

# OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 28 April 1993

The Council met at half-past Two o'clock

## PRESENT

THE PRESIDENT

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

THE CHIEF SECRETARY

THE HONOURABLE SIR DAVID ROBERT FORD, K.B.E., L.V.O., J.P.

THE FINANCIAL SECRETARY

THE HONOURABLE NATHANIEL WILLIAM HAMISH MACLEOD, C.B.E., J.P.

THE ATTORNEY GENERAL

THE HONOURABLE JEREMY FELL MATHEWS, C.M.G., J.P.

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

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

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

THE HONOURABLE HUI YIN-FAT, O.B.E., J.P.

THE HONOURABLE MARTIN LEE CHU-MING, Q.C., J.P.

THE HONOURABLE DAVID LI KWOK-PO, O.B.E., J.P.

THE HONOURABLE NGAI SHIU-KIT, O.B.E., J.P.

THE HONOURABLE PANG CHUN-HOI, M.B.E.

THE HONOURABLE SZETO WAH

THE HONOURABLE TAM YIU-CHUNG

THE HONOURABLE ANDREW WONG WANG-FAT, O.B.E., J.P.

THE HONOURABLE LAU WONG-FAT, O.B.E., J.P.

THE HONOURABLE EDWARD HO SING-TIN, O.B.E., J.P.

THE HONOURABLE RONALD JOSEPH ARCULLI, J.P.

THE HONOURABLE MARTIN GILBERT BARROW, O.B.E., J.P.

THE HONOURABLE MRS PEGGY LAM, O.B.E., J.P.

THE HONOURABLE MRS MIRIAM LAU KIN-YEE, O.B.E., J.P.

DR THE HONOURABLE LEONG CHE-HUNG, O.B.E.

THE HONOURABLE JAMES DAVID McGREGOR, O.B.E., I.S.O., J.P.

THE HONOURABLE MRS ELSIE TU, C.B.E.

THE HONOURABLE PETER WONG HONG-YUEN, O.B.E., J.P.

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE VINCENT CHENG HOI-CHUEN

THE HONOURABLE MOSES CHENG MO-CHI

THE HONOURABLE MARVIN CHEUNG KIN-TUNG, J.P.

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE CHIM PUI-CHUNG

REV THE HONOURABLE FUNG CHI-WOOD

THE HONOURABLE FREDERICK FUNG KIN-KEE

THE HONOURABLE TIMOTHY HA WING-HO, M.B.E., J.P.

THE HONOURABLE MICHAEL HO MUN-KA

DR THE HONOURABLE HUANG CHEN-YA

THE HONOURABLE SIMON IP SIK-ON, J.P.

DR THE HONOURABLE LAM KUI-CHUN

DR THE HONOURABLE CONRAD LAM KUI-SHING

THE HONOURABLE LAU CHIN-SHEK

THE HONOURABLE EMILY LAU WAI-HING

THE HONOURABLE LEE WING-TAT

THE HONOURABLE GILBERT LEUNG KAM-HO

THE HONOURABLE ERIC LI KA-CHEUNG, J.P.

THE HONOURABLE FRED LI WAH-MING

THE HONOURABLE MAN SAI-CHEONG

THE HONOURABLE STEVEN POON KWOK-LIM

THE HONOURABLE HENRY TANG YING-YEN, J.P.

THE HONOURABLE TIK CHI-YUEN

THE HONOURABLE JAMES TO KUN-SUN

DR THE HONOURABLE SAMUEL WONG PING-WAI, M.B.E., J.P.

DR THE HONOURABLE PHILIP WONG YU-HONG

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE HOWARD YOUNG, J.P.

THE HONOURABLE ZACHARY WONG WAI-YIN

DR THE HONOURABLE TANG SIU-TONG, J.P.

THE HONOURABLE CHRISTINE LOH KUNG-WAI

THE HONOURABLE ROGER LUK KOON-HOO

THE HONOURABLE ANNA WU HUNG-YUK

**ABSENT**

THE HONOURABLE LAU WAH-SUM, O.B.E., J.P.

**IN ATTENDANCE**

THE HONOURABLE MRS ANSON CHAN, C.B.E., J.P.  
SECRETARY FOR THE CIVIL SERVICE

MR YEUNG KAI-YIN, C.B.E., J.P.  
SECRETARY FOR THE TREASURY

MR ALISTAIR PETER ASPREY, O.B.E., A.E., J.P.  
SECRETARY FOR SECURITY

MRS ELIZABETH WONG CHIEN CHI-LIEN, I.S.O., J.P.  
SECRETARY FOR HEALTH AND WELFARE

MR RONALD JAMES BLAKE, J.P.  
SECRETARY FOR WORKS

MR ANTHONY GORDON EASON, J.P.  
SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS

MR GORDON SIU KWING-CHUE, J.P.  
SECRETARY FOR ECONOMIC SERVICES

THE CLERK TO THE LEGISLATIVE COUNCIL  
MR CLETUS LAU KWOK-HONG

THE DEPUTY CLERK TO THE LEGISLATIVE COUNCIL  
MR PATRICK CHAN NIM-TAK

**Papers**

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

*Subject*

Subsidiary Legislation	<i>L.N. No.</i>
Import and Export (General) (Amendment) Regulation 1993 .....	111/93
Import and Export (Fees) (Amendment) Regulation 1993 .....	112/93
Admission and Registration (Amendment) Rules 1993.....	121/93
Commercial Bathhouses (Urban Council) (Amendment) Bylaw 1993 .....	122/93
Food Business (Urban Council) (Amendment) Bylaw 1993 .....	123/93
Frozen Confections (Urban Council) (Amendment) Bylaw 1993 .....	124/93
Funeral Parlour (Urban Council) (Amendment) Bylaw 1993 .....	125/93
Milk (Urban Council) (Amendment) Bylaw 1993 .....	126/93
Offensive Trades (Urban Council) (Amendment) Bylaw 1993 .....	127/93
Public Swimming Pools (Urban Council) (Amendment) Bylaw 1993 .....	128/93
Swimming Pools (Urban Council) (Amendment) Bylaw 1993 .....	129/93
Undertakers of Burials (Urban Council) (Amendment) Bylaw 1993 .....	130/93
Dutiable Commodities (Liquor Licences) (Specification of Fees) (Urban Council Area) Notice .....	131/93

Places of Public Entertainment (Licences) (Specification of Fees) (Urban Council Area) Notice .....	132/93
Forests and Countryside (Amendment) Ordinance 1993 (14 of 1993) (Commencement) Notice 1993.....	133/93

### Sessional Papers 1992-93

- No.73 — Report of Changes to the approved Estimates of Expenditure approved during the third quarter of 1992-93  
Public Finance Ordinance: Section 8
- No.74 — Hong Kong Council for Academic Accreditation  
Annual Report 1991-92
- No.75 — Report of the Special Meetings of the Finance Committee  
on the Draft Estimates of Expenditure 1993-94
- No.76 — A Report of the Director of Audit on the results of  
value for money audits  
March 1993  
Director of Audit's Report No.20

### Addresses

#### **Report of Changes to the approved Estimates of Expenditure approved during the third quarter of 1992-93 Public Finance Ordinance: Section 8**

SECRETARY FOR THE TREASURY: Mr President, in accordance with section 8(8)(b) of the Public Finance Ordinance, I now table for Members' information a summary of all changes made to the approved Estimates of Expenditure for the third quarter of the financial year 1992-93.

Supplementary provision of \$4,208.9 million was approved. This included \$2,300 million for a one-off grant to the Lotteries Fund for the implementation of improvements in the social welfare programme and \$988.3 million for additional expenditure on pensions. The supplementary provision was fully offset, either by savings under the same or other Heads of Expenditure, or by the deletion of funds under the Additional Commitments subheads.

During the period, non-recurrent commitments were increased by \$4.8 million, new non-recurrent commitments of \$3,069.9 million were approved, and approved non-recurrent commitments of \$40.1 million were revolted.

In the same period, a net decrease of 604 posts was approved. This was mainly attributable to the deletion of posts as a result of civil servants having opted for service with the Hospital Authority.

Items in the summary have been approved either by Finance Committee or under delegated authority. The latter have been reported to the Finance Committee in accordance with section 8(8)(a) of the Public Finance Ordinance.

### **Hong Kong Council for Academic Accreditation Annual Report 1991-92**

MR RONALD ARCULLI: Mr President, I have pleasure in presenting some of the main features and highlights of the Hong Kong Council of Academic Accreditation Second Annual Report.

Perhaps I could remind you, Mr President, of the Hong Kong Council of Academic Accreditation's main role, mainly to validate degree programmes and review general academic standards of Hong Kong's six non-university tertiary institutions. In addition, the Hong Kong Council of Academic Accreditation monitors and disseminates information on the development of higher education, quality assurance and academic standards at home and abroad. It also maintains working links with accreditation bodies throughout the world. The Hong Kong Council of Academic Accreditation is also an advisory body and in this connection its advice was sought by the Government, other organizations and individuals throughout the year on many occasions and on many various matters including the status and comparability of overseas institutions and their qualifications.

The Hong Kong Council of Academic Accreditation's 1991-92 accreditation programme was heavily influenced by Hong Kong's tertiary education expansion which continued unabated during the year. The Hong Kong Council of Academic Accreditation carried out 46 programmes and one institutional review during the year, an increase of 50%. The consequence of the increased number of reviews is that a greater number of conditions need monitoring. Furthermore, the successful institutional reviews of the new degree awarding institutions, the Open Learning Institute and Lingnan College during the previous year, and the Academy for the Performing Arts during the year have necessitated considerable liaison and consultation in relation to their plans to introduce degree courses. In order to meet its commitment without prejudicing standards, an additional Registrar was appointed and the accreditation programme was given priority over the Hong Kong Council of Academic Accreditation's other activities.

As the institutions increasingly take more responsibility for monitoring and evaluating their own standards and the introduction of new and revised courses eases off, the accreditation programme should make less of a demand and the Hong Kong Council of Academic Accreditation will be able to

concentrate more on its other activities and duties. During the year discussions were held with the Baptist College, the City Polytechnic and the Hong Kong Polytechnic about their development towards institutional accreditation following which the three institutions submitted formal applications for accreditation to the University and Polytechnic Grants Committee.

An important aspect of the Hong Kong Council of Academic Accreditation relates to its international dimension and one aspect of this, to support its work, is the maintenance of an international register of around 800 specialist consultants. Of particular note, with regard to international links, significant progress was made during the year in establishing these with the People's Republic of China. Following an accreditation seminar and meeting with People's Republic of China educationists and the State Education Commission and officials concerned with higher education in Shanghai during April, arrangements were made for a Hong Kong Council of Academic Accreditation delegation to visit key institutions and persons in the People's Republic of China. In addition it was agreed to hold a follow-up seminar in Hong Kong during 1993.

The Hong Kong Council of Academic Accreditation administers and produces the newsletter of the International Conference on Quality Assurance in Higher Education which now numbers 34 member organizations in 22 countries and has planned a conference in Montreal during 1993. During the year the Hong Kong Council of Academic Accreditation established or published two newsletters, a handbook and edited and prepared a hard text called *Quality Assurance in Higher Education*, published by Falmer Press containing papers and reports from the Hong Kong Council of Academic Accreditation 1991 International Conference.

Finally, Mr President, I should like to report on the Hong Kong Council of Academic Accreditation's financial position for the year ending March 1992. The Hong Kong Council of Academic Accreditation is non-profit making and tax exempt. It is funded through charging fees approved by the Government for accreditation and related services. Surpluses as appropriate are carried forward and used towards meeting the costs of accreditation in the following year. The income and expenditure account for the year showed an excess of income over expenditure of \$2.12 million.

Thank you, Mr President.

### **Oral answers to questions**

#### **Privileged treatment for foreign nationals in the public service**

1. MS ANNA WU asked: *In view of the last sentence of Part IV of Annex I of the Joint Declaration which reads, "Hong Kong's previous system of recruitment, employment, assessment, discipline, training and management for*



*the public service (including special bodies for appointment, pay and conditions of service) shall, save for any provisions providing privileged treatment for foreign nationals, be maintained", will the Government inform this Council of the provisions providing privileged treatment for foreign nationals which are still in existence, the number of foreign nationals who are receiving privileged treatment, the nature of posts they are in and the steps the Government intends to take in this regard?*

SECRETARY FOR THE CIVIL SERVICE: Mr President, as we explained within the Civil Service at the time, the provisions of Part IV of Annex I of the Joint Declaration, quoted by the Honourable Member, mentioning "privileged treatment of foreign nationals" referred to the policy of filling a proportion of posts in the Administrative Service and the officer ranks of the Royal Hong Kong Police with British United Kingdom officers and the requirement that all local Administrative Officers be naturalized as British Dependent Territory Citizens before confirmation.

This policy was discontinued in 1984. All grades and positions in the Civil Service have since then been open to all qualified applicants.

MS ANNA WU: *Mr President, can the Secretary give us details on any differentials that exist in terms of employment, including perquisites between expatriate and local officers or between different classes of officers depending on source of recruitment and what is the Secretary's rationalization for not calling such differentials "privileged treatment"?*

SECRETARY FOR THE CIVIL SERVICE: Mr President, conditions of service of civil servants do not relate to race or nationality and are not granted on that basis. Civil servants are appointed either on local or overseas terms of service, depending largely on their country of origin. With reference to privileged treatment and the definition of what constitutes privileged treatment, I have already answered it in my principal reply.

MR CHEUNG MAN-KWONG (in Cantonese): *Mr President, what is the definition of "expatriate officers"? Will the Administration consider putting in place an appropriate mechanism so that expatriate officers who have resided in Hong Kong for seven years or more and have obtained the right of abode in Hong Kong may, without affecting the localization process, be employed as local officers and therefore cease to receive privileged treatment?*

PRESIDENT: Do you have the answer, Secretary?

SECRETARY FOR THE CIVIL SERVICE: Mr President, as I have already explained, conditions of service do not relate to race or nationality. So from that point of view, expatriate versus local officers is not a material consideration. As regards localization policy, I have nothing to add to the replies that have already been given in answer to previous questions before this Council.

PRESIDENT: No further questions? Next question. Mr Peter WONG. Mr Peter WONG is not here. Mr Martin BARROW.

### **Voluntary return programme for Vietnamese migrants**

2. MR MARTIN BARROW asked: *Will the Government inform this Council what steps are being taken to speed up the voluntary return programme of Vietnamese migrants?*

SECRETARY FOR SECURITY: Mr President, the Voluntary Repatriation Programme is run by the United Nations High Commissioner for Refugees (UNHCR). Over 28 000 Vietnamese migrants have already returned home under this programme, including an average of 1 000 per month since our agreement of October 1991 with the Vietnamese Government on orderly repatriation. In recent months, the UNHCR have stepped up their efforts to promote voluntary repatriation. Measures being taken include surveys to identify the specific needs of the camp population for information on Vietnam, photograph exhibitions on Vietnam, screening of Vietnamese television programmes, dissemination of bimonthly bulletins in Vietnamese on developments in Vietnam, and regular reports on UNHCR's monitoring of those who have already returned to Vietnam. The UNHCR has also organized visits to the camps by consular officials to provide information on investment programmes in Vietnam.

Further initiatives are planned by UNHCR for the coming months, including establishing information centres in each detention centre, production of additional videos showing the conditions facing returnees to Vietnam, and the distribution of additional Vietnamese language newspapers and magazines in the camps.

For our part, we will do all we can to facilitate and supplement the UNHCR's efforts in promoting voluntary repatriation. We have recently converted a section of the Whitehead Detention Centre into a Voluntary Repatriation Centre with a capacity of more than 2 500 at any one time. We are now converting another section of Whitehead Detention Centre into a further Voluntary Repatriation Centre with a similar capacity.

MR MARTIN BARROW: *Mr President, given that the root cause of the situation is the state of the Vietnamese economy, is the Secretary aware of the impact of the Hong Kong aid programme and is the Hong Kong Government pressing the United Kingdom to step up its aid to Vietnam?*

SECRETARY FOR SECURITY: Mr President, I believe that the Hong Kong aid programme has been successful at a local level in Vietnam and we will be offering to brief Members on this programme at a forthcoming Security Panel meeting. I believe also that perhaps the major aid programme in Vietnam at the present time is the European Community programme to which the United Kingdom Government is a major contributor.

MR TAM YIU-CHUNG (in Cantonese): *Mr President, will the Governor be asked to urge the United States Administration, during his visit to the United States, to provide more financial assistance to Vietnam so as to speed up the Voluntary Repatriation Programme in Hong Kong?*

SECRETARY FOR SECURITY: Mr President, I think that at the moment with the United States trade embargo there is actually no financial assistance from the United States to Vietnam. It is certainly our wish and also the policy of the United Kingdom Government that both the United States trade embargo on Vietnam and the ban on the access of the Vietnamese Government to international funding through the International Monetary Fund and the World Bank should be lifted.

MR WONG WAI-YIN (in Cantonese): *Mr President, in his reply the Secretary mentioned that at present about 1 000 Vietnamese migrants were repatriated every month. I visited Vietnam last year and according to the Vietnamese Government, they could take back more than 1 000 returning migrants a month. Will the Secretary inform this Council whether the Government is having problems in repatriating over 1 000 Vietnamese migrants a month, and if so, what these problems are?*

SECRETARY FOR SECURITY: Mr President, the 1 000 I mentioned was an average since October 1991. We have in fact, I think, reached in any one month almost 1 500 and I am sure that at least that number is sustainable and, perhaps, even more than that. But it does of course depend on the number of volunteers coming forward. I think it should also be made clear that when the Vietnamese Government refers to its capacity to take returning migrants I think it must be referring to its capacity to take back migrants from the region as a whole. Hong Kong is certainly the major source of returning migrants to Vietnam but not the only source. I think that on average we probably send back some two thirds of those who actually return to Vietnam.

MR JIMMY MCGREGOR: *Mr President, can the Secretary say, on the basis of the best and worst scenario and in relation to the present rate of return of Vietnamese to Vietnam, how many, if any, Vietnamese will remain in the camps in 1997?*

SECRETARY FOR SECURITY: Mr President, it is very difficult to guess or predict the answer to a question like that. But my best guess at the moment would be that on present trend the present population of Vietnamese migrants which is approximately 40 000 should have returned to Vietnam in about three years from now.

MR CHIM PUI-CHUNG (in Cantonese): *Mr President, since the liberation of Vietnam on 30 April 1975, a lot of Vietnamese fled the country for the free world. Over the past decade or so, Vietnam had achieved some economic success and Vietnamese refugees in the United States, Canada and Australia kept returning to rebuild the country or help develop trade and other businesses. But arrivals who stay here are called "Vietnamese migrants", in other words, they are non-political refugees. Does the Government have plans to produce videos or conduct publicity activities to bring home to these migrants the message that the Vietnamese economy has improved, so as to encourage them to return as early as possible to help in the reconstruction of their country? This can on the one hand allow returnees to strive for their own economic success and on the other reduce the burden on the people of Hong Kong.*

SECRETARY FOR SECURITY: Mr President, I think that perhaps the main theme of the publicity material, which is produced by the UNHCR and made available in the camps in the form of films and also briefings, bulletins, newspapers and so forth, is to seek to explain that Vietnam has changed in recent years and, in particular, that the Vietnamese economy is now doing well and is set to grow further in the future. That, I think, is one of the main themes of the UNHCR publicity and it is intended that we should continue with that.

MR HENRY TANG: *Mr President, will the Secretary inform this Council who is paying for the voluntary repatriation of the refugees and also, if it were the UNHCR, whether they would owe us more money than they did one year ago?*

SECRETARY FOR SECURITY: Mr President, so far as voluntary repatriation is concerned, both the costs of the flights and the reintegration assistance in Vietnam are paid and always have been paid entirely by UNHCR. They do not owe us any money for that. The money they owe us is for care and maintenance of migrants in our camps in Hong Kong.

**Capital works slippage**

3. MISS CHRISTINE LOH asked: *In the light of the Government's expressed determination to control underspending due to slippage in capital works programmes, will it inform this Council:*

- (a) *of any mechanisms in place to determine, at any given time, whether the staffing levels for specific projects are appropriate, and whether there is a need for employing consultants or other experts; and*
- (b) *what measures are taken to ensure that the directorate staff are promptly informed of problems requiring rectification?*

SECRETARY FOR WORKS: Mr President,

- (a) Works Directors are responsible for the implementation of projects under their control. Accordingly, they are responsible for deciding the appropriate staffing levels which they determine using various methods ranging from empirical approaches based on past experience and comparison with similar current projects to more resource based systems such as the Staff Resource Planning System used by Architectural Services Department. The directors are also responsible for recommending whether consultants should be employed. Their recommendations will then go through formal consultant selection procedures and are subject to the approval of the relevant Consultant Selection Boards.
- (b) Works Directors are responsible for the front line monitoring of projects under their control. They are kept informed of the progress of their projects by their project staff via upward reporting procedures and at both formal and informal works progress meetings held at various levels within their departments. Problems giving rise to potential and actual deviations from estimates and from target upgrading, start or completion dates are discussed and resolved by the directorate level staff with assistance from Secretariat branches where appropriate.

In turn, the Works Branch constantly monitors the overall expenditure situation as well as progress on all significant Category A projects, those projects in progress, and Category B projects, those projects under planning. The Public Works Progress Committee (PWPC) has been recently revamped to include participation by the relevant Policy Secretaries. We expect programme, interface or resource problems which cannot be solved at the departmental level to be resolved at the PWPC.

MISS CHRISTINE LOH: *Mr President, obviously the existing system has not been working very well which is why we have problems and the Administration has to make changes. Also the Administration has to deal with an entrenched culture amongst government staff. How will the Administration convince them that under the new system workloads will be properly planned and, secondly, how will the new system reward those who do a good job, for example, by finding legitimate ways to cut cost and how will it deal with those who do not perform their duties efficiently?*

SECRETARY FOR WORKS: Mr President, as the Honourable Member said, it is true that the present system does lack the ability in certain ways to deal with the problems government-wide. As has been made clear, it is not only within the works group of departments; it is a government-wide issue and this is the reason why we are now looking through the whole system by way of the consultancy on structure and procedures and information management which is currently in place. As far as the culture is concerned, it is my experience in dealing with the works departments and the staff within the works departments that, as professionals, they are more than anxious to make sure that projects for which they are accountable at the different levels are carried forward effectively, providing they can see that their efforts are not being frustrated by problems outside of their direct control. And it is with some sense of professional pride that they all like to see their efforts rewarded by success at the end of the day. It is obviously not possible to seek to promote rewards in the same sense as, perhaps, could be applied in the commercial sector. Nevertheless we are taking commercial advice, we are taking outside advice through our consultancy and we will bring in, wherever possible, means to encourage and also to apportion responsibility in such a way that the staff concerned at the different levels do their utmost to make sure that within their areas their particular problems are dealt with effectively. Where there are logjams in the system, where there are frustrations, these are the hitches in the system that we intend to flush out by way of our Public Works Progress Committee looking down, from policy level, through the various procedures that are in place now and which we intend to strengthen through the consultancy which is just beginning.

MR RONALD ARCULLI: *Mr President, will the Secretary inform this Council on two aspects as far as the underspending is concerned, namely, what proportion of it is due to delay in commencement of a project and, secondly, what proportion of it is due to the delay in settling of final account on the conclusion of a project?*

SECRETARY FOR WORKS: Mr President, I have given previously a fairly detailed breakdown of the reasons for the delay, which I would be very happy to supply again to the Honourable Member together with any additional information which may be of use to him. May I just say today that one of the

key problems that we are finding is the interface between Category A and Category B in bringing forward projects. And this is an area which is receiving our careful observation because it is quite true that projects which we predict 12 months in advance to come forward into a year's annual expenditure forecast are not coming forward and indeed in terms of number we are finding only 50% of new projects coming forward as we expect them to come forward. However, may I say that in terms of value the percentage is much higher than we can expect, perhaps 70% or 80% by value of work to come forward within each year as new projects. But it is an area of concern that we are looking at. As far as final accounts are concerned, I do not think this is a problem. Final accounts traditionally can take some time for settlement, but in terms of the year's annual expenditure I do not see this at the moment as a problem of significance in causing underexpenditure on a year to year basis.

MR ALBERT CHAN (in Cantonese): *Mr President, the new system and new measures outlined by the Secretary just now are believed to be able to partly improve the situation of project delays, but as far as I understand, one of the reasons why projects were delayed is objections raised by the public following the gazettal of the projects. As far as my district is concerned, some projects have been delayed for as long as one to two years. For example, the 3/2 Road project in Tsuen Wan has been delayed for more than three years due to objection by the residents there. In this connection, does the Administration have any new measures to resolve this kind of problem in order to avoid delays of projects?*

SECRETARY FOR WORKS: Mr President, to bring a typical project through the public works system from concept through to completion can take upwards of seven years, five years of which before we actually get to tender. During that period of five years there is need to consult in a number of areas, particularly where land issues are involved; and together with my colleagues, the Secretary for Planning, Environment and Lands, and the Director of Buildings and Lands, we are addressing problems in this area. And, as the Honourable Member has suggested, we can find that land issues can take upwards of three years in themselves to resolve. Part of the resolution is to make sure that these problems are either anticipated in advance and that the Policy Secretary responsible for the programme is aware of the possible programme delay so that he may adjust the scope of project to find a solution to land problems, or, alternatively, the Secretary himself knowing that there is this land delay may wish the departments concerned to bring forward other projects to ensure that the annual expenditure or forecast expenditure is kept up.

**Registration of British Dependent Territories Citizens as British Nationals (Overseas)**

4. MR MAN SAI-CHEONG asked (in Cantonese): *The Government is proposing a phased programme for registering, by age groups, British Dependent Territories Citizens (BDTCs) as British Nationals (Overseas) [BN(O)s] and issuing them with BN(O) passports commencing the middle of this year. Those who do not apply within the specified time and fail to give valid reasons for their late application will lose their eligibility. Will the Government inform this Council:*

- (a) *whether this arrangement is consistent with the spirit of the Bill of Rights since citizens would be deprived of their right to hold BDTC passports until the 30 June 1997;*
- (b) *whether it has taken into consideration that this arrangement would be unfair to some age groups, especially those aged 18 to 30; and*
- (c) *whether consideration will be given to scrapping the proposal and adopting other methods to facilitate the application for BN(O) status and passports nearer 1996-97?*

SECRETARY FOR SECURITY: Mr President,

- (a) There is no inconsistency with the Bill of Rights. A phased programme will not deprive British Dependent Territories Citizens (BDTCs) of any of their rights. It seeks simply to ensure that those BDTCs who wish to register as British Nationals (Overseas) [BN(O)s] before 30 June 1997 and to obtain BN(O) passports before that same date are given the opportunity to do so. They will, however, retain BDTC status and all the rights of that status until 30 June 1997.
- (b) It is in practice impossible for the Immigration Department to register and issue new passports to all or most BDTCs who are likely to wish to retain BN(O) citizenship after 30 June 1997, unless that is done in accordance with a phased programme over a period of years. To achieve this, some form of queuing is essential. I do not agree that this is unfair to some age groups. It is the fairest way of guaranteeing that anyone who wants to obtain a BN(O) passport will actually be able to do so, before 30 June 1997.
- (c) We considered a number of other options before we decided to adopt the phased programme.

We considered simply intensifying publicity and setting up special conversion centres. We believe that these measures would not be



effective, as there are some two and a half million persons who either have passports that expire on or very near to 30 June 1997 or who have no passports at all at present.

We considered differential fees. Again, we decided that this also would have little effect on the great majority who do not need to obtain or renew their passports until close to 30 June 1997.

We considered separating the registration from the issuing of passports. However, this is not possible, because the United Kingdom Memorandum has linked the retention of BN(O) status after 30 June 1997 to the holding of a BN(O) passport on that date. All BN(O)s, therefore must hold or be included in a BN(O) passport issued before that date. Separating registration from issuing the passport would give rise to severe practical and logistical problems. To ensure that all passports were issued in time, we would have to have two phased programmes, one for registration and one for the issuing of passports. This would be confusing, especially in the period when the two phased programmes overlapped. It would also be much more costly.

We also considered allowing both the BDTC and the BN(O) passports to be held simultaneously. However, the British Government will not agree to this on security grounds. Doubling the number of passports in circulation would give rise to a much greater chance of theft, forgery, tampering and other abuses. Any inadvertent use of the not-yet-valid BN(O) passport would also confuse immigration authorities in other countries and could affect the status and acceptability of the BN(O) passport.

I believe that a phased programme as proposed is the only practicable means by which every BDTC can be given a chance to apply for the BN(O) status and passport before the 30 June 1997.

MR MAN SAI-CHEONG (in Cantonese): *Mr President, will the Government take some substantive actions immediately, if it has not yet done so, to ensure that Hong Kong travellers holding BN(O) or BDTC passports will be given equal treatment and that neither of them will be discriminated against by immigration authorities of other countries when it comes to travelling on these passports and getting visa free access? If this has been done, we would not have heard of a recent news report that a Hong Kong BN(O) passport holder in Germany was asked to get his visa for entry to Canada, while the same did not apply to Hong Kong people travelling on BDTC passports.*

SECRETARY FOR SECURITY: Mr President, I think when the BN(O) passport was introduced in 1987, we did make great efforts to ensure that its

purpose and status was explained to the immigration authorities of other countries and that it was equally acceptable as a BDTC passport. In general, those efforts have been very successful and I have certainly not heard recently of anybody travelling on a BN(O) passport having difficulty in doing so. There is only one minor discrimination between the two passports at present and that is that Austria does not allow visa free access to BN(O) passports as it does to BDTC passports. We will be taking that up with the Austrian authorities. But in all other respects the two passports are identical and are accepted as equivalent. And I believe that the acceptability of the BN(O) passport is shown very clearly by the fact that of those who do now apply to obtain a passport for the first time or to renew a BDTC passport, over 80% in fact opt for the BN(O) passport.

MR ANDREW WONG: *Mr President, I am heartened by the Secretary's answer in that it is the British Government, not the Hong Kong Government, which is opposed to the concurrent holding of BDTC and BN(O) passports option and that the opposition is on security grounds only and not on other grounds. Now will the Secretary kindly convey to Her Majesty's Government the following simple solution to the security problem and endeavour to convince Her Majesty's Government to adopt it, the solution being: for those who wish to hold on to a BDTC passport until 30 June 1997, a BN(O) passport could be issued valid as from 1 July 1997 but to be kept in the safe custody of the British authorities and to be released to the persons concerned upon request after 1 July 1997?*

SECRETARY FOR SECURITY: Mr President, that suggestion has been made before and it has been considered. But as I have explained in my main answer, the application and the acquisition of the BN(O) status is linked to the application for a passport and both those things must be completed before 30 June 1997.

MR ANDREW WONG: *Mr President, I do not think the Secretary really understood my question. It was upon application for a BN(O) passport that the passport be kept in the safe custody of the British authorities. The passport has been issued. Will the Secretary answer the question in this light?*

SECRETARY FOR SECURITY: I think the passport, Mr President, is issued when it is issued to the bearer.

MR HOWARD YOUNG (in Cantonese): *Mr President, it was confirmed last week that at least one country (that is, Mexico) has now taken substantive action to make the BN(O) passport superior in status than that of the BDTC passport. With this, we could say that the acceptability of these two types of passport is*

*more or less the same now. As to the case of Austria mentioned by the Secretary just now, can tripartite efforts be made by the Hong Kong Government, the British Government and the local tourist industry to persuade the Austrian Government to give equal treatment to BN(O) passport holders?*

SECRETARY FOR SECURITY: Mr President, yes, it is certainly our intention to take this up with the Austrian Government and to seek equal treatment for both passports.

MISS EMILY LAU: *Mr President, on the 19th of this month, the Secretary briefed the Nationality Subcommittee on this issue and afterwards the Government indicated that it was willing to resubmit this proposal of a phased programme to the Executive Council. Mr President, would the Secretary tell us whether this has already been done, and if so, what the response of the Executive Council is?*

SECRETARY FOR SECURITY: Mr President, no, I have not yet done so. But we are intending to put the Legislative Council's concerns on this matter back to the Executive Council very shortly.

DR CONRAD LAM (in Cantonese): *Mr President, at a meeting of a Legislative Council panel several years ago, government officials told us that should the public feel dissatisfied after having tried the BN(O) passport for some time, they were free to apply to revert to BDTC passport again. Technically speaking, how long would that process take if the public elect to do so? Will the deadline be 1996 or 1997?*

SECRETARY FOR SECURITY: Mr President, I assume that the question refers to someone who obtains a BN(O) passport and then wishes to give it up. I do not know how long that would take. I shall have to give an answer to that in writing. (Annex I)

PRESIDENT: Yes, Dr Conrad LAM.

DR CONRAD LAM (in Cantonese): *Mr President, I would like to clarify a point in my question. I did not mean giving up the BN(O) passport; rather I meant converting a BN(O) passport into a BDTC passport.*

SECRETARY FOR SECURITY: Yes, as I say, Mr President, I will have to give an answer to that in writing. I do not know the details of the procedure.

MR JAMES TO (in Cantonese): *Mr President, in paragraph (a) of his reply, the Secretary said the purpose of the phased programme in fact was to ensure that BDTCs would have the opportunity to become BN(O)s if they wished to do so. Given that both passports may be subject to a lot of differential treatment we cannot foresee (which one fares better remains to be seen), how could the Secretary ensure that a BDTC passport holder has the right to hold on to that passport up to 30 June 1997? May we say that the Administration is depriving the public of this right merely for the sake of administrative convenience?*

SECRETARY FOR SECURITY: Mr President, as I hope I have explained in my main answer, we are not taking away any rights. What we are seeking to do is to make sure that we have an orderly queue for up to as many as 3.5 million people to obtain the BN(O) status and the passport that goes with that status before 30 June 1997. I am afraid I do not accept the basis of the question that there is uncertainty as to the status of BDTC and BN(O) passports. We are very certain as to what the acceptability of those passports is and we are certain that, with one very minor exception, the acceptability is equal between the two.

MRS SELINA CHOW: *Mr President, would the Secretary not agree that the phased programme indeed does remove the eligibility of BDTCs to register as BN(O)s if they fail to do so within the specified time? That eligibility being one to which they are entitled until 30 June 1997 if there were no phased programme, would the Secretary agree not to introduce the phased programme until other options have been tried or until Members of this Council are satisfied that for practical reasons it is the best way to guarantee the issuance of BN(O) passports to all those who are entitled?*

SECRETARY FOR SECURITY: Mr President, if I could take perhaps the second part of that question first. The problem with trying other options is that if we were to do so and they did not achieve the desired result — and it is our firm belief that they will not achieve the desired result — it would then be too late to institute a proper phased programme as we propose. We need in fact almost all of the four years in order to do this programme in an orderly way, and simply delaying it for two years is not going to achieve any worthwhile result. It has been made public that it has always been the intention to have a phased programme for application for BN(O) status and for the application for a BN(O) passport. I think as long ago as 1985, when the legislation was introduced into the United Kingdom Parliament, this was said and it is indeed clearly set out in the Act of that time. The eligibility to apply right up to 30 June 1997 is in practice an illusion. We cannot have 3.5 million people applying in the last few days or few weeks or few months. Their applications could not be dealt with. They would therefore lose the right if we were to simply let things drift on without taking action to ensure that people applied in an orderly way.

