

**For discussion
on 9 February 2009**

LC Paper No. CB(2)765/08-09(03)

**Panel on Welfare Services of the Legislative Council
Review Report on the Lump Sum Grant Subvention System**

Purpose

The Lump Sum Grant Independent Review Committee (IRC), appointed by the Secretary for Labour and Welfare to assess the overall effectiveness of the Lump Sum Grant Subvention System (LSGSS) and identify areas for improvement, has completed its task and delivered a report on its findings and recommendations. This paper sets out the Administration's response to the report and its recommendations.

The review and the IRC's overall assessment

2. We are grateful to the IRC for having devoted considerable time and efforts to this review and for their critical assessment of the LSGSS. We appreciate in particular that it has conducted the review in a comprehensive, open and transparent manner, and has proactively engaged all the stakeholders throughout the process.

3. We are pleased to note that, following such a thorough study, the IRC has come to the conclusion that "*the principles of the LSGSS are sound*" and that "*the system is worth retaining, and every effort should be made to improve it*" (s.2.16 of IRC report). This is consistent with the Administration's own assessment, and we believe is a view shared by the majority of stakeholders. We agree with the IRC that the LSGSS can be improved and accept in principle all its 36 recommendations. We shall now take them forward in concert with the welfare sector and seek funding approval as necessary, with a view to introducing most of the new initiatives by the end of 2009.

Recommendations in relation to Staffing Arrangements

Overview

4. As the IRC rightly pointed out, the LSGSS focuses on output rather than input control, and non-governmental organisations (NGOs) are given the flexibility to determine their own staffing structures and remuneration levels. The autonomy in human resource management is meant to help NGOs respond to changing service needs more effectively, and is fundamental to the LSGSS.

5. Given that the pay scales of NGO staff have been delinked from those of the civil service and many NGOs have developed their own pay policies, conventional concepts such as “the civil service Master Pay Scale (MPS)” or “the corresponding civil service rank/pay” have little relevance now. Actual staff management, such as setting appropriate staffing structures, pay policies and remuneration levels, must be a matter for the individual NGOs under the LSGSS. **We also agree with the IRC that fairness and good management practices on the part of the NGOs are important.** Indeed, we observe that many concerns expressed by staff under the LSGSS, such as those relating to salary levels, salary adjustment, contract management, etc. are essentially employment issues. While much effort has been made to help NGOs improve their management and corporate governance since the implementation of the LSGSS, **we see merit in developing a Best Practice Manual for NGOs.**

6. We also appreciate that NGO staff has a strong demand for professional development and NGOs will also benefit from capacity enhancement initiatives.

Specific Recommendations

7. Our response to the IRC’s specific recommendations in relation to staffing arrangements is as follows -

Recommendation 1 *A Best Practice Manual for NGOs on various management issues such as human resource policies should be developed by the welfare sector; with professional input from management experts if necessary.*

Agreed. **As recommended by the IRC (Chapter 4 of IRC report), the Lump Sum Grant Steering Committee (LSGSC) will work with the sector in drawing up the manual.**

Recommendation 2 *The Government should make available an actuarial service for NGOs to assess their ability to meet Snapshot Staff commitments. Application for this service should be on a voluntary basis.*

Agreed. **The Social Welfare Department (SWD) will arrange actuarial services for interested NGOs for this purpose.**

Recommendation 3 *As a good management practice for NGOs, the additional funding provided in line with civil service salary adjustments should be spent solely on staff in subvented services.*

Agree that the issue should be considered as a good management practice and be addressed in the Best Practice Manual to be developed for the welfare sector. SWD has conveyed the message to NGOs to encourage them to spend the supplementary provision for salary adjustment on staff in subvented service. However, whether NGOs will spend the amount solely on staff will be a management decision according to their human resource

policy. This is in line with the arrangement for other subvented organisations funded under a similar subvention mode.

Recommendation 4 *In budgeting for non-subvented services, NGOs need to factor in pay adjustments, so that they may be in a better position to meet staff expectations when subvented services receive additional funds for pay adjustments.*

Agreed. As a matter of principle, public funds cannot be used to subsidise non-subvented activities. It is therefore important that NGOs factor in price adjustments and contingencies when budgeting for non-subvented services.

Recommendation 5 *The SWD should collect data on staff turnover and wastage rates for the purpose of monitoring the sector's overall manpower position. The Government should invite the Advisory Committee on Social Work Training and Manpower Planning (ACSWTMP) to monitor closely the manpower supply in the welfare sector, so as to ensure a stable supply of professional staff.*

Agreed. The ACSWTMP has been closely monitoring the manpower situation in the welfare sector. Training institutions have direct access to such information for programme development purposes through their representation at the Committee, and annual reports on social work manpower supply and demand are published for public reference. In view of concerns about the turnover and wastage rates of social workers,

the ACSWTMP has set up a Working Group to look into the matter.

