

**OFFICIAL REPORT OF PROCEEDINGS****Wednesday, 1 April 1987****The Council met at half-past Two o'clock****PRESENT**HIS EXCELLENCY THE ACTING GOVERNOR (*PRESIDENT*)

SIR DAVID AKERS-JONES, K.B.E., C.M.G., J.P.

THE HONOURABLE THE CHIEF SECRETARY

MR. DAVID ROBERT FORD, L.V.O., O.B.E., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY

MR. PIERS JACOBS, O.B.E., J.P.

THE HONOURABLE THE ATTORNEY GENERAL

MR. MICHAEL DAVID THOMAS, C.M.G., Q.C.

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

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

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

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 ALLEN LEE PENG-FEI, 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 JOHN JOSEPH SWAINE, O.B.E., Q.C., J.P.

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

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

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

THE HONOURABLE MARIA TAM WAI-CHU, O.B.E., J.P.

DR. THE HONOURABLE HENRIETTA IP MAN-HING, O.B.E., J.P.

THE HONOURABLE CHAN YING-LUN, J.P.

THE HONOURABLE MRS. PAULINE NG CHOW MAY-LIN, J.P.

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

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

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

THE HONOURABLE JOHN WALTER CHAMBERS, O.B.E., J.P.

SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE JACKIE CHAN CHAI-KEUNG

THE HONOURABLE CHENG HON-KWAN

DR. THE HONOURABLE CHIU HIN-KWONG

THE HONOURABLE CHUNG PUI-LAM  
THE HONOURABLE THOMAS CLYDESDALE  
THE HONOURABLE HO SAI-CHU, M.B.E., J.P.  
THE HONOURABLE HUI YIN-FAT  
THE HONOURABLE RICHARD LAI SUNG-LUNG  
DR. THE HONOURABLE CONRAD LAM KUI-SHING  
THE HONOURABLE MARTIN LEE CHU-MING, Q.C., J.P.  
THE HONOURABLE LEE YU-TAI  
THE HONOURABLE DAVID LI KWOK-PO, J.P.  
THE HONOURABLE LIU LIT-FOR, J.P.  
THE HONOURABLE NGAI SHIU-KIT, O.B.E., J.P.  
THE HONOURABLE PANG CHUN-HOI, M.B.E.  
THE HONOURABLE POON CHI-FAI  
PROF. THE HONOURABLE POON CHUNG-KWONG  
THE HONOURABLE SZETO WAH  
THE HONOURABLE MRS. ROSANNA TAM WONG YICK-MING  
THE HONOURABLE TAM YIU-CHUNG  
DR. THE HONOURABLE DANIEL TSE, O.B.E., J.P.  
THE HONOURABLE ANDREW WONG WANG-FAT  
THE HONOURABLE LAU WONG-FAT, M.B.E., J.P.  
THE HONOURABLE GRAHAM BARNES, J.P.  
SECRETARY FOR LANDS AND WORKS  
THE HONOURABLE RONALD GEORGE BLACKER BRIDGE, O.B.E., J.P.  
SECRETARY FOR EDUCATION AND MANPOWER  
THE HONOURABLE DAVID GREGORY JEAFFRESON, C.B.E., J.P.  
SECRETARY FOR SECURITY  
THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.  
SECRETARY FOR TRANSPORT

**ABSENT**

THE HONOURABLE HU FA-KUANG, O.B.E., J.P.  
THE HONOURABLE MRS. RITA FAN HSU LAI-TAI, J.P.  
THE HONOURABLE HILTON CHEONG-LEEN, C.B.E., J.P.  
THE HONOURABLE HELMUT SOHMEN  
THE HONOURABLE TAI CHIN-WAH

**IN ATTENDANCE**

THE CLERK TO THE LEGISLATIVE COUNCIL  
MR. LAW KAM-SANG

**Papers**

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

*Subject* *L.N. No.*

## Subsidiary Legislation:

Waterworks Ordinance Waterworks (Amendment) Regulations 1987 .....	78/87
Telecommunication Ordinance Telecommunication (Exemption from Licensing) (Amendment) Order 1987 .....	78/87
Telecommunication Ordinance Telecommunication (Cable and Wireless (Hong Kong) Limited) (Exemption from Licensing) (Amendment) Order 1987 .....	80/87
Telecommunication Ordinance Telecommunication (Public Non-Exclusive Telecommunications Service Customers) (Exemption from Licensing) (Amendment) Order 1987 .....	81/87
Companies Ordinance Companies (Interest on Investments) Notice 1987 .....	86/87
Securities Ordinance Securities (Recognition of Stock Market) Notice 1987 .....	87/87
Securities Ordinance Securities (Registration of Dealers) (Approved Examinations) Notice 1987 .....	88/87
Public Health and Municipal Services Ordinance Hawker (Permitted Place) Declaration 1987 .....	89/87
Water Pollution Control (General) Regulations 1986 Water Pollution Control (General) Regulations 1986 (Com mencement) Notice 1987 .....	90/87

## Sessional Papers 1986-87:

- No. 53—Report by the trustee of the Correctional Services Children's Education Trust for the period 1 September 1985 to 31 August 1986.
- No. 54—Report of the Finance Committee on the Draft Estimates of Expenditure 1987-88.

**Government business****Second Reading of Bill****APPROPRIATION BILL 1987****Resumption of debate on Second Reading (19 March 1987)**

CHIEF SECRETARY: Sir, I would like to speak on the Civil Service in general and on value for money studies in particular. Both subjects have prompted some comments from Members.

Over the past three years, value for money studies have helped to improve efficiency in many areas and have led to savings of around HK\$650 million. The success of these studies has been largely due to the sense of responsibility shown by the departments involved. The establishment of value for money steering groups in seven departments to date has enabled directorate officers to be closely involved and has greatly contributed towards a positive relationship with officers from Finance Branch carrying out the studies. Steering groups in a further four departments will shortly be established and I hope that all government departments which are involved in value for money studies will be so covered by the end of March 1988. I can certainly assure Members that the momentum of the programme will be maintained.

The Government will also continue with its efforts to contain the size of the service. Against the background of five years of zero growth, the provision of 3 454 new posts in the 1987-88 Draft Estimates represents an increase of just over 1.9 per cent over the establishment approved for the last financial year and I suggest is not an unreasonable increase.

But it has to be recognised that some expansion is inevitable. As the population grows and new towns are developed to accommodate that growth, there is a requirement for additional services and facilities.

In addition, pressures build up to improve the quality of existing services and facilities in the older established areas, too, especially in the fields of health and social welfare. Sometimes the quality of our services, particularly in some areas of social work, has not always kept pace with public expectations, which have risen sharply as Hong Kong has become more affluent and aware of international standards. There has not been any lack of will or vision by the departments concerned to provide better services but their expansion has been restricted by our continuing policy of working to contain the growth of the service as a whole.

Sir, in this thrusting capitalist society of ours we have, correctly in my view, placed much emphasis on personal freedom and enterprise, which are central to our philosophy of a non-intervention economic policy which has served Hong

Kong so well in the past. In the social services sector, we are acutely aware of the need not to stifle the aspirations and initiative of individuals who collectively continue to turn the great wheel of success for Hong Kong.

None the less, I sometimes have the impression that our laudable desire not to move towards a 'welfare state' philosophy tends to influence our duty as a government to take the lead in providing the best possible care for those who cannot fend for themselves or who have real social problems. The proportion of government expenditure on social welfare services is still comparatively small and great strides could be made with small increases without putting at risk the work ethic of our people. Some increases in the strength of the Civil Service in certain areas would also be required but, in my view, these increases, Sir, would also represent value for money. The Secretary for Health and Welfare will be able to give an indication of where our priorities should be in the future.

Sir, some Members have reminded us of the need to watch civil service salary levels so that they are broadly comparable to the private sector. I agree that a major consideration in determining civil service salaries is the principle of fair comparison with pay for comparable employment in the private sector. But I must add that civil service salaries should be sufficient to attract and retain candidates of the right calibre if we are to provide the public with an efficient service with high morale.

In considering ways of maximising work output in the Civil Service, comments were made on the system of annual increments and promotion criteria.

Increments are awarded in recognition of service given and experience gained. They can be stopped or deferred on grounds of misconduct or lack of diligence though I grant that this does not happen too often. The possibility of some kind of inducement award related to performance is on the face of it an attractive option but there are real difficulties involved in applying it to the Civil Service. But that said I do not rule it out. Contrary to the assertion made, however, civil service policy on promotion is not based on how few mistakes one makes but on ability, experience and performance—in short, on merit. The Public Service Commission is there to ensure that this principle is strictly adhered to.

Apart from the value for money programme I have mentioned, training is an integral part of the process of increasing productivity by aiming to ensure that the potential of staff is fully developed and used. Indeed, a great deal of time and effort is devoted to this aspect of the Civil Service. There is, for example, provision of HK\$57 million in the Draft Estimates to enable the Civil Service Training Centre to provide this year training for 8 000 officers to improve their professional and vocational performance, 12 000 officers to improve their general administrative and managerial ability and 8 000 officers to improve their language and communication skills.

Sir, the public expects an efficient service, for it is amply clear that the community has developed a greater awareness of its own rights on the one hand, and the obligations of the Government towards its people on the other. This is particularly so over the past few years. Hong Kong people are now more knowledgeable, more demanding and more prepared to speak their minds. Greater accountability of government actions has become inevitable and this trend can only intensify in the years to come. Public expectations for better service, better results and more emphasis on cost effectiveness in public spending are rising.

Public debate on government business has also become more lively, sometimes even heated, and the fullest justification for any government measure is now expected as a matter of course. Sir, these developments are healthy and good for the community and we in the public service welcome them. But when the clamour of debate is over, decisions must be taken and sometimes they are not popular with all sectors of the community. Although there may be room for differences of opinion on how issues are best handled, I hope and believe that the motivation of the Government in reaching decisions in the best interests of the community as a whole, is not in question.

Sir, the Civil Service is clearly committed to the maintenance of stability and prosperity in Hong Kong and helping to govern it effectively and efficiently. The style of the Government may change, personalities and relationships in this Council may change, but I am confident that the mutual concern of Members and the public service to do what is best for the people of Hong Kong will certainly not change.

SECRETARY FOR HEALTH AND WELFARE: Sir, in this debate, no less than 16 Members have touched upon issues relating to medical and health, social welfare and environmental pollution matters. Two main interlinked themes have emerged: the first centred on the need for social services to have a bigger slice of the public expenditure cake and the second on the need to consider ways of improving the quality of services.

Against the background of stronger public finances, the total recurrent expenditure on the Medical and Health Department, medical subventions, the Social Welfare Department including social security, social welfare subventions and environmental control in 1987-88 will be \$7.37 billion as compared with the revised Estimate of \$6.65 billion in 1986-87. Medical subventions have been increased by 15 per cent and the provision for environmental protection by no less than 82 per cent. As for social welfare, although as the Chief Secretary has said, the proportion of government expenditure which is devoted to this programme area is comparatively small, the provision for social welfare subventions is increased by over 20 per cent as compared with last year. In addition, I am happy to report that all the capital projects connected with my areas of responsibility will be going ahead in the coming year and where appropriate, approval has been given for the necessary items in the Public

Works Programme to be upgraded. I am optimistic that significant improvements to both the quantity and quality of services can be made in 1987-88, and we are certainly not standing still.

*Medical and health*

A major issue which will affect the future development of medical services is the decision on whether a hospital authority should be established, and if so, how. As Members are aware, this question has wide implications for the structure of the public hospital system, the staff and the organisations involved in the system, its funding and the delivery of service. I think that Dr. CHIU Hin-kwong, Dr. Conrad LAM and Mr. TAI Chin-wah will agree that such an important decision cannot be rushed.

Dr. CHIU and Mr. TAI pointed out that there are other recommendations in the consultants' report which can be implemented under the existing system. An inter-departmental working group has already completed preliminary discussions on all the recommendations made by the consultants. Its next task will be to draw up, in order of priority, a list of projects for implementation and this work will proceed in parallel with the detailed examination of the hospital authority concept.

Dr. CHIU spoke at length on the importance of primary care, health education and prevention of health problems. In particular, he suggested that we should begin to move towards the system of family medical care which exists in developed countries. I agree that this would be a very desirable aim, but the resources required to establish such a system would be very large, and Dr. CHIU himself admits that we would have to proceed step by step. Nevertheless, in my view, we should begin to review the whole question of primary care once the major issues relating to the management of the hospital system have been resolved.

Dr. CHIU also commented more specifically on the necessity for proper medical records. The current practice is that for ordinary patients attending general outpatient clinics, only a brief description of the diagnosis and treatment is recorded. For those who attend on a regular basis, for such conditions as diabetes, epilepsy and hypertension, fuller records are kept. A patient with known drug sensitivity is provided with a card to that effect and is advised to carry it at all times. Cases referred to specialists are always accompanied by reports from the referring doctor indicating the condition and progress of the patient. Improvements to these arrangements and the other issues raised by Dr. CHIU, such as the need for improved doctor/patient relationships and for post-graduate training in general practice would clearly be part of the general review of primary care which I envisage.

I agree with Dr. Henrietta IP that we should review existing services from time to time to satisfy ourselves that there is still a need for these services, although I do not necessarily agree that the School Medical Service, which at

present attracts the voluntary participation of 44 per cent of all eligible students is a suitable candidate for the axe. So far as the dental needs of the elderly are concerned, I have recently explained the Government's view on this question in this Council.

The importance of adequate staffing for accident and emergency departments in hospitals is recognised. The Medical Development Advisory Committee reviewed and accepted the present staffing provisions in January of this year and advised that the doctor in charge in each shift should have at least five years' experience in hospital practice, preferably in accident and emergency work. This recommendation has been accepted and will be implemented as soon as manpower resources permit.

Mr. TAI Chin-wah and Dr. LAM suggested that it was unfair for subvented hospitals to receive less generous funding than government hospitals. A simplistic comparison of the level of funding of the two types of public hospital can however be misleading. Government hospitals, particularly the big regional hospitals, are generally equipped and staffed to handle the more diverse, complex and acute cases while subvented hospitals normally cater for less acute or convalescent cases, which do not require the same level of staffing or equipment. It is therefore by no means certain that it is fair to say that, comparing like with like, subvented hospitals are less generously funded than government hospitals, except in the area of staff benefits. Moreover, major development or redevelopment projects are in hand for many of the subvented hospitals, which when completed will result in significant up-grading of the services they provide.

#### *Social welfare*

I turn now to social welfare. Mr. HUI Yin-fat deplored the limited provision for improving the basic standard of welfare services and expressed his concern that the development of social welfare might be adversely affected. I do not think that his fears are justified. Although the bulk of social welfare allocation for 1987-88 will inevitably go towards maintaining the present wide range of services, about \$20 million has been set aside for the improvement of existing services and about \$25 million for the introduction of new services. These funds will enable additional staff to be employed to reduce the caseload of social workers in family service centres, in the medical social service and in social security field units. The strengthening of the family service centres should ensure that future cases of the KWOK Ah-nui type are promptly and effectively dealt with. There are also plans to introduce improvements in other areas of social services such as hostels for the elderly, community centres and children's homes. I would be the first to admit that for several years, improvement to standards of service have had to take second place to much-needed expansion, but 1987-88 should see a considerable improvement in the standard of a number of welfare services.



Mr. HUI referred to the reduction of the percentage of the total receipts from the lotteries which is paid into the Lotteries Fund. I have myself expressed concern about this reduction, which is mainly due to the increase in betting duty in recent years, and I am glad to say that the actual percentage paid into the Lotteries Fund last year was considerably better than 1.5 per cent. But I shall certainly be watching the position carefully and will take action if there appears to be a risk that the fund is falling dangerously low.

Mr. HUI also suggested that 25 per cent of the fund's income be earmarked specifically for improvements to social welfare services. Under the present arrangements, which were approved by this Council, grants from the Lotteries Fund are restricted mainly to capital projects. Consideration has been given in the past as to whether the fund should be used to finance recurrent expenditure, but I am inclined to think that this would not be appropriate, given the fact that additional recurrent expenditure almost invariably involves a permanent commitment.

Several Members have spoken on various aspects of social welfare subvention administration, including the subvention of the central administrative costs of welfare agencies, the charging of fees for services and the standard cost system.

Mrs. Rosanna TAM suggested that a set of criteria be formulated for assessing subventions to meet the central administrative costs of agencies. Because of the diversity in size, historical background, nature of work and type of office accommodation occupied by agencies, it is very difficult to establish any broad guidelines or criteria which would be applicable to the majority of agencies. However, I am sure Mrs. TAM will be glad to hear that the Director of Social Welfare is prepared to re-examine this question to see whether a more satisfactory arrangement can be achieved.

Mr. HUI Yin-fat touched briefly on fee charging for welfare services and implied that charges should generally not be levied. Many services are at present provided free or for a purely nominal fee, but there are services for which fees are considered appropriate such as residential services for the elderly. A person who was receiving both public assistance and old age allowance, but who paid nothing for accommodation and maintenance in a home or hostel would obviously be better off than someone who was living on his own or with his family, and this would not be fair. The question of fee charging for welfare services is quite complex and I would be glad to discuss it with the welfare panel if Members so wish.

Mr. LIU Lit-for commented on the standard cost subvention system and the use of the surpluses arising from this system. The administration of social welfare subventions is now under review by a working party and Mr. LIU's points will certainly be taken into account in their consideration.

Mr. CHAN Ying-lun, Mrs. Selina CHOW, Mr. Y. F. HUI, Dr. HO Kam-fai, Mr. F. K. HU, Mrs. Rosanna TAM and Mr. YEUNG Po-kwan all spoke about

school social work, and in particular about the proposal to improve the manning ratio from one social worker for 4 000 students to one social worker for 3 000 students. Mrs. TAM suggested that \$2.8 million from the surplus which is available for service improvements should be allocated to enable the new ratio to be implemented from September. It is clear that this particular improvement rates very highly with Members, and Mrs. TAM's proposal seems admirably sensible to me. We shall be consulting the Social Welfare Advisory Committee shortly on the use of the surplus and Mrs. TAM and other members who sit on that committee will no doubt accord this particular improvement high priority.

Mr. CHAN Ying-lun, Mr. LIU Lit-for, Mrs. Pauline NG and Mrs. Rosanna TAM highlighted the need for outreaching social service for young people to be extended in the new towns. The development of this service was reviewed recently by the Social Welfare Advisory Committee, and it was agreed that the criteria for the geographical distribution of the service units and the demand for this service in new towns such as Sha Tin and Yuen Long should be examined in the light of the changes which have taken place since the service was introduced eight years ago.

Mr. Hilton CHEONG-LEEN, Mr. LIU Lit-for and Mr. Jackie CHAN all drew attention to the need for improved services for the elderly. As I said in the adjournment debate in this Council on 12 November 1986, the Government is fully aware of the challenge presented by the aging of the population, and services for the elderly are being steadily expanded. Social welfare subvention for these services increased from \$17.8 million in 1981-82 to \$77.8 million in 1986-87. In addition, old age allowances amounting to over \$632 million were paid to elderly people last year. This figure does not include the cash assistance to elderly people who make up the majority of public assistance recipients. Public assistance is meant to cover daily living costs including transport costs, and the old age allowance is intended to cover some of the additional expenditure which elderly people necessarily incur. While we welcome the initiatives of the KCR and the Regional Council to offer concessionary rates to the elderly, the Government's view is that in general financial assistance to the elderly is best provided through public assistance and old age allowances rather than by subsidies to public utilities to enable them to introduce concessionary rates.

Both Mr. PANG Chun-hoi and Mr. F. K. HU referred to the need to keep payments under the public assistance and the old age allowance schemes in line with inflation. I can assure them we do monitor this very carefully. The reason why the rates have not been raised in 1984 is because inflation since the last increase has been very much lower than was estimated at that time.

Mrs. Selina CHOW criticised the cumbersome procedures involved in obtaining fee assistance for kindergarten pupils. Mrs. CHOW will appreciate that it is necessary to obtain information about the family circumstances in order to

establish whether a family is genuinely in need of fee assistance, and to prevent abuse of the scheme. Nevertheless, in the light of her comments, I shall ask the department to consider whether streamlining of the present procedures is possible.

Sir, the Chief Secretary has indicated that we may expect some increase in future in the proportion of our resources which is devoted to welfare services and has invited me to give some indication of where I think the priorities should lie. In my view, perhaps the greatest need for improvements in quality is in the area of casework, particularly in the family service centres. I have already referred to the modest improvements which we plan to implement this year, but I am convinced that further improvements will be required if we are to bring the caseload of the social workers employed in this type of work down to an acceptable level.

Two other areas of welfare services also call for high priority, and these have both been reflected in Members' speeches in this debate. Undoubtedly the care of the elderly is going to present a major challenge in the coming years. Not only are the numbers of the elderly steadily increasing, but with changes in our society the need for a wide variety of services is becoming more pressing. Perhaps the most acute shortage is in care-and-attention places, but almost equally important are the services which enable elderly people to continue to live in the community, such as home help, community nursing and day care centres. The other priority area is personal social services for young people, such as outreach and school social work. It may be that we should reconsider our priorities as between these services and the programme for children and youth centres, uniformed organisations and group activities, which at present receives almost three times as much financial assistance as the personal social work activities, which are aimed primarily at young people in trouble, or potentially in trouble. We shall be giving considerable thought to this question of priorities in the coming months, and will be seeking the advice of the Social Welfare Advisory Committee on these important questions.

