

## **LEGISLATIVE COUNCIL PANEL ON WELFARE SERVICES**

### **Efficiency Savings**

#### **PURPOSE**

This Paper informs Members of arrangements to achieve the target of efficiency savings in relation to the welfare sector.

#### **BACKGROUND**

2. While facing unprecedented fiscal deficit, the Administration is committed to restoring a balanced budget in 2008-09. All Government expenditure with the exception of CSSA/SSA and pensions are subject to the deduction of target efficiency savings in the period from 2003-04 to 2008-09.

#### **RECAPITULATION OF EFFICIENCY SAVINGS IN 2003-04**

3. In 2003-04, the total deduction of 1.8% efficiency savings from the operating expenditure of the Department (excluding CSSA/SSA) was \$191 million. Based on the **recurrent subvention** for NGOs operating welfare services, the requisite deduction of 1.8% efficiency savings was about \$130 million. However, taking account of views as expressed by the NGO sector, we excluded four exemption items in the calculation of the deduction of 1.8% efficiency savings from the subvention allocations to NGOs, namely provident fund payable on actual basis for NGO “snapshot staff”, rent and rates reimbursement, foster parent allowance and incentive payment for sheltered

workers. The deduction was applied across-the-board to subvention allocations on an agency basis.

4. The Department has continued to rationalise existing services in 2003-04 for improving service quality and cost effectiveness and meeting changing community needs. This also has helped to make some contributions for meeting the target efficiency savings.

#### **IMPLEMENTATION OF EFFICIENCY SAVINGS IN 2004-05**

5. For 2004-05, in addition to the 1.8% efficiency savings made in 2003-04, frontloaded additional efficiency savings of slightly above 3% will be deducted at \$323 million from the operating expenditure for the Department in 2004-05. This deduction is calculated before the deductions of 1.8% efficiency savings made in 2003-04 and the civil service pay cuts effective from 1 January 2004 and 1 January 2005.

6. With the intention to reduce the impact on NGOs, the Department will make a lower deduction of efficiency savings at 2.5% from the 2004-05 subvention allocations, excluding the same four exemption items as applied in 2003-04. As such, the deduction from the 2004-05 subvention allocations to NGOs will be about \$160 million in addition to the deduction of 1.8% efficiency savings made in 2003-04. For individual NGOs, the deduction of 2.5% efficiency savings from 2004-05 subvention allocations will be calculated before the deductions of 1.8% efficiency savings made in 2003-04 and the civil service pay reductions effective from 1 January 2004 and 1 January 2005.

7. Apart from applying an across-the-board 2.5% reduction to subvention allocations to all NGOs in 2004-05, the Department will continue to pursue planned rationalisation of services in conjunction with the NGOs concerned. As mentioned above, Members may wish to note that service rationalisation is mainly aimed at improving service quality and cost effectiveness and meeting changing community needs whilst it will help to make some contributions for meeting the target efficiency savings.

8. To prepare the NGO sector for the implementation of efficiency savings and to understand more their concerns, SWD has conducted sharing

sessions for the NGO sector and will continue to maintain close dialogue with the sector in the process, and is ready to discuss with individual NGOs who genuinely cannot cope with the 2.5% savings in 2004-05.

9. We will also discuss with the welfare sector with respect to the saving targets for subsequent years and issues related to the termination of the Tide-over Grant in 2006-07 once matters relating to the 2004-05 Budget have settled.

#### **ADVICE SOUGHT**

10. Members are invited to note the Department's arrangements in achieving efficiency savings.

**Health, Welfare and Food Bureau/Social Welfare Department  
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