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LegCo Panel on Welfare Services

IMPLEMENTATION OF ENHANCED PRODUCTIVITY PROGRAMME IN THE SUBVENTED WELFARE SECTOR

PURPOSE

We briefed Members on the progress of implementing the Enhanced Productivity Programme (EPP) in the subvented welfare sector in May 2000. This paper provides an update to Members.

BACKGROUND

2. In accordance with the objective to achieve higher productivity in the public sector as announced by the Chief Executive in his 1998 Policy Address, non-governmental organisations (NGOs) operating subvented welfare services are also required to achieve the target of a cumulative reduction of 5% in their baseline expenditure over a 3-year period from 2000-01 to 2002-03. EPP is not a programme for cutting expenditure; Government expenditure will continue to grow in accordance with the permitted guidelines. EPP aims at productivity enhancement through service rationalisation and process re-engineering. Particularly in the social welfare policy area where the annual expenditure growth outstrips that of the overall

expenditure growth in recent years, there is potential for achieving EPP gains by “doing more with less or the same resources”.

3. Despite EPP being a public sector wide initiative applicable to all Government Departments and Government-subsentved organisations (the Government and aided school sector is the only exception), there were protracted arguments initially between SWD and NGOs on what type of welfare subvention expenditure should be made subject to EPP. As a result, some 14% of the baseline subvention expenditure is exempt from EPP. The latest agreed item being exempted is the provision for Provident Fund (PF) contributions in view of the designated account arrangement for PF under the Lump Sum Grant system of subvention. A complete list of the items exempted from EPP is as follows -

- (a) Rent
- (b) Rates
- (c) Government Rent
- (d) Management Fee
- (e) Foster Care Allowance
- (f) Incentive Payment for Sheltered Workers
- (g) Early Education and Training Centre
- (h) Special Child Care Centre/Residential Special Child Care Centre
- (i) Autistic Children Programme in Special Child Care Centre
- (j) Integrated Programme in Child Care Centre

- (k) Provident Fund (for both existing and new staff)

The above items account for \$1,018 million in the 2001-02 Draft Estimates of Expenditure.

APPROACH

4. The approach taken by SWD in implementing EPP in the subvented welfare sector is to engage the sector fully in the process and to secure their commitment in achieving the requisite 5%. To this end, the Department has held a number of meetings with representatives of the sector through the HK Council of Social Service (HKCSS) and with NGOs to map out the strategies and iron out difficulties. Large scale seminars have been organised to facilitate an exchange of views and to provide updated information. The last of these seminars took place on 8 February 2001 during which the Director of Social Welfare briefed NGOs on progress to date and the proposed way forward as outlined below.

PROGRESS TO-DATE

EPP in 2000-01

5. For 2000-01, a 1% EPP reduction was mandated. In the subvented welfare sector, this was achieved by applying a 1% across-the-board cut in the subvention allocation to NGOs, except for those

items exempt from EPP. This produced the requisite savings of \$60 million. In addition, some NGOs have responded positively to proposals for further EPP gains, notably through an in situ expansion programme in elderly and rehabilitation services, thereby achieving EPP gains in excess of 1%. On the other hand, both the HKCSS and many NGOs have expressed reservations about delivering the remaining 4% through similar across-the-board reductions.

EPP in 2001-02 and thereafter

6. Taking into account the views of NGOs that there should not be any more across-the-board cuts and that EPP gains should be achieved through service rationalisation, SWD has recently advised the sector that the approach towards achieving the remaining savings should be as follows -

- (a) avoid any further across-the-board NGO-based reductions;
- (b) adopt a rational approach by targeting areas for productivity gains;
- (c) avoid staff redundancies;
- (d) maximize EPP gains from services with new resources available; and
- (e) ensure equity amongst NGOs as far as possible.

7. Taking account of the additional EPP gains achieved in

2000-01 and service rationalisation proposals in hand, it is estimated that about \$104 million EPP savings will be delivered in 2001-02. These achievements have been reflected in the 2001-02 Draft Estimates. While this is slightly less than the target savings of 2% (about \$110 million), with other EPP initiatives being firmed up in the course of the year, we are confident that the sector will be able to achieve the full 2% during 2001-02. In any case, it is not mandatory that we deliver the full 2% in 2001-02.

