

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 17 April 1985****The Council met at half past two o'clock****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR EDWARD YOUDE, G.C.M.G., M.B.E.

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

THE HONOURABLE THE FINANCIAL SECRETARY
SIR JOHN HENRY BREMRIDGE, K.B.E., J.P.

THE HONOURABLE THE ATTORNEY GENERAL
MR. MICHAEL DAVID THOMAS, C.M.G., Q.C.

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

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

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

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

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

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

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

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 TRADE AND INDUSTRY

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

THE HONOURABLE ANDREW SO KWOK-WING, O.B.E., J.P.

THE HONOURABLE HU FA-KUANG, O.B.E., J.P.

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

THE HONOURABLE DONALD LIAO POON-HUAI, C.B.E., J.P.
SECRETARY FOR DISTRICT ADMINISTRATION

THE HONOURABLE CHAN KAM-CHUEN, O.B.E., J.P.

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, O.B.E., 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, O.B.E., J.P.

DR. THE HONOURABLE HENRIETTA IP MAN-HING

THE HONOURABLE PIERS JACOBS, O.B.E., J.P.
SECRETARY FOR ECONOMIC SERVICES

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

THE HONOURABLE CHAN NAI-KEONG, C.B.E., J.P.
SECRETARY FOR LANDS AND WORKS

THE HONOURABLE RONALD GEORGE BLACKER BRIDGE, J.P.
COMMISSIONER FOR LABOUR

THE HONOURABLE CHAN YING-LUN

THE HONOURABLE MRS. RITA FAN HSU LAI-TAI

THE HONOURABLE PETER POON WING-CHEUNG, M.B.E., J.P.

THE HONOURABLE YEUNG PO-KWAN, C.P.M.

THE HONOURABLE JAMES NEIL HENDERSON, O.B.E., J.P.
SECRETARY FOR EDUCATION AND MANPOWER

THE HONOURABLE KIM CHAM YAU-SUM, J.P.

THE HONOURABLE KEITH LAM HON-KEUNG, J.P.

THE HONOURABLE CARL TONG KA-WING

THE HONOURABLE JOHN WALTER CHAMBERS, J.P.
SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
DIRECTOR OF EDUCATION

THE HONOURABLE PETER TSAO KWANG-YUNG, C.P.M., J.P.
SECRETARY FOR ADMINISTRATIVE SERVICES AND INFORMATION

THE HONOURABLE DAVID ROBERT FORD, L.V.O., O.B.E., J.P.
SECRETARY FOR HOUSING

THE HONOURABLE IAN FRANCIS CLUNY MACPHERSON, O.B.E., J.P.
SECRETARY FOR TRANSPORT

ABSENT

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

THE HONOURABLE ALLEN LEE PENG-FEI, O.B.E., J.P.

THE HONOURABLE WILLIAM CHARLES LANGDON BROWN, O.B.E., J.P.

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

THE HONOURABLE MRS. PAULINE NG CHOW MAY-LIN

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR. LI WING

Papers

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

Subject *L.N.No.*

Subsidiary Legislation:

Boilers and Pressure Receivers Ordinance.	
Boilers and Pressure Receivers (Exemption) (Consolidation) (Amendment) Order 1985	80
Dangerous Drugs Ordinance.	
Dangerous Drugs (Amendment of First Schedule) Order 1985	81
Lands Tribunal Ordinance.	
Lands Tribunal (Fees) (Amendment) Rules 1985	82
Registration of Persons Ordinance.	
Registration of Persons (Application for New Identity Cards) (No.3) Order 1985	83
Revised Edition of the Laws Ordinance 1965.	
Revised Edition of the Laws (Correction of Error) Order 1985	84
Hong Kong.	
The Hong Kong Letters Patent 1985	85
Hong Kong.	
The Hong Kong Additional Instruction 1985	86
Education Ordinance.	
Grant Schools Provident Fund (Amendment) Rules 1985	87
Education Ordinance.	
Subsidised Schools Provident Fund (Amendment) Rules 1985	88
Legislative Council (Electoral Provisions) Ordinance 1985.	
Legislative Council (Electoral Provisions) (Registration of Electors and Appointment of Authorised Representatives) Regulations 1985	89
Public Health (Animals and Birds) Ordinance.	
Regulation of Movement of Dogs Order 1985	90

Sessional Papers 1984-85:

No. 51—Consumer Council Annual Report 1983-84.

No. 52—Hong Kong Polytechnic Annual Report 1983-84 with Balance Sheet and Income and Expenditure Account for the year ended 31 July 1984.

No. 53—Mass Transit Railway Corporation Annual Report 1984.

No. 54—Report of the Finance Committee on the Draft Estimates of Expenditure 1985-86.

Suspension of sitting

THE CHIEF SECRETARY:—Sir, in accordance with Standing Order 68, with your consent, I move that Standing Order 11(1) be suspended so that Official Members can finish speaking on the Second Reading of the Appropriation Bill today, leaving other bills and statements for tomorrow.

question put and agreed to.

Government Business

First reading of bills

PUBLIC FINANCE (AMENDMENT) BILL 1985

AUDIT (AMENDMENT) BILL 1985

PRIVILEGES AND IMMUNITIES (JOINT LIAISON GROUP) BILL 1985

HONG KONG INDUSTRIAL ESTATE CORPORATION (AMENDMENT) BILL 1985

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

Second reading of bills

THE APPROPRIATION BILL 1985

Resumption of debate on second reading (28 March 1985)

Question proposed.

SECRETARY FOR EDUCATION AND MANPOWER:—Mr. Francis TIEN has referred to the importance of technical and vocational education and urged that grants to the Vocational Training Council be kept at an adequate level, a view which I share, and Mr. Peter C. WONG has commented on the need to review the modes of financing education.

As Mr. WONG has rightly pointed out, education accounts for the biggest single slice of government expenditure. The enormous sum of \$7.81 billion has been provided for education in 1985-86: 17 per cent of total expenditure. Nothing could more clearly demonstrate Government's commitment to maintaining, extending and improving the educational system of Hong Kong, including technical and vocational education.

No doubt the cry will be heard that still more needs to be done. A word of caution is appropriate here. Faced with existing expenditure of the magnitude to which I have referred, it seems clear that any new advances of any size may have to be accompanied by a review of the present methods of financing education. I am grateful to Mr. WONG for making this point and assure him that these important questions are receiving attention, and we are examining whether the balance of our investment in education is the most appropriate and producing the optimum result for the resources devoted to it.

Mr. F. K. HU has referred to the suggestions he made to this Council In 1983 concerning extra-curricular journeys and the method of administering the Student Travel Scheme. He has also queried the continued subsidisation of students who can afford the full fare. The first two points have been examined previously. It is not really possible to separate school and extra-curricular travel because of the existence of a.m. and p.m. sessions in schools. It is also one of the aims of the scheme to encourage students to participate in recreational and other leisure activities outside school hours. Neither is it likely to be viable to change the scheme to one of direct subsidy of children through their schools, which would add to administrative costs yet provide less control.

As regards Mr. HU's third point, the scheme is an educational as well as a social facility and hence does not differentiate among students on the basis of their ability to pay the full fare. Apart from representing a radical change in concept, the application of a means-test could also add complexity and increase the cost of running the scheme. However members' concerns about the very considerable costs of the scheme running to some \$260 million for the 1984-85 academic year and the wide scope of its coverage are very understandable, so the Secretary for Transport and I are agreed that a further review of the scheme should be carried out this year.

Mrs. Rita FAN has commented that while students leave schools with a mastery of skills and technology, they may be lacking in a positive attitude towards life and work. As a solution, she urges that school heads be given the appropriate training, so that they in turn will be able to instill a good attitude among staff and students.

Management training is presently being provided to school heads with this in mind, although competing financial priorities restrict the numbers that can be accommodated. The Education Department's Management Training Unit has, since 1981, been providing training for the heads of all public sector schools and priority is given to new and inexperienced heads. These courses are com-

plemented by the general management course and seminars organised by the Civil Service Training Centre for more experienced heads, and by seminars and workshops which management consultants and visiting specialists are invited to conduct.

A related matter was raised by Dr. HO Kam-fai as the main purpose of the proposed Bachelor of Education degree programme is to help improve the development potential and academic status of primary school principals. He was certainly right in saying that the Panel of Visitors and the Education Commission had both endorsed this programme and I can assure him that the Administration is looking into the staffing and grading implications of this proposal with a view to enabling the University to introduce this degree programme. However additional resources will be required for such a programme and this may affect the timing of its introduction.

Mr. CHEUNG Yan-lung has expressed his concerns over the ability of Hong Kong students to obtain higher education overseas particularly in U.K. now that the full fees are being charged. Clearly a considerable part of the problem should be eased over the years as our programme of expanding tertiary education in Hong Kong progresses. Meanwhile we have the Joint Funding Scheme to which Mr. CHEUNG referred and he was worried that it was assisting fewer students this academic year. This scheme applies to the general public and is intended to assist students pursuing or intending to pursue a higher education in the United Kingdom by providing financial assistance under a Joint funding Scheme created by the U.K. and H.K. Governments.

While it may be true that fewer Hong Kong students went to the U.K. for further education in 1984-85 compared with the previous year (and I must stress that this is an area where accurate statistical information is not readily available as visas issued by the Immigration Department do not necessarily correlate with the eventual number of students proceeding to the U.K. or, for that matter, any country of a student's destination) and while it is true that the number of applications for the Joint Funding Scheme in the current academic year has seen a decline compared with the previous academic year (1 813 compared with 2 338), the number of students successfully receiving a grant under the scheme this year has, contrary to what Mr. CHEUNG said, actually increased (1 327 compared with 1 201, or an increase of 10.5 per cent). The average amount of grant in each case has also seen an increase (£ 2,530 compared with £ 2,118, or an increase of 19.5 per cent). To make a further comparison, I should mention that the total cost of the scheme has risen from 2.54 million in 1983-84 to £ 3.36 million this year, or an increase of some 32 per cent.

I hope this information will allay some of Mr. CHEUNG'S fears about the effectiveness of the scheme. I must emphasise that the scheme is not aimed at providing Hong Kong students with *free* higher education in the U.K.; nor is it designed to encourage actively Hong Kong students to further their studies in the U.K., although the availability of aid will no doubt be seen by some to

be an incentive to do so. Rather, its main objective is to provide needy Hong Kong students pursuing a first degree or polytechnic Higher National Diploma course with financial assistance to enable them to meet the *difference* between the U.K. home and overseas rates of tuition fee, the latter having been pitched at the full cost level by Her majesty's Government in 1980. Being a modest size and of finite means, the scheme is means-tested.

However the scheme, which was set up in time for the academic year 1983-84 and is now in its second year of operation, has thrown up some problems, and it is proposed to review the situation with the Secretariat of University and Polytechnic Grants Committee who manage the scheme. Mr. CHEUNG seems to feel the scheme may be insufficiently well-known so we will include publicity in the review.

Dr. HO Kam-fai has expressed his concern about manpower for the Labour Department's Factory Inspectorate and the need to provide staff with training on the prevention of industrial accidents caused by toxic substances.

Dr. Ho may be assured that the planned expansion of the factory inspectorate will be continued as soon as circumstances permit. It is also always unfortunate to have to lose long-serving officers, whether by wastage or retirement. However, this does present an opportunity for capable and experienced younger inspectors to take their place. As some of my Unofficial colleagues have already pointed out, there can even be some advantage in bringing in new talent, and the Commissioner for Labour is satisfied that there is the talent available to retain the high quality of the Factory Inspectorate and to sustain its leadership in the occupational safety field.

The importance of proper training to keep abreast of the latest developments in production technology and the use of new chemicals in industry is appreciated. All inspectors receive basic training in recognising chemical hazards and some have received more advanced training overseas. A working party has been set up in the factory inspectorate to study how to improve control of the use and handling of toxic substances in industry. Specialist help and advice is also obtained from the Occupational Health Division and the Government Chemist. Meanwhile, regulations under the Factories and Industrial Undertakings Ordinance are presently being drafted to protect workers safety by requiring the proper storage and handling of asbestos in industry and by prohibiting the manufacture and use of certain carcinogenic substances. these regulations should be made within the next few months.

With these remarks, Sir, I support the motion.

SECRETARY FOR HEALTH AND WELFARE:—Sir, both Dr. Harry FANG and Dr. Henrietta IP made proposals for changes in the organisation and financing of government hospitals and clinics. These are particular timely since, as Dr. FANG mentioned, a firm of consultants has recently been appointed to review the

whole question of the delivery of medical services. The terms of reference require the consultants to consider what changes are needed in the organisational structure, staffing and internal administration of government and subvented hospitals to enable them to cope effectively with continuing expansion in the years ahead. Both Dr. FANG's proposals for the management of hospitals and clinics by autonomous boards of governors with block grants from the government, and Dr. IP's interesting suggestions on the subject of financing through a form of medical insurance, are very relevant to this review and I have already asked the consultants to give careful consideration to them. Since both Dr. IP and Dr. FANG are members of the steering committee which I have set up to guide the work of the consultants there will be ample opportunity to pursue these ideas.

