

**Subcommittee on the
Resolution under Section 7(1) of the
Public Finance Ordinance (Cap. 2)**

Purpose

This paper is to provide background information on the Resolution proposed under section 7(1) of the Public Finance Ordinance (Cap. 2) (PFO) (the Resolution), which is scheduled for moving at the Legislative Council (LegCo) meeting on 5 March 2008.

The Resolution

2. The Resolution is to seek a total sum not exceeding \$90,989,010,000 to be charged on the general revenue for expenditure on the services of the Government in respect of the period between the start of the financial year on 1 April 2008 and the enactment of the Appropriation Ordinance 2008. The sum may be expended against the heads of expenditure as shown in the 2008-09 Estimates of Expenditure (the draft Estimates) laid before the LegCo on 27 February 2008 under section 5 of the PFO, or where the draft Estimates are changed in accordance with the relevant provisions of the PFO.

3. The funding sought under the Resolution is to cover the expenditure of the Government for the two months in April and May 2008. This is based on the timetable that the third reading of the Appropriation Bill 2008 will be held on 23 April 2008. Should the Bill be passed by the LegCo on that day, the Ordinance will be published in the Gazette, and come into operation, on 2 May 2008. We therefore seek the authority of the LegCo for the expenditure of the first two months of the financial year 2008-09 be charged to the general revenue in advance of the Appropriation Ordinance 2008.

Basis of Calculation

4. In determining the funding to be sought under the Resolution, we have followed section 7(2)⁽¹⁾ of the PFO and worked out the amounts based on

(1) Section 7(2) of the PFO specifies that expenditure charged on the general revenue pursuant to a resolution under this section shall be arranged in accordance with the heads and subheads shown in the estimates of expenditure laid under section 5 and the provisions of this Ordinance shall, for the purposes of this subsection and subject to such conditions and limitations as may be specified in the resolution, apply to such estimates as though they were the approved estimates of expenditure.

the provision sought for each head and subhead of expenditure as shown in the draft Estimates. We have also followed the long established practice and adopted the following funding proportion –

- (a) 20% of the provisions of Operating Account Recurrent subheads of expenditure as shown in the draft Estimates except for some specific subheads for which a higher proportion of the provisions is required; and
- (b) 100% of the provisions of Operating Account Non-recurrent subheads of expenditure and Capital Account subheads of expenditure as shown in the draft Estimates.

Due to the irregular and lumpy nature of the Non-recurrent and Capital Account subheads, 100% of their provisions as shown in the draft Estimates is sought. As for the Recurrent subheads, 20% (except where specified) of the provisions is sought to cover regular payments, such as personal emoluments, operational expenses, subvention and social security payments, etc. The aforesaid approach and funding proportion have been used since at least 1982⁽²⁾.

5. Based on the above funding proportion, the increase in the total amount sought for the 2008-09 financial year is mainly due to the significant increase in funding for the Non-recurrent expenditure, as follows –

General Revenue Account	2007-08	2008-09	
	\$'000	\$'000	% Change
Operating Account			
- Recurrent subheads	42,582,819	46,470,314	+9%
- Non-recurrent subheads	8,598,910	41,052,622	+377%
Capital Account subheads	4,087,535	3,466,074	-15%
Total amount sought under the respective Resolution	55,269,264	90,989,010	+65%

(2) Within the tight timeframe, we are able to search the records back to 1982 only.

6. The total amount approved under the respective Resolution in the past five years and the total amount sought under the Resolution for 2008-09 are shown in the following table –

Financial Year	Total Provisions in the Estimates \$'000	Amounts Approved/ Sought by Resolution	
		\$'000	Proportion of the Estimates
2003-04	279,468,734	114,691,186	41.0%
2004-05	244,948,356	83,602,440	34.1%
2005-06	214,655,519	56,857,786	26.5%
2006-07	214,344,718	55,884,844	26.1%
2007-08	218,287,535	55,269,264	25.3%
2008-09 (being sought)	259,166,074	90,989,010	35.1%

Lapse of the Resolution

7. According to section 7(3) of the PFO, the expenditure charged on the general revenue under the Resolution shall be set off against the amounts respectively provided in the Appropriation Ordinance 2008 when the latter comes into operation. In other words, the Resolution will be subsumed under the Ordinance and the expenditure incurred since the start of the financial year will be charged on the general revenue as provided in the Appropriation Ordinance 2008.

Overseas Experience

8. According to the research we have done so far, overseas countries e.g. Canada, the United Kingdom and the United States have in general adopted similar arrangements for authorisation of expenditure in advance of the appropriation, unless the appropriation is approved before the start of the financial year as in the case of Sweden and Netherlands. For the United Kingdom, the amount sought for the coming financial year is normally 45% of the estimates approved for the current financial year.

Timetable

9. Due to the confidentiality of the Appropriation Bill which reflects the spending initiatives to be announced in the Budget, we can only release the details of the amount sought under each head of expenditure on the Budget Day. To ensure that funds are voted before the start of the next financial year, we normally move the motion not later than the last but one LegCo meeting before the close of the current financial year. We have followed the same practice this year.

**The Treasury Branch
Financial Services and the Treasury Bureau
27 February 2008**