DR LEONG CHE-HUNG: *Mr President, since such a phased programme the Secretary has informed us of would mean a decision by the United Kingdom Government in which Hong Kong people played no part, could the Administration tell this Council why such a decision was taken and passed on to Her Majesty's Government without first informing and/or consulting the people of Hong Kong and this Council?*

SECRETARY FOR SECURITY: Mr President, we have sought to publicize this. We publicized it first, I think, in about January this year. We gave further publicity to it in the context of the Estimates when we applied for the resources to implement it and I answered questions on that at that time before the Finance Committee. It is, as one would say, a matter finally for the United Kingdom Government. They are the United Kingdom Government passports; it is a form of British nationality and we had to clear the details of the proposal with the United Kingdom before we were in a position to brief in detail either Members of this Council or members of the public.

DR LEONG CHE-HUNG: *Mr President, could the Secretary inform this Council whether the decision was passed on to Her Majesty's Government before it was given publicity in Hong Kong or whether it was the other way round?*

SECRETARY FOR SECURITY: Mr President, I am not sure that I can quite remember. Certainly in January we had put proposals at that stage to the United Kingdom Government at the time we announced them in Hong Kong. I cannot quite honestly remember the full sequence of events as to whether we had had a final decision on that at that time from the United Kingdom Government.

DR LEONG CHE-HUNG: *Mr President, could Council be given a reply in writing?*

SECRETARY FOR SECURITY: Yes, Mr President, certainly. (Annex II)

MR CHEUNG MAN-KWONG (in Cantonese): *Mr President, when Hong Kong residents fail to renew their identity cards within the specified time, technically speaking, the Administration could still arrange to have them renewed and that right in no circumstances will be removed. Why is there such a technical arrangement this time for the issuing of BDTTC passports? That would mean people failing to renew their passports within the specified time will have their rights taken away. Can we call this double standard?*

SECRETARY FOR SECURITY: Mr President, I think that the issue of identity card is actually a rather different matter from the issue of passport and the acquisition of this BN(O) status. We feel that it is necessary to require people, unless they have good reason to the contrary, to comply with a phased programme otherwise we may end up with a situation where people simply delay and we find ourselves in the same position as we would be if we did nothing, in other words, we may have hundreds of thousands or even millions of people applying in the last few months and we would simply not be able to deal with those applications before 30 June 1997.

MR RONALD ARCULLI: *Mr President, in answer to one of the questions the Secretary said that a Hong Kong BDTC's right to apply for BN(O) is in practice an illusion, taking the date as at 30 June 1997. And he said also that if they did not apply by that date they would lose their entitlement to BN(O). Can the Secretary please tell me whether that is his interpretation of the United Kingdom Memorandum referred to in his main answer, because it is certainly not, in my view, in the 1986 Order in Council which is the law, as I understand it, that governs the nationality issue?*

SECRETARY FOR SECURITY: Mr President, I think I can say that it is not just my personal interpretation of that Memorandum; it is the interpretation of both the Hong Kong Government and the British Government. We are very clear and we always have been since 1984 that the requirement was that both the registration as a BN(O) and the application for a passport had to be completed before 30 June 1997.

MR RONALD ARCULLI: *Mr President, the Secretary has not really answered the second part of my question which is: In what law does it state that if one does not apply before 30 June 1997, one will actually lose the right, because it is certainly not in the 1986 Order in Council?*

SECRETARY FOR SECURITY: Mr President, it is our interpretation of the undertaking we have committed ourselves to under the Memorandum attached to the Joint Declaration. It will become law if the United Kingdom Government passes the Order in Council that we are proposing and discussing with them.

### **Post Office's target return**

5. MR FRED LI asked (in Cantonese): *Regarding the Post Office's target return of 16.7% on turnover set for achievement by 1996-97, will the Government inform this Council:*

- (a) *why it considers a return rate of 16.7% reasonable; the factors considered when setting the target; and, based on the existing turnover, the rate of increase to be imposed on postal charges in order to achieve the above target; and*
- (b) *the criteria used in setting the levels of different postal charges?*

SECRETARY FOR ECONOMIC SERVICES: Mr President, as regards the first part of the question on the rate of return, given the labour intensive nature of the Post Office's operation, a target return based on turnover provides a more meaningful indicator of performance than, for example, average net fixed assets. The figure of 16.7% was set to ensure a fair return to General Revenue on the substantial investment made by the tax paying public in postal operations; in that sense it was broadly comparable to the levels of return set for other public utilities.

The 16.7% target is now being re-examined in the wider context of the review of rates of return for public utilities to be conducted by the Secretary for the Treasury. One factor to be taken into account will be the separation of telecommunications licensing and regulation from postal operations.

As regards the criteria used in setting the levels of different postage charges, the overall philosophy is that, subject to broader social policy objectives and considerations, each service should as far as possible recover its costs.

There are the more basic postal services such as inland and surface mail and what one might term premium services, for example, speedpost. The question of whether and, if so, over what time frame, this cross-subsidy should be phased out is now being examined as part of an evaluation of the option of moving the Post Office to trading fund status. In particular we will be attempting to identify more precisely which groups of postal users are currently the beneficiaries of cross-subsidies, and whether in line with our broader policy goals this situation should continue.

MR FRED LI (in Cantonese): *Mr President, the Post Office had an average return of 8% in the past 10 years, which is quite a good return already. Why was the target for the next four years set at 16.7%, which is more than double that of the 8% for the past 10 years?*

SECRETARY FOR ECONOMIC SERVICES (in Cantonese): Mr President, the average return for the Post Office in the past 10 years did fluctuate, sometimes over 10% and sometimes less. What Mr LI has mentioned just now is just an average. The figure 16.7% is the basis used within the Government to calculate the rate of return so that it would be fair to both the payers of such services and

the taxpayers. As for details of how such a figure is arrived at, may I defer to the Secretary for the Treasury for a more detailed reply, either orally or in writing.

SECRETARY FOR THE TREASURY: Mr President, I believe that we could be in danger of talking about two very different sets of figures. The figure of 8% as the rate of return that Mr LI mentioned a short while ago was until 1989, I believe, based on a return on average net fixed assets (ANFA). The figure of 16.7% is return on turnover and this change from the basis of ANFA to that of turnover was decided upon, I believe, in 1989 because it became clear at that time to the Operating Accounts Committee that it was the wrong basis for seeking a rate of return on, one of the reasons being, for example, that the asset base of the Post Office had been grossly undervalued. The figure of 16.7% again is a target figure. There is an underlying rationale for this and I am sure it will be the subject of discussion in the motion debate later this afternoon.

MR MARVIN CHEUNG: *Mr President, in the first paragraph of his reply the Secretary says that the figure of 16.7% was set to ensure a fair return to general revenue on the substantial investment made. Could the Secretary please enlighten us as to what the relationship is between the level of the substantial investment made and the turnover of the postal services and whether a similar criteria, that is the criteria based on turnover, is being applied to the other public utilities which he says are broadly similar in nature?*

SECRETARY FOR ECONOMIC SERVICES: Mr President, the measurement of the rate of return on the basis of the different indicators, for example, return on turnover or return on average net fixed assets, is based on the different ways in which income, profit and expenditure are related to one another. The general trend is to find the most meaningful comparison to measure the performance of the Post Office in terms of the profit it makes, having regard to what is invested in terms of fixed assets and operating costs. My colleague, the Secretary for the Treasury, has just said that during different times in the past we used different indicators to measure the performance of the Post Office having regard to its ability to make a reasonable profit. I hope I have answered the question Mr CHEUNG asked.

MR MARVIN CHEUNG: *Mr President, I was asking the Secretary to enlighten us as to what the relationship is between turnover and the level of investment, which he claims is a valid basis for comparing one to the other? I do not think he has sufficiently enlightened us.*



SECRETARY FOR ECONOMIC SERVICES: May I ask, Mr President, the Secretary for the Treasury to take up that part of the question?

SECRETARY FOR THE TREASURY: Put very simply, Mr President, the answer is this. Of the five government utility type operations that we have at the moment, four of them are very capital intensive and therefore the rate of return we are using on these four operations is a return on average net fixed assets. In the case of the Post Office, a relatively labour intensive rather than a capital intensive operation, we used until 1989 to adopt average net fixed assets as the rate of return, but in that year we changed the basis to a return based on turnover. And as I mentioned earlier, this was partly because it became very clear to the Operating Accounts Committee that the asset base of the Post Office was grossly undervalued. What the Operating Accounts Committee faced in the year 1989 was the difficult question of how the rates of return based on turnover should be determined. The Accounts Committee went into a great deal of research, including points of law, and it came to the view that as a target it would be right and proper to aim for a rate of return of 16.7%. The underlying philosophy for this figure is a very simple one. In the course of its research into charging based on turnover, the Accounts Committee found that there were precedents in countries with a common law base to the effect that where the government provides a service but the charging of fees for that service is not supported by primary legislation, then the government would be entitled to charge for that service to recover costs and to make a modest return over and above costs — and the courts in the cases that we have found have mentioned a figure of, say, 20%. Now if one bases 20% on turnover, in other words if one has a numerator of 20% and a denominator of 120%, this will work out at roughly 16.7%. And as my colleague quite rightly says, this is the sort of basis that a review of rates of return could usefully address.

PRESIDENT: We are running out of time and as there is a motion debate on this very topic I am going to pass to the final question. Mr Peter WONG.

### **Green Paper on fee charging for hospital and health care services**

6. MR PETER WONG asked: *In the light of the statement by the Secretary for Health and Welfare in this Council on 29 April 1992 that a Green Paper on fee charging for hospital and health care services would soon be published for public consultation, will the Administration inform this Council when the Green Paper will be published?*

SECRETARY FOR HEALTH AND WELFARE: Mr President, a document on long-term strategy and health care reform, drawing from the expertise and experience of relevant health care reforms both locally and in other countries, is

being finalized and translated. The document is expected to be ready by mid-year for extensive public consultation.

MR PETER WONG: *Mr President, would the Secretary inform this Council of the reasons for the delay in the publication of this consultation paper which was promised for the end of 1992 in her statement of 29 April 1992?*

SECRETARY FOR HEALTH AND WELFARE: Mr President, looking back to the statement I made in 1992 and with the beauty of hindsight, I am surprised that I was so precise about timing at the time. In the *Oxford Dictionary* the word "soon" is defined as, I quote, "not long after a specified time". The time I specified was 1993, and I do not think I even did that. I did that subsequently. So I am confident I am still within the original time frame and the meaning of the word "soon", and in so saying I think criticism about delay, in ignorance of the monumental effort that has gone into the work done by so many experts behind the scene, is to do them injustice and to do the document incomplete understanding.

DR LEONG CHE-HUNG: *Mr President, will the Secretary inform this Council of her timetable for implementing the strategy of this document, once it has passed through public consultation? And I do hope she can be precise too in this estimation.*

SECRETARY FOR HEALTH AND WELFARE: Mr President, much depends on the voice of the people. In charting the way forward, our emphasis is on removing remediable flaws, rationalizing the financial structure of public health services and facilitating interface between the public and private sectors. We believe these complex issues to be the key issues for resolution and long-term solution to many of the existing system shortcomings. We have focused on many options; so the exact timetable for implementation would depend on the outcome of consultation. Here we put consumers first. I think consumers, being placed as the most important people in our health care system, we have got to defer to their view after consultation.

DR LAM KUI-CHUN: *Mr President, the basis for fee charging for public health service is to increase public revenue for health expenditure. In view of the huge government surplus accumulated over the last two years, what is the point for considering further increases in public revenue at present?*

SECRETARY FOR HEALTH AND WELFARE: Mr President, may I respectfully suggest that the object of the document which will be for extensive public consultation is not to raise fees. If it was for that, we would not need the Green Paper; we could raise fees even under the existing system. I would like to restate that over the last two decades health care in Hong Kong has evolved to be of a high standard and at a low cost to users. The evolution is a continuing process. New goals are set, old boundaries are redrawn. The 1974 Medical White Paper, the 1985 Scott Report and the 1990 Primary Health Care Report have all contributed to the impetus for change and to recent milestones including the setting up of the Hospital Authority and the Academy of Medicine. I think the document which will be placed before this Council will take stock of the current practices and fashion a possible response to community needs and future challenges based on the good foundation that we have now.

### **Written answers to questions**

#### **Image boosting for Hong Kong**

7. MR HOWARD YOUNG asked: *Will the Government inform this Council whether there are plans to improve traffic conditions in the area along Harbour Road and Convention Avenue and to alleviate the problem of sea water pollution nearby in order to boost the image of Hong Kong among overseas visitors?*

SECRETARY FOR TRANSPORT: Mr President, eastbound traffic in Harbour Road is affected by on-street loading and unloading activities near the Harbour Centre. To alleviate this problem, a new lay-by will be provided outside the Harbour Centre. Work will commence in June for completion in August 1993.

To serve longer-term traffic needs, provision has been included in plans for the future Central and Wan Chai Reclamation for an underground Central and Wan Chai Bypass running parallel to Gloucester Road, and linked to the Island Eastern Corridor.

With regard to sea water pollution in the area, the Central, Western and Wan Chai West Sewerage Master Plan Study has recommended a programme of improvements to eliminate the improper discharge of sewage and polluted water from storm drains and to replace or repair sewers. Detailed design of the recommended works will start shortly. A second study for Wan Chai East and North Point will be completed by the end of this year.

Amendments to the Water Pollution Control Ordinance, introduced into this Council in December 1992, will complement these sewerage master plans by strengthening the requirement for all private lots and buildings to make proper connections to the sewerage system.

**Waterborne passenger and freight traffic between Hong Kong and Guangdong**

8. DR HUANG CHEN-YA asked (in Chinese): *In view of the increase in the number of passengers travelling by sea and the amount of cargoes being similarly transported between Hong Kong and Guangdong, will the Government inform this Council:*

- (a) of the current statistics relating to such activities and the forecast for the next three years; and*
- (b) whether there are any development plans to enhance the capacity of the vessels and berthing facilities to meet future needs?*

SECRETARY FOR TRANSPORT: Mr President, the Government does not keep statistics on the shipment of cargo between Hong Kong and China on a province-by-province basis. We do however maintain data on cargo movement between Hong Kong and ports in the Pearl River Delta, known as the river trade.

During 1992, some 17 million tonnes of river trade cargo was handled in Hong Kong, an increase of about 1% over 1991. We expect a growth rate of between 6% and 10% per annum over the next three years. To meet longer-term demand, the Port and Airport Development Strategy recommended the establishment of a River Trade Terminal in Tuen Mun Area 38, for which expressions of interests from the private sector are currently being examined by the Government.

As regards passenger traffic, 5.2 million people travelled to and from the Pearl River Delta ports (excluding Macau) in 1992, an increase of about 24% over 1991. A growth rate of about 16% per annum is estimated over the next three years.

We are not aware of any concrete plans by the ferry service operators to enhance the capacity of their vessels, although it is known that in general terms they are expecting to replace smaller vessels with larger ones in due course. For the time being the capacity of vessels is considered adequate.

Based on present forecasts, the existing ferry terminals should be able to cope with demand for the time being. New pier facilities will be needed in the longer term, and the Director of Marine will shortly begin a review to determine when and where these will be required.

**Appointment of an expatriate as the Secretary for Financial Services**

9. MISS EMILY LAU asked: *On 10 March 1993, the Secretary for the Civil Service reassured this Council that all Policy Secretaries or future principal official posts would be filled by local officers in advance of 1997. Will the Administration inform this Council whether the recent appointment of an expatriate officer to the post of Secretary for Financial Services may result in his being directed to retire before 1997 under the terms of the Compensation Scheme, and if so, how much compensation it will have to pay to the officer concerned?*

SECRETARY FOR THE CIVIL SERVICE: Mr President, the Administration has given an assurance that all future principal official posts will be filled by qualified local officers in good time before 1997. In order to do this we are developing a pool of qualified local officers from whom future principal officials can be selected. This will necessitate the compulsory premature retirement or supersession of a number of overseas permanent and pensionable officers over the next few years.

Apart from compulsory retirement or dismissal on disciplinary grounds, it is not possible to remove a permanent and pensionable officer before normal retirement age. The Limited Compensation Scheme was approved, funded and introduced in 1987 to provide a mechanism to prematurely retire or supersede about 100 overseas officers, mainly in the administrative service and the Police Force, where necessary, on grounds of localization or constitutional change. The Limited Compensation Scheme was approved by Executive Council and Finance Committee after consultation with the Chinese and the staff associations concerned.

In these circumstances any overseas permanent and pensionable officer holding a substantive rank at Administrative Officer Staff Grade A, irrespective of any current appointment as an acting Secretary and whether he is subsequently promoted to Secretary level or remains in his present substantive rank, is likely, at some stage before 1997, either to be directed to retire or to be superseded under the provisions of the Limited Compensation Scheme. The compensation payable in each case would be determined in accordance with the detailed provisions of the Scheme. The maximum compensation payable is 4.76 times the annual salary of a non-directorate officer on Master Pay Scale salary point 45. This currently stands at \$2.7 million. All eligible officers, including directorate officers, cannot receive compensation above this limit.

**Grammar, technical and prevocational schools**

10. MR LAU CHIN-SHEK asked (in Chinese): *Will the Government inform this Council whether consideration will be given to abolishing the present three-pronged system of grammar, technical and prevocational schools at junior secondary level of our nine-year compulsory education, so as to avoid an early streaming of students and to allow all junior secondary school students to receive the same balanced education?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President, it is the Government's policy to provide different types of schools to cater for the requirements of different students. While all schools teach a common core of subjects, including the Chinese and English languages, mathematics, science, music and physical education at the junior secondary level, the proportion of the curriculum content devoted to practical and technical subjects ranges from 20% in grammar schools to 30% in technical schools and 45% in prevocational schools. The core subjects ensure that the education provided is reasonably balanced, while the range of practical and technical subjects meets the diverse needs of young people in terms of their interests, aptitudes and career aspirations. Enrolment in a particular type of school at Secondary One is mainly a result of parental choice.

The Government considers it desirable to offer different types of balanced education to Hong Kong students. Indeed, with the support of the community, the Government is working towards expanding the range of schools by adding skills opportunity schools and practical schools, following the recommendations made in Education Commission Report No.4.

**Incineration method for handling domestic and industrial waste**

11. DR SAMUEL WONG asked: *Will the Government inform this Council:*

- (a) *how the recently talked-about high temperature incineration method for handling domestic and industrial waste would compare with the current practice of exclusively using landfill for waste treatment in terms of land use, cost, environmental impact, energy generation and so on; and*
- (b) *whether the electricity generated in the incineration process could be put onto the supply grid of the power companies in Hong Kong?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President,

- (a) In terms of land use, by virtue of the nature of the activity, the amount of land occupied by a landfill is generally greater than is required for the site of an incinerator. Land used for landfilling can be put to other beneficial uses after its operating life; but so too can an incinerator site if it is decommissioned.

The overall unit cost of the new strategic landfills is estimated at \$97 per tonne of refuse. This includes the cost of construction, operation, maintenance and site restoration. For incineration, the estimated overall cost, including capital depreciation, operation and maintenance, is \$345 per tonne. Assuming that surplus electricity generated could be sold at rates similar to those which apply, for example, in Macau and Singapore, the unit incineration cost could be reduced to \$291 per tonne. These estimates relate to modern landfills and incinerators which have all the necessary environmental control facilities.

The main environmental impact of landfilling is the emission of landfill gas and leachate, whereas for incineration it is aerial emissions including particulate matters, carbon monoxide, sulphur dioxide, nitrogen oxides, heavy metals and possibly dioxin. Whichever method is used for waste disposal, control systems to meet acceptable environmental standards are required.

The energy potential of a landfill in terms of landfill gas generation is about 150 m<sup>3</sup> per tonne of refuse. When this energy is converted to electricity based on a conversion efficiency of 10%, the amount of electricity generated will be 85 kWh per tonne. Overseas experience in incineration shows that the electricity generated from an incinerator is in the range of 150 to 550 kWh depending on the nature and characteristics of the waste intake. If a modern incinerator similar to the one in Macau is used in Hong Kong, it will generate electricity amounting to 220 kWh per tonne of waste incinerated.

While the two methods of waste disposal can be compared in this way, they should not be regarded as mutually exclusive. Landfill capacity will continue to be required for non-combustible waste and residues left by incinerators. At the same time, incineration as a means of waste reduction and disposing of special wastes will continue to be considered with other alternatives as modern technology develops and circumstances change.

- (b) Technically speaking, electricity generated in the incineration process can be fed into the supply grid but the amount will be very small in comparison with the generating capacity of the power companies and the demand. The feasibility of using this potential source will be looked into by the Government in consultation with the power companies.

### **Capital works programmes**

12. MR RONALD ARCULLI asked: *Noting that capital works programmes are important in maintaining and improving facilities and infrastructure for the social and economic development of Hong Kong and that the Government plans to spend some \$78 billion on such programmes, excluding those related to the Airport Core Programme, in the five years ending 1996-97, will the Government inform this Council of the details of the programmes such as the names of projects, the timing of their construction, the estimated yearly expenditure; and the action the Government will take to prevent any delay in these projects?*

SECRETARY FOR WORKS: Mr President, projects in the capital works programme are listed in the publication entitled *Public Works Sub-Committee — Papers considered between January and December 1992* issued by Finance Branch in February 1993, a copy of which was sent to all Public Works Sub-Committee (PWSC) and Finance Committee (FC) members in March 1993. The project title and cashflow of all Category A projects (that is, projects in progress) and Category B projects (that is, those due to start within the next five years) are listed in the said publication. All these projects together make up the \$78 billion worth of projects announced by the Governor in October 1992. Information on the timing of construction of all Public Works Programme (PWP) projects is available in the works departments in a manual format which cannot be collated by computerized means at this stage. A consultancy has recently been approved by Finance Committee to redress this deficiency among other issues.

As regards the prevention of delays to PWP projects, a detailed briefing on measures to tackle underspending was held on 8 April 1993 for PWSC members. I attach material distributed at that briefing which included a note on the initiatives taken by Works Branch in 1992-93 and new initiatives planned for 1993-94 to improve the Government's performance on the Public Works Programme.



## **FUNDING OF PUBLIC WORKS**

1970s - Public Works funded from annual non-recurrent vote.

Problems:

- no cash-flow certainty beyond next financial year; theoretically projects could be halted in mid contract.
- longer term planning for future projects complicated because of uncertainty over funding.

*Early 1980s - CWRP created, resources allocated on a "project start" basis.*

- *Annual review undertaken of projects to start in following financial year only. Those projects most ready to start given higher priority.*
- *FC approval sought to funding commitment for complete project when ready to start.*
- *Problems remained over planning for projects to start beyond the next financial year because of uncertainty as to whether; once design completed, funds would be available to start works.*

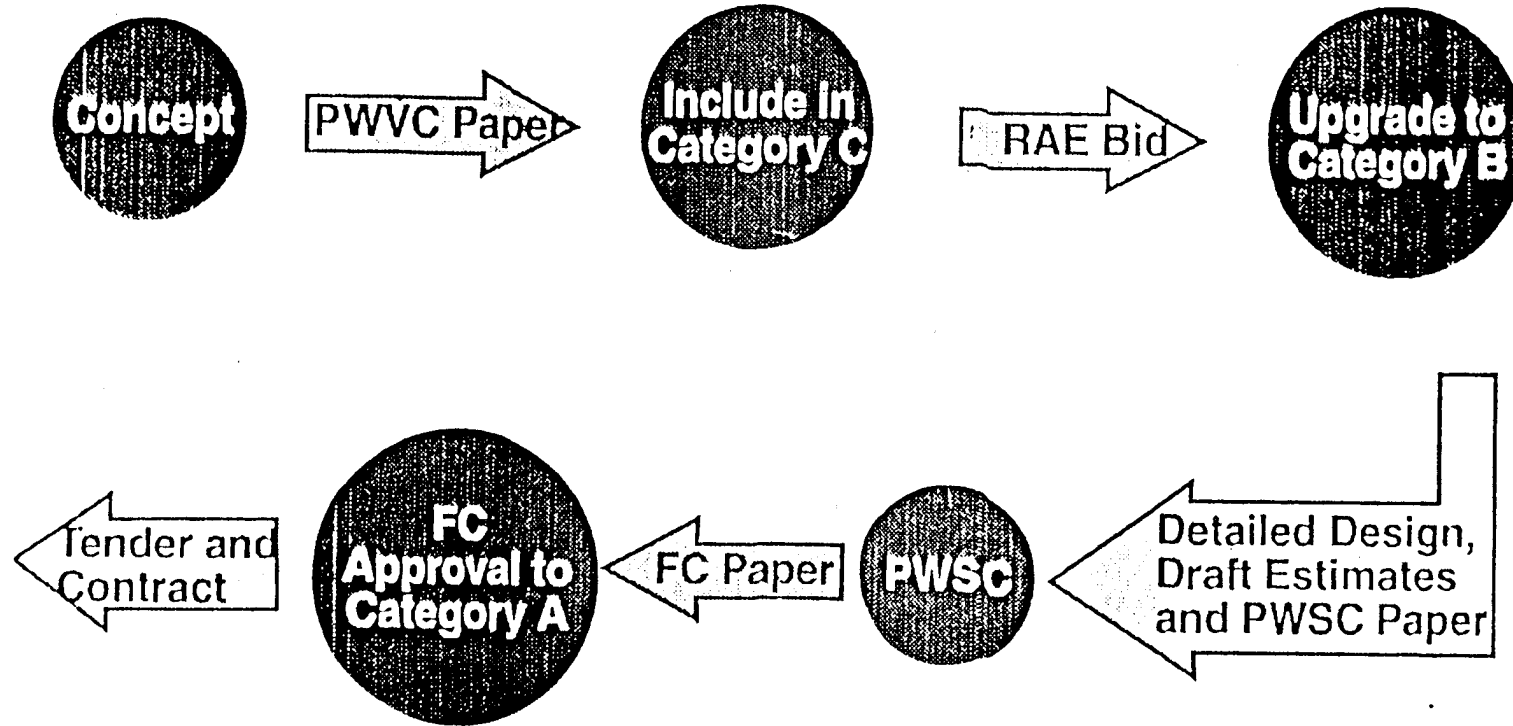
**1987 - 5 Year Resource Allocation System introduced.**

- provides for planning of public works expenditure on five-year basis.
- growth is determined by forecast trend performance of Hong Kong's economy.
- financial planning tool - projects still require to go via PWSC to FC for upgrading to Cat. A.
- rolling five-year programme, updated on annual basis to include new projects accommodated by economic growth.

**1987 - 5 Year Resource Allocation System introduced. (Continued)**

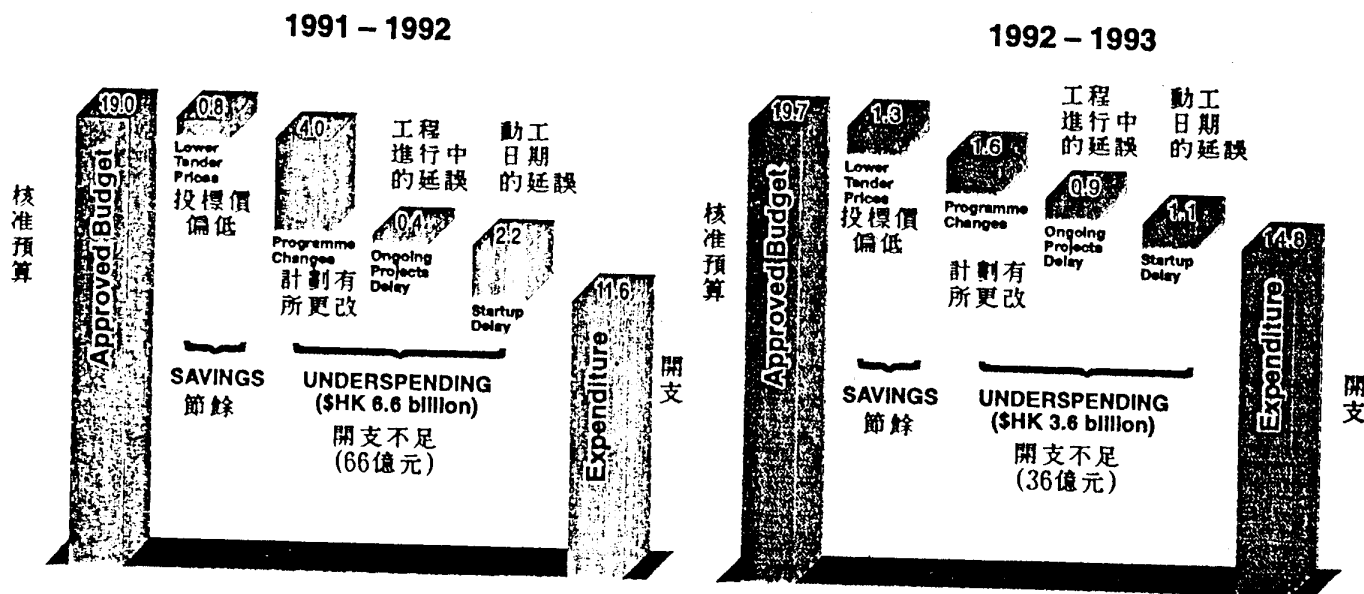
- *RAE carried out in October/November - projects to start in next financial year included in Draft Estimates as Category B or new items - Category B permits detailed design to proceed up to the point of being ready to go to tender:*
- *LegCo Members consulted as part of 1992 RAE leading to finalising Draft Estimates. New projects such as -*
  - Route 3 Country Park Section*
  - North District hospital*
  - Tuen Mun Highway climbing lanes*
- *Projects upgraded to Cat. A by FC when ready for tender:*

## Process to Upgrade Project From Concept to Category A



# Expenditure on Public Works Projects (\$HK billions)

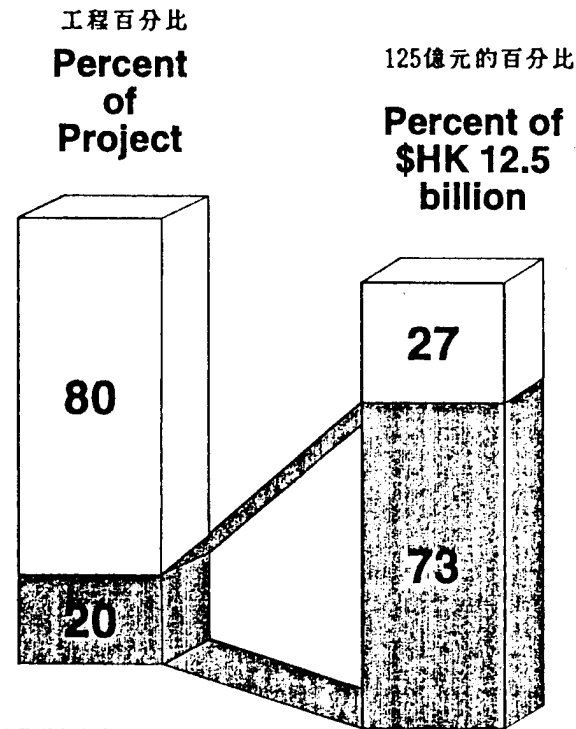
公共工程開支  
(以十億元計)



P&R Division  
Works Branch  
29/3/93

工務科  
計劃及資源部  
29/3/93

# 1992-93 年度公共工程造價比例 Public Works Projects Cost Profile — 1992-93



**20 percent of projects account for 73 percent of expected expenditure on project works (excluding land acquisition and PADS projects).**

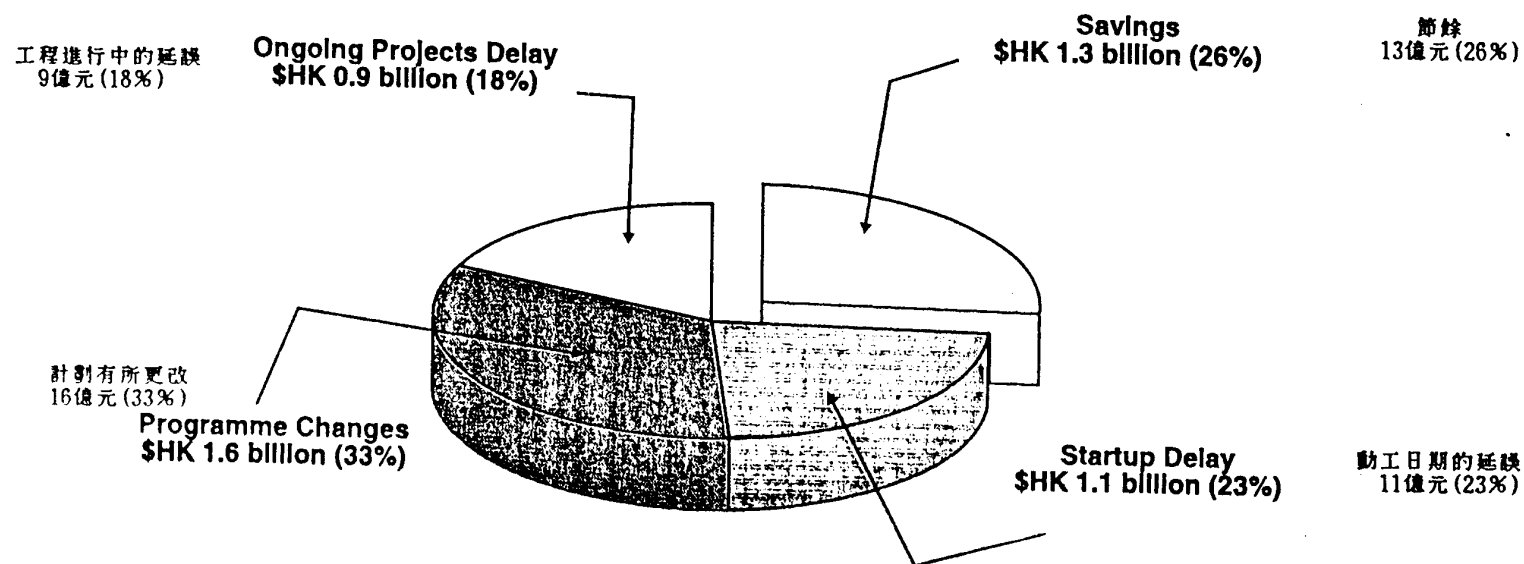
20% 的工程，  
佔預算工務開支  
的73%（不包括  
徵用土地和港口  
機場發展工程）