Dr. FANG suggested that it would be possible to introduce quit quickly his proposed charges for individual elements of diagnosis and treatment. This would however be a very significant departure from the long-standing principle that treatment in government hospitals is free and that patients are charged a modest fee per day which in practice covers only the cost of the meals provided. While I would not rule out a move in the direction suggested by Dr. FANG, I do not think that it would be appropriate to introduce charges of this kind until such time as we have considered the consultants' recommendations on the overall question of the delivery of medical services in our hospitals.

I would also like to make a specific comment on Dr. FANG's suggestion that general outpatient clinics should in future be operated by the college of General practitioners. Doctors in private practice already make a most valuable contribution to primary health care in Hong Kong by complementing the general outpatient services provided by the government. In fact, private practitioners treat about 75 per cent of the patients who seek outpatient consultations with western-trained doctors. There are however certain problems that would arise if private doctors were to take over completely the operation of government outpatient clinics. The curative role of these clinics is only one of their functions; Their role in the surveillance and control of local epidemic and endemic diseases is at least as important. These functions are an essential part of the Government's measures to promote public health, and in my view and that of the Director of Medical and health Services, it would not be appropriate for the government to absolve itself completely from these responsibilities.

Dr. HO Kam-fai expressed his concern about the housing problems of the elderly, in particular those who live in boarding houses in sub-standard private tenement blocks in the older urban districts—the so-called 'caged men'. I agree that the most satisfactory long term solution of this problem is rehousing of these unfortunate people in public housing or in the various other types of accommodation provided for the elderly, but clearly we are not going to be able to achieve this aim immediately and I think we should see what can be done in the interim to improve conditions in these boarding houses. I have therefore set up an inter-departmental working group to look into the problem which I hope will come up with some proposals for improvements.

Sir, in this Chamber on 4 October last year you announced that the Director of Social Welfare had been made responsible for planning to meet the shortfalls in the various types of group accommodation for the elderly, and for ensuring that a proper integration of facilities is achieved. I would like to take this opportunity to say something about the present arrangements and our future plans in this field.

At present 11.3 per cent of our population are aged over 60 and this proportion is expected to grow to 13.4 per cent by 1994. Our primary aim is to provide services that will enable elderly people to retain their self-respect and to remain in the community for as long as possible. The prime need is of course financial; relatively few elderly people in Hong Kong have a regular income once they have retired from work and one of the main tasks of our social security system is to ensure that such people have sufficient income to maintain a decent standard of living. 63 per cent of all recipients of public assistance (over 37 000 people) are over 60 years of age. A further 211 000 people receive the non-means tested Old Age Allowance; this represents 84 per cent of all those aged 70 or over.

Turning to the more specific housing needs of the elderly I think it is important to make the point that it is wrong to regard all elderly people as welfare cases; for a large proportion all that is required is decent accommodation at a price they can afford.

There are several housing options available to elderly people who are able to take care of themselves. Three elderly people, who need not be related, may jointly apply for the allocation of a shared flat in public housing estates. The Housing Authority has set aside a quota of 800 flats this year for this purpose but this number may be increased in order to satisfy the declared policy of rehousing the elderly within two years of application. In addition, for those who have particular housing need because of sickness, disability or family problems, a quota of 800 flats has been set aside for allocation on compassionate grounds. A significant proportion of these flats is usually allocated to the elderly.

People over the age of 60 whose income is below the Housing Authority limit, who are in need of housing, and are capable of looking after themselves, are also eligible for accommodation under the gold Coin Housing Scheme operated by the Social Welfare Department. About 600 people have already been housed in 103 shared flats in Sha Tin and Wan Chai. We hope to expand this scheme when other suitable premises can be located.

A further category of accommodation for the elderly consists of the hostels operated by voluntary agencies in public housing estates; in some of these hostels meals and other support services are provided. There are at present 1 400 places of this type and a further 2 000 places are planned over the next ten years.

For those who are less able to look after themselves there are homes for the aged, where meals and a degree of personal care are provided. At present there are 4 400 places in such homes, and an additional 3 600 places are being planned in 38 projects in the next ten years. Based on the present planning ratio of ten places per 1 000 people over 60, the shortfall should be met by 1990.

For those requiring a limited amount of nursing care, there are at present 1 020 places in care-and-attention homes. A further 2 000 places are planned in 13 projects in the next four years. Based on the present planning ratio of four places per 1 000 people over 60, the demand should be met in 1988.

Those who need a greater degree of nursing and medical attention should be accommodated in infirmaries. There are plans to increase the present 1 060 infirmary beds three-fold during the next ten years.

I should now like to say a little about a project which will reflect an integrated approach to the provision of services for the elderly. The Po Leung Kuk plans to build a home for the aged and day-care centre at Wong Chuk Hang, which will be next door to a combined care-and-attention home and infirmary to be built and operated by the Government. This should enable the changing needs of elderly people to be met in a single location, thus avoiding the unfortunate effects which can occur when an elderly person has to be uprooted from a familiar environment because of a need for a different type of care or service.

Another possibility which is being explored at present is a proposal that the Housing Authority should provide and operate hostels in public housing estates for elderly people whose primary need is for adequate accommodation and who do not require the provision of meals or other services on a regular basis. Hostels of this type are at present provided by welfare agencies with subventions from the Social Welfare Department, but if the Housing Authority were able to assume the responsibility for meeting this particular need, the welfare agencies would be able to devote more of their energies and resources to the housing of elderly people who have a greater need for welfare services such as counselling, personal care and social and recreational activities.

I referred earlier to the planning standards for various types of group accommodation for the elderly. These ratios were laid down some years ago, and I have asked the Director of Social Welfare to review them in the light of current demand. These ratios can then be used as the basis of the strategic plan to meet the shortfall in all types of accommodation for elderly people to which you, Sir, referred in your address at the opening of the present session.

Sir, I believe that the measures I have described will enable the accommodation needs of Hong Kong's expanding population of elderly people to be met in ways that are best suited to each individual's circumstances.

Mr. F. K. HU expressed the hope that Controlling Officers would be allowed a degree of flexibility within the overall policy of stabilising the size of the public service to allow specific new services, such as the Community Services Order Scheme, to go ahead. Controlling Officers do have a considerable degree of discretion in the actual allocation of resources within the total provision in their estimates, and it will be up to the Director of Social Welfare to determine her priorities in the implementation of the various projects after consultation with the policy branches concerned.

Finally I would like to make some comments on one of the topics which Dr. IP offered as 'food for thought'—the subject of standard cost arrangements for subsidising the various types of social services provided by non-profit making bodies.

I have considerable sympathy with Dr. IP's wish to introduce standardised funding arrangements for these services, and agree that ideally these arrangements should be as simple as possible.

Standard cost arrangements are only really practicable in areas in which standardised services are provided. Subventions to aided schools are granted in accordance with the codes of aid, which set out in considerable detail the basis of subsidy, and this system could be described as a form of standardised cost arrangement. However, I think that Dr. IP was probably envisaging something more like the standard cost system which is being introduced for social welfare services. Under this system each agency receives a fixed amount of subvention that is sufficient to provide the service to approved standards. The agency must work within this sum, as any deficit at the end of a financial year would not be made up. On the other hand, any surpluses accumulated may be held by the agency in a special reserve account which may be used for other activities that are approved by the Social Welfare Department.

This standard cost system has been introduced for a total of eight social welfare services, but some difficulties have been encountered. The main problem is that staff costs can vary quite widely between different agencies which are providing the same service, because of the differing seniority of the staff, which affects their position on the incremental salary scales and therefore the total salary bill. When standard cost was introduced it was decided to base the staff element of the grants on the mid-points of salary scales, but this has resulted in over-large subventions being paid to a number of agencies. This is clearly undesirable, since large surpluses are being accumulated in agencies' reserves which could be put to better use in developing other badly-needed services. We are trying to find a way of overcoming this problem, but I fear that it may have to be at the expense of the flexibility which Dr. IP rightly values.

There are many areas of social services in which I fear that standardised cost arrangements will never really be practicable. Subvented hospitals vary greatly in size, and in the types of services and facilities provided; Dr. IP herself pointed

out some of these differences, which would make it very difficult to agree on standardised costs for subvented medical services.

Dr. IP also proposed that agencies should be allowed to raise their own funds to provide a better service than the agreed standard. This is of course possible under the present social welfare subvention system; and we were able some years ago to abolish the unfortunate 'see-saw' effect, which had resulted in money raised by the agencies themselves being deducted from their subventions.

The whole question of subvention arrangements is clearly a subject which we need pay much further study, and I would like to thank Dr. TV for her thoughtful contribution to the discussion.

Sir, I support the motion.

SECRETARY FOR TRADE AND INDUSTRY:—Sir, various aspects of protectionism were dealt with by a number of my Unofficial colleagues and two of them, Mr. CHEONG and Miss TAM, introduced ideas which others could interpret as protectionist! Thus, notwithstanding Mr. CHEONG'S intention not to offend against Hong Kong's status as a free port, or our obligations under G.A.T.T., his proposed 0.5 per cent charge on the value of all imports, other than foodstuffs (but not on the value of our exports) could well be considered an import tariff by our critics. I must regard this suggestion as counter-productive to our efforts in the external commercial relations field.

Likewise Miss TAM'S priority for imported machinery and equipment made by overseas manufacturers with local investment could offend against the G.A.T.T. Code on Government Procurement to which Hong Kong is a party. We cannot and must not unwittingly stray down this path of illusory primroses.

Hong Kong's is a resourceless economy, save for its industrious people, geographic location, fine natural harbour and man-made facilities. Hong Kong lives by international trade. Our trade in 1984 represented nearly 180 per cent of our G.D.P. We maintain no tariffs or impediments to trade with our partners. Our free trade policy and completely open economic system ensures that our industries have to remain efficient and competitive. It also enables us to look all our trading partners in the eye, and show the way for them to the future by our example. We must not lose these strengths.

Mr. Peter C. WONG, Miss TAM and Mr. K. C. CHAN all mentioned various aspects of American protectionist sentiment and/or the recent controversy over rules of origin. I share their concern. Whilst most U.S. experts forecast that the Jenkins/Thurmond Bill will not pass through Congress, the fact that a Bill containing severe cutbacks in quota and in trade can gain the support it has, despite the fact that it is based on misleading statistics and would contravene the United States' international obligations, is a serious matter. There can be no doubt that the U.S. textile lobby intends to use this Bill as a lever to extract more concession from the U.S. Administration.

I would ask those in the United States involved in the whole textiles issue to step back and look at the problem objectively. We all live together in an evolving world and there can never be a case for preserving every parcel of a particular industry forever—especially one which has already received 25 years of special protection—regardless of the cost to the consumer and of the interests of other trading nations.

It bears repeating that Hong Kong is open without tariff or quota to U.S. goods and services. We do not subsidise our industry. By contrast, our exports to the United States of textiles and apparel are restrained in quantity and pay high tariffs. Nevertheless, WC have abided by our commitments under the Multi-Fibre Arrangement. As a result we have seen Hong Kong's share in U.S. imports of textiles and apparel drop from 14.1 per cent to 10.5 per cent over the life of the M.F.A. In volume terms, U.S. imports from H.K. of textiles and apparel over the same period (1974-1984) have grown at the modest annual rate of 5.2 per cent. There is no case for imposing even tighter restraints on Hong Kong. It is misleading, to say the least, for the U.S. industry to quote import figures which include both restrained and unrestrained suppliers in an attempt to cut back again on those already restrained. Nor should it be forgotten, as it seems to have been in the recent origin rules controversy, that bilateral agreements contain obligations as well as rights.

I am therefore grateful to Mr. CHEONG for drawing attention to the need for greater efforts towards influencing opinion and promoting Hong Kong's case in our principal markets. I hope that the recent announcement of the appointment of a lobbyist by the Trade Development Council, to represent Hong Kong's interests in the United States, will go some way to meeting Mr. CHEONG's point. And I would like to congratulate Miss DUNN in her capacity as Chairman of T.D.C. on this imaginative and timely move. I am in no doubt that this appointment will be a major boost to our existing efforts to influence U.S. opinion where it matters most, although I must also caution against expecting miracles. We must all persevere in our efforts without respite.

Border industrial zone

Mr. LEE and Mr. CHEONG have varied their earlier request for the establishment of an industrial zone at the border, to a suggestion for the setting up of a committee to look into the feasibility and advisability for such a zone. Mr. Peter C. WONG in his support of the appeal by the Joint Committee of Hong Kong Knitwear Associations implies support of this zone.

I am most grateful for the forthright reaction of Mr. K. C. CHAN to this proposition. I agree with him.

For my part I have to point out that we must not allow the unfair and unexpected blow to our knitwear industry, by the unilateral and arbitrary action of the United States, to cloud our judgment. The call for the establishment of a border zone for knitting factories using labour commuting

daily from Guangdong Province is a knee-jerk reaction to a desperate plight. But on sober reflection this sort of arrangement could not just happen overnight: infrastructural and logistical support would be needed. So any structural adjustment for our knitwear industry through the expedient of a border zone would take no less time than adjustment by other means. Accordingly, the concept of a border industrial zone is an issue which has to be considered on its own merits rather than as a stop gap measure.