Recommendation 6 *The Government should set up a \$1 billion Social Welfare Development Fund to support training and capacity enhancement initiatives. Grants should be allocated to NGOs on lump sum grant (LSG) based on the merit of their applications.*

Agreed in principle. We are exploring possible sources of funding, having regard to the Government's overall funding priorities. The SWD will draw up detailed application procedures and funding criteria in consultation with the sector in due course.

Recommendations in relation to Financial Issues and Interactions between the Government and NGOs

Overview

8. **We agree with the IRC that if funding level is a matter of concern, it should be addressed by a critical assessment of current and future service needs.**

9. The IRC has recommended that such an assessment be done through systematic service reviews. We appreciate the need for such reviews and indeed have reviewed and increased the subvention to NGOs for various purposes over the years to cater for changing needs. However, we need to point out that meaningful reviews cannot be conducted without due regard to the availability of resources and the Government's policy and funding priorities. Within these parameters, the Government has increased the total LSG subvention to welfare NGOs from \$5.9 billion in 2001-02 to about \$8 billion in 2008-09, i.e. a 36% increase. Given that the LSGSS has provided the necessary conditions and incentives for re-engineering, there should be a greater scope for meeting service needs

through redeployment of existing resources, both within individual NGOs and across the sector. In this connection, **we would agree with the IRC that NGOs with reserves in excess of contractual commitments should consider gainfully deploying them for staff development and service enhancement.**

10. Whether in service planning, delivery or review, the SWD has always looked upon NGOs as its partners. Under the LSGSS, NGOs assumes a more proactive role in service provision – they have greater autonomy in resource management and take the initiative to draw up service proposals. It is in the interest of the SWD to secure their partnership, so that objectives can be aligned from the start and outcomes can be achieved in a more effective manner. To this end, **we accept in principle the IRC’s recommendations which aim at improving the communication between the SWD and the NGOs.**

Specific Recommendations

Recommendation 7 *In view of the changing service needs, the Government should institute a review mechanism whereby appropriate advisory bodies such as the Social Welfare Advisory Committee (SWAC), Elderly Commission, Rehabilitation Advisory Committee, etc. may oversee the systematic review of welfare services and ensure that stakeholders’ views are taken into account in the review process.*

We agree that reviews of service needs provide a rational basis for assessing funding requirements and that stakeholders’ views should be taken into account. This is related to the macro study by SWAC on welfare planning in the long term, which is on-going. Meanwhile, reviews have been / are being carried out in respect of specific services in the

light of changing circumstances. Such reviews will continue to be done in future. However, in conducting the reviews, we must have regard to resource constraints and the possibility of redeploying existing resources for service enhancement or service transformation.

Recommendation 8 *In exceptional and justifiable cases, SWD should allow NGOs to advance Other Charges subventions.*

Agreed. NGOs are expected to make use of their reserves to meet contingency and cashflow requirements in the first instance.

Recommendation 9 *In managing their reserves, NGOs should take into account their Snapshot Staff commitments, as well as the need for service enhancement and staff development.*

Agreed.

Recommendation 10 *The SWD should establish a mechanism whereby NGOs which anticipate financial difficulties can alert the SWD in advance, so that remedial measures can be taken as appropriate before the NGOs concerned exhaust their reserves.*

Agreed. NGOs have the primary responsibility to manage their resources and ensure financial viability, but SWD stands ready to assist them so as to ensure that service provision will not be adversely affected.

Recommendation 11 NGOs should fully deploy the Provident Fund (PF) provisions and reserves for non-Snapshot Staff on PF contributions, including possibly special contributions to award non-Snapshot Staff for their good performance.

Agreed.

Recommendation 12 Recognising NGOs' achievements in enhancing efficiency and productivity under the Enhanced Productivity Programme/ Efficiency Savings, it is recommended that the need for additional funding should only be justified by a systematic review of service needs.

Agreed. As mentioned above, in conducting the reviews, one must have regard to resource constraints and should also consider redeployment of existing resources.

Recommendation 13 The LSGSC should be reconstituted to strengthen its role and composition, so that it can lead the sector in the continuous development of the LSGSS.

Agreed. The LSGSC will be reconstituted to include more independent members who are not members of the NGO management or NGO staff. The implementation of this initiative will be considered in conjunction with the establishment of an Independent Complaints Handling Committee (IHC) as proposed by the IRC (Recommendation 33).

Recommