

# **立法會**

## ***Legislative Council***

LC Paper No. FC123/14-15(01)

### **Finance Committee**

#### **Special meeting on 16 March 2015**

#### **Information note prepared by the Legislative Council Secretariat on the practices of the Finance Committee in examining Government's Estimates of Expenditure and approving public expenditure**

#### **Purpose**

This note outlines the practices of the Finance Committee ("FC") in examining Government's Estimates of Expenditure and approving public expenditure.

#### **Role of the Finance Committee**

2. FC is a standing committee of the Legislative Council ("LegCo") established under Rule 71(1) of the Rules of Procedure of the Council ("RoP"). Under Rule 71(4) of RoP, the functions of FC are those conferred upon it by the Public Finance Ordinance (Cap. 2) ("PFO"), any other law and RoP, and such as may from time to time be referred to FC by LegCo.

3. The principal functions of FC are –

- (a) examination of the Estimates of Expenditure presented in accordance with Rule 67 of RoP and referred by the President of the Council in accordance with Rule 71(11) of RoP;
- (b) approving proposals to change the approved Estimates of Expenditure presented by the Financial Secretary in accordance with section 8(1) of PFO; and

- (c) approving proposals to expend moneys from various Funds<sup>1</sup> pursuant to the relevant resolutions made and passed by LegCo under section 29 of PFO.

### **Practices of the Finance Committee in examining the Estimates of Expenditure**

4. Rule 71(11) of RoP provides that the Estimates of Expenditure presented to LegCo in accordance with Rule 67 of RoP may be referred by the President to FC for examination before consideration of the Appropriation Bill in committee of the whole Council. FC convenes special meetings to examine the Estimates of Expenditure in accordance with the procedures set out in paragraphs 49 to 53 of the FC Procedure.

5. The purpose of the examination by FC, as set out in paragraph 49 of the FC Procedure, is to ensure that the provision sought in the Estimates of Expenditure is no more than is necessary for the execution of approved policies.

6. Prior to the special meetings, members may raise questions on the Estimates of Expenditure for written replies from Controlling Officers<sup>2</sup>, through their respective Directors of Bureau as appropriate. Members often raise questions on the details of the Estimates of Expenditure, such as the provisions requested, the justifications for such provisions, key performance targets and allocation of resources for the various programme areas under different heads or subheads.

7. A series of special meetings, currently comprising 20 sessions on different policy areas, are held by FC for examination of the Estimates of Expenditure. Directors of Bureau will attend with their key Controlling Officers, and they may make a short introduction to highlight their policy areas, the priorities for the year ahead and the provisions being sought. Members may ask questions on points made during the introduction, the written replies to members' initial questions and the Estimates of Expenditure. The relevant

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<sup>1</sup> These Funds include: Capital Works Reserve Fund, Capital Investment Fund, Loan Fund, Disaster Relief Fund, and Innovation and Technology Fund.

<sup>2</sup> A Controlling Officer is designated under section 12 of PFO in respect of each head of expenditure and subhead, and shall be responsible and accountable for all expenditure from any head or subhead for which he is the controlling officer, and for all public moneys and Government property in respect of the department or service for which he is responsible.

Directors of Bureau or Controlling Officers respond to members' questions and provide the necessary information. Members may also request for supplementary information in writing after each of the meetings, if necessary.

8. After the special meetings, the FC Chairman presents a report on the proceedings of the meetings to the Council.

### **Types of public expenditure proposals presented by the Administration to the Finance Committee for approval**

#### Proposals on changes to the approved Estimates of Expenditure

9. As set out in section 8(2) of PFO, proposals presented to the Finance Committee to seek its approval for changes to the approved Estimates of Expenditure may provide for all or any of the following matters –

- (a) the creation of new heads or subheads (e.g. the proposal in FCR(2014-15)37 considered by FC in February 2015 involves the creation of a new head "Government Secretariat: Innovation and Technology Bureau"; the proposal in FCR(2012-13)69 approved on 8 February 2013 involves the creation of a new non-recurrent subhead "Contribution to the Tenth Replenishment of the Asian Development Fund" under Head 106 Miscellaneous Services);
- (b) supplementary provision in approved or new subheads (e.g. the proposals in FCR(2014-15)39 approved on 16 January 2015 include the application for a supplementary provision in 2014-15 under Head 141 Labour and Welfare Bureau for implementation of the Low-income Working Family Allowance Scheme);
- (c) variations in the establishments of posts (e.g. the papers FCR(2012-13)54 and 54A approved on 7 December 2012 includes the proposal for an increase of 90 non-directorate civil service posts in the Social Welfare Department for implementing the Old Age Living Allowance scheme); and
- (d) increases in the limit to the commitments which may be entered into in respect of expenditure which is not annually recurrent (e.g.

the proposal in FCR(2013-14)16, approved on 14 June 2013, involves an increase in commitment by \$120 million for the one-off grant scheme to encourage owners of Euro II diesel commercial vehicles to replace their vehicles with new models that comply with the prevailing statutory emission standard).

