not worse.

That said, I find myself still asking the crucial question posed by the 1978 White Paper on Senior Secondary and Tertiary Education: 'How many children are capable of completing an academic education up to Form V?' The vocational options offered Form III leavers under present policy appear to be sensible. Should they not be pressed? But if pupils persist in going on after Form III to attempt the Hong Kong Certificate of Education, regardless of their ability to qualify satisfactorily, do we alter the curriculum to match their ability—to the possible jeopardy of academic standards, do we go for alternative curricula and examinations, or do we scrap the lot and settle for individual school leaving certificates based on the continuous assessment of schools? These are questions we are considering, besides that of who deserves a subsidized Form IV place and who does not. Obviously this is a major area of concern and we are addressing it with concern.

Sir, I started with a classical metaphor. Let me conclude with one. If this reply to Miss BENNETT, Mrs. CHOW and Mr. WONG Lam has seemed somewhat long, so was the Odyssey. But I am encouraged that Odysseus survived to put his kingdom to rights. With Scylla, Charybdis and Cyclops behind me, I hope to do the same.

Optimistically then, Sir, I support the motion.

SECRETARY FOR EDUCATION:—Sir, the Director of Education has already responded to most of the points on education made by Members. I will deal with the questions of post-school education.

Mr. Peter WONG has referred to the shortage of university places. This is a matter of concern to the Government, particularly as the great expansion of secondary education in the recent years will increase the numbers of young

people who aspire to higher education. The increase in overseas student tuition fees in Britain and in some provinces of Canada has reminded us that we must look to our own resources in meeting this demand.

Mr. WONG has observed that only 2% of the relevant age group go on to a university education in Hong Kong. While this is so it should be remembered that we are much stronger at non-university levels of post-school education, with a good range of courses leading to Higher Diplomas and Diplomas at the Polytechnic and Technical Institutes, to the diplomas of the post-secondary colleges, or to specific qualifications related to teaching, nursing and other professional requirements. The proportion receiving degrees should increase substantially over the next few years, not only through the continuing expansion of our two universities, coupled with the decrease of numbers in the age group, but also through new measures such as the introduction of degree programmes at the Hong Kong Polytechnic.

We have substantially increased the financial support given to the Hong Kong Baptist College: four years ago the College received no recurrent assistance from the Government but this year it is expected that it will receive some \$25 million. The aim of this assistance is to enable the College to carry out effectively the programme described in the 1978 White Paper. However, we are also moving forward to a new stage in the development of the College by providing for the financing of the College to be transferred by stages from the aegis of the Education Department to that of the University and Polytechnic Grants Committee. We shall then have the benefit of continuous expert appraisal of the College's academic development plans, with advice to the Government on the resources that they require.

It is our intention that the Baptist College should, like the Hong Kong Polytechnic, eventually offer a mix of degree and non-degree courses. We are anxious that any degree courses offered by the College should be fully comparable in standard to those of the universities. To reach these standards will require additional resources from the Government and also the time, that is necessary for the resources that have been deployed, to show beneficial effect. Careful attention to planning the new profile for the degree courses will be required on the part of College staff. The College has recently had the great benefit of a review of each of its faculties by a team from the U.K. Council for National Academic Awards. While affirming the sound potential for development at the College, the C.N.A.A. pointed to various areas which required strengthening before higher level courses are introduced. The C.N.A.A. has thus pointed the direction ahead, and it will be for the U.P.G.C. to assess when sufficient progress has been made for degree courses to be put forward and then to make appropriate arrangements for their validation. The College Authorities fully acknowledge the need for these steps, and the value of professional advice in ensuring that proper standards for awards are reached and maintained.

I am bound to say that I believe that the College should embark on degree courses only after adequate preparation of a secure basis for work at this level. In practical terms this would mean that perhaps two or three degree courses could start in four years or so from now. I believe that the staff and students of the College should look towards the future with hope but hope that is fully realistic.

These developments will form an important part of our expansion programme for higher education. The remaining parts of this programme are nearing the stage at which final decisions will be taken and I hope shortly to be in a position to make a comprehensive statement.

Finally I should like to respond to Miss BENNETT's remarks about the Colleges of Education. She quite rightly emphasizes the importance that teacher training should assume within our education development plans. The importance of effective pre-service and in-service training programmes was brought home to us forcibly by the distinguished team of educators from overseas in the very useful discussion on educational priorities that took place in this Chamber at the end of last month. We do need to review our teacher training programmes very carefully, though as the Colleges of Education are currently operating under great strain in providing the additional teachers needed to improve staffing standards in schools, the present may not be the best time for any radical upheaval to take place. I expect to receive the completed report of the Panel of Visitors before the end of this year and the changes required in teacher training appear likely to feature prominently in that report. I believe that then will be the time to consider the shape of the teacher training establishments, including the possibility of reducing the number of separate units. Until I have the Panel's advice in their final report, I think it would be unwise to commit myself one way or the other, except to note that much has already been done to achieve better co-ordination between the colleges, though stopping short of their full amalgamation. Many parts of the colleges' administration have been streamlined in recent years, and there are now common procedures in respect of entry, graduation, staff deployment and many aspects of the operation of courses. The Colleges do, in fact, exhibit some substantial merits. The time to reflect on whether more should be done to bring the Colleges closer together, and possibly under new financial arrangements, will come when we have the Panel's report.

With these remarks, Sir, I support the motion.

SECRETARY FOR THE CIVIL SERVICE:—Sir, I should like to preface my remarks by welcoming the very extensive comments which Members have made on civil service matters in this debate. The Secretary for the Civil Service, and the staff of the Civil Service Branch, work mainly behind the scenes, and rightly so, but it is most heartening to all of us to know that Members do appreciate the many problems with which we are contending, and are sharing with us their thoughts

on what might be done to resolve them. The issues which Members have touched on ranged from detailed questions of management to broader issues of establishment and organization. The Chief Secretary will be dealing with the latter: I shall try to deal with the former in the following order—

- (a) pay and fringe benefits
- (b) staff efficiency
- (c) staff planning
- (d) training
- (e) localization
- (f) directorate establishment
- (g) departmental establishment committees and
- (h) productivity

#### *Pay and Fringe Benefits*

Mr. BROWN and Mr. YEUNG stressed the need to get pay rates right, and to take due cognizance of fringe benefits in reviewing salary scales. The present position is that the Standing Commission on Civil Service Salaries and Conditions of Service has advised that in determining civil service pay, account should be taken of the total package, that is to say salary and fringe benefits. In its Interim Report on Civil Service Pay Policy (Report No. 7), the Standing Commission has pointed out that there is a substantial difference in the value of fringe benefits between the civil service and the private sector, and that this should be taken into account in periodic adjustments to civil service pay. The Government has accepted the concept of the total pay package: the Administration is now working out how to apply it. We are doing so in consultation with the Standing Commission and with the Staff Side of the Senior Civil Service Council. The issues however are complex. How, for example, should fringe benefits be quantified, what account should be taken of the degree of utilization by individual civil servants, and what should be defined as private sector norms? Nonetheless, I am optimistic that with help from the Staff Side, and with further advice from the Standing Commission, we shall be able to report back to Executive Council before the summer recess.

