

**For the meeting  
on 13 November 2000**

**LEGISLATIVE COUNCIL PANEL ON WELFARE SERVICES**

**Lump Sum Grant Subvention  
in the Social Welfare Sector**

**PURPOSE**

The purpose of this paper is to inform Members about the progress of the implementation of the Lump Sum Grant (LSG) subvention system.

**BACKGROUND**

2. The existing social welfare subvention system has been criticised as inflexible, complex and bureaucratic. It is no longer meeting in full the needs of present day social welfare development which should place emphasis on the effective use of public resources, innovation, responsiveness and performance management to meet the changing community needs in a timely manner. With a view to improving the social welfare subvention system, the Social Welfare Department (SWD) is committed to introducing a package of measures for funding and monitoring of services provided by the subvented welfare sector to meet service objectives. The service performance aspects of the reform have been implemented progressively since 1999-2000 through Funding and Service Agreements and Service Quality Standards with the joint efforts of SWD and Non-governmental Organisations (NGOs). Implementation of LSG has been the subject of intense discussion in the sector over the past year. In the paragraphs below, we have accounted for the developments in three stages.

***October 1999 to May 2000 : consultation on initial proposals***

3. In October 1999, the Administration presented to the Social Welfare Advisory Committee initial proposals to introduce a new funding arrangement in the form of a lump sum grant. The social welfare sector was consulted on these initial proposals. Taking into consideration comments received, the Administration released the LSG proposals for consultation in February 2000.

4. At the meeting of the LegCo Panel on Welfare Services held on 13 March 2000, Members were informed of the details of the proposed LSG package *vide* Paper No. CB(2)1342/99-00(03)-(05). Deputations were made by the Fighting for Social Welfare Alliance, the Hong Kong Social Workers Association and the Hong Kong Council of Social Service. Panel members at the meeting expressed reservations about the package and emphasised that sufficient funds should be provided to NGOs to ensure that contractual commitments to existing staff would be honoured. The Administration was asked by the Panel to take into account the views expressed by Members and to address the sector's concerns about the proposals in working out the details.

5. During the public consultation that ended on 31 May 2000, the Administration attended meetings with various public organisations and advisory committees, organised briefings for NGOs, met with representatives of 87 individual NGOs, exchanged views with staff associations and service users, discussed the proposed package at the regular meetings of the Working Group on Implementation of the 1999 Subvention Review Exercise Proposals and took part in media discussions and interviews. Written comments were also received from NGOs and different groups including staff associations and user groups.

***June 2000 to August 2000 : revised LSG package***

6. At the completion of the consultation, the Administration took on board the views and suggestions collected and revised the financial aspects of the LSG package to ensure that sufficient funds would be provided for

NGOs to honour the contractual commitments with their staff. The main improvements in the revised LSG funding package were -

- (a) in respect of Provident Fund (PF), SWD will adopt the arrangement to reimburse the employer's Provident Fund contribution in respect of existing staff on an actual basis (i.e. honouring the scale of 5%/10%/15% recognised for subvention purpose under the existing system); all PF funding provision for both existing and new staff will be kept in a separate designated account solely for PF purposes; and PF funding calculation for new staff will be raised from 5% to 6.8% of the mid-point salary;
- (b) in respect of additional funding to enable NGOs to meet their contractual obligations to existing staff in the payment of salary increments, the Tide-Over Grant (TOG) period will be extended from three to five years.

Taking account of the concerns of NGOs, the Administration has also made it clear that while it remains the policy objective of the Administration to fund all welfare services on the basis of LSG in future, there is no mandatory timetable requiring all NGOs to move on to LSG on a compulsory basis.

7. At the meeting of the LegCo Panel on Welfare Services held on 20 June 2000, Members were briefed on the details of the above-mentioned improved LSG package. On the same day, SWD announced the package and release a LSG Manual Edition to all subvented NGOs. NGOs were also invited to indicate their intention to join the LSG by the middle of September. While the improved financial aspects have to a certain extent addressed the sector's concern, both NGO management and frontline staff have expressed other worries about the operational aspects of LSG as highlighted in their comments on the LSG Manual Edition 1.

***August 2000 to October 2000 : improvements to LSG implementation***

8. In response to the sector's concern over certain operational aspects as proposed in the LSG Manual Edition 1 and uncertainty about protection of existing staff working in "unvetted units"<sup>1</sup> under the current subvention system, it was considered necessary to re-visit the LSG Manual to provide clearer and more re-assuring arrangements. Although 56 and 4 NGOs have indicated their intention to join LSG in 2000-01 and 2001-02 respectively by mid-September, SWD agreed to release a revised LSG Manual in the latter part of October and allow NGOs the further opportunity to consider joining LSG. In the intervening period, SWD continued to meet with NGO management and staff unions to listen to their concerns.