工務科  
計劃及資源部  
29/3/93

P&R Division  
Works Branch  
29/3/93

# Causes of Under-expenditure 1992-1993

1992 - 93 年度開支不足的原因



P&R Division  
Works Branch  
29/3/93

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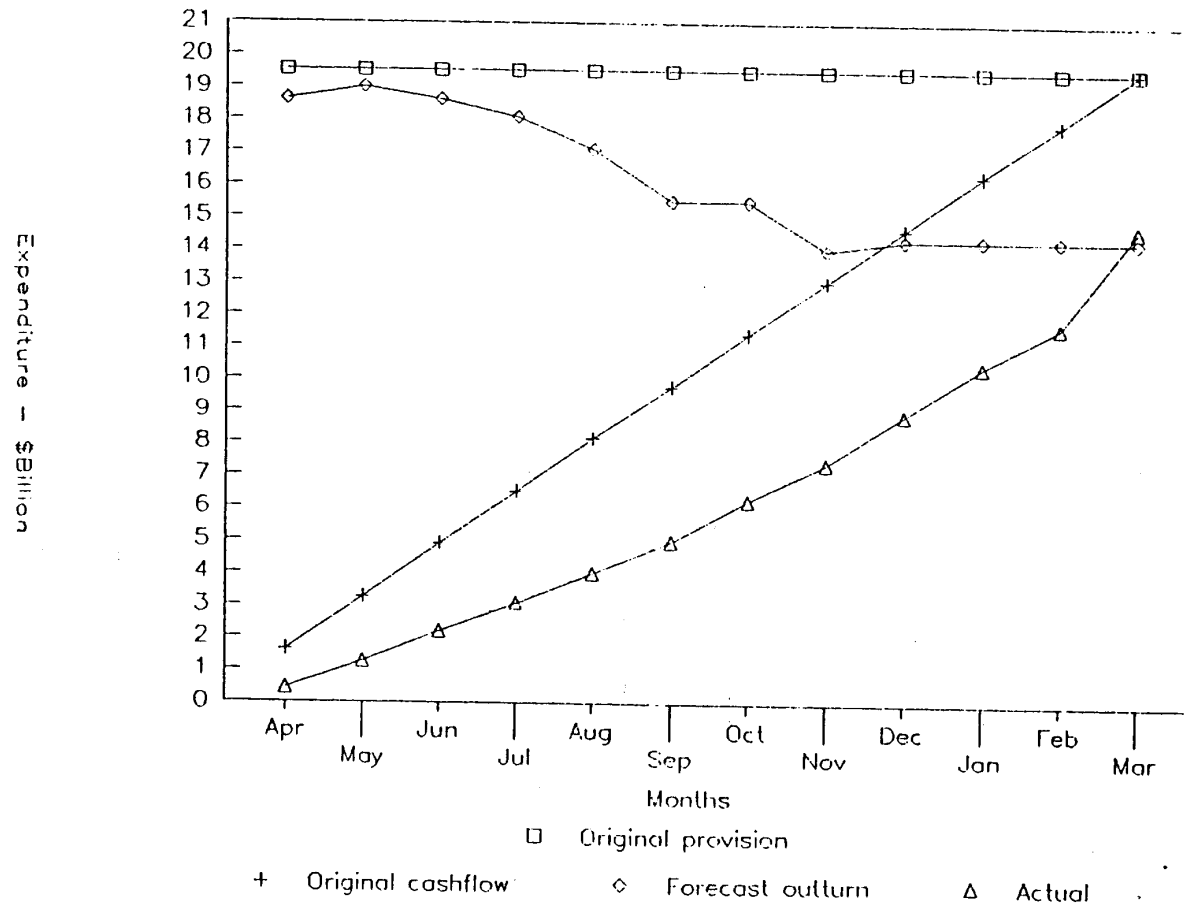
**Expenditure on Public Works Projects**

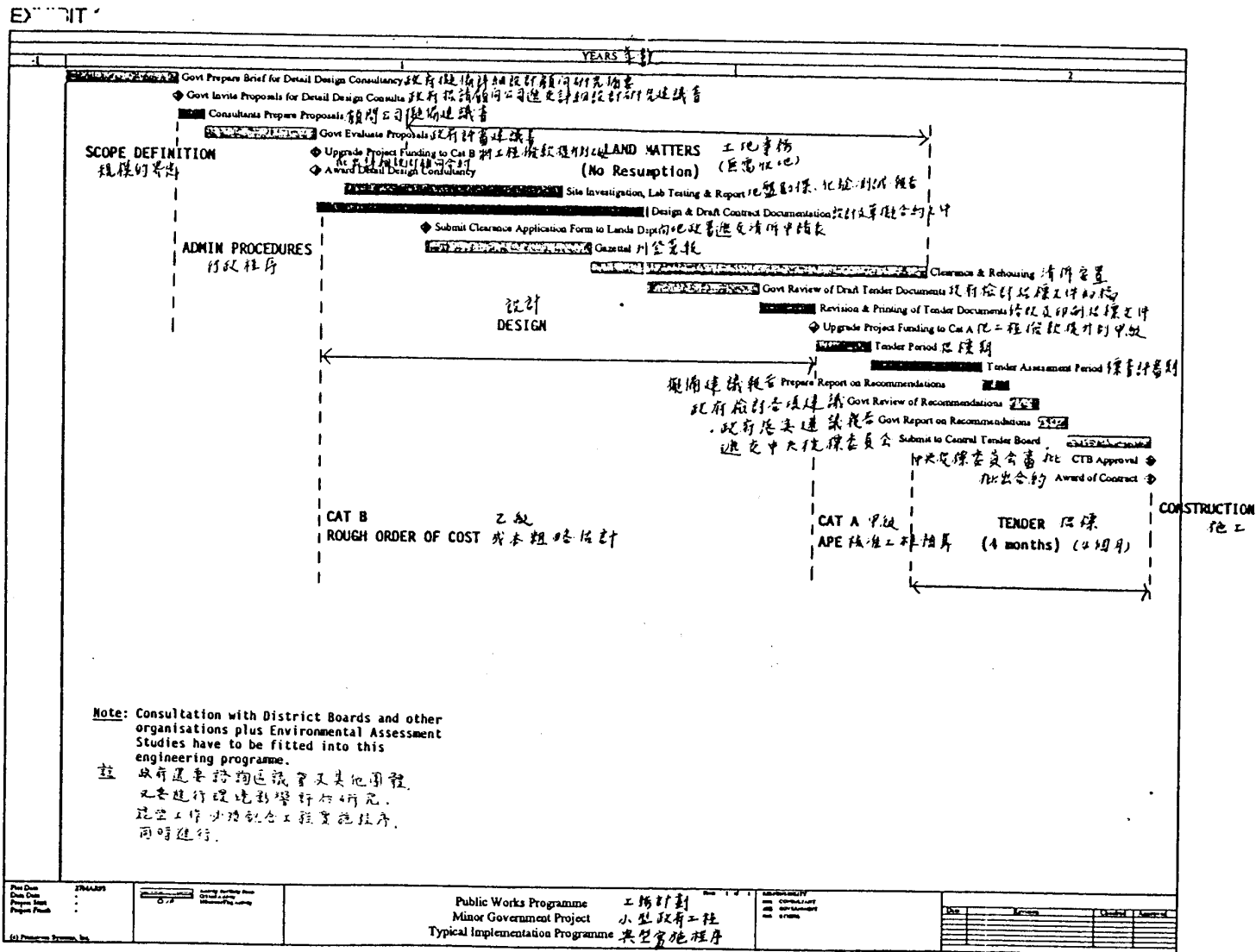
	<u>1991-92</u>	<u>1992-93</u>
1. Original provision	<u>\$18,956M</u>	<u>\$19,739M</u>
2. Revised estimate	<u>\$14,005M</u>	<u>\$14,826M</u>
3. Actual outturn	<u>\$11,557M</u>	<u>\$14,701M</u>
4. Under-expenditure		
A. vs Original provision	\$7,399M	\$5,038M
Less: Real savings	<u>769M</u>	<u>1,341M</u>
Net underspending	<u>\$6,630M</u>	<u>\$3,697M</u>
	<u>or 35%</u>	<u>or 19%</u>
B. vs Revised estimate: Net underspending	\$2,448M	\$125M
	<u>or 17%</u>	<u>or 1%</u>

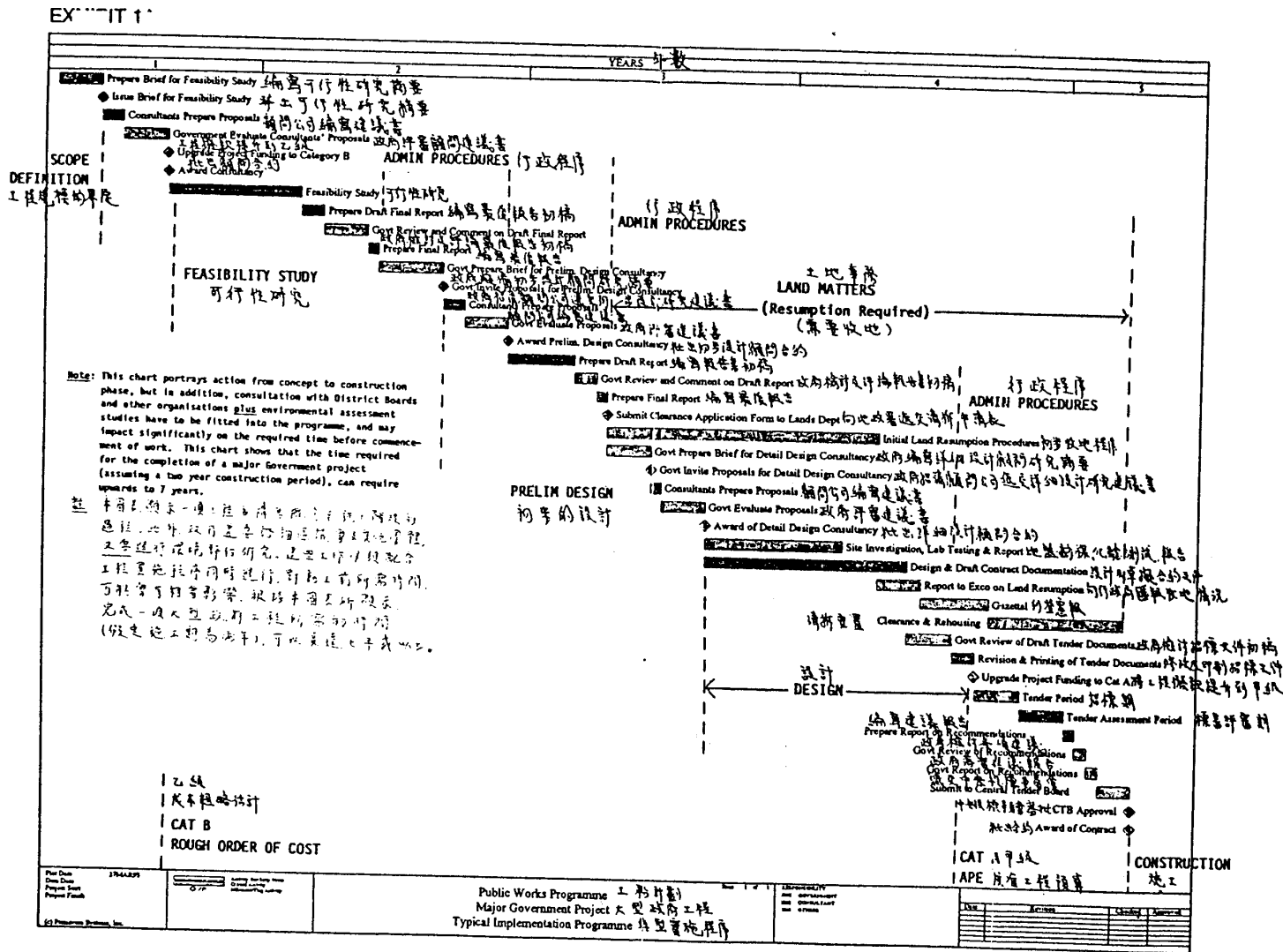
\* Provisional figure subject to further adjustments.

## Forecast Expenditure 92/93 – CWRP

Head 702 – 709 (excl 708)







## **Initiatives to Tackle Under-expenditure**

- Revamped Public Works Progress Committee to strengthen coordination among policy secretaries
- Commissioning a consultancy to work closely with Government staff to review public works procedures, practices and systems, which will be monitored by a steering group chaired by Financial Secretary, with private sector individuals as members
- Entrusting projects to private sector, adopting design and build procedures, and using turnkey contracts
- Ensuring timely expenditure forecasting

*P&R Division*

*Works Branch*

*29/3/93*

### **Initiatives to Tackle Under-expenditure (Cont'd)**

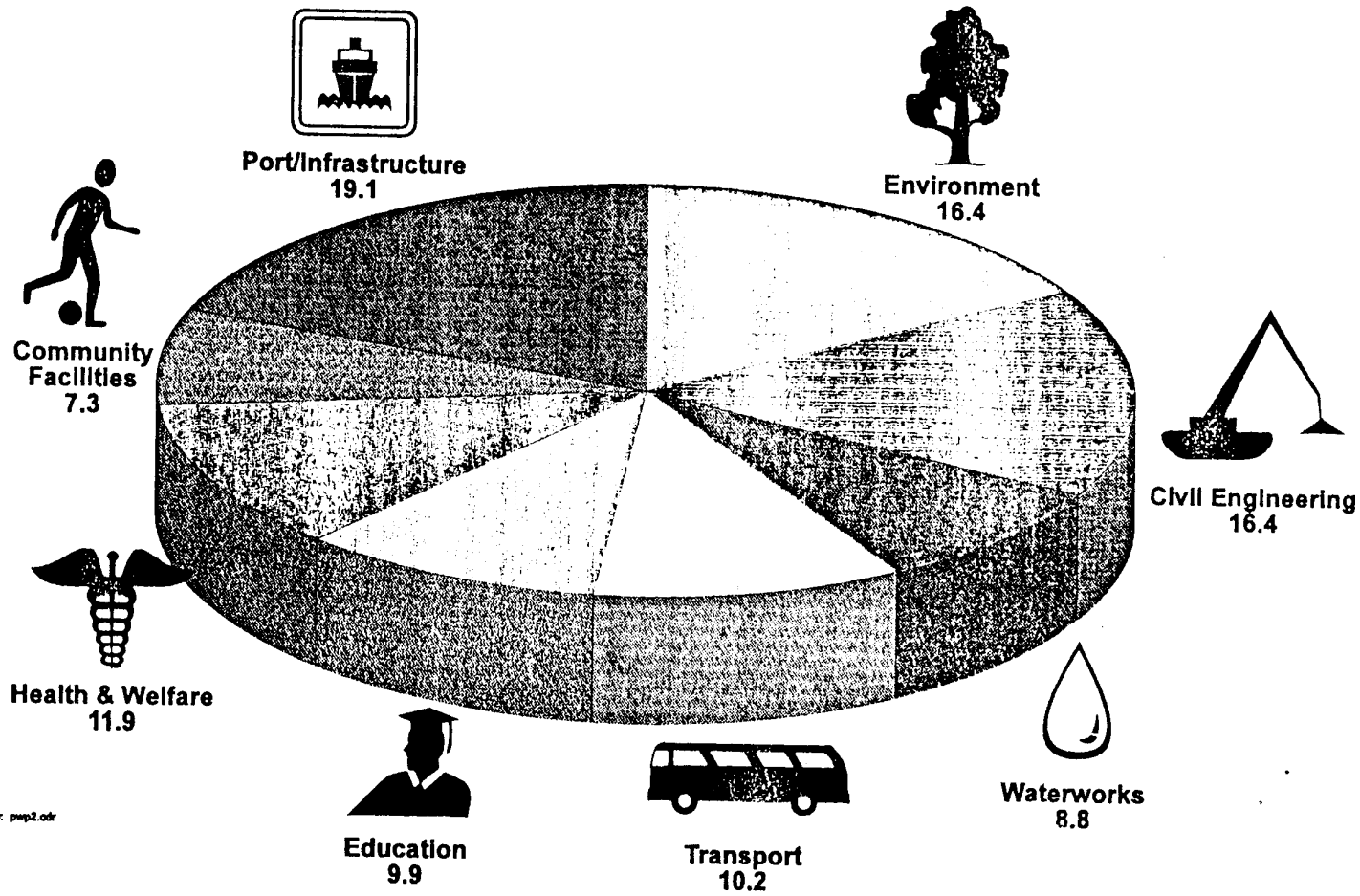
- Analyzed key reasons for underspending by projects (e.g., inaccurate budget estimates)
- Held discussions with concerned departments to identify improvement opportunities
- Took initial steps to upgrade information systems and management reports (e.g., LAFIS system)
- Communicated, within Government and externally, the nature and urgency of the underspending problem; made a commitment to improve

*P&R Division*

*Works Branch*

*29/3/93*

# Public Works Programme (Non-ACP) Resources for 1992/93 to 1996/97 (\$78 billion)



DOC ID: pwp2.odr

**Speaking note of S for W. Mr. James Blake**  
**for the PWSC briefing on 8.4.93**

Charts:

I. Expenditure on Public Works Projects

- Under Expenditure - At the time of preparing the draft estimates, under-expenditure for public works projects (excluding land acquisition) was estimated to be \$4.9 billion. Excluding real savings of \$1.3 billion, net underspending is \$3.6 billion caused by programme changes (\$1.6 billion), delay to ongoing projects (\$0.9 billion) and startup delay (\$1.1 billion). Actual total under-expenditure for 1992-93 is expected to be around \$5.0 billion, about the same as forecast.
- We are not complacent but note improvement and a better performance when compared with 1991-92. In % terms, 1992-93 underspending is 19%, down from the 35% of 1991-92. Revised estimates for 1992-93 have been much improved with the actual outturn almost spot on; as opposed to the 17% deviation between actual outturn and revised estimate in 1991-92.

II. Project Cost Profile - 1992-93

- This explains broadly the PWPC and Works Branch monitoring system set up in April 1992. We monitor major projects (20% in number of all projects) representing over 70% of total expenditure. The chart excludes land acquisition and PADS projects.

III. Causes of Under-expenditure 1992-93

- All works departments and EPD were asked to give a detailed analysis of reasons for underspending. This chart illustrates key factors:-
  - Savings (26%)
    - Lower tender prices and unused contingencies
  - Programme changes (33%)
    - Change in policy requirements arising from new political, social or economic changes causing re-scheduled policy priorities.
  - Startup delay (23%)
    - Unable to adhere to scheduled startup dates because of statutory or administrative delays, and/or design and physical problems arising from site/foundation problems.



- 2 -

- Ongoing projects delay (18%)
  - slow progress of works on the part of contractors caused e.g. by bad weather hindering the progress of works.

IV. Government Projects Implementation Programme  
& V.

- These 2 charts give an indication to Members of the work required to be done before commencement of Construction for a typical major Government project and a typical minor Government project. The sequence of events are not exaggerated. In fact, a number of parallel actions are illustrated.
- Major project - The sober conclusion is that with EIAs and consultation with DBs and all necessary engineering work, it can take more than 7 years to complete the whole process from an initial idea to turning the key for a major project.
- Even for a minor project where consultants are not required, it can take upwards of 3 to 4 years to implement and complete the works.

VI. Initiatives to Tackle Under-expenditure

- I shall ask Miss Elaine Chung, my Deputy Secretary, to explain what we have done and are doing to tackle under-expenditure.

Works Branch  
7 April 1993

**Speaking note of DS(P&R), Miss Elaine Chung**  
**for the PWSC briefing on 8.4.93**

- The improvements you have seen did not happen by sheer chance. Works Branch and Works Group of departments worked hard to improve their performance in 1992/93.
- We have found some of the weaknesses and bottle necks in coordination, reporting and management which have undermined the PWP both before and after construction commencement.
- We took a number of initiatives to turn the situation in 91/92 around, with some success. For example, we have:
  - Analysed key reasons for underspending by project.
  - Tackled immediately the more significant reasons (e.g. unrealistic budget estimating).
  - Held discussions to underline the accountability of concerned departments for their performance including the identification of improvement opportunities.
  - Taken initial steps to upgrade information systems and management reports (e.g. LAFIS system)(Ledger Accounting Financial Information System).
  - Improved reporting relationships and system to speed up the provision of reliable information as compared to forecast e.g. financial reports are available within 1 week after end of work while previously we had to wait 1 month.
  - Standardise monitoring reports on projects e.g. quarterly reports given to PWSC members.
  - Told Works departments and DEP to include expenditure on contingency sums only if they could identify such need in 93/94 so that public works estimates do not represent optimistic ambitions. In line with this change, an additional commitments item of \$2.8 billion has been provided for in the Capital Works Reserve Fund estimates for 93/94.
  - Set up the PWPC in April 1992 and instituted a system of vetting progress of major projects to the point where we are ask to take remedial action if there is a delay of 3 months or more to consider e.g. acceleration of contracts and to resolve interdepartmental issues. The results are very encouraging. About 75% of the projects which PWPC monitors are expected to finish on time or ahead of original schedule and nearly 90% are expected to be within budget.
  - Communicated, within Government and externally, the nature and

- 2 -

urgency of the underspending problem, and made a commitment to improvement. Seminars were held for directorate staff and chiefs.

- These initiatives must be complemented by a more fundamental assessment of the underlying causes of underspending and a comprehensive programme, including an enhanced information system, for improvement. We have articulated a desire "to change the man, not just his clothes". We have expressed the need for a quantum increase in capability and capacity to deliver public works.
- We have revamped the Public Works Progress Committee. This Committee still be chaired by Secretary for Works but with Secretary for the Treasury, Secretary for Transport, Secretary for Planning, Environment and Lands and Secretary for Economic Services as members. With this high-level membership, I expect that problems of interface, priorities and resources which often beset the implementation of works can be speedily resolved. The existing committee of works directors and other representatives will continue to meet as a sub-committee of the new PWPC.
- The S for W has a new and expanded role, authority as well as responsibility for the implementation of the effective & efficient implementation of the PWP having regard to the resources available.
- A lot more work will need to be done, including the need to address sensitively the question of whether the present allocation of role and responsibilities for the planning, management and implementation of the PWP are the most appropriate. A paper has been issued for F.C. on 16th April seeking funding approval to commission a consortium of consultancy firms to work closely with Government staff to review Public Works procedures, practice and systems. The consultants will be steered by a Steering Group chaired by the Financial Secretary with S for W, S for Tsy., SPEL, S for T, SES and a number of private sector individuals as members. A Working Group will also be set up in Works Branch. This issue is closely tied up with the direction of the Government's overall Public Sector Reform Programme which is seeking to modify and clarify the roles of Branches and their Departments. The sort of issues to be explored will include:
  - Diagnostic issues e.g. the underlying strategy and organisational impediments to effective project execution, and benchmarking of Hong Kong's approach to public works against best-practice engineering and construction organisation in the public and private sectors. It may be appropriate to adopt some of the financial and other disciplines employed by the private sector to ensure levels of efficiency and service that the taxpayer is entitled to expect.
  - Ways to improve the ability of the whole Government to let new projects as scheduled. Here we feel that the Government system collectively is

- 3 -

at fault.

- Recommended changes in management systems, including practices and decision-making procedures at each stage of the project (e.g. conceptualisation, approval, design, tendering and construction).
- Proposed changes in organisational structure, including revised roles and responsibilities, and new working relationships to improve interdepartmental coordination.
- Definition of skills to be strengthened, and the number and qualifications of staff required.
- Specification and full prototyping of a management information system for use at different levels of Government.
- Timely expenditure forecasting.
- Earlier commitment of resources to better estimates of projects costs and matters such as environmental issues, land requirements, etc. early in the planning process. This will lead to better programme monitoring.
- The consultants will also explore further opportunities for private sector involvement such as more design and build contracts, turnkey projects etc.

To conclude, we are pulling out all the stops to avoid the recurrence of underspending. The Public Works Programme is a team effort. All the staff of the works departments, Finance Branch and other policy Secretaries are part of that team and we are united in our determination to improve Government's performance. I am confident that in the coming financial year there will be further significant improvements.

Programme & Resources Division  
Works Branch  
8 April 1993

**Appointments to the Housing Authority**

13. MR LEE WING-TAT asked (in Chinese): *Will the Government inform this Council:*

- (a) of the criteria adopted in appointing members to the Housing Authority;*
- (b) whether consideration will be given to appointing more grassroots representatives and elected Members to the Housing Authority; and*
- (c) whether it is aware of the criteria adopted by the Housing Authority in appointing members to its subcommittees, and if so, what the details are?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President,

- (a) Under the Housing Ordinance the Governor can appoint four official members, including the Director of Housing, and an unspecified number of non-official members to the Housing Authority. The official members are appointed with regard to the relevance of their work to housing and related matters. As regards non-official members, factors such as the appointees' backgrounds, expertise, likely contributions to the Authority's deliberations and the balance of views which will accordingly be available to the Authority are all taken into account. The objective is to strike a balance between the broader interests of the whole community and the narrower interests of the occupants of Authority estates, as well as between the various specialisms and expertise of the membership.
- (b) In recent years, more members from representative bodies and political groups have been appointed to the Authority. Of the 18 non-official members serving on the Authority at present, about 40% are from the elected membership of the Legislative Council, the municipal councils and district boards. This compares with about 30% in 1989. Some serving members are themselves public housing tenants. The need to appoint members who can reflect a full range of views from the community will continue to be taken into account in future.
- (c) The Administration is aware of the criteria that the Authority adopts when it appoints its committees and subcommittees members. At present, the Authority has nine standing committees and one ad hoc committee, covering such areas as estate management, home ownership, building design and maintenance, finance, commercial properties and tenancy appeals. The criteria adopted in appointing

members to each of these committees are similar to those for the full Authority, but with emphasis on the particular needs of individual committees in discharging their functions.

### Primary One places

14. MR WONG WAI-YIN asked (in Chinese): *As Primary One Admission District 73 in Yuen Long had insufficient primary one places for allocation in the past few years, some students were allocated places in schools outside their own districts. Will the Government inform this Council:*

- (a) *how places in the five Primary One Admission Districts in Yuen Long will be distributed for the 1993-94 academic year, including the number of students to be allocated school places through the central allocation system and the number of school places available for allocation; and*
- (b) *whether there will be any shortage of school places in Primary One Admission District 73 in Yuen Long in the next academic year; if so, what the estimated shortfall is and what measures will be taken to minimize the inconvenience caused to parents and students studying in schools outside their own districts?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President, the answers to Mr WONG's questions are as follows:

- (a) In line with the territory-wide practice, up to 65% of Primary One places in Yuen Long are first allocated by schools at their discretion. The balance of at least 35% is allocated centrally by the Education Department. The distribution of places within the five Primary One Admission (POA) Districts in Yuen Long for the 1993-94 school year is:

A	B	C	D	E	F
POA District	Total capacity for places	Discretionary places allocated	Capacity for central allocation (B-C)	Demand for centrally allocated places	Shortfall (D-E)
D72	2 249	363	1 886	373	nil
D73	1 881	1 124	757	998	241
D74	1 615	622	993	282	nil
D75	368	95	273	80	nil
D76	285	126	159	44	nil

- (b) The above table shows a potential shortfall of 241 centrally allocated places in POA District 73. The Education Department will ask schools within this district to consider operating additional Primary One classes. Other measures include allocating places in adjacent or nearby POA Districts and encouraging schools to operate their own school bus service in appropriate cases.

### **Unauthorized conversion of agricultural land**

15. MR JIMMY MCGREGOR asked: *With the construction of the new airport, will be Government inform this Council what measures are being taken to prevent unauthorized conversion of the agricultural land on Lantau Island for commercial or industrial use?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President, there are at present no apparent signs of unauthorized conversion of agricultural land on Lantau Island for commercial or industrial use. The construction of the new airport and other projects on the island may well generate demand for such uses. Statutory plans, outline development plans and layout plans are therefore being prepared to provide planning control and guidelines for future development. These should help prevent unauthorized and incompatible land uses in the areas covered.

As regards the central and southern parts of Lantau, most of the areas are either covered by statutory plans or are within country park boundaries. Land use can therefore be largely controlled.

The situation is being monitored and appropriate action, such as the preparation of Development Permission Area plans or lease enforcement, will be taken if necessary.

### **Food premises in the shopping centres of public housing and HOS estates**

16. REV FUNG CHI-WOOD asked (in Chinese): *At present, a newly completed public housing estate or Home Ownership Scheme (HOS) estate is normally provided with only one Chinese restaurant and one fast food shop in its shopping centre. Owing to the high prices charged by these restaurants, residents of such estates have no other choice but to patronize the fast food shops where the service standard and the varieties and quality of food are inferior to those outside these estates. Will the Government inform this Council:*

- (a) *whether its existing policy on provision of food premises in the shopping centres of public housing estates and HOS estates would lead to monopoly of business;*
- (b) *what measures are adopted by the departments concerned to improve the above situation; and*
- (c) *whether consideration would be given to introducing competition, such as bringing in cafes, in order to provide the local residents with more choices?*

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President, the Housing Authority's letting strategy for its commercial centres is to provide residents and shoppers with a range of choices by having a good mix of trades. This includes catering outlets. The physical provision will however depend on such factors as local demand, the location and size of the estate.

There are very few newly completed commercial centres in public housing estates which are provided with only one Chinese restaurant and one fast food shop unless the catchment is small. For example, six out of seven commercial centres completed in 1992-93 have more than two catering outlets of different types. Prices charged by Chinese restaurant operators in public housing estates are generally lower, not higher, than comparable establishments in the private sector. As regards the service, variety and quality of food provided by fast food shops in public housing estates, it would be too sweeping to say that they are inferior. Most establishments belong to major chain operations with respectable records.

As regards the three specific questions, the answers are as follows:

- (a) Food premises in the Housing Authority's shopping centres, like other trades, are let out by negotiation or tender. There is thus very little chance of a monopoly of business. This is borne out by letting records.
- (b) The current letting situation is satisfactory. The Housing Authority has an open mind, however, and welcomes feedback from operators and patrons alike in reviewing the adequacy and quality of service provided by food premises on its estates.
- (c) In a typical estate, some 40% of commercial space is leased to food caterers of one kind or another, including restaurants, fast food and take-away outlets, congee/noodle shops and food courts. There is competition already in these shopping centres, but if there is a strong demand for any particular type of food or catering



establishment, good business sense dictates that the Housing Authority will consider accommodating it.

Finally, residents always have the choice of home-cooking if they find the commercial choices not to their taste.

### **Rehabilitation centres**

17. MR HUI YIN-FAT asked (in Chinese): *As the recent setting up of rehabilitation centres for the disabled by the Government have time and again faced objections from residents within their districts, will the Government inform this Council:*

- (a) what factors are taken into consideration in deciding to set up social welfare units within a district;*
- (b) when allocating units for rehabilitation centres for the mentally handicapped and people with records of mental illness, whether consideration is given to other special factors, such as objections from the neighbouring residents and, if so, the rationale behind such consideration; and*
- (c) what administrative guidelines are now in place to specify the stand and measures that the Government should take when faced with opposition from residents?*

SECRETARY FOR HEALTH AND WELFARE: Mr President, in deciding to set up a social welfare facility in a certain district, the Government has regard to local needs for the service concerned, the availability of suitable premises, related community facilities, transport, and, where applicable, access for disabled persons.

We consult relevant district boards on the setting up of all welfare facilities, including those for children and youth, elderly, mentally handicapped and ex-mentally ill persons. Should there be any queries about, or objection to, a project from district residents, we will be happy to meet and discuss with them ways to accommodate their views and allay their fears. For instance, we might give special consideration to modifying the physical configuration of a service unit.

The Administration's established policy on the integration of disabled persons into the community was set out in the first White Paper on Rehabilitation, published in 1977. This policy was reaffirmed by last year's Green Paper on Rehabilitation, a subject of extensive consultation in the territory.

In handling any public objection, district staff of Social Welfare Department will alert their headquarters in the first instance. If necessary and in conjunction with the non-governmental organization running the service, they will approach and discuss with concerned resident groups their grounds of objection. They will further explain to them the nature of the service and seek their views on ways to allay their fears. Staff of the Social Welfare Department (SWD) will also get in touch with the relevant district board and upon its advice, area committee/mutual aid committee, where appropriate, with a view to explaining the Administration's policy on rehabilitation and clarifying queries on the project.

Enhanced public education programmes will also be organized to dispel concerned residents' misconceptions about disabled persons. Throughout this process, staff of SWD will liaise closely with the relevant District Officer of City and New Territories Administration and staff of Housing Department to assess and monitor closely local views.

### **Drug rehabilitation activities**

18. MR CHEUNG MAN-KWONG asked (in Chinese): *In relation to the drug addiction treatment activities organized by recognized non-profit-making religious bodies, will the Government inform this Council:*

- (a) *of the existing ways to subsidize these activities; and*
- (b) *whether consideration will be given to assisting such activities by means of cash subsidies, if not, why not?*

SECRETARY FOR SECURITY: Mr President,

- (a) The Government assists non-profit-making religious bodies by making land and accommodation available at concessionary terms for drug detoxification and rehabilitation centres, for example by reimbursement of the rent for accommodation for such centres in public housing estates.
- (b) There are two publicly funded voluntary drug treatment programmes for opiate drug abusers: the out-patient methadone treatment programme operated by the Department of Health and the in-patient treatment and rehabilitation programmes operated by the Society for the Aid and Rehabilitation of Drug Abusers. There is also a counselling service for abusers of psychotropic substances operated by the Hong Kong Christian Service, which has been receiving a government subvention for this purpose since March this year. All three publicly funded voluntary drug treatment and counselling programmes have an open-door admission policy. The

provision is currently adequate to meet demand. We have no plans to extend cash subsidies to organizations offering treatment based on religion.

### **Employees retraining**

19. MR PANG CHUN-HOI asked (in Chinese): *With regard to the progress of employees retraining, will the Government inform this Council of:*

- (a) the number of staff to be deployed by the Labour Department to monitor the proposed On-the-Job Training Scheme to be launched by the Employees Retraining Board; and the guidelines to be drawn up with employers to ensure that workers can really receive effective on-the-job training and will not be exploited; and*
- (b) the latest employment rates in respect of graduates of various training courses under the Employees Retraining Scheme; the number of graduates who have secured jobs relevant to their retraining courses, and the number of those whose jobs have no relevance to the courses?*

SECRETARY FOR EDUCATION AND MANPOWER: Mr President, the answers to Mr PANG's questions are as follows:

- (a) All 18 placement officers of the 10 district offices of the Local Employment Service (LES) will help monitor the proposed On-the-Job Training Scheme to be launched by the Employees Retraining Board. To ensure that workers receive effective on-the-job training and will not be exploited, the Employees Retraining Board requires every firm participating in the scheme to submit a training programme and to appoint a supervisor to look after the retrainees. The firm must also meet certain additional requirements before it is admitted into the scheme, for example, its employment size must be over 20 persons and the wages offered to retrainees must be in line with market rates. Potential abuse of the scheme will be avoided or minimized by careful selection of employers. In the first phase of the scheme which is about to be launched in May, it is the intention of the Board to confine participation to well-established and reputable firms. Employers found to be abusing the scheme will be suspended or disqualified from the scheme.
- (b) As at 16 April 1993, 431 retrainees had completed retraining Courses. Of these:

- (i) 169 did not require the job placement services of the Labour Department and no information is available on the nature of the jobs they have presumably secured;
- (ii) the remaining 262 were provided with job placement services by the Labour Department and other training bodies. Of these:
  - (1) 110 were successfully placed, mostly in jobs directly relevant to their retraining;
  - (2) 94 eventually secured, by themselves, jobs which might or might not be directly relevant to their retraining; and
  - (3) 58 were still awaiting placement.