#### *Environmental protection*

I mentioned at the beginning of my speech that recurrent provision for the Environmental Protection Department in the coming year represents an 82 per cent increase over the revised estimate for 1986-87. This is due to two main factors; first, the re-organisation of pollution control responsibilities and their centralisation in the EPD; and secondly the initiation of new measures in most of the main fields of environmental control—air, water, and waste disposal. I think that it is true to say that, in the past, too few resources have been devoted to the protection of Hong Kong's environment but we are now rectifying this omission. During the coming year we shall be taking action on two particularly difficult problems, noise and the disposal of agricultural waste, and I expect that we shall be seeking a further significant increase in resources in the 1988-89 Estimates.

Mr. TAI Chin-wah made an eloquent plea for the Government to review the level of compensation for pig farmers affected by the agricultural waste control scheme. We are working on this at the moment and I hope that revised proposals will be put to the Finance Committee next month. Mr. WONG Po-yan commented that the Environmental Protection Department should educate and advise industrialists and not just rely on prosecuting offenders. Clearly, depending on the circumstances, both approaches are needed and EPD staff are very conscious of their responsibilities. The recently introduced water pollution regulations are a case in point; a great deal of time and effort has been put into the briefing of the industrialists affected by the new controls.

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

SECRETARY FOR EDUCATION AND MANPOWER: Sir, in the course of this debate a number of Members have commented on issues relating to education, labour and rehabilitation. I should like to respond to the points which they have raised.

### *Education*

I would like to begin by referring to the success which has been achieved in the field of education over the last few years and, in particular to the work of the Education Commission. As Dr. Daniel TSE has said, we have solved many of the problems which faced us during the previous decade. We have achieved a system of nine years free and compulsory education which is stable and widely supported. Of course, a number of important problems remain to be solved. Dr. TSE has referred, for example, to the questions of sixth form education and open education. It is towards issues such as these that the Education Commission has directed its attention in its first two reports. For example, the need to develop open education in Hong Kong was fully recognised in Education Commission Report No 2, which proposed the setting up of an open education consortium to run a comprehensive programme of open education courses at the post-secondary level.

Despite the fact that the commission has tackled a number of the outstanding problems in its already published reports, Dr. TSE has suggested there is insufficient co-ordination by the commission of the various advisory bodies involved in education and that, as a result, restructuring of the commission is desirable to enable it to formulate long-term educational policy and to be responsible to the Governor-in-Council.

It is true that co-ordination of the different government departments and advisory bodies involved in education is essential. Co-ordination of departments is already achieved by the Education and Manpower Branch of the Government Secretariat. The role of the Education Commission is to advise the Government on all aspects of education. There is no evidence to show that, in providing this advice, the commission has found difficulty in co-ordinating the work of the Board of Education, University and Polytechnic Grants Committee and Vocational Training Council. On the contrary, full and frank discussions

were held between the commission and those bodies before the publication of Report No 2. As I said during the adjournment debate on that report on 18 February 1987, it is hard, under these circumstances, to see what the granting of additional executive power to the commission would achieve. It is surely not desirable that the commission should in any way infringe on the authority of the Executive Council or that, if any of its recommendations prove unpopular, it should be able to impose them, without taking into account the views of this Council. Surely, the proper course for the commission to follow is to continue to produce advisory reports which can then be debated freely and openly by the public and in this Council.

Although I believe, therefore, that existing co-ordination amongst the various educational advisory bodies and departments is adequate, I do accept that it would be desirable if the financing of education were co-ordinated in a more rigorous manner. I am pleased to be able to report to Members that progress has been made in implementing the recommendation in Report No. 2 for a consultant to advise on the creation of computer models for educational financial planning. These models will enable the Government to plan in a more detailed and sophisticated way educational expenditure and the allocation of priorities.

This does not mean that the solution to educational problems in Hong Kong is simply spending more money. Mr. POON Chi-fai and others have indicated their dissatisfaction with the level of funds allocated to education in this Budget. In reply to this I would like to make three points. First, it is not the amount of money spent which alone determines the quality of education, but the way in which the money is spent. Our financial models will help us to improve even further the way in which our educational system is financed. Secondly, the Government's proposed expenditure on education amounts to nearly one fifth of the total Budget which, as several Members have remarked, is a very substantial proportion. It is clear that any increase in education spending as a proportion of the total Budget would have to be at the expense of other vital public services. Third, there is no doubt that implementation of the recommendations made in the Education Commission's second report will involve substantial additional expenditure over the coming years.

Mr. LEE Yu-tai has suggested that the results of the present education system are uncertain and that a review should be undertaken of the nine year free and compulsory education system and of language in education. Sir, the Government and the Education Commission are conscious of these concerns. The Education Commission is to include a study of curricula and behavioural problems in primary schools and junior secondary classes in its Report No. 4, due for publication in 1988. As for language in education, On 25 March 1987, during the adjournment debate on the Report of the Working Party on the Development of a Chinese Language Foundation, I described to Members the progress which we have already made towards improving the quality of Chinese in our schools. Members will also be familiar with the measures we have in hand

to maintain standards in English, following the recommendations in Education Commission Reports Nos. 1 and 2. I would, however, like to repeat what I said on 18 February, during the adjournment debate on Education Commission Report No. 2 in relation to the possibility of a more broadly based review. It is only five and a half years since the Llewelyn Report was published. That report reviewed Hong Kong's educational system in its entirety and many of its proposals are still awaiting detailed examination. Since then, the Education Commission has published its first report, taking up the more immediate issues in the Llewelyn Report. Implementation of the recommendations in Report No. 1 is still in its early stages. The longer and more complex Report No. 2 has now examined major education issues not covered in Report No. 1. After this prolonged period of reports and discussion, to begin yet another overall review could only be achieved at the price of serious and continued disruption to our education system.

Before leaving the Education Commission, I would like to comment on the point raised by Mrs. Selina CHOW in relation to the proposal for setting up a training institute for teachers of nurseries and kindergartens. The Education Commission has given reasons in its Report No. 2 for their view that such an institute should not be set up for the time being. In the debate on Report No. 2, I said that Mrs. CHOW's opposing views would be taken into account in considering the Education Commission's recommendations. I was not able to give a more detailed answer because the commission's proposals were then, as now, under consideration by the Administration in the light of public consultation. I now repeat my assurance that her concerns will be fully taken into account before final decisions are taken.

I referred earlier to the fact that education will in the coming financial year account for nearly a fifth of the total Budget.

I agree entirely with Mr. YEUNG Po-kwan that some part at least of the overall cost should be borne by those who benefit from educational services. It was indeed stated in the 1978 White Paper on the Development of Senior Secondary and Tertiary Education that 'a reasonable share of the cost of extended education should be met through fees' and the Public Accounts Committee took us to task in 1985 for failing to ensure that fees were adjusted periodically to maintain this reasonable share. Action has been taken accordingly.

At the senior secondary and sixth form level, a programme of fee increases was approved by the Executive Council last year, the object of which is to restore over a five-year period the real value of the fees originally set in 1978. In the meantime, a working party chaired by a member of my branch is considering what principles should be adhered to in deciding for the future what amounts to a fair and reasonable share of the cost of senior secondary and sixth form courses. The same consideration of course applies to tertiary level fees and these, too, will be kept under review with the intention of gradually increasing

the proportion of recurrent costs to be met by tuition fee income until a level is reached which, historically, was accepted as fair and reasonable by all concerned.

I am grateful to Mr. Allen LEE for drawing attention once again to the need to strengthen the capacity for research and development at our five tertiary institutions. As I said in this Council, in the course of the policy debate on 28 November 1986, the Government attaches great importance to increasing the amount of research being undertaken in the universities and polytechnics and some \$45 million has been set aside for this purpose for the current triennium. I am happy to take this present opportunity to inform Mr. LEE and other Members that, following a review of research activities in the tertiary institutions and with the advice of the University and Polytechnic Grants Committee, it has been decided to earmark more than double this amount for research in the grant recommendations for the 1988-91 triennium. I shall look forward to Mr. LEE's support for this proposal when the grant recommendations are considered by the Finance Committee.

#### *Labour matters*

Turning to labour matters, I note Mr. Hilton CHEONG-LEEN's comments on the desirability of moving towards a public consensus on a provident fund scheme. I fear that such a consensus may be difficult to attain. There seems to me to be a very broad division of opinion between those who favour a compulsory scheme of some kind, whether centrally administered or run on a regulated but decentralised basis, and those who favour voluntary arrangements.

As Members will be aware, the Administration has established two working groups to consider in greater detail what the alternatives to a compulsory provident fund scheme might be and the results of their work will, I hope, provide a basis for an informed decision as to which of these two approaches is the more suitable in the particular circumstances of Hong Kong. It is likely that both groups will be in a position to report by the end of May. In the meantime, of course, an adjournment debate on this issue has been scheduled for 13 May and I look forward to hearing Members' views on this complicated subject.

Mr. CHEONG-LEEN has also referred to the long service payment arrangements as one of the factors which are causing proprietors in labour-intensive industries to transfer their operations across the border. I wonder if this is really so. All the calculations that we have been able to make indicate that the addition to the wage bill as a result of these provisions is very small. Total wage costs in China are indeed lower than in Hong Kong and this may provide some incentive to relocate; but the long service payment accounts for only a very small part of the difference in wage costs and wage costs themselves are only one of the significant variables in the total cost equation. I can nevertheless assure Members that careful account is always taken of the likely cost of proposed

improvements to our labour legislation and this is indeed an aspect to which the Labour Advisory Board pays particular attention. There are meanwhile plans to undertake a further review in the near future of the overall impact of labour legislation on production costs, so this is a matter which will not be lost sight of.

I note also, and very much welcome, Professor POON's support for the idea of establishing an occupational safety and health council which would be independent of the Labour Department and would be responsible for the promotion of occupational safety and health in both the industrial and non-industrial sectors. As Members may be aware, proposals for the establishment of such a Council have been formulated by a working party of the Labour Advisory Board's Committee on Industrial Safety and Health. These proposals have been endorsed by both employee and employer representatives on the Labour Advisory Board itself and are presently under consideration by my branch.

I must disagree with Mr. PANG Chun-hoi's view that the Government attaches little importance to the work of the Labour Department. This is certainly not the case. The percentage of total expenditure allocated to a particular department is a misleading indicator of relative importance because it takes no account of the nature of the service provided. Some departments, and the Education Department is a good example, are responsible for massive expenditure programmes in the form of capital works and subventions and staff costs account for only a small fraction of the total Budget. In other cases such as that of the Labour Department, services are provided directly by the staff of the department and staff costs may account for 90 per cent or more of the vote. It simply is not possible to draw meaningful conclusions from the relative size of their respective votes.

The rate of growth of a particular department's budget perhaps provides a more relevant indication. In the case of the Labour Department, the provision sought for 1987-88 exceeds the approved estimate for the current year by 12.5 per cent and that for 1982-83 by some 96 per cent. Such an increase over a five year period indicates, I think, that quite considerable importance is attached to the department's work.

Of course, I take Mr. PANG's point that the task of the Labour Department continues to expand with the growth in the number of new enterprises and the development of new industrial areas. This does give rise to a need for more staff and some 78 new posts are likely to be created in the coming financial year, an increase of 5 per cent over the current establishment. The planned reorganisation of the department, which will take place later this year, is also intended to help it respond to this challenge by strengthening its operational capacity at the local level.