9. On 26 October 2000, the Administration presented detailed arrangements on treatment of staff of "unvetted units" and a revised LSG Manual (Edition 2) to the Working Group on the Implementation of the 1999 Subvention Review Exercise Proposals<sup>2</sup>. These were supported by the Working Group. On 27 October, SWD released the revised Manual to all subvented NGOs and with this, invited them to join the LSG. On 31 October, the Director of Social Welfare briefed all agency heads on the arrangements. The latest set of arrangements has generally received agencies' support.

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<sup>1</sup> Unvetted unit is a form of recognised system under the Modified Standard Cost system in social welfare subventions accepted over the years. Under such system, NGOs have the flexibility in the employment of staff, in terms of both numbers and grade/rank, within the standard funding provision calculated at mid-point salary of the notional establishment and a 4.5% PF. NGOs with unvetted units may seek regularization as they see fit but upon regularization, full matching of staff numbers and grade/rank will be required and full compliance with staff qualifications has to be assured. Because of various factors, over 800 units involving some 7,700 posts have remained to date unvetted. Existing staff in these units were concerned that they might not be given the same protection upon regularization in their agency joining LSG.

<sup>2</sup> The Working Group was set up to advise the Secretary for Health and Welfare on the implementation issues and required action associated with the proposals in the 1999 Subvention Review Exercise. It is chaired by a Deputy Secretary for Health and Welfare and comprises representatives of SWD, the Hong Kong Council of Social Service, NGO management, academics, professional group and staff unions.

10. In summary, the second edition of the LSG Manual has responded positively to concerns from various parties, as highlighted below -

- (a) vis-à-vis **NGO management** : we have simplified and clarified the rules for operating under LSG; we have provided examples to illustrate the granting of TOG during the five-year period from 2001-02 to 2005-06; we have proposed to apply to the Lotteries Fund for TOG on behalf of all NGOs and have taken on board other operational concerns of management. We have set out the inter-relationship between the various parts of the subvention reform and pledged to continue to work in partnership with NGOs to improve the social welfare planning mechanism;
- (b) vis-à-vis **NGO staff** : we have extended the TOG and PF arrangements to all existing staff in unvetted units under a set of prescribed conditions for regularization; we shall require NGOs joining LSG to consult staff and address their concerns and fulfil their contractual obligations to existing staff; and we will set up a post-implementation steering committee involving staff representatives and make use of this forum to receive and resolve expeditiously representations from staff. NGOs are also encouraged to continue to consult staff on important changes affecting staff; and
- (c) vis-à-vis **the public** : we have laid down clear accountability rules applicable to NGOs; we shall exercise control over user fees and charges for services for which subvention is provided; and enhance service performance monitoring.

## **WAY FORWARD**

11. The Administration believes that through extensive consultations with the sector, a solid foundation has now been laid for the Government and the sector to move forward in implementing this funding reform with a view to achieving the objective of improving service quality. NGOs have been invited to consider joining the LSG and to reply by 15 November

2000. It has been reiterated that NGO management should consult their staff and allay any concerns upon switching to LSG.

12. As part of the subvention reform implementation strategy, the Administration will carry out the following initiatives in the coming months -

- (a) a Lump Sum Grant Steering Committee to be chaired by DSW will be set up to monitor the progress of the LSG implementation, to discuss and suggest solutions to problems arising from the implementation, and to facilitate communication and sharing of information and experience among SWD, NGOs and staff. It would be a tripartite forum with representatives of SWD, NGOs and staff associations;
- (b) SWD will continue to render advice, support and assistance to all NGOs in their transition into the new funding environment. On-going administrative support and assistance will be provided through a help centre and a Consultancy Study commissioned by SWD on this initiative is nearing completion; and
- (c) SWD will in consultation with the sector enhance the current Service Performance Monitoring System through the Funding and Service Agreements (FSAs) and Service Quality Standards (SQSs). The structure and contents of FSAs will be reviewed to match with the LSG arrangement. With input from the sector, we hope to devise more robust outcome measures. We will examine the set of SQSs with a view to coming up with more streamlined standards.

13. We will keep Panel Members informed of the progress of the LSG implementation as set out above.