### Visitors from Taiwan

20. MR HENRY TANG asked: *Will the Government provide the following information in respect of visitors from Taiwan in the past three years:*

- (a) *the total number of visitors and their estimated total spending in Hong Kong;*
- (b) *the number and growth rate of visitors who, on arrival at the airport, were transferred to flights for China; and*
- (c) *the number and growth rate of visitors who stayed for less than 24 hours in Hong Kong?*

SECRETARY FOR SECURITY: Mr President,

- (a) The number of visitors from Taiwan and their estimated expenditure in Hong Kong in each of the past three years were as follows:

	<i>1990</i>	<i>1991</i>	<i>1992</i>
No. of visitors	1 344 641	1 298 039	1 640 032
% increase/decrease compared with the previous year	+18.7%	-3.5%	+26.3%

	1990	1991	1992
Total expenditure (HK\$m)	7,264	7,033	11,811
% increase/decrease compared with the previous year	+30.7%	-3.2%	+67.9%

- (b) The numbers of passengers from Taiwan who, on arrival at the airport, transferred to flights for China were as follows:

Year	No. of passengers	% increase/increase
1990	405 083	+30%
1991	509 962	+26%
1992	686 216	+35%

- (c) The number and growth rate of visitors from Taiwan who stayed for less than 24 hours in Hong Kong are as follows:

	<i>Arrive and depart within the same day</i>		<i>% Increase/decrease</i>		<i>Overnight</i>	<i>% Increase/decrease</i>		<i>Total</i>	<i>% Increase/decrease</i>
1990	234 556	+126.8%	573 119	+18.8%	807 675	+37.9%			
1991	340 434	+45.1%	408 003	-28.8%	748 437	-7.3%			
1992	523 260	+53.7%	456 774	+12%	980 034	+30.9%			

## First Reading of Bills

### JUDICIAL OFFICERS (TENURE OF OFFICE) BILL

### INTERPRETATION AND GENERAL CLAUSES (AMENDMENT) BILL 1993

*Bills read the First time and ordered to be set down for Second Reading pursuant to Standing Order 41(3).*

## Second Reading of Bills

### JUDICIAL OFFICERS (TENURE OF OFFICE) BILL

THE CHIEF SECRETARY moved the Second Reading of: "A Bill to provide procedures for discipline of judicial officers of certain courts and tribunals."

He said: Mr President, I move that the Judicial Officers (Tenure of Office) Bill be read a Second time. The Bill provides for the procedures for the discipline and removal of judicial officers other than judges.

At present, judicial officers other than judges, along with other public officers, are subject to the provisions under Article XVI of the Letters Patent for their discipline and removal from office. The procedures for such purposes are set out in the Colonial Regulations and Disciplinary Proceedings (Colonial Regulations) Regulations. These officers include the Registrar, Deputy and Assistant Registrars of the Supreme Court, Magistrates, Presiding Officers of the Labour Tribunal, Members of the Lands Tribunal, Adjudicators of the Small Claims Tribunal and Coroners.

To underline the independence of these judicial officers from the Civil Service, it is considered that separate provisions for their discipline and removal should be embodied in legislation providing for their tenure of office, rather than in the Colonial Regulations and the Disciplinary Proceedings (Colonial Regulations) Regulations. The Bill, which I now move, is intended to achieve this objective.

*Bill referred to the House Committee pursuant to Standing Order 42(3A).*

### **INTERPRETATION AND GENERAL CLAUSES (AMENDMENT) BILL 1993**

THE SECRETARY FOR THE TREASURY moved the Second Reading of: "A Bill to amend the Interpretation and General Clauses Ordinance."

He said: Mr President, I move that the Interpretation and General Clauses (Amendment) Bill 1993 be read the Second time.

The Government collects over 5 000 fees and charges, about half of which are stipulated in subsidiary legislation made by the Governor in Council. Our policy is to review fees annually to ensure that the levels are, with certain specific exceptions, at least sufficient to recover the costs incurred by the Government in providing the services of facilities concerned.

Every revision of fees now effected by subsidiary legislation must be submitted to the Governor in Council for approval. The purpose of the Bill now before Honourable Members is to reduce the number of routine fee revisions put before the Executive Council, as part of a wider exercise designed to allow Executive Council Members more time to focus on broader policy and strategic issues.

The Bill provides that, where under any Ordinance subsidiary legislation has been made by the Governor in Council setting a fee or charge, regulations may subsequently be made by the Financial Secretary varying the level of that fee or charge.

The Bill will not affect cases in which levels of fees and charges are directly approved by this Council. Subsidiary legislation made by the Financial Secretary under the provisions of this amendment will continue to be tabled at the Legislative Council as at present. The Legislative Council's power to monitor and challenge fee proposals will thus in no way be eroded.

*Bill referred to the House Committee pursuant to Standing Order 42(3A).*

### **OZONE LAYER PROTECTION (AMENDMENT) BILL 1993**

#### **Resumption of debate on Second Reading which was moved on 3 February 1993**

*Question on the Second Reading of the Bill proposed, put and agreed to.*

Bill read the Second time.

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

#### **Committee stage of Bill**

Council went into Committee.

### **OZONE LAYER PROTECTION (AMENDMENT) BILL 1993**

Clauses 1, 2 and 4 to 6 were agreed to.

Clause 3

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr Chairman, it is a very good illustration of the comprehensiveness of our environmental programmes that last week in these Chambers I introduced the Sewage Tunnels Bill and today I am dealing with protection of the ozone layer. I make no apology for taking Members from those depths to these heights.

I move that clause 3(1)(a) be amended as set out in the paper circulated to Members.

Clause 3(1)(a) of the Bill gives the Authority further powers in the right of entry and inspection of premises, other than domestic premises, for the purposes of the Ordinance. Clause 3(1)(a) is amended now to define more clearly and precisely the type of "refrigeration equipment" to come under control of the Ordinance.

This amendment has been discussed and agreed by the House Committee.

Thank you, Mr Chairman.

*Proposed amendment*

### **Clause 3**

That clause 3(1)(a) be amended, by deleting the proposed subparagraph (ii) and substituting —

"(ii) any premises (other than domestic premises) in which there is a machine or machinery designed to cool or freeze anything or to function as a heat pump;".

*Question on the amendment proposed, put and agreed to.*

*Question on clause 3, as amended, proposed, put and agreed to.*

Council then resumed.

### **Third Reading of Bill**

THE ATTORNEY GENERAL reported that the

### **OZONE LAYER PROTECTION (AMENDMENT) BILL 1993**

had passed through Committee with amendment. He moved the Third Reading of the Bill.

*Question on the Third Reading of the Bill proposed, put and agreed to.*

Bill read the Third time and passed.



**Members' motions**

PRESIDENT: I have accepted the recommendations of the House Committee as to time limits on speeches and Members were informed by circular on 26 April. The mover of the motion will have 15 minutes for his speech including his reply. Other Members will have seven minutes for their speeches. Under Standing Order 27A, I am required to direct any Member speaking in excess of the specified time to discontinue his speech.

**FINANCIAL ARRANGEMENTS BETWEEN THE HOUSING AUTHORITY AND GOVERNMENT**

MR FREDERICK FUNG moved the following motion:

"That this Council urges the Government to revise its existing financial arrangements with the Hong Kong Housing Authority, including the waiving of payment of interest and dividends and a reduction in the current excessive land development charges in order to allow the Authority to have more resources to introduce environmental improvement measures in public housing estates; and to increase the supply of land for public housing, so that the Authority can build more public housing units to meet the pressing demand of the public."

MR FREDERICK FUNG (in Cantonese): Mr President, honourable colleagues, the topic I raise today is "financial arrangements between the Housing Authority and the Government". Problems about public housing have worsened in the past few years. It is necessary for the Government to come to grips with them. I believe that Members are all aware that in recent years demonstrations have been held one after another in front of the Housing Authority headquarters. They are a gesture of the public housing residents' dissatisfaction with the way the Housing Authority formulates its policy and allocates resources. As far as I know, the Housing Authority is under enormous constraint in finding solutions for these problems. One of the major constraints is the financial arrangements between the Housing Authority and the Government, which makes it impossible to bring housing benefits to the lower class as soon as possible.

Under the financial arrangements, the Government injected \$26.283 billion in non-recoverable permanent capital (see note 1) into the Housing Authority. However, the Authority is required to pay to the Government in cash interest set at 5% per annum on the permanent capital and, before the interest, 50% of the profits arising from non-domestic units (such as commercial units, car parks, factory buildings). As regards land value, the Housing Authority need not pay any land premium for its public rental housing. But it has to pay the land cost of its Home Ownership Scheme (HOS), and the value of land calculated at market rate at the time of allocation, less the land cost recovered by the Government, is carried to the account of the Housing Authority.

The interest and dividends paid to the Government by the Housing Authority during the 13-year period from 1988 to 2001 will amount to \$31.2 billion. This heavy financial burden has to be shouldered by public housing tenants. This amount will exceed by \$5.2 billion the \$26.28 billion the Government lent upfront in 1988. If my proposal that the Housing Authority repay the permanent capital free of interest over 40 years and stop paying dividends to the Government was put into practice with effect from 1994, there would be a usable saving of \$17.7567 billion (see note 2) in the next seven years which would not have happened under the original arrangements. Spent on public housing development, the money would be enough for building 68 000-odd units to accommodate about 270 000 people. It is believed this would shorten the waiting time for public housing for approximately 180 000 Waiting List families (the Housing Authority's recent estimate put the figure at 70 000-plus families) and 60 000-plus families affected by clearance.

Another point concerns the inclusion of the market land value of HOS in the accounts of the Housing Authority. The high land price policy pursued by the Government has resulted in a much higher deficit in the Housing Authority's books. This gives the Housing Authority the ground for rent increases — usually tenants are issued with a statement outlining the deficit of the Housing Authority when there is a rent increase — while leaving the poor management and undesirable living environment of public housing estates unimproved. Let me give an example. Over the past year, residents of Tuen Mun, which has recently been plagued by the problem of a rapist on the prowl, have repeatedly demanded that security of public housing estates in the area should be stepped up by recruiting more caretakers, installing closed-circuit television in lifts, erecting more iron gates and so on. And throughout the past 10 years or so, public housing tenants have urged for improvement to the so-called "three joss sticks" type of drying racks. Having been in use for 30 years, this type of drying racks pose a danger to women and the elderly when they hang out the laundry. The Housing Authority has discussed the above security and safety problems on many occasions. However, it has all along taken no action to

On the land cost of HOS, the arrangements made by the Government are also unfair. At present, the Government receives 35% of the building cost of each project from the Housing Authority as site formation cost. It is estimated that the Housing Authority has turned over a total of \$4.4 billion to the Government in the past five years. The problem is that, according to the information provided by the Housing Department to the Government, land cost usually accounts for 12% of the building cost. Thus the Government is again making profit, charging three times the land cost here.

The Government always defends these arrangements, saying that the resources it has invested need to yield a return. I, together with the Hong Kong Association for Democracy and People's Livelihood, disagree with this point. There are two reasons: firstly, since the Government stresses investment and return, why does it not charge independent public corporations, like the Hospital Authority and the Provisional Airport Authority, interest? Why does it employ double standards in its policies? Secondly, when the Government offered the permanent capital, why did it stipulate that the Housing Authority should not repay the principal by yearly instalments but had to pay interest indefinitely, whereas other public organizations, such as the Land Development Corporation and the Kowloon-Canton Railway Corporation, could be allowed to repay the principal by instalments? Why could the Housing Authority not do the same? If the existing practice continues, the total amount of interest paid by the Housing Authority may one day exceed the Government's permanent capital of \$26.283 billion. Then the Housing Authority will in turn be "subsidizing" the Government. Is it appropriate to have such practice?

Many people think that it is fitting and proper for the Government to obtain a return on its investment. However, we have to realize that this is not in line with the spirit of the public housing policy. The purpose of the policy is to provide rehousing for those who cannot afford decent and suitable housing in the private market, and to provide rehousing and compensation for those affected by clearance. However, the existence of these financial arrangements, the implementation of the Long Term Housing Strategy and the pegging of HOS prices to market prices all show that the Government has increasingly treated public housing as a profit-making item. As a result, public housing tenants and people who wish to acquire property have to suffer the consequences of escalating public housing rental and property prices. The exceedingly low qualifying income limits set for public housing and the inadequate supply of such housing has made it difficult for Waiting List families, who have a limited income, to be allocated a unit. Such being the case, members of the public naturally have to voice their grievances to the Housing Authority. The public housing policy has lost the function of stabilizing society which it is supposed to have. So far from fulfilling such a function, it has become the source of social problems.

The Housing Department, on behalf of the Housing Authority, is formally discussing the relevant arrangements with the Finance Branch. It is therefore timely for me to move the present motion now. I hope my proposal will bring about changes in two stages. In the first stage, the Government should abolish the practice of requiring the Housing Authority to pay dividends before interest. In the five years since the implementation of the financial arrangements, the Housing Authority has paid \$0.29 billion extra (see note 3) to the Government in accordance with the practice. Going through the agreement on the financial arrangements, I could not find any provision stipulating that the Housing Authority is bound to do so. Therefore, the existing practice can be phased out within this financial year and replaced by an alternative practice of paying interest before dividends. The alternative method is fair, because from the

accounting point of view, the profit after payment of interest is the real net profit. In the second stage, the financial arrangements should be altered completely. The Housing Authority will not have to pay interest. Instead, it will repay the permanent capital over a period of 40 years. The requirement of paying dividends to the Government will be cancelled and the land value of HOS will not be carried to the account at market rate. Furthermore, the excessive price charged for land formation will be reduced. In consideration of the fact that land formation only takes up 12% of the building cost, the Government should be realistic and charge the Housing Authority 12%, not 35% of the building cost. The Housing Authority may use the money to construct more public housing units as well as to upgrade the living environment and management of public housing for the benefit of the lower class.

In view of the sandwich class housing problem — the sandwich class means those with income exceeding the HOS income limit but who cannot afford housing in the private sector — the Housing Authority has dramatically raised the income limits for Waiting List and HOS applicants. The adjustment has resulted in a larger number of people being eligible for public housing (see note 4). From 1990 to 1993, the number of families eligible for rental public housing jumped from 81 500 to 121 000, and the number for HOS jumped from 79 000 to 83 500, reflecting an increase of 48% and 5% respectively. We must not forget that while there is an annual supply of 30 000-odd units in new and old rental estates, there are 16 000 units being demolished each year. In other words, not many units are left for allocation to Waiting List applicants. Hence the waiting time for public housing is prolonged. The factor giving rise to this situation is the limited supply of land for public housing development.

The lack of funds to build more public housing units is only one of the problems faced by the Housing Authority. Another problem which plagues it all the time is land supply. By the year 2001, there will be a shortfall of about 50 hectares of land for the Housing Authority's public housing programmes. However, according to the information supplied to us by the Planning Department, there will be a surplus in land supply for private housing. The surplus is expected to be around 20 hectares by the year 2001. Therefore, it can be seen that the Government does not care much about the implementation of the housing policy. Indeed if the Government is prepared to somewhat change the ratio for different types of land use, the public housing production target can be met earlier. The land use planning I have just referred to is permanent in nature and is presently in an embryonic stage (see note 5). I believe it is possible to raise public housing production if the Government is willing to allocate more land for such purpose. It will help the matter if funds can be made available at the same time.

In conclusion, I hope that the Government will understand that the primary purpose of abolishing the financial arrangements is to allow the Housing Authority to have more capital funds for use with flexibility. The move will also enable the Housing Authority to employ its own resources to boost public housing production and upgrade the living environment. As a

result, the Housing Authority will no longer be under the constraint of the heavy financial burden and inadequate supply of land. I stress again that my motion does not request the Government to inject additional funds into the Housing Authority. Instead, it requests the Government not to take away too much money from the Housing Authority.

Mr President, I so submit.

Note 1: Permanent capital includes: (i) About \$13.488 billion from the Development Loan Fund which is used up but not yet repaid by the Housing Authority; (ii) around \$2.795 billion from the HOS Loan Fund; (iii) \$10 billion injected by the Government during the five financial years from 1989 to 1994.

Note 2: There will be a saving of \$17.7567 billion in the next seven years if, starting from 1994, the permanent capital is to be repaid over 40 years and dividends need not be paid to the Government. The following shows how this figure is arrived at:

- (A) Dividends and interest on permanent capital estimated to be payable from 1994 to 2001: \$21.2367 billion.
- (B) Permanent capital less interest paid on the capital from 1988 to 1994: \$26.249 billion - \$6.3604 billion = \$19.8886 billion
- (C) Suppose the permanent capital is to be repaid over 40 years: \$19.8886 billion  $\div$  40 = \$0.497 billion
- (D) The total amount repaid from 1994 to 2001: \$0.497 billion x 7 = \$3.48 billion
- (E) (A) - (D) = \$21.2367 billion - \$3.48 billion = \$17.7567 billion

Note 3: The practice of paying dividends before interest has cost the Housing Authority an extra \$0.29 billion over the years.

1988-89 : \$0.054 billion  
 1989-90 : \$0.066 billion  
 1990-91 : \$0.076 billion  
 1991-92 : \$0.092 billion  
 Total : \$0.29 billion

Note 4: More people have become eligible for rental public housing and HOS. The following shows the change in the number of eligible families:

	Rental Public Housing	HOS
1990	81 500	79 000
1991	95 400	83 300
1992	114 100	80 800
1993	121 000	83 500
Increase rate (comparing the 1993 figure with the 1990 figure)	48.46%	5.69%

Note 5: According to information, there is no chance for ordinary applicants for public housing to be allocated a unit in the urban areas. The waiting time is around seven years for units in Sha Tin, around three years for Tai Po and two years for Tuen Mun. The waiting time may vary, depending on various factors, the major ones being the financial ability of the Housing Authority and the supply of land.

If Kai Tak Airport can be relocated according to the original schedule, it will release 230 hectares of land for use after 1997. Of the 428 hectares of land to be obtained from West Kowloon Reclamation, 15 hectares will be for public housing development, 38 hectares for purely private residential development and 14 hectares for commercial/residential development. It is not impossible to change this ratio since the planning for much of the area is in an embryonic stage.

*Question on the motion proposed.*

MR HUI YIN-FAT (in Cantonese): Mr President, in respect of the existing financial arrangements between the Housing Authority and the Government, the latter's commitment and contribution towards supporting the Authority's programme of construction of low cost housing for low income families is reflected in the supply by the latter of premium free land. This notwithstanding, I still think that the Government's financial commitment is insufficient, so much so that the progress of the Authority's programme of construction of public housing is adversely affected. Since many aspects of the existing financial arrangements are indeed unreasonable and given that these arrangements have been in place for five years, I therefore agree that it is time we reviewed these arrangements with a view to ensuring that the Authority will have sufficient funds to accomplish the housing programme set out under the Long Term Housing Strategy that stretches as far into the future as 2001.

I think that the existing financial arrangements are unfair on three fronts:

(1) Payment of interest

The Government has already injected a total of \$26.283 billion into the Housing Authority as permanent capital within five consecutive financial years beginning in 1988. The principal purpose of this injection is to help the Authority become financially independent, while maintaining sufficient rolling funds to cope with the large volume of housing construction every year. However, the Authority has to pay to the Treasury yearly interest on the permanent capital, amounting to 5% of the Authority's income and expenditure account balance. This is undoubtedly a heavy financial burden. In the Authority's budget this year, for example, the \$1.3 billion interest payable to the Government accounts for 4.3% of the Authority's total expenditure of \$30 billion. This figure is not to be taken lightly as it is a major factor contributing to the Authority's going from black to red in its books relating to the management of public housing. The average public housing tenant can hardly accept these deficits as reasons for rent increases. Little wonder then that every rent increase proposed by the Authority was met with strong opposition from tenants, who claimed it was fleecing the public for the benefit of the Government. The Authority is chafing under this and yet unable to say it.

In order not to defeat the original purpose of the Government's injection of capital into the Authority, and to reduce the conflict between the Authority and tenants over rents, I think that the Authority should refrain from paying interest to the Government. Even so, the Authority will do no more than just about break even as far as its accounts for management and maintenance of public housing are concerned.

(2) Accounting arrangements

According to the existing Inland Revenue Ordinance, a company may put interest payable on loans on the expenditure side of its account in order to render it tax-deductible. However, the Housing Authority is required by the Government to pay an interest of 5% based on its income and expenditure account balance in respect of rental units. In other words, the interest paid cannot be put under the heading of expenditure. This extremely unreasonable accounting arrangement reflects the might and high-handedness of the Government. It will affect not only the surplus of the Authority, but even further increase its deficit. I think that even if the Authority is obliged to pay in a certain respect, the payment should be put under the heading of operating expenditure so as to rationalize the accounting arrangements.

(3) Land development costs

Although the Housing Authority is provided with premium free land by the Government for the construction of public housing, it has to pay land cost at prevailing market value as far as HOS developments are concerned. The amount payable is 35% of the building construction costs. However, investigations conducted by the Housing Department revealed that the general cost of land developed by the Department would account for 12% to 15% of the building construction costs. Hence it is evident that the Government is intent on fleecing the public. I think that unless the Government can provide reasonable explanations to this Council, this land cost expenditure must be revised immediately.

Surpluses from non-domestic operations, such as commercial complexes and car parks, are equally shared between the Government and the Authority. While this arrangement cannot be faulted in that the commercial tenants concerned will be discouraged from thinking that the rents they pay are being used by the Authority to subsidize public housing domestic tenants, so doing will enable the Authority to honour its moral commitment to the Government. However, the dividends should be shared equally with the Government only after a deduction of all operating costs including the interest payment.

In order for the Housing Authority to accomplish on schedule the objectives of the housing programme set out under the Long Term Housing Strategy, it is imperative that sufficient funds be made available. But the key lies in ensuring a sufficient supply of land. Therefore, as a member of the Housing Authority, I urge the Government to undertake to provide an additional 50 hectares of land to the Authority, in order to meet the demands for public housing in future and to accomplish the objectives of the Long Term Housing Strategy.

Mr President, I have however reservations about the proposal to abolish dividend-sharing between the Authority and the Government. With these remarks and in the light of my holding more or less similar views to those of the Honourable Frederick FUNG as regards abolishing the interest payment and improving the accounting arrangements, I nevertheless support the motion.

MR TAM YIU-CHUNG (in Cantonese): Mr President, housing is the number one headache for the great majority of Hong Kong people nowadays. Some people have to labour and toil throughout their lives for housing. Some have to wait for years. Solving the housing problem is seen as the key to improving the general public's quality of living.

I am a member of the Legislative Council Housing Panel. When panel members reflect tenants' demands to Housing Department officials at meetings, the latter will normally take shelter behind the shield of limited resources. Of course, resources are always limited. But could we work for an appropriate



level of expansion on the basis of the limited resources? The motion today is precisely a way of solving the problem.

With property prices remaining at a high level, demands for rental public housing and Home Ownership Scheme (HOS) flats must be increasing day by day. Added to this is the lack of solution to problems such as clearance of squatters, bedspace lodgers, sandwich class housing, temporary housing areas and redevelopment of old areas. Hence a more comprehensive and more dynamic housing strategy is undoubtedly needed whereas sufficient financial support is also essential.

The current relationship between the Government and the Housing Authority is essentially one of "contracting". The Government set up the Housing Authority and injected funds and allocated lands for the latter's operations, and then take a certain portion of funds derived from the Authority's operations annually as part of government revenue. There is nothing wrong in principle with this arrangement from the angle of boosting of government revenue. For we all know very well that from the macro social point of view, other items of social infrastructure such as education, health care, environmental protection and social welfare also need massive investments. However, the taking by the Government of large sums of money from the Authority's funds at a time when the housing needs of hundreds of thousands of people are still to be met is open to question. Is the Government trying to slow down the pace of building public housing? Will it not be distorting the objective and even the strategy of the public housing programme once profit-making becomes one of the aims of the programme? Is the current "principal-contractor" financial relationship between the Government and the Housing Authority adversely affecting the Authority's growth? I hope the Government will examine all these questions.

It is obvious that the housing construction programme occupies a very prominent position in the overall programme of social construction. To ensure that housing construction will take on a greater speed to reduce the heavy housing burden on the general public and to relieve the elderly and singletons of their housing predicaments is very clearly the responsibility of the Housing Authority. The Authority therefore undoubtedly needs sufficient resources and land supply, while the availability of funds is equally important. It is hardly convincing if one is to say that the speed with which housing estates are built is constrained only by the shortage of land supply.

At present, the annual interest payment of 5% on the permanent capital injected by the Government, the dividend payment of 50% of net disposable surplus from non-domestic operations and the payment of 35% of building cost for each new housing project as costs for land development all add up as a heavy burden on the Authority. The Authority has to pay such a large sum of expenditure before it can save sufficient money for development purposes. As a result of this, the scale of housing construction will very likely "shrink", even if the objective of housing construction is not distorted. The more than

\$10 billion surplus accumulated by the Authority over the last two years can be construed as the product of a conservative scale of housing construction. Any greater scale of construction, if needed, will certainly result in a tighter financial regime for the Authority. Hence, it is quite fair to deduce from this that the "contracting" terms set by the Government for the Authority are too harsh, so much so that the Authority has to resort to all available means of making profit, thus distracting itself from increasing the speed of housing construction.

As I have pointed out earlier, the Housing Authority has upon its shoulders the task of catering for the housing needs of a variety of people such as singletons, the elderly, sandwich class and people affected by clearance and redevelopment. This has led to a diversification of the Authority's responsibilities as well as its objectives. With the diversification of its objectives, the Authority need to develop, and development needs resources and more flexible financial powers. The current financial arrangements fail to guarantee sufficient financing for the Authority, nor financial autonomy. Therefore, I hope that the Government will review this question and come up with some improvement.

With these remarks, Mr President, I support the motion.

MR ANDREW WONG (in Cantonese): Mr President, I rise to support Mr Frederick FUNG's motion.

First of all, some history. The Government and the Housing Authority came to some new financial arrangements in 1988, by which the outstanding loans of \$13.5 billion to the Housing Authority from the Government were written off and turned into a permanent capital injection by the Government into the Housing Authority. A further commitment was made on the part of the Government to have another permanent capital injection of \$10 billion. And it was honoured before the end of 1993-94. To judge whether the seemingly reasonable new financial arrangements are really reasonable or not, we have to look at the following:

First, is the capital injection sufficient? Is the \$20-odd billion permanent capital injection sufficient? Is the sum large enough to meet the community's demand for public housing? Is it sufficient for the Housing Authority to redevelop the old public housing estates and construct new ones as expeditiously as possible? I am not going to make a detailed financial analysis but would like to point out that the \$2 billion (approximately one twelfth of the previous total capital injection) made available in the 1993-94 Budget for the sandwich class housing scheme can benefit merely up to 3 000 families over the next two to three years. Mr President, Honourable Members, the \$20 billion permanent capital made by the Government over the years is really too meagre.

Second, is the money a capital injection or a loan? Under the new financial arrangements, the Housing Authority is not required to repay the permanent government capital but an interest at 5% per annum is payable to the Government. Like any reasonable man, I cannot help asking whether the money is a real capital injection or merely a loan. If it is a capital injection, it is a defensible move to ask the Housing Authority to pay the dividends to the Government. As to whether such a dividend payment is a reasonable arrangement, I would go back to it later. But if it is a loan, why should dividends be paid to the Government? It means that the Government is drawing both the interest and the dividends, does it not? Incidentally, I would like to point out that interest is not payable to the Government in the cases of Mass Transit Railway Corporation (MTRC) and Kowloon-Canton Railway Corporation (KCRC). This is simply making fish of one and flesh of the other, that is to favour the two railway corporations and be prejudiced against the public housing tenants. I would like to urge the Government to immediately scrap the present arrangement of requesting the Housing Authority to make interest payment.

Third, high interest rate. The Housing Authority paid a total of \$3.85 billion as interest to the Government over the four years from 1988-89 to 1991-92. For the year 1991-92 alone, the interest amounted to as high as \$1.23 billion. Mr President, Honourable Members, you must be aware that the Government not only draws interest on the newly injected \$10 billion permanent capital, but on the \$20-odd billion of so-called permanent capital. What does it mean? Now the Government writes off the original \$10-odd billion loans and turns it into permanent capital, a fine-sounding name, but then charge a 5% interest on it. Does the Government really write off the outstanding loan? Or does the Government still regard it a loan? Such kind of false pretences cannot fool people for long.

Fourth, it is inequitable both to charge interest and to share dividends on the part of the Government. At present, according to the present accounting arrangements of the Housing Authority, its operating profits before deduction of interest is used as the base to compute the dividends payable to the Government. Any businessman will know that interest is part of the operating cost and the amount of dividends should be determined after deducting all the operating cost. I have some basic knowledge about this though I have never run a business myself. I hesitate to speculate if there is a secret agreement between the Government and the Housing Authority. But such being the case, the arrangement of charging interest and sharing dividends at the same time is indeed a swindle, by which the Government managed to swell the public coffers to the extent of \$0.29 billion over the four years from 1988-89 to 1991-92. I hope that this is an unintentionally mistake and would like to urge the Government to return the \$0.29 billion to the Housing Authority at once.

Fifth, the arrangement about the dividend payment leads to some disputes and misunderstanding. The arrangement between the Government and the Housing Authority for the dividend payment only applies to non-domestic

accounts of the housing estates and the Home Ownership Scheme, that is, commercial facilities such as shopping complex, markets and car parks. Therefore, as a matter of principle, it is not an unreasonable arrangement. Of course the permanent capital should be exempted from interest payment so as to avoid double charging. Still, the dividend payment arrangement does give rise to many unwarranted disputes and misunderstandings. The biggest misunderstanding is that many public housing tenants do not realize that the dividend arrangement does not apply to domestic accounts. The biggest contentious point is that under the 50-50 dividend sharing arrangement, half of the surplus goes to the Government. Why not allow the revenue from non-domestic accounts to serve as buffer fund for domestic accounts and development and construction accounts? Mr President, Honourable Members, allow me to put forward a brand new arrangement here. I propose to abolish the dividend sharing arrangement and that all the surplus should go to the Housing Authority. In case the accrued surplus is in excess of the required expenditure of the Housing Authority in the coming few years, the Financial Secretary should have the discretion to transfer the excessive amount to a specific head under the Housing Authority's capital investment fund accounts. And the money will be returned to the Housing Authority if needs arise. The same can also apply to MTRC and KCRC. Such an arrangement will undoubtedly reduce the flexibility of the capital investment fund and the general revenue accounts. Yet, the flexibility would not be lost completely. Moreover, the profit and loss statement of each public utility company can be seen at a glance. I am not an accountant. And I have to leave it to the experts to put the idea into practice.

Mr President, the Governor Mr Chris PATTEN told us at the 22 April meeting in this Council that the Executive Council did not accept the Housing Authority's proposal with regard to the selling of public rental housing to sitting tenants because the Executive Council did not believe that the proposal was imaginative enough, nor likely to make the sort of impact that we would like to see. Such remarks are really something. I dare not be self-complacent. But I truly believe that the two proposals, that is, waiving of interest on the permanent capital and surplus set aside for Housing Authority, I put forward today are not only in accordance with the principle of equity but also imaginative. By the same token, the proposal on the sale of public housing I put forward to this Council on 6 May last year is also fair and imaginative. It would work.

Mr President, Hong Kong's housing policy looks fine apparently but is rife with problems in reality. I would like to urge the Government, the Executive Council and Honourable Members to keep an open mind and work together to create a Hong Kong where everyone can own his house.

Mr President, Mr Frederick FUNG's motion is a starting point leading us to such a brave new Hong Kong. I support the motion.

MR EDWARD HO: Mr President, the existing financial arrangements between the Government and the Housing Authority were put in place on 1 April 1988 when the Housing Authority was reorganized. The features of the arrangements are well known and some of them are the subject of Mr FUNG's motion and I therefore will not repeat them. However, there is one feature of the existing financial arrangements which is of special importance in the context of this debate: there is a proviso that "Government will continue to provide the Authority with the funds it requires to meet the housing programme as set out in the Long Term Housing Strategy approved by the Governor in Council".

Thus in establishing the existing financial arrangements, there is an explicit undertaking from the Government that the Authority would never be without the necessary fund to meet its programme under the Long Term Housing Strategy. If the Government were to honour that commitment, and we would expect no less from the Government, then Mr FUNG's worry, as implied in his motion, that without retaining the payment of interest and dividends to the Government the Authority would not have enough resources to satisfy its objectives to meet the housing demand of the public, is groundless.

It is well recognized that the Housing Authority has done a remarkably good job in that it has provided homes for nearly 3 million people and it has met its interim target set out in the Long Term Housing Strategy. It should however be recognized that the strategy was set to complete its target in the year 2001 and housing problem in Hong Kong cannot be solved overnight. It has never been expected that at this time, in the middle of the Strategy Period, housing problem in Hong Kong would have been solved. Certainly much more has to be done before that can be achieved.

The financial arrangements were determined in such a way that the Housing Authority could be largely financially autonomous. This it has done remarkably well. Over the past five years, it has paid to the Government, by way of dividends arising from profits from non-domestic operations and the 5% interest on the permanent government capital in the Authority, a sum of \$7.8 billion. In other words, it has repaid the Government a large portion of the \$10 billion of funding that has been injected to the Authority.

In the same period of time, some 200 000 units of public housing have been built. Although I have not accounted for the Government's subsidy in terms of premium free land for rental housing, this is no mean achievement. In addition, the Housing Authority has, as at 31 March 1993, a cash balance of some \$9.7 billion. Thus, through prudent financial management, the Housing Authority is in a very healthy financial situation. Barring unforeseen circumstances such as rocketing tender prices, this healthy financial position will remain in the coming years. It is difficult therefore to argue that it should waive payments of interests and dividends to the Government at this time.

