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Panel on Welfare Services

Background paper prepared by Legislative Council Secretariat

Tide-over Grant

Purpose

This paper gives an account of the background of the tide-over grant (TOG) for welfare non-governmental organisations (NGOs) in receipt of Government subvention and the past discussions by the Panel on Welfare Services (the Panel) on the TOG.

Background

2. In 1994, the Administration appointed consultants to review the social welfare subvention system which had been criticised as inflexible, complex and bureaucratic, and no longer able to meet in full the needs of present day social welfare development. The general view was that the system 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.

3. The review was concluded in 1998. The recommendation of introducing a Service Performance Monitoring System (SPMS) received general support from the sector and was implemented by three phases between 1999-2000 and 2001-2002 through Funding and Service Agreements and Service Quality Standards with the joint efforts of the Social Welfare Department (SWD) and NGOs. However, the proposal on fixed funding arrangements was not accepted by the sector. As a result, the Administration continued to explore new options to improve the existing subvention system.

Development of the implementation of the Lump Sum Grant subvention system

October 1999 to May 2000 : consultation on initial proposals

4. 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 (LSG). The welfare sector was consulted on these initial proposals. Taking into consideration comments received, the Administration issued the LSG proposals for consultation in February 2000.

5. Under the proposed LSG package, funding for the personal emoluments (PE) of NGOs was calculated on the following basis -

- (a) first, the benchmark LSG of each NGO would be determined on the basis of the mid-point salaries of the existing pay scales of its recognised establishment, i.e. all approved posts, as at 1 April 2000, plus the sector-wide average Provident Fund (PF) employer's contribution of 6.8%;
- (b) second, a snapshot of staff strength of each NGO as at 1 April 2000 would be taken and its PE subvention for 2000-2001 under the existing subvention mode would be projected;
- (c) comparison would then be made between this projected PE subvention with the benchmark -
 - (i) for agencies with snapshot above the benchmark, they would receive the snapshot as the LSG. There would be no top-up or claw-back in the course of the financial year except for adjustment in line with the annual civil service pay award. Their LSG would be reduced annually to reach the benchmark in steps of 2% per annum starting from 2003-2004; and
 - (ii) for agencies with snapshot below the benchmark, they would receive the LSG in one step, i.e. on day one, provided that their service was already fully commissioned. Likewise, there would be no top-up or claw-back in the course of the financial year except for adjustment in line with the annual civil service pay award.

6. To address the sector's concern that the LSG might not provide sufficient funds to meet their contractual commitments to existing staff, the Administration proposed the introduction of a TOG Scheme to address any possible problems in the first three years, arising from meeting contractual obligations to serving staff for salary creep and PF contributions. The intention was to allow NGOs to have sufficient time to adjust to the changes.

Under this Scheme, NGOs who could demonstrate that they had insufficient funds to meet their salary creep and PF contributions for service who were on their payroll as at 1 April 2000 might apply to SWD for a one-off grant during this period. A set of criteria for the TOG would be worked out and a vetting committee would be set up to consider the applications.

June 2000 to August 2000 : revised LSG package

7. Having regard to the views and suggestions collected at the end of the consultation period in May 2000, revisions to the proposed LSG package were made by the Administration to ensure that sufficient funds would be provided for NGOs to honour the contractual commitments with their staff. The main improvements made were as follows -

- (a) in respect of PF, SWD would adopt the arrangement to reimburse the employer's PF contribution in respect of the existing staff on an actual basis. All PF funding provision for both existing and new staff would be kept in a separate designated account solely for PF purposes, and PF funding calculation for new staff would be raised from 5% to 6.8% of the mid-point salary;
- (b) the TOG period would be extended from three to five years; and
- (c) NGOs would be required to start to come down to the benchmark at the end of the TOG period, i.e. NGOs should achieve the benchmark in 2005-2006 instead of 2003-2004 as original proposed.

Moreover, there was no mandatory timetable requiring all NGOs to move on to LSG on a compulsory basis.

