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**Panel on Development and  
Panel on Information Technology and Broadcasting**

**Joint meeting on 24 November 2020**

**Background brief on  
adjustments to the financial ceilings of delegated authority under  
Capital Works Reserve Fund block allocations**

**Purpose**

This paper provides background information on previous adjustments to the financial ceilings of delegated authority under Capital Works Reserve Fund ("CWRF") block allocations, and a brief account of members' views on the last adjustment in 2012 to the financial ceiling of delegated authority for Category D items in the Capital Works Programme.

**Capital Works Reserve Fund block allocations mechanism**

2. CWRF was established under section 29 of the Public Finance Ordinance (Cap. 2) with effect from 1 April 1982 pursuant to a resolution passed by the Legislative Council ("LegCo") on 20 January 1982 ("the Resolution")<sup>1</sup> for the purpose of financing the public works programme and the acquisition of land.

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<sup>1</sup> The Resolution sets out the administration of CWRF, its purposes, the moneys to be credited to the Fund and from which moneys may be expended. It specifies that the Financial Secretary ("FS") should administer the Fund and FS may expend moneys from the Fund in accordance with the conditions, exceptions and limitations as may be specified by the Finance Committee. The Resolution was amended six times between 1983 and 1997 in light of evolving requirements. The details of the amendments are set out in Enclosure 1 to [FCRI\(2017-18\)13](#).

3. According to the Administration,<sup>2</sup> expenditure items under CWRP must generally be approved by the Finance Committee ("FC") on a project-by-project basis in accordance with the terms of the Resolution. To enable more efficient operation of FC and the Public Works Subcommittee ("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 CWRP block allocation subheads, subject to the respective financial ceiling for individual items and the projects meeting the ambit of the relevant subheads.<sup>3</sup> The block allocations arrangement also aims to allow reasonable flexibility for the Administration to take forward thousands of important smaller-scale projects in the course of a year.<sup>4</sup> The Administration may exercise its delegated authority and create such Category D items<sup>5</sup> as far as the delegated power permits, and does not require consulting PWSC on individual items. Since 1983, the Administration has been seeking funding for the CWRP block allocations on a lump-sum basis every year,<sup>6</sup> and approving Category D items pursuant to the delegated authority of FC.

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<sup>2</sup> Source: [FCRI\(2013-14\)15](#)

<sup>3</sup> The ambits of block allocation subheads are set out in the Memorandum Note on CWRP in Volume II (Funds Accounts) of the annual Estimates. Such information is available in the Administration's submissions on CWRP block allocations to PWSC.

<sup>4</sup> Source: the opening speech by the Secretary for Financial Services and the Treasury (Annex I to [LC Paper No. FC165/17-18\(01\)](#)) at the special meeting of FC held on 28 November 2017 to discuss the request from a former Member for review of the block allocations mechanism under CWRP.

<sup>5</sup> According to paragraph 3 of the information note [FCRI\(2007-08\)2](#) provided by the Administration, Category D items are essentially minor works projects or standalone studies funded by the works-related block allocations under CWRP.

<sup>6</sup> An exception to the above practice was the approval of proposal on block allocations for 1996-1997. Instead of submitting a single proposal on the block allocations as in the rest of the years, the Administration submitted 11 proposals, each on one CWRP Head of Expenditure, on block allocations for 1996-1997 to PWSC/FC. The said proposals were discussed and voted on by PWSC on 7 February 1996 and approved by FC on 8 March 1996.

## **Financial ceilings of delegated authority under Capital Works Reserve Fund block allocations**

4. At present, there are a total of 26 block allocation subheads under CWRF, of which 21 are subject to a **financial ceiling of \$30 million** in spending on each item. The remaining five block allocation subheads are either not subject to a financial ceiling per item or a different financial ceiling per item as follows:

<b>Subhead</b>	<b>Financial ceiling per item</b>
Subhead 1004CA – Compensation for surrenders and resumptions: miscellaneous (under Head 701 – Land Acquisition)	<b>Nil</b> <sup>Note</sup>
Subhead 1100CA – Compensation and ex-gratia allowances in respect of projects in Public Works Programme (under Head 701 – Land Acquisition)	<b>Nil</b> <sup>Note</sup>
Subhead 5001BX – Landslip preventive measures (under Head 705 – Civil Engineering)	<b>Nil</b> <sup>Note</sup>
Subhead 6101TX – Universal Accessibility Programme (under Head 706 – Highways)	<b>\$75 million</b>
Subhead A007GX – New administrative computer systems (under Head 710 – Computerisation)	<b>\$10 million</b>

(Note: According to the Administration,<sup>7</sup> FC has delegated the authority to the relevant controlling officers to approve individual items without a financial limit, provided the spending is a proper charge to the subheads and the aggregate expenditure does not exceed the annual allocation approved by FC.)

