

NOTE FOR FINANCE COMMITTEE

Productivity Gains of Former Municipal Councils

PURPOSE

This note reports on the productivity gains achieved by the former Provisional Urban Council (PUC) and Provisional Regional Council (ProRC) between late 1998 and the end of 1999.

BACKGROUND

2. On 18 December 1998, Members considered FCR(98-99)58, which sought approval for a new commitment of \$2,613 million for making one-off grants to the then PUC and ProRC for meeting their shortfall in rates revenue as a result of the Government's decision to rebate one quarter's rates payment to all ratepayers in 1998-99. While approving the commitment, Members urged the two Councils to manage their resources more cost-effectively and asked for a full written report of details of their productivity gains achieved upon expiry of the 1997-98 to 1999-2000 triennium.

3. The 1997-98 to 1999-2000 triennium was supposed to end on 31 March 2000. However, consequent upon the enactment of the Provision of Municipal Services (Reorganisation) Bill, the PUC and the ProRC together with their executive arms, the Urban Services Department (USD) and the Regional Services Department (RSD) were dis-established on 1 January 2000. A new framework, comprising the Environment and Food Bureau, the Food and Environmental Hygiene Department and the Leisure and Cultural Services Department, has been set up to deliver municipal services. Hence, this note on productivity gains achieved by the two Councils only covers the period up to the end of 1999.

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PRODUCTIVITY GAINS

4. According to information provided by the former USD, between December 1998 and the end of 1999, the PUC adopted the following cost-saving measures -

- (a) tightening control over the increase in the USD's establishment through redeploying resources to meet new service demands;
- (b) conducting staffing reviews;
- (c) reducing expenditure on overtime allowance;
- (d) further contracting out of its services; and
- (e) reducing operational expenditure through more efficient use of resources.

Encl. 1

The resultant productivity gains amounted to some \$134 million on an annualised basis. Details are at Enclosure 1.

5. We understand from the former RSD that during the same period, the ProRC adopted cost-saving measures that include -

- (a) further contracting out its services;
- (b) maximising the use of existing resources;
- (c) streamlining the RSD's organisation structure and procedures;
- (d) using temporary or part-time staff to cater for seasonal fluctuations in workload;
- (e) tightening control over the payment of overtime and on-call duty allowances;
- (f) economising on the provision of air-conditioning;
- (g) conducting energy usage reviews; and
- (h) using electronic means of communication to reduce paper consumption.

Encl. 2

The resultant productivity gains amounted to some \$96 million on an annualised basis. Details are at Enclosure 2.

**Cost-saving Measures of
Provisional Urban Council**

Under the direction of the Provisional Urban Council (PUC), its executive arm, the Urban Services Department (USD) implemented a series of cost-saving measures, largely to meet the shortfall in revenue from rates and other sources.

2. Measures implemented since late 1998 would generate annual savings of \$134 million. A breakdown is as follows -

Measure	Annual savings \$ million
Conducting staffing reviews	14.1
Further contracting out its services	13.9
Reducing expenditure on overtime allowance	32.0
Reducing operational expenditure	73.8
Total	133.8

3. Staff costs accounted for some 45% of the annual expenditure of the PUC. To ensure that staff resources were efficiently employed, the USD carried out staffing reviews. These reviews covered the Public Information Unit, the USD Training School, the HK Zoological and Botanical Garden, and the management of Indoor Games Halls. As a result, 82 posts were deleted producing annual savings of \$14.1 million.

4. Contracting out was also pursued to improve cost-effectiveness. During 1999, cleansing services in Central, Wong Tai Sin and Yau Tsim districts and the nursery service were contracted out, enabling the deletion of 200 posts and generating net annual savings of \$13.9 million.

5. The 1999-2000 budget approved by the PUC in January 1999 provided for the net creation of 24 posts to man new facilities and to provide new services. Staffing reviews, contracting out and stricter control over the establishment enabled the USD to reduce the number of new posts required in 1999-2000 -

Number of posts budgeted for creation (January 1999)	Number of posts actually created (December 1999)
24	-269

6. In addition, the department tightened control over expenditure on overtime allowance. Measures taken were expected to generate annual savings of \$32 million.

7. The PUC also decided to cut operational expenditure by 10% such as that on printing, publicity, specialist supplies, transport, travelling and maintenance. This would generate annual savings of \$67 million. Furthermore, the USD started to procure part of the vehicle maintenance service from contractors other than the Electrical and Mechanical Services Trading Fund. This would generate annual savings of \$6.8 million.

8. Due to the reorganisation of municipal services, for the PUC, the year 1999-2000 ended on 31 December 1999. It is not possible for the former USD to provide actual savings figures for the whole financial year. However, that the actual expenditure up to 31 December 1999 was only 69% of the approved budget for the financial year may indicate that the savings target was achievable.

**Cost-saving Measures of
Provisional Regional Council**

The Provisional Regional Council (ProRC) introduced through its executive arm, the Regional Services Department (RSD), between late 1998 and the end of 1999 a number of measures to enhance productivity and improve the efficiency of its service delivery.

2. The efficiency measures would generate annual savings of some \$96 million. A breakdown is as follows -

Measure	Annual savings \$ million
Contracting out	28
Tightening control on payment of allowances	35.26
Other cost-saving measures	33
Total	96.26

3. The department started to contract out its services in the mid 80's. The scope of contracting out has since been growing. In 1999, there was further contracting out of services in areas including -

- (a) stone-cutting at cemeteries;
- (b) management of Indoor Games Halls;
- (c) support for meat inspection at Sheung Shui Slaughterhouse; and
- (d) vehicle maintenance.

Additional annual savings in the region of \$28 million were expected to be generated.

4. Besides contracting out, the department succeeded in cutting down on the creation of new civil service posts through the following means -

- (a) maximising the use of existing resources;
- (b) redeploying staff to meet new requirements;
- (c) streamlining the organisation structure and procedures;
- (d) employing temporary or part-time staff to meet seasonal fluctuations in workloads; and
- (e) employing contract staff.

Through these measures, the number of posts created was reduced as follows -

	Number of new posts budgeted for creation	Number of posts actually created
1998-1999	631	245
1999-2000	610	86

5. The department also tightened control over the payment of allowances. The total amount of annual savings produced would be \$35.26 million, broken down as follows -

	Allowance	Savings
(a)	Overtime Allowance	Savings of \$35 million in 1999-2000 (48% of approved budget)
(b)	On-call Duty Allowance	Savings of \$0.26 million in 1999-2000 (47% of approved budget)

6. Other cost-saving measures that were implemented include -

- (a) adjusting the indoor temperature of facilities from 20°C to 23°C in summer and, where feasible, shortening the air-conditioning hours to save electricity;

/(b)

- (b) conducting energy usage reviews with the assistance of the Electrical and Mechanical Services Trading Fund and the China Light and Power Holdings Ltd.;
- (c) reducing paper consumption, e.g. through promoting the use of electronic means of communication and by keeping the number of copies of documents produced to the minimum required; and
- (d) reducing other administrative expenses by more efficient use of stores etc.

These measures would enable the department to save some \$33 million per annum.