Pay policy and fringe benefits are but two of the many subjects on which the Standing Commission has tendered advice during the past year, and I should like to place on record, Sir, the Government's appreciation of the Commission's signal contribution to the management of the civil service.

#### *Staff Efficiency*

Mrs. CHOW questioned the job security enjoyed by civil servants and seemed to think that those paid from incremental salary scales receive their increments regardless of how they perform their jobs. This is simply not true. Civil Service Regulations require a Head of Department to stop the salary increment of any officer whose conduct or diligence has been unsatisfactory; a total of 613 officers

in various departments have their increments stopped this month. This however is only one part of a well-developed system of disciplinary penalties and other sanctions for use where officers misconduct themselves or do not perform their jobs to an adequate standard. Moreover we do use these penalties and sanctions. Last year, for example, some 400 civil servants had their services terminated for incompetence or neglect of duty, a further 1 000 officers were awarded lesser punishments. We do go to considerable lengths to appraise the performance of civil servants, and, while there is always room for improvement, our present arrangements are certainly a great deal better than they were. Here I should like to pay a tribute to the positive help which we have received from staff associations in helping to raise efficiency.

### *Staff Planning*

Several Members, notably Dr. FANG and Mr. WONG Lam, queried our present arrangements for manpower planning, training, the use of professionals and the staffing of departments generally. The starting points for all these are the various policy objectives and programme plans approved by the Government. From these each department derives its forecasts of future staff requirements. Speaking generally, there is less flexibility than might be supposed when it comes to determining the additional staff required to implement new policy objectives and programme plans. For example a decision to provide an acute hospital, a fire station, or a new housing estate, results in a known staffing requirement which can be varied only within narrow limits if the facility is to be put to optimum use. Likewise new policy initiatives, for example in the fields of immigration control or industrial promotion, also tend to result in a future staff commitment which can be varied only within fairly narrow limits if the intended objectives are to be met. It follows therefore that when the Government adopts particular policy objectives or programme plans we are virtually locked into certain levels of staffing five and ten years hence.

That brings me to staff planning as it is now being practised in Civil Service Branch. It was only last year that we acquired a separate Staff Planning Division (some would say that was too late). Its task is to assist departments to translate theoretical manpower requirements derived from approved policy objectives and programme plans into realistic staffing proposals.

This involves a complex two-way balancing process between demand and supply. On the supply side it may lead to proposals to vary the output from educational institutions, particularly at the tertiary level; to new civil service training and scholarship schemes; to new sources of recruitment; or to changes in pay and conditions of service. On the demand side it may lead to the reorganization of work so that it may be done more economically by existing staff, or by the redeployment of staff from other work, it may also lead to the reordering of programme priorities, or if necessary to the reconsideration of policy objectives.

Dr. FANG stressed the need for us to adopt a flexible approach to basic recruitment qualifications, giving as an example the unrealistic requirement (in the view of some people) of ten years previous experience for appointment as a Magistrate. I can assure him that this is precisely the sort of point which we are examining in the context of staff planning. Indeed our studies now extend into most areas where we are experiencing difficulty in recruiting staff, particularly professional and technical. But, as Dr. FANG and Mr. CHEN well know, the civil service operates under various constraints when it comes to the recruitment of professional men and women.

However, for the great majority of grades in the civil service, and that means perhaps some 90% of the total, there is little or no difficulty in finding adequate numbers of suitable candidates locally. A consequence of this, in my view, is that the establishment of these grades is tending to grow faster than they ought because of this ready availability of local recruits: this is a point to which we are addressing ourselves.

#### *Training*

Turning to training, the minority of grades to which we have difficulty in attracting sufficient recruits are, almost without exception, in professional and technical fields. As a general rule, improving the remuneration package for these grades would not significantly increase the supply of suitable local candidates this is partly because of opportunities in the private sector, and partly because the overall demand in Hong Kong by both the private and public sectors has far outrun the overall supply of available people. While overseas recruitment does offer some immediate relief, the most practical long term solution for the civil service is undoubtedly to invest more funds in training.

Accordingly, this is an area in which the Civil Service Branch has stepped up its efforts appreciably. Thanks to the support of Unofficials we are now spending some \$400 million each year on civil service training, and this includes large sums devoted to overcoming shortages of professional and technical skills. For example, during 1982, 275 Hong Kong men and women will be studying overseas on Government scholarships in preparation for appointment to professional and technical grades. In addition, some 440 serving officers will be attending post-qualification and other mid-career courses this year, in many cases overseas. This considerable effort is concentrated in the fields of law, engineering, surveying, medical and para-medical studies. May I assure Dr. FANG and other Members that we are applying our minds vigorously to improving our training programmes for professional and technical staff, and co-ordinating them more effectively with staff planning. But we should recognize that in many cases the lead times are extremely long, and it will be many years before we are able to meet even all our basic requirements from local home-grown sources.

*Localization*

That, Sir, brings me to the subject of localization. May I first take this opportunity to repeat that it is and remains the Government's policy to recruit overseas only when suitable local candidates are not available in sufficient numbers. The only exceptions are Administrative Officers and Police Inspectors, where it is our policy to continue recruiting a proportion of officers from the United Kingdom. To judge from reports which have been circulating recently, one might be excused for thinking that we are back-peddalling on localization, this is not so. The fact is that the *proportion* of overseas officers in the service is tending to decline: it was 2.6% in 1978, 2.3% in 1980, and is now 2.1%. But because the total strength of the service has been growing, the actual *number* of overseas officers has increased though quite slightly: it was 2 974 in 1978, 3 025 in 1980, and is now about 3 200.

Quite substantial parts of the service now contain few or no overseas officers, for example Medical and Health, Social Welfare, Urban Services, Immigration, Education and Housing Management. Apart from the Administrative Service and the Police, overseas officers are now concentrated in the legal and works departments, and in specialist agencies such as Environmental Protection. Local officers now fill 65% of senior professional and management posts, and 43% of Directorate posts. These proportions are increasing all the time.

*Directorate Establishment*

Turning now to Mr. WONG Lam's strictures on the increase in the civil service directorate, I do not myself think that the rate of growth has in fact been disproportionate to the much greater responsibilities now shouldered by directorate officers. Taking the past five years, and I think this is a fair period to take, it is true that the increase in the total directorate establishment (58%) has exceeded the increase in establishment for the civil service as a whole (42%). But if one looks more closely at the make-up of the increase in the directorate establishment some interesting facts emerge. The total number of additional directorate posts during this period was 333, of which:

- (a) 66 were judicial and legal posts, mostly associated with an expanded court system;
- (b) 10 were medical consultant posts;
- (c) 98 were professional and technological posts at the 'Chief' level; and
- (d) the remaining 159 posts were closely associated with the direction of the civil service, mainly at the Assistant Director level and above.

It is interesting that the growth rate for posts at the Assistant Director level and above has been less than the growth rate of the service as a whole.

*Departmental Establishment Committees*

I was particularly interested in the pertinent comments on Departmental Establishment Committees by Mr. CHEN, Mr. WONG Lam and Mr. CHEONG

The D.E.C.'s occupy a pivotal position in our machinery for regulating the growth of the service, and it is vital that they should be effective. The Deputy Financial Secretary and the Secretary for the Civil Service take a personal interest in their work and we both have representatives in attendance as full members at all meetings of all Departmental Establishment Committees. Our representatives are under instructions to be critical in examining departmental proposals for new posts; constructive in suggesting alternatives such as redeployment, reorganization of work, and so forth; and conservative in endorsing recommendations for the creation of new posts.