Interests and dividends and land development charges paid to the Government from the Housing Authority would go into general revenue. They would form part of the public money to be used for the provision of other services to the public or the building of infrastructure for the community. Reduction of this revenue would mean possible cutbacks in other social services and infrastructure, or increasing revenue from other sources such as taxation, or fees and charges. As long as the continued payment of interests and dividends would not jeopardize public housing programme, it would be difficult to justify the risk of those undesirable consequences.

Contrary to what Mr FUNG implied, public housing programme is not constrained by the lack of financial resources at this time. It is a concern though that it may be constrained by the lack of supply of land and infrastructure if the Government were not to commit resources to the provision of these facilities in the coming few years. The latest projection was that there could be up to a lack of 50 hectares of land for public housing and we urge the Government to address this problem positively and urgently.

The public, in particular public housing tenants, should also be aware that the financial situation of the Housing Authority does not affect public rental levels or home ownership sale prices. These are determined by affordability. This fact should be well understood by Mr FUNG who is a member of the Housing Authority. Thus, if there is more money in the Housing Authority, it should not mean that rent will come down. Neither would it mean that if the Housing Authority is short of fund, then rent or Home Ownership Scheme (HOS) flat prices should go up. We must ensure that the Authority's finance and rent levels and sale prices are completely independent considerations.

Although we do not support Mr FUNG's motion, we do consider that housing policy should be reviewed from time to time and, as a result of these reviews, financial arrangements between the Authority and the Government may well be required. In particular, we urge the Housing Authority to review its policy regarding sale of flats to housing tenants. We consider that home ownership should be the ultimate objective and would be the fundamental solution to housing problem. The Liberal Party would be putting forward its proposal for sale of public housing to sitting and potential tenants to the Government and to the Housing Authority in the near future.

In conclusion, Mr President, we consider that it is vital for social stability in Hong Kong that housing demand is met through imaginative solutions and that the Government should continue to honour its commitments to accomplish that objective; but we also view housing as one of the many social services that have to be provided to those in need in our community, and public resources should aim at achieving a balance of priorities in meeting different social and economic needs. For the reasons given above, I and my colleagues in the Liberal Party cannot support Mr Frederick FUNG's motion.

REV FUNG CHI-WOOD (in Cantonese): Mr President, my speech will be focussed on the self-financing and self-sufficiency spirit of the existing financial arrangements of the Housing Authority. I think the spirit is neither practical nor reasonable.

First of all, the so-called self-financing policy of the Housing Authority is in fact not really self-financing. Actually what is meant by self-financing? It is stated in Section 4 of the Housing Ordinance that the policy of the Housing Authority shall be directed to "ensuring that the revenue accruing to it from its estates shall be sufficient to meet its recurrent expenditure on its estates". Honourable Members should bear an important point in mind. In fact, the Housing Authority makes use of its estates' operating surplus to cover the deficit incurred in the construction of estates. Yet, the construction cost of the public housing estates is capital expenditure. We know that even capitalist has to put up capitals if he wants to reap huge profits. However, the present situation is that the Government, as the proprietor of the public housing estates, even with the authority to sell Home Ownership Scheme (HOS) units, asks the public housing tenants to bear the full construction costs. This is indeed very unreasonable. Furthermore, we should not lose sight of the fact that the Housing Authority generates an overwhelmingly large proportion of its revenue from the lower stratum of the community. To achieve self-sufficiency, the Housing Authority indeed is allocating social resources in the way that one sector of low income people are subsidizing another sector of low income people. Because of the self-financing policy, the prices of HOS flats are maintained at a high level while the rents have kept on rising on the pretext that the Housing Authority is unable to shoulder the cost.

If the Housing Authority is really self-financing, there is no reason for the Government to request the Housing Authority to pay a huge sum of money each year. At present the Housing Authority is paying the Government an interest at a rate as high as 5% per annum. This is certainly too much in consideration of the fact that one can only get an interest of 1.5% with money deposited in a bank of about 3.75% for a three-year fixed deposit. However, when the Government deposits money in the Housing Authority, it can enjoy a full guarantee of an annual interest of 5%. At present the Housing Authority runs a surplus of over \$5 billion, \$1.23 billion of which is the sum that the Government had promised to subsidize the Housing Authority before 1 April 1994 so as to honour its commitment to make an injection of \$10 billion. Still, the problem is, though the Housing Authority has already run a surplus, its additional revenue of \$1.23 billion, even if earning a fixed deposit interest, is still insufficient to cover the annual interest of 5% to be paid to the Government. I wonder if the Government has so much a surplus for the year 1992-93 that the Housing Authority has no choice but to accept the public funding of \$1.23 billion.

From 1 April 1988 to 31 March 1993, the Government injected a permanent capital of \$26.283 billion in total into the Housing Authority for both the domestic and non-domestic housing units. It is estimated that there will be a

total return of \$31.6 billion from this investment by the year 2001, that is to say, after recouping the capital there will still be a surplus of \$5.4 billion. It is believed that the amount to be turned over to the Government in the 21st century will be even greater. Yet, the Government has never explained why it has to charge an interest of 5% instead of 4% or 3%. It merely kept on saying that it was an arrangement made in 1988 with the endorsement of the Legislative Council. Nevertheless, the Government has to understand that the present Legislative Council has the obligation to correct any previous wrong decision.

Obviously, the Government is more interested in getting profit return than subsidizing the Housing Authority as it treats its interest-free loan to the Housing Authority as an investment. In fact, the Government has gradually changed from the role of a subsidizer to a beneficiary in the context of the Housing Authority.

Secondly, I would like to point out that the Housing Authority is self-financing but has no say in some aspects of its own finances.

If the Housing Authority has a surplus larger than what it is required to hand over to the Government, the Financial Secretary may, after consulting the Housing Authority, ask the latter to turn the excessive amount to the Treasury. Like the interest and dividends paid by the Housing Authority to the Government each year, the use and appropriation of this amount is entirely left in the hands of the Government instead of the Housing Authority.

Such financial arrangements, which commenced in 1988, are, according to the Government, meant for assisting the Housing Authority in standing on its own feet financially. In fact, two criteria must be satisfied before this target could be achieved. The first criterion is that the Housing Authority must be left alone in terms of the handling of its finances. As I said just now, the Housing Authority is not given a free hand to dispose its surplus. It has no final say in handling its own finances. The second criterion is the possession of sufficient funds, which was definitely not the case of the Housing Authority in 1988. In this connection, we should waive the requirement that the Housing Authority should make a payment of interest and dividends to the Government so as to solve the public's long-term demand for public housing and HOS flats. Otherwise, it is very difficult for the Housing Authority to enjoy financial autonomy.

With these remarks, I support the motion.

MISS EMILY LAU (in Cantonese): Mr President, I rise to speak in support of the Honourable Frederick FUNG's motion which calls upon the Government to revise its financial arrangements with the Housing Authority, so that the Authority will have sufficient resources to look after the housing needs of the lower and middle income families.



Mr President, the Housing Ordinance provides that the Housing Authority shall be financially autonomous. But it has been running into deficits over the last several years. The deficit for the year 1991-92 is \$8.7 billion. According to the Authority's estimates done in November 1991, its account deficits for the 1992-93 to 1995-96 period will be \$12.3 billion. The deficits would stay above the \$4 billion mark even if the tender prices for the Authority's engineering projects should plunge. I believe the prospects are far from being optimistic if the Authority has to seek to make up for the shortfall with the sale of rental flats.

Mr President, a major factor contributing to the Housing Authority's deficits has been its financial arrangements with the Government which enable the latter to siphon off resources from the Authority. As a direct consequence of the said arrangements, we are no nearer a solution of the people's pressing housing predicaments, which solution is long overdue. In order to eliminate the deficits, the Authority should examine how best efficiency could be raised and unnecessary expenditures cut, in addition to a government initiated effort to remove the requirement for the Authority to pay interest and dividends to the Government. Is it necessary, for example, to print an overly exquisite annual report? Moreover, I disapprove of the Housing Authority raising the rents drastically well beyond the paying power of the lower and middle income people. And I disapprove all the more strongly of the Authority reducing its commitment to building public housing on the pretext of deficits. I think the current public housing building programme is, in quantitative terms, on the low side and this fills many low income people with the anxiety of a long wait. The Government should therefore enhance its commitment rather than cutting it.

I would like to remind the Government and the Housing Authority, Mr President, that there are many low income families anxiously waiting for assistance from the Authority to help them solve their housing predicaments, including of course many of the applicants who are still on the Waiting List. At present, there are 170 000 applicants on the Waiting List of whom the Authority recently claimed some 60 000 to be eligible. If we calculate by the present speed of allocating public housing units to 14 000 applicants every year, the said 60 000 applicants will need to wait at least four years before they are allocated units. But these people have been waiting for many, many years. So, Mr President, is it reasonable and fair to make these low income Hong Kong people shoulder heavy rents and put up with substandard living environment for a long period of time?

Mr President, at present, only one-third of newly completed public housing units are allocated to eligible applicants on the Waiting List. This proportion is indeed low. Therefore the Housing Authority must speed up the building of public housing units.

Mr President, despite the remote location, a large number of eligible applicants on the Waiting List are queueing up to move into public housing in Tin Shui Wai. It is because they do not want to wait any longer. This helps explain the people's strong demand for public housing.

Another group of people who need to be resettled as soon as possible are those residents who have been living in Temporary Housing Areas (THA) for a long time. Take the Mui Lee THA in Sha Tin as an example. The area was built on more than 10 years ago with very bad living environment, hygiene condition and security. In fact, it should well have been demolished. But the Housing Authority has kept the THA residents waiting, and then waiting again. I hope the Authority will demolish as soon as possible those "old age" and "over age" THAs.

Moreover, the Housing Authority has all along been treating singletons and two-person families badly. Many of the singletons, in particular, have been kicked about like a ball by the Authority. They are kicked from one THA to another, or from one old estate under redevelopment to another to be redeveloped later on. At the same time, I believe singletons and two-person families on the Waiting List have to wait very long before they are allocated units.

Furthermore, Mr President, there are still many people dwelling on dangerous slopes and in Mark III blocks of Group B estates without independent toilets or in over-crowded units. Their housing problem is also a pressing one. I believe the conclusion arrived at is that the Housing Authority must speed up the building of public housing. And the Honourable Frederick FUNG's motion aims to achieve some positive effect in this respect.

With these remarks, I support the motion.

MR LEE WING-TAT (in Cantonese): Mr President, the difficulties in discussing the financial arrangements of the Housing Authority are three-fold.

Firstly, they are difficult to understand. Financial arrangements appear to be a very complicated matter that only experts can understand. If we should concentrate on discussing some specific details of financial arrangements, not only will the public not understand, even Member in this Council might doze off when they get bored with listening to it.

Secondly, they are difficult to handle. It is difficult because to discuss the financial arrangements between the Government and the Housing Authority, we must first of all discuss the relationship between both. It involves the Authority's role and the question of amending the Housing Ordinance. And if we are to discuss the Authority's ability to achieve self-sufficiency and to provide public housing units in sufficient numbers, we must first define and establish the demand for public housing — a matter which involves also a

review of the Long Term Housing Strategy. In other words, the financial arrangements have a bearing on the very heart of the housing problem. Hence the Government would very unlikely make any major concessions on this question. Why would the Authority and the Government listen to public opinion readily on these financial arrangements involving billions or tens of billions of dollars when the Authority fussed so much over the question of double-rent policy which involved no more than \$200 million a year?

Thirdly, they are difficult to explain. It is not at all easy to talk about these financial arrangements in plain language. And even if we are able to, the mass media may well focus their coverage on whether or not the motion has been carried, neglecting the very fundamental discussions on principles behind these financial arrangements. For example, should we regard housing as a commodity? Different conclusions will produce very different financial arrangements. Therefore, as the spokesman for housing of the United Democrats of Hong Kong (UDHK), I would state very clearly at the outset how the UDHK consider this matter.

First and foremost, should public housing be regarded as a commodity? Secondly, how should the relationship between the Government and the Housing Authority be defined? Is the proposition of public housing subsidy justified? Finally, faced with the situation where demand for housing far exceeds supply, could the Authority achieve self-sufficiency? I will concentrate on the first point, while the other UDHK members will comment on the other points.

Public housing has brought the Government many benefits:

Firstly, it helps urban planning. At present, many public housing estates are situated in new towns. The building of public housing indeed helps the movement of population, the redistribution of the workforce and the overall planning of urban development.

Secondly, it helps social stabilization. As former Governor Sir Murray MacLEHOSE stated in 1972, the poor housing condition is a source of social conflicts and unrest. The building of public housing is indeed conducive to narrowing the gap between the rich and the poor, as well as strengthening public housing tenants' identification with and sense of belonging to their community, hence directly conducive to social stability and economic development. Besides, low wages heighten the competitiveness of Hong Kong exports. But on the contrary, a high land premium policy will drive inflation, thus undermining the competitiveness of Hong Kong products. Therefore, housing should not be regarded as a commodity with emphasis laid on economic benefits alone.

Given that public housing should not be regarded as a commodity, are the current arrangements between the Government and the Housing Authority reasonable? According to the new arrangements effective from 1 April 1988, the Housing Authority need not repay the loan from the Development Loan

Fund on an interest-free basis over a 40-year period. But instead it has to pay interest of 5% per annum on the amount of loan for as long as it remains outstanding.

First of all, with public housing as a kind of social welfare, the permanent capital injected by the Government should be by way of the Government's commitment to the people and should not bear interest. Let us not forget that the public housing units remain a government asset.

Secondly, the Housing Authority has to pay the interest irrespective of the size of its account deficits. Why does the Government require the Authority, who caters for the housing needs of the lower and middle income people, to pay interest when in the case of the sandwich class short-term housing programme the Government has proposed direct, non-repayable cash assistance (though the proposal may be revised) and is now considering granting of interest-free loans instead? This patently shows that the Government is shirking its commitment to the lower and middle income people in respect of housing.

Thirdly, why should the Housing Authority pay interest and dividends when the other autonomous public corporations such as the Hospital Authority and the Hong Kong Industrial Estates Corporation need not do so? This reflects the Government's double standards in its social policy.

Fourthly, even if the Housing Authority paid out of its own pocket to purchase land from the Government to build for non-domestic purposes, the land cost expenditure would hardly be higher than the expenditure for payment of dividends. Considering in particular that public housing estates fulfill a pioneering function in new town development, the land value of remote lots can hardly be high. After all, the wool still comes from the sheep — profits from non-domestic operations in fact come from public housing residents. Given the circumstances that demand for public housing far exceeds supply, the dividends should be kept by the Authority for further development of housing.

In order to meet the vast payments every year, the Housing Authority has to peg the sale prices of Home Ownership Scheme (HOS) flats to market prices and that accounts for their high prices. A readjustment of the ratio of HOS flats to rental units in favour of the former has led the Authority into introducing the much-complained-of double-rent policy and also led to rentals of new units being massively increased by as much as 70% within a two-year period.

The UDHK therefore support the motion calling for abolition of the annual payment of interest and dividends. However, the Housing Department has been saying recently, "Not that the Housing Authority has no money, but that it has no land."

Does Hong Kong lack sufficient land for building public housing? The biggest problem undoubtedly is that there is insufficient land in the urban areas. At present, the supply of public housing in the urban areas is very tight.

Applicants on the Waiting List will very unlikely be allocated units in the urban areas. But on the other hand, only 2% of the land to be produced by the West Kowloon Reclamation is set aside for public housing. With such planning so very much weighted in favour of economic benefits rather than the people's livelihood, urban public housing units will be all the more in short supply. However, the Government must bear in mind that there are still 180 000 applicants on the Waiting List and hundreds of thousands of people still living in Temporary Housing Areas and squatter areas, not to mention the singletons and hut dwellers. The UDHK are gravely concerned about the utilization and development of the land in East Kowloon following the relocation of the airport and will strive for the grant of sufficient land from the Government for public housing development.

With these remarks, Mr President, I support the motion.

MR JAMES TO (in Cantonese): Mr President, as an elected Member of Kowloon West, I share Mr Frederick FUNG's strong feelings about the housing problem of the lower income people in Kowloon West. I doubt very much the Government's sincerity in tackling the housing problem of the lower income groups. Take Kowloon West as an example. With the redevelopment of old areas well underway there, many local residents are constantly under the threat that their buildings may be pulled down. Besides, action is being taken by the Administration to amend the Landlord and Tenant (Consolidation) Ordinance in respect of compensation for demolition of buildings. The intention is to revise the amount of compensation from two times the rateable value in 1983 to 1.3 times the current, rateable value. But the task has dragged on for 10 months. When I asked the District Office when the legislation would be submitted to the Legislative Council for approval, the reply I got was that there was no definite date for so doing. Furthermore, the Administration's proposal to lift rent control will make those in misery even more miserable. A large number of local residents living in "cage" apartments or cubicles have still not been able to move into public housing after waiting for many years. This is attributable to the disappointing speed with which the Housing Authority builds housing. Being an elected Member of Kowloon West, I do feel strongly about this motion.

The Housing Authority is using all sorts of means to suppress public housing demand. So even though the Housing Authority may have a surplus of \$12.3 billion in the coming year, it will not be sufficient to enable the Authority to satisfy the actual demand for public housing. It is therefore imperative that the practice of paying interest and dividends to the Government be done away with. After that, if the Housing Authority is still short of funds to meet its expenditure, the Government should continue to make capital injection into the Authority in order to solve the thorny problem of housing.

There is great potential demand for public housing, with 176 000 families currently on the Waiting List and 13 000 families to be added to the list each year. Last Saturday, the Housing Authority claimed that only 70 000 families have actual demand in this respect. This figure was derived from the statistics for the past five years. But the problem lies in the fact that the waiting time for public housing is usually eight to 10 years. When their turn comes, only 40% of the applicants remain eligible. Of the 60% who have become ineligible, 40% have already been allocated public housing units through other channels, such as the development clearance category, and the remaining 20% cannot be contacted. The income of 20% of the applicants has gone beyond the Waiting List income limits. Indeed how many of the applicants have failed to get pay increases exceeding the inflation rate during the time span of eight to 10 years? If the waiting time for public housing is as short as one to two years, I believe that most of the applications on the Waiting List will have reflected the actual demand, and many more families will apply for public housing. It is a gross deception to suppress the actual demand for public housing by reducing the provision of resources and deliberately keeping the Waiting List income limits at low levels. The public's demand in this area still cannot be satisfied.

In fact other methods are being used as well to suppress public housing demand, such as fixing the Waiting List income limits at unreasonably low levels and making those who have resided in Hong Kong for less than seven years ineligible. Nevertheless, a matter of greater urgency is to meet the needs of people affected by development clearance.

Each year, about 17 200 families have to be rehoused as a result of redevelopment of public housing estates. It is estimated that in the next 10 years, 750 000 people will be affected by demolition of buildings for redevelopment. If rent control is really to be lifted in 1996, another several hundred thousand people will be affected. Relocation of the airport and implementation of the Metroplan will also involve the removal of hundreds of thousands of people. How can the average annual supply of 35 000 new and vacated units within the next 10 years cope with such heavy demand for public housing? The pent-up housing demand will become a major problem in the Special Administrative Region (SAR) after 1997 and a crisis which the SAR Government will not be able to avoid. As for the supply of Home Ownership Scheme (HOS) units, the situation is no better. The success rates of green-form applications and white-form applications for Phases 14A, 14B and 14C were 22% and 4.2% respectively. This shows that supply of HOS units also falls far short of demand.

Apart from quantity, the quality of public housing should also keep pace with the progress of society to bring improvement to the quality of life of the general public. Newly-completed private buildings, for instance, are all installed with entrance gates and manned by security guards. Why do newly-completed public housing blocks have no such facilities? Security problems such as indecent assaults and robbery are particularly serious in public housing estates in remote areas or old estates to be demolished soon. Examples are

estates in Tuen Mun. The Administration should actively consider putting in more resources to step up security in public housing.

In view of the urgent and heavy demand for housing, I support the motion.

DR PHILIP WONG (in Cantonese): Mr President, there is a Chinese saying, "Living and working in peace and contentment". Any government of a stable and prosperous society should be concerned with the housing problem of its people. Therefore, being a member of society, I am definitely not against reviewing the financial arrangements between the Government and the Housing Authority, if circumstances warrant, to ensure the Housing Authority's capability of discharging its duties and building more as well as better accommodation to meet the demands of society.

I believe that honourable colleagues in the Legislative Council will understand that when resources are limited, the Government's subsidy for public housing granted through the Housing Authority is similar to that for other social services, that is to say, the subsidy should never be considered as an inexhaustible supply of free lunches. If the Government allocates more resources to the Housing Authority or reduce the revenue derivable from the Housing Authority, it will mean that the Government will have to cut back on the resources allocated to other items. Hence, during the discussion on today's motion, we should not only consider whether the motion is beneficial to the financial situation of the Housing Authority. Instead, we should consider whether the proposed changes to the financial arrangements stated in the motion are indeed necessary and are helpful towards solving some outstanding housing problems.

The existing financial arrangements between the Government and the Housing Authority have been put into practice since April 1988. During this time, the Housing Authority built over 220 000 housing units. Among them, 150 000 are rental housing units while 70 000 are units for sale. At present, nearly half of the Hong Kong population are either living in public housing or Home Ownership Scheme (HOS) flats.

Not only have the new public housing estates improved tremendously in terms of the facilities provided in a short period of five to six years, the area that each tenant is entitled to occupy in a public housing flat has increased from 6 sq m to 10 sq m on average. The median rent-to-income ratio for public housing tenants has always been maintained at 7%. In other words, half of the public housing tenants pay rent that amounts to only 7% of their income. The Housing Authority, of course, should not be complacent about these achievements. Nevertheless, it is heartening to learn that apart from the provision of land and the capital already injected, the Housing Authority does not have to rely on the Government for continuous injection of capital in order to complete the housing programme. I wish to point out that the financial

arrangements between the Government and the Housing Authority do not relate to the existing housing policy directly. For example, the public housing rental mainly depends on the affordability of the tenants, not on the financial situation of the Housing Authority. Sale prices of the HOS flats are also set according to the affordability of the applicants. As I have said a moment ago, I am not against reviewing the financial arrangements made between the Government and the Housing Authority five years ago. I believe that the new financial arrangements that will be set up as a result of the review may be required to be passed by the Finance Committee of the Legislative Council. However, the review concerned will not be one on housing policy. In the long term, the important consideration will be whether the Housing Authority can continue to formulate fair and reasonable housing policies and implement them in a situation of greater financial autonomy.

Mr President, with these words, I cannot support the motion.

DR YEUNG SUM (in Cantonese): Mr President, summarizing the views of members of the United Democrats of Hong Kong (UDHK) on the financial arrangements between the Housing Authority and the Government, we have the following proposals to make:

First, public housing is not a commodity. It is not acceptable to strive for economic benefit at the expense of people's livelihood. The Housing Authority should retain the interest and dividends as a means of government commitment to public housing and the resources for further development of public housing.

Second, there are still 180 000 people on the Waiting List for public housing even though the Government has recently adjusted the figure. For this reason, I think, when it runs a surplus, the Housing Authority should be left alone to use it to improve the quantity and quality of public housing rather than turning it over to the Treasury. This arrangement could avoid the situation whereby people of the lower social strata would have to subsidize the Government. The present arrangement for the Housing Authority to pay interest and dividends to the Government is in essence tantamount to public housing tenants subsidizing the Government for the provision of other services. Mr Edward HO and Dr Philip WONG touched on this point just now. They are of the view that if the Housing Authority does not pay interest, the Government may have to increase its revenue from other sources, thus affecting other services. But I would like to look at the matter from a different perspective. If the Government maintains that the Housing Authority should be self-financing, then revenue from public housing should be spent on public housing so as to benefit those who want to purchase home ownership housing and those living in public housing estates. Why does the Government require the Housing Authority to hand over a portion of its surplus to the Treasury for use in other social services? This is practically asking public housing tenants to subsidize the Government in providing other services. Will it not aggravate the disparity between the rich and the poor? Honourable Members, the income of the richest



20% families in Hong Kong already accounts for 50% of that of the total population. Should this arrangement by which the Housing Authority has to hand over surplus to the Government be maintained, it means that financial resources for the benefit of public housing tenants would go to the Treasury. I am sure that the disparity between the rich and the poor will only aggravate as a result.

Third, if the Housing Authority does not have sufficient financial resources to meet the public housing demand on its own, it is incumbent on the Government to inject more capital. Otherwise, the Housing Authority may have to increase its revenue through unreasonable rent policy and mark up the price of home ownership housing, because of the payment arrangement.

Fourth, I earnestly hope that the Government will revise its Long Term Housing Strategy and dump the "Private Sector Priority Strategy" as its long-term strategy. According to the so-called "Private Sector Priority Strategy", the Government would try to encourage the private sector to play a more important role in solving our housing problem. We hope that the Government will come round and give again higher priority to public housing and home ownership schemes and provide more housing to the people. The Housing Authority should also raise the income limit of public housing applicants to commensurate with the economic advancement so that more people from the lower and middle classes are eligible for public housing.

Fifth, as mentioned by several colleagues, the inequitable accounting arrangements between the Government and the Housing Authority should be revised. Under the 1988 financial arrangements, the Housing Authority is required to pay dividends first and then interest. From the professional perspective, the common practice is that profit after deduction of interest payment is the *bona fide* net profit. However, the Government requires the Housing Authority to pay dividends first and then interest.

Sixth, the Government should consider defining the role of the Housing Authority clearly and to review in particular whether it should bear the costs originally borne by the Government. These include the construction cost and maintenance fees for the construction and clearance of temporary housing, roads in the public housing estates, community facilities in public housing estates such as schools, clinics and community centres, and the land formation cost for public roads. As a matter of fact, such kind of expenses should be borne by the Government. Why should the Housing Authority shoulder it alone? Why should the Housing Authority be responsible for the financing of such community facilities? This indirectly puts the Housing Authority and the public housing tenants under greater financial burden, does it not?

Seventh, the land premium of public housing and Home Ownership Scheme (HOS) housing should be assessed at the time when land was granted, not after the completion of the construction. The 1988 financial arrangements stipulate that the Housing Authority should pay the land premium of HOS

housing in the form of cash and the land premium is computed at a rate of 35% of the construction cost. However, experiences of the Housing Department show that the land premium usually represents only 12% of the construction cost. In other words, the Government has over-charged the Housing Authority for setting the land premium at 35%.

Finally, I must point out that public housing performs significant social functions: (1) regulating the economy; (2) narrowing the gap between the rich and the poor; and (3) stabilizing the community. Mr President, the UDHK therefore strongly urge the Government not to lessen its commitment to public housing. The Housing Authority should be allowed to retain the interest and the surplus so that such financial resources could be employed for the construction of more public housing for more needy people, thus improving the quality of living of the lower and middle classes.

Mr President, with these remarks, Members of the UDHK fully support Mr Frederick FUNG's motion.

MR WONG WAI-YIN (in Cantonese): Mr President, Meeting Point thinks that the Government should bear the ultimate responsibility for the housing problem. In order to carry out its responsibility to address the housing problem, the Government should contribute in this respect certain resources through land supply or the provision of capital. In 1986 when the Government completed the formulation of the Long Term Housing Strategy, the Housing Branch was then disbanded. By reorganizing the Housing Authority, the Government has passed the whole responsibility of developing public sector housing to the reorganized Housing Authority. From the point of view of operation efficiency, it is not unreasonable to have the public sector housing problem handled by an independent authority. However, the financial arrangements agreed upon by the Government and the Housing Authority have become a fatal wound hindering the development of public sector housing.

Ever since the Housing Authority was reorganized in 1988, the Authority has, up to the year 1992, paid the Government a total of \$5.9 billion including the interest for the Government's injection of permanent capital, the dividends for income derived from non-domestic housing units and cash payments for land development charges. This sum of money is equivalent to 42% of the costs of building public housing estates during the same period. If it is used for building new housing units and redeveloping the older estates, we can satisfy residents' demand for public sector housing and improve the living standard of public tenants at a quicker pace. In order to enable the Housing Authority to further accelerate the development of public sector housing, the Government must cancel the financial arrangements which include the payment of interest and dividends as well as the land development charges.

As I said before, the Government should bear the ultimate responsibility for the housing problem. The Government's allocation of land and capital to the Housing Authority should be treated as social investment instead of economic investment. The investment return should be used for improving the living standard of public housing tenants and enabling residents who are eligible for rehousing to be allocated housing units as early as possible. However, the Government makes profits by collecting money such as dividends, interests and land development charges and I think this is extremely unreasonable.

After examining the previous financial reports of the Housing Authority, Meeting Point finds that the main financial sources of the Authority include, apart from the Government's injection of funds, the profits from the sale of units under the Home Ownership Scheme (HOS). Taking the financial year 1991-92 as an example, the Government only injected \$750 million while the profits from the sale of HOS units amounted to \$3.7 billion and, in the same year, the building cost of new public housing estates was only \$3.3 billion. According to HOS's income and expenditure account, the Housing Authority did not pay land premium in cash. As far as the accounting procedure is concerned, such a practice is all right but the general public may think that the Authority lacks capital. The Housing Authority should, for the sake of avoiding any misunderstanding on the part of the non-public housing tenants that the Government has been unceasingly subsidizing the public housing tenants, make further clarification to the public so that there will not be any contradiction or conflict between classes or sectors of society. The Authority's budgets for the years 1992-93 and 1993-94 indicate that the cash surpluses are respectively around \$5.1 billion and \$7.2 billion, amounting to a total of over \$12 billion. If calculated according to the current building costs, such a sum, when wholly used for building public housing and HOS estates, is sufficient for building about 42 000 units of 600 sq ft each. Unfortunately, now as the Government collects interests, dividends and land development charges from the Housing Authority, the financial foundation of the Authority will be seriously undermined, thus slackening the pace of developing public sector housing.

Mr President, the ultimate target of revising the financial arrangements between the Government and the Housing Authority is to develop more public sector housing, including HOS and public rental housing estates, to meet the public demand. However, in order to accelerate housing development, there need to be considerable amount of land supply in addition to the availability of sufficient capital. Meeting Point proposes the following two ways to meet the target of building more public sector housing.

Firstly, to speed up land development. The Government may entrust the Housing Authority with the task of developing land. The Authority may use its capital to develop land and the Government can later pay back the Authority the expenditure in cash. Meeting Point disagrees that the Housing Authority should bear the whole development cost and that the public housing tenants have to bear the investment responsibility themselves.

Secondly, the Housing Authority can consider the flexible increase in the development density of public housing. According to the existing planning standard, the density of new housing estates normally does not exceed 830 units per hectare and, taking the average area of each unit as 55 sq m, the density of public housing estates is actually lower than private housing developments. At present, the plot ratio of the new estates only ranges between 5 and 6 while that of private developments in urban areas comes within as high a range as 9 to 10. In view of the great demand for public sector housing in urban areas, the Housing Authority should consider the flexible increase in the development density of estates in urban areas so as to increase the number of housing units in these areas, thus enabling us to have a more reasonable use of our land resources.

In conclusion, Meeting Point stresses that the Government should cancel the financial arrangements of collecting interest, dividends and land development charges from the Housing Authority. In fact, since the Government presently does not have any Policy Secretary with a housing portfolio, it is virtually impossible to review Hong Kong's overall housing policy and co-ordinate the work of the Housing Authority. Meeting Point proposes that a Housing Branch should be set up as early as possible to co-ordinate housing matters in the whole territory to show that the Government does have the sincerity in solving the community's housing problem.

Mr President, I so submit. All four Councillors from Meeting Point, namely Dr LEONG Che-hung, Mr Fred LI, Mr TIK Chi-yuen and I, support the motion.

MR ROGER LUK: Mr President, we would miss the mark in this debate if we do not look beyond the technicalities of financial arrangements between the Government and the Housing Authority (the Authority) themselves.

The motion in question has three presumptions. First, there would be prolonged imbalance in demand and supply in the residential housing market. Second, the public sector should play an active role in meeting the shortfall as a social service. Third, the Authority is unjustifiably deprived of available resources for such purpose under its existing financial arrangements with the Government. Unfortunately, all these presumptions are questionable.

Unlike the last decade, the demand and supply of domestic living quarters are now basically in balance. At the end of 1992, there were about 1.63 million households as against some 1.65 million domestic housing units. Thus, any imbalance in the residential housing market is now not in terms of numbers but in terms of location, type and quality. For instance, the current vacancy rate for private housing in Yuen Long is 12%, whereas the vacancy in Sha Tin is only 1%. Similar contrasting pictures also exist in public housing with a relatively large proportion of the vacant units being found in fringe areas.

With the trend of slackening growth in domestic households in recent years, any repetition of the gross imbalance in the residential housing market during the 1980s is very unlikely to repeat.

It may be argued that the long waiting list in the application for rental public housing reflects the persistence of strong demand over supply. However, this could be more apparent than real as the Authority estimates that less than 40% (that is, about 68 000) of the live applications are effective applications. The Authority actually is taking appropriate measures to determine the real demand.

Moreover, the real demand could be met to some extent if resources available could be reallocated more effectively. The controversial "double rent" policy might be not as effective as conceived in practice but it represents an innovative attempt in this respect.

Assume that the first presumption of a prolonged imbalance in the housing market were valid. Should the shortfall be basically met by public housing? The answer would most probably be yes, if public housing is a social service and the nature of the demand is just basic accommodation.

However, it does not seem to be the case. Over the years, we have gone far beyond the concept of social service in public housing. Started as shelters for the underprivileged, public housing has come a long way to provide basic accommodation to low income families and later better quality accommodation to middle income families through the Home Ownership Scheme (HOS) as well. Under the 1993-94 Budget, it would further extend upward to the sandwich class. The question now is where should be the cut-off line.

Yet, could the existing and the future public housing programs effectively match the growing aspiration of the community for more quality housing? The unsuccessful attempts of the Authority to sell flats for rental to tenants reflect, among others, that there is still an apparent gap between the aspiration of households and what are provided by public housing even at substantially discounted prices.

Now turn to the motion itself. Following its reorganization in 1988 as a statutory body corporate, the Authority is conferred operational and financial autonomy to deal with the priorities under the Government's Long Term Housing Strategy. The existing financial arrangements aim at ensuring resources, financial or otherwise, allocated to the Authority be best utilized in fulfilling its missions.

The three forms of financial support from the Government represent three different forms of commitments. The permanent government capital represents direct cash injections from the Government in the form of fixed interest bearing long-term capital loan. They are intended to bridge the Authority's cash shortfall in financing its capital expenditure. The non-domestic

equity, in the form of land value for the non-domestic element including commercial complex and car parks in rental public housing and HOS estates, represents the Government's capital investment. The Authority shares the operation profits derived therefrom equally with the Government by way of dividend. The contributions to domestic housing represent the value of direct subsidy of the Government to public housing. It comprises the domestic land value for rental public housing estates and the difference between the land at full market value and the land cost attributable to the domestic element of HOS estates.

