

LC Paper No. CB(2)885/08-09(01)

Legislative Council Panel on Welfare Services
Request for response and information at the Special Meeting on 17 January 2009

Set out below are the Administration's response to, and information on, various issues, in the order of the Panel's request.

(a) a breakdown of non-governmental organizations (NGOs) receiving lump sum grant (LSG) by their amount/level of reserve and sources of the reserve

Generally speaking, NGOs' LSG Reserves are generated from staff turnover, service streamlining and re-engineering, organisation restructuring and successful bidding of new services, etc., but the situation varies from NGO to NGO. Hence, an individual NGO's LSG Reserve level needs to be looked at with reference to its overall financial position and service structure. It would be misleading to consider only the level of LSG Reserve as an indicator of the financial situation of an NGO. A more useful benchmark for the sector as a whole would be the cumulative reserve of all the NGOs on LSG which stood at about \$2.2 billion as at 31 March 2008. A breakdown by the Reserve banding is attached.

The Social Welfare Department (SWD), through financial monitoring, will ensure that their LSG, including the Reserves, is only spent on designated services and activities.

Also, to let NGOs on LSG cumulate sufficient resources to achieve financial viability in the long run, SWD did not claw back their Reserves in respect of the 2004-05 to 2006-07 financial years even though the amount might have exceeded the normal cap of 25%.

(b) a breakdown of NGOs staff on time-limited employment contracts by organizations and duration of contracts

and

(c) a comparison of the remuneration packages for NGO staff in different ranks (e.g. senior executives, frontline and clerical staff) in the past eight years i.e. since the introduction of LSG subvention system

SWD does not have this information. Since the implementation of the Lump Sum Grant Subvention System (LSGSS) on 1 January 2001, the salary structures of staff in NGOs subvented under the LSGSS have been separated from the civil service pay system. NGOs have flexibility in determining their own staffing structures and staff remuneration, and are not required to report to SWD the personal particulars of their contract staff or their remuneration packages.

- (d) formula for determining the funding provision for new services allocated to NGOs through competitive bidding, in particular the basis for calculating the personnel emolument subventions; a breakdown of staff engaged in these new services by their levels of remuneration**

At present, most of the new welfare services and projects are allocated to NGOs through "invitation of proposals". As funding is fixed, interested NGOs compete mainly on the basis of service quality. The funding provision varies from service to service and there is no one single formula that fits all services. As SWD's control centres on service output and quality, it does not have any record on the number of NGO staff engaged in the services and their levels of remuneration.

In its report on the LSGSS, the LSG Independent Review Committee proposed that "for the sake of transparency, the SWD should be prepared to explain, at the request of individual NGOs, the basis of their LSG calculations." (Recommendation 14) The Administration accepts this recommendation.

- (e) the proposal put forward by the welfare sector to pool resources among NGOs under which individual NGOs which do not have adequate resources to meet the contractual commitments can make use of the pool for the purpose**

Personal emoluments on average represent about 80% of an NGO's welfare expenditure. Setting the provision aside in a "central pool" for NGOs to share, as proposed by some members of the welfare sector, will not allow sufficient room for individual NGOs to flexibly deploy their resources to meet service needs.

Moreover, many NGOs have carried out organisation restructuring and service reengineering so as to develop their own human resource and financial management policies that best suit their special circumstances and service needs. It is neither feasible nor appropriate for these NGOs to undo these efforts for the sake of pooling resources.

- (f) the proposal of establishing a mechanism to monitor the proper use of subventions solely for subvented services**

Since the introduction of the LSGSS in 2001, SWD has been monitoring NGOs' service performance and financial accounts to ensure that government's welfare subventions are only spent on recognised services.

SWD monitors NGOs' service performance through the Service Performance Monitoring System, with reference to the Funding and Service Agreements (FSA) they sign with SWD. The FSA defines the subvented services to be provided by each service unit and the required performance standards in terms of quality, quantity as well as essential service requirements. While SWD visits the service units regularly to review their performances, the governing

boards of the NGOs are also accountable for the use of public money and the cost effectiveness of their subvented services.

For financial monitoring purposes, NGOs are required to file with SWD an Annual Financial Report (AFR) on their use of LSG, together with the auditor's independent review report on the AFR and the NGO's overall audited financial statement. Moreover, SWD will conduct regular inspections at NGOs' service units to ensure that the NGOs' financial management is sound and that they comply with the accounting and reporting requirements set out in the LSG Manual.

If an NGO has charged the expenses of non-subvented programmes/ activities to its LSG, SWD will require it to rectify the situation using its own resources. If the NGO fails to exercise proper internal control to ensure that only subvented programmes/activities are charged to the LSG, SWD may withhold or even terminate its subventions.

- (g) the proposal of putting in place a framework for NGOs to adopt the Best Practice Manual, such as taking into account whether individual NGOs have followed the guidelines set out in the Best Practice Manual in determining their subventions**

and

- (h) responses to the 36 recommendations in the Review Report on the Lump Sum Grant Subvention System, together with concrete action plans to implement the recommendations; the Administration's assessment in respect of the implementation of the LSG subvention system**

The Administration will take forward all the 36 recommendations of the Review Report and has provided the detailed response at the meeting of the Welfare Services Panel on 9 February 2009.

Labour and Welfare Bureau
Social Welfare Department
February 2009

**Lump Sum Grant (LSG) Reserve Position of NGOs
as at 31.3.2008**

LSG Reserve as a % of Operating Expenditure	No. of NGOs
Over 40%	49
35% to less than 40%	8
30% to less than 35%	19
25% to less than 30%	12
20% to less than 25%	15
15% to less than 20%	15
10% to less than 15%	7
5% to less than 10%	5
Less than 5%	34
Total	164

LSG Reserve as a % of Operating Expenditure	No. of NGOs
25% and Above	88
Below 25%	76
Total	164