On the whole, Departmental Establishment Committees are discharging their duties properly and with a due sense of responsibility. The system is however still quite new and I do agree with those Members who spoke on this subject earlier in the Debate that we do need to review and refine the associated procedures. This, Sir, we are doing.

May I assure Members that there are no grounds for fearing that in D.E.C.'s we have invented one of those screen monsters which overpowers its creator.

#### *Productivity*

The need to pay more attention to productivity in the public service was implicit in the speeches of many Members. Mr. YEUNG stressed the need to maximize the use of existing staff resources: I agree. Miss DUNN argued that improved productivity implies staff savings, and, therefore, a slower rate of expansion than increased commitments might otherwise suggest: I agree with her too. I must also on this occasion agree with her that improved productivity is an aim which we should *pursue* at all times.

Miss DUNN referred to my statement in the policy debate last November that Finance Branch would shortly be acquiring special resources to assist in the control of departmental establishments, and enquired about progress on this. As from 1 April, some 80 Management Services staff previously working under the former Administration Branch have joined the Finance Branch. They will be working principally on value-for-money studies, including establishment reviews.

For its part, there is much that Civil Service Branch can do, and is doing, to help improve productivity. The right rank structure, recruitment of the best people, effective training, improved staff management, better management systems, and good staff relations all play their part.

The interests of Finance Branch and Civil Service Branch in productivity are overlapping, and, especially now that Finance Branch has acquired a management services capability, the Deputy Financial Secretary and I have decided to set up joint co-ordinating machinery which will oversee those aspects of productivity which particularly affect the management of the civil service. This will be reporting to the Chief Secretary.

Sir, I support the motion.

*Introduction*

THE CHIEF SECRETARY:—Sir, several Unofficial Members expressed concern about the increase in the size and cost of the Civil Service provided for in the Draft Estimates for 1982-83 and, indeed, in recent years. This concern was expressed in the context of reservations about *either* budgetary policy *or* the deployment and use of existing staff resources. Occasionally, I must confess, as I listened attentively to Members' speeches, I gained the distinct impression that perhaps civil servants are not an entirely good thing anyway (*laughter*): the fewer the better seemed to be one theme, developed with some vehemence by Miss DUNN; and even fewer would only be acceptable if they worked as effectively as their counterparts in the private sector was another theme, put forward by Mrs. CHOW and Mr. CHEN.

The Financial Secretary, in winding up this debate, will no doubt defend himself vigorously against charges that he has not sought to put into practice the principles of budgetary policy which he has espoused. My obligations, as Chief Secretary, are *to explain* the growth and size of the Civil Service, and *to assure* Members that we are not complacent about the cost-efficiency of departmental establishments and, further, *to assure* them that we are conscious of the need to take a dynamic view of the organization of Government's internal administration.

*Growth of Establishment, 1974-78 and 1978-82*

In the four years ending on 31 March 1978, the *total* establishment of the Civil Service, including posts in the Housing Department and the Urban Services Department paid for by the Housing Authority and the Urban Council, increased from 113 000 posts to 126 000 posts, or by 11.5%. In the four comparable financial years ending 1977-78, expenditure on Consolidated Account increased by 81%, or by 36% in real terms. In the four years ending on 31 March 1982, the total establishment in the Civil Service increased from 126 000 posts to 166 000 posts, or by 32%. In the four comparable financial years ending in 1981-82, expenditure on Consolidated Account increased by 237%, or by 86% in real terms. So, in both periods under review, the increase in the establishment of the Civil Service has been only about one-third of the increase in the volume of expenditure in real terms and, on this basis, the Civil Service would not appear to be over-manned.

*Relative Size of the Civil Service*

Nevertheless, some Members might argue, for instance Miss DUNN, Mr. YEUNG and Mr. CHEONG, that the demands of the Civil Service on the labour market have grown disproportionately. But the facts do not indicate that this is the case. The approved establishment of the Civil Service reflects the Government's view as to the manpower needs of departments, rather than actual strength which depends on recruitment, training facilities, accommodation and so on,

matters upon which the Secretary for the Civil Service has just dwelt. Actual strength of the Civil Service at each year's end tends to be only about 90% of the approved establishment and actual strength as a proportion of the employed labour force at 31 March in each of the five years 1978 to 1982 has been remarkably constant at around 6%. Thus, it cannot be argued that the Government has exerted a distorting influence on the demand side of the labour market, despite the fact that the relative size of the public sector, as measured by the ratio of expenditure on Consolidated Account to the Gross Domestic Product increased from 15.4% in 1977-78 to 22.9% in 1981-82.

#### *Deployment of Establishment*

I would not wish to suggest that an increase in the approved establishment of the Civil Service by 40 000 posts from 126 000 posts at 31 March 1978 to 166 000 posts at 31 March 1982 should be accepted uncritically. In any large organization, particularly one which is mainly providing services on a non-commercial basis, there simply *must* be scope for improving cost-efficiency. As Mr. YEUNG said 'rapid expansion is usually (*I would say can* be) accompanied by ... under-utilization of resources ....' and I agree with Mr. BROWN that 'the taxpayer is ... entitled to expect that (staff) costs are subject to efficient control'. But increases in departmental establishments in the Civil Service essentially flow from decisions of public policy and not from excessively generous manning ratios *or* from 'seemingly unrestrained growth' (Mr. CHEN) *or* from a Parkinsonian tendency for bureaucracy to 'sprawl' (Miss DUNN) and I did not detect any suggestion in Members' speeches that some policy decisions should be revised.

The distribution of the approved establishment by groups of programme areas at 31 March 1982 illustrates the decisive influence of policy decisions: social services—26%; community services, such as transport, roads, civil engineering, water supplies, fire services, amenities and local Government-type services—28%; law and order—24%; economic services—8%; and all others—14%.

ð

An alternative analysis, moreover, indicates that the overheads of Government in Hong Kong are still being contained: roughly 62% of the approved establishment of 166 000 posts at 31 March 1982 is concerned with providing services to the public directly and 28% is absorbed by the uniformed services. Only 10% is allocated to what might be described as central Government activities such as the Government Secretariat and related agencies; district administration; revenue collection; legal, accounting and statistical services; and a variety of common supporting services.

#### *Disposition of Increase in Establishment, 1978-82*

Returning for a moment to the increase in the approved establishment of 40 000 posts between 31 March 1978 and 31 March 1982: some 5 700 of these posts

were for the Housing Department and the Urban Services Department to the account of the Housing Authority and the Urban Council respectively. Of the balance of 34 300 posts, about 10 500 posts were for the uniformed services, particularly the Police Force and the Immigration Department, and 19 600 posts were for departments providing services to the public directly, particularly the Medical and Health Department, the Urban Services Department in the New Territories, the Engineering Development Department and the Post Office. Only 4 200 posts were for central government activities.