The rationales behind the financial arrangements are to accrue any government subsidy to the domestic element of public housing only and to value such subsidy at current market prices. In the context of management of public finance, these are two vital principles which must always be upheld. On the other hand, the arrangements segregate the subsidies from cash injections as capital loan and investments in the non-domestic element. The interest and dividend payable represents the opportunity costs of these non-subsidy resources, which would otherwise be used for other public services. They are not, as perceived by some of my honourable colleagues, contribution by the public housing tenants to the general revenue.

What have been suggested are to waive the payment of interest and dividend to the Government and to reduce the attributable land cost of HOS estates. It is argued that through these measures the Authority would have more resources at its disposal. The fallacy of these arguments is that they presume the existing financial arrangements are inequitable, which is unsubstantiated in view of the underlying rationale. Whether the applicable interest rate and profit-sharing ratio are appropriate is another matter. Actually, a more straightforward way to provide additional resources to the Authority for capital expenditures is through cash injections.

It must be recognized, however, that public resources are not unlimited. Allocation of more resources to public housing means naturally less for the others.

The crucial question on public housing is not whether additional resources should be allocated to the Authority to improve the environment of the estates or to build more housing units.

There is no objection to allocating more resources to the Authority if such are available. There is no objection to revising the Authority's existing financial arrangements if such changes are necessary to cope with the redefined role of public housing.

The primary question, therefore, is not whether more resources should be allocated to the Authority. It is virtually the role of the public sector in meeting the increasing aspiration in housing needs of the community, that is, where the cut-off line should be. Unless we have the answer to this crucial question, any

changes to the existing financial arrangements would be undesirable and indeed irresponsible.

With these observations, Mr President, I cannot support the motion.

MR CHIM PUI-CHUNG (in Cantonese): Mr President, Hong Kong's housing problem is invariably a controversial one. Apart from public housing, housing for the sandwich class and other types of housing are major problems, too.

Is public housing a kind of social welfare or commodity? These are the two focuses of our debate today. All of us understand that a government, especially the Hong Kong Government, has to face many problems relating to matters such as the elderly, the sandwich class, education and social welfare in the course of its planning. Under such circumstances, I personally think that public housing cannot be regarded as a kind of social welfare. We have to understand that many public housing tenants have already risen to become middle to upper middle income families after living in the public housing estates for more than 10 years or even 20 years by taking advantage of the low rent of public housing. If a family consists of a couple and two to three children, the income of the whole family is more than sufficient to cover various kinds of social expenditures. Relatively speaking, this is unfair to the sandwich class (which consists of people not meeting the income requirements of public housing or the Home Ownership Scheme). For this reason, it is unfair to subsidize the public housing tenants at the expense of other citizens so much so that public housing becomes a kind of social welfare.

As regards housing, the Government has injected \$16.3 billion but required the Housing Authority to pay it a 5% interest and half of the dividends. This is a commercial decision. Members have to understand that the case is analogous to a person — who participates in an investment but does not contribute any capital — just asking others to pay the whole sum for him and then receiving all the interest, from which he can make profits again. Mr President, if you offer me such a chance, I am always ready to accept it. Some Members have queried why the interest rate should be 5%. Please do not forget that the interest rate three to four years ago was as high as 16% to 18% and 5% is a very reasonable and conservative rate. Of course, we have to distinguish whether the housing policy is a kind of welfare or some sort of planning that must be made in the interests of all Hong Kong people. If it is regarded as a kind of welfare, I personally think that it is insufficient. As Dr Philip WONG said, at present each person is given 10 sq m on average but I think it is better for each person to get 1 000 sq m. If it is not a welfare matter but a planning matter made in the interests of the whole community, I think some of the public housing tenants who are already well off should follow their own conscience and take care of other poor families. Now I, in this Council, call the attention of members of the public who are listening to the radio, and say that I hope the public housing tenants concerned will contribute towards a

more balanced Hong Kong society by letting other poor citizens share some of the benefits already gained by them.

Mr President, many politicians or candidates standing in elections in foreign countries made or kept making promises or commitments in front of the voters. Notwithstanding the promises they made at different levels or tiers of elections, the whole country eventually teetered on the verge of economic collapse and, despite the fact that it is a great country, it still faced so many problems that it could not compete with other countries. Mr President, as Hong Kong is heading towards democracy, many Councillors will be returned by direct elections or geographically based elections and, under such circumstances, will the aforesaid problem emerge then? I dare not hazard an answer. I believe Councillors or people intending to run in the 1995 election will not take such an attitude. Apart from taking into account the rights of our citizens, they also have to make a rational and impartial assessment in order to maintain social justice and the operation of the government on an even keel.

I personally think that the housing problem should be reviewed all the time so that constant improvements can be made. Of course, we cannot allow a government body to act as it pleases. It must be monitored by people from different strata of society and departments and it must fulfill our expectations. For this reason, Mr President, I earnestly hope that the Government will, after listening to the voices of so many Members raising their objection and expressing their opinions, formulate a whole set of plans which are effective and beneficial to the community.

I would like to take this opportunity to talk about the "Double Rent Policy". When I discussed the said motion the other day, I voted in support of the revocation of the "Double Rent Policy". But my reasons were different from that of most of the Members of this Council. On the one hand, the residents who have to pay the so-called double rent do not claim to be "well-off" tenants themselves but, on the other hand, they can afford the rental amount set under the existing "Double Rent Policy". In this connection, I think the Housing Authority should fix the existing rent as "reasonable rent" and regard the charging of rent equivalent to half of this rental amount as a kind of "concession". This is a solution to the problem where residents who do not claim to be "well-off" tenants can afford the rent that we presently require them to pay. Mr President, as far as the whole community is concerned, we earnestly hope that people of all strata can be given what they should get but they, at the same time, should also learn to give what they should give. I think it is wrong to spend all the social resources on a certain group of people but neglect other sectors such as the sandwich class. Originally I was not against Mr Frederick FUNG's motion but I have to state my reasons and views clearly. Finally, I may not oppose his views.



MR HOWARD YOUNG (in Cantonese): Mr President, actually I did not intend to speak on this subject because I have never been an expert on housing. I was hoping that I could learn more about housing by listening carefully to Members' speeches. However, some of the things that I have heard in the speeches drive me into expressing my views at this juncture.

First of all, I would like to talk about the housing policy of Hong Kong. Over 30 years ago (when we were still children), the big fire in Shek Kip Mei occurred. When we compare the situation then with the housing developments that have taken place during these 30-odd years, it is undeniable that Hong Kong has achieved a lot as far as its housing policy is concerned in these few decades. That policy enables nearly half of the Hong Kong population to live in public housing. As pointed out by Dr Philip WONG, 50% of this half of the Hong Kong population pay rents that equal to 7% of their income. When they are compared with those living in private housing or those who have bought private flats, their burden is relatively light, since the latter have to give nearly half of their income to the bank or the developer to repay their mortgages. Neither should we forget the fact that many citizens still do not have the chance to be allocated a public housing flat. They are still unable to enjoy a living space of close to 10 sq m per occupant on average which is the entitlement of the public housing tenants nowadays.

I think that while discussing the rational use of the Housing Authority's resources, we, of course, would talk about conducting a review in order to find out how to better utilize the Authority's resources for building more and better quality public housing. There is nothing wrong about it. However, we must not forget that as far as the building of housing is concerned, the land cost is the overriding factor. A private developer will tell you that in building a flat or a block of flats, the biggest cost is the land cost. Other costs such as professional fees and building costs plus interests only account for a small portion. However, talking about our public housing, with the exception of Home Ownership Scheme flats, the Government has indeed subsidized substantially in terms of resources.

I said that mainly because I was surprised by what a Member just said in this debate that we should not forget that at present 20% of the Hong Kong people took up half of Hong Kong's total income. I consider such a statement as a garbled version of the actual situation of the Hong Kong society. Let us not forget that it is this same 20% of Hong Kong people — I believe it could be claimed that they are earning half of Hong Kong's total income — who, I will not be surprised to hear, are paying close to 100% of Hong Kong's income taxes and other taxes. I think that if some people, by dint of their efforts and ability and through the free economic operations of the Hong Kong society, manage to earn more income, other people should not be jealous of them. They should not be seen as targets for attacks since they do not obtain their riches by robbing other people.

I think that it is grossly unfair to say that the housing policy widens the gap between the rich and the poor. Let us not forget that the free economic operations of the Hong Kong society (to borrow a phrase much in use nowadays) are "fair, open and acceptable" to the Hong Kong people. We should not be jealous when we see any organization or any government department having a surplus and distributing dividends. Nor should we use sensational statements to create class polarization and class contradictions. I think it is unfair.

Mr President, the above are but my personal opinions. I cannot support Mr FUNG's motion.

SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS: Mr President,

*Introduction*

The current financial arrangements between the Government and the Housing Authority have been in place since 1988 when the Housing Authority was reorganized. The spirit behind the reorganization and the new financial arrangements was to give the Authority greater autonomy and financial independence. The arrangements were intended to help the Authority to be self-financing and to provide the Authority with the flexibility it needed to accord priorities to the use of resources in carrying out the housing programme. A review of these arrangements to take account of their operation in the past five years is currently underway.

At the outset, perhaps I should recap, very briefly, what the 1988 arrangements are. At present, the Government's capital structure in the Authority is threefold:

(a) *Permanent capital*

In 1988, the Housing Authority was allowed to retain the remaining balance in the Home Ownership Fund of \$2.8 billion. Outstanding loans amounting to \$13.5 billion from the Development Loan Fund were also capitalized. In addition, a further \$10 billion was made available to help the Authority meet its capital requirements up to the end of 1993-94. Interest in cash at 5% per annum is payable on the total capital injection of \$26.3 billion.

(b) *Contributions to domestic housing*

The Authority is not required to pay the Government the land value for the domestic element of public rental housing. In respect of Home Ownership Scheme (HOS) developments, as land value the Authority is required to pay only 35% of the building construction costs. The land

value for both, net of the 35% land cost element for HOS developments which is paid, are brought to the Authority's accounts as a contribution to domestic housing to show the extent of the Government's continuing support. No actual cash payment, however, is involved.

In the five years from 1987-88 alone, some 240 hectares of land have been made available for public residential purposes. This compares with just under 100 hectares of new land set aside for private residential purposes during the same period. The Government's contribution, seen in context, represents a massive subsidy.

(c) *Non-domestic equity*

Land for profitable non-domestic activities such as car parks and commercial facilities in rental and HOS developments is made available at no cost to the Housing Authority. To reflect the value of this substantial subsidy, the land value for such facilities is shown in the Authority's accounts as non-domestic equity. All that the Government receives in return is half of the revenues collected by the Authority from the non-domestic activities, and this only after all of the Authority's full operating expenses have been deducted.

*Land supply*

In addition to having made a substantial capital contribution to the Authority, the Government is further committed to providing adequate land for public housing purposes. This is not merely a question of earmarking unformed sites, the Government is further committed to clearing and forming the vast majority of these sites, including the provision of full supporting infrastructure. Such infrastructure does not mean simply the provision of minor public roads and drains within the actual housing sites themselves; there are other far larger and less obvious costs involved. Due regard has been paid by the Government to other key requirements such as the need for major off-site access roads and the adequacy of public transport services, the level of provision of schools, clinics and other welfare facilities, both at local district and regional levels. The list is long and includes all of those public services that the community perhaps takes for granted, but the provision of which requires the Government to set aside a considerable proportion of its resources. Despite the major subsidies involved, as I have mentioned earlier, land is provided free to the Authority in the case of public rental housing and at only 35% of the building cost in the case of HOS developments.

Turning to the actual supply of land, I will not bore Members with a full repetition of what I said less than a month ago on the subject of land supply in my response to the Budget debate. Suffice it to say that we have had a very good record in providing sufficient sites to meet the Long Term Housing Strategy production targets and we are confident that we will continue to be able to do so. From time to time there may be temporary shortfalls due to revised

production targets but they are to be expected in any dynamic situation. We have a well tested mechanism to identify additional sites to meet the new demand in the required time frame as the programme is rolled forward. And, in fact, in the Budget debate, I informed Members that sites to cover the 50 hectare requirement of the Housing Authority which is once again referred to today have been identified.

### *Achievements*

The Government's contributions to public housing under the revised financial arrangements and by way of the land supply have seen considerable results. I will quote some examples.

- 224 300 public housing flats have been produced (149 400 for rental and 74 900 for sale), providing homes for nearly 900 000 people since 1988-89. This is in accordance with the set production target and a major achievement by any standard.
- The median rent-to-income-ratio for all public rental tenants has been kept to about 7.3% between 1987 and 1992 while the average flat size has increased by about 10%.
- The living density for rental housing has improved from 6m<sup>2</sup> per person to 7.2m<sup>2</sup> per person over the same period.
- The number of inadequately housed has reduced dramatically from 426 000 households (or 30% of the total number of households) in 1985 to some 219 000 (or 13%) last year.
- Between 1987-88 and 1991-92, a total of 199 500 people or 50 700 families in old public housing estates were offered better housing accommodation upon redevelopment.
- The home ownership rate within the public sector has increased from 14% in 1988 to 20% now.
- Home Ownership Scheme/Private Sector Participation Scheme flat are very popular and prices are affordable. Over 90% of the flats are affordable to those within an income range of \$11,000 and \$20,000.

### *Need for review*

Although the current financial arrangements have generally worked well, a number of areas have been identified as requiring clarification in the light of experience. Variations may also be needed to cater for changing situations in the years to come.

The subject at issue, as some Members have indicated this afternoon, is extremely complex. It involves considerable sums of public money, both in the form of capital injections in the Housing Authority as well as payments back to the Government. Cash and capitalized loans so far provided to the Authority by the Government amount to over \$26 billion. In its turn, the Housing Authority makes a number of payments to the Government, amounting on average to about \$3 billion per year. There is thus a need for both sides to put their ideas together in reviewing the current arrangements.

In undertaking the review, certain basic premises have been established. The most important of these is that the review is not — and I repeat "not" — a review of housing policy. The review assumes that there will be no fundamental change to the Government's commitment to supporting the public housing programme as set out in the Long Term Housing Strategy and that the development of housing policies will be considered separately as necessary.

Also, we should note that notwithstanding the huge capital commitment and recurrent expenditure, the Authority's finances today are in a relatively healthy state. The Authority has, by and large, achieved self-sufficiency. This is a trend we hope to see maintained. It is in the community's interest to see an optimum return on the investment of public resources. By optimum return, I do not mean to imply that the Housing Authority is regarded as a "cash-cow" to be milked by the Government. In drawing up the 1988 financial arrangements, full regard was given to the fact that the Housing Authority was required to provide affordable housing for the lower income groups in the community.

The primary aim of the review is to make such changes as are necessary to the present financial arrangements to ensure the financial viability of the Housing Authority up to at least the year 2001, that is, the present planning for the Long Term Housing Strategy. It is also our intention to try to ensure the continued viability of the Housing Authority in carrying out its responsibilities beyond 2001.

A secondary aim of the review is to take on board changed circumstances. Over the past five years, the emphasis on public housing has gradually shifted. The pressure is not simply for the provision of basic housing in the sense of the bare minimum shelter. The community's aspiration now is for much better housing standards in an improved environment. This is both legitimate and natural as our society moves towards increasing affluence. The community must now ask itself how the demand for better housing should be balanced against the competition for resources in other policy programme areas, such as health care, education and the environment.

*The review*

The review of the financial arrangements is being undertaken with a view to:

- (a) examining how successfully the objectives of the new arrangements have been met;
- (b) examining the financial impact of the arrangements on each of the Authority's main areas of operation;
- (c) setting out more clearly a number of areas where different interpretations have arisen and resolving outstanding issues; and
- (d) producing an updated set of arrangements which will ensure the ongoing financial viability and autonomy of the Authority to meet its obligations under the Long Term Housing Strategy.

Specific issues that the review will address include the continued need for the Housing Authority to make payments to the Government of:

- (a) interest on permanent capital investments previously made by the Government in the Authority;
- (b) the land cost element of Home Ownership Scheme flats; and
- (c) half of the net profits arising from the Housing Authority's non-domestic activities, such as the leasing of commercial space in the Authority's many estates.

*Conclusion*

Progress on the review has so far been satisfactory, but it is still too early to say what recommendations will emerge for consideration by the Finance Committee of this Council. Today, Members have made many useful comments on the subject and these will be taken into account in the review process, which is expected to be completed shortly after the middle of this year.

In a similar vein, the Housing Authority, as an independent statutory body, will need to be consulted on any proposals for amending the present financial arrangements. The Government will not decide on the outcome of the review unilaterally.

Mr President, because the Government does not accept the implicit criticism of the present arrangements contained in the motion official Members will vote against it.

Thank you, Mr President.

PRESIDENT: Mr FUNG, do you wish to reply? You have 2 minutes 47 seconds.

MR FREDERICK FUNG (in Cantonese): Mr President, with regard to the reply of the Secretary for Planning, Environment and Lands, I would like to make three points by way of response. I hope the Government will pay attention to these when conducting a review.

First, with regard to the method of dividend payment which I mentioned earlier, is it calculated after deducting the interest payment? If so, it is then a form of support for one-third of the motion moved by me.

Second, on the question of land supply, Mr James TO, Mr LEE Wing-tat and I all queried earlier whether it is a bit on the low side to allocate only 15 hectares of land for public housing, be it after the completion of the West Kowloon Reclamation or the relocation of the airport, when land will have been extensively available? In meetings chaired by the former Chairman of the Housing Authority, we pressed the authority concerned time and again to make use of land reclaimed from Tseung Kwan O for the building of public housing units. But we failed to obtain the approval of the Central Government. In view of the above, what commitments has the Government made as far as land supply is concerned?

I thank Members today for expressing their views on this motion. But first of all, I would like to respond to certain arguments advanced against this motion. In fact the opposing arguments focus only on four aspects.

Firstly, some Members are of the opinion that in view of the surplus that the Housing Authority is running, it is no longer necessary to provide more funds to the Authority. Such a view represents only a superficial assessment of the financial situation of the Housing Authority. I must tell Members that in spite of the surplus of \$12.3 billion which the Housing Authority is having, there is a certain portion of it that cannot be put to use. This includes \$4.4 billion put aside for repayment of land cost to the Government, that is, the expenditure earmarked for land development.

Secondly, the present expenditure of the Housing Authority is about \$1 billion per month. However, the recurrent expenditure, that is, the more regular expenditure, amounts to less than 20% of the total, that is to say, less than \$0.2 billion. The remaining 80% is the expenditure for building works which, however, is not immutable. If the building cost goes up — take for example in the years 1986 to 1989 during which an annual increase of 40% was experienced — the money will not be sufficient. Moreover, if the volume of building works increases, the money will also be insufficient.

Thirdly, the Government promised that it would share the expenditure of the Housing Authority. However, when I joined the Housing Authority in 1990,

I learned that the Authority was suffering from a deficit of \$2.4 billion. The Government refused to render financial assistance to the Housing Authority, and only gave permission for it to obtain upfront loans from outside of no more than \$2.4 billion, while capping loans each year thereafter at \$1.2 billion. Consequently the Housing Authority had to cut back on expenditure for building works in order to balance its books.

Fourthly, some Members said the cancellation of the existing financial arrangement will affect other social services. I have to point out that such resources originate from public housing, and we hope that what comes from public housing will be spent on public housing. I have pointed out .....

*The buzzer sounded a continuous beep.*

PRESIDENT: You must stop, Mr FUNG.

*Question on the motion put.*

*Voice vote taken.*

THE PRESIDENT said he thought the "Noes" had it.

MR FREDERICK FUNG: Mr President, I claim a division.

PRESIDENT: Council will proceed to a division.

PRESIDENT: Would Members now please proceed to vote?

PRESIDENT: Are there any queries? If not, the results will now be displayed.

Mr HUI Yin-fat, Mr Martin LEE, Mr PANG Chun-hoi, Mr SZETO Wah, Mr TAM Yiu-chung, Mr Andrew WONG, Dr LEONG Che-hung, Mrs Elsie TU, Mr Albert CHAN, Mr CHEUNG Man-kwong, Rev FUNG Chi-wood, Mr Frederick FUNG, Mr Michael HO, Dr HUANG Chen-ya, Dr Conrad LAM, Mr LAU Chin-shek, Miss Emily LAU, Mr LEE Wing-tat, Mr Fred LI, Mr MAN Sai-cheong, Mr TIK Chi-yuen, Mr James TO, Dr Samuel WONG, Dr YEUNG Sum and Mr WONG Wai-yin voted for the motion.



The Chief Secretary, the Attorney General, the Financial Secretary, Mr Allen LEE, Mr Stephen CHEONG, Mrs Selina CHOW, Mr NGAI Shiu-kit, Mr LAU Wong-fat, Mr Edward HO, Mr Ronald ARCULLI, Mrs Peggy LAM, Mrs Miriam LAU, Mr Jimmy McGREGOR, Mr Peter WONG, Mr Vincent CHENG, Mr Moses CHENG, Mr CHIM Pui-chung, Mr Timothy HA, Dr LAM Kui-chun, Mr Eric LI, Mr Steven POON, Dr Philip WONG, Mr Howard YOUNG, Miss Christine LOH, Mr Roger LUK and Ms Anna WU voted against the motion.

THE PRESIDENT announced that there were 25 votes in favour of the motion and 26 votes against it. He therefore declared that the motion was negated.

### **CRITERIA FOR SETTING THE FEES AND CHARGES AND PROFIT LEVEL OF GOVERNMENT SERVICES**

MR STEVEN POON moved the following motion:

"That this Council urges the Government to conduct a comprehensive review of the criteria for setting the fees and charges and profit level of Government services with a view to ensuring that members of the public can enjoy efficient and high-quality services in return for their payment of reasonable fees."

MR STEVEN POON (in Cantonese): Mr President, I move the motion standing in my name on the Order Paper.

The Government collects a total of more than 5 000 kinds of fees and charges from the public. Last year, these fees and charges amounted to as much as \$7.2 billion. The Government also directly provides five public utility services, namely, water supplies, the airport, government tunnels, the marine ferry terminals and postal services. The revenue from these services amounts to \$6.6 billion. In addition to the revenue generated public services and the public utility services directly provided by it, the Government wholly owns two public utility corporations, namely, the Mass Transit Railway Corporation (MTRC) and the Kowloon-Canton Railway Corporation (KCRC), which have a total annual revenue of \$6.1 billion. In other words, the public pays about \$20 billion annually in Government fees and charges and for public utility services directly or indirectly provided by the Government. This is indeed an enormous sum; it represents 15% of the Government's total recurrent revenue. Yet the public has no clear idea about how these fees and charges are set; nor has the Government ever publicized a generally consistent policy. The public does not have a channel for monitoring these fees and charges and has no means to raise objection against an increase in government fees and charges. Even Members of this Council do not know the criteria adopted by the Government for setting fees and charges. On one hand, the Government says that the fees and charges in the case of the public utilities should be targetted at a 15% rate of

return. On the other hand, it says that this rate has never been attained. At one moment, the KCRC says that its fare increase decisions are based on a returns-on-assets criterion. At another moment, the MTRC says that its fare increases are linked to the inflation rate. In sum, the public, for no clear reasons whatever, is being charged by the Government and the Government-owned public utility corporations on the pretext of conflicting arguments and rationales.

On 24 February, this Council debated a subsidiary legislation on increases in tunnel tolls by the Government. At that time, the Government proposed to increase the tunnel tolls by \$1 for each crossing, so that the tunnels might yield a 15% return on average net fixed assets. This proposal was rejected by this Council, which felt that it would be improper to increase the tolls to achieve the 15% rate of return. The incident made it amply clear that the Government does not have a clear-cut principle for setting reasonable charges. This being so, it is very difficult for the public to accept the Government's proposed increases in charges for public utilities.

Regarding the policy on fees and charges, I would like to offer the following points:

Firstly, the Government collects 5 000-odd kinds of fees and charges. It should first of all classify them into subsidized fees and charges, tax-loaded fees and charges and cost-recovery fees and charges and have the categories publicized.

Secondly, on the subsidized fees and charges, for instance, hospital charges and education fees, how should they be subsidized? What should the level of subsidy be? How should the Government accommodate people in the low-income group? There should be clear principles responsive to these questions.

Thirdly, on the tax-loaded fees and charges, the principles for levying tax should be spelled out. Is the purpose to restrain demand growth or merely to recover a desired level of revenue? The authorities should give an explanation. For instance, at one time, the Transport Department deliberately raised the licence fees of light goods vehicles, so as to reduce the number of light goods vehicles in view of their higher accident rate. The Government should explain whether this and similar actions were effective enough to achieve the intended purposes.

Fourthly, on the cost-recovery fees and charges, it should be explained clearly what "cost" means. Does it include interest, fixed assets depreciation and direct or indirect operating expenses. Actually, the Government's readiness to use cost recovery to justify increases in fees and charges is very disturbing to the public because they have no idea what "cost" means. They only see that the Government is using cost recovery to justify increases in fees and charges which used to be very low in the past. The most obvious case is the charges for health

care services. When the Government first set up the Hospital Authority some years ago, it indicated that hospital service charges would be linked to costs. It further put forth the "user-paid" concept. The public became very worried. If the concept should be translated into action, it would be a burden on the elderly chronically ill patients and on members of the low income group. True, the Health and Welfare Services Review Committee on Fees and Waiver recently recommended against major changes in public health care service charges. But the Committee at the same time recommended the introduction of some new kinds of charges, such as the charge for accident and emergency services, the first-time admission charge and the charge for first referral to specialist clinic. Clearly, the ways in which the Government charges health care service fees have changed radically and a detailed explanation should be provided by the Government.

Fifthly, on the five public utility services directly provided by the Government, that is, water supplies, government tunnels, marine ferry terminals, the airport and postal services. The Government has said again and again that the fees and charges for these services must attain a certain rate of return, the target of which is 15%. I personally have no objection to public utility service fees and charges attaining a certain rate of return. But my big concern is the method of computation of the rate of return. For instance, in the cases of water supplies, government tunnels, marine ferry terminals and the airport, the Government computes rates of return on the basis of average net fixed assets, but, in the case of postal services, the rate of return is computed on the basis of turnover. There is a big difference between these two bases. Why should there be such a big difference? What is the Administration's justification? An explanation is expected from the Government.

Sixthly, mentions have already been made this afternoon of the rate of return set for postal services. The target rate in this case is set at 16.7% of turnover. How is this target rate arrived at? How does it compare with that for postal services in other countries?

Seventhly, in the case of the airport, marine ferry terminals and government tunnels, the target rate of return is 15% of average net fixed assets. This 15% figure is questionable. The rate of return on government investments in public utility services should not be compared with that on private investments. Private investments aim at profits, while the Government invests the public's money in public utility services for the benefit of the public. To expect a return on the Government's capital investment in public utility services is to ensure that the general public does not have to subsidize the utilities which are provided to certain users, and that no interest income is lost on the money invested. I therefore think that the rate of return for government public utility services should be in line with the long-term interest rate. In view of the current trend of long-term interest rates, the rate of return for government public utility services should be set at about 8%, that is, 8% of average net fixed assets.

Eighthly, the Government says that the target rate of return in the case of water supplies should be 7% of average net fixed assets. I wonder why it is so deviated from the 15% set for other government public utility services? What is the justification?

Ninthly, though the Government has set target rates of return for government public utility services, these target rates have never been adopted in setting the actual fees and charges. The result is a big difference between the target rates of return and the actual ones. This being the case, what is the point of setting target rates of return?

Tenthly, the target rate of return in the case of the airport has been set at 15% of average net fixed assets. However, over the past five years, the actual rate of return each year was well above this target rate. In 1991 and 1992, the actual rate of return was 27% and 29% respectively. The Government explains that with the construction of the new airport, the rate of return is going to drop to 6% in 1997. If the higher rate of return and high charges are for the construction of the new airport, then should the surplus revenue from the airport not go into the Airport Development Fund, in the same way that profits have been going into the Development Funds of the two power companies?

Eleventhly, true, the KCRC and MTRC are independent statutory bodies. However, the Government, which wholly owns them, should not be completely indifferent to their criteria for setting fares. In fact, several colleagues and I have pointed out during many debates in this Council that it is unjustifiable that the two corporations are empowered to set their own fares. The Government should have the courage and the resolve to rectify the unreasonable provisions of our legislation.

The KCRC sets its fares with a view to attaining a 9% rate of return on average net fixed assets whereas the MTRC fares are linked to the rate of inflation. The Government should therefore make separate assessments and explanations on the two.

Mr President, the people of Hong Kong are quite mature where political awareness is concerned. They want a fair, just and open government. The Hong Kong Government's hitherto arbitrary practices in setting fees and charges are hardly acceptable to them. My motion today urges the Government to conduct a comprehensive review of the criteria for setting the fees and charges and profit levels of government services. I hope that the Government will publish the results of the review and invite public discussion.

Lastly, I hope that Members will speak up on this \$20 billion-a-year topic and offer comments for consideration by the Government and draw people's attention to the fees and charges that they pay.

With these remarks, I move the motion.

*Question on the motion proposed.*

MRS SELINA CHOW (in Cantonese): Mr President, the financial sources of the public services and facilities provided by the Government can generally be divided into the following two categories: (1) the General Revenue, and (2) the fees and charges paid by the users. The fees and charges for most of the public services are subsumed under the second category.

Such mode of financing sounds very reasonable. The Government has been emphasizing that the amount of increase in its fees and charges is determined according to the principle of cost recovery. The objective of cost recovery is however not always attainable because not every government department will annually review its cost-based fees and charges and make adjustments accordingly. Very often, these departments will decide to increase their fees and charges only as a result of the cumulative effects of inflation and cost growth over several years; in the event, the amount of the increase will seem very large.

Although the idea of cost recovery is in itself reasonable, the Government, in determining the increase in fees and charges, should consider its overall financial position, the negative inflationary effect of the increase, and the reasonableness of the growth in costs. With improving technology and the supposedly improving efficiency brought about by managerial reforms, it should not be taken for granted that the costs will invariably increase in line with inflation. As regards its overall financial position, the Government has always had huge surpluses, especially in the last few years, and our strong economy has brought additional revenue, the so-called "windfall", to the Government. In these circumstances, the Government should introduce less steep increases in its fees and charges or freeze them, in order to alleviate the burden upon the public and relieve the inflationary pressure.

This Council has recently vetoed the subsidiary legislation for the toll increase of government tunnels, a decision which, I think, is absolutely correct. I questioned the Government as to why it had used the return rate of 15% of the net fixed asset value, instead of the operating costs, as the basis for determining the toll. The construction costs of the tunnels came from the general revenue; so as far as basic financial arrangement is concerned, these tunnels, like other road networks, are different from the public utilities run on a commercial basis, and the idea of earning reasonable profits for shareholders is totally irrelevant. Furthermore, if the calculation has really been based on the net fixed asset value, then the write-off of the previous years should have been deducted from

the net fixed asset value. It is necessary for the Government to explain clearly to the public how many government facilities are using the same criteria as that of the tunnels in determining their fees and charges. I hope that the Government can reconsider whether it is appropriate to use commercial criteria to determine the fees and charges of public facilities.

With these remarks, I support the motion.

MR TAM YIU-CHUNG (in Cantonese): Mr President, it is the Government's obligation to provide services pertaining to our livelihood. Generally speaking, three situations prevail in setting the level of government fees and charges. Under the first situation, the fees and charges are set at too low a level that there is no surplus return and that the Government has to subsidize the services. Under the second situation, the fees and charges are set at cost recovery levels. Under the third situation, the fees and charges are set at levels enabling the Government not only to recover the costs but also to make a profit which will go into the Treasury. To be sure, the Government is not a commercial institution and should not normally aim at making money from the public. In determining the level of fees and charges for government services, the main consideration should be the affordability of users of the services. Since the principal users of government services are members of the community at large, the main consideration should be their affordability. Also, in reviewing fees and charges for services, the Government should consider whether an increase would fuel inflation and encourage the private sector to follow suit and raise fees and charges as well. It cannot be denied that a sharp upward adjustment of the fees and charges for government services will have a significant impact on the people's livelihood. Besides, most government services are somewhat monopolistic in nature, so that, if the fees and charges are revised upwards, the general public will have no alternative but to take it. I think that, in deciding the level of fees and charges, the Government should aim, among other objectives, to lighten the burden on the public at the grassroots, thus making life easier for them. For this reason, when considering the level of fees and charges, the Government should be doubly attentive to the conditions of the people at the grass roots.

It is mentioned in a recent government document circulated to Members that when providing services, the Government expects a rate of return similar to what a commercial institution expects for its share-holders. The document quoted the three government tunnels as an example to point out that the target rate of return of the tunnels should be not less than 15% of average net fixed assets. I feel that the Government should not look at its services in a commercial perspective, and I query the 15% rate of return. I have no idea what basis the Government uses for justifying such a rate of return. But I am afraid that, if the 15% rate of return is to apply to all government services, a heavy burden will be imposed on many poor people.

A noteworthy trend in recent years has been the "corporatization" of more and more government services. Statutory bodies have been established or employed to operate and manage services which are closely related with people's livelihood. The Government merely monitors them and then sits by and pockets the profit. For instance, the Government, which wholly owns the Mass transit Railway Corporation and the Kowloon-Canton Railway Corporation, is allowing these two railways to be operated in the form of corporations. Another example is the establishment of the Hospital Authority to take over the management of all hospitals in the territory. Needless to say, since all such corporations aim at "cost recovery" or even profitability, their fees and charges are higher than they would otherwise have been. What I would like to stress is that the services involved are closely related with people's livelihood. I am afraid that, if the Government is to base cost computation on full expenses and even on the cost of land, then the public may find the fees and charges difficult to afford. For instance, if the cost of building new hospitals and the rising costs of medicine and medical equipment are all to be passed on to the people in the form of fees and charges for health care services, then an average person will not be able to afford them. In view of this, the Government should review the impact of the fees and charges policy of such public corporations on people's livelihood.

I must also point out that, should the Government fail to monitor effectively the independent bodies that operate the public utility services, a situation will easily arise in which these bodies may raise fees and charges at their own discretion, regardless of public reactions, or even pass on costs incurred due to mismanagement to the public. Take the three railways as an example. The Government is the major shareholder of these railway corporations. They face no competition and are not required to submit to any monitoring body. They can adjust fares without obtaining approval or consulting the public. The three railways never consult the public when launching major investment programmes. But the public has to shoulder their expenses. I am afraid that with the absence of an effective monitoring mechanism to ensure the efficiency of the three railways' operation, the public may not be able to enjoy quality service even if they pay a higher price.

Therefore, in order to safeguard consumers' rights, the Government should consider the proposal put forward by the Democratic Alliance for the Betterment of Hong Kong to set up a monitoring committee for the three railways with members from this Council, the district boards, the Government and the three railways. This committee will hold public consultation on, and study, the everyday operation of the three railways where the interests of the public may be affected, as well as such issues as development plans, passenger safety and levels of fare increases. It will also make recommendations to the three railways. The Government, in its capacity as the major shareholder of the railway corporations, should ensure that representatives of the three railways will attend the committee's meetings and provide information as requested.