8. The EPP initiatives to achieve \$104 million of savings in 2001-02 include service rationalisation and in-situ expansion of existing services. The latter takes the form of inviting NGOs to provide additional day or residential places in existing facilities with either no or partial additional subvention. Where the NGO is prepared to provide the additional places with no additional subvention, the notional cost of those additional places will be treated as EPP gains. Where the NGO chooses to receive some additional subvention, the EPP gains to be credited to the NGO will be the difference between the notional cost and the additional subvention given to it for those added places. A breakdown of the EPP savings' proposals is at the Annex.

Contribution by Individual NGOs

9. To ensure equity among NGOs in terms of their EPP efforts, SWD will maintain individual notional EPP achievement accounts for each subvented NGOs. Taking account of NGOs'

achievement under their EPP plans for 2000-01 and NGO savings' proposals beyond 2001-02, NGOs' individual EPP achievements as reflected in their notional accounts range from 1% to 4.9% among NGOs. Three NGOs have achieved over 5%. We shall shortly notify NGOs of their individual EPP achievements.

10. Other than the SWD-initiated EPP proposals, only 31 NGOs have submitted concrete proposals delivering savings. These proposals only produce cumulative savings of \$26 million by 2001-02, another \$19 million in 2002-03 and a further \$3 million beyond 2002-03. We have therefore advised NGOs that we need more rationalisation proposals from them in order to meet the EPP target in the final year (2002-03), if it is still the consensus of the sector that further across-the-board EPP reductions should be avoided.

Contribution by Programme Areas

11. If we analyse the savings achieved or to be achieved by programme areas, the high performing areas are in the youth and community development fields. This analysis takes into account the efforts made by NGOs running youth services in redeploying and rationalising resources to enhance effectiveness under the Fundamental Expenditure Review on Youth. In that exercise, considerable existing resources have been redeployed through service rationalisation to achieve the "one school social worker per secondary school" objective. The rehabilitation and elderly programme areas have also made

significant contributions to EPP under the in situ expansion initiative given earmarked growth in these services.

The Next Step

12. It will take the concerted efforts of SWD, NGOs and the HKCSS to accomplish the requisite EPP savings in 2001-02 and particularly, in 2002-03.

(a) SWD

SWD will inform individual NGOs of their EPP notional account achievement in early April 2001 in the context of the 2001-02 subvention allocation. This should induce NGOs which have yet to come up with concrete proposals, to do so.

We will work closely with NGOs to further develop agency-specific EPP proposals. We will target those NGOs with less EPP achievements in devising further rationalisation proposals. At the same time, we will continue to work to identify scope for EPP at the central level.

(b) NGOs

We have requested NGOs to critically re-examine all service units to identify scope for enhanced productivity, to submit concrete EPP proposals to SWD, to respond positively to central initiatives on EPP such as in-situ expansion and to engage their staff through effective communication in their EPP action plan.

(c) HKCSS

The HKCSS is expected to take up the co-ordination role to encourage sharing amongst NGOs on productivity drive and to promote service-specific EPP initiatives that go beyond individual NGOs.

13. SWD will maintain close liaison with NGOs with a view to addressing their concerns and helping them to overcome their problems in achieving EPP savings.

Social Welfare Department

April 2001

EPP Plan in 2001-02

- EPP target savings at 2% amounts to about \$110 million
 - EPP savings achieved or identified to date –
 - In-situ expansion in day and residential rehabilitation services (402 additional places at no cost already delivered in advance in 2000-01) and in 2 OCCCs \$26M
 - Re-engineering of home help service by contracting out meal and home care service in 1999-2000 \$8M
 - Applying EPP target savings to new projects commissioned in 2000-01 and 2001-02 funded under old formula \$15M
 - EPP savings from central items \$7M
 - Rationalisation in delivering new service initiatives funded in 2000 budget and 2000 Policy Address \$6M
 - Rationalisation plans agreed with NGOs already implemented or will be implemented in 2001-02 \$27M
 - In-situ expansion in residential C&A Homes and Nursing Homes (over 200 additional places at lower cost) \$15M
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- \$104M

Very close to 2% target (which is not mandatory for 2001-02)