In the case of the 30 100 additional posts for services to the public or for the uniformed services, they have been created *either* to maintain the level of services provided in response to the growth of the population (and remember our population has grown by nearly 650 000 in the last four years); *or* to improve existing services; *or* to extend the geographical spread of those services to the new towns and other developing areas as part and parcel of our policy of regionalization; *or* to man entirely new services and facilities. Between one-third and one-half of the additional posts have been required for this latter purpose.

#### *Increase in Establishment in 1982-83*

It is against this background that I would ask Members to accept my assurance that the additional posts for which the Financial Secretary is seeking vote provision in the 1982 Appropriation Bill will only be created if Departmental Establishment Committees are satisfied that a properly argued case is made out and, as with the present establishment, I can assure Dr. HUANG that such additional posts as are created will go to 'areas of real need'. Although, in theory, provision is being sought for an additional 16 500 posts, I am confident that, in practice, a lesser number will be created even if so many could be recruited and absorbed. This number represents, in other words, a permissive limit only, a point which I would ask Mr. CHEONG to note.

I would emphasize, as the Secretary for the Civil Service has already done, that D.E.C.s—and particularly the Finance Branch and Civil Service Branch representatives on them—will be at pains to ensure that the scope for the redeployment of staff in existing posts has been fully explored; and the Establishment Sub-Committee, in its programme of regular overall reviews of departmental establishments, will doubtless check that this has been done.

#### *Organization of Government Administration*

So much, Sir, for the growth and size of the Civil Service. I must now turn to the organization of Government's internal administration for this is an area of unique concern to me as Chief Secretary. Miss DUNN again questioned the continued relevance of the concept of a central Government Secretariat, Mr. CHEN asked for a review of the whole Government machinery and Mr. WONG Lam suggested, more modestly, that each department should, from time to time, conduct an internal review to gauge the efficiency of its performance.

I entirely agree with Miss Dunn that we must take a 'dynamic' view and adapt the organization and machinery of Government in response to changing needs and circumstances, including the geographic spread of our activities. I think we try to do so and, certainly, we shall go on trying to do so. Take the past year for instance: the old Environment Branch has been dismantled, with its policy responsibilities for lands matter and for transport matters passing to a newly-formed Lands and Works Branch and a Transport Branch respectively and with environmental responsibilities passed *via* the Administration Branch to an expanded Home Affairs Branch. The latter also absorbed the Information Branch during the year. The Lands and Works Branch, of course, also assumed policy responsibility for the five—in due course, six—departments created by the de-federalization of the Public Works Department and the newly-formed Lands Department. Another major reorganization exercise involved the New Territories Administration, the Home Affairs Department and the Home Affairs Branch. Again a new Education Branch was carved out of the Social Services Branch so that special attention could be paid to the problems of forward planning in education, particularly in the tertiary field. There were less dramatic, but nevertheless important changes, in the Administration Branch. Miss DUNN will be glad to hear that the Management Services Division has been absorbed into Finance Branch and should be well placed there to assist in that Branch's complementing role and the Data Processing Division has been translated into a free-standing agency. The parent branch has been retitled Councils and Administration Branch as an earnest of the relative importance I would wish to see attached to the responsibilities of the branch towards the two major Councils it serves.

At the same time, there is an almost continuous process of adjustment to the organizational structure of departments as witnessed by the speed with which the Government Telephone Directory becomes out of date, although here I might mention that we should pay more attention to the way in which departments are accommodated. There are too many instances of departments in scattered and unsuitable premises, which untidy situations are not conducive to efficiency. We are also pursuing the search for services which might be contracted out and for suitable candidates for hiving-off as commercial or quasi-commercial ventures to operate as public corporations and the K.C.R. will shortly be hived off if Members pass the necessary legislation.

As to Miss DUNN's specific question about the continuing relevance of the Government Secretariat concept as the most appropriate form of central government for Hong Kong, I would say this: rather than dismantle the Government Secretariat in favour of another set of administrative arrangements for formulating and directing and co-ordinating policies in our various programme areas, I think it is wiser to seek to adapt the present arrangements with a view to speeding up the decision-making process, improving the servicing of the network of boards and committees associated with the central government and developing a more responsive and more

coherent relationship between policy branches and between policy branches and departments. Indeed, these have been the objectives of the organizational changes I referred to a few moments ago and are certainly the objectives of a further change recently decided upon.

*De-federalization of the Trade Industry and Customs Department*

Now that the process of de-federalizing the Public Works Department and establishing a new Lands and Works Branch within the Government Secretariat has been completed—at least on paper—it has been decided, subject to the approval of Finance Committee, to de-federalize the other federal department, the Trade Industry and Customs Department and set up three separate and independent departments—Trade, Industry and Customs and Controls—the heads of which will become Controlling Officers with their own separate votes in the Estimates. The existing post of Director of Trade Industry and Customs will be abolished and a new post of Secretary will be created to head up a new branch of the Government Secretariat to which will be transferred policy responsibility for trade and industry and several other subjects from the Economic Services Branch. No firm decision has yet been taken as to which branch of the Government Secretariat should assume responsibility for the Customs and Controls Department, but the Security Branch and Finance Branch are two obvious candidates.

At the same time, it has been decided that all directorate posts in the Trade and Industry Departments should be converted to Staff Grade posts in the Administrative Service, whilst directorate posts in the Customs and Controls Department will be progressively converted to professional posts in the Customs and Excise Service. All departmental directorate officers in the Trade and Industry Departments will be offered transfer terms to the Administrative Service in ranks equivalent to their existing ranks. They will be eligible for promotion within the Administrative Service and liable to posting to any post designated as an administrative post. Equally, all present Staff Grade members of the Administrative Service may be posted to directorate posts in these two new departments. This decision is in line with the policy of progressively making all directorate level posts, wherever practicable, open to all senior officers, be they members of the Administrative Service or of departmental cadres. It will take some time to work out detailed arrangements to implement these several decisions, but the intention is that the new branch and the newly independent departments should be operational by July.

*Training for the Open Directorate*

This leads me on, Sir, by a natural progression to another decision, recently taken, to appoint a working party to examine the feasibility of establishing a full-time in-service command and management course on an experimental basis for mid-career officers in both common service and departmental cadres and in

the uniformed services with a view to preparing such officers for directorate level responsibilities. The composition of the working party and its actual terms of reference will be announced shortly, but I am very happy to inform Members that Mr. Li Fook-kow, chairman of the Public Service Commission has agreed to be chairman of the Working Party and he will bring to this important task his extensive experience in many fields.

### *Conclusion*

Sir, I hope I have succeeded in meeting the three obligations I mentioned at the beginning of this speech, without reminding Members of a rather harassed Minister of State in Whitehall who, on being inundated with well meaning advice as to how to contain the size of his departmental establishment, replied somewhat tartly: 'I am obliged by your opinions and retain my own' (*laughter*). In other words, Sir, simply because I have sought to respond to Members' doubts and worries, does *not* mean that all they have taken so much trouble to say has fallen on deaf ears.

Sir, I support the motion.

