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FINANCIAL SERVICES AND  
THE TREASURY BUREAU

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4 February 2015

Hon Tommy CHEUNG Yu-yan, SBS, JP  
Chairman  
Finance Committee  
Legislative Council Secretariat  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong

Dear Chairman,

### Finance Committee Agenda Items

At the Finance Committee (FC) held on 23 January 2015, Members requested the Government to explain in writing its decision to withdraw four outstanding agenda items deferred from the 2013-14 legislative session and include them into the 2015-16 draft Estimates for consideration by the Legislative Council (LegCo) in the context of the Appropriation Bill 2015. I attach an information note for this purpose and should be grateful if you could arrange for it to be disseminated to Members for reference.

Yours sincerely,

( Ms Esther Leung )

for Secretary for Financial Services and the Treasury

## **Management of Finance Committee Agenda Items**

1. At the Finance Committee (FC) held on 23 January 2015, Members requested the Government to explain in writing its decision to withdraw four outstanding agenda items deferred from the 2013-14 legislative session and include them into the 2015-16 draft Estimates for consideration by the Legislative Council (LegCo) in the context of the Appropriation Bill 2015. The key considerations are set out below.

### **Relevant statutory requirements**

2. It is legally permissible to include funding proposals under the General Revenue Account into the draft Estimates for consideration by LegCo in the context of the Appropriation Bill. The relevant provisions are –

- (a) According to section 5 of the Public Finance Ordinance (hereafter referred to as “the Ordinance”), the Financial Secretary shall cause to be prepared in each financial year estimates of the revenue and expenditure of the Government for the next following financial year and shall cause such estimates to be laid before LegCo before or as soon as practicable after the commencement of the financial year to which they relate. The estimates of expenditure shall be classified into heads and subheads, stating in respect of each head the ambit; the estimated total expenditure; the provision sought in respect of each subhead; the establishment of posts; as well as the limit to the commitments of expenditure which is not annually recurrent, etc.
- (b) According to section 6 of the Ordinance, the heads contained in the estimates of expenditure for a financial year shall be included in an Appropriation Bill which shall be introduced into LegCo at the same time as the estimates. Upon the enactment of the Appropriation Ordinance, the estimates of expenditure shall be deemed to be approved and shall have effect from the first day of such financial year.



- (c) According to section 8 of the Ordinance, subject to the section, no changes shall be made to the approved estimates of expenditure except with the approval of FC upon a proposal of the Financial Secretary. Under section 8(3) of the Ordinance, FC may delegate to the Financial Secretary the power to approve changes to the approved estimates of expenditure subject to such conditions, exceptions and limitations as are specified in the delegation. In endorsing FCR(96-97)63 in 1996, FC delegated to the Financial Secretary the power to approve changes involving no more than \$10 million.

3. Funding or financial proposals for fund accounts established under section 29 of the Ordinance shall normally be approved by the Financial Secretary or FC in accordance with the respective resolutions for establishing the funds. For example, funding proposals or injections relating to the "Capital Works Reserve Fund", "Loan Fund", "Innovation and Technology Fund" and "Disaster Relief Fund" shall be approved by FC except with prior delegation. They cannot be included into the Estimates for approval by LegCo in the context of the Appropriation Bill. Funding for supporting and developing social welfare services under the "Lotteries Fund" shall be earmarked and approved by the Financial Secretary in accordance with the requirement under section 6 of the Government Lotteries Ordinance.

### **Established practice**

4. It is not a new arrangement for funding proposals under the General Revenue Account to be included in the draft Estimates for consideration by LegCo in the context of the Appropriation Bill. The Estimates prepared by the Government under section 5 of the Ordinance and submitted to LegCo for consideration and approval in the context of the Appropriation Bill have all along included many funding initiatives involving additional recurrent expenditure under the Operating Account. For instance, the proposals involving additional recurrent expenditure for regularising three Community Care Fund programmes for needy students (\$529 million), and for regularising the Elderly Health Care Voucher Pilot Scheme and increasing the annual voucher amount from \$1,000 to \$2,000 (\$582 million) were both included in the 2014-15 Estimates.