Hong Kong is engaged in a massive programme of development in our new towns, all with balanced facilities for residential, commercial and industrial accommodation, for education and health care, as well as for cultural and recreational pursuits. This alone must mean that we should not go off at a tangent and seek to establish a factories-only zone on the border.

The basic reason for a border zone is the assertion that Hong Kong is short of labour. Sir, if I may be permitted the liberty of putting this in plain language, it is tantamount to an industrialist saying 'I cannot get the labour I need at the price I wish to pay'. Of course, in a market economy like ours where resources are not allocated by bureaucrats, but by Adam Smith's invisible hand, the option open to our industrialist is to out-bid his competitors for the supply of labour, and/or increase efficiency through the introduction of more sophisticated machinery which need less labour. This has been the Hong Kong success story over the years, leading to the rising standard of living enjoyed (and expected) by our people. We must not attempt to stand in the way of this progress: much less to turn the clock back. This is all the more so because in a period of economic downturn our workers have had to meet part of that cost through reduced work and earnings.

The concept of a factory zone at the border manned by daily commuting labour from the Guangdong side by implication means that such labour would not have the right of residence in Hong Kong. Some means of ensuring that the labour returned to China each day, and did not try and settle illegally here, would have to be devised. The whole operation would impose an unacceptable burden on the police and immigration authorities.

Finally, we must not do anything which could lead our trading partners to call into question the origin of Hong Kong products, notwithstanding the substantial house formation criterion we strictly adhered to or Hong Kong's status—which the future Hong Kong Special Administrative Region will retain after 30 June 1997—as a separate customs territory.

Sir, a non-residential border industrial zone is a non-starter.

Services for manufacturing industry

Both Mr. LEE and Mr. CHEONG spoke on services and assistance for the manufacturing industry. Let me assure them that Government is committed to providing an adequate infrastructure to enable industry to function efficiently with minimum interference.

The Industry Development Board (I.D.B.), which is chaired by the Financial Secretary and on which industry and major industry and trade organisations are represented, and of which Mr. LEE is a member, advises Government on the provision of services and facilities needed by industry and makes recommendations for the provision of government funds for the financing of essential development projects for the upgrading of industry.

In this connection the I.D.B. has formulated a phased programme for conducting regular techno-economic and marketing studies on the major sectors of the manufacturing industry, namely electronics, plastics, metal and light engineering and garments/textiles. Such studies will cover not only the problems and inadequacies of the various manufacturing sectors but also marketing information in respect of worldwide trends, product range, market potential, and technological development or know-how necessary to achieve more sophisticated end-products.

The first of such studies is on the plastics industry to be commenced later this month. The study will be carried out by the Standard Research Institute international, a leading consultancy, which will be working in conjunction with the Hong Kong Productivity Centre (H.K.P.C.). This study and others to follow should provide up-to-date information on a macro-level which will be useful for our local manufacturers in determining, having regard to their own capabilities and resources, whether they are ready to diversify their production base and move up market.

The importance of promoting a positive attitude towards industrial automation is well recognised by the I.D.B. On the recommendation of the Board, provisions have been included in the 1985-86 Estimates to expand the capabilities of the H.K.P.C. for the further development of the Centre's two computer-aided design systems for printed circuit boards design and pattern grading, and the development of a marker making system. An electromechanical linkage support will also be built up. Numerical control machine tools and metal-working machinery amounting to \$3.1 million has been supported as well as the provision for 14 additional technical staff. The Centre has also prepared, in conjunction with the Industry Department, a further development plan for augmenting its capabilities on industrial automation and metal development services covering a three-year period. The Board has endorsed this plan, in principle, although details regarding the scope of activities and funding arrangements have yet to be examined. An important point for consideration here is the availability of professional mechanical engineers in the field to cope with the proposed expansion.

Mr. LEE made specific reference to the delay in the establishment of a product innovation and design unit (P.I.D.U.). It just happens that at its meeting on 25 March 1985—a meeting Mr. LEE was unable to attend—the I.D.B. endorsed a definitive scheme which is currently on the agenda of the Finance Committee of this Council for the voting of the necessary funds. However, in view

of Mr. LEE'S dissatisfaction with what he called 'the Government's bureaucratic machinery' for handling this matter, I feel that a brief account of the steps taken will not be amiss.

Following the recommendations of the Advisory Committee on Diversification, the Hong Kong Polytechnic submitted a proposal in August 1981 for the establishment of a P.I.D.U. within its campus. This proposal was considered in October 1981 by the previous Industrial Development Board (on which Mr. LEE also served as a member). The previous Industrial Development Board decided that a working party should be appointed to examine how industry's needs for product design could best be met. The working party reported in February 1982. While it could not quantify the exact demand for such a service, it recommended that product design services could best be provided through a separate limited liability company, operating on commercial lines, though its initial capital might have to be provided from public funds. In view of the perceived connection between trade promotion and attractive design, the previous Industrial Development Board recommended that the proposed service should first be offered to the Hong Kong Trade Development Council, and if the T.D.C. should decline, the H.K.P.C. should then be approached. The relevant government department duly conveyed this invitation to the T.D.C. in March 1982. After carefully considering the matter the T.D.C. indicated in April 1983 that it would not wish to assume responsibility for the project. H.K.P.C. was then approached but it, in turn, decided in June 1983 to decline the offer too! The previous Industrial Development Board then decided in July 1983 to invite the Hong Kong Polytechnic to submit a fresh proposal for a P.I.D.U. on the lines of the working party's proposals. Such a revised proposal together with its capital structure was put to the General Development Committee of the current I.D.B. in January 1984. The interval between January 1984 and March 1985, when the I.D.B. endorsed the package, was the time needed to convince my colleagues in the Finance Branch of the viability of the concept and the funding proposed. As some \$10 million of public funds is involved—and this is a period of financial stringency—I, for one, make no criticism of the hoops we have to go through. Even in hindsight, when we should all have perfect vision, it is not clear to me which of the 'bureaucratic' steps I have described, Mr. LEE considers should have been cut—should we have by-passed the previous Industrial Development Board and/or the current Industry Development Board, the T.D.C. or the H.K.P.C.?

Industrial investment promotion

Mr. LEE asked for the results of Hong Kong's industrial investment promotion effort and whether this work cannot be more effectively carried out by the T.D.C. than by the Industry Department direct.

Taking the second of these points first, I would stress that it was only following acceptance of the recommendations in the Report of the Advisory Committee on Diversification by the Governor in Council in 1980 that the principal responsibility for promoting industrial investment in Hong Kong has been vested in the Industry Department. Prior to that, in addition to undertaking industrial promotion activities overseas on an itinerant basis, the Department provided support in Hong Kong to potential investors who came here on their own, or had been introduced by one of the organisations in the field, including the T.D.C. So let there be no mistake, the Advisory Committee on Diversification considered that direct government involvement in this work overseas was not only desirable but necessary.

As regards Mr. LEE's apparent suggestion for T.D.C. to take over the industry Department's function, the primary function of the T.D.C. is to promote, assist and develop Hong Kong's overseas trade, with particular reference to exports. Over the years the T.D.C. has proved itself to be very effective in the field of trade promotion. At the risk of oversimplification, trade promotion aims to bring buyer and seller together whether through fairs, or enquiry services, while industrial promotion involves the targeting of specific companies and direct efforts to interest them in Hong Kong. Effective efforts in this latter field need a sound data base, well-developed back-up facilities and technically competent specialist staff with industrial background so that they could discuss with industrialists in their own terms. Thus if T.D.C. were to take on this specialised function as well, it would need separate specialist staff. The T.D.C., as presently staffed, cannot take on this extra task and maintain, much less improve, performance.

I am afraid the measurement of a success rate in the industrial promotion field can only be subjective. At the present time the Industry Department has about 450 active industrial investment projects on its books. In addition, during the past two years or so 24 overseas companies with whom the department has been dealing have decided to proceed with establishing a manufacturing facility in Hong Kong, and a further 25 can reasonably be expected to do so within the next 12 to 18 months. A survey carried out by the department in the summer of 1984 indicated that during the previous three years, at a time of worldwide economic difficulty and local political uncertainty, foreign investment in Hong Kong's manufacturing industry known to the Government had increased by 63 per cent, to HK\$11.5 billion. Interest continues to be buoyant, and there are gratifying signs of further increases.

I do not mean to imply that the Industry Department carries out this work single-handedly. There is continuing close co-operation with the major trade and industrial organisations in Hong Kong. These organisations are consulted on such matters as the annual industrial investment promotion programme, receive reports on major promotional events, undertake joint promotions with the department from time to time. I must also stress that most missions

mounted by the department are accompanied by Hong Kong industrialists and traders who are able to project Hong Kong's attractions to investors through their own experiences.

The department works particularly closely with the Trade Development Council, both in Hong Kong and overseas. This co-operation takes a number of forms. For example, the Council makes office and other support facilities available to staff from the department undertaking investment promotion missions in countries, such as Australia, France and Italy, where the Government does not have offices. In each of the past three years there have also been joint seminars with the T.D.C., particularly in Western Europe, and more are planned. Publicity material is made available to each other. Enquiries received of interest to the other organisation are passed on.

My answer to Mr. LEE, therefore, is that the Industry Department is not competing with the T.D.C. in industrial investment promotion, but they cooperate closely to the mutual benefit of both organisations, and especially for the overall benefit of Hong Kong.

Sir, with these remarks I support the motion.

SECRETARY FOR HOUSING:—Sir, Mr. F. K. HU spoke of better-off tenants in public housing estates. Mr. WONG Lam suggested that Government should not take excessive care of people, who had already benefited under the public housing programme.

These matters have been the subject of debate in the Housing Authority and in the press for many years, but I will spare Members a replay of all the arguments which have been put forward. I would however like to stress that it is not the major administrative problems involved in making a change in policy which have hampered us in coming to a conclusion on these issues. What is much more important is the possibility that any action taken to deal with the problem of better-off tenants could have far-reaching implications. We are not only talking about the well-being of a substantial proportion of Hong Kong's population. We are talking about that sector of the community which has provided for many decades the power-house of the Hong Kong economy. Few would doubt that the subsidised public housing programme has been a substantial element in maintaining social stability in difficult times. Nothing we do now therefore should put at risk the sense of security and well-being which results from the certainty of having roof over one's head and a comfortable environment in which to live.

But this said I do not believe it is equitable that we should allow better-off housing tenants to continue to enjoy, as they have for so long, the heavily subsidised rents of the Housing Authority. This large group is now able to enjoy a much better standard of living than their counterparts in the private sector. They pay a very small proportion of their income, usually not more than 10 per

cent for their flats and I believe it is the generally accepted view of the community as a whole that they could be reasonably expected to contribute a fairer share of income towards their own housing.

Last year, when the Housing Authority reviewed its allocation policies, the question of the housing subsidy to public housing tenants was one of the subjects on which there was wide-ranging consultation with the public. Unfortunately, but not surprisingly, the consultations did not produce a conclusive view on this issue. The Housing Authority has therefore set up a special committee under the chairmanship of Mr. F. K. HU to study this question in depth and to make recommendations. In its short life that committee has already considered no less than 19 discussion papers, so I think I can assure Members that the problems are being fully explored. I am most grateful to Mr. HU for taking on this unenviable chairmanship. His committee will report within the next month or so and a Green Paper will then be issued for public consultation before firm proposals are put to the Executive Council.

Mr. HU has already given a glimpse of the committee's thinking on measures which might be taken to reduce the subsidy to those tenants in public housing who are no longer in need of it. Without wishing to pre-empt his report further it may be helpful if I offer some thoughts on our current philosophy. We believe in the carrot and the stick approach but it must be said that up to now we have offered much more carrot than stick. The best solution would be for rental tenants who can well afford to upgrade their housing, to move to home ownership flats so that the rental flats they give up can be offered to those waiting patiently in the private sector. We have made some changes in policy to encourage our tenants to make the move, and so far 21 000 rental flats have been vacated as a result. But the reservoir of public rental tenants prepared to move to home ownership is limited because the increased financial commitment involved can still present a problem. I do not believe therefore that carrots should be off the menu forever, although I accept that judicious use of the stick by way of higher rents for those who can afford them may prove necessary. For this reason although I listened with great interest to Mr. WONG Lam's speech, I am reluctant to pursue in the short term his suggestion that we should include an element of land value in the price of home ownership flats. The price of our home ownership flats is between 14 per cent and 25 per cent below those in the private sector and with the restrictions imposed on the re-sale of home ownership flats this margin is not great. I believe we should aim at further increasing the numbers of tenants who are prepared to purchase home ownership, so that the high level of production of public *rental* housing could be reduced in the long term. This would be an alternative, and I suggest more certain, way of reducing government expenditure than by risking a drop in sales of higher priced home ownership flats.