THE FINANCIAL SECRETARY:—

| INDEX                                   | <i>Paragraphs</i> |
|---|-------------------|
| Revised Estimates 1981-82               | 3 — 7             |
| 1982 Economic prospects                 | 8 —13             |
| Control of Public Sector Expenditure    | 15 —20            |
| Taxation                                | 21 —28            |
| Capital Revenue and Capital Expenditure | 29 —30            |
| Assistance to Industry                  | 31 —37            |
| China                                   | 38                |
| Conclusion                              | 39 —40            |

Sir, at last the bitter bit, I have enjoyed the second stage of this budget debate. I have naturally been encouraged by those who broadly accepted my budget proposals. Indeed judging by some of the comments I stand before you a kind hearted, perceptive gilded lily in a mini skirt (*laughter*). As for the critics, I welcome what they have had to say. Clearly it is easier to agree with some than with others, but it is a healthy discipline for administrators to be subject to criticism of this nature by able Unofficials. Only a fool would believe that the Government never makes mistakes. My guiding principle is that I should at least be less wrong.

2. I shall divide this concluding speech into three main sections. I want briefly firstly to bring you up to date on the state of the Government finances, and secondly on our latest estimates of 1982 Economic Prospects. Finally I will

address those remaining criticisms and new proposals to which my colleagues in Government have not already responded.

*Revised Estimates 1981-82*

3. Based on performance over the nine months to December 1981, in the budget speech I gave the revised estimates of revenue and expenditure for 1981-82 as \$34.8 billion and \$27.1 billion respectively<sup>(1)</sup>, thus producing a surplus of \$7.7 billion.

4. We have now updated these figures having regard to performance over the past three months. Our updated assessment of total expenditure fortuitously remains unchanged, although its make-up is somewhat different. But we now expect total revenue to be \$800 million less at \$34 billion. On this basis last year's operations will result in a reduced surplus of \$6.9 billion<sup>(2)</sup>.

5. Recurrent expenditure will be about \$129 million lower than previously estimated<sup>(3)</sup>, because the requirement for pension payments was over-stated.

(1) *B.S. para. 34: adjusted for analytical reasons, as explained in the Statistical Tables.*

(2)

|                           | <i>Printed<br/>Revised<br/>Estimates<br/>(\$ mn)</i> | <i>Updated<br/>Revised<br/>Estimates<br/>(\$ mn)</i> | <i>Printed<br/>Revised<br/>Estimates<br/>(\$ mn)</i> | <i>Updated<br/>Revised<br/>Estimates<br/>(\$ mn)</i> |
|---------------------------|--|--|--|--|
| <i>Recurrent Account:</i> |  |  |  |  |
| <i>Revenue</i>            | 24,417   | 24,054   | —  | —  |
| <i>Expenditure</i>        | 16,695   | 16,566   | 7,722  | 7,488  |
| <i>Capital Account:</i>   |  |  |  |  |
| <i>Revenue</i>            | 10,364   | 9,977  | —  | —  |
| <i>Expenditure</i>        | <u>10,415</u>  | <u>10,549</u>  | <u>— 69</u>  | <u>— 572</u>   |
|                           |  |  | <u>+7,653</u>  | <u>+6,916</u>  |

*See also footnote (20) to the Budget Speech.*

(3)

| <i>Component</i>                                       | <i>Printed<br/>Revised<br/>Estimates<br/>1981-82<br/>(\$ mn)</i> | <i>Updated<br/>Revised<br/>Estimates<br/>1981-82<br/>(\$ mn)</i> |
|--|--|--|
| (1) <i>Personal Emoluments</i>                         | 6,000  | 6,035  |
| (2) <i>Departmental Other Charges</i>                  | 2,561  | 2,600  |
| (3) <i>Public Works Recurrent</i>                      | 1,300  | 1,252  |
| (4) <i>Subventions</i>                                 | 3,278  | 3,290  |
| (5) <i>University and Polytechnic Grants Committee</i> | 757  | 745  |
| (6) <i>Defence</i>                                     | 1,204  | 1,203  |
| (7) <i>Pensions</i>                                    | 730  | 600  |
| (8) <i>Public Debt</i>                                 | 22   | 21   |
| (9) <i>Miscellaneous</i>                               | 843  | 820  |
| <i>Total Recurrent Expenditure</i>                     | <u>16,695</u>  | <u>16,566</u>  |

But total capital expenditure will be about \$134 million higher<sup>(4)</sup>; expenditure on land acquisition in particular is now estimated at \$1.9 billion rather than \$1.6 billion, a further increase of \$300 million; but there have been some offsetting savings in other components of the capital account.

6. We now expect recurrent revenue to be \$363 million less than previously estimated. This is largely because of rather lower yields from earnings and profits tax and from stamp duties. Capital revenue is expected to be \$369 million less than previously estimated, resulting entirely from a drop in the yield from land premia as a result of lower prices being fetched by the sale of land.

7. The transfer of the 1981-82 surplus, as now assessed, to the General Revenue Balance will bring our fiscal reserves at the beginning of 1982-83 to about \$22.4 billion. Allowing (on the basis of a gearing of three) \$6.5 billion as cover for our contingent liabilities, our 'free' fiscal reserves at 1 April 1982 should be about \$15.9 billion<sup>(5)</sup>.

#### *1982 Economic Prospects*

8. Turning to our economic prospects for 1982, despite Mr. CHEONG's intelligent concern, I have not 'uncritically accepted ... forecasts in respect of the probable timing of a recovery in the U.S. market'. In 1981 when the U.S. economy was moving into recession, the growth rate of our domestic exports to the United States was as high as 14%. In contrast, I have forecast a growth rate

(4)

| <i>Component</i>   | <i>Printed<br/>Revised<br/>Estimates<br/>1981-82<br/>(\$ mn)</i> | <i>Updated<br/>Revised<br/>Estimates<br/>1981-82<br/>(\$ mn)</i> |
|--|--|--|
| (1) <i>Public Works programme (other than New Towns and Housing)</i>   | 2,810  | 2,800  |
| (2) <i>Public Works programme (New Towns and Housing)</i>              | 2,280  | 2,250  |
| (3) <i>Land Acquisition</i>  | 1,600  | 1,900  |
| (4) <i>Transfers to D.L.F. for on-lending to the Housing Authority</i> | 2,114  | 2,114  |
| (5) <i>Transfers to Home Ownership Fund</i>                            | —  | —  |
| (6) <i>Subventions</i>   | 225  | 174  |
| (7) <i>University and Polytechnic Grants Committee</i>                 | 183  | 150  |
| (8) <i>Departmental Special Expenditure</i>                            | 425  | 409  |
| (9) <i>Defence Costs Agreement: Capital Works</i>                      | 67   | 57   |
| (10) <i>Defence: Miscellaneous Measures</i>                            | 222  | 215  |
| (11) <i>Other Transfers</i>  | 78   | 77   |
| (12) <i>Miscellaneous</i>  | 411  | 403  |
| <i>Total Capital Expenditure</i>                                       | <u>10,415</u>  | <u>10,549</u>  |

(5) *B.S. para. 41.*

of only 6% for 1982 during which, present uncertainties regarding the timing notwithstanding, the U.S. economy is expected to start improving.

