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Yours Ref: CB1/PL/FA

26 August 2002

Ms Pauline Ng  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central, Hong Kong  
(Fax No.: 2869 6794)

Dear Ms Ng,

**Planning Process in relation to the 2003-04 Budget**

I refer to your letter of 22 July 2002 conveying questions raised by Members of the Panel on the preparation of 2003-04 Budget, and as requested provide the following information in respect of each of the questions -

- (a) Several processes are involved leading to the submission to LegCo of the annual estimates of the revenue and expenditure of the government. The key processes include the internal Resource Allocation Exercise (RAE) through which we make tentative allocation of resources to Directors of Bureaux; the consultations that we conduct in parallel with LegCo Members and the public on expenditure and revenue proposals; the detailed work to reflect final expenditure proposals for existing and new activities in the Estimates of Expenditure, and to finalise revenue proposals.

We follow this broad procedure every year, although we make adjustments to suit changing needs. On the RAE, this year we are using the "envelope" approach, under which we tentatively allocate to each Director of Bureau an envelope of operating expenditure, and give the Director the flexibility to deploy resources among his/her various policy areas when preparing the Estimates of Expenditure. The capital expenditure RAE will be conducted in the usual manner.

The financial provision for each policy area in the Estimates of Expenditure will only be determined after we have completed all the processes mentioned above including the internal allocation exercises and

consultations with LegCo and the public;

- (b) Directors of Bureaux are crucial in the process. They will be consulting stakeholders including LegCo members. They will work with their Controlling Officers in determining how to direct resources to their priorities. Their views will then be taken into account during the preparation of the Policy Address and the Budget;
- (c) Directors of Bureaux would be heavily involved in proposing new initiatives for possible inclusion in the Policy Address. Following the RAE as outlined in paragraph (a), it would be up to Directors of Bureaux to decide whether and how to fund new initiative within resources allocated, in consultation with stakeholders. CPU will assist CE in setting policy priorities;
- (d) The annual RAE will continue for the purpose of the 2003-04 Budget, in the way described in (a) above. The annual Policy Address is related to the budgetary process, to the extent that the Policy Address contains measures with expenditure or revenue implications for the Budget. In terms of time-tabling, the relationship between the Policy Address and the Budget is explained in the paper attached to the Director of Administration's letter to the Chairman of the House Committee dated 24 July 2002; and
- (e) One of the main steps in the annual budgetary process is consultation with LegCo and the public. In the coming months the Directors of Bureaux will focus on prioritisation of their tasks and the deployment of resources. In doing so they will consult stakeholders including LegCo Members. In addition the Financial Secretary will conduct expenditure and revenue consultations with Members around November/December.

Yours sincerely,

(Howard Lee)  
Administrative Assistant  
to the Financial Secretary

c.c. The Hon Ambrose Lau, Chairman of Financial Affairs Panel

b.c.c. (without enclosure)

PS/CE

AA/CS

SFST (Attn: Mr K T Li, Treasury Branch)

H/CPU (Attn: Mr Albert Lai)

D of Admin