*Rehabilitation services*

On the subject of rehabilitation, Mr. HUI has expressed concern about the low priority which he feels has been accorded to the improvement of existing services. I note his concern, although I think it is reasonable that a higher priority should be given in the allocation of available resources to maintaining existing standards of service in response to pressing demands.

It is likely, however, that the actual amount spent on improvement of existing rehabilitation services will exceed \$500,000 in the draft Estimates as the Director of Social Welfare will be seeking the advice of the Social Welfare Advisory Committee on a proposal to allocate a proportion of the surplus arising from underspending of social welfare subventions for this purpose.

I should also like to reassure Mr. F. K. HU that the provision of care in community for the ex-mentally ill is being carefully monitored by the Social Welfare Department. He will, I am sure, be pleased to know that the demand for residential care services, both long-stay care centres and half-way houses, will be met in full by the early 1990s. This includes provision for those former mental patients with previous tendencies to violence.

I would also reassure Mr. HU about provision of the necessary manpower resources. The manning scale for medical social workers in the psychiatric field is shortly to be improved. Moreover, as a longer-term measure designed to help develop the manpower required for social work in this particular field, the Social Welfare Department has already begun a series of in-service training programmes for caseworkers and plans to follow up this basic training with a more concentrated programme for those working closely with the mentally ill. The department will also continue to send a small number of staff overseas each year for specialised and advanced training.

Sir, with these comments I support the motion.

SECRETARY FOR SECURITY:

*Vietnamese refugees*

Sir, I am grateful to Mr. YEUNG Po-kwan for his helpful comments on Vietnamese refugees. He has underlined the critical role which Her Majesty's Government plays in our attempt to resettle those to whom we grant asylum.

Last year, as a result of Her Majesty's Government's decision to relax its family reunion criteria in respect of Vietnamese refugees in Hong Kong with relatives in the United Kingdom, we estimate we were able to secure an additional 1 400 resettlement places for refugees here. Most of these places have now been taken up. As a result of this initiative, although arrivals from Vietnam last year were 80 per cent higher than they were in 1985, and arrivals so far this year have been 180 per cent higher than in the same period in 1985, we now have 7 922 refugees in camps in Hong Kong, and that is the lowest number since 1979.

But I am afraid the prospects for resettlement for the rest of this year are not encouraging. The views of this Council in this context have been reflected to the British Government both in our report on the debate here on 7 January and in my hon. Friend Miss DUNN's letter to the Prime Minister. The present situation is that Her Majesty's Government is considering its response. We believe we will get an answer soon. In accordance with Members' request during the adjournment debate of 7 January, I shall be reporting on progress on aspects of the Vietnamese refugee problem generally within six months from that date.

*Drug abuse*

Sir, my hon. Friend also referred in his speech to the problem of psychotropic drug abuse among young people. There was a significant increase in the number of young people reported to the Central Registry of Drug Abuse as being involved in psychotropic drugs in 1986 when 225 young people under 21 were reported compared with 1985 when the number was 68. There are other young people who are abusing psychotropic drugs and who have not so far come into contact with one or other of the reporting agencies. The large scale school survey on psychotropic drug abuse to be conducted by the Government at the end of this year and the reports which we shall continue to receive from our reach social workers and other sources will give us a clearer picture of the extent of psychotropic drug abuse among these young people.

Meanwhile our top priority is to save young people from falling prey to drug addiction. For some years the thrust of the anti-narcotics education and publicity campaign has been directed at them. Preventive education and publicity on psychotropic drug abuse has been a feature of these government campaigns. With the increase in the abuse of mandrax and cannabis, this part of the campaign is to be intensified (but without in any way neglecting the problem of heroin abuse which is still the most serious threat). In 1987-88 the Government has again accorded the anti-narcotics campaign top priority. Announcements of Public Interest on the television and poster campaigns will be specifically targetted against mandrax and cannabis. Also additional funds are being sought to strengthen the school talks team of the Narcotics Division which since early 1984 has been providing preventive education in secondary schools.

On the question of education and publicity, I agree with my hon. Friend that families, business firms and factories all have a role to play in combating drug abuse. Special attention is paid and will continue to be paid to these groups through the medium of the district anti-drug campaigns which are organised with the support of the district fight crime committees, the mutual aid committees, the kai-fong associations and other groups.

Mr. YEUNG and Mr. CHUNG Pui-lam both referred to the work of the police and customs in combating drug trafficking and warned against the dangers of not allocating adequate resources to this end. Sir, a significant proportion of the resources of the police and customs are in fact already deployed on anti-

narcotics work. And the Action Committee Against Narcotics keeps under review the anti-narcotics legislation under which both the police and customs operate. International liaison also plays an important role in their anti-narcotics strategy, as Mr. YEUNG stressed it should. Close and effective liaison and co-operation is in fact maintained with the law enforcement agencies in the South East Asia region and beyond and with their drug liaison officers here in Hong Kong.

My hon. Friend points to the part played by the triads in drug trafficking activities. The measures we are taking to combat triads should help to reduce the scale of illicit drug trafficking.

My hon. Friend suggested that we should consider the possibility of compulsory treatment for addicts. Effective treatment and rehabilitation programmes do have an important role to play in reducing the demand for illicit drugs. But compulsory treatment is a possibility that needs to be approached with some care. Shaking off drug addiction is not at all easy. Drug addicts need self-motivation, determination and will-power to rid themselves of their habit. An addict who actually volunteers for treatment has already taken a major step forward in his own rehabilitation by the act of volunteering and for that reason voluntary treatment programmes have proved their worth for certain types of addicts. But in the present situation where, overall, the number of newly reported addicts is falling, we should continue to encourage addicts to volunteer for treatment and hold in reserve the possibility of further compulsory treatment programmes. Apart from the human rights aspects of compulsory treatment for a medical condition, we should bear in mind that a broadening of the compulsory treatment programmes could drive the addiction problem further underground where it could thrive and the demand for illicit drugs increase.

#### *Law and order*

Turning now to matters relating to law and order, I am also grateful to my hon. Friend for raising the regulation of the security industry and of burglar alarms.

Regulation of the security industry is a subject the Fight Crime Committee has been concerned about for some time. The security industry is an important one, one on which people must be able to rely. It has been rapidly expanding and becoming more sophisticated in recent years. I am pleased to say that we have recently had the first meeting of an advisory committee established with the advice of the Fight Crime Committee and including representatives of the security association to advise the Government on the legislation that needs to be prepared to improve and to maintain the standards of the security industry. This task will not be a simple one. Such legislation is not common in other countries. But we do have the full co-operation and support of the security association. Our intention is that by this time next year we will have a draft bill ready for Members' consideration.

The Fight Crime Committee has also been considering the problem of false burglar alarms. They do, as my hon. Friend has pointed out, waste a great deal of police manpower. As a result, we have now issued drafting instructions for new legislation to provide for the police to have powers to inspect alarm systems and to suggest improvements. Should their advice be ignored, we are proposing that the police should cease to respond to the particular burglar alarms involved. Also, because of the considerable noise nuisance these false alarms cause, we are proposing that all alarms should be fitted with automatic cut-off devices whereby the bell would cease to ring after a given period of say 15 minutes, and would be replaced by a visual signal. We should be able to put appropriate draft legislation to this Council during the current session.

Mr. CHUNG Pui-lam emphasised that as stability was essential for prosperity, we must have adequate resources allocated to maintaining law and order. I should like to assure Mr. CHUNG and all Members that we are very conscious of the need to ensure our disciplined services have enough manpower and resources to do their important jobs effectively. We are satisfied that the disciplined services are getting resources sufficient to enable them to discharge their responsibilities effectively. But we fully appreciate the significance Members attach to this work and we will make sure that we seek from this Council resources adequate to meet whatever the problem may be at the time. Turning to two of the other specific points made by Mr. CHUNG, linked in with what I have said on the security industry it is intended to replace the outdated Watchmen Ordinance with comprehensive legislation, and meanwhile, the neighbourhood watch scheme continues to be expanded on a controlled basis.

A number of Members touch on the subject of school social workers. Some noted that the Fight Crime Committee had shown interest in this subject and had supported the proposal that the number of school social workers should be increased from 1:4 000 students to 1:3 000 students. My hon. Friend the Secretary for Health and Welfare commented on the points made. From the law and order point of view, I should also first to say that we are most concerned with the rising trend in juvenile crime and delinquency. One of the Fight Crime Committee's major thrusts is against triads and their bad influence on our young people. A number of committees of the Fight Crime Committee are now looking at ways in which we may be able to contain and then to reduce the level of juvenile crime. It is not at all easy field but more school social workers would, I am sure, contribute to our aim.

#### *Defence*

Sir, Mr. CHAN Kam-chuen referred to the British garrison stationed in Hong Kong, and touched on its roles here.

My hon. Friend quite rightly observed that the British garrison represents the British presence here. The garrison does indeed have this symbolic value. More particularly, it demonstrates the British Government's commitment to its responsibilities under the Joint Declaration.

The need to protect Hong Kong against any external aggression was the original reasons for stationing navy, army and air force units in the territory, having regard to the considerable distance between Hong Kong and Britain itself or any other British bases in the region. Although defence against any external enemies remains a responsibility of the garrison, for many years now it has been our assessment that the threat of external aggression is theoretical rather than real. Nevertheless, Hong Kong has still needed a resident garrison because of the problem of distance.

My hon. Friend suggests that 'It is also wise for every administration to have alternative armed forces at their disposal'. If my hon. Friend's concern is for our internal security, then I should make it plain that responsibility in that area rests fairly and squarely with the police force. Thorough planning has ensured that over the years the police force has recruited the manpower, developed the organisation, provided the training and acquired the equipment necessary for this task. The Administration has every confidence in the ability of the police force to maintain public order in Hong Kong.

In these circumstances, the main duty of the garrison in Hong Kong in recent years has in fact been to provide support for the civil administration as required. The Government has made use of this availability primarily, as my hon. Friend has observed, to assist our own police force in preventing illegal immigration. During the late 1970s when illegal immigration was running at a dangerously high level which threatened social and economic development in Hong Kong, we were able to call upon the help of the garrison to assist the police on our borders and to help us get to grips with the situation.

But since that time the position has improved greatly. The so-called 'touch-base' policy, under which illegal immigrants who managed to find refuge in the urban areas were allowed to stay, has been ended. We have much closer co-operation with China in our efforts to stop illegal immigrants coming over the border. The construction of the border fence and re-equipping of the marine police force has also made it much more difficult for would-be illegal immigrants to gain access to Hong Kong in the first place, and those who do manage to get across the border without being caught are unlikely to survive here undetected for long. The new style of identity card and the requirement to carry it and to produce it for the purpose of gaining employment have made it very difficult indeed for evaders to stay in Hong Kong. And when they are detected, the Government's policy is to repatriate all illegal immigrants. Thus the 'constant vigilance' of the forces on the border to the need for which Mr. CHAN referred is now just one part of the system of multiple barriers against illegal immigration.