In sum, I hold that the Government should not only review the criteria for setting fees and charges and profit level but also tighten its monitoring of the public utility corporations, to ensure that members of the public can enjoy quality services at reasonable prices.

Mr President, with these remark, I support the motion.

MRS MIRIAM LAU (in Cantonese): Mr President, last year, before announcing a round of fare increases, the Kowloon-Canton Railway Corporation (KCRC) told the then Office of Members of the Executive and Legislative Councils (OMELCO) Panel on Transport that it was aiming at a rate of return of between 12% and 15% of average net fixed assets. This information drew the immediate attention of Members, who thereupon asked the Government if it had an agreement with the KCRC permitting such a rate of return. The Government denied it and the KCRC, for its part, explained that it was talking about an internal directive which served as a guideline for setting fares. As a matter of fact, it had never achieved such a rate of return. The main reason for Members' strong reaction was that, even though the KCRC was a corporation wholly owned by the Government, it was talking about a profit level in terms of a percentage of average net fixed assets. Members were immediately reminded of the scheme of control agreements governing public utility corporations that had been much criticized in recent years.

In January this year, when the Government proposed an increase in tunnel tolls, Members were given the explanation that the Government had all along been operating government utility services on prudential commercial principles and that some of its services were adopting the return-on-asset practice of the private sector in calculating the target returns, the rate of which was set at a high 15%. Members objected to such a rate of return for corporations and semi-official bodies providing public services. They of course objected even more strongly to the Government's use of rates of return to justify its fleecing the public of their money. If the Government is to adopt the rate of return on investment of the private sector, the public then will have no choice but to feel that the Government and the private sector are working hand in glove to protect their mutual interests.

The Government explained that, in expecting a rate of return similar to that of the private sector, its aim was to make the operation efficiency of its services comparable to that of the private sector. But I think that catching up with the private sector's level of fees and charges is no guarantee that efficiency will also catch up with that of the private sector. Efficiency may not be directly commensurate with the level of fees and charges. In fact, how can public corporations be compared with private business? Private business runs investment risks, is under pressure to repay loans, needs to spend money on service improvement and development projects and must satisfy shareholders' reasonable dividend expectations. Public corporations are free from these kinds of pressure. Besides, even private business, having to contend with all kinds of



profit squeezes, may not be so bold as to expect a 15% rate of return on average net fixed assets. So how can one be convinced that the Government is expecting such a rate of return?

By the same token, it is simply inappropriate for the Government to base the return on average net fixed assets. Take the tunnels for example. The costs of construction of the tunnels are deducted as depreciation every year on the books. After a number of years, the net book value of the tunnels may diminish to a very insignificant figure. Will the Government then gradually reduce the tunnel tolls as net asset value declines until the tunnels are toll-free? If the Government does not intend to do so, it is not convincing to set the rate of return on net asset value.

The Government said that the policy of basing the rate of return on average net fixed assets had been in place for many years and had never been questioned before. According to the Government, in his Budget speech for the year of 1975-76, the Financial Secretary referred to three categories of government fees and charges. The fees and charges in the first category were intended to recover costs. Those in the second category would recover part of the costs and were partly subsidized by public money. In other words, the services concerned were under government subsidy. The fees and charges in the third category would not only recover the full costs but also yield a fair return on capital invested. However, the Government has never re-stated this policy over the past 10-odd years. Therefore, even the most senior Member in this Council is not aware of its existence. The Financial Secretary did not explain the meaning of "a fair return" in the year of 1975-76. Subsequently, at some unknown time, the Government defined fair return as a 15% rate of return on average net fixed assets. Clearly, the fact that the policy has been in place for many years does not convincingly prove that the 15% rate of return on average net fixed assets is reasonable.

In principle, I see no big problem with having three separate categories of fees and charges. There is nothing wrong with the Government collecting fees and charges to recover costs. It is also fair and reasonable that the Government should subsidize those services that are essential to the community. However, where money is to be made from the public on top of cost recovery, full justification is needed and the public must be given detailed explanations in advance. I think that, in special cases, fees and charges can be increased to attain specific social ends. For instance, a few years ago, the Lion Rock tunnel toll was increased to encourage motorists to use Tai Po Road instead. That was understandable. Still, in setting fees and charges, the Government must consider their impact on inflation. Normally, an increase in a single item will be very insignificant to the upward movement of the Consumer Price Index. Given the fact that the Government collects more than 5 000 fees and charges, raising a number of these fees and charges can result in a cumulated inflationary pressure that should not be underestimated. Has the Government made an overall assessment of the inflationary impact of the increases in fees and charges? Has it ever occurred to the Government that the scale of any increase in government

fees and charges will serve as an indicator for fee increases in the private sector, thus leading to a round of fee increases and fueling inflation?

Last week, the Honourable NGAI Shiu-kit asked the Government if it had any specific measures to combat inflation. Responding, the Governor Mr Chris PATTEN said that the Government was already keeping a proper control over public utilities to ensure that any increase in fees and charges only met the increase in operating costs and that any increase in fees should not be held down so low that the taxpayer had to make up the difference. I then asked if the Government intended to make a profit on government utilities. Thereupon, Mr PATTEN stated that the Government needed to set a target rate of return at 15% of average net fixed assets for public utility corporations, and that if we were not to set for ourselves a target, we would not have the sort of management discipline which was necessary in order to run our utilities as competently as possible. The Governor appeared inconsistent in what he said before and after. Does the Government intend to counter inflation in a view to take care of people's livelihood? Or does it intend to make a profit through the commercial operation of public utilities so as to have more money go into the Treasury?

The Government actually knows pretty well that the fees and charges that it collects have a direct impact on inflation. In mid-1991, at this Council's strong urging, the Government announced a moratorium on fees and charges increases for nine months. This quickly resulted in a drop in the inflation rate from about 14% to about 10%. It is hard for us to call on the Government to have a moratorium on fees and charges increases permanently. Still, I think that inflationary pressure will be eased if the Government does what the Governor indicated in his answer to the Honourable NGAI Shiu-kit, that is, if the Government links fees and charges to costs without yielding a profit.

Mr President, with these remarks, I support the motion.

DR LEONG CHE-HUNG: Mr President, there is no doubt that the Government should come up with a set of guidelines for fees, charges and profits level of government services, so as to ensure that the money that members of the public paid for the services is well spent. A review to such effect is long overdue.

As a representative of the medical functional constituency, I would like to concentrate today on the fees and charges of health care services and to try to point out the prevailing fallacies.

Mr President, fees and charges in this area have long been a magnet to criticism. The system, I regret to say, is on the rocks.

I am conscious of the fact that a Green Paper on medical charging and financing policy is in the pipeline. I firmly believe that health care is such an essential service that the Government should commit itself to provide

irrespective of means. I am convinced that the overall health care charges should not be based on profit level.

After all, we cannot afford to allow Hong Kong to become a city where its medical and health services are powered by greedy money-making incentives. Yet, a balance must be struck and there is simply nothing wrong to stick a profit tag on private wards and services. This would help bring the level of fees up to the cost-recovery level.

The present fallacies of charging all clients of public health and medical services minimal price, regardless their affordability, would only lead to depreciation in quality of service for all at the end of the day, given a restrained budget irrespective of the amount.

At present, the \$43 daily charge for staying in a public ward is only tagged to catering cost. The others, like drugs, equipment and manpower, are all provided free. There is no thought on whether a patient could afford more than the "free medical service". Neither is there any charge put on expensive special services and provisions like prostheses, long-term special medication, and dialysis.

To coin this \$43 of daily charges as a percentage of cost recovery, no matter how minute the percentage may be, is considered a taboo by this Government.

The second and first class wards of public hospitals, which only account for a few percentage of the over 20 000 beds, are now charging at 100% to 150% of the cost respectively.

Yet, there is a fallacy on how the actual cost basis is arrived at. Without zero costing, the estimate has come about by just dividing the hospital current expenditure with the number of beds. Capital costs for the land premium and expensive equipments are not included.

This reality is brutally frank.

And the Hospital Authority (HA) was made a scapegoat under these circumstances. With no accurate estimates of spending in each kind of beds or services, turnpikes were installed at the HA. It has to fight an uphill battle for every extra dollar on top of the conventional medical budget.

At present, some 80% of the annual government grant to the HA is spent on staff cost. But with the grant based on the actual payroll rather than on the required manpower establishment, the HA as well as public hospitals have to tighten their belts and make bitter decisions everyday like whether to hire one more doctor or two more nurses with the sum made available after the resignation of a staff member.

And so any improvement, if affordable, has to take its turn in the queue.

It also straitjacketed the provision of new and improved services as the HA have to make justifications for extra money on top of the already undersized "costs" for current services.

Proper estimates for costs and charges in the public primary health care services are also non-existent. These are still handled in the "good hands" of the Department of Health, and so we were assured.

We are told that each consultation at a general out-patient clinic costs around \$110. But the Administration owes us an explanation why the charge is still at \$21 only.

Another shortcoming, Mr President, is to use public money to subsidize insurance companies in traffic and workplace injuries. These injuries are, under the law, to be covered by insurance. But the Government has repeatedly rejected charging such patients full cost, which should in turn be recovered from insurance premium. It says that administration costs would be too high! In the case of traffic accidents, Mr President, no cost recovery has ever been made from the insurance premium, I was told, no matter what amount.

Mr President, the Government should never evade its commitment of medical services to the needy, like the elderly, the poor and the handicapped. Nor should it neglect its responsibility of providing essential public services like casualty services and preventive health care.

With no expansion in financing sources for public medical services, under the spiralling of medical costs, fast growth of the elderly population and limited medical fund, members of the public are bound to suffer from deteriorating quality of service.

That day, Mr President, will not be too far off.

For years the Administration has been hiding behind the skirt of possible public outcry and has been shunning the issue of an overall health fees and charging policy review.

Mr President, now it is the opportune time for the Administration to eat the humble pie and tell the public the limit and the area of service it can afford. This would help draft an overall health financing strategy with vision. The Government must come forth to show its political will!

Its "inflated" proposals for extending funding sources, like charging casualty service, first hospital admission, and first registration at specialist clinics, are piecemeal and could not work, with respect. By rough estimation, some \$80 million only could be generated and this is only a drop in the ocean compared with the HA's annual budget.

We must hit the nail on the head.

A comprehensive review for setting the criteria for charging for government services in regard to medical and health sectors is the answer. We need such a policy under which those who can contribute must contribute while those who cannot afford must not be deprived of the services.

Mr President, whilst most Members of this Council are possibly calling on the Government to curb charges for services provided, it appears ironic that I should be playing an opposite tune. Yet, the effect is the same — there is a dire need for a comprehensive review of policy on charges for government services, basing on the principles of fairness, openness and acceptability to the people of Hong Kong.

The question here is: does the Government have the Dutch courage to do accordingly?

With these remarks, Mr President, I support the motion.

MR PETER WONG: Mr President, the motion today echoes my concern over the profit level set by the Government in calculating and fixing fees and charges of its utilities. Arguments put forth by the Administration for its fee-charging criteria have so far been peripheral and failed to allay discontent over the matter.

The Government has cited "commercial prudence" as one rationale for adopting the return-on-asset practice of the private sector and has set a 15% return on Average Net Fixed Assets (ANFA) for three of its utilities — the airport, marine ferry terminals and toll tunnels. Although I have been fairly heavily involved in monitoring the Government's finances in the past five years, it has come as a total surprise to me that 15% is the norm expected return on our road tunnels. To begin with, the costing system is based on historical cost and does not take into account the usage of the land, nor does it attempt to deal with the replacement cost of assets. Therefore it would be fallacious for the Government to quote any target return on ANFA. Further, unlike private enterprises, government utilities are competition-risk free, and as such cannot, and should not be expected to yield a full commercial rate of return. A more appropriate index for comparison could be government bonds, for example, United States treasury bonds which currently yield an average 6.5% to 6.75% return. This example is chosen in view of the United States dollar linkage.

The Government considers the 15% return on ANFA, stipulated in the Scheme of Control for public utility companies, to be reasonable. However, public utilities have to be held accountable to their private shareholders who seek returns for the risk taken on their investments injected into the companies. Public utility companies also have the restrictions of franchise periods. I

believe that the question of a "reasonable return" does not arise from public assets owned by the Government.

It is understandable why the Government wants to recover all or part of the operating cost of selected government utilities which are ploughed back to the general revenue to pay for those services or subsidize other non-profit making public services. This is more acceptable to many taxpayers who prefer a modest annual fee increase to new taxes levied across the board. However, the 15% profit level and its impact on our soaring inflation is sending out the wrong signals and should be carefully considered.

It has been suggested that by adopting the principles and practices of the private business sector and running public services along the lines of commercial enterprises, the Government is paving the way for the privatization of some of its services. I see nothing wrong with this objective. However, instead of focussing attention on the profit level, a full costing system should first be designed, a long-term financial plan drawn up, and financial controls exercised. The ultimate goal is to achieve cost recovery and to keep public assets up to date.

Mr President, a mechanism needs to be built into the scale of fees and charges for public services. I suggest that a formula based on cost recovery plus the long-term interest rate for government bonds be worked out as the guideline for a nominal return on government utilities.

Mr President, with these words, I support the motion.

MR ALBERT CHAN (in Cantonese): Mr President, all public services provided by the Government are closely related with the livelihood of the people of Hong Kong. Apart from directly providing the services, the Government has in recent years set up various statutory bodies to provide public services in a commercial way, which include the Kowloon-Canton Railway Corporation (KCRC) and the Mass Transit Railway Corporation (MTRC) and the future new airport at Chek Lap Kok. The fees and charges of the services provided by such statutory bodies have all along been the causes of major controversies. It is imperative that the Government conducts a comprehensive review of its criteria for setting the fees and charges.

My speech today will focus mainly on the infrastructure services provided by the Government. Infrastructure projects play a role in promoting economic development. They also provide essential services to the public. The Government should first of all explain to the public what criteria are used for determining which infrastructure services are to be provided by statutory bodies. From what is happening now, it appears that statutory bodies providing infrastructure services generally expect a good rate of return. Services provided by the Government in general are normally aiming at partial or full cost recovery. In contrast, the infrastructure services provided by statutory

bodies at the moment include a certain profit margin. For instance, the KCRC yields a 9% rate of return on average net fixed assets. The Government anticipates that the future airport railway will have a 10.25% rate of return whereas that of the new airport at Chek Lap Kok will be even as high as 14.5%. The Government really must explain why a profit has to be made on top of cost recovery and why the rates of return differ among different infrastructure services. Another thing is that, if the rate of return for an infrastructure service is to be set purely on a commercial basis, then the planners will try to minimize the operating costs but maximize the profit. I feel that, if the Government is to provide the infrastructure services, profitability should not be the sole consideration. It should also take into consideration the social costs and benefits of the services, their contribution to the community and how they affect the community. For example, their impact on local economic growth, the environment and ecology and the benefits they bring or the harm they do to different community groups should all be taken into account. However, in determining the rate of return on investment for the airport railway and the new airport, no account is taken of the social cost of the projects in terms of environmental and ecological damage. Neither are the long-term economic benefits, both direct and indirect ones, that the new airport and the airport railway would bring.

Mr President, since statutory bodies have to attain a target rate of return, they often set fees and charges on the high side and their scale of increase will be linked with the rate of inflation. However, the recurrent expenditure of these bodies represents only part of the fees and charges. Part of them are for the payment of interests and principal. Therefore, if the scale of increase in fees and charges follows the rate of inflation, the operating profit margin will widen sharply.

At the moment, the Government intends to raise sharply the airport's landing and aircraft parking charges. It is expected that, when the new airport at Chek Lap Kok commences operation in 1997, the fees and charges will be three times those of the Kai Tak Airport in 1989. It is obvious that in order to attain the target rate of return, the Government is going to increase the charges sharply. The fees and charges of infrastructure services in many cases are directly borne by consumers. In other words, the taxpayers must, on one hand, pay for the construction of the projects and, on the other, pay high fees and charges enabling the projects to attain a significant return. This is unfair. At present, the Government borrows money to finance large infrastructure projects. The terms of loan repayments directly affect the level of fees and charges. Generally speaking, in foreign countries, the repayment period for a major infrastructure project may be as long as 20 years. In Hong Kong, it is shorter. For example, the MTRC plans to pay off the loan for the airport railway in 13 years and the Airport Authority plans to pay off the \$23.3 billion loan for the new airport at Chek Lap Kok in 12 years. Since the statutory bodies have to pay off all loans within a short period of time, they are often forced to maintain their fees and charges at a high level. Given Hong Kong's high credit rating and its financial strength, the Government should reconsider

the terms of the loans for these infrastructure projects so that, as far as possible, the costs of the construction may be shared among different generations of the population of Hong Kong and, more importantly of course, so that the burden on the present population may be eased.

Mr President, according to existing arrangements between the Government and the statutory bodies, many of them are required to pay dividends to the Government at appropriate times. As was said a moment ago, the Government does not need to make a profit from the public services that it provides. But the statutory bodies, if they operate soundly, will make significant profits. I feel that the Government should allow these statutory bodies to plough back their profits to upgrade the quality of their services, to reduce the scale of increase of fees and charges or to expand into new kinds of services. For instance, the KCRC may use its profits to improve the railway signal system and install sound insulating barriers along the length of the railway. These actions are beneficial to the public.

Mr President, we can see that the statutory bodies' fees and charges for infrastructure services are closely related to their operating policies and to the financial arrangements at the time of construction of the infrastructure projects. In order to appropriately safeguard the interests of the public, we should practically review the relationship between the statutory bodies' financial arrangements and their expected level of fees and charges under the existing Government policy on returns. In this way, we can make sure that future fees and charges for public services will be maintained at a reasonable level.

Mr President, with these remarks, I support the motion.

MR VINCENT CHENG: Mr President, the question of government fees and charges has been discussed repeatedly in this Council. In late 1988 and early 1989, the then OMELCO Panel on Finance, Taxation and Monetary Affairs reviewed this subject. According to the various government papers on its policy on fees and charges, there are about 5 000 different fees and charges collected by the Government, the majority of which are set at levels to attain full cost recovery.

The remaining fees and charges are grouped into five different categories each with different criteria for determining fee levels, namely: Nominal Fees, Subsidized Fees, Deterrent Fees, Tax-loaded Fees and Utility Fees. There is also a catch-all category called "Others" to allow the Government to determine fees and charges on services which cannot be put into any one of the five groups. This framework gives the Government maximum flexibility in determining fees. Should the Government feel that a service should be subsidized such service would then be put under the Subsidized Fees category. On the other hand, if the Government wants to deter consumption of a service, putting such service in the Deterrent Fees and Tax-loaded Fees categories would allow fees to be set at levels well above cost.



The crux of the matter is therefore not whether we have the right or wrong government policy, but rather within this broad policy framework whether, first, different services have been correctly classified and put into the right category for fee determination; second, if a service should be subsidized, what should be the right level of subsidy; and third, when a service should, in the Government's view, produce a fair return on the capital invested, what should be regarded as a fair return? In this regard, I believe the Government needs to explain clearly what are the criteria for determining whether a service should be subsidized, fully cost recovered, or yield a positive return. The guidelines are not clear to this Council. The reason may be that the guidelines were set a long time ago and new Members of this Council are therefore not familiar with them.

That said, I accept the broad principle that government services should generally be charged on a full cost recovery basis unless there is a clear reason for subsidy or otherwise. This is a fair policy; for many government services, I do not see why users should not pay for what they enjoy. Furthermore, we have a simple and low tax system, to maintain it requires many government services to be provided on a full cost recovery basis.

In this Council's debate on tunnel tolls, it was revealed that when a service is determined to yield a positive return, the rate of return should be aimed at 15%. In my view, whether the rate should be 15% or 16% is not important. There is no such thing as a correct level of return. It depends on a host of factors such as inflation, interest rates and so on. Furthermore, the rate of return serves also as a performance standard for the department concerned. In the end, the proceeds goes to the Government which in turn will be used for the betterment of the community. We should therefore not be too concerned over the precise number. But we must have clear guidelines on whether a service should be required to yield a positive return, other than the need for a performance standard.

It would be unrealistic to ask the Administration to inform this Council of their rationale in the determination of each of the 5 000 fees and charges. Nevertheless, the Administration should take the trouble to inform the public why, for certain utilities, the Government should aim for a positive return rather than full cost recovery.

Mr President, I do not think there is a need to review the broad principles. If any review is needed, it should focus on whether certain fees have been misclassified and included in the wrong category and thus wrongly priced.

Mr President, I support the motion.

MR FREDERICK FUNG (in Cantonese): Mr President, honourable colleagues, many of the criteria for setting the fees and charges and profit level of government services are formulated years ago. Throughout the years, the

Administration has not conducted any systematic review of the criteria or made any improvement. I should like to point out here the current situation and policies and demonstrate the unfairness of the respective policies and the areas which warrant review. From these we can see many instances of unreasonableness and neglect of the interests of the grassroots.

Just as I had mentioned in the earlier debate on the financial arrangements between the Government and the Housing Authority, the costs charged by the Government at present for site formation of Home Ownership Scheme (HOS) developments are far higher than the actual costs. Calculated on this basis, the Housing Authority has paid \$2.9 billion more than what would have been justified to the Government over the last five years. At the same time, as far as the present arrangements between the Government and the Authority are concerned, in 1991-92, for example, the Authority paid \$92 million more than what would have been justified to the central government. This, coupled with the never ending annual payment of interest, will, 16 years from now, result in the Authority subsidizing the Government instead of the other way round. If the Administration does not review and improve these financial arrangements, it will undoubtedly mean using money from the low income people living in public housing estates to subsidize the Treasury — a fundamentally irrational policy of "fleecing the poor to relieve the poorer".

Moreover, a number of the charging policies of the Government also appear to be biased in favour of the industrial and business sectors, so much so that these sectors are being subsidized to some extent. The Government, through the setting up of the industrial estates, the Productivity Centre and the Environmental Protection Department, for example, is in effect subsidizing Hong Kong industries in many respects. However, no review has been conducted in the last few years as to this kind of subsidy and its effectiveness. From the overall and macro points of view, I would agree to the Government supporting industries with the taxpayers' money. However, are some of the policies already obsolete having regard to their cost-effectiveness? The situation is not clear enough.

Furthermore, the present scale of water charges and postal charges for printed matter seem to be subsidizing the industrial and business sectors as well. This kind of subsidy however lacks statutory and policy justification.

Another question relates to education. Since education is a long-term investment in society, there is therefore a very substantial subsidy component in it. But whether or not funds for education have been used effectively is also one of the most important factors affecting the future social and economic development of Hong Kong. The current inadequacy of government subsidy towards early childhood education has denied children of lower income families the equal opportunity of receiving education and striving for better development. However, viewed from another angle, government subsidies for students of English Schools are much higher than those for students of aided secondary schools either in terms of teacher quality or teaching material. Last

year, the government subsidy for each English School secondary student was \$4,000 more than that for an aided secondary school student. While the average class size for English Schools is 26, it is 37 for the local aided schools. Given that the families of English School students are generally well off in Hong Kong, why are local school children denied the same high level of subsidy? Should this situation be allowed to continue? As regards tertiary institutions, resources committed to different institutions will produce different benefits for society. But the Government is currently enforcing a more or less uniform fee policy. This can in fact be included as an area for review.

In view of the various instances of unreasonable fees and charges and profit levels mentioned above, I and the Association for Democracy and People's Livelihood suggest that the Government should conduct a comprehensive review of its criteria for setting fees and charges and profit levels to ensure that efficient and high quality services are available to the public at reasonable charges. Given the widening gap between the rich and the poor in Hong Kong, it is particularly important that studies should be conducted as to how best to allocate resources more effectively through the setting of fees and charges for government services, in order to better the livelihood of the lower and middle income people.

If the Government would undertake a realistic review in respect of this matter, I believe the review should cover at least four areas. Firstly, it should cover the full spectrum of policy areas such as housing, transport, medical and health, social services, education, recreation and culture, industry and commerce; secondly, in respect of each charging policy, the Government should formulate a clear set of objectives for subsidy provision and methods of measuring the effectiveness of the policy; thirdly, the Government should review the extent of subsidy for different income groups under each charging policy, and consider whether for those people or businesses who should not be subsidized their subsidy should be reduced and whether for those who fail to be given reasonable assistance their subsidy should be increased; fourthly, in view of the increasing numbers of providers of government services being corporatized, I feel that a review should be conducted with a view to improving the quality and cost-effectiveness of the services provided by these corporations.

With these remarks, I support the Honourable Steven POON's motion.

THE PRESIDENT'S DEPUTY, MRS ELSIE TU, took the Chair.

MR LAU CHIN-SHEK (in Cantonese): Madam deputy, there are more than 5 000 fees and charges collected by the Government for the services it provides. These services are wide-ranging. But they have the following characteristics in common:

Firstly, they serve an important "social purpose" — improving the quality of living of the people and creating favourable conditions for long-term economic and social development. Their purpose, unlike the purpose of private sector operations, is not profit-making.

Secondly, generally speaking, the services provided by the Government are somewhat monopolistic in nature. Some of them need to be heavily subsidized and the private sector is not likely to provide them. Others require huge investments, which deter the private sector from taking up them. Still others can only be provided by the Government because of the legislative and enforcement factors involved.

Most of the services provided by the Government are essential to the public and there are no substitutes for them. Therefore, it is crucial how the public can be assured of efficient and quality services in return for reasonable fees and charges.

Before deciding on the criteria for setting the fees and charges of services, it is necessary to find out the nature of each service and who needs it. Then one can proceed to a meaningful discussion of the policy of fees and charges and profit levels. Regrettably, the Government has never held full consultation on this matter.

The Finance Branch of the Government Secretariat published its recommendations on "public sector reform" in 1989. An attempt was made to classify government services into three categories: "core services" (such as law enforcement and health care), "supporting services" (such as vehicle maintenance) and "commercial services" (such as operation of tunnels). A fees strategy was laid down for each category. However, the recommendations did not clearly explain the criteria for the classification of the categories or the strategies for the setting of fees and charges which made the discussion of the recommendations difficult.

I think that, where a service is provided by the Government, there must be a policy objective. Therefore, the classification of government services should be in accordance with the government policies in order to re-establish the social and policy objective of each kind of service. One can then base on these to review the criteria for setting fees and charges and profit levels. For instance, tuition fees should be a matter of the education policy while tunnel tolls should be a matter of the transport policy. Therefore, before determining what criteria should be used for setting a fee or charge, one must find out what the social purpose of the particular service is rather than pre-determining the rate of return.

At present, it is the Finance Branch that sets the fees and charges and the profit levels of the several thousand government services and the five public utility services. The Finance Branch usually considers the issue merely from the financial or commercial angle. Therefore, its primary consideration is cost

recovery and profit, without paying regard to the social purpose of the services and their impact on people's livelihood. This is simply putting the cart before the horse.

I suggest that, if and when the Administration conducts a comprehensive review of the criteria for setting fees and charges and profit levels, it should consult the relevant standing panel of this Council so as to re-establish the policy objective of each kind of service.

Today, I will comment on the target rates of return of government public utility services.

Months ago, this Council rejected toll increases for the three tunnels. This showed that Members were opposed to a 15% target rate of return on average net fixed assets for government tunnels. Government public utility services are just like other government services. They are provided to cater for social and economic needs. I do not see why services classified as "public utilities" should set their rate of return comparable to that of the private sector.

In fact, most of the five government public utility services and the three railway services operated by public corporations have a close bearing on the livelihood of the people. For instance, water supply is essential to our everyday life and postal service is something with which we are often in touch. As for the Mass Transit Railway service, train service and Light Rail Transit service, they are modes of transport used by the public everyday. Their fees and charges and their quality directly affect the livelihood of the people, including our daily expenses and the quality of our living. They are basic services that any responsible government should provide. They are absolutely not purely commercial services.

In recent years, the trend has been increasing privatization of the operation and management of government public utility services. The fees policies have been heading in the direction of higher rate of return. To the public, this has done more harm than good.

Water charges have been rising annually over the past few years and the cumulative increase exceeds the inflation rate. Postage rates have been raised biennially and the cumulative increase is close to the rate of inflation. Water supplies and postal services have both indicated that fees and charges will rise in the next few years to catch up with the target rate of return. If their plans materialize, the scale of increase will surely be even bigger. We cannot help asking: Why must fees and charges be increased sharply to catch up with the target rate of return even though it may disturb people's livelihood?

It is unreasonable to set any rate of return on average net fixed assets or on turnover and totally inappropriate for the Government to adopt private sector practices in setting its target rate of return. Privately operated public utility companies compute their target rate of return on average net fixed assets.

This is already questionable and in fact has been much criticized. Government public utility services are different in many ways from the privately owned public utility companies. For the two to make their fees and charges comparable is to collaborate with each other to create a joint rationale for seeking huge profits.

There are ample sources of funding for government public utility services. They do not have to borrow loans as private companies do. Besides, government services are practically risk-free in their operation. Whether receipts are ample or not should not be a major consideration for government services. Moreover, most of the government public utility services run practically no operating risk; their target rate of return simply should not be set on the high side. Thirdly, in most cases, the asset growth targets of government public utility services are set on the basis of social needs. There is no need to encourage investment by means of the scheme of control agreement. In view of what have been mentioned, we have every reason to oppose to the existing profit levels.

I call on the Government to conduct a comprehensive review of the criteria for setting the fees and charges and the profit levels of services including public utility services. I also call on it, when determining the scale of increase in fees and charges, to consider the social implication of the services and the affordability of the public. It should not raise fees and charges with a view to yield a higher return.

Madam deputy, with these remarks, I support the motion on behalf of the 13 Members from United Democrats of Hong Kong. Thank you.

MR LEE WING-TAT (in Cantonese): Madam deputy, I recall that on 24 February, this Council overturned the decision to increase the tolls payable at three government tunnels by \$1. Our move aroused concern and discussion about government policy towards fees and charges. The incident became the focus of public attention mainly because the Government stressed that various public services had to be run in accordance with commercial principles. This led members of the public to realize that, apart from being taxpayers, they were also the Government's targets for making profits. It is time to review and explain to the public the government policy on profit levels and fees and charges.

The reason for the Government to raise the tunnel tolls was to obtain a return close to 15% of the net fixed assets, not to offset the increase in operating cost. The Government explained that the target rate of return was set to ensure efficient management of government-run public utilities under prudent commercial practices. It also pointed out there was no reason why government-run public utilities should gain a smaller profit than private businesses. I think the Government was just trying to justify its own action. What the Government cares about is the rate of return achieved by the private sector, not their

management efficiency. We all understand that the existence of competition in the market is the factor that makes private enterprises more efficient than government departments. For the vast majority of public utilities, be they run by the Government or private companies, there is no genuine competition in the market. So introducing competition is the key to higher management efficiency of public utilities. If it is impossible to introduce competition, the end users should be allowed to play a more important role in monitoring public utilities. Guidelines on the quality of different services and improvement of productivity should also be established. It is putting the cart before the horse to adopt commercial practices and a target rate of return without stepping up public monitoring of government-run public utilities and making firmer commitments in respect of public services.

We are strongly opposed to the practice of setting the target rate of return for tunnels at 15% of the net fixed assets. This is higher than the normal rates of return for commercial investment. Take the examples of the Kowloon Motor Bus Company Limited, the China Motor Bus Company Limited, the China Light and Power Company Limited and the Hong Kong Electric Company Limited. In theory they may earn a 10% or 16% return on fixed assets under the profit control regime. However, for years they have generally gained a much smaller profit. Under the new profit control scheme for the China Motor Bus Company Limited, the practice of using the fixed assets as the basis for the calculation of profit has been abolished with effect from September this year. Investing in fixed assets, coupled with the lack of competition, allows a business to make a profit even though its management efficiency is poor. The target rate of return has nothing whatsoever to do with management efficiency. Tunnels, being one type of transportation infrastructure, may require a higher cost to operate than roads. But since tunnels are also part of the road system, I personally think that just to recover their operating cost would do. The problem of who is subsidizing whom does not exist even under the situation when the target rate of return is not achieved. This is because the vast majority of roads are built with public money, and everyone in the community uses roads. No taxpayer can claim that he is subsidizing the users of a certain road. If the Government is bent on getting a certain return, why does it not charge tolls at Tuen Mun Highway, Nathan Road, the Island Eastern Corridor or roads at the Mid-Levels? If the operating cost of a certain section of road, such as a tunnel, is comparatively higher, it is of course open to discussion whether action should be taken to recover the cost. However, the Government should refrain from using tunnels to make extra profit at the expense of the general public.

The Government should not view the commitment of resources to road network development as a business activity to boost the coffers. Roads enable members of the public to move about freely. They increase the mobility of the population and working people as well as stimulate the economy. By building roads which are beneficial to people's livelihood and economic activities, the Government has performed its obligation towards taxpayers. Without comprehensive road systems, the Government is bound to receive much less revenue from land sales. Hence it should not hanker after a 15% return for

tunnels. It should look at the matter from the angle of the infrastructure's contribution to the whole society and the economy.

Madam deputy, with these remarks, I support the motion.

MR FRED LI (in Cantonese): Madam deputy, Meeting Point supports the motion moved by the Honourable Steven POON today.

At present, the Government collects 5 000 kinds of fees and charges for services. Among the services are public utility services provided by the Government. These services are operated along commercial principles. The relevant charging policy not only seeks to recover costs but also to meet set targets in terms of rates of return.

Social resources are limited. There is nothing wrong with the Government collecting fees and charges and earning an income from services to cover outlays. But Meeting Point is concerned because the Government has never had a set of clear-cut charging policies that are implemented in respect of public services. My speech today will focus on the criteria for setting fees and charges and on the question of public monitoring. Among the Meeting Point members in this Council, Dr LEONG Che-hung has already spoken. Mr TIK Chi-yuen will be using the social services example to point up problems with the Government's criteria for setting fees and charges and problems with the redistribution of resources. Mr WONG Wai-yin will be using the tunnel toll example to show that the Government does not have a consistent charging policy and that the absence of discussions on the purposes and functions of government fees and charges has led to individual policy initiatives being rejected for lack of support in this Council.

In broadbrush terms, government services can be divided into two major categories. The first category comprises those services that cater for the needs of everyday life and are used by the general public. Examples are water supply, health care and housing. The second category comprises services with a commercial component including tunnels and business registration.

Meeting Point thinks that, in the case of the services that cater for the needs of everyday life, the ability of the public to afford should be the criterion for setting fees and charges. In contrast, in the case of the services with a commercial element, the criteria for fees and charges should be the reasonable market going rate that consumers are willing to pay, so that, subject to the services being operated efficiently, it is acceptable that the Government should make a profit from them.