Sir, may I strongly support Mr. HU's point that the Housing Authority should do everything possible to contribute more towards the cost of the

housing programme. The Housing Authority already finances 37 per cent of total expenditure and this will rise to 65 per cent by 1988-89. But we accept that we need to do more to reduce our dependence on government funding and are continuing to explore schemes and policies to that end. If we are to maintain our present high level of production, it is incumbent upon us to try to ensure that the housing programme is insulated as far as possible from any downturn in the Hong Kong economy on the one hand, and competition from other social programmes on the other.

Dr. Henrietta IP has expressed concern over the cost of squatter control and questioned whether there are cheaper methods of achieving the same result.

The figure of \$184 million indeed represents 64 per cent government funded activities of the Housing Department. But, to put this in proper perspective vis-a-vis all the activities of the Housing Authority, it amounts to 3 per cent of the Authority's budget. Disregarding percentages \$184 million is still a very large amount of money, which could, of course, be better spent on the housing construction programme. But we must be careful not to reduce the effectiveness of our squatter control because the cost of housing additional squatters would far outway any savings made by reducing squatter control staff.

The problem of control lies in the fact that the nature of squatter settlements is such that modern methods of surveillance either do not work or are more expensive than our present methods. We have looked seriously into the possibility of using helicopters, aerial photographs or watchers with telescopes on high hilltops. But none of these can detect an extension built beneath an existing roof structure or a carefully camouflaged change of material.

Before looking for more sophisticated methods, I have also taken the precaution of consulting my stars just before coming to the meeting. Pisces for today reads 'Be careful about putting new and unusual ideas too quickly into practice. Your future may run more smoothly if you stick to the method which have stood you in goodstead for so far.' That seems to me to be rather good advice. So I have come to the reluctant conclusion, to borrow a phrase from my previous incarnation, that there is no substitute for an infantryman on his own feet. The real question is how many men do we need? How should they be organised and how could better communications help? We are currently exploring the use of fewer patrolmen equipped with personal radios able to call on a centrally-held reserve when they need help. But I would stress that daily patrols would still be essential if we are to maintain our effectiveness.

A major step has been taken which will further increase our control of the squatter population. For the first time we are undertaking a survey of squatter inhabitants rather than squatter huts. The results of that survey, which is about half-way through, will enable us to quantify our commitment to re-housing the squatter population once and for all. People *not* included in that survey will *not* be entitled to public housing.

Sir, I would not wish to give the impression we have given up hope of making savings and our current high level of clearances is already allowing us to make substantial economies. Following a value-for-money study in 1983, the deployment of squatter control teams has been streamlined with the staff reduced from 3 000 to 2 400 with an annual saving of \$6 million in real terms. A further value-for-money report has recently been completed and is being examined within the Department. No less than 65 000 squatters will be cleared annually under the development and non-development programme. This, in turn, should allow for a further reduction of squatter control staff and I am confident that further savings can be achieved year by year.

Sir, squatter control is a stop gap measure and there is only one sensible, practical and long-term solution to this problem. Squatter control becomes very cheap indeed when there are no squatters. We now have squatting under control and have established a comprehensive squatter clearance programme. We have a construction programme capable of re-housing our urban squatters without jeopardising our other housing commitments. Through no fault of our own we have been blown off-course many times in the past. I believe, Sir, we now have real opportunity to see a solution to this problem which has concerned us for so long.

Sir, I support the motion.

SECRETARY FOR ECONOMIC SERVICES:—Sir, in Hong Kong we believe that business is best conducted by businessmen with a minimum of bureaucratic Interference. This commercial freedom has been and will continue to be the cornerstone of our economic success. But freedom depends to a great extent on the acceptance of certain ethical standards. Happily, Hong Kong in general meets these ethical standards. And Hong Kong as a shopping centre continues to give good value.

Recently, however, some tourists have complained that they have received unsatisfactory service from a number of retailers dealing principally in radio equipment, cameras and so on. Mr. CHAN Kam-chuen has very rightly drawn attention to this unsatisfactory state of affairs and has said that we must protect tourists from being cheated or robbed, otherwise our image as a tourist centre may be tarnished. It is not only tourists who suffer. Many of the complaints, indeed the greater number, are made by local residents.

The Hong Kong Tourist Association, and the Consumer Council now led by Mrs. Selina CHOW do much good work in publicising this problem and encouraging both tourists and local residents to deal with reputable retail outlets. They endeavour to persuade retailers to adopt those ethical standards upon which our reputation as a shopping centre depends.

I am firmly of the view that if possible it is far better to rely on persuasion and publicity rather than legislation. Nevertheless, the complaints have become so numerous that we must now consider what legislative proposals would be

appropriate to meet the abuse. If we have to legislate I believe that some criminal sanction would be called for. Members of this Council will recollect that the Trade Descriptions Ordinance already provides for penalties up to \$500,000 and imprisonment for five years in relation to the offence of Supplying any goods to which a false trade description is applied.

Sir, we will continue to watch the situation carefully. I hope that those few retailers who now abuse the commercial freedom afforded to them will heed what I have said. The unfortunate aspect of this matter is that if we have to intervene, the burden of compliance could fall on many innocent and reputable dealers as well as on the guilty minority.

Mr. Andrew SO has again turned to the public utilities and the schemes of control complaining that he still suffers from a feeling of unease. He says that the public is faced with higher charges and refers to price increases taking place almost everyday. Mr. So, of course, realises that public utilities have to adjust their prices in order to recover the cost of providing the particular service in question. But he should remember that over a two-year period some increases have been so modest that there has in fact been a decrease in real terms in the prices charged by certain public utilities. Other increases, whilst they may be large in percentage terms, are very small in nominal terms because the base is comparatively low. One cannot generalise.

Mr. SO has suggested that there are no criteria for the Government's decision as to which public utility should be brought under a scheme of control or be granted a franchise. In fact, I touched upon this in my answer to his question in this Council on 6 February 1985 when I pointed out that whilst some utilities are not subject to formal profit control schemes, there is adequate regulation through other methods. Even where there is no formal scheme of control, the Government can regulate charges through a provision requiring that charges or fees imposed by the public utility in question be approved by the appropriate authority or, indeed, by this Council.

Mr. SO has mentioned specifically that Cable and Wireless (Hong Kong) Ltd. and the Hong Kong China Gas Co. Ltd. are not operating under a scheme of control. I dealt with the Gas Co. in my answer on 6 February 1985 when I explained that it was not operating in a monopoly or quasi-monopoly situation. As far as Cable and Wireless (Hong Kong) Ltd. is concerned, all charges are subject to the approval of the Telecommunications Authority, that is the Postmaster General. As to the public mobile radiotelephone service, Mr. SO has asked why that service is not subject to a scheme of control. It was taken out of the scheme of control on the advice of Executive Council because the service is now offered on a competitive basis.

He complains that there are no standard rules for determining which authority should determine or approve charges and he has given examples. The reason why there are no standard rules is simply that the schemes of control or

regulatory mechanisms were negotiated in differing circumstances. Thus, arrangements which might suit one utility do not necessarily suit another. What we try to ensure is that the schemes and the control mechanisms including the approving authority are appropriate to the particular industry or utility involved. The provisions of the schemes, and the levels of permitted return, are intended to deal with different operating and financial requirements of the various companies. To give an example, a power company investing billions of dollars in a new power station has a different financing requirement from a company offering baggage handling facilities at the airport.

Mr. SO has referred to the number of persons engaged in the monitoring process. This point is dealt with in the consultants' report in relation to the monitoring of the power companies, which, Members will recollect, has been published. The consultants make it clear that the monitoring organisation consists not only of the Financial Monitoring Unit but also the Electrical and Mechanical Services Department and certain divisions of the Economic Services Branch. Whilst the Financial Monitoring Unit comprises the five officers mentioned by Mr. So, there are others in the Electrical and Mechanical Services Department who also play an important role as do members of the Economic Services Branch. As to other public utilities a number of departments and branches such as the Post Office and Transport are also involved. The point made by the consultants is that the arrangements should be formalised to a greater degree and that the co-ordination should be more effective. A modest increase in staff may be needed.

Mr. SO has expressed the hope that the Government will conduct an overall review of its policies towards the monitoring of all privately owned public utilities so that we may formulate a uniform and comprehensive system for new schemes of control. As I have said, the circumstances of the various public utilities are different, and a uniform and comprehensive system may not be appropriate.

In conclusion Mr. So has asked for a special committee to be set up or for UMELCO Members to be appointed to assist in the review of the monitoring of public utilities. There is already a UMELCO Public Utilities Panel which concerns itself with the affairs of the public utilities. It sits under the chairmanship of Miss Maria TAM. What more do we need?

Sir, with these remarks I support the motion.

SECRETARY FOR SECURITY:—Sir, in this debate, Mrs. Selina CHOW has rightly pointed out that 'the services offered by the Immigration Department at different points of entry require not only long term planning, which has been promised, but also some immediate temporary relief'. She referred specifically to the pressures building up at Tai Kok Tsui and at Man Kam To.

With the total number of passengers travelling through immigration control points increasing in the last two years from 25.7 million to 29.8 million to 36 million, we are acutely conscious of the need for long term planning. And I can assure my honourable friend that it is more than promised. It is actually happening.

Examples of building work completed or in progress are the extension of the temporary terminal at Lo Wu and work now proceeding on a new building to be ready in March 1987; the Sha Tau Kok Terminal opened in February this year; a new permanent terminal in Man Kam To to be completed in 1986; a new permanent terminal to be completed for the Macau ferry this year; a new permanent terminal for the China ferry services at Tai Kok Tsui to be ready by the end of 1987, a new control point at Lok Ma Chau to be completed in 1987; and the facilities at the Airport to be extended all by 1987. So much for building actually in progress. In addition, planning is going ahead to expand the permanent facilities at Lo Wu once they are completed to deal with expected increases in traffic; to improve the facilities at Hung Hom; and to introduce computer systems for all control points.

Mrs. CHOW also stressed the need for immediate temporary relief. I am afraid that I can hold out little hope in this respect. The truth is, that in the short term the situation generally is going to get, if anything, worse. The Immigration Department is already very stretched. To deal with the ten million, I repeat ten million, *additional* travellers over the last two years the department was able to create only 78 additional posts for control points. For the present financial year, because the civil service is not being allowed to expand, no provision for any additional posts for the department has been included in the draft Estimates. In other words for the further increase in travellers this year (and the increase could be of the order of five or six million) the department will have to manage with the staff it has got.

For the two control points Mrs. CHOW specifically mentioned, the consequence for Tai Kok Tsui will be that, because of lack of extra staff (and problems over luggage handling facilities) it is likely to prove impracticable in the current financial year to transfer any of the traffic from Tai Kok Tsui to the new Macau ferry terminal to which it had been hoped to move about 50 per cent. In the case of Man Kam To, most of the new facilities due to be available in December this year, will simply not be manned, while the traffic will continue to increase. At the present time, the temporary facilities there include four kiosks for checking vehicles and 14 counters for checking passengers. Of these, the Immigration Department has now only enough staff in normal circumstances to man two kiosks and four counters most of the time; although for short periods if the traffic really builds up the department can manage a maximum of three kiosks and six counters. The new facilities, to be ready in December will include 12 kiosks and 28 counters. As I said, most of them will have to remain empty—and without additional staff there can be no question of extending the hours in which the terminal is open, either.

Against this background, I doubt that if we can pursue Mrs. Rita FAN'S idea of introducing charges at Man Kam To and to Wu now. Our intention has been not to consider moving in this direction until the new facilities at both Man Kam To and to Wu are ready. But we will now give some thought to the possibility of starting with a smaller charge earlier as the services at the various control points improve.

Sir, I support the motion.

SECRETARY FOR ADMINISTRATIVE SERVICES AND INFORMATION:—Sir, I rise to respond to the comments made by Mrs. FAN on Data Processing staff and Chinese Language Officers and Mr. Stephen CHEONG on our Overseas Offices.

I am grateful to Mrs. FAN for her proposal that staff of the Chinese Language Division and the Government Data Processing Agency be deployed from a central pool rather than be part of the establishment of several separate government departments.

As mentioned by Mrs. FAN, this arrangement was successfully introduced for the Information Officer grade. There will always be room for improving the manner in which we deploy our resources and the parallel she has drawn suggests that a review of the management of these two grades would be worthwhile.

Mrs. FAN'S point is timely and such a review will be carried out.

However, there is one significant difference between the Information Officer grade on the one hand and both the Data Processing and Chinese Language Officer grades on the other. Information Officers deal with public relations, which is a somewhat volatile business, and it is therefore essential that they can be deployed and rapidly re-deployed as necessary to meet changing circumstances and occasional crisis situations, with the minimum of fuss. Chinese Language Officers and Data Processing staff on the other hand tend to specialise in certain fields, and their mobility tends to be rather limited.

Mr. CHEONG made two points on our Overseas Offices: first that, in his view, we are not doing enough to influence overseas opinions on matters of interest to Hong Kong and, secondly, that responsibility for supervising our Overseas Offices ought to be vested in the Secretary for Trade and Industry rather than myself. I will deal with the second point first because I fear that Mr. CHEONG, somewhat surprisingly, is labouring under a misconception over the role of our Overseas Offices. I shall then make an attempt to defend the Administration against the former charge.

