

**For information on
8 March 2004**

Paper No. CB(2)1609/03-04(03)

LEGCO PANEL ON WELFARE SERVICES

Efficiency Savings

PURPOSE

Further to the discussion at the LegCo Welfare Panel Meeting on 9 February 2004 on the paper - “Efficiency Savings” (Paper No. CB(2)1181/03-04(05)) and the submission by the Hong Kong Council of Social Service, Hong Kong Social Workers Association and Hong Kong Social Workers’ General Union, this paper provides further information on the subject for Members’ information.

EFFICIENCY SAVINGS TARGETS 2004-05 TO 2008-09

2. All Government expenditure with the exception of Comprehensive Social Security Assistance (CSSA) /Social Security Allowance (SSA) and pensions are subject to target efficiency savings in the period from 2004-05 to 2008-09. Social Welfare Department (SWD) will exclude four items in the calculation of the deduction of 2.5% efficiency savings from the subvention allocations to non-governmental organisations (NGOs) for 2004-05. They include the provident fund payable on actual basis for NGO “snapshot staff”, rent and rates reimbursement, foster parent allowance and incentive payment for sheltered workers. SWD will also consider the case of individual NGOs who have genuine difficulties in meeting this target. The savings target for 2004-05 for NGOs compares with 3% for other expenditure under SWD besides subvention allocations to NGOs.

3. The savings targets for 2005-06 and beyond are only indicative at this stage, and the savings target for expenditure under Secretary for Health, Welfare and Food from 2004-05 to 2008-09 is expected to be slightly below 11%. We note the welfare sector's concern over efficiency savings in the longer term and will be discussing with the sector on the situation in 2005-06 and beyond.

ENHANCED PRODUCTIVITY PROGRAMME (EPP)

4. In achieving the 5% EPP target in 2000-01 to 2002-03, the bulk of savings was carried out mainly through "doing more with less" such as in-situ expansion and service rationalisation. The actual amount dollar reduction to all NGOs amounted to only \$110 million or less than 40% of the total EPP savings requirement. Flexibility was exercised in terms of exempting 77 small NGOs receiving subventions of less than \$3 million from meeting the full EPP target other than the 1% across-the-board cut.

SALARY REDUCTION

5. For the salary adjustment between 2001-02 and 2004-05, there was a pay rise of 2.4% on 1 April 2001. Moreover, the salary adjustment at 1.8% on 1 October 2002, 3% on 1 January 2004 and 3% on 1 January 2005 is applied across-the-board within the whole Government as well as all subvented/subsidized organizations of the Government.

CESSATION OF TIDE-OVER GRANT (TOG)

6. When NGOs switched to Lump Sum Grant (LSG), they were fully aware that TOG which is granted to NGOs from the Lotteries Fund as a tide over assistance to NGOs on need basis, would cease in 2006-07. This should not be regarded as a reduction of subvention. Furthermore, not all NGOs would be affected by the cessation of TOG by 2006-07. With due recognition of the Sector's concern, we will review the impact of the cessation of TOG and

see what assistance could be provided to NGOs in need.

2% ANNUAL REDUCTION TO REACH BENCHMARK

7. Under LSG arrangement, the Administration has provided additional financial requirement to the Sector for bringing those NGOs whose Snapshot funding was below the Benchmark; regularizing arrangements for “unvetted units” which would give rise to a higher level of funding; and providing a standard basis for certain expenditure items which were hitherto funded on an actual reimbursement basis, such as relief worker allowance and training allowance. At the same time, all NGOs above the benchmark were given the additional snapshot provision when they switched to LSG in 2000-01. This arrangement ensures that NGOs joining LSG will not receive an allocation less than what they should have got under the conventional subvention system.

8. For reasons as mentioned above, there was an increase of subvention to the welfare sector in 2000-01 at an amount of \$109 million, which represented an increase of 1.8% as compared with subventions to NGOs in 1999-2000 (FCR(2000-01)58 refers).

9. However, to achieve standard costs in the services and to equitably ensure that NGOs delivering the same type and level of service will receive the same level of funding from the Government, NGOs with Snapshot Salary above the Benchmark are required to come down to the Benchmark by gradual reductions to its Snapshot in steps of 2% per annum starting from 2006-07 as part of the condition for switching over to LSG.

10. The impact of the 2% annual reduction will be considered in the context of the review mentioned in para. 6.

IMPACT ON SERVICE

11. In general, the service output and outcome are monitored through the Service Performance Monitoring System, and there has been no evidence of any increase in non-compliance as a result of EPP or Efficiency Savings.

CONCLUSION

12. We will continue to maintain close dialogue with the Sector with regard to the implementation of the target Efficiency Savings as well as issues relating to the LSG.

ADVICE SOUGHT

13. Members are invited to note the Administration's response.

Health, Welfare and Food Bureau / Social Welfare Department
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