The above are very rough and rudimentary principles. Other factors will have to be taken into consideration for a detailed analysis. For example, when it happens that resource constraints prevent the Government from limitlessly subsidizing social services, what should be done to resolve the imbalance



between supply and demand? In the case of the services that are operated along commercial principles, apart from focussing on turning a reasonable profit, what should the Government do to improve the efficiency and the quality of the services and make sure that consumers will receive value for money? On these important questions, the Government has so far had no policy; nor has the public held adequate discussion.

A charging policy should cover not only the question of cost recovery. It should also cover many questions of principle such as social justice, the redistribution of resources and the Government's role. In addition, it should cover the question of public fiscal policy. Last year, I moved a motion to urge the Government to conduct a comprehensive review of Hong Kong's tax system. One of my arguments at the time was that the existing tax system, not being progressive enough, played a very feeble social wealth redistribution role. Meanwhile, however, the Government has proposed that fees and charges for social services should be headed in the direction of cost recovery and the phasing out of subsidies. The social impact of this will be the widening of the gap between the rich and the poor.

In contrast, government services that are operated along commercial principles are services in which taxpayers' money has been invested. It appears at first blush that there is nothing wrong with these services earning a specific measure of return. But here, too, there are many problems that remain to be solved. Take the example of such government services as postal service, tunnels, the airport and even the railways wholly owned by the Government. To a greater or lesser degree, all these are monopolistic services. Their fees and charges are not determined by market forces. Also, some government fees and charges are compulsory. An example is the business registration fee. All businesses must be registered. Another example is the film censorship fee. In these cases, the user of the service cannot choose between paying the fee and not paying it. In theory, the Government can set the fees and charges at levels that are well above costs, unrestricted by the operation of market forces.

Another example is the postage charges that formed the subject of an oral question raised by me earlier on in this sitting. The Post Office has set a target for itself. It will attain a 16.7% rate of return on turnover by the year 1996-97. Thus, over the next four years, there will be a doubling of the rate of return compared with the 8% average for the past 10 years. Actually, we have no idea what criteria were used in setting this target.

Meanwhile, members of Meeting Point's economic group have contacted trades that are users of bulk mail service, such as the Association of Publishers. They all say that private companies' bulk mail service is cheaper and faster than that provided by the Post Office. This makes us suspect that it is quite improper for the Government to be talking only about the rate of return while giving no explanation on cost control, efficiency and service improvement.

Meeting Point thinks that the existing channels of public monitoring over government services must be improved. We think that a comprehensive review should be conducted of the mechanism for setting fees and charges and that full consultation must be held over the charging policies for services that directly affect the lives of the people before they are implemented. A monitoring role should also be given to the Legislative Council through subsidiary legislation concerning the determination of fees and charges. In addition, there should be open and published standards for all government fees and charges, standards that can be based upon when fees and charges are later raised. Also, the Legislative Council's role as a mechanism for monitoring the spending of taxpayers' money and the Government's administrative efficiency should be strengthened. This will prevent the public from having to bear the higher costs of the Government or the public sector that are due to poor efficiency or other such causes.

Madam deputy, with these remarks, I support the motion.

MR TIK CHI-YUEN (in Cantonese): Madam deputy, I am the elected Member from New Territories North. Transport has long been the daily necessity causing the most concern among the residents of New Territories North. They are facing a shortage of local bus service. To most of them, the Kowloon-Canton Railway (KCR) is the only available choice. But the relatively higher train fares have imposed a heavy burden on those who need to use the service. This is why the residents of New Territories North are paying very close attention every time the Kowloon-Canton Railway Corporation (KCRC) proposes a round of fare increases. They hope that the new fares will not become unbearable like the last straw that breaks the camel's back.

The KCR was privatized in 1983. Over the past 10 years, its operation efficiency has enhanced quite a lot and its quality of service is improving. Meanwhile, its train fares have risen sharply. The majority of the residents are disappointed at and unhappy with the KCR's routine round of fare increases that comes annually. There are two reasons for this:

1. The KCRC fails to consider the public's affordability of its fare increases. In each round of fare increases over the past 10 years, the scale of increase often exceeded the rate of inflation. Fares were increased despite the huge profits that had been made. This directly added to people's hardships.
2. The KCRC's operations lack transparency. The public can never have a voice in, or a say about, KCR fare increases. The KCRC rarely makes itself accountable to the public in respect of fare increases. Each time, it merely issues a general statement as to the reason for the fare increases, such as inflation or higher operating costs. But it never provided any relevant statistics or information on how the fares were mathematically arrived at. The public

simply plays no part in the setting of fares. Even if the public raises objections, such as by staging protests or launching signature campaigns, the KCRC will ignore them by turning a deaf ear. I recollect that, a few years ago, the Executive Council did not agree to the KCRC's fare increases and proposed a moratorium on fare increases. But the KCRC did not heed this suggestion. It simply went ahead and raised the fares. This shows what great power the KCRC is holding. The public has no means to participate in its management or monitor its operations.

How are KCR fares to be monitored? Meeting Point holds that imposing fare control is the most important. We feel that KCR fares should be set on the basis of the public's affordability. Early this month, members of Meeting Point met the KCRC management by appointment to discuss the fare increase issue. The Chairman of the KCRC said that fare increases were based on a consideration of five factors: operating cost, inflation, liquidity projections, passengers' affordability and public opinion. It is found that everybody agrees that the public's affordability is a consideration. But the question is how the affordability should be defined and whether the public's interests are fully looked after. Under the existing system, the public has no means to find out whether the KCRC, when setting fares, takes full account of the affordability of the public because we do not have the statistics. We are letting the KCRC get away with self-justification. In other words, the public's rights are not safeguarded.

In order to ensure that KCR fares are reasonable and affordable to the public, Meeting Point has two suggestions to make:

1. The KCRC should improve its transparency. It should provide the public with detailed explanations for its annual fare increases so that the public can monitor the KCRC.
2. There should be elected members in the management board of the KCRC so as to strike a balance between the company's interests and those of the public.

In addition, Meeting Point is against the Government receiving a share of the KCRC's profits in the form of dividends. Over the past three years, the Government received a total of \$415 million in dividends from the KCRC. The Government's explanation for this is that, when a company is profitable, share-holders should reasonably receive dividend payments, and that paying dividends to the Government will enhance the company's credit rating. But Meeting Point considers that none of the past dividend payments was necessary. Given the fact that the KCRC is going to raise \$5 billion over the next five years to improve its services, paying dividends to the Government will only reduce its liquidity and create a pressure for higher fares. Nor is it necessary for the KCRC to demonstrate its financial soundness by making dividend payments because its

performance is good enough to earn itself a high credit rating. Meeting Point is opposed to the Government's demand for dividend payments from the KCRC.

Madam deputy, as Meeting Point's health care policy spokesman, I would like to make some comments concerning the policy on fees and charges for health care services. In my opinion, when determining its health care policy, the Government should give full consideration to the following principles:

1. The Government should provide reasonable health care services to the public. The costs of health care services, in the long term, will be on the increase. The Government should formulate relevant policies and measures to expand its health care services to cope with future demand.
2. Fees and charges should be set with the affordability of the public in mind. The average member of the middle and low income groups is still quite dependent on low fees and charges for public health care services. This is particularly so in the case of the elderly and the chronically ill. We cannot accept that members of the public should be satisfied with low-quality health care services because they do not have adequate financial means.
3. The additional revenue due to higher fees and charges for health care services should be ploughed back to upgrade the quality of services instead of reducing the Government's commitment. Of course, higher fees and charges are not the sole solution to the problem of service quality. If they are, the public will have to shoulder the responsibility for the future expansion of health care services.
4. The public should be consulted fully on the policy on fees and charges. The goal is to achieve a certain degree of consensus for the policy so as to forestall strong objections against the increases in fees and charges and to avoid turning the issue into a political one. Otherwise, it will not help solving the problem.

Any discussion of an expansion of public health care services will necessarily involve a discussion of additional resources. We must not look at the policy on fees and charges as the sole solution because it will make the public the sole source of additional resources. Nobody wants the costs of health care services to be gradually passed on to the users. Meeting Point has all along favoured the establishment of a central health insurance system as a long-term solution to the problem of financing of health care services. As for the specifics of our proposal, we are going to reveal them to the public in due course, that is, when the Government holds consultation concerning its policy on fees and charges for health care services.

Madam deputy, with these remarks, I support the motion.

DR SAMUEL WONG (in Cantonese): Madam deputy, at present the Government is providing a total of over 6 000 services of various kinds. An overwhelming majority of these services are fee-charging but the public has all along known little about the Government's criteria for setting the fees and charges. They only know that Hong Kong seems to be a place without free lunches. Even for some basic social services, the Government still insists on recovering part of the cost. As for other non-social services, namely, public services such as the airport, government piers, tunnels, water supply and postal service, the Government even treats them as commercial operations and sets the target return each year in accordance with the accepted profit level of public utilities in private ownership.

Other Members have already made a multiplicity of comments and proposals concerning the criteria for setting the social services fees and charges. Social services involve the distribution of benefits among different social strata. This, coupled with the heightening of Hong Kong people's civic awareness and the increasing politicization of our society, will lead more people into querying the criteria for setting the social services fees and charges. The Government should firstly define the criteria for setting the fees and charges for various kinds of social services. For example, the Government should decide in percentage terms the appropriate cost component in a fee or charge for a service provided. Only after the setting of the charging criteria can the public make assessment on a comparatively objective basis.

As for government utilities, all of them except water supply and postal service have set an annual 15% target return on the average net fixed assets. Apart from daily necessities such as water, I think the making of profits by the Government through running public utilities is no cause for criticism because such profits will go to the public revenue, which will be eventually spent on the public themselves. Yet, whether the government utilities should set the target return rate at 15% of the average net fixed assets is still questionable. Unlike private business, government utilities have no balance sheet and the general public is unable to know how much the value of the net fixed assets actually is and how such a value is calculated. Without this information, it is virtually difficult to judge whether the fee or charge is reasonable. In addition, the pegging of the profit level to the net fixed assets also fails to encourage the government departments concerned to meet the profit level by enhancing their efficiency. In fact, the return rate of all government utilities except the airport was far below target in the past five years. Government officials have been stressing that the setting of the 15% return rate for government utilities is to ensure that these public utilities can be operated the way commercial undertakings are run. This is obviously a mistake.

Madam deputy, I agree that the Administration must review government services as soon as possible and pay particular attention to the charges and profits of government utilities.

With these remarks, I support the motion.

MR HOWARD YOUNG (in Cantonese): Madam deputy, I believe that an assessment of the fees and charges of government services should mainly take into consideration the reasonableness of the profit and profit levels of such charges and the affordability to the public. Services and welfare are entirely different in terms of concept and essence. We should not mix the two together. It is natural that we should pay for the services we receive because service is in fact a kind of commodity and is to be purchased with money. We should not at will urge the Government to subsidize such services or even to provide them at a loss. However, if the public can enjoy the services at a reasonable price on the one hand and the Government can make a satisfactory profit from them on the other, then all is gas and gaiters. But the Government is not a commercial enterprise after all and is not set up to make money. Services provided by the Government are mainly for the purpose of administration or for the public's convenience. Therefore charges should be set subject to the premise of reasonableness and acceptability to the general public. Profit-making should come second. We should not aim primarily at generating a targeted level of return from the fees or charges. In the business sector, any businessman will put up various reasons to justify the price of the commodity he sells. And if the price exceeds the public's affordability level, people will simply give up buying the commodity. As a consequence, business cannot go on and the businessman will be incapable of earning a profit. However, the Government is by no means a commercial enterprise and should be under public monitoring. As a matter of fact, of the various government services, some are of a monopoly nature and are competition-risk free. As for the several items which have target rates of return such as marine ferry terminals, government tunnels, water supplies, postal services and the airport, only government tunnels are facing a certain degree of competition because people have other alternative routes to reach their destinations. In the case of water supplies, unless we live so high on the hog as to use distilled water in bathing, that sort of service can be regarded as a form of monopoly. So is the case with the airport's runway service.

Whether it is a public utility subject to monitoring such as the telecommunications, electricity supplies and bus services operated by the private sector, or utility services invested with public fund, I acknowledge that a reasonable return is necessary. But the nature of the investment item should be a factor to be considered. In respect of those investment items where the equipment requires frequent updating as a result of tremendous technological advancement, take for an example telecommunications, we should allow them to have a shorter period of full return on investment under the commercial principle. As for fixed assets which do not require frequent replacement due to technological advancement, such as the airport runway or the tunnel tubes, we have to admit that their period of return should be longer.

As I have said just now, service is a kind of commodity and government services are no different. Under this kind of transactions, the relationship between the Government and the public is similar to that of the supplier and the consumer. Commercial organizations are members of the community and part of the people as well. We should not make them pay a higher price in buying

government services just because they earn money and make profits. In view of this, all the fees and charges for government services, irrespective of whether they are provided to the general public or commercial enterprises, should be monitored and reviewed under one standard criterion. Otherwise, it may lead to an unfair trading relationship.

Mr Albert CHAN has just mentioned that the aeronautical charges of the airport has undergone a 20% to 30% increase in recent years. I am deeply concerned with the charges and profit level of the present airport and the future Chek Lap Kok airport. The new airport is a capital investment involving huge amounts of public fund. Naturally, it should be monitored by the public to ensure that resources can be fully utilized and a reasonable return be maintained. Meanwhile, various airport charges should not be set too high or else the position of Hong Kong as a freight centre and a tourist centre may be jeopardized. At present, many of the fee-charging items, such as the Terminal Building, the aeronautical charges and concessionaires' operations, generate huge amount of revenue. The aeronautical charges alone have brought about a 40% increase in revenue this year. I find this situation very disturbing. I feel that when we scrutinize the Bill on the Airport Authority, we should ascertain whether the Airport Authority is a form of monopoly and whether its charges are to be subject to monitoring. In the meantime, we should find out what sort of principle would enable us to maintain a reasonable return on the one hand and would not hinder our development in tourism and aviation on the other. I believe that it is opportune to bring up this issue for discussion.

Madam deputy, I support the motion.

THE PRESIDENT resumed the Chair.

MR WONG WAI-YIN (in Cantonese): Mr President, early this year, the Governor in Council approved a raise in tolls for three government tunnels, namely, the Aberdeen Tunnel, the Shing Mun Tunnel and the Tseung Kwan O Tunnel. The higher tolls were effective immediately. However, since the adjustment of tunnel tolls required an amendment to the subsidiary legislation on government tunnels, it had to be passed by this Council. The House Committee proposed setting up a subcommittee to study the issue. Meetings were held by the subcommittee and it was found that the Government's raising of tunnel tolls to gradually achieve a 15% rate of return was unwarranted. As a result, the proposed increases were rejected at a Council sitting and the tunnel tolls were reversed to the original level.

All four Members from Meeting Point spoke and voted against the toll increases at that sitting. In our opinion, that controversy over the proposed tolls increases exposed the chaotic state of the Government's criteria for setting fees and charges. There was no consistent policy at all. During the debate, the Government pointed out that its criteria for setting or raising fees and charges

were like this: Apart from water supplies, all Government public utility services have set the target rate of return on investments at 15% of average net fixed assets. What is the justification for that? According to the Government, such a rate of return was comparable to that of large privately owned public utility companies. The Principal Assistant Secretary (Treasury), Mr WELLS, who attended the meetings of the subcommittee (and he is present at this sitting today), cited the analogy of the China Light and Power Company and the Kowloon Motor Bus Company. The scheme of control agreements for these two companies allowed them a rate of return of 15% and 16% of average net fixed assets respectively. Mr WELLS further pointed out that since the taxpayers were the indirect investors, these tunnels should be operated along commercial principles. In fact, the analogy cited by the Government is partly contradicting itself. The Government has already decided to revoke the scheme of control agreement for the China Motor Bus Company. Barring the unforeseeable, it is believed that the scheme of control agreement for the Kowloon Motor Bus Company will also be revoked when the company's franchise expires in 1997. When the franchise of the China Light and Power Company was renewed last year, the permitted rate of return remained at 13.5% to 15% of average net fixed assets. At that time, it was already criticized by many colleagues in this Council. In fact, the Government had never told the public clearly how this 13.5% to 15% figure was arrived at mathematically. Now the Government was citing this untraceable figure as justification for a 15% rate of return for the three tunnels that it owned. Should this Council accept such a rate of return and approve the proposed tunnel tolls increases, private tunnel companies will be given cause to seek higher tolls on the ground that they have not yet attained the 15% rate of return on average net fixed assets. Would the Government then say "No" to them?

Even if government tunnels are to be operated along commercial principles, why should the rate of return be 15%? Why not 10% or 5%? Tunnel projects are road projects. Why must tunnel projects be considered as investments? Why must there be tolls for tunnels but not for expressways? Are road projects not investments at all? Water supply projects are considered to be investments because the Government has set a 7% rate of return for water supply facilities. Well then, are sewage treatment projects investments? How will the Government set the rate of return in this case?

Mr President, I must stress that, in raising the series of questions, my purpose is not to show that Meeting Point accepts that a rate of return is needed for the various facilities in question. My purpose is to show that the issue must really be examined, explained and discussed until a community-wide consensus is reached.

When another motion, also involving the increase in tunnel tolls, was debated in this Council last year, Meeting Point boldly stated that we were in favour of raising the tunnel toll for the Hunghom Cross Harbour Tunnel as a means of traffic control to relieve the congestion at that tunnel. Meeting Point accepts in principle that fees and charges may be used by the Government to



achieve certain policy objectives. However, in practice, it involves various complex issues such as social merits, fairness and effectiveness of the policy. These issues must be examined carefully, one by one. In this respect, too, the Government owes the public the explanations that were never given.

Mr President, of all the different issues just mentioned, the pros and cons must be clearly stated. The feasibility of all policy options must be fully assessed until a fair and acceptable policy emerges. Therefore, I agree that the Government should conduct a comprehensive review of the criteria for setting the fees and charges and profit levels of government services with a view to ensuring that members of the public can enjoy efficient and quality services in return for their payment of reasonable fees.

With these remarks, I support the motion.

SECRETARY FOR THE TREASURY: Mr President,

*Introduction*

*Focus of debate*

The principal concern in this debate has been the Government's policy towards its public utility operations. Honourable Members have queried the basis for the rates of return earned by these utilities. They have raised questions about the appropriateness and efficiency of our monitoring and accounting arrangements. But I have also detected two, more basic criticisms. The first is that the philosophy behind our entire policy towards fees and charges is a somewhat ad hoc arrangement. The second is that this Council and therefore the public in general have never been properly aware of this policy or party to its implementation and that the public has been similarly kept in the dark.

*Outline of speech*

I will begin this evening by showing that both these criticisms are quite unfounded, that the Government has for many years had a clear set of policies under which the level of government fees and charges is determined, and that Honourable Members have been fully aware of both the philosophical basis for our strategy and the details of how it is implemented. I shall go on to summarize once more the main features of our fees and charges system, before focussing on government utility charges and refuting some of the misconceptions that have emerged this afternoon in relation to the target rates of return. Against this background, I shall conclude by setting out the Government's position on the review proposed in Mr POON's motion.

*Fees and charges: continuity of policy*

Mr President, the suggestion that our system of fees and charges is a new one, or one developed piecemeal, is quite misleading. In his Budget speech in 1975, the then Financial Secretary emphasized the need for "clear-cut ideas as to the role of different fees and charges". He went on to define the differences between the six categories which still form the structure of fees and charges policy, and to which I shall return in a moment. Of particular relevance to this evening's debate, he defined the Government's objective for its public utilities as "to determine fees at a level at least sufficient to recover costs and earn a fair return on capital invested, unless the social consequences are unacceptable". He also noted that similar statements of policy had been made on many previous occasions.

These principles were restated in the 1978 Budget speech, which referred to the need for standardized sets of accounts for all the Government's public utilities, so as "to demonstrate the true profit and loss position of each undertaking and the return on average net fixed assets employed". And subsequent Financial Secretaries have repeatedly referred to these same principles in this Chamber, notably in the Budget speeches in 1986 and 1987. Throughout, the underlying rationale for our fees and charges system has remained unchanged.

*Legislative Council involvement*

So our policy towards fees and charges generally, and public utility fees in particular, has a long and respectable pedigree. But I must also refute the suggestion that Honourable Members have played only a passive role in accepting and implementing this policy. Over 2 450 of the 5 000 fees and charges reviewed by the Government each year are either explicitly subject to Honourable Members' approval, or are subject to monitoring and challenge by Honourable Members through the mechanism of subsidiary legislation being laid on the table of this Council, accompanied by the issue of Legislative Council briefs. These include the most important of the Government's fees and charges in revenue terms, all tax-loaded fees, the majority of utility charges and publicly sensitive fees such as those relating to health and education.

Nor is it the case that Honourable Members' attention is only drawn to fees and charges policy when an individual fee is presented for approval. This Council's ad hoc group on Fees and Charges was, for example, briefed in detail on the Government's fee review system as recently as November last year, and provided with copies of the Financial Circulars which set out the Government's costing and accounting procedures for each category of fee and charge. Members of this Council are also periodically reminded in this Chamber itself of the Government's fees and charges policy. Most recently, I rehearsed the key features of our system for revising public utility charges during the motion debate on the Road Tunnels (Government) (Amendment) Regulation 1993. It is thus abundantly clear, Mr President, that Members of this Council are a regular

party both to the approval of numerous specific fees and to the principles upon which these approvals are given.

*Statement of policy on fees and charges*

Nevertheless, Mr President, it has become clear this evening that there is both a need and an opportunity to remind Honourable Members yet again of the main features of our overall fees and charges strategy.

Government fees and charges have historically been divided into three major categories. First, there are the ordinary departmental fees. These make up the large numerical majority of the total, although they are not the most significant in revenue terms. They are set at levels sufficient to recover full cost, unless there is a conscious policy decision to subsidize the services concerned. The full cost recovery principle is essential to ensure that there is no hidden subsidy to the users of the services by the general public. The second category is tax-loaded fees, such as business registration fees or fees for driving licences. These fees are set at levels above cost recovery, with the deliberate aim of raising revenue. Adjustments to all such fees must be approved by this Council, unless a specific exception is provided for in primary legislation. Thirdly, there are the government utility charges. These are levied for services which generally do not require subsidy and which lend themselves to being operated in a commercial way. That is, they are comparable in nature to utilities in the private sector. I will now deal with these three categories of fee in turn.

*Departmental fees*

Normal departmental fees form the vast majority of the 5 000 fees and charges set by the Government. The detailed criteria for adjusting these fees differ according to their classification. As I have already pointed out, the classifications used have been repeatedly set out in documents available to this Council and have formed the basis for literally thousands of decisions taken or monitored by Honourable Members over the last two decades. In some cases, the fees are simply set to recover full costs. Costing exercises are conducted by departments every four years and must be approved by the Director of Accounting Services and Finance Branch. In between costing exercises, fees are adjusted annually in line with the movement of the Government Consumption Expenditure Deflator to maintain their real value. A considerable number of fees are, however, fixed at only a percentage of the actual cost of the services concerned. Such fees, charged for basic services including schools and hospitals, are designed to ensure affordability by all members of the community. The extent and nature of the subsidy varies depending on the nature of the service concerned. But in each case the level of subsidy is and must be the deliberate result of a conscious policy decision taken by the Government. And here I should perhaps add that I have noted with particular interest the remarks made by Dr C H LEONG who has advocated greater flexibility and sympathy for increasing medical and hospital fees.

To complete the picture there are two other minor sub-categories of departmental fee. Nominal fees are charged for services to encourage compliance with government regulations in cases where full cost recovery would be impossible to achieve except at a prohibitive enforcement cost. Deterrent fees are set for specific policy reasons above full cost levels to deter usage of particular services. Again, the decision to categorize a fee as "nominal" or "deterrent" is always a deliberate one taken with the approval of the Executive Council.

#### *Tax-loaded fees*

The second category of fee comprises those containing an element of taxation. They are charged for vehicle and driving licences, companies and business registration and fees for banks and deposit-taking companies. In previous years, it was the normal practice for these fees to be increased in the context of the annual Budget. In his 1992 Budget, however, the Financial Secretary announced a new approach for phasing in adjustments to these fees over the course of the year, in the same way as is already the case for ordinary departmental fees. Our commitment to this approach was repeated by the Financial Secretary in this year's Budget speech. Proposals will therefore be made to Honourable Members during the course of the 1993-94 financial year in relation to tax-loaded fees. I emphasize that the purpose of this change was to spread out the adjustments to these fees throughout the year, and so to minimize their impact on inflation and hence the users of the services concerned. No change in policy towards the levels of the fees themselves or towards the methods used for costing the services involved has been made.

#### *Utility charges*

The major focus of this afternoon's debate has been government utility charges. These are fees levied by the Government for services provided by its public utility operations, namely postal services, water supplies, government tunnels, the Hong Kong International Airport and the marine ferry terminals. These are all undertakings which by their very nature lend themselves to operation on a commercial basis and, to that extent, are comparable to similar operations in the private sector.

In my speech to this Council on 24 February this year during the debate on government road tunnels, I drew the distinction between those services and facilities which are provided to the general public and which must be heavily subsidized as a matter of public policy, on the one hand, and those business or utility type services which are provided to certain users and which generally do not need to be subsidized, on the other. The government utilities to which I have referred fall into the latter category. And, as I also said in the February debate, we have for some 20 years had in place a system through which the management and accounts of all these utility undertakings are kept under regular review. Under this system, the level of charges in each case is reviewed annually by an Operating Accounts Committee. Each of these Committees

includes representatives of policy branches and departments as well as of Finance Branch. If the Committee considers that adjustments to the charges concerned are justified, appropriate recommendations are made to Executive Council.

*The rate of return on public utilities*

I now turn, Mr President, to the main concerns raised by Honourable Members in relation to the principle of the rate of return on our public utilities. I propose to deal with these concerns under three headings: the reasons why a rate of return is necessary, the similarities and differences between government and private sector utilities, and the success of the government utilities in providing adequate services to the public.

*The need for a rate of return*

The Government firmly believes that where a utility is provided at a cost to the community, the community becomes the shareholder in that utility and therefore has a right to expect a reasonable return on its capital investment. It is for this reason that a target rate of return is set. The discipline imposed on departments of attempting to achieve these target rates ensures that they do not allow operating costs to exceed what a comparable commercial operation could be expected to raise, thus allowing for a modest profit. In short, it serves as an assurance to the community, as shareholder, that the utility concerned will be operated in a prudent and business-like manner. And as I said in the debate on tunnel tolls last February, the fact that the public revenue can make a modest profit, thanks to a utility being efficiently run, is not morally wrong.

The rate of return earned by a public utility also in part reflects the "opportunity cost" of the capital employed, taking into account alternative investments which the community might make. This opportunity cost should be recovered from the relevant consumers (for example, users of government tunnels) if they are not to be subsidized. While such subsidy might be justified where a deliberate decision is taken in a specific case, it should not be the general rule.

I believe that Honourable Members should also consider carefully the other side of the coin. They must be under no illusion as to the consequences of any failure to achieve an adequate rate of return on our public utilities. Revenue from fees and charges accounted for 14% of total recurrent revenue in 1991-92; of this, about half is derived from the five government utility operations. The return on average net fixed assets (or turnover, in the case of the Post Office) alone accounted for nearly \$2 billion, despite the fact that we largely fell far short of our target rates. Tampering on an ad hoc basis with our established policy of aiming to achieve a reasonable rate of return, for example, by rejecting a modest increase in tunnel tolls before any policy review can be undertaken, would therefore have major fiscal implications. Any revenue lost in this way would have to be made up from other sources. Put bluntly, it would

mean either higher rates of tax, or less scope for further tax concessions, or less funds for services which have to be subsidized. I am sure that none of these options would be palatable to Members of this Council.

*Comparison with the private sector*

Certain Honourable Members have taken this opportunity to remind me again that there are differences between utilities run by the Government and those in private ownership. We have always recognized that this is the case. In the case of government utilities, it is for this reason that criteria other than the rate of return are also taken into account in making adjustments to the level of charges. These criteria include the likely impact on inflation, probable public reaction and considerations of policy — for example, traffic management control in the case of road tunnels. It is true that, in setting our target rates, we take into account the actual rates of return earned by major private utilities in Hong Kong. Certain Honourable Members have questioned the relevance of this. I ask them to consider the likelihood of future interest by private investors in infrastructural projects involving the regular approvals of fees by this Council, if Honourable Members show any reluctance to act in a financially prudent manner in relation to the Government's own utilities.

Finally, Mr President, some Honourable Members have focussed on the individual utility charges or on particular departmental fees. I do not wish to pre-empt the outcome of the review, to which I will return in a minute, by going into detail. In general terms, however, I can agree that it is important for us to recognize the difference between the circumstances of individual utilities; for example, we have taken a conscious decision to subsidize basic water users by contribution from general rates. The special circumstances of the Post Office were explained in detail by my colleague, the Secretary for Economic Services, earlier this afternoon. As for the airport, it is true that we have achieved a relatively high rate of return in recent years, but this is almost entirely due to the operation of our duty free shop. And the assets base on which the return for the airport is calculated does not at present include the value of the capital works at Chek Lap Kok. As for the MTRC and KCRC both of which really fall outside the scope of this evening's debate, these corporations fall outside our general fees and charges policy. But we must not forget that they were created by this Council as commercial operations. Both corporations in fact increase their fees in line with operating costs and fee increases in recent years have not — I repeat, not — even kept pace with the growth rate of consumer inflation. Nevertheless I have taken on board Honourable Members' concerns and remarks. And while the fees charged by statutory corporations do not fall within the scope of our prospective review, the Government will maintain its efforts to monitor their reasonableness and affordability to the general public.

*Performance of our public utilities*

Mr POON referred in his motion to the need for efficient and high-quality services in exchange for the payment of reasonable fees. This is certainly our goal. But certain Honourable Members have implied that we may not be achieving it. It is worth looking at the reality, however. We have a reliable, cheap and clean water supply. We have a postal service which is amongst the fastest and least expensive in the world. Our ferry terminals are well maintained, clean and efficient, as are our road tunnels. Our airport is, of course, reaching capacity and we are therefore pushing forward with its replacement. Meanwhile, it continues to handle ever increasing numbers of passengers and quantities of freight, without disruption or delay. Mr President, I suggest that the public utilities of no country in the Far East, and few in the world, can better this record. Our public utilities are worth the money we pay for them.

*Conclusion*

In conclusion, Mr President, our system for approving utility charges has a long and respectable pedigree. Our accounting arrangements generally conform to standard accounting practice and are open to public scrutiny. And, as a result of this system, we have been able to provide the public with utility services of a high quality at low cost to users.

I accept, nevertheless, that the time has come for a study to determine whether some adjustments should be made to the specific target rates for individual utilities, and also the basis on which these returns are calculated. Adjustments to these targets are in any case made by the Operating Accounts Committees from time to time in the light of changing circumstances, and this review will serve as a useful mechanism to consider in one package and update the targets for our different utility operations. Subject to the approval of Executive Council, the results of this review will be shared with this Council in due course.

But I should emphasize, Mr President, that we will focus carefully on those areas which I have identified as justifying detailed review. We will naturally be open to ideas to improve further the basis on which the performance of our public utilities is assessed. But we would be irresponsible to seek radical change to the underlying principles of a system which has served the community so well for so long. To underline this point, I would repeat that one of the reasons we are able to run a low tax system is that we charge users for our services except where good welfare or other reasons exist not to do so. Not to recover full costs, and in the case of utility-type operations these should include an appropriate rate of return, is in effect to decide to subsidize one group of consumers at the expense of the taxpayer. We need to face that fact squarely, and hence to require very good justification for departing from full cost recovery in any particular case.

Mr President, to the extent qualified by these remarks, the official Members will support the motion.

PRESIDENT: Mr POON, do you wish to reply? You have 4 minutes 18 seconds.

MR STEVEN POON: Mr President, I have been advised that I should take only one minute.

First of all, I should like to thank Honourable Members who have spoken in this debate. The topic under debate has proved to be quite an interesting one and I shall not repeat the bulk of the comments made by Members. I would like, however, to answer or address a few points that the Secretary has made in his response.

Firstly, on policy. The Secretary has explained that the policy is a clear one and was set a long time ago. But of the 16 Members who spoke, myself included, none except Mr Vincent CHENG (who is now not in this Chamber) ever said there has been a policy. So if there has indeed been a policy, I am afraid the Administration has neglected to make it known either to Members of this Council or to members of the public. Perhaps there has been a communication gap somewhere.

The second point I would like to address is that the Secretary, in explaining costs, has failed to describe precisely what these are. I, for one, am always very worried about costs and indeed it has been a most talked about topic. Some speak of costs in terms of interest returns ranging from 6% to 8% or even more. Mr Peter WONG has mentioned 6% while I myself mentioned 8%. I am afraid this is going to be something the Administration will need to explain to us when the review is completed.

The third point I would like to make relates to return. The Secretary has argued that there should be good return for efficient operation of a service or utility. But a service operator should not seek to earn a good return just by putting up the fee or charge. Earning a good return through hiking up the fee or charge is not something one should commend the service operator for.

Finally, in relation to the two railway corporations, I would just like to say that, for all the Secretary's protestations that they are not within the responsibility of the Government, these two corporations have nevertheless been the subject of debates and discussions before this Council numerous times and this Council is tired of hearing the Government disclaiming responsibility yet again. The Secretary has mentioned that the legislation to set up these corporations was enacted by this Council. But the fact of the matter is that these corporations were set up many years ago and none seated in this Chamber now ever participated in the debate on the relevant legislation during the enacting



process. Or maybe Mr Allen LEE participated in the debate. But probably no other Member ever did. So it is fitting and proper that this topic should be addressed now in the review.

Finally, I should like to thank the Administration for agreeing to hold the review.

Thank you, Mr President.

*Question on the motion put and agreed to.*

### **Adjournment and next sitting**

PRESIDENT: In accordance with Standing Orders I now adjourn the Council until 2.30 pm on Wednesday 5 May 1993.

*Adjourned accordingly at eleven minutes to Eight o'clock.*

*Note:* The short titles of the Bills/motions listed in the Hansard, with the exception of the Judicial Officers (Tenure of Office) Bill, Interpretation and General Clauses (Amendment) Bill 1993 and Ozone Layer Protection (Amendment) Bill 1993, have been translated into Chinese for information and guidance only; they do not have authoritative effect in Chinese.

**WRITTEN ANSWERS****Annex I****Written answer by the Secretary for Security to Dr Conrad LAM's supplementary question to Question 4**

The processing time to convert a BN(O) passport into a BDTC passport would be about two weeks.

**Annex II****Written answer by the Secretary for Security to Dr LEONG Che-hung's supplementary question to Question 4**

The Executive Council's endorsement of the proposal of a phased BN(O) registration programme was passed on to Her Majesty's Government before it was publicized in Hong Kong, although the possible need for a phased programme had been publicized beforehand. We needed to seek Her Majesty's Government's endorsement of the proposal before the decision could be publicized, since United Kingdom legislation was required to give effect to it.