My hon. Friend, Dr. CHIU referred to the British Military Hospital, in particular to the amount we are contributing to the cost of the hospital under the Defence Costs Agreement as a facility for the British garrison here. My hon. Friend looks forward to seeing figures showing the cost of this institution to

Hong Kong taxpayers once the new Defence Costs Agreement has been drawn up. I note this request and will bear fully in mind. But I should explain that the administration of the garrison and all its facilities is the responsibility of the British Government Ministry of Defence. The Hong Kong Government makes a contribution to the garrisons costs, but it is in the main up to the Ministry of Defence to determine what the garrison requires and what constitutes necessary expenditure.

*Conclusion*

Finally, Sir, I would like to thank Members for the interest they have shown in the programme area 'law and order'. I hope that in my answers to their questions I have been able to show that we are moving in the right direction and giving good value for the resources made available by Members for this purpose. Inevitably in limiting what I have said to answering the points Members have raised I have failed to paint a very full picture. That picture is in fact well summarised in Appendix D in the Appendices to the Financial Secretary's Budget speech. There you will see since 1982-83 expenditure on 'security services' has been consistently about 13 per cent of expenditure on consolidated account. When one considers that the proportion on, say, social services has risen from 40 per cent to 46 per cent over the same period than for expenditure on security services to remain a constant proportion is not too bad. In fact in the five years from 1982-83 to this coming financial year, expenditure on the consolidated account on security services has increased by 43 per cent which is equivalent to more than 6 per cent compound a year.

Sir, I have much pleasure in supporting the motion.

SECRETARY FOR DISTRICT ADMINISTRATION: Sir, I welcome the useful comments and suggestions made by Mrs. Pauline NG, Mr. F. K. HU, Mr. Hilton CHEONG-LEEN, Mr. POON Chi-fai and Mr. CHUNG Pui-lam on housing, sports and cultural activities and building management.

A number of Members have commented on the ratio between home ownership and public rental flats, long-term housing demand and the proposed Home Purchase Loan Scheme. It is quite clear that there has been a major change in the pattern of demand for housing with people increasingly wishing to purchase their own home. Mr. Hilton CHEONG-LEEN's suggestion that greater emphasis should be placed on Home Ownership Schemes so as to build up a sense of belonging and commitment to Hong Kong has always been the main reason of the scheme. Subject to the availability of suitable sites in the urban area, among other things, I agree with Mr. F. K. HU that the supply of Home Ownership and Private Sector Participation Scheme flats should be increased. I also wish to assure Mrs. Pauline NG that the income limit for families qualifying for home ownership flats is being reviewed regularly.

On the basis of the primary aim of the public housing programme to provide adequate housing for all and to give priority to the claims of the most needy, Government has been considering how the demand for housing can best be met. All these points have been re-examined in the Long Term Housing Strategy Review recently completed by the Government. This review proposes how best private and public sector resources can be optimised to meet Hong Kong's housing demand between now and the turn of the century and the Chief Secretary will be making a statement on the review in this Council on 8 April. At this stage, I will simply thank Members for their interest in this subject and assure them that Government's commitment to housing continues to remain one of the most important aspects of its policy.

I would now like to turn to the subject of sports and cultural activities. I am glad that Mr. F. K. HU appreciates the reason for a reduction in the provision for the promotion of sports in 1987-88. This year's provision in fact represents an increase of 11 per cent over that of last year, excluding a special sum of \$1.5 million for Hong Kong's attendance in the Asia and Commonwealth Games as provided for in 1986-87. Mr. HU may rest assured that Government is fully aware of the need to maintain an adequate level of support for sports and will consult regularly the Council for Recreation and Sport on this subject.

Mr. Hilton CHEONG-LEEN has again suggested that Government should encourage more private sector support for cultural, recreation and sports programme. I can only reiterate my assurance to Mr. CHEONG-LEEN that this is in fact being done by Government. Generous and enthusiastic supporters of sports and culture may be interested to learn that the Commissioner for Recreation and Culture has been exploring with the Commissioner of Inland Revenue the possibility of providing further tax incentives to donors in the private sector.

On building management, Mr. CHUNG Pui-lam asked about the efforts of district offices in helping citizens in the management of multi-storey buildings. Assistance and guidance to residents on building management matters has always been given by district office staff. Since November 1986 when I spoke on the same subject in this Council, a total of 82 additional owners' corporations and 32 additional mutual aid committees have been formed in private multi-storey buildings.

The four district building management teams set up over the last two years have so far provided assistance to residents and management bodies in 142 buildings. In view of their success, it is planned to establish three additional teams in 1987-88.

With these remarks, Sir, I support the motion.

SECRETARY FOR LANDS AND WORKS: Sir, in supporting the motion which on balance I do, I have to reply to Mr. Richard LAI's comments on the planning of Tsing Yi, Mr. POON Chi-fai's on the use of consultants and those of

Mr. TAI Chin-wah and Mr. LAU Wong-fat on the need to improve living conditions in the rural New Territories, for all of whose comments I am grateful.

First, Tsing Yi. I agree that we have in the past put together what are now seen, to say the least, as unsuitable neighbours in east and north Tsing Yi, and in the long term we are going to have to try to sort them out whenever opportunity arises. We are studying this and other planning problems in connection with what we call potentially hazardous installations in a special committee. The planning policy for Tsing Yi must clearly be population in the east and north-east, and industry and petroleum and so on in west and south with the not inconsiderable mountain ridge to divide them. We will, moreover, quite soon have a second bridge for Tsing Yi, which will reduce dependence on a single route.

Second, consultants. I confirm that in accordance with a policy endorsed by the Public Works Sub-Committee of this Council in 1983, consultants for engineering projects are normally employed only when Government does not have either the necessary expertise or sufficient in-house resources. In the new towns it was decided to employ consultants, because in the early 1970s, Government wished to embark on a very major expansion programme very quickly, and it would have delayed that programme if we had attempted to recruit or redeploy staff in-house for the job. Having committed the work to consultants at the start of the development of each new town, it would have been highly counter-productive to have changed horses mid-stream. However, the scope of this consultancy will reduce as the main works are completed, and I will ensure that a thorough study of the merits of the situation is done before entering into any further commitments and that the employment of consultants is properly justified in the Public Works Sub-Committee in each case. I may say that I also am concerned to build up the employment of local professionals, and have been pleased to see how many locals are now employed by our consultants.

Regarding the improvement of rural areas. Mr. TAI will recall that I answered a question of his on this only recently in this Council and I will not repeat myself. We are putting substantially more resources into rural access roads and sanitation schemes this year than previously and we should produce more results. But I accept the need for a systematic programme of up-grading of rural sanitation and accesses, and we are now examining how this should best be achieved. Resumption has previously been avoided because of the self-help tradition of the Local Public Works Programme, but I accept that in this context, some resumption may be necessary. I should point out, however, that resumptions mean both time and money, and if all private land required to improve the rural areas must be resumed, this is likely to result in a very much longer programme.

With these comments, I too support the motion.



SECRETARY FOR TRANSPORT: Sir, I note from record in the last two Budget speeches that my subject was not mentioned at all. I therefore welcome this opportunity to speak on the occasion and welcome the interest and concern expressed by several Members on transport policies and issues.

Mr. Richard LAI expressed concern about provision of public transport, in particular fixed rail links to the western New Territories.

Both the KCRC and the MTRC have been considering the possibility of a fixed rail link to either Tuen Mun or Yuen Long, and the KCRC have recently announced the results of the study undertaken by their consultants. Their report indicates that from KCRC's point of view, the preferred route would run from Yuen Long to Tai Wo, in north Tai Po where a new KCRC station is being constructed.

The MTRC have also been considering a link to the western New Territories. But they will not commit themselves to a firm view until the results of the Second Comprehensive Transport Study (CTS-2) now being undertaken by the Government, are available.

This study started last November. One of its objectives is to produce recommendations on transport policies and a programme for the provision of transport infrastructure to take us through to the year 2001. During the course of its study, the team will be assessing the various options available for expansion of our fixed rail network, and making recommendations as to what lines should be built and when.

They will take into account the KCRC report, and other work done in this field by agencies such as the Government and the MTRC. They will be considering various options in terms of their economic and other benefits to the community as a whole, as well as their financial viability.

The study results will begin to become available towards the end of this year. The Government should therefore be in a position to determine on transport links to the western New Territories during the course of next year. However, at this stage, it is not possible to anticipate the results of the study.

Mr. LIU Lit-for raised three points, relating to the setting of public transport fares, fiscal restraints on car ownership as a means to reduce congestion and the resources available to consult district boards about transport matters.

On public transport. Our basic philosophy is that it should be provided by the private sector, or public corporations operating on commercial principles, with Government providing the regulatory framework and ensuring an appropriate degree of co-ordination between the different modes. The objective here is to ensure as far as possible the efficient use of resources, and that a range of public transport is available at reasonable fare levels.

Sir, the Government takes great pains to ensure that fare increases, though never popular, are kept to reasonable levels. This process involves close scrutiny of the five year development plans of franchised companies, to ensure for example that the level of investment proposed matches transport needs. The companies' route development plans are not finalised until district boards have been fully consulted. The financial and other data supporting the fare increase applications are subject to very close scrutiny and analysis by the Administration and the Transport Advisory Committee, in the course of which cost saving or other measures which might defer or reduce the need for fare increases are examined in great detail.

I should like to assure Members that fare increases are only agreed to after the most careful consideration, and are kept to the minimum necessary to maintain the viability of the company concerned within the terms of its scheme of control, whilst at the same time ensuring an acceptable level of public service.

On private cars, the introduction of fiscal restraints has resulted in a decrease in the number of private cars licensed from about 192 000 in 1982 to about 139 000 today.

During the same period, a number of substantial improvements have been made to the public transport network, with the completion, for example, of the electrification of the KCR and the MTR Island Line. Substantial progress has also been made with highways projects, for example, the opening of the Tolo Highway and other work on the New Territories Circular Road, and the Island Eastern Corridor. Work has also started on the Route 5 tunnel linking Sha Tin and Tsuen Wan, the tunnel between Junk Bay and the urban area, the upgrading of Connaught Road and the Eastern Harbour Crossing. And more large scale projects are being planned, such as the Tate's Cairn Tunnel and the Kwun Tong Bypass and, further into the future Route X, to link north-western New Territories and the urban area in the mid to late 1990s. There is also the computerised Area Traffic Control System, operating at present over much of Kowloon and part of Hong Kong Island and shortly to cover all of the whole north shore of the Island.

At the same time, however, the decline in the number of private cars has been offset, and more, by an increase in the number of other vehicles so that the total vehicle population is about the same now as in 1982, and the extra goods vehicles and taxis and so on typically cover more mileage than private cars.

Congestion is therefore still with us and in one or two places, such as the Sha Tin approach to the Lion Rock Tunnel, has become worse.