9. Admittedly our domestic exports to the United States in the first two months of this year were slightly lower than we expected, and were probably about 2% less in real terms than in the corresponding period in 1981. Furthermore the effect on Hong Kong's exports of the U.S. recovery, when it happens, has been complicated by the outcome of the recent negotiations in respect of restraints on exports of textiles and clothing to the United States. Assuming (as I do) that the agreement will be ratified, the growth rates of the restraint limits will be reduced with immediate effect from an average of 3.6% to slightly under 1% for 24 sensitive items, while restrictions on other textiles and clothing items will be lifted. Provisions for swing and carry-over will also be altered. In 1981 the value of domestic exports of the 24 sensitive items represented about 30% of all domestic exports to the United States. I estimate that the new agreement could reduce the forecast growth rate of domestic exports to the United States by about 1 percentage point<sup>(6)</sup>, and the forecast growth rate of domestic exports as a whole by less than half a percentage point.

10. These reductions in forecast growth rates do not appear to be very large, and until the mid-year review I do not intend to consider revision of my 1982 forecasts<sup>(7)</sup>.

11. Our negotiations on textiles and clothing with the E.E.C. are due to start soon. If the E.E.C. cannot be shifted from their declared intention, we face even more restrictive cutbacks in our exports to that market. But the outcome is unlikely to affect 1982 export prospects. As for the long term we can only await the outcome of the forthcoming negotiations.

12. Meanwhile the latest figures indicate that domestic exports to all markets in the first two months of this year were in real terms about 2% less than in the corresponding period of 1981. On the same comparison retained imports of raw materials and semi-manufactures were about 5% less. Export prices in foreign currency terms, however, have hardly increased since September last year. Taking these developments together, I accept that there is now a higher risk of the actual growth in domestic exports for the year as a whole not reaching the

---

(6) *Implicit in the original forecast of a growth rate of 6% for domestic exports to the United States was an assumption that there would be a degree of under utilization for these 24 sensitive items. If full utilization had been assumed, the effect of the new agreement would have been to reduce the forecast growth rate of domestic exports to the United States by 2 percentage points.*

(7) *We should not, however, view the new restrictions simply in terms of one year. The fact is that we will be locked into them for six years, and their effect will accumulate throughout this period. At the end of six years we might expect our maximum access levels for these 24 items to be 14% less than they would have been under the old agreement. This unsatisfactory agreement reflects only the political facts of life, and neither logic nor equity.*

forecast of 7%. This higher risk also applies to the forecast growth rate of 8% for the G.D.P. Because I have confidence in the ability of our manufacturers to overcome problems and because the services and financial sectors are doing well I still do not intend formally to revise my very undogmatic forecasts<sup>(8)</sup>. But I am under no illusion that the task of overcoming these difficulties will be easy. And we will continue to watch very closely developments in the U.S.

13. Mr. CHEONG also expressed doubt about the forecast growth rate of 14% in real terms for investment in plant, machinery and equipment, but I see no reason to change my forecast at present. Even if 14% is achieved at the end of the day, nobody will be able to say definitely how much of this growth rate occurred because of increased depreciation allowances. Members should realize that a growth rate of 14% for investment in plant, machinery and equipment is historically a low figure. The average annual growth rate in the past five years was over 20%.

*Response to criticism and new proposals*

14. I intend now to cover the following remaining broad issues: control of public sector expenditure; suggestions and criticisms relating directly to tax measures; problems over ostensible reliance on capital (land sales) income and related issues; special industrial assistance; and lastly and most importantly the China dimension.

*Control of Public Sector expenditure*

15. The astringent advice about control of public sector expenditure given by Miss DUNN, Mr. YEUNG, Mr. WONG Lam, Dr. Rayson HUANG, Mr. BROWN and Mr. CHEONG is helpful. I might have spoken in similar terms if not so eloquently had I still been in their place, and though Miss BENNETT had understandable reservations I am pleased that they at any rate agree that the growth rate in real terms of public sector expenditure on Consolidated Account should reflect as closely as practicable the growth rate of the G.D.P. Nothing that I shall say represents new policy. Only last year Sir Philip in this Debate said: 'The need for self imposed restraint is self evident'<sup>(9)</sup>.

16. The principle is I am sure, generally accepted; but, alas, the practice is more difficult, and it would be demagogic for me to pretend otherwise. Setting aside any debate on competing priorities, problems to be faced include the difficulty of deciding reasonably accurately each year what the growth rate of the G.D.P. will be in the following year. Moreover in the year 1981-82 the

---

(8) *1982 Economic Prospects, paras. 1.2 and 4.1.*

(9) *F.S. Speech in concluding debate; para. 12.*

actual growth rate of public sector expenditure growth in real terms on Consolidated Account was 21.8%. Subsequently for 1982-83 to advocate an immediate reduction to an 8% growth rate is quite unrealistic without accepting a cut of existing programmes. All Financial Secretaries hate stop and go, and I am set on being steady and consistent. This means no sudden U turns—least of all U turns after six months, as Mr. CHEONG suggested. Moreover it is a reasonable assumption that the Dunn axe would not be felicitously received by, for example, those in a squatter area awaiting housing, or by the residents of Shau Kei Wan awaiting completion of the Eastern Corridor. Public opinion is *not* inconsequential. Thus while it is relatively simple in the exercise of critical power alone to rest on principle, in the exercise of actual responsibility as well Government has to consider all factors including compassion and sensitivity to the art of the possible. I cannot speak for Miss DUNN, but I would find it difficult to justify further cutbacks in the growth rate of expenditure for 1982-83—that is on top of the proposed reduction of eleven percentage points in growth on Consolidated Account—against a background of large reserves and a considerable budgetary surplus. Members will anyway remember that the planned drop of growth on General Revenue Account is to 8% in real terms<sup>(10)</sup>. Next year I hope that it may be possible to get growth on Consolidated Account more lined up with growth of G.D.P., but to be honest there will clearly always remain the problem of the unforeseeable. I cannot accept a hidebound straitjacket. We are after all talking about people's lives and not mathematical formulas.

17. You will bear in mind also that the figures involved are now very large. Cumulative expenditure or revenue estimates cannot easily be refined to close tolerations, and when even small percentage differences are applied to the enormous sums involved on public account the absolute amounts and swings can be large, particularly to inexperienced eyes. Anyone who thinks, for instance, that our estimates of revenue should be accurate to closer than about plus or minus 4%, or of expenditure closer than about 2%, does not appreciate the problems that exist. When these percentages are placed against the \$36 billion or so that are involved this year in each case, large absolute swings must be expected. Please thus be forewarned. Frequently pluses compensate for minuses, though one day we shall have all minuses.

18. There remains one other highly disputatious area. Some items of unforeseen special capital expenditure present dialectical problems. I do not want to press the issue on which different economists hold widely differing views, but every businessman knows that at times unforeseeable and therefore unbudgetted capital expenditure can be fully justified by reference to probable recurrent returns or savings. It might be described as creative expenditure. Thus

---

(10) *B.S. para. 27.*

in Government we may on infrequent occasions outside the approved Estimates wish to seek Finance Committee's supplementary approval for special capital expenditure on (for example) buying formed land, or existing offices or housing where commonsense indicates thus replacing rented accommodation or avoiding the delay in building it. Particularly when such buildings are vacant, there can be no further take up of resources that should be left available to the private sector. Grossed up public sector spending limits will then be exceeded: but this in my opinion in certain cases of exceptional expenditure is justified. For example Finance Committee appeared to share my view when it recently agreed to expenditure this financial year of \$410 million on buying 1 000 Police rank and file flats. This expenditure is not provided for in the Estimates, and there are no savings to be made by the Police to offset it. There will certainly be other analogous cases. In fact, though I could not anticipate Finance Committee approval in the printed version of the speech, Members will now know that only yesterday the Committee agreed to the purchase of up to 150 N.D.Q.'s at an estimated cost of \$230 million. Nevertheless I accept Miss DUNN's meticulously drafted points that Government in presenting such supplementary applications to Finance Committee should make the position quite clear, and that the Government carries the prime responsibility for expenditure control.