5. According to the Administration,<sup>8</sup> to preserve the value in real terms of the delegated powers, the Administration has on six occasions between 1987 and 2012 sought FC's approval to revise the financial limit. The details are set out in **Appendix I**. The last adjustment was made in 2012 to raise the financial ceiling for Category D items in the Public Works Programme from \$21 million to \$30 million.

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<sup>7</sup> Source: [PWSC\(2016-17\)37](#)

<sup>8</sup> Source: [FCRI\(2017-18\)13](#)

## **Members' major views on the last adjustment in 2012 to the financial ceiling of delegated authority for Category D items in the Capital Works Programme**

6. At the meeting of the Panel on Development on 24 April 2012, members were consulted on the proposal to increase the financial ceiling of delegated authority for Category D items in the Capital Works Programme for 21 CWRP block allocation subheads from \$21 million to \$30 million.

7. Members were advised by the Administration that the substantial increase in Building Works Tender Price Index (i.e. an increase of 64% from the second quarter of 2007 to the fourth quarter of 2011) in recent years had led to a sharp increase in building cost and eroded the real value of the delegation to the Financial Secretary in creating Category D items, such as the retrofitting works of the barrier-free access facilities in government premises. While raising no objection to the proposal, members considered it important for LegCo to maintain its role in monitoring the spending of the Government, and urged the Administration to ensure that the number of funding proposals to be submitted to PWSC and FC for consideration would not be significantly reduced with the new financial ceiling for Category D items in place.

8. The said proposal on raising the financial ceiling for Category D items was subsequently endorsed by PWSC on 30 May 2012 and approved by FC on 13 July 2012.

### **Relevant discussions in recent years**

9. In the course of deliberation of the proposed provision for CWRP block allocations in recent years, members of PWSC/FC had from time to time raised queries regarding whether the Administration had circumvented FC's monitoring by splitting controversial major capital works projects into smaller projects falling within the financial limit of the respective subheads. The Administration stressed that it would not allow the splitting of a project into smaller projects for the purpose of circumventing the relevant financial ceilings. As each subhead of CWRP was defined with a distinct and clear scope, pre-construction activities of different natures under the same main works project would have to be funded under different subheads. Moreover, studies in the same area might need to be conducted at different times and hence, resulting in the creation of more than one pre-construction study for the same main works project.

According to the Administration, this was a normal and reasonable arrangement.

10. At the special meeting of FC held on 28 November 2017 to discuss the request from a former Member for review of the block allocations mechanism under CWRP, members discussed whether a financial ceiling should be imposed for subheads currently without a financial ceiling, i.e. Subhead 1004CA and Subhead 1100CA relating to land acquisition compensation payments, and Subhead 5001BX relating to landslip preventive measures. In the written response provided by the Administration,<sup>9</sup> the Administration advised that Subhead 1004CA and Subhead 1100CA were created for meeting the expenditure on compensation and ex-gratia allowances incurred in land acquisition and clearance to dovetail with the implementation of public works projects. While indicating that the current arrangement of imposing no financial ceiling for items under these subheads was a reasonable and pragmatic approach, the Administration committed that as a general practice, the Administration would not proceed with land resumption and clearance until funding approval was obtained for the commencement of public works triggering the need for the resumption and clearance. As for Subhead 5001BX, the Administration stressed that to ensure public safety, the approval process for landslip preventive works should be as streamlined as possible and should not be subject to any arbitrary financial ceiling.

### **Recent development**

11. At the joint meeting of the Panel on Development and the Panel on Information Technology and Broadcasting to be held on 24 November 2020, the Administration will brief members on the funding submission for CWRP block allocations for 2021-2022 and the proposals to increase the financial ceilings of delegated authority for Category D items in the Capital Works Programme and block allocation subhead on computerisation.

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<sup>9</sup> The Administration's written response is in Annex II to [LC Paper No. FC165/17-18\(01\)](#).

**Relevant papers**

12. A list of relevant papers with their hyperlinks is in **Appendix II**.

Council Business Division 1  
Legislative Council Secretariat  
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**Adjustments to the financial ceilings of delegated authority under  
Capital Works Reserve Fund block allocations**

**Table 1A – Adjustments to the financial ceiling of delegated authority for creation of new Category D items under the existing Capital Works Programme (i.e. Heads 702 to 707, 708 (Capital Subventions only), 709 and 711) block allocation subheads<sup>Note</sup>**

<b>Date of approval by the Finance Committee</b>	<b>Financial ceiling of delegated authority</b>	
	<b>Original</b>	<b>Revised</b>
March 1983	\$500,000	\$1.5 million
December 1987	\$1.5 million	\$2 million
April 1989	\$2 million	\$5 million
August 1991	\$5 million	\$10 million
January 1995	\$10 million	\$15 million
November 2007	\$15 million	\$21 million
July 2012	\$21 million	\$30 million

**Table 1B – Adjustments to the financial ceiling of delegated authority for creation of new Category D items under Head 710 Subhead A007GX**

<b>Date of approval by the Finance Committee</b>	<b>Financial ceiling of delegated authority</b>	
	<b>Original</b>	<b>Revised</b>
December 1990	-	\$5 million
July 1993	\$5 million	\$8 million
October 1996	\$8 million	\$10 million

**Table 2 – Adjustments to the financial limit of delegated authority for approving additional allocation to a subhead in the Capital Works Reserve Fund Estimates in any one financial year in respect of existing Capital Works Programme (i.e. Heads 702 to 707, 708 (Capital Subventions only), 709 and 711) block allocation subheads**

<b>Date of approval by the Finance Committee</b>	<b>Financial ceiling of delegated authority</b>	
	<b>Original</b>	<b>Revised</b>
March 1983	-	\$1.5 million
December 1987	\$1.5 million	\$2 million
April 1989	\$2 million	\$5 million
August 1991	\$5 million	\$10 million
January 1995	\$10 million	\$15 million

<sup>Note</sup> Excluding Subhead 5001BX which was created without a ceiling being imposed and Subhead 6101TX which was created with the ceiling imposed being \$75 million.

(Source: Enclosure 2 to [FCRI\(2017-18\)13](#))

**Adjustments to the financial ceilings of delegated authority under  
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**List of relevant papers**

Committee	Date of meeting	Paper
Finance Committee	--	Administration's note on Implementation of Capital Works Projects [ <a href="#">FCRI(2007-08)2</a> ]
Panel on Development	24 April 2012	Administration's paper — Proposal to increase the financial ceiling of delegated authority for Category D items in the Capital Works Programme [ <a href="#">LC Paper No. CB(1)1607/11-12(03)</a> ]  Minutes of meeting [ <a href="#">LC Paper No. CB(1)2521/11-12</a> ]
Public Works Subcommittee	30 May 2012	Administration's paper — Proposal to increase the financial ceiling of delegated authority for Category D items in the Capital Works Programme [ <a href="#">PWSC(2012-13)19</a> ]  Minutes of meeting [ <a href="#">LC Paper No. PWSC76/11-12</a> ]
Finance Committee	13 July 2012	Administration's paper — Recommendations of the Public Works Subcommittee made at its meeting on 30 May 2012 [ <a href="#">FCR(2012-13)47</a> ]  Minutes of meeting [ <a href="#">LC Paper No. FC193/11-12</a> ]



Committee	Date of meeting	Paper
Finance Committee	10 January 2014	Administration's note in relation to item FCR(2013-2014)48 <a href="#">[FCRI(2013-14)15]</a>
Finance Committee	28 November 2017 (Special meeting)	<p>Administration's note on Capital Works Reserve Fund <a href="#">[FCRI(2017-18)13]</a></p> <p>Information Note prepared by Legal Service Division on the legal and constitutional framework relating to the approval of funding for the purposes of the Government's capital works programme and related issues <a href="#">[LC Paper No. LS 12/17-18]</a></p> <p>Background brief prepared by the Legislative Council Secretariat on the block allocations mechanism under the Capital Works Reserve Fund <a href="#">[LC Paper No. FC54/17-18]</a></p> <p>Minutes of special meeting <a href="#">[LC Paper No. FC171/17-18]</a></p> <p>Information provided by the Administration on follow-up issues in respect of the review of the block allocations mechanism under the Capital Works Reserve Fund <a href="#">[LC Paper No. FC165/17-18(01)]</a></p>