Whilst, Sir, a certain amount of traffic congestion is an inevitable feature of urban life, and in this respect Hong Kong compares favourably with many other major cities, the Government fully accepts that all that is possible, affordable and acceptable to the population must be done to keep congestion within limits, and to improve the situation wherever we can. This is another

area where, although traffic studies and improvement works are continuing in the meantime, the CTS-2 will give us some pointers as to the measures open to us in the longer term.

With regard to district boards' consultation. There is already a well-established machinery to ensure that boards and their traffic and transport committees are kept in the picture with regard to traffic studies, traffic management and road improvement schemes and public transport services. A great deal of notice is taken of the views of district boards, and we will do all we can to ensure that departments represented at board and committee meetings will be both adequate and appropriate.

Finally, Sir, I should like to turn to the points made by Mr. POON Chi-fai about congestion, particularly at the Lion Rock Tunnel.

The real solution to the congestion problem at the Lion Rock Tunnel lies in the construction of the Tate's Cairn Tunnel. If approved, construction work will start early next summer, with completion in 1992.

Until then the task will be that of trying to keep congestion within acceptable limits. There are a number of ways in which we hope to do this, but none of them I am afraid is a perfect answer.

Measures in hand include reserving the new third southbound lane on the Sha Tin side for buses in the morning peak hour, improvement works to the old Tai Po Road to be completed by stages over the next two years, and the opening of Route 5 in late 1989 or early 1990. In addition, the KCRC will be taking delivery of 25 new three car units from late this summer. These will increase the railway capacity by 40-50 per cent. All these should, I hope, help ameliorate the present situation.

Possible measures include increasing the cost of using the tunnel to slow down the build up in traffic, restricting the use of the tunnel by certain classes of vehicles at certain times, or by making differential charges according to the time of day and class of vehicle. Automated toll collection is a possibility in the longer term, and a study of systems adopted elsewhere is underway.

In conclusion, Sir, let me assure Members that we are acutely aware that much still remains to be done if Hong Kong is to continue to have the transport network essential both for our continued economic well being, and to provide an acceptable, modern standard of facilities, at a reasonable cost, to our people. We are also very much aware that in a crowded, busy city like Hong Kong an efficient transport network plays an important part in ensuring a reasonable quality of life for every one.

The Second Comprehensive Transport Study will give us insight as to further steps needed and should identify any new initiatives required to achieve this objective on a continuing basis. Members of the Hong Kong community can be assured that we shall do all we can to ensure a smooth ride into the next century.

Sir, I support the motion.

SECRETARY FOR TRADE AND INDUSTRY: Sir, less than three months ago we had in this Chamber a lively debate on the Government's role and policy on Hong Kong's industrial development. In the current Budget debate I am encouraged that once again many Members have stressed the importance of manufacturing to the growth of our economy. In responding to these points, it might be helpful if I again outlined the Government's general approach towards our manufacturing industries before answering Members.

Given our lack of natural resources, save for our industrious and innovative people, and as 90 per cent of our manufactures are exported to pay for our imports of raw materials, machinery and the very food we eat, we have little option but to rely on our open economy and hard work to provide our livelihood. This needs flexibility and an ability to see where profits are to be made, and means that investment decisions are best made by businessmen using their own money. This approach has enabled our manufacturing sector to account for some 22 per cent of our gross domestic product and over one third of total employment—and for Hong Kong to become the 13th largest entity in the world trade.

For its part, the Government ensures that the right environment exists for industrial investment to take place and for business to flourish. The Government provides strong infrastructural and support services for our manufacturing sector. We provide sound educational and manpower training programmes, special industrial land and other public works, and ensure that essential utilities are available. The Government also supports institutional arrangements and technical services to facilitate the introduction of new technology and new manufacturing processes. For the sake of brevity, I highlight just four groupings to illustrate the range of provision that is available:

- (a) the Hong Kong Trade Development Council and the Hong Kong Export Credit Insurance Corporation to facilitate the development of our domestic exports;
- (b) the Hong Kong Industrial Estates Corporation and the Industry Department's One Stop Unit and its five overseas Industrial Investment Promotion Offices to attract new technologies, processes and management skills;
- (c) the Hong Kong Productivity Council—which is celebrating its 20th Anniversary this year—and the Hong Kong Design Innovation Company—a joint venture between the Government, the Hong Kong Polytechnic and industry—to assist our industries to improve their productivity as well as design and product innovation; and
- (d) the Industry Department's calibration laboratory and laboratory accreditation services to assist in the attainment of internationally recognised standards for our products.

*Industrial development strategy*

The Government is also constantly on the look out for new possibilities for industrial development. In all this work the Government invariably looks to the Industry Development Board for advice: the board is thus an extension of the Advisory Committee on Diversification in continuous sitting. On the advice of the IDB, we have an on-going programme of techno-economic and market research studies of various industries, and I would assure Mr. David LI and Professor POON that each study involves in-depth investigations by experts of the strengths and weaknesses as well as provide forecasts of possible changes in the type and level of world demand for the products made by the industry being studied, and that each forecast is up-dated once every two years—precisely because we recognise that changes take place over time.

As Mr. WONG Po-yan is concerned about the pace of upgrading achieved by our electronics industry and as no fewer than seven other Members have urged the Government to do more to encourage the development of higher technology in industry, perhaps I might recount briefly how this basic work in sectoral studies has led to the specific action we have taken to assist the development of the electronics industry. On the basis of the evaluation by the Industry Department and the Hong Kong Productivity Council, the Industry Development Board was satisfied that the need for more electronic engineers was identified. We then recommended the tertiary education institutions, through the UPGC, to devote priority to a larger output of electronic engineers during the next triennium. Secondly, an identified gap between what electronics engineering undergraduates were being taught and what their prospective employers expected of them was also brought to the notice of the tertiary institutions so that they might modify their curricula with a view to their graduates becoming more knowledgeable in computer and microprocessor technologies. Thirdly, having established a growing world trend towards the use of application specific integrated circuits, the design of which involves skills which are not yet taught in tertiary institutions, the Industry Department sought the allocation of funds for a pilot scheme to be launched in conjunction with the Vocational Training Council to enable practising engineers to learn these design skills abroad. And in recognition of the fact that the development of the electronics industry is also dependent on the support of other industries—notably the ability on the part of the metals fabrication and plastics conversion industries to produce fine precision parts and components—the capability of the Vocational Training Council and the Hong Kong Productivity Council towards the provision of precision machinery personnel training and services, respectively, have been considerably strengthened. I trust that this example is specific enough and to Mr. Allen LEE's liking!

*Other initiatives*

Sir, additional provisions have again been included in the draft Estimates to extend the productivity enhancement services of the Hong Kong Productivity Council, and the quality promotion and industrial investment promotion

services of the Industry Department. To the extent that the common objective of these services is to encourage private sector investment in measures that would lead to further growth in productivity and to further improvement in quality, these programmes should also meet the points touched on in this regard by several Members. And I am sure Mr. Stephen CHEONG is aware that the Government is currently taking an active part in the deliberations of the working party of the Hong Kong Association of Banks to study venture capital operations.

#### *Industrial investment*

No fewer than six Members have referred to the need for government stimulation of, or tax incentives for, investment or re-investment in industry. I am not sure whether this is a coded message for the Government to start thinking of investment grants. Let me say frankly that this sort of thinking is just not on. In the first place, there is no case for transferring one manufacturer's money into the pocket of another. Secondly, subsidies are liable to be neutralised on the importation of goods thus produced by countervailing duties. If I may say so, the best incentive to investment is the ability of the entrepreneur to keep his profits in his own pocket. Our low tax rate, made lower by the Financial Secretary's Budget proposals, assures investors of that.

#### *Protectionism*

Several Members have commented on the threat of protectionism to our economic well being. Their concern is fully shared. A continued ability to export is vital to our economic survival. The Government is thus fully aware of the need to counter moves by protectionists in our major markets, and will leave no stone unturned in our multi-faceted approach towards this problem. My recent overseas visits are part of this effort.

In the United States, our resources will be redeployed to even better effect when the opportunity presents itself in the autumn, on the retirement of Mr. William DORWARD, for our senior representative to be located in Washington, and our office there will also be moved to more spacious new premises to accommodate our hardworking staff.

In this fight against protectionism, the Government is conscious that all Hong Kong efforts must be brought together to work in unison. To co-ordinate these efforts, I have recently formed a Steering Committee Against Protectionism drawn from senior members of our major trade and industry organisations, the Trade Development Council, the Trade and Textiles Advisory Boards, and from the Trade Panel of this Council. We shall remain vigilant.

#### *Conclusion*

In this my last attendance here, I should like to seek your indulgence, Sir, in permitting me to express my thanks for the constructive criticism, advice and support I have received in the discharge of my duties as an Official Member and

policy secretary within the Government Secretariat over the last 10 years, not only from Members of this Council, but also from the members of all the other bodies—advisory, statutory and voluntary—whom I have had the privilege to work with.

Sir, I support the motion.

FINANCIAL SECRETARY: Sir, it now falls to me to wind up this debate. The Budget that I delivered in this Council at the end of February has been variously described as short-sighted, far-sighted, over-conservative, prudent, lacking in imagination, and perhaps, best of all, and I quote, 'simply marvellous'. It will come as no surprise that I regard the last description as a proper and considered judgment of the proposals that I placed before you.

Possibly, the comment that disturbed me most was one that suggested the Budget was lacking in vision. I do not agree. My proposals were not prepared in isolation but were related to what has happened in the past and what is foreseen for the future. I might add that I have therefore already begun to examine options for 1988.

My Budget proposals have also been criticised for not doing enough for industry. The Secretary for Trade and Industry has already just explained what the Government is doing, and I do not propose to add very much to what he has said. Through such bodies as the Industry Development Board, the Vocational Training Council and the Hong Kong Productivity Council, the Government has made a significant contribution to the promotion of industry in Hong Kong. I believe that so far our programmes have been successful. Of course, they can be further developed and that is what we are in the process of doing. It is an on-going task. The important thing is to ensure that whatever efforts we make represent an efficient allocation of resources. It is easy to give a range of financial incentives for industry, but all too often they do not have the desired effect. A recent article in the Financial Times stated that a number of company directors elsewhere believed that often their worst investments were those encouraged by tax breaks, regional grants and the rest. We must ensure that whatever we do gives value for money, and that is why ideas have to be thoroughly examined and tested. We must not be and are not complacent, but equally well we do not believe in being hustled into wasteful expenditure.

I shall now, as usual, update some of the background to my Budget proposals before going on to deal with specific issues raised in this debate.

*Revised Estimates 1986-87*

At this stage, complete figures for the Government's finances are available only to the end of February and, therefore, the comments I am about to make regarding 1986-87 are still based on estimates. Revenue in particular is susceptible to last minute variations.