If I might refresh Members' memories with a little historical detail; our Overseas Offices ceased to be purely trade offices when the old Trade, Industry and Customs Department was defederalised in 1982. Announcing the change, the Chief Secretary informed this Council: 'Responsibility for the overseas offices in Washington, Brussels and Geneva will be assumed by the Councils and Administration Branch of the Government Secretariat as an initial step in

translating them from departmental sub-offices overseas into Hong Kong Government offices comparable in status, if not in range of functions, with our London Office, whose home department is the Government Secretariat' Mr. CHEONG is nothing if not consistent for on that same occasion he asked: 'Sir, will the Chief Secretary assure this Council that in view of the transfer of the functions of the overseas offices to the Councils Branch, there will be no let up in efforts being conducted by the overseas offices in conjunction with our trade relations, bi-lateral and multi-lateral ones'. To which the Chief Secretary replied with a laconic, but unambiguous affirmative.

Our original need for overseas representation stemmed from trade matters. However, in recent years it became increasingly clear that there was a need for representation on a much wider range of issues. Hence the change. And the correctness of this decision has been underlined in the period following the announcement of the Joint Declaration on the future of Hong Kong. This is not to say that the importance of trade issues has diminished; far from it, but the need for Hong Kong to have a visible overseas presence has taken on a new dimension.

The balance of work between the individual offices obviously varies from location to location. Thus the Geneva Office is primarily, but by no means exclusively, concerned with the multi-lateral aspects of commercial relations, in particular, matters falling within the ambit of the General Agreement on Tariffs and Trade. But it also deals with Vietnamese refugee problems and has a substantial role to play in keeping the large and avidly interested diplomatic community there abreast of events surrounding Hong Kong's future. The New York Office, on the other hand, is mainly concerned with promoting and protecting Hong Kong's image in the United States, leaving oversight of trade matters largely, but not entirely, to the subordinate Washington Office.

The functions of our Overseas Offices now include responsibility for keeping Hong Kong informed of economic and political events of significance to Hong Kong, for ensuring that Hong Kong's case on a variety of matters is given a fair hearing, for making and maintaining contact with persons who may have an influence on matters affecting Hong Kong, for arranging exchange visits, for disseminating information about Hong Kong, for promoting and protecting Hong Kong's image overseas, and for public relations generally.

Clearly, with this greatly expanded role it would have made no sense at all to place responsibility for the offices under the narrower auspices of the Secretary for Trade and Industry, let alone keep these offices as sub-offices as sub-offices of the new Trade Department. Many parts of the Government, at different times, will call upon the services of the Overseas Offices and in their turn will be called on by the offices for assistance. Apart from the Secretary for Trade and Industry (and the Trade Department), the Secretaries for Security, for Education and Manpower, for Economic Services and for the Civil Service and their associated departments are to a lesser or greater extent 'clients' of our Overseas Offices, as am I myself under the Information half of my portfolio.

Let me stress this; the Overseas Offices are common service facilities upon which all Secretariat branches and executive departments may call, as and when the need arises. At the same time, they are the Government's eyes and ears overseas for all relevant purposes. It is therefore essential that the overall responsibility for administering these outposts rests with one, relatively neutral portfolio. It has been decided that the Secretary for Administrative Services and Information with his several, central administrative responsibilities, best fits this bill and no change in these carefully thought out arrangements is contemplated.

To turn to Mr. CHEONG's first point, he entertains a suspicion—and he politely used no stronger a word—that 'not enough manpower is deployed in these offices to do all that needs to be done'. He may well be right; and there will always be room for improvement as resources follow in pursuit of our aspirations. But I would not wish it to be thought, or even 'suspected', that the Overseas Offices are ineffective. Much of the work which they do in liaison, in lobbying and in building up informed opinion in their host countries is not readily quantifiable and we cannot always expect that even our best efforts will meet with success. The fact that we encountered an intransigent and *unreasonable* Administration in the U.S.A. in discussions over its country of origin rules on knitwear in no way reflects badly on the calibre of the Commissioner in New York or his able staff in Washington. Indeed, they had only recently before scored a very noteworthy success in securing Hong Kong's continued inclusion under the Generalised Scheme of Preferences, a feat acknowledged as remarkable even by those lobbyists in Washington working for interests opposed to Hong Kong. And there are other successes, perhaps less obvious but nonetheless important, not only in the trade field but also in the fields of refugees, of investment, of education, and of the quiet diplomacy of correcting misconceptions about Hong Kong and its future in all those parts of the world, where we have established offices.

Mr. CHEONG drew attention to the need in Europe particularly to influence '*national opinion*' because of the effect that this collectively may have on E.E.C. '*Community policy*'. I am happy to say that we are ahead of him. Minister (Brussels) and his staff make regular visits to the capitals of Europe and are cordially received as Hong Kong representatives as the very detailed reports we received from them clearly demonstrate. Nonetheless, I am grateful to Mr. CHEONG for this timely reminder that Minister (Brussels) is formally accredited only via the British Embassy in Brussels and that the possibility of gaining accreditation in other member states of the E.E.C. should be pursued.

But I take Mr. CHEONG's point, indeed I take it further than perhaps he intended it. There will be an increasing need over the next few years, as other countries adjust to post-Agreement Hong Kong, to ensure that Hong Kong's case is determinedly represented and fairly heard in a variety of international fora. Whatever decisions are taken regarding Hong Kong, whether within the E.E.C., the G.A.T.T., the United States, or elsewhere they must not be taken

without Hong Kong's voice first being heard. It may be that more resources will have to be deployed; it may be that greater flexibility is needed in the way existing resources are deployed, although there are limits to what flexibility can achieve; it may be that we need to look at different ways of tackling old problems. Mr. CHEONG has my assurance that the Government is alive to all these possibilities.

Sir, I support the motion.

THE CHIEF SECRETARY:—Sir, before the Financial Secretary delivers the customary winding-up speech for this debate there are several civil service matters which fall to me as Chief Secretary to deal with.

Size of the civil service

Inevitably the size of the civil service was mentioned during the debate: five Members, namely, Mr. S. L. CHEN, Mr. Peter C. WONG, Mr. WONG Lam, Mrs. Pauline NG and Mr. WONG Po-yan commented favourably on the Government's efforts to stabilise the size of the civil service in present circumstances. The statistics of the approved establishment presented in Appendices IX and X of Volume 2 of the Draft Estimates indicate that these efforts have met with a good measure of success: the approved establishment increased from 151 809 posts in 1980 to 173 663 posts in 1982 or by 14.4 per cent over those two years. The growth rate was then held to 1.85 per cent in 1983 and to 2.74 per cent in 1984. It is intended to hold it down again to 1.33 per cent in 1985. Of the 2 419 additional posts to be created in 1985, 1 473 posts are for essential new services in the Medical and Health Department and the Royal Hong Kong Police Force.

Mr. WONG Lam, while welcoming the Government's efforts to slow down the growth of the civil service as a whole, expressed his concern over the continued expansion of the Royal Hong Kong Police Force and suggested that preferential treatment might have been accorded to the Police Force at the expense of other, smaller departments. I can assure him that this is not the case. A thorough examination was conducted of each department's request to determine the minimum number of new posts necessary for new services and facilities. In the case of the Police Force, this examination was carried out in detail, and at a high level, and I am satisfied that the Force has been given no more than is necessary to meet essential requirements and that no other department has suffered as a result.

For those departments which find they need additional resources to maintain essential services intact (and the Secretary for Security has mentioned one), attention will now have to be concentrated on increased productivity, somehow defined, on more imaginative deployment of staff within departments and units and on bold, if controversial, redeployment of staff across departmental boundaries. At the same time, there must be scope, or at any rate arguably so, for the elimination of tasks which the passage of time and developing technology render less essential or even obsolete.

But the civil service is not a vast inchoate mass: it is a dynamic organisation comprising more than 60 departments and free standing agencies, engaged in an immense range of activities and manned by a variety of departmental grades and common service cadres. So I pick up a point made by Mr. P. K. YEUNG: in our desire to contain the size of the civil service, work pressures—which are sometimes, inevitably, unevenly spread—and morale, particularly at middle and lower levels, must not be casually overlooked.

Mr. P. K. YEUNG also spoke of the valuable work of the Director of Audit in drawing attention to waste and inefficiency wherever it occurs. May I assure Mr. YEUNG that the Director's criticisms do not fall on deaf ears. The Public Accounts Committee in any event makes certain that they do not. Indeed, as systems and procedures are progressively improved, there have been fewer instances of uncollected revenue and wasted expenditure. While there is no room for complacency, it is significant how relatively few irregularities there are having regard to the very large volume of transactions entered into each year.

Mr. CHAN Kam-chuen made the point that the growth of the civil service over the last decade has outstripped population growth. I should hope so. I can see no logical connection between the growth rates of these two aggregates, the civil service and population, except in the most general policy setting. A better correlation would be with the G.D.P.: in the ten years ending 1984, the G.D.P. in real or constant price terms increased by two and one third times whereas the approved establishment of the civil service increased by (only) just a half. As I have said before, but I shall say it again, the growth rate of public expenditure (and, by extension, of the size of the civil service) is essentially a function of public policy. Public policy is determined by Executive Council, subject to the financial authority of this Council. Public policy is not determined by the civil service acting on its own authority. In determining public policy, a whole range of complex considerations has to be taken into account. As the population grows, more services and facilities, and thus more civil servants to provide them are required. At the same time, pressures build up to improve the quality of these population-oriented services and facilities, especially in the fields of health, education and social welfare, and these invariably involve extra manpower. Additionally, as our society becomes more complex and sophisticated, a whole range of other services and facilities have to be provided, including regulatory systems.

Fringe benefits

Fringe benefits also featured in several speeches. Miss TAM and, I think, Dr. IP suggested it was time to re-examine fringe benefits generally. Divergent views were expressed on overseas education allowances. Mr. CHEUNG Yan-lung thought the allowances should be extended and made more flexible to cover university education. On the other hand, Dr. IP questioned the basic rationale for such allowances.

I accept that it is timely to look afresh at several fringe benefits accorded hitherto, particularly overseas education allowances. Indeed, well ahead of Dr. IP, an in-house review of overseas education allowances and some other benefits was recently put in hand with a view to seeing whether there is scope for what one might describe as ‘modernising’ the fringe benefits available. The review, when concluded, will be referred to the Standing Commission on Civil Service Salaries and Conditions of Service for advice. But I should like to remind Members that, if the civil service is to remain a viable organisation, its conditions of service must be sufficiently competitive to maintain our ability to attract and retain high calibre staff at all levels. Fringe benefits are an important element in the overall remuneration package, particularly from the point of view of continuity of service and the long term retention of staff and experience. The Government intends to continue to be a good employer and, as an employer, to remain competitive with the private sector.

Dr. IP also raised the question of whether or not it would be cheaper for Government, and more flexible—by which I think she meant more convenient for those concerned—if at least part of the fringe benefits element in the overall remuneration package was paid in cash instead. Some would argue—but I personally would *not*—that there is no objection in theory to this idea. There is no denying that a cash payment would be more flexible from the civil servant’s point of view, too flexible perhaps, but it is questionable whether it would be cheaper for the Government because the present take-up rate of fringe benefits is not 100 per cent. In any case, the idea is unacceptable for it amounts to changing the basis of administering fringe benefits from the present accountable and strictly controlled system to an unaccountable one.

Pensions

Dr. Harry FANG suggested that, by way of providing civil servants with evidence that their pensions are being taken care of, the Government should issue annual statements of their accumulated rights, similar to the statements issued to participants in the Widows’ and Children’s Pensions Scheme.

Now, I should like to explain that the Widows’ and Children’s Pensions Scheme is a contributory scheme. Under the terms of the scheme, each contributor is issued with a statement every year of the amount of pension benefits so far accrued from both his actual and the Government’s notional contributions in the event of death.

Unlike the Widows’ and Children’s Pensions Scheme, however, the civil service pensions scheme is non-contributory. A service pension is only payable when the officer retires under approved circumstances. The amount of pension payable is dependent on the officer’s final salary and the length of his pensionable service on retirement. It is *not* calculated on the basis of accrued benefits and, therefore, no statement of accumulated pension rights can be

issued. Officers themselves are, of course, quite capable of making a projection of what their pension will be on the basis of existing levels of remuneration if they retire at a certain time in the future. The mathematics for doing this are set out in Annex XII to Civil Service Regulations for the benefit of those with an algebraic turn of mind. But no projection can accurately predict the amount of pension eventually payable.

I should add that, while statements of accumulated pension rights are not issued, the civil service should have no doubt about the payment of pensions and gratuities. Section IV of Annex I of that legally binding agreement, the Joint Sino-British Declaration, provides that the future S.A.R. Government will pay all civil service pensions and gratuities, including those already in payment in 1997. It also provides that all pensions and gratuities payable to retired civil servants or to civil servants' dependants will be on terms no less favourable than before, and that they will be paid irrespective of the beneficiary's nationality or place of residence.

