

**Information note on
Key processes in the preparation of the Budget**

Purpose

This paper outlines the key processes in the preparation of past Budgets.

Financial cycle

2. The Government's annual financial cycle consists of a number of key steps involving the allocation of resources in accordance with planning guidelines to ensure that government expenditure remained in line with economic performance, as well as the drawing up of the Estimates of Expenditure and Revenue. A diagram illustrating the cycle is at **Appendix I**.

Key steps in the resource allocation process

Resource Allocation Exercise

3. Prior to 2002-03, it had been the usual practice for the Finance Bureau¹ to co-ordinate a Resource Allocation Exercise (RAE) on an annual basis in which bureaux and departments were invited to submit bids for funding new expenditure initiatives, as well as put forward bids for funding growth in demand for or improvement to existing services. Both recurrent and capital expenditure were covered in the RAE.

4. In essence, the RAE is mainly concerned with the following:

- (a) Baseline review;
- (b) "Baseline-plus forecast"; and
- (c) Allocation of uncommitted new money

¹ Now the Treasury Branch of the Financial Services and the Treasury Bureau

For illustration purpose, a chronology of the key dates in the 2001 RAE is at **Appendix II**.

Baseline reviews and baseline-plus forecast

5. Each year, Controlling Officers were required to conduct a review of their baseline expenditure as allocated under the approved Estimates of Expenditure and where possible, identify savings and state how such savings were to be re-deployed. Controlling Officers also agreed with the Finance Bureau on the "baseline-plus forecast" to take into account, inter alia, the recurrent consequences of capital projects, additional statutory or contractual expenditure, and new initiatives/earmarked growth.

6. In end May, the Finance Bureau issued a circular to all Bureau Secretaries and Controlling Officers inviting them to submit bids for recurrent, capital works and non-works capital expenditure under the RAE. Although most bids might originate from departments, their submission to the Star Chamber, which was chaired by Chief Secretary for Administration and comprising the Financial Secretary (FS), the Secretary for the Treasury, and the Secretary for the Civil Service, and priority was decided by the responsible Policy Secretary.

Allocation of uncommitted new money

7. In deciding the resources available for allocation to individual policy bureaux, the Star Chamber made reference to the projected expenditure ceiling derived from the Medium Range Forecast announced in FS's Budget Speech each year. For example, in the 2001-02 Budget, government expenditure for 2002-03 was assumed to grow by 4% in real terms. Accordingly, for the RAE conducted in 2001, the Administration worked on the basis of a 4% increase in real terms in planning its recurrent expenditure, capital works expenditure and non-works capital expenditure respectively.

8. The difference between the expenditure ceiling permitted under the planning guidelines and the baseline-plus forecast determined the amount of uncommitted new money available for allocation in the RAE. In the case of the recurrent expenditure in the 2001 RAE, in addition to the expenditure

ceiling, money available for allocation also included the final 2% savings from the Enhanced Productivity Programme that bureaux, departments and subvented organizations would deliver in 2002-03.

9. As the amount of new money available for allocation was usually small, the Star Chamber had to decide which bids should be supported and given priority, having regard to all relevant factors. It normally made preliminary global allocation made up of the "baseline-plus" expenditure and the additional new money to fund new/improved services to Policy Secretaries in August/September for their onward deployment. Broken down into departmental allocations by the Policy Secretary, the amount would be used in the preparation of the forthcoming Estimates of Expenditure.

Latest development

10. The Administration advised in August 2002 that for recurrent expenditure in the RAE this year, the Administration was using the "envelope" approach, under which each Director of Bureau was tentatively allocated an envelope of operating expenditure and given the flexibility to deploy resources among his/her various policy areas when preparing the Estimates of Expenditure. In other words, it would be up to individual Directors of Bureaux to decide whether and how to fund new initiatives within their respective allocated resources in consultation with stakeholders. As for the capital expenditure RAE, the Administration has advised that it will be conducted in the usual manner.

Revenue Estimates

11. For the purpose of the Budget announced by FS in March each year, Bureau Secretaries and Controlling Officers were required to submit returns in December each year on the revenue estimates under their respective purview for onward examination by the Finance Bureau. In around mid-February, final adjustments were made to the revenue estimates to take account of any revenue measures which would be announced in FS's forthcoming Budget speech.