5. It has been part of the established mechanism for examining the draft Estimates that policy bureaux and departments will consult relevant LegCo panels or committees in a timely manner on major new expenditure proposals to be included in the draft Estimates. They will also endeavour to clearly set out the expenditure for such proposals under the respective heads and subheads; provide appropriate descriptions in the controlling officer's reports; and submit relevant information in the special FC meetings. LegCo cum FC members can examine the new expenditure proposals through raising written questions, as well as attending the special FC meetings, Budget debate and Second and Third Reading debates on the Appropriation Bill.

6. Apart from recurrent expenditure, proposals for creating and increasing the expenditure ceiling for commitment items used to be included in the Appropriation Bill for scrutiny and approval by LegCo under section 5 of the Ordinance prior to 1985-86. In recent years, the Government chose to cause such proposed commitments to be scrutinized and approved through submission to FC or by the Financial Secretary under delegated authority (for proposals involving amounts not exceeding \$10 million) in accordance with section 8 of the Ordinance. These include "non-recurrent" commitment items under the Operating Account which are one-off in nature and do not involve acquisition or construction of a physical asset, like expenditure required for participating in or organising international conferences and for implementing time-limited or purpose-specific subsidy schemes; as well as commitment items under the Capital Account for the procurement and replacement of plant, vehicles and equipment as well as minor works projects for government departments and subvented bodies. Where the expenditure item arises from a major new policy and involves a commitment of over \$10 million, the Government will normally submit the proposals for discussion at the relevant LegCo panels or committees.

7. In considering whether a funding proposal should be included in the Estimates or be submitted to FC for approval of changes to the approved Estimates, the Government will have due regard to a host of factors, including the account and amount involved; the specific details and the implementation timetable of the proposal, etc.



8. Though not required by the Ordinance, the Government will seek approval of the FC for certain funding proposals in line with established practice pursuant to FC decisions. The creation of directorate civil service posts or equivalent positions is a case in point.

#### **Withdrawal of four deferred items**

9. The four withdrawn agenda items involve creation of new commitments under the relevant heads of expenditure. They were intended to be submitted to FC for approval of changes to the 2014-15 approved Estimates under section 8 of the Ordinance. Unfortunately, three months have lapsed since the commencement of the 2014-15 legislative session and FC has only deliberated on some of the items deferred from the 2013-14 legislative session. The seven remaining items have been held up for more than six months, undermining the delivery of public service, and causing a drain on public resources. Meanwhile, many new items requiring FC's deliberation and approval have also been held up. The situation is indeed worrying.

10. In view of the serious blockage in the FC agenda, the Government has no alternative but to race against time and consider how best to secure early approval of the funding proposals. Including some of these deferred agenda items into the 2015-16 draft Estimates prepared under section 5 of the Ordinance for approval by LegCo in the context of the Appropriation Bill is a lawful, rational and reasonable arrangement. This would also help reduce the backlog of items in FC.

#### **Approval arrangement for expenditure proposals**

11. Since the 2011-12 legislative session, deliberations on both the Appropriation Bill by LegCo and funding proposals by FC have increasingly and unduly been prolonged by filibustering. On the other hand, in response to demands of the community and Government's operational needs, the funding proposals submitted for consideration have not been reduced. To contain the damage to public services, the Government is obliged to review the approval arrangement for expenditure proposals in both LegCo and FC with a view to ensuring the mechanism would continue to function properly and efficiently in accordance with the relevant requirements of the Ordinance.



12. While ensuring compliance with the relevant provisions of the Ordinance, the Government will carefully examine each expenditure proposal, take into account the impact of the huge backlog of items, and be more prudent in managing the agenda items in future. We will adapt the practice of incorporating new recurrent expenditure proposals into the expenditure estimates prepared under section 5 of the Ordinance for seeking LegCo's approval in the context of the Appropriation Bill to also cover the creation of commitment items and adjustment to approved commitments where justified.

13. After the passage of the Appropriation Bill, any additional funding proposal that involves an amount exceeding the limit of the Government's delegated authority (i.e. exceeding \$10 million) or that requires FC's approval in line with established practice will be submitted to FC for approval. Together with proposals which have or will have completed deliberation by the Establishment Subcommittee and the Public Works Subcommittee under FC, we expect that there will still be quite a large number of agenda items requiring consideration by FC in the 2014-15 legislative session.

14. In the face of prolonged deliberations in FC, the Government will continually review the sequence of agenda items, as well as the priorities among the deferred and new items. We will also adopt a pragmatic approach in facilitating early approval of funding proposals in compliance with the relevant provisions under the law.

Financial Services and the Treasury Bureau  
4 February 2015