Contract terms for civil servants

Dr. Henrietta IP suggested that the Government should promote the use of gratuity-bearing contract terms for civil service employment. I should say at the outset that the normal terms of employment in the Hong Kong civil service are permanent and pensionable. In common with most other civil services, in the British tradition at least, the Hong Kong civil service is a career service, based on the twin concepts of captivity and security. It is self-evident, at least in my view, that employment on permanent and pensionable terms is an *essential* prerequisite for the maintenance of the impartiality and freedom from sectional pressures of the civil service.

But contract terms of service are used in three sets of circumstances. *First*: as a matter of policy, officers recruited overseas are appointed on contract terms only although, until recently, there were two exceptions to this rule: for the Administration Service and the Inspectorate of the Police. There are some 2 200 overseas officers presently employed on gratuity-bearing contract terms. *Second*: contract terms of employment are from time to time used to attract local candidates to grades where difficulties are encountered in recruiting sufficient numbers on permanent and pensionable terms, mainly in certain professional grades. There are some 700 local officers presently employed on gratuity-bearing contract terms of employment. *Third*: officers (local and overseas) who are re-employed after reaching the statutory age of retirement may be employed on contract terms, but not necessarily on gratuity-bearing contracts. There are presently some 2 200 officers so employed, including 650 Police rank and file who retired *before* reaching the age of 55 in accordance with long standing regulations applicable only to the Police Force.

But these are the exceptions and, while contract terms are valuable in achieving, amongst other things, a degree of cross fertilisation of experience and expertise between the public and the private sectors, they cannot be the main terms of employment for the civil service. A civil service based largely on contract terms of employment, with officers free to come and go, would *not* be conducive to maintaining continuity and stability. I can also assure Members, and particularly Dr. IP, that the employment of staff on permanent and pensionable terms does not force the Government to keep redundant officers on the establishment. There are well-established rules whereby civil servants can be retired compulsorily on various grounds, including redundancy, and these are invoked from time to time.

Extension of service

Mr. CHAN Ying-lun questioned the rationale behind the Government's policy on extensions of service beyond the statutory retirement age of 55.

The present policy was established in June 1981, although extensions were not uncommon before then. In essence, the policy permits officers who are fit and efficient, and subject to the needs of the service, to serve on beyond the age of 55 to 57 or 59 or 60, by either extending their service on pensionable terms, or retiring from pensionable service and being re-employed on contract terms. Whilst so re-employed they may either draw the normal contract gratuity of 25 per cent of salary, their earned pension rights being frozen, or they may draw their pensions. This policy is designed to facilitate the retention of experienced and efficient officers. Permission to extend an officer's service is *not* granted automatically; each case is considered on its own merits by the Head of Department concerned and the Secretary for the Civil Service, taking into account the career prospects of officers junior to them. The advice of the Public Service Commission is also sought in respect of extensions for officers in middle and senior ranks. While decisions on extensions of service take account of career planning considerations over the period of time involved, in any individual case, whether an officer can or cannot be replaced *immediately* by another officer in a lower rank is *not* a precondition.

The merits of this policy are in dispute from time to time, but I should like to remind our instant critics that, *first*, it is in the public interest that the service of experienced and efficient officers be retained; *secondly*, it can be argued that the statutory retirement age of 55 is unrealistic in this day and age; and, *thirdly*, unless officers who have reached the statutory retirement age are eligible for gratuity-bearing contract terms or are permitted to draw their pensions in addition to their salaries, continued service with the Government will be unattractive, given that the officers concerned can retire with their earned pensions and then take up paid employment in the private sector. The cost to

public funds of employing an officer on pension after retirement is virtually the same as the cost of the pension payable to an officer who leaves the service *plus* the emoluments of his replacement. So there is no net additional cost to the Treasury.

Training

Mr. CHAN Ying-lun also spoke of the need to groom upcoming officers to shoulder heavier responsibilities in the years ahead. I can assure Members that the Government is taking positive steps to ensure that civil servants are equipped with the necessary skills to cope with the increasing demands imposed on them as a result of the growing diversity and complexity of Government business. Specifically, in recent years, the Government has placed increasing emphasis on *management* skills, especially for officers who are expected to fill senior directorate posts in the future. More than 60 officers have attended a three-month in-house management training programme run by the Senior Staff Course and another 100 will have completed the fifth course by June 1986. And here I would like to pay a tribute to the staff of the Course and to the Advisory Board headed up by Mr. Len SNEDDON and Mr. F. K. LI respectively. In addition, a series of in-house courses on financial management for senior officers is being designed and the first one is expected to be conducted later this year.

Finally, Mrs. Rita FAN and Mr. Carl TONG questioned the need for overseas training for civil servants. The Government is, of course, mindful of the higher costs involved in overseas training when compared with local training. As a matter of policy, overseas training is provided only when no suitable programmes are available locally or, if they are available, when there are insufficient places to meet the demand. Of the \$23.7 million provided for overseas training in the 1985-86 Draft Estimates, \$8 million or (34 per cent) will be used to finance 171 scholarships under the Government Training Scholarship Scheme, mostly in the legal and para-medical fields where we have encountered persistent localisation difficulties due to insufficient or non-existent training facilities locally. Courses at overseas institutions are inevitably more expensive than courses provided by local institutions not just because they are overseas, but also because they often last much longer: a degree level speech therapy course, for instance, takes four years to complete.

The remaining \$15.7 million (66 per cent) provided for overseas training in the Draft Estimates will be used mainly to finance programmes which are designed to develop specialised knowledge and skills required to meet the operational requirements of departments, and which are simply not available in Hong Kong. Examples of these courses are airport fire-fighting, bridge engineering, various forms of specialist medical training and computer crime investigation.

As it is not possible to satisfy all the training need of the civil service through in-house courses or programmes available at local institutions, we shall have to continue to make use of training facilities overseas. However, to end on a reassuring note, we have now replaced overseas courses in concrete technology, gas engineering and, believe it or not, the forecasting of tropical cyclones and severe rainstorm by locally commissioned programmes.

Conclusion

Having now responded to the various points raised in this debate by Members relating to the civil service, may I conclude, Sir, by touching on a matter of particular importance to us all, but one which we tend to take too much for granted. I refer, Sir, to the working relationship between Unofficial Members and the civil service.

Traditionally, and without prejudice to the independence of either the civil service or Unofficials, that relationship has been a co-operative relationship, with both sides to the inter-face realising that, to achieve our common objective of good government, each is dependent on the other.

As we enter the era of representative government, and with a growing preponderance of Unofficial Members, not only in this Council, but also in the Urban and Regional Councils and on the District Boards, the need for such a co-operative relationship between Unofficial Members and the civil service will become no less important. We should nurture that relationship carefully, even though the era of representative government may well lead to a tendency to more adversarial—but hopefully not factional politics—and may well diminish the easy informality of the relationship between Unofficial Members and the civil service in the conduct of much of our business. *But* the co-operative nature of that relationship based on trust, seasoned with creative tension from time to time and expressed in open debate in this Council and in frank discussions in many other forums, must be preserved and preserved whatever the constitutional setting of that relationship in the future.

Sir, I have much pleasure in supporting the motion.

4:18 p.m.

HIS EXCELLENCY THE PRESIDENT:—At this stage, the Council might like to take a short break.

4.31 p.m.

HIS EXCELLENCY THE PRESIDENT:—Council will resume.

THE FINANCIAL SECRETARY:—

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Sir, a record 27 Unofficial Members of the Council have spoken. They have many different backgrounds. I am honoured by the support of 26 for the Appropriation Bill and particularly welcome the backing of the distinguished senior Member. They have made important points and have engaged most thoroughly in this significant annual debate. That they can so question and argue and disagree while still generally supporting the Government's budgetary policies is a source of stability. These policies are for the good of the community as a whole.

2. With so many speakers making so many general and particular points I have found it difficult to respond properly to every particular one in my area of responsibility. My winding up would otherwise take longer than the original Budget speech. A full response to Miss DUNN alone could so indicate, which is challenging as I understand that her support is dependent upon it. I have anyway sought to comment broadly on major issues raised by many before picking out the points made individually. If I seem to have dodged any particular question I do hope that the Member concerned will accept that I have probably done so not through slight but rather lack of time. May I also make my usual comment that I know perfectly well that no Government is correct all the time. Criticism is vital.

3. It is thus par for the course that I must seek not to underline the support that I have generally received but if I may make some metaphor intelligently to avoid the brickbats. Such is life.

4. In general terms I believe that all can see that we are nearing the end of a difficult restructuring exercise on the make-up of the Budget, which has called for contributions from all in Hong Kong. I believe the burdens have been fairly spread while there has been continuity in major programmes. Certainly the economy has been little affected. With luck, and luck is always needed, we should again see balanced Budgets from next year.

Revised Estimates 1984-85

5. I intend first to bring you up up-to-date on the latest state of Government finances. One of the problems always faced with the Budget speech is having to make forecasts and indeed decisions on less than nine months experience. The most significant update has been improved yields from profits taxes.

6. As in previous years, the improvement gives me the welcome opportunity to transfer an additional \$500 million to the Capital Works Reserve Fund. This will leave the Fund with improved balances at the end of 1984-85 providing a further useful cushion to carry into 1985-86, and enabling me to reduce transfers in future years. The prospect of a balanced budget next year will be that much closer.

7. The effect is to reduce slightly the expected deficit on General Revenue Account for 1984-85 (excluding the bond issue) from \$1,757 million indicated in my Budget speech to \$1,695 million—say \$1.7 billion⁽¹⁾.

Revised 1985 Economic Prospects

8. My domestic export growth forecast of 11 per cent in real terms was considered over-optimistic by Mr. CHEONG. On the other hand, as Mrs. FAN and Miss TAM pointed out, some commentators outside this Council consider that my forecast for the growth rate of G.D.P. of 7 per cent is conservative. Time will tell.

9. There have, however, been noteworthy developments in two areas—exchange rates and domestic exports.

10. No consensus view exists on the short term outlook of the U.S. dollar, though some weakening during 1985 seems not unlikely. I make no forecast. Because of our linked exchange rate system, if the recent downward movement of the U.S. dollar were sustained it should mean that domestic exports will be able to regain some of the price competitiveness they have lost over the past year or so. I am well aware of the problems presented to exporters by a very strong Hong Kong dollar.

11. Domestic exports to the United States and to the major European markets in the first two months of this year were lower than was implicit in my forecasts. Domestic exports to China on the other hand have been considerably higher. Increasing trading and other economic links with China are thus providing our economy with an important new source of growth.

12. The trend towards more protectionism is undoubtedly a threat to our export performance. The Government will continue to do its best to protect Hong Kong's trading rights and interests through formal negotiations and informal lobbying.

13. As regards domestic demand, my forecast for private consumption expenditure may turn out to be conservative if consumer confidence continues to grow.

14. As Miss TAM said, it is not certain how much of the private investment in plant, machinery and equipment is made for replacement and how much for expansion. Either way it represents new equipment which should enhance the productive capacity of our economy. In forecasting this component of the G.D.P., plant and machinery transferred to Shenzhen or elsewhere outside Hong Kong has been excluded. While I note encouraging developments in the property sector and the good response to Crown land sales in recent months, the 1985 forecast for gross domestic fixed capital formation took such factors into account.

(1) See Appendix A.

15. The rate of inflation at present is around 4 per cent, which makes my forecast of 5.5 per cent on average for 1985 seem pessimistic. It allows, however, for some depreciation of the Hong Kong dollar against other major currencies during the year and for the mild inflationary impact of the tax changes in the Budget. Despite the unfavourable consequences for inflation, some depreciation of the Hong Kong dollar would be useful in restoring the competitiveness of our exports.

16. While I accept on balance that there might now be a higher risk of the actual growth of domestic exports in 1985 not reaching my forecast of 11 per cent, it is far too early to contemplate revising either this forecast or that for the G.D.P. of 7 per cent. The appropriate time for any revisions that may be necessary will be my mid-year review in September.

Measures to increase the revenue

17. I must emphasise the essential difference between firstly fresh taxation (such as the reintroduced duties on cosmetics and non-alcoholic beverages), secondly moves towards the maintenance of yield in real terms of existing taxes and duties (such as air passenger departure tax or duty on petrol), and thirdly the requirement that those who use special Government-provided services such as ferry piers or abattoirs pay appropriately for them. In 1985-86 the real tax burden is being increased very little. Only about 30 per cent of the additional revenue sought represents a real tax increase. The remainder is a necessary adjustment for inflation.

18. There are naturally shadings to be applied. While fine tuning of broad policy is inevitable, it is bound to be controversial. Thus taxation on European-style wines and spirits is considerably lower in real terms than it was two years ago; on locally made (but not imported) cigarettes it is higher; on cars, driving licences and petrol it is lower; tunnel tolls are higher; betting duty is increased. And so on. It is a broad front approach. Even though inflation has been sharply lowered I again ask the public to get used to thinking in real not money terms. Particularly in a low tax economy it is essential that the Government keeps a close eye on real yield. Equally we must continue to ensure that those who use services pay for, unless a conscious decision is taken to subsidise. From the latter consideration has sprung for example my view that the taxpayer in general should not much longer contribute at all towards those journeying to and from Macau, nor in due course to and from China.