Consultation with LegCo Members

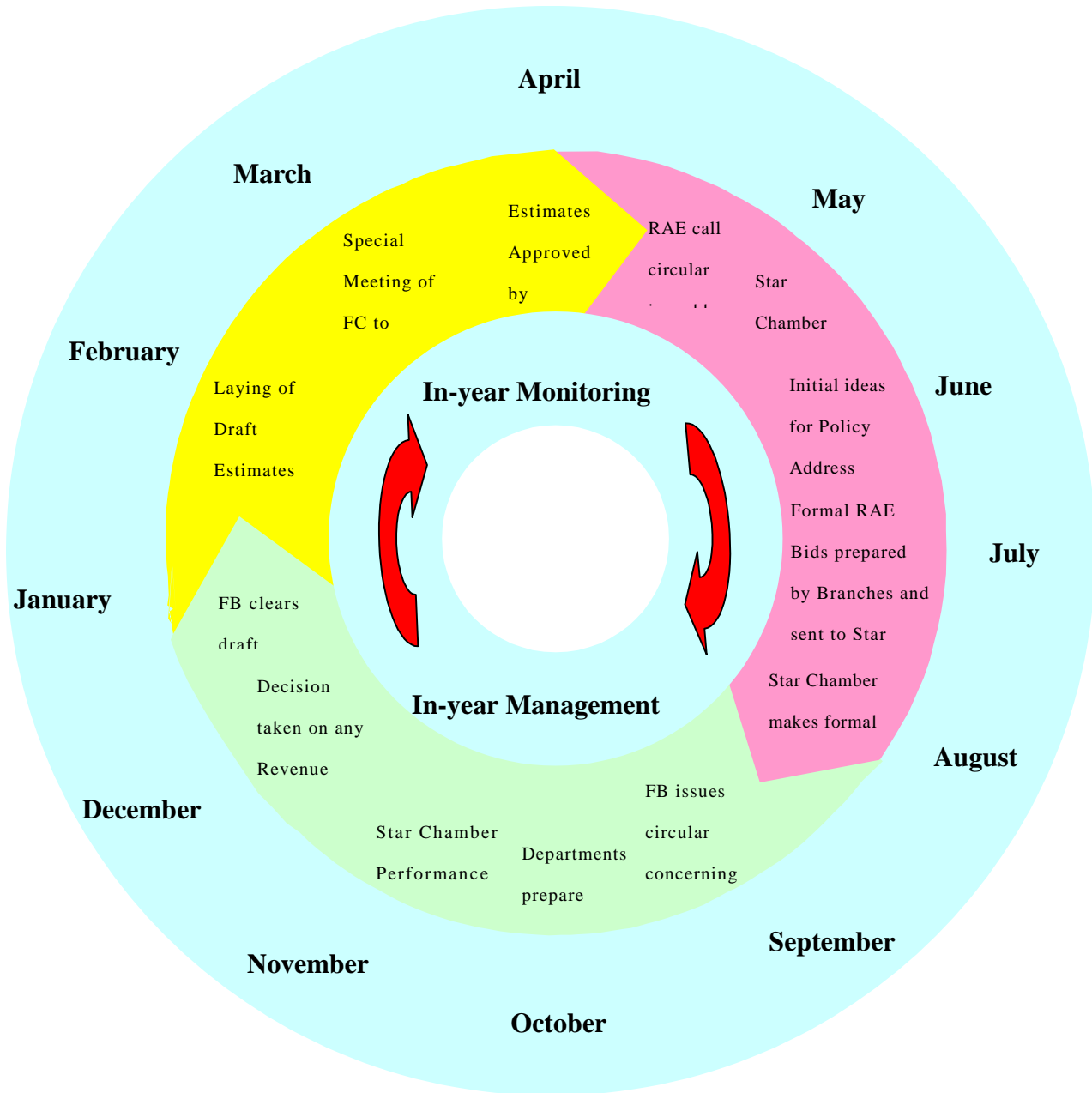
12. It has been the usual practice since 1995 for FS to consult LegCo Members in the course of drawing up the Budget. FS usually consulted Members on expenditure proposals in June and on revenue proposals towards the last quarter each year. However, in the wake of the Asia financial crisis and its impact on public finances, FS decided to consult Members on the 2000-01 Budget in a more integrated manner by seeking Members' views on both expenditure and revenue proposals in one go in October 1999.

13. For the 2003-04 Budget, FS will conduct expenditure and revenue consultations with Members in early November 2002.

Legislative Council Secretariat

22 October 2002

Government's Financial Cycle



- Resource Allocation Exercise
- Preparation of Annual Estimates
- Scrutiny and Formal Approval of Estimates

Extracted from "Practitioner's Guide : Management of Public Finances"
 Finance Branch, March 1995

Key Dates for the 2001 RAE

<u>Step</u>	<u>Target Date</u>	<u>Item</u>
1.	4 May	FB issued call circulars for new proposals to be funded under Capital Investment Fund and Loan Fund.
2.	21 May	FB issued provisional baseline-plus forecasts of recurrent expenditure (by Controlling Officers) to Bureaux and Departments.
3.	30 May	FB issued call circular for bids for 2001 recurrent expenditure RAE.
4.	30 May	FB issued call circular for 2001 non-works capital RAE (seeking updated cashflow for existing projects and bids for new projects).
5.	30 May	FB issued call circular for 2001 capital works RAE (seeking updated cashflow for all funded Category A and Category B projects and submissions of new bid projects).
6.	15 June	Bureaux/Departments to comment on and propose changes to the provisional baseline-plus forecasts of recurrent expenditure.
7.	June/July	FS' consultation with Members of the LegCo on the expenditure side of the 2002-03 Budget.
8.	18 June	Bureaux/Departments to submit returns to FB (copied to WB) on new bid projects for the 2001 capital works RAE.
9.	30 June	Bureaux to submit to FB (copied to H, CPU) resource bids for 2001 RAE on recurrent expenditure.
10.	early July	FB to issue confirmed baseline-plus forecasts of recurrent expenditure.
11.	4 July	Bureaux to submit to FB proposals to be funded under Capital Investment Fund and Loan Fund.
12.	7 July	Departments to submit returns to FB for 2001 RAE on non-works capital expenditure.

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<u>Step</u>	<u>Target Date</u>	<u>Item</u>
13.	30 July	Bureaux to forward comments to FB on departments' bids for 2001 RAE on non-works capital expenditure.
14.	1 August	Bureaux/Departments to submit returns to FB the updated cashflow for all funded Category A and Category B projects.
15.	early August	Star Chamber/Star Chamber Action Group to consider the resource bids and interview major-spending and other Bureau Secretaries
16.	August/September	Capital Investment Fund and Loan Fund Vetting Committee to decide on proposals submitted by Bureaux.
17.	early September	Star Chamber to finalise 2001 RAE allocations for recurrent and capital works expenditure, and notify Bureau Secretaries of the results of their bids
18.	mid-September	FB to finalise results of 2001 RAE for non-works capital expenditure, and notify Bureaux and departments of the results of their bids
19.	mid-September	FB to issue 2002-03 draft Estimates call circular (for GRA and Funds other than capital works projects).