In terms of expenditure on the General Revenue Account, we foresee little change from the revised estimates given in my Budget speech. A slower pace of expenditure on the capital works undertaken by subvented bodies is partly offset by slightly higher payment on the purchase of water from China and under the Defence Costs Agreement. The last largely reflects exchange rate fluctuations. General Revenue is marginally improved from \$43.1 billion to \$43.6 billion mainly due to increased stamp duty from even higher levels of stock market turnover than previously anticipated. Overall, the estimated General Revenue Account surplus for the year is revised from \$3.1 billion to \$3.7 billion.

Expenditure from the various funds is likely to be about \$250 million lower due to the delay in some planned purchases of property. This is largely offset, however, by lower receipts on the Home Ownership Fund following delay in the sale of flats. Overall, the net position on the funds is not expected to vary significantly from that given in my Budget speech.

*Implications for 1987-88*

Looking ahead to 1987-88, there is nothing in these updated estimates of expenditure to suggest that we are not on track. As to revenue, I have already commented<sup>(1)</sup> that I have been deliberately cautious in estimating the yield in some areas where the level of activity in 1986 might not be fully sustained.

*Economic prospects for 1987*

Sir, turning to the economy, I see no grounds for altering the overall view that I gave in my Budget speech. I am happy to note that the figures for domestic exports in the first two months of 1987 indicate that the growth momentum built up in the latter part of last year has continued. The current order book positions of manufacturers remain strong. This and the fact that retained imports of raw materials and semi-manufactures in the fourth quarter of last year were still buoyant, suggest that the momentum will be sustained further into the year.

We are still deriving some advantage in terms of the price competitiveness of our products from the depreciation of the United States dollar. However, this factor is expected to have less influence on export growth in the future. Thus, it is possible that the growth momentum of our domestic exports could slacken, giving a relatively lower growth rate in the second half of this year than in the first half. But it is early days as yet.

As I said in my Budget speech, I believe it is likely that in 1987 we will see greater inflationary pressures than in 1986. While the rate of inflation at the consumer level was low for 1986 as a whole, it accelerated somewhat towards the end of the year. The consumer price indices for the first two months of 1987 show that this inflationary pressure is persisting. The unemployment rate in

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(1) *Budget speech, paragraph 79.*



recent months has been at an all time low, while the number of reported vacancies has risen sharply. This tight situation in the labour market is likely to continue to exert an upward pressure on wages and salaries.

However the main threats to our continued growth are external, and Members will be aware that we have been making considerable efforts over the past few months through a series of visits by my hon. Friend, the Secretary for Trade and Industry, to the United States, Japan and Korea to argue our case for free and open trade and to make common cause with similarly placed trading partners such as Singapore. I congratulate Mr. Ho and others involved on their efforts, although we are not out of the woods yet.

In summary, the economy is performing well at present and current evidence does not call for any revision in my economic forecast for 1987. I shall follow the usual practice and reconsider the position in my mid-year review in September.

#### *Response to the debate*

I shall now touch upon some of the points that have been made in this debate.

Miss DUNN, as usual, spoke with wit and elegance. After acknowledging improvements in the Budget presentation in recent years she argued that those who draft the Budget speech and supporting documents should take greater editorial care to remove and I quote, 'jargon, incomprehensibility and inconsistency' from the text. I can assure her that we seek to do this, although I am forced to accept that we do not always succeed. Miss DUNN quoted from a footnote in the 1986 Economic Background as an example of what she meant. Whilst I raised my hand at her invitation, indicating that I understood what she had read out, I have to confess that when I re-read it later my hand wavered. But it must be remembered that these supporting documents are of necessity technical in their nature. I ask that our general readership should be patient.

#### *Monetary and related issues*

I shall later return to some other matters raised by Miss DUNN, but I shall deal first with some monetary and related issues. I thank Mr. Peter POON and Mr. David LI for their further elaboration on the possible risks of securitisation. I also thank Mr. WONG Po-yan, Mr. Stephen CHEONG, Mr. Helmut SOHMEN, Mr. CHUNG Pui-lam, Mr. Allen LEE and Dr. Kim CHAM for their words of caution concerning the regulation of the rapidly developing financial services sector. Although I would not go so far as to agree with Mr. David LI that 'the potential danger arising from a liquidity crisis under current arrangements is ever present' (and I quote it) and that we thus need a safety valve in the form of an official discount facility, I can assure him and other Members that we try our best to keep ahead of market developments so as to avoid any potential dangers.

Mr. LI also called for greater freedom for authorised institutions in dealing with securities related business. Whilst this subject of securities dealing by authorised institutions is currently being examined by the Commissioner of Banking, our general philosophy is to give as much freedom as possible to authorised institutions as long as they are aware of the risks involved and are adequately capitalised to assume those risks. It is useful to remember, Sir, in this connections that the new capital adequacy requirements in the Banking Ordinance are not scheduled to come into effect until September 1988 and that the capital requirements in the Securities Ordinance, designed for good prudential reasons for compliance by those dealing in securities, are of a different, and more specialised nature. It must be recognised that arbitraging between different supervisory requirements can be damaging to market reputation and to the interests of depositors and investors. It is our aim to remove any unnecessary duplication of requirements in these two areas; hence my decision announced some time ago and implemented last September to bring together under the Secretary for Monetary Affairs policy responsibilities for the financial markets.

*Comments on taxation policy*

I now turn to comments on taxation policy made during the debate and specifically on my proposals for 1987-88.

I would like, at the outset, to thank all those who gave me their views on the balance between direct and indirect taxes. A debate is what I asked for and that is what I got. Altogether 28 Members spoke on the subject—11 more than on the contentious issue of separate taxation for married women. Views were not unanimous, but that does not detract from the value of the different comments made. I sensed some appreciation of the potential value of a wider and more stable tax base—however balanced between direct and indirect sources. This, at least, encourages me to continue the research on which we have already embarked. We may decide in the end not to follow this idea through to realisation but the task is worth the effort.

In commenting upon indirect taxation, Miss DUNN has referred to the British experience with value added tax and has said that she does not think that we should have anything like that here. I agree. I do not believe that a value added tax would be right for Hong Kong. If we are to have a broad-based indirect tax, then we need something much simpler and less expensive to administer.

Members have made many other useful suggestions and they will certainly be borne in mind. Whilst I think it would be premature to respond to them individually now, I would like to make just one observation. Some Members have suggested that further 'luxury' items should be brought into the indirect tax net. But I have my doubts whether this would effectively contribute to my objective of more stable tax yields and a broader base. To concentrate upon them would amount to no more than a tinkering with the existing system.

I shall say no more at this stage beyond repeating my assurance that nothing will be proposed without the most careful appraisal and consideration of the potential effects. The present tax regime has served us well and will not be lightly changed.

The variety of references made to alternative combinations of allowances, thresholds and tax rates which I might have introduced perhaps illustrates just how difficult it is to strike a balance to please everyone. There are very few of the suggestions made that I would quarrel with in isolation. But what I have to do is to propose a package that is fairly balanced. Inevitably, this involves some compromise.

I would not want anyone to think that in putting together our proposals our approach is arbitrary. All aspects of the tax structure are examined each year. For example, some Members referred to the lack of an increase in the dependent parents allowance. This was not an oversight. Since the allowance had been increased as recently as 1986, I felt that an improvement in child allowances deserved greater priority this year.

I already know, of course, that Miss DUNN shares my view of the importance of a strategy for the medium term. I take issue with her on just one point when she questions the need to maintain duty rates in real terms. And to my mind, one of the essential elements of our fiscal strategy is that we should not let our specific tax rates erode in real terms in the good times and then be faced with having to increase individual items substantially when things turn against us. Sharp changes in duty rates are disruptive.

Sir, I thank Mr. POON and Mr. CLYDESDALE who, with reference to my proposed action in respect of the 'Myer' Scheme arrangements, urge caution in supplementing general anti-avoidance legislation with specific measures. I recognise the point they make and will be as sparing in this respect as possible. In this instance, the potential losses to revenue were so great that I felt I had to act.

I have noted Mr. SOHMEN's remarks regarding the potential tax liability on local shipowners by the 1986 United States Tax Reform Act, and look forward to receiving the views of the shipping community on this matter in due course.

Before I leave taxation issues, a number of Members, including Mrs. Selina CHOW, Dr. Henrietta IP, Mr. SZETO Wah and Mr. David LI, have argued that separate taxation of married women is desirable from the point of view of social justice. Mrs. Pauline NG has suggested that separate taxation would benefit the labour market by encouraging women to join the workforce. Some Members, including Mr. Andrew WONG and Mr. Peter POON, have suggested that I introduce an allowance for working wives.

In the aftermath of the Budget speech, I promised to say more on this subject in winding up this debate. This I shall now do. May I preface my remarks by quoting from Miss DUNN's speech—

‘The principle behind direct taxation is that payment should be related to the ability to pay...In Hong Kong we are guided by three additional principles—

that the general level of taxation should be kept low,

that the system should be simple to administer, and

that it should be easy to understand.’

Sir, it is against these principles, with which I fully agree, that the proposals for separate taxation for married women should be judged.

The incomes of husband and wife are aggregated because their ability to pay tax depends on the total amount of their income and not upon the extent to which each partner receives that income. As in many other tax jurisdictions, the present system of joint assessment recognises the married couple as the fiscal unit of charge, and meets the requirements of equity by ensuring that two families with equal incomes (whether the income is earned by one member or by two members jointly) are liable to identical amounts of tax. On the basis of existing allowances, separate taxation would create different results on family tax burdens depending on the relative income split between the two working spouses, and on whether one, or both, spouses are income earners<sup>(2)</sup>. I have

(2) *At 1986-87 levels of income, the undernoted examples show how married couples with the same level of total income, but with different ‘splits’ of income between husband and wife, could have different tax liabilities under separate taxation.*

	<i>Husband</i> \$	<i>Wife</i> \$	<i>Total tax liability</i> \$
<b><i>Couple A—both earning</i></b>			
<b><i>Income</i></b>	120,000	80,000	
<b><i>Less: Personal allowances</i></b>	29,000	29,000	
	<hr/>	<hr/>	
<b><i>Net chargeable income</i></b>	91,000	51,000	
	<hr/>	<hr/>	
<b><i>Tax payable</i></b>	17,250	7,250	24,500
	<hr/>	<hr/>	<hr/>
<b><i>Couple B—both earning</i></b>			
<b><i>Income</i></b>	150,000	50,000	
<b><i>Less: Personal allowance</i></b>	29,000	29,000	
	<hr/>	<hr/>	
<b><i>Net chargeable income</i></b>	121,000	21,000	
	<hr/>	<hr/>	
<b><i>Tax payable</i></b>	24,750	1,650	26,400
	<hr/>	<hr/>	<hr/>
<b><i>Couple C—one earning</i></b>			
<b><i>Income</i></b>	200,000	—	
<b><i>Less: Personal allowance</i></b>	60,000	—	
	<hr/>	<hr/>	
<b><i>Net chargeable income</i></b>	140,000	—	
	<hr/>	<hr/>	
<b><i>Tax payable</i></b>	29,500	—	29,500
	<hr/>	<hr/>	<hr/>

*It will be noted that Couple B pays \$1,900 more than Couple A, and that Couple C pays \$5,000 more than Couple A, and \$3,100 more than Couple B.*

given some examples in the footnote to the printed version of this speech. Of course, if we were to introduce separate taxation, the effects could and, indeed, arguably should be altered by giving different allowances, but is that what is wanted? The total tax payable after a complicated process could be the same as that assessed under the present system of aggregation.