19. Like Mr. CHEONG, I also believe that in parallel with spreading wealth we must continue to accept a broadening of the tax base. To some extent on salaries tax this will arise from the usual inflation creep. Indexing is out of the question, even though the outcome needs to be smoothed with sympathy.

20. There is no sense in seeking inexorably to pile further burdens only on the richer, whether corporations or individuals. Firstly, there are not enough of them. Secondly, our policies are designed to encourage the creation of wealth, not to penalise it.

21. Salaries tax figures nevertheless are interesting. I estimate that in 1985-86 there will be about 470 000 salaries tax payers, who will contribute about \$4.85 billion to the revenue⁽²⁾. The working population however will be about 2.5 million. Moreover a fast increasing 43 per cent of the population lives in Government subsidised housing: education and health care are also heavily subsidised. Of those who do pay salaries tax, only about 28 000 will pay at the standard rate of 17 per cent and in so doing will contribute about \$2 billion or 41 per cent of the total yield. This is not a picture of an over-taxed community, to put it mildly. In fact most of us still do not know how lucky we are. But the system has clearly contributed to economic growth.

Indirect taxation

22. Particularly in view of last year's direct tax increases I am sure that at this juncture a spread of taxation on an indirect basis, applied where possible to indulgencies not necessities, has more merit than untoward concentration on further direct taxation. The expected yield in 1985-86 from the reintroduced duties on cosmetics and soft drinks is \$310 million. It would be possible alternatively to secure the same overall budgetary results from increasing, say, the standard rate of tax to 18.5 per cent or corporate tax to 19.5 per cent bearing in mind their lagged effects, or by rather lower increases in direct tax accompanied by cancelling outright the salaries tax concessions. No Member has so suggested. Indeed Mrs. NG, Mr. P. K. YEUNG and Mr. Keith LAM would like to see more concessions. So would I. But balanced budgets come first. I think that in present circumstances even the latter compromise would be quite unintelligent, though certainly better than accepting an increased deficit. A sensible mix of direct and indirect taxes remains essential, though this is a qualitative rather than a quantitative view. It is as yet unclear whether we shall wish next year to consider further real increases in taxation as opposed to maintenance of yield, or whether increased revenue in real terms will flow sufficiently from increased prosperity. It is not difficult to assume my preference. An end to the restructuring process would be a marvellous tonic. But we must wait and see. We live in an uncertain world which savagely penalises dogmatism. This is one reason why, unlike Miss DUNN and Miss TAM, I believe that long term budgetary forecasts in exposed and volatile Hong Kong could be seriously misleading. I will not make them.

Non-alcoholic beverages

23. With this background my judgement about the merits in 1985-86 of a moderate increase in indirect taxation seems to have been broadly accepted. Implementation is another matter. Given full employment and rising real wages most Members and the public in general may find it as hard as I to do more than sympathise with the soft drink and cosmetic lobbies, who loudly claim unfair

(2) See Appendix B.

discrimination. All taxes and duties are discriminatory. Like other governments we already discriminate selectively against alcohol, cigarettes, petrol and diesel oil, cars, cinema goers, share transfers, horse betting—and indeed the economically successful. Nor do I give credence to headline winning exaggeration, for example claims that the essential liquid intake of the young is endangered by taxation of soft drinks. The vast majority of the world's population mainly drinks water not sticky syrup. I suppose that we must give some marks to the soft drink lobby for trying. Clearly they are fully entitled to do so, though stridency is no substitute for perspective. I would have thought that in thus over-egging their cake their P.R. advisers would remember the immortal words of Miss Mandy RICE-DAVIES. 'They would, wouldn't they'. The concept, but certainly not the logic, is striking of infants tucking into their essential liquid intake of tonics or Bloody Mary mixes or black, sweet, effervescent lolly water. At least they do not claim it is good for the teeth. Nor are Hong Kong parents as silly as some in the West who cannot say no to their children. To talk of a tax on children is anyway ridiculous. Their parents pay.

24. No one likes these new duties. I do not. There is, however, no unobjectionable way of raising revenue. And it must be raised if we are to balance the budget. Members need to bear in mind that 1984-85 revenue is coloured by the extraordinary final payment of \$1.9 billion for Exchange Square.

25. Hard cases are bound to arise. Selectivity is difficult. Accurate definitions are essential. But again claims on behalf of one particular popular beverage that on grounds of nutritional value soya bean drink should be given preferential tax treatment over its competitors could lead to the conclusion that one popular brand of stout which advertises that it is good for you, should also be tax free. Nor is a tax of 15 cents on a carton dramatic or likely to depress demand for long. Moreover there are several competitive soya based drinks, for which similar claims could be made.

26. As for the other products, 20¢ tax on a typical can of soft drink hardly seems unconscionable when a ticket to Ocean Park for children costs \$25; and it is well patronised. Nevertheless I note that, as often happens, the childrenloving manufacturers while protesting loudly have taken the commercial opportunity of recommending the addition of 50 per cent to the tax, or 10¢ a can, themselves. To the extent that this delays a return of demand they have only themselves to blame. Availability of parallel imports will keep prices reasonable. Mrs. CHOW's knowledgeable comments were very persuasive. I note that bottles of soft drinks are cheaper than aluminium cans by more than the new tax. The option is there.

Cosmetics

27. I sympathise also with those who use cosmetics and not unreasonably dislike the prospect of paying a little more. But a solution is in their own hands. More economical products giving better value for money may be able to increase their market share. It will also be surprising if total demand drops for

long. If so neither retailers nor manufacturers nor agents will much suffer. I do draw the line, however, at being accused of promoting skin cancer by taxing suntan oils, the retailers of which already apply a mark-up of the order of between 50 per cent and 80 per cent.

28. Let me state the obvious. All taxation has been unpopular since the beginning of time. As Miss DUNN said: 'a degree of inequity is inevitable'. In Hong Kong it is accepted that the proper purpose of raising Government revenue is normally to meet essential Government expenditure. Given that in our particular circumstances budgets must prudently be balanced over a cycle or years, the views of the people of Hong Kong must be heard with regard to acceptable approaches to revenue and expenditure. But nothing comes free. Him not me is no criterion. If we are to avoid high direct taxation, it will always be essential to hold down vigorously the growth of public sector expenditure. Despite Miss DUNN'S concern, it has indeed been contained significantly below G.D.P. growth in recent years. But in a prospering Hong Kong proper growth there must also be, provided only that it is always subject to G.D.P. growth; and clearly it must be paid for somehow. The somehow involves appropriate taxes. I have done my best, but I cannot suit every vested interest. Nor indeed would there be public support for preferring the interests of, for example, those who profit from selling cosmetics or soft drinks to those who seek the provision of better education. There has to be a balance.

Individual comments on soft drinks and cosmetic duties

29. I have given my broad response to the main issues raised about reintroduced duties on cosmetics and non-alcoholic beverages, that is to say soft drinks. Many Members have commented in various detailed respects including Sir Royer LOBO, Dr. FANG, Mr. Peter WONG Lam, Dr. Ho, Mr. Andrew So, Mr. P. Y. WONG, Mr. K. C. CHAN, Mr. Y. L. CHEUNG, Mrs. CHOW, Dr. IP, Mr. CHAN Ying-lun, Mrs. NG, Mr. POON, Mr. Keith LAM and Mr. Carl TONG. As Members will have heard from my earlier comments, the \$310 million yield from these duties is essential to the underlying budgetary strategy. All other alternatives seem worse. I do not propose these fresh tax measures because I like them but because others offer more disadvantages. For strategic reasons, I am unable to agree to major alterations which will seriously affect the revenue. Tight definitions have been difficult, as those who have read the proposed legislation will appreciate. Amendments as to detail can be fully considered at the committee stage and will include a proposal to remove essential oils from the list of dutiable cosmetics.

30. I have listened with care to all the many points made and have re-read the speeches. As far as Vitasoy is concerned I have always believed that if a white feathered water bird quacks like a duck, waddles like a duck and looks like a duck, it probably is a duck. I regard Vitasoy as obviously a non-alcoholic beverage. If uniquely I exempted it from the duty I would immediately be accused by all the other soft drink interests of discrimination against them. As

Dr. IP has said, however, pure bottled soya bean milk will not be liable to the new duty. This will follow the same rules as for pure fruit or vegetable drinks or milk. I hope that this will satisfy Dr. FANG.

Effect on tourism

31. As for cosmetics, the charge that this duty which should raise the retail price by between 2 per cent and 13 per cent is likely seriously to deter tourists frankly lacks all credibility to me—as it would to Miss RICE-DAVIES. They can buy all they want duty free on departure at Kai Tak. As most come from countries where cosmetics are already heavily taxed, they will not be surprised at the position here. Nor indeed do I accept that a major goal of tourists—the majority of whom are men—is to stock up in Hong Kong with duty free eye shadow, face cream or lipsticks. I also confirm to Dr. Ho, Mr. Y. L. CHEUNG and Mr. K. C. CHAN that the export of cosmetics from Hong Kong can be conducted ex-bond and therefore on a duty free basis.

32. To the extent, however, that we are generally increasing prices that may affect tourism, I admit to a degree of sensitivity. For this reason I sought with regard to the air passenger departure tax just to preserve the yield in real terms.

Hotels Association comments

33. I noted with cynical detachment the reported views of the Hotels Association. Despite their objections in 1983 we raised the Hotel Tax from 4 per cent to 5 per cent—all of which goes to support on their behalf not Government revenue but the Tourist Association—and introduced the air passenger departure tax. Subsequently (if not consequently) tourism has boomed. Hotel room, food and beverage rates have thereafter been increased cumulatively by about 15 per cent to 20 per cent per year. In some top hotels the increases have been higher. The trend continues. This hits the tourist far more than the burden of increased taxes and duties. Charging what the market will bear may make short term economic sense. It is for managements to decide. If in the long term it prices Hong Kong out I trust somewhat forlornly that the Government will not be blamed.

Duty-free concession

34. Cutting back on the duty free concession on alcohol and cigarettes makes no friends, but the need is obvious. As 65 000 people have entered at Lo Wu in one day even a 20 seconds individual delay while examining passports would be intolerable. On implementation I have had, therefore, to accept the pragmatic advice of the Commissioner of Customs and Excise, who has consulted closely with the Director of Immigration. I would ask Members and particularly Mrs. CHOW to see how the new measures work. Then when we have got a little experience we can see whether sensible changes can be made. I am entirely open minded provided that the revenue does not suffer and that delays do not result. I do not believe in control for control's sake, but as suggested by Mrs. CHOW, Mr. Y. L. CHEUNG and Mrs. NG we shall also consider duty-free concessions on cosmetics.

Taxes on motorists

35. Mrs. CHOW and Dr. Ho again complained about the burden being laid on motorists. I had hoped to make it absolutely clear that while I believe in general that yields in taxation must be maintained in real terms, I had made an especial concession to motorists in that the increases on petrol and vehicle and licence taxes were significantly lower than the rate of inflation over the last two years. Taxes in these areas are lower in real terms than they were in 1983. What could seem more reasonable against the background of another deficit budget?

Anti-avoidance legislation

36. Several members spoke about anti-avoidance legislation and the allied question of offshore interest tax. They included Mr. S. L. CHEN, Mr. Peter WONG, Mr. P. Y. WONG, Mrs. FAN, Mr. POON, Mr. Y. L. CHEUNG, Mr. P. K. YEUNG and Mr. Keith LAM. Apart from Mrs. FAN'S usual reservations all supported what I said in the Budget speech. I am grateful to them. Subject to the approval of the Executive Council, I expect to introduce amending legislation into this Council in the next two months or so. It will undoubtedly thereafter merit close and expert scrutiny. My intentions could not be better defined or more wisely put than has been done by the well informed Mr. POON. I confirm yet again that the territorial source criterion will not be assailed. I shall also draw to C.I.R.'s attention Mr. S. L. CHEN'S advice on the need closely to supervise the taxation of self employed professionals—always an imaginative group.

Restraint of public sector expenditure

37. I agree with the less extreme of Miss DUNN'S well known and often expressed views on the need to restrain the growth of public expenditure and to balance the budget. As the Government's moves to this end since the collapse of the land boom have so far been successful, I did expect encouragement this year. I got it but with more grousing. Nevertheless we will seemingly have restrained public sector expenditure by of the order of \$8.5 billion this year in the painful course of the major restructure which has taken place over the last three years and which I hope may with good fortune be concluded next year in the shape of a balanced budget. The downward movement of the relative size of the public sector is from 19.1 per cent in 1982-83 to 18.6 per cent in 1983-84. In 1984-85 it will be a revised 16.2 per cent and I stick to my estimate of 16 per cent for this financial year. What more does Miss DUNN want? If not this, then what? Comparison with the four years ending 1981-82 is misleading and irrelevant unless she seeks to persuade us that, for instance, it was an error to continue with the City Polytechnic, the Prince of Wales Hospital and the long delayed Island Eastern Corridor. I do not agree and I doubt if many others do. We have now adjusted to the changed land revenue situation, though Mr. S. L. CHEN'S wise earlier warnings should not be forgotten. Miss DUNN may or may not be doctrinally sound about cutting our coat to suit our cloth. Others will fairly believe that we can now afford sufficient cloth for a coat. Moreover major programmes demand continuity. Mr. Alex WU and Mr. WONG Po-yan will certainly agree.