19. Mr. LOBO was prescient. I have enjoyed a little wry amusement at the expected, and indeed accepted, ritual annual criticism of growing public sector expenditure being coupled, despite my earlier request<sup>(11)</sup>, with a barrage of pleas for more assistance for the middle class, better schools, new universities, free factories, more housing, increased children's allowances, vastly expensive and open ended social welfare and retirement schemes, more research funds, additional social workers, industrial assistance and subsidies of various kinds including cheaper power, land, money and water, more public toilets, walkways and multi-storey lorry parks, cheap electricity for Cheung Chau—and so on. All this expansion is, moreover, apparently to be achieved while simultaneously cutting the civil service. And goodness knows what may be the sources of the matching increased revenue required. None of the advocates proposed the clearly necessary higher taxation or slashed spending elsewhere. Nevertheless I would be foolish to ignore their requests, for they represent public aspirations.

20. But overall I sense a continued concern at the growth rate of public sector expenditure. I shall certainly bear it in mind; and I will welcome Members' support when difficult decisions have to be made. There will, however, be much mooing as sacred cows line up (*laughter*), and it is a fair guess that some of the mooing will be echoed in this Chamber (*laughter*). Moreover I must emphasize

---

(11) *B.S. para. 30.*

that despite arithmetical calculations this caring Government will continue its support to the socially disadvantaged and to those in distress<sup>(12)</sup>.

*Taxation*

21. I come to taxation measures which have been proposed or criticized.

22. In the course of his valuable speech Dr. HUANG made the suggestion that we should look again at the tax bands. We shall do so.

23. Fr. MCGOVERN reacted as I expected to my proposals for increased allowances for the first two children only<sup>(13)</sup>. I admire his Irish felicity with the English language (*laughter*), which hides a cavalier rejection of logic and the emotional creation of non-existent windmills at which to tilt. I am quite unpersuaded that failure to provide an increased incentive represents a positive disincentive. This interpretation exhibits socialism in extremis. I am also amused at Fr. MCGOVERN's homily over my choice of the word 'appropriate', which was carefully selected. I unrepentantly do not regard it as appropriate that the Government should provide positively increased incentives for parents to produce large families while we are simultaneously supporting prudent family planning. In fact when rehearsing my initial tax proposals it was my first intention to increase the personal allowances *alone* (perhaps even a little bit higher than the final generous outcome) thus allowing parents to make their decision on the size of their families in the light of what they can afford. To me, this is what parental responsibility is all about. It seemed a commonsense compromise in the event to settle on two as the limit for increased allowances— not least in the realization of Fr. MCGOVERN's certain reaction. I accept that family size is primarily a matter for sensible parents decision; and Fr. MCGOVERN may agree with this anyway. But I would be irresponsible not to calculate the cost to the community of various policy initiatives.

24. In this connection it seems a moderate comment that acceptance of the kind-hearted Mr. SO's suggestion of deliberate redistribution of income from those with small families to those with large might encourage a degree of lively disagreement amongst the public. This sounds like direct motivation to be feckless.

25. I have noted Mr. CHAN's proposals on further concessions for new capital intensive equipment, and Mr. CHEONG's views on initial depreciation allowances. I will naturally consider this advice when preparing the next budget, but I must note in general that we cannot go on making concessions in one area without having to face up to the probability that tax would then have to be

---

(12) *B.S. para. 7.*

(13) *B.S. para. 93.*

increased in other areas. A balanced view is essential. In any case Hong Kong as it presents many attractions to those who decide to re-invest. They cannot expect feather-bedding.

26. Mr. CHAN and Dr. HUANG allied themselves with potential and existing vested interests in speaking in favour of separate taxation for married women. I respect the views that have been expressed, and indeed I sympathize with them. I hope that circumstances next year will allow re-examination of the issue<sup>(14)</sup>. It will depend on priorities as they then exist.

27. Dr. HO and Mr. WONG Po-yan have again brought up the proposal that tax relief should be provided for home mortgage payments. Their motives are benign, but this would be expensive in terms of the revenue. Nor am I persuaded that those who are rich enough, relatively speaking, to buy their own flats should get preferred tax treatment over those who have either already bought their own flats or who are living in rented accommodation. Nor do I think that the control measures that Dr. HO has proposed would work. We have very low taxation in Hong Kong, and I think it important that it should remain neutral in effect and not be unduly distorted in favour of particular classes. I have sympathy for middle class problems, as I think I have shown in my budget, but we should not too easily assume that these are the only people who face difficulties in Hong Kong. It should always be remembered that in those countries where mortgage relief is available there is also a full income tax. They seem inseparable. I hope the message is understood.

28. I was somewhat taken aback that, whilst otherwise avuncular as befits the Senior Unofficial, Mr. LOBO should regard my proposed measures in respect of tax thresholds as only going some way towards abating the effects of inflation. As the latter was running at 15% and as the former presented nearly 25% benefits I stand on the record<sup>(15)</sup>.

#### *Capital Revenue and Capital Expenditure*

29. Miss DUNN and Mr. BROWN have spoken apprehensively about possible future problems with regard to the relationship between capital expenditure and capital revenue, and the allied possibility of falling revenue from land sales. I agree with much they say<sup>(16)</sup>. Bearing in mind that recurrent expenditure is always the main enemy, both make excellent points. But having said that I must confess that there is not much that I can do in advance about such hypothetical horrors, beyond constantly being on guard. If for instance Government land

---

(14) *B.S. para. 109.*

(15) *B.S. para. 92.*

(16) *See footnote (42) to B.S. para. 70; and para. 72.*

sales or profits tax or any other major head of revenue fall off sharply, then initially any deficit in overall outturn will be taken up by our satisfactory reserves. This is what savings are for, and we must not get excited about one or possibly two difficult years. For subsequent budgets we would then have to consider whether to raise taxation, cut expenditure, use the reserves, or raise loans; or indeed various combinations. I certainly hope to avoid deficits in general—meaning over a period of years as opposed to one bad year, and nothing that I say should be taken to mean that I approve of deficit financing.

30. I have before this debate been considering such kindred points with the Deputy Financial Secretary, and I hope to set up soon in Finance Branch a planning unit which will work on models for projection over a five-year period so that we can see what would happen to future budgets in the light of varied assumptions. This sounds pretty simple, but I doubt if it will prove to be so in practice.