Proposals to expend moneys from the Funds established under section 29 of the Public Finance Ordinance

10. Under section 29 of PFO, LegCo may, by resolution, establish funds to which moneys appropriated for the purpose, and such other moneys received for the purposes of the Government as may be specified in the resolution, may be credited and from which moneys may, under the authority of a funds warrant issued by Financial Secretary, be expended for the purposes for which the funds were established subject to such conditions, exceptions and limitations as may be specified in the resolution. Such conditions may include circumstances where the approval of FC would be necessary. For example, for the Disaster Relief Fund, it is provided in the relevant resolution (Cap. 2L) that the Financial Secretary shall obtain the consent of FC for a grant in excess of \$8 million and FC may amend the limit for which the Financial Secretary is required to obtain the Committee's consent. Pursuant to these provisions, in its submission FCR(2013-14)3 to FC on 24 April 2013, the Administration sought FC's approval to delegate to the Financial Secretary the authority to make grants each in excess of \$8 million for the purpose of providing emergency relief to earthquake victims in Sichuan Province in the Mainland.

11. Proposals for public works projects to be funded under the Capital Works Reserve Fund ("CWRF") also fall under this category. Such proposals are submitted from time to time to the Public Works Subcommittee ("PWSC")<sup>3</sup> for recommendation for approval by FC. As explained by the Administration in FCRI(2013-14)15, expenditure items under the CWRF must generally be approved by FC on a project-by-project basis in accordance with the terms of the resolution made by LegCo in establishing the CWRF. To enable more efficient operation of FC and PWSC so that they may concentrate on the more important and higher value projects, FC has authorized the Administration to approve expenditure on individual projects under CWRF block allocation subheads, subject to the respective financial ceiling for individual items and the projects meeting the ambit of the relevant subheads. At present, 21 of the 26

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<sup>3</sup> The subcommittees appointed by FC under Rule 71(5) of RoP are the Establishment Subcommittee and the Public Works Subcommittee.

block allocations under CWRP are subject to a financial ceiling of \$30 million in spending on each item. Projects exceeding the relevant ceilings in cost are submitted to FC for funding approval on a project basis. It has been the established practice since 1983 that the Administration seeks FC's funding approval for the CWRP block allocations on a lump-sum basis every year.

#### Other types of public expenditure proposals

12. The Administration may take the initiative to invite FC's approval of expenditure on grounds of accountability and maintaining financial discipline. For example, as explained by the Administration in its submission FCR(2013-14)65<sup>4</sup> to FC on 21 February 2014, as stipulated in the Government Lotteries Ordinance (Cap. 334), the Financial Secretary may appropriate from the Lotteries Fund moneys for the purpose of financing the support and development of social welfare services in Hong Kong. Where any proposed Lotteries Fund allocation is estimated to incur additional recurrent financial implications exceeding a certain threshold (currently set at \$10 million per annum), the proposed allocation will be submitted to FC for approval in accordance with the established practice. There are also cases where the Administration invited the Committee's in-principle endorsement of the financial implications of an event to be held. For example, on 14 January 2011, the Administration, by FCR(2010-11)54, invited the Committee to accept in principle the financial implications of Hong Kong hosting the Asian Games in 2023 and the 2023 Asian Para Games. The item was rejected by the Committee.

13. Furthermore, where changes to principles, terms or the basis for approving expenditure are concerned – unless power has otherwise been delegated – FC's approval would be sought. As an illustration, in the submission FCR(2013-14)33, the Administration proposed for FC's approval of the enhancement to the existing general ex-gratia compensation and rehousing arrangements offered under Head 701 of the CWRP to affected clearances of the Government's development clearance exercises. The proposal was approved on 6 December 2013.

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<sup>4</sup> The funding proposal under this paper is related to an injection of \$10 billion to the Lotteries Fund to enable more flexible and better use of the land owned by non-governmental organizations (NGOs) through redevelopment or expansion to provide diversified subvented and self-financing facilities.