Again, with existing allowances if separate taxation of married women were to be introduced, only about 16.5 per cent of salaries taxpayers would benefit; the remaining 83.5 per cent would not. In these circumstances I question whether the additional resources necessary to implement the proposal could be justified.

By comparison the personal tax concessions I have proposed are focused on a much larger number of less affluent salaries taxpayers, all of whom will benefit from the increases in personal or child allowances, or both, or from the adjustment to the third tax band.

It must be remembered that the economies of scale which a marriage allows should be taken into account when assessing ability to pay tax. Adoption of separate taxation overlooks a married individual's inevitably close economic and financial ties with his or her partner.

As to Mrs. Pauline NG's comments, to which I have referred, there is no evidence to suggest that the present system of joint assessment inhibits women who wish to work from joining the workforce. On the contrary, Hong Kong's female labour force participation rate at 48.5 per cent already compares favourably with that in many developed and developing countries<sup>(3)</sup>.

It was suggested that I should consider introducing a working-wife allowance. Such an allowance would be expensive; an annual allowance of \$20,000 proposed by Mr. Peter POON would cost \$530 million at 1986-87 levels of income<sup>(4)</sup>. Additionally, the introduction of a working-wife allowance would

(3) *In 1985 the labour force participation rate for females in the undernoted tax jurisdictions was as below—*

(a)	<i>USA</i>	<i>54.2%</i>
(b)	<i>United Kingdom</i>	<i>48.9%</i>
(c)	<i>Japan</i>	<i>48.7%</i>
(d)	<i>Hong Kong</i>	<i>48.5%</i>
(e)	<i>Republic of Singapore</i>	<i>44.9%</i>
(f)	<i>Taiwan</i>	<i>43.5%</i>
(g)	<i>Republic of Korea</i>	<i>40.6%</i>

(4) *At 1986-87 levels of income, the cost of a working-wife allowance is estimated as below—*

<i>Level of allowance per annum \$</i>	<i>Cost in 1987-88 \$m</i>	<i>Full year cost \$m</i>
<i>10,000</i>	<i>165</i>	<i>250</i>
<i>20,000</i>	<i>350</i>	<i>530</i>
<i>30,000</i>	<i>525</i>	<i>800</i>

unduly complicate our simple system of taxation, and have the effect of conferring benefits on a particular group of taxpayers at the expense of the greater majority.

Given Hong Kong's low rates of personal tax, I am not persuaded that the separate taxation of married women, or the introduction of a working-wife allowance, is either desirable or necessary. Our present system, which is based on the ability to pay, has served us well because it is simple to understand and cost efficient to administer. In my Budget speech, I emphasised my commitment to maintaining a low and predictable tax regime in which benefits are spread amongst personal taxpayers generally, rather than enjoyed by any particular group. I believe these objectives command a wide measure of public support.

*Comments on expenditure proposals*

Turning to my expenditure proposals, my colleagues have already responded to comments made on the estimated provision for individual services. Of a more general nature, concern has been expressed regarding the importance of controlling our recurrent expenditure on staff, departmental operating costs and so on. I share that concern. Unlike capital expenditure, recurrent expenditure tends to be cumulative and its upward trend is, therefore, potentially more inexorable. I therefore recognise that control of recurrent expenditure is the key to ensuring that total public expenditure does not grow faster than our economy can afford and I can assure Members that this is something to which we pay close attention.

Miss DUNN has raised specific and important points about our treatment of the MTRC and KCRC in the public accounts. She was cheered up by my predecessor, but it seems that this year I have failed to maintain that cheerfulness. Whilst we have been having a fresh look at our various measures of public expenditure, the pursuit of a single measure is proving to be as elusive as the proverbial crock of gold. There are, quite legitimately, different definitions of the public sector which are needed for different purposes. Furthermore, for GDP calculations, there is an international definition of public expenditure, which we must follow. At the same time, we must not lose sight of those aspects of the public sector over which the Government has a direct budgetary influence; this is what we currently try to reflect in the consolidated account. I acknowledge that it might also be of interest to measure the financial position of organisations in which the Government has a majority equity interest, but that is another aspect calling for yet another measure.

Our conclusion is that it is less important to find a single statistic than it is to be clear about what each statistic means and to apply it consistently and in the correct context. A step we have taken this year is to set out in the appendices to the Budget speech an indication of how the consolidated account is built up and its reconciliation with the GDP measure of the public sector. We will be giving further consideration to the development of this section of the appendices.

*Level of reserves*

Sir, before I conclude, I would like to say a few words about the Government's reserves. I acknowledge the general tenor of remarks made about the importance of maintaining these reserves. They are the best guarantee of stability in our public finances. The fact that they are recovering from a period during which they were falling in real terms is reassuring. In my view, prudence dictates that we keep a reasonable amount in hand, and this is something we will continue to watch carefully.

*Conclusion*

Finally, Sir, I am grateful to Miss DUNN for her recognition that I deliberately did not take advantage of the improvements in the economy in order to produce a more obviously popular Budget. I do not consider that Budgets should be designed to secure short-lived political kudos. I am also grateful to Members of this Council for their detailed comments on the Budget and on the various other matters that they have raised. It is best to exchange ideas in a calm and constructive manner. I have no doubt that this is the right approach to any discussion of matters of finance.

I have not this afternoon been able to comment on everything that has been said. Had I attempted to do so it would have made for a very long speech indeed. Nevertheless, I can assure Members of this Council that the content of this thoughtful and helpful debate will be taken into account in the process of putting together future budgetary proposals. And on that note, Sir, I beg to move.

*APPENDIX*

## GENERAL REVENUE ACCOUNT

## REVISED ESTIMATES 1986-87

	<i>Printed Revised Estimates</i>		<i>Updated Revised Estimates</i>	
	(\$mn)	(\$mn)	(\$mn)	(\$mn)
<i>Recurrent Account:</i>				
Revenue	41,179		41,690	
Expenditure	32,397	8,782	32,430	9,260
<i>Capital Account:</i>				
Revenue	1,929		1,960	
Expenditure	7,634	-5,705	7,530	-5,570
Surplus		3,077		3,690

<i>Component</i>	<i>Printed Revised Estimates (\$mn)</i>	<i>Updated Revised Estimates (\$mn)</i>
Personal Emoluments	12,195	12,190
Personnel Related Expenses		
Pensions	1,315	1,310
Other	1,366	1,370
Departmental Expenses	3,187	3,170
Other Charges		
Defence Costs Agreement	1,410	1,420
Other	3,700	3,730
Subventions	<u>9,224</u>	<u>9,240</u>
Total Recurrent Expenditure	<u>32,397</u>	<u>32,430</u>
Plant, Equipment and Works		
Defence Costs Agreement	27	30
Other	410	400
Other Non-recurrent	421	420
Subventions	676	580
Transfers to Funds		
Capital Works Reserve Fund	4,390	4,390
Development Loan Fund	1,100	1,100
Student Loan Fund	25	25
Mass Transit Fund	<u>585</u>	<u>585</u>
Total Capital Expenditure	<u>7,634</u>	<u>7,530</u>

*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).*

### **Valedictory**

HIS EXCELLENCY THE PRESIDENT: Hon. Members, before adjourning the Council, I wish to pay tribute to the Secretary for Trade and Industry, Mr. Eric Ho who will be shortly retiring from the Civil Service and leaving the Council.

Mr. HO joined the Legislative Council in April 1977 on his appointment as Secretary for Social Services. As Secretary, with the support of this Council, he was responsible for implementing a policy of unprecedented expansion of social welfare services, bringing to this task his genuine care and concern for other people.

In 1983, Mr. HO became Secretary for Trade and Industry and successfully implemented the reorganisation of the former Trade, Industry and Customs Department. His good sense and calm determination enabled many complex



trade issues to be resolved, most notably the renegotiation of the Multi-Fibre Arrangement and associated bilateral textile agreements. This period also saw Hong Kong playing a gradually increasing role in the General Agreement on Tariffs and Trade, including the successful launching of the Uruguay round of multilateral trade negotiations last year, and a significant increase in our efforts to reduce the likelihood of protectionist pressures in the United States of America adversely affecting Hong Kong. Internally, a major overhaul of the textile quota system was successfully carried out. In all these developments, the judgment and advice of Mr. HO played a key role in formulating our policies in these matters which are so vital to our continuing prosperity. He has also made an important contribution to the development of industry by expanding Government's support services and ensuring the existence of the right environment for industrial growth. His speech today is testimony to his work in this field.

As a member of the Joint Liaison Group, Mr. HO's contribution has been no less significant. With the agreement of the Government of The Peoples' Republic of China, Hong Kong has, since April 1986, been accepted as a separate contracting party to the General Agreement on Tariffs and Trade.

Although Mr. HO is retiring from the Civil Service, we will continue to have the benefit of his wisdom and administrative expertise as he will take up appointment as chairman of the Public Service Commission in May. I am sure Members will want to join me in wishing him success in his new appointment. These remarks would not be complete without a tribute to Mrs. Grace HO for her contribution to public life over so many years and we wish Mr. and Mrs. HO, who is with us this afternoon, much happiness in the years to come.

MISS DUNN: Sir, my colleagues and I would like to be associated with the warm tribute you have paid to Mr. Eric HO.

Mr. HO is one of the longest-serving Members of this Council, both as Secretary for Social Services and as Secretary for Trade and Industry. He has been enlightening us with his knowledge and wise advice for a total of 10 years. Few civil servants can match his rich and varied experience in the Hong Kong Government. It is perhaps a measure of the length of his service that most of the many government departments and branches in which he has worked so ably and devotedly now no longer exist: they have been reorganised, renamed, or subdivided.

Mr. HO's relations with his colleagues on this Council have always been characterised by calmness, sincerity, and good humour, and our many formal and informal contacts with him outside this Chamber have been made so much easier and more fruitful by his charming, patient and understanding manner. I am sure that these qualities have played no small part in ensuring the success of recent important trade negotiations and discussions in the Joint Liaison Group, which have resolved a number of difficult questions affecting our future trade with the rest of the world.

Mr. HO is retiring from this Council and from the Civil Service, but he will continue to serve Hong Kong in his new position as Chairman of the Public Service Commission: I can think of no person better qualified to fill this important and responsible position. We all wish Mr. HO and his wife Grace every happiness in the future.

**Next sitting**

HIS EXCELLENCY THE PRESIDENT: In accordance with Standing Orders I now adjourn the Council until 2.30 pm on Wednesday, 8 April 1987.

*Adjourned accordingly at twenty minutes to Five o'clock.*

*Note:* The short title of the Bill listed in the Hansard Report has been translated into Chinese for information and guidance only, it does not have authoritative effect in Chinese.