#### *Assistance to Industry*

31. Despite all that I said in my budget speech<sup>(17)</sup> I have received as expected the usual concerned pleas for further assistance of various kinds to industry. I was particularly charmed by Mr. WONG Po-yan. If I could simultaneously arrange for interest rates to be reduced by the H.K.A.B., increase exports of domestic products and services, curb inflation both domestic and imported, and reduce the price of energy including power, fuel and light, I should be sanctified—a novel elevation for a Financial Secretary. In general terms it has never seemed to me intelligent to assume that because financial, monetary and social problems can now be fully documented, the solutions to them can easily be found. This is patently untrue. Where is Utopia? We are all balanced on our own see-saws. There is for instance one way whereby inflation can certainly be abated in Hong Kong. But the cost in terms of penal interest rates (assuming that I could so persuade the H.K.A.B.—some assumption) would at the same time ruin industry, commerce and employment. There are many problems that will be with us for many years to which there are no black or white solutions. Members will wish to aid me in selecting appropriate shades of grey.

32. Mr. Allen LEE—caught, I appreciate, in a cleft stick—was more specific. Again I share his proper concerns for the wellbeing of industry, and I fully concur with his belief in free trade and competition, and assurances to this Council that industrialists are not seeking subsidies or special treatment. But it was too good to last! He then appealed in effect for cheaper land and rents, lower interest rates, cheaper electricity and water—all of which he knows can be provided only at somebody else's expense, for manna no longer falls from heaven. To take his main points I submit that his comment that the price of

---

(17) *B.S. paras. 6, 8 and 9.*

industrial land has levelled off is rather ingenuous. In fact as a result of our reliance on the market process the price of industrial land in some areas in the last nine months or so has dropped by over 60%, and of all has dropped appreciably. As for interest rates, the Government is not a bank, and we cannot seek in general terms to provide money at rates lower than those available through the banks and deposit-taking institutions, unless we intended to provide direct, uncontrollable, unequal and highly distorting subsidies. Moreover interest rates perform a needed anti-inflationary role, though they too have fallen four percentage points (in other words 20%) since October last. The Secretary for Economic Services has spoken already about electric power. Let me just observe again that it is essential that there should be sufficient incentives for investment in new generating equipment. I do not believe that the rates of return of some 16½% allowed on their capital expenditure are exorbitant, and indeed I consider that the two power companies have behaved most responsibly in their commitment for the future. They represent after all an industry at least as important as any other. In the case of water charges Mr. LEE knows perfectly well that the new increased charges still do not cover costs, and that special arrangements have been carefully made for both big and small users at the expense of others.

33. Let me repeat once again, as I said in the budget speech, that I am well aware of the many problems that industry currently faces<sup>(18)</sup> especially as our overseas markets are currently affected by recession. But I do not believe that the right way to solve these problems is by cross payments from others. Industrialists really must stand on their own feet and adapt to conditions as they always successfully have done, while looking to Government for improved basic infrastructure<sup>(19)</sup>.

34. I have noted Dr. Rayson HUANG's plea for more finance for industrial research and development. To this I am sympathetic, though Dr. HUANG knows himself how difficult the problems are. This sort of issue can be considered by the Industrial Development Board, and as Chairman I will welcome any specific submission for support that Dr. HUANG or others would care to make—in addition to the grants already provided to universities and the Polytechnic as a result of U.P.G.C. advice.

35. Mr. TIEN's suggestion of a Home Ownership Scheme for small factories is deceptively simple. But why only small factories? Why not include restaurants, shops, laundries, bars, banks, travel agencies, and boat yards? I am serious, because I really do not know whether the criterion should be foreign exchange earnings or employment of labour. My simple response anyway must be that

---

(18) *B.S. para. 18.*

(19) *B.S. para. 9.*

Government has properly made special exceptions from its reliance on market forces in the particular case of housing for those not otherwise able to rent or buy decent personal accommodation; but we will not accept industrial or commercial distortion. How would Mr. TIEN react to a new factory built by a competitor alongside his own, and based on a nil land cost? How indeed would the notion strike developers of many factories still unoccupied despite falling rents, especially in the light of repeated Government assurances of nonintervention in the industrial and commercial market? I fear that his suggestion is not practicable.

36. The Director of Social Welfare has responded to Fr. MCGOVERN's and Mr. SO's well-meaning suggestions for improved social security in terms of a central provident fund, or pension schemes whether voluntary or compulsory. Let me add my simple views on this and the sometimes related matter of a Government sponsored health insurance benefits scheme, although this latter point has not been raised in this particular debate. Most of us agree how important it is to control public sector expenditure and particularly recurrent expenditure. Nothing, as a matter of plain evidence before our eyes elsewhere in the world, is more likely to get out of control than open-ended commitments in this area of pension and health benefits, for compulsory contributions by employer and employee alone are not only insufficient but insufficient on a geometric basis to meet bounding appetites. The tax implications are monumental; and the damage done by decent men for good reasons has been truly incalculable. They might profitably spend a little time in examining Japanese practice, which is both successful and economic. Hong Kong is not a poor place, but it is not a rich one either. It is certainly our policy on a means tested basis to help those in trouble, and to ensure the delivery of basic primary health care to the whole community who need it. It is right that employers should consider improvement of retirement benefits. Moreover I am sure that our standards will continue to rise. But our economy is entirely externally oriented. It is vital that we do not get locked in to non-productive recurrent expenditure which we will not be able to meet if damaging events occur overseas without our foreknowledge and over which we usually have no control whatsoever. Recessions and restrictions are only some examples.

37. In this respect, as indeed in others, I found Mr. Stephen CHEONG's intelligent Jeremiad helpful. I have commented earlier on his views; but he admirably illustrates the problems that face the Government in Hong Kong, where we are quite dependent on external factors. We cannot be reliant on the export of 90% of all we manufacture and pretend to be masters of our economic fate.

#### *China*

38. I was pleased that Mr. WONG Po-yan and Mr. CHEONG underlined the highly important issue of our trade links with China. As you will know, in my budget speech I made it clear that the mutually beneficial economic relationship

between Hong Kong and China is a main theme underlining all of the Government's policies<sup>(20)</sup>. I entirely agree with what both men have said, particularly about the importance of the Special Economic Zones, and I welcome the consideration that I understand is being given to a visit by the Trade Development Council to China.

*Conclusion*

39. The general purpose of our fiscal system is to finance the expenditure required to implement agreed programmes. The Government has never tried to pursue social justice through tax measures ancillary to overall policy, though there is clearly a degree of redistribution in for example the public housing field and in the structure of the Salaries Tax. I believe that the Government's policies are properly designed to make the poor richer; and not the rich poorer. They have clearly done so. I do not intend to repeat the many relevant passages from my budget speech, but I emphasize my belief that less Government tends to be more efficient government.

40. Hong Kong's experience over recent years surely provides some firm evidence of the effectiveness of my predecessors' consistent policies. I believe that Unofficials in the course of this year's debate have again generally accepted the virtues of appropriate degrees of thrift, creativity, commonsense and above all plain decency in contributing to the improving living standards of our people and to the prudent freedom successfully enjoyed by our commerce and industry.

41. Sir, I beg to move.

*Question put and agreed to.*

Bill read the second time.

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

**Adjournment and next sitting**

HIS EXCELLENCY THE PRESIDENT:—In accordance with Standing Orders I now adjourn the Council until 2.30 p.m. on Wednesday, 28 April 1982.

*Adjourned accordingly at ten minutes past four o'clock.*

---

(20) B.S. para. 5.