## **Practices of the Finance Committee in approving proposals for public expenditure**

14. FC holds regular meetings (and special meetings if necessary) to consider proposals from the Financial Secretary to change the approved Estimates of Expenditure, to spend moneys from various Funds established under section 29 of PFO, or to accept the financial implications of new proposals where no immediate change to the Estimates is required. FC may also be invited to delegate power to the Financial Secretary subject to specified conditions, exceptions and limitations<sup>5</sup>.

15. The procedures for giving notice and despatch of agenda items for FC meetings are provided in Rule 9(2) of RoP and paragraphs 21 and 22 of the FC Procedure. These agenda items are decided by a majority of FC members present and voting as provided under Rule 71(5B) of RoP and paragraph 45 of the FC Procedure. While establishment proposals and public works proposals which have been examined and recommended by the Establishment Subcommittee and PWSC respectively are normally considered and voted on in batches by FC<sup>6</sup>, the agenda items submitted direct to FC by the Administration are normally discussed and always voted on individually by FC<sup>7</sup>.

16. According to paragraph 27 of the FC Procedure, and by virtue of section 8 of PFO, proposals to change the approved Estimates of Expenditure must come from the Financial Secretary, and FC members cannot amend the Financial Secretary's proposals. The Committee must discuss and vote on any proposal as it stands. If FC does not approve the proposal, it would then be for Financial Secretary to consider whether to make a fresh proposal amended in such a way as may make it acceptable to the Committee. Alternatively, under paragraph 26 of the FC Procedure, at a committee meeting, Financial Secretary or, in his absence, the Secretary for Financial Services and the Treasury, the Permanent Secretary for Financial Services and the Treasury (Treasury) or a

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<sup>5</sup> Finance Committee has delegated powers to the Financial Secretary to:

- (a) approve supplementary provisions and to increase and create capital account commitments in respect of expenditure under the General Revenue Account each with a limit of \$10 million;
- (b) create Category D items in the Public Works Programme each up to \$30 million;
- (c) create financial commitments each up to \$10 million for projects on major systems and equipment, and computerization under the Capital Works Reserve Fund;
- (d) establish and delete non-directorate posts subject to the establishment ceiling not being exceeded; and
- (e) create supernumerary directorate posts for not more than six months.

<sup>6</sup> If so requested by members, individual items on establishment / public works proposals may be considered and voted on separately by FC.

<sup>7</sup> Occasionally, two or three related items are discussed jointly by FC.

Deputy Secretary for Financial Services and the Treasury (Treasury) may withdraw an item at any time before it is put to the vote; or by unanimous consent of the Committee after it has been put to the vote but the result is not yet declared by the Chairman.

### **Information included in proposals submitted to the Finance Committee**

17. As mentioned in paragraph 22 of the FC Procedure, a Finance Committee agenda item ("FCai") is a discussion paper seeking approval for changes to the approved Estimates of Expenditure, financial implications of new proposals where no immediate change to the approved Estimates of Expenditure is necessary, delegation of powers to Financial Secretary, or other proposals from the Administration, as well as a motion from any member of FC.

18. Based on the submissions from the Administration on various funding proposals, a pattern of presentation can be observed that an FCai typically comprises the following sections:

- (a) heading: to state the relevant head(s) and subhead(s) under which the proposed expenditure is to be incurred;
- (b) preamble: to state precisely what the Administration is asking FC to approve or accept;
- (c) the "Problem": to set out the issues to be addressed in the paper;
- (d) the "Proposal": to describe the propositions and any delegation of authority to be sought;
- (e) justifications: to describe the anticipated benefits or the consequences if FC does not approve the proposal;
- (f) financial implications: this section would include impacts of the proposal on other bureaux and departments, the need for any supplementary provision and the availability of offsetting savings in the relevant head, an assessment on the impact of the proposal on the relevant fees and charges and the projected cash flow for expenditure on non-recurrent commitments;

- (g) investment criteria or control mechanism (optional): this section is normally provided for proposals recommending the establishment of funds or the injection of additional money into existing funds for public purposes;
- (h) "Environmental Implications": this section would be included for proposals which involve significant costs or benefits to the environment. The types of mitigation measures by which the Administration proposes to address these environmental implications would be briefly set out;
- (i) implementation plan, activities and their target completion dates: these are included for financial proposals which involve capital items and expenditure such as acquisition of plants, vehicle, equipment, major systems and computerization;
- (j) alternatives: this section may be inserted as applicable; and
- (k) consultation: this section describes previous consultation with LegCo Panels, committees, subcommittees, District Councils, etc.

### **Advice sought**

19. Members are invited to note the information set out in this note.

Council Business Division 1  
Legislative Council Secretariat  
12 March 2015