August 2000 to October 2000 : improvements to LSG implementation

8. In response to the sector's concern over certain operational aspects and uncertainty about protection of existing staff working in "unvetted units" under the then subvention system, further revisions were made to the LSG package. Concerning NGO staff, TOG and PF arrangements were extended to all existing staff in unvetted units under a set of prescribed conditions for regularisation. 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 regularisation as they see fit but upon regularisation, full matching of staff members and grade/rank will be required and full compliance with staff qualifications has to be assured.

9. With the Legislative Council Finance Committee's approval given on 15 December 2000, the LSG subvention system was formally put in place as from 1 January 2001.

Major concerns raised by the Panel

10. At the meeting on 13 March 2000, the Panel was informed of the details of the proposed LSG package (see paragraphs 5 and 6 above). Members were concerned about the inadequacy of the PF funding to meet contractual commitments to existing staff and that funding to agencies with snapshot above the benchmark would be reduced annually to reach the benchmark in steps of 2% per annum starting from 2003-2004. The Administration advised that if, after the expiration of three-year TOG period, some NGOs still had difficulty in meeting their commitments to existing staff, the Administration was prepared to work with them and considered how it would continue to help. Three members' motions were passed at the meeting. The wording of these motions is as follows -

- (a) first motion : "That this Panel urges the Government to restrict the scope of implementation of the LSG funding package to "Other Charges" first, in order to ensure that the PE and benefits will remain unchanged and to allow NGOs flexibility in the use of resources. The package should be further discussed only after SPMS has been fully implemented and reviewed";
- (b) second motion : "That this Panel urges the Administration to provide resources to NGOs to enable them to maintain the current remuneration and benefit packages for existing staff"; and
- (c) third motion : "That this Panel urges the Administration to defer implementation of the new funding proposal until it has the support of the welfare sector".

11. The Panel was briefed by the Administration on the details of the improved LSG package on 20 June 2000 (see paragraph 7 above) and again on 13 November 2000 on the implementation of the LSG subvention system (see paragraph 8 above). Despite the various improvements made, members remained concerned that the implementation of the new funding arrangements would give rise to NGO management replacing experienced staff with lower-paid new staff, not filling the vacant posts and/or discontinue linkage with the civil service pay scale. A member asked whether consideration could be given to extending the TOG to those NGOs which had difficulty in meeting their contractual commitments to existing staff.

12. The Administration replied that for NGOs opting to join the LSG, it was up to the NGOs to decide how they wished to remunerate their staff. If the

Administration forced the NGOs to follow a prescribed set of conditions of services, it would defeat the purpose of implementing the new funding arrangement in the first place.

13. As regards extending the TOG period, the Administration considered such a move not necessary. The Administration was confident that the formula for the calculation of the LSG, coupled with the TOG, should provide NGOs with sufficient funds to meet their contractual commitments to existing staff.

14. The issue of the impact of the cessation of the TOG on NGOs was raised at the meetings of the Panel on 9 February 2004, 8 March 2004 and 13 December 2004. Members pointed out that with the more than 10% cutback implemented during the past five years to achieve efficiency savings under the Enhanced Productivity Programme, the welfare sector would not be able to absorb any further cut in funding without adversely affecting their services, not to mention that the sector had to achieve a further across-the-board 1% savings in 2005-2006.

15. The Administration advised that a survey was being conducted by SWD to find out the impact of the expiry of TOG on the operation of NGOs, and see what assistance could be provided to NGOs in need. A motion which reads as follows -

“That this Panel requests the Government to abort any cost-cutting plan from 2006-2007 to 2008-2009, as well as extending the TOG, so as to ensure the quality of social welfare services and meet the needs of the public for such services”

was also passed by the Panel on 13 December 2004 by all but one member present at the meeting.

Relevant papers

16. Members are invited to access the LegCo website (<http://www.legco.gov.hk>) to view the minutes of meetings of the Panel held on 13 March 2000, 20 June 2000, 13 November 2000, 9 February 2004, 8 March 2004 and 13 December 2004, the papers provided by the Administration and the submissions from the deputations.