

LCQ11: Impacts of Government's cuts in recurrent expenditure

Following is a question by Dr the Hon Tik Chi-yuen and a written reply by the Secretary for Labour and Welfare, Mr Chris Sun, in the Legislative Council today (November 29):

Question:

During the debate on the Member's motion on "Reviewing public finance policies" in this Council on the 8th of this month, the Government indicated that it would deduct 1 per cent from the recurrent expenditure resources of various policy bureaux and government departments for the 2024-2025 financial year, and an additional 1 per cent would be deducted for the 2025-2026 financial year. There are views pointing out that, in the 2022-2023 financial year, the Government's overall recurrent expenditure was already cut by 1 per cent, and amid it, 164 non-governmental organisations (NGOs) receiving lump sum grant subvention were subjected to a cut in subvention of nearly \$1.22 million each on average, which has already seriously affected the operation of such organisations. Some members of the welfare sector are concerned that if recurrent expenditure is cut by a further 1 per cent in each of the next two financial years, the impact is likely to be even more extensive, rendering the underprivileged groups unable to receive appropriate services. In this connection, will the Government inform this Council:

- (1) of the actual amount of funding cut for NGOs receiving government subvention in the 2022-2023 financial year;
- (2) of the actual amount of funding cut for each public hospital, as well as government, aided and Direct Subsidy Scheme primary and secondary schools in the 2022-2023 financial year;
- (3) whether it has assessed the respective numbers of headcounts that will have to be cut by NGOs as a result of further funding cuts by the Government in the next two financial years and the service recipients that will be affected; and
- (4) whether the Labour and Welfare Bureau will undertake to absorb the expenditure cuts required in the next two financial years without cutting the funding for NGOs?

Reply:

President,

In consultation with the Financial Services and the Treasury Bureau, the Health Bureau and the Education Bureau, the reply to the question raised is as follows:

Faced with the pressure on public finances, the Government has to control expenditure. Therefore, the Government decides that bureaux and departments should jointly implement a Productivity Enhancement Programme (PEP), under which bureaux and departments are required to cut 1 per cent recurrent expenditure allocation in 2024-25 and a further 1 per cent in 2025-26. The resources thus spared would be re-allocated for the implementation of new policy initiatives. The objectives of the PEP are to control the overall growth of government expenditure and encourage bureaux and departments to achieve savings, through business process of re-engineering and re-prioritisation, so as to provide greater room for internal reallocation of resources, improving existing services and implementing new services for achieving higher efficiency.

(1) The Financial Secretary announced in the 2021-22 Budget to implement an expenditure reduction programme, applicable to all bureaux and departments, to reduce the recurrent government expenditure by 1 per cent in 2022-23.

The Government has all along been committed to building a caring community and looking after the underprivileged. The recurrent expenditure on social welfare has increased by 52.2 per cent from \$79.4 billion in 2018-19 to \$121.0 billion in 2023-24, accounting for about 21.6 per cent of the total estimated recurrent government expenditure. The amount of savings for the social welfare sector arising from the expenditure reduction programme was approximately \$280 million in 2022-23 while the Government's expenditure budget in social welfare increased by approximately \$9 billion during the same period. Moreover, in the course of implementing the expenditure reduction programme, the Government did not reduce cash assistance, including those under the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme, provided under the social security system. Certain expenditure items, such as foster care allowance, rent and rates of subvented service units and food expenses of short-term food assistance service, were also exempted.

(2) For the health sector, the estimated recurrent government expenditure in this respect in 2022-23 was \$126.6 billion, among which the Government has continued to increase the recurrent provision for the Hospital Authority (HA) according to the triennium funding arrangement agreed in 2017, having regard to projected service demand. In 2022-23, a recurrent subvention of \$90.4 billion was provided to the HA, representing an increase of over 60 per cent as compared with 2017-18, \$7.5 billion of which was used for further supporting the HA in combating COVID-19.

For the education sector, in response to the service-wide measure implemented in 2022-23 to reduce total recurrent government expenditure by 1 per cent, the Education Bureau had fully absorbed the reduction internally. The subvention provided to primary and secondary schools were still determined in accordance with the established mechanism and had not been reduced as a result of the service-wide measure.

(3) and (4) In the face of pressure on public finances, the Government decides that bureaux and departments should jointly implement the PEP. However, the cash assistance provided under the social security system,

including those under the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme, would not be affected by the PEP. The Labour and Welfare Bureau and the Social Welfare Department would review the expenditure situation, adjust priorities, and decide how to allocate resources to implement the PEP while minimising the impact on the welfare services for the public as far as possible. Under the Lump Sum Grant (LSG) Subvention System, subvented organisations should also deploy resources flexibly through an effective and appropriate use of LSG subventions and reserves, and adopt different means so as to reduce expenditure while ensuring that the remuneration of staff and service quality are not affected.

In the course of implementing the PEP, the Government will re-allocate the resources spared under the PEP to take forward new policy initiatives. In this connection, the Government will allocate additional resources in 2024-25 to launch new social welfare services and to enhance existing services, including various new social welfare initiatives announced earlier in the Policy Address.