38. At 16 per cent Hong Kong's public sector expenditure as a percentage of G.D.P. will be by far the lowest that I know of in the comparable world. The next lowest is, I understand, Japan at 34.5 per cent. Some difference. As a broad brush comment I do not myself believe that ours can reasonably go much lower while our economy and the creation of wealth flourish, thus giving rise to growing and entirely proper aspirations with regard to the provision of better central services. Private affluence and public squalor should not co-exist. Time and an increasingly representative Government will decide.

39. With respect I thus cannot agree with Miss DUNN's thoughts on basing the Budget on revenue. Except in emergency, significant additional cuts in current levels of Government expenditure for example on housing, social welfare, education or health would appear unfair and indeed unnecessary. Reserves of taxability arguably do exist. I certainly hope that it will remain possible to hold our taxes at their low current level. This is a key to growth. But there has also to be a sense of balance and justice. While our obvious and growing prosperity continues I do not believe that many would support cutting major government programmes further rather than (if necessary) moderately increasing the tax burdens of those who can bear them best or who are reasonably given a choice of indirect taxation. To proceed otherwise would arguably not be fair to the community as a whole. No one, however, should conclude that I believe that new real taxation is inevitable. I do not. It depends on future circumstances, though yields must be maintained in real terms. Nor should we discard the possibility of some reduction in taxation. It may seem unlikely now but it has happened before.

Government accounts

40. Miss DUNN in depth and Mr. TONG briefly raised a number of questions about the accounting treatment of various items. They apparently stem from a misunderstanding of the purpose of the Government accounting system. Our system of 'cash', that is to say 'receipts and payments' accounting, is the same as that of most, if not all, other governments. It requires that all payments be made in accordance with the provisions of the Public Finance Ordinance, which was unanimously consented to by this Council and brought into force on 1 April 1983. It is a system of accounting designed primarily to serve the purpose of control by the legislature. The accruals system used in the accounts of a normal commercial operation would not meet this purpose.

41. The Statement of Assets and Liabilities consequently shows the 'cash' assets and liabilities of the Government. The difference between the total assets and total liabilities is shown as the General Revenue Balance Account, on that statement. That balance, which is the sum of accumulated cash surpluses less cash deficits, is available for appropriation by the Council for expenditure on government services. This explains the treatment of the Government's equity investment in the M.T.R.C., which is not in a form which can be easily

converted into cash. Even if it were, it should not be included as an asset in the Statement of Assets and Liabilities because it is intended as a permanent investment and, therefore, is not available for appropriation by this Council.

42. To include by way of consolidation 'cash' which has been previously appropriated by this Council to other funds but not yet expended, and the retained earnings of these funds, would clearly deflect from the main purpose of the Statement of Assets and Liabilities.

43. It is accepted that the Capital Works Reserve Fund is treated somewhat differently in this respect from other funds⁽³⁾. This is because for fund management purposes it proved desirable for all transactions relating to this Fund to be processed through the main Treasury bank account. It is, however, accounted for and identified quite separately on the Statement of Assets and Liabilities and is clearly excluded from the balance available for appropriation.

44. A separate account is, however, still kept for the Capital Works Reserve Fund, as is the case for the Development Loan Fund, Home Ownership Fund and Student Loan Fund. These are included in the Annual Report of the Director of Accounting Services as is the Statement of Assets and Liabilities. This report also provides among other things a statement of outstanding loans made from Revenue, a statement of Asian Development Bank Loans to this Government and a statement of Public Debt. An examination of this very information but I am sorry to say little read report will, I think, afford illumination to Miss DUNN and Mr. TONG and indeed all the rest of us.

45. Consideration will be given to including a note about Letters B and to Government's investment in the K.C.R.C. in future Statements in the Director of Accounting Services Report. For 1984-85 the total revenue foregone on monetised Letters A/B is estimated to be \$1.1 billion—far higher than my 1984 estimate of \$400 million. The outstanding Letters A/B as at 1 April 1984 are worth about \$2.9 billion at current prices. If the present response continues they should be discharged by 1988. In other words the revised scheme has gone better than we anticipated, but has involved immediately more revenue foregone. We shall also see if the Budget speech appendices and notes to the accounts can be tidied up. I do hope that the more we give, the fewer the complaints; but I doubt it. The opposite seems to be true—9 lbs. and all.

46. Government's equity holdings in other corporations, that is to say the Cross-Harbour Tunnel Co. Ltd., the Hong Kong Air Cargo Terminals Ltd. and the Hong Kong Building and Loan Agency, which were previously held in the Development Loan Fund, were, as I reported on 29 February 1984, sold to the Exchange Fund in 1983. The latter made a subsequent purchase of 20 per cent of Cable & Wireless (HK) Ltd.

(3) See paragraph 44.

47. Miss DUNN should not be concerned that the free fiscal reserves may wither on the vine. The likelihood is exactly opposite. I think we may have been over conservative. They need re-definition as I have promised.

Further indirect taxation

48. Sir, I agree that fresh indirect taxation of indulgencies not necessities may prove increasingly contentious to support and difficult to implement. Everyone not unnaturally has different ideas. The logical end of this particular road is a general sales tax or V.A.T., both of which I should prefer to avoid. It must be admitted, however, that other flourishing economies embrace them without obvious damage to their structures, so I suppose that we should at least remain open minded. Again I emphasise my hope that more real increases can be avoided. But the key factor is the 179 per cent of G.D.P. represented by our trade. We are vulnerable always to external shocks.

Possible new tax measures

49. This brings me on to the many suggestions that I have received with regard to possible new tax measures—if, I repeat if, they prove necessary. Some of Mr. S. L. CHEN's, Mr. WONG Lam's and Mr. CHAN Ying-lun's ideas really verge into a general sales tax, which Mr. Stephen CHEONG might support. I do not like the latter's idea of a flat import tax. Our free port status has served us well and the Government will not lightly cast it aside. If needs must, however, the possibility exists. I note Mrs. FAN's and Mr. CHAM's advice about charging for China passenger transit facilities. My concern is sensitive timing of implementation. Mr. S. L. CHEN suggested taxation of overhanging signs. It has long been under study but there are several practical difficulties. He will be pleased to know that I did carefully consider a tax on advertising. With some regret I rejected it for this year for three main reasons. Firstly, it would undoubtedly inflict financial damage on press and television and could then be taken as a deliberate and untimely attack on freedom of expression. Secondly, while I do not duck a fight, the shrill cries from the cosmetics and soft drinks lobbies would seem but a faint piping in the distance compared with the trumpeting which the advertising industry would produce. The first fanfare has been heard. Thirdly, it was not necessary or rather seemed to have less merit than my other proposals. After all like everyone else in Hong Kong I too hate new taxes. But now that the idea has floated, let us see what debate develops before next year.

Fringe benefits

50. Dr. IP's suggestions about the taxation of business fringe benefits must carry some persuasion. These benefits have, however, long been a subject of close study and were looked at again this year. I agree that we need always to maintain a close watch on what is happening. It also makes sense to keep in step with others. Despite the overt appeal, I am nevertheless opposed to any appreciable changes for several reasons: they would be difficult to administer and not very productive of revenue; they would be most unpopular, particularly

with those considering new investment from overseas involving postings; they would fall heaviest on the 28 000 who alone pay salary tax at the top rate of 17 per cent; and they would thus be a form of increased salaries tax. Should there be signs of abuse, however, the Government would be ready to reconsider its position.

Tax innovation committee

51. We have in the Government a 'Tax Innovation Committee', which considers all fresh ideas of which there are many. I encourage Members and the public to write in quickly.

Married women

52. Mr. Peter C. WONG resurrected the question of separate taxation of married women. He will not be surprised to be referred to my comments in last year's debate. There do seem presently to be other higher priorities.

Macau ferries

53. I welcome Mr. Kim CHAM'S support for the increased fees on ferries using piers built for Macau traffic. In view of my dislike of shocking increases I think it wiser to take two bites instead of one.

Tobacco

54. Mr. K. C. CHAN'S views on smoking are trenchant. For my part I am not engaged in social engineering but in maximising Government revenue. There is, however, some degree of compatibility between the two aims—arguably unfair to cigar smokers.

Privatisation

55. Mr. F. K. HU, Mrs. CHOW and Mr. Carl TONG have spoken about contracting out and privatisation, which can take several forms. In general terms it is the Administration's duty to put forward for Members' approval estimates of expenditure sufficient but only just sufficient to accomplish the Government's policies and programmes. If there appear to be more economical or efficient ways of proceeding, it would be a failure of our duty if we did not first consider them. Much is coming out of the value for money studies. I firmly believe that less Government is usually better Government. Members will have noted the Administration's approach to the financing of the Tuen Mun light rail system, the Eastern Harbour crossing, and Hong Kong Nuclear Investment Co. Anything new that can properly be done by the private sector, should be. It must, however, be remembered that we have to balance the attractions that privatisation may seem to offer in some existing areas against both the morale of the civil service and the considerable costs of and management time involved in disestablishment. I am not opposed to privatisation per se. Nothing could be further from the truth. But I am also aware of the problems that can arise should we proceed abruptly without carefully considering all the issues

involved. The stabilisation of the size of the civil service has introduced a new factor. It must require redeployment, which privatisation could further without affecting employment prospects. A degree of contracting out of services, especially new services, presents less obvious difficulties and must indeed always be considered.

Conclusion

56. Sir, my last three winding up speeches finished with a general exhortation. This seems unnecessary any longer. I believe that it is now evident to most people what are the Government's aims, how we have set out to achieve them and what is our rate of success. I must, however, warn against undue optimism or comforting belief that all my projections are over conservative. Hong Kong is still very exposed to external forces over which we can have no control. This is the reason why we must be prudent and careful in all our financial, economic and budgetary policies. We shall be.

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).

Appendix A

REVISED ESTIMATES 1984-85

	<i>Printed Revised Estimates</i>		<i>Updated Revised Estimates</i>	
	(\$ mn)	(\$ mn)	(\$ mn)	(\$ mn)
<i>Recurrent Account:</i>				
Revenue	30,262		30,555	
Expenditure	<u>26,259</u>	<u>4,003</u>	<u>26,060</u>	<u>4,495</u>
<i>Capital Account:</i>				
Revenue	4,666		4,720	
Expenditure	<u>10,426</u>	<u>-5,760</u>	<u>10,910</u>	<u>-6,190</u>
Overall deficit		<u>-1,757</u>		<u>-1,695</u>
Bond issue		<u>1,005</u>		<u>1,005</u>
Shortfall		<u>-752</u>		<u>-690</u>

<i>Component</i>	<i>Printed Revised Estimates (\$ mn)</i>	<i>Updated Revised Estimates (\$ mn)</i>
Personal Emoluments	9,640	9,610
Personnel Related Expenses		
Pensions	1,050	1,050
Other	1,121	1,100
Departmental Expenses	2,936	2,850
Other Charges		
Defence Costs Agreement	1,261	1,250
Other	3,216	3,180
Subventions	7,035	7,020
Total Recurrent Expenditure	26,259	26,060
Plant, Equipment and Works		
Defence Costs Agreement	59	60
Other	448	430
Other Non-Recurrent	225	225
Subventions	689	690
Transfers to Fund		
Capital Works Reserve Fund	7,257	7,757
Development Loan Fund	1,305	1,305
Student Loan Fund	35	35
Mass Transit Fund	408	408
Total Capital Expenditure	10,426	10,910

Appendix B**ESTIMATED SALARIES TAX YIELDS 1985-86**

<i>Assessable Income per annum \$</i>	<i>No. of Taxpayers</i>	<i>% age of Total Taxpayers</i>	<i>Tax Yield \$ mn</i>	<i>% age of Total Yield</i>
50,000 & under	202 000	42.9	240	4.9
50,001-100,000	146 000	31.0	770	15.9
100,001-240,000	101 000	21.4	2,130	43.9
240,001-300,000	9 000	1.9	460	9.5
300,001-500,000	9 500	2.0	700	14.4
500,001 & over	3 500	0.8	550	11.4
Total	471 000	100.0	4,850	100.0

Of the total number of taxpayers (471 000) only 28 000 or 6 per cent of the total are estimated to pay tax at the standard rate. This small group of taxpayers thus will contribute almost \$2,000 million or 41 per cent of the total yield.

The group includes (in round figures)—

7 000 single persons with incomes of \$156,250 + p.a.

10 000 married couples with incomes of \$250,000 + p.a.

11 000 married couples with one of more children and/or dependent parents and an income of \$278,125 + p.a.

Suspension of sitting

HIS EXCELLENCY THE PRESIDENT:—In accordance with Standing Orders I now suspend the Council until 2.30 p.m. on 18 April 1985.

Suspended accordingly at half past five o'clock.