

Press Release

LCQ9: Government's Resource Allocation Exercise

Wednesday, December 3, 2014

Following is a question by the Hon Sin Chung-kai and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (December 3):

Question:

It is learnt that the Financial Services and the Treasury Bureau earlier issued a circular to various departments requesting them to cut their expenditure in each of the two financial years starting from 2016-2017 by 1%. In his blog of August 3 this year, the Financial Secretary (FS) explained that in view of the rapid growth in government expenditure over the past few years which would result in structural deficits and coupled with the forecast of a weaker economy for this year, it was imperative for the Government to cut the growth of government expenditure by, among others, suspending the acceptance of Resource Allocation Exercise (RAE) bids from departments for increase of recurrent expenditure, and demanding departments to achieve an annual 1% savings of their expenditure while the resources thus saved would be centrally re-allocated for launching new projects to be included in the Policy Address for the coming year. In this connection, will the Government inform this Council:

- (1) whether the Government's suspension of the acceptance of RAE bids from departments is an indication of a leading role played by the Policy Address in the control of the finance of the Government, while the role of the Budget will dwindle;
- (2) whether it has estimated the amount of annual savings in government expenditure to be achieved as a result of the measure of cutting 1% of the expenditure of government departments; if it has, of the details; if not, the reasons for that;
- (3) whether it has assessed the impacts of the aforesaid measure of cutting expenditure on the departments' provision of existing services and implementation of policies; if it has, of the details; if not, the reasons for that;

(4) of the reasons why the Government requests the departments to cut 1% of their expenditure across the board, instead of proposing different percentages of expenditure cut in light of the practical needs of individual departments;

(5) given that the demand by the public for government services has been increasing, whether it has assessed the impacts of the annual 1% expenditure cut on people's livelihood; if it has, of the details; if not, the reasons for that; and

(6) given that FS has indicated limited new resources for a period in the future, whether it has assessed if such a situation will affect the development of new services by the departments; if it has, of the details?

Reply:

President,

My consolidated reply to the question on the RAE is as follows:

There should be scope for total government expenditure to continue to grow in the coming few years. As reflected in the Medium Range Forecast in the 2014-15 Budget, the growth of the Government's expenditure over the forecast period will be 5.5% p.a., i.e. in line with the trend growth rate of annual nominal Gross Domestic Product (GDP) for the period from 2015 to 2018.

In the face of challenges arising from ageing population and slowing down economic growth, the Government must promote economic development and take multi-pronged fiscal measures in a timely and resolute manner to ensure the long-term sustainability of public finances. Otherwise, a structural deficit would be inevitable after a decade or so. Containing expenditure growth is one of the major fiscal measures. They aim primarily at ensuring that expenditure growth would not continue to outpace revenue and economic growth; as well as stricter adherence with Article 107 of the Basic Law, which requires the Government to keep expenditure within the limits of revenue, avoid deficits, and keep the expenditure growth commensurate with the GDP growth rate.

The Financial Services and the Treasury Bureau (FSTB) issues an internal circular to all policy bureaux and departments in the third quarter of each year, setting out the internal resource allocation procedures for preparation of the estimates of expenditure for the coming financial year. The annual budget cycle starts shortly after passage of the Appropriation Bill and proceeds during July and August. The internal resource allocation exercise is usually completed around October every year.

As in the past, in mapping out resource allocation arrangements each year, the Government will normally make necessary and appropriate changes and adjustments having regard to the overall fiscal position as well as policy priorities. There is no exception this year. Specifically, additional operating expenditure will mainly be allocated to funding proposals related to the Policy Address this year. For bureaux or departments requiring additional resources for core services due to special circumstances, resource allocation will be considered on a case-by-case basis. This arrangement is only applicable to the internal resource allocation exercise conducted for the preparation of the 2015-16 Estimates.

The internal resource allocation exercise for this year remains largely the same as in previous years. The only change is that resource allocation is mainly confined to designated Policy Address initiatives, for which bureaux and departments are requested to bid for the resources required, together with detailed justifications.

In the internal circular on this year's resource allocation exercise issued by the FSTB, bureaux are requested to deliver 1% savings on their respective annual operating expenditure in 2016-17 and 2017-18. Such expenditure control measures are meant to contain the growth of Government's overall expenditure, rather than reducing expenditure. The purpose is to encourage bureaux and departments to enhance productivity and effectiveness through greater efforts in re-engineering and re-prioritisation in the light of their operational needs, hence releasing more resources for internal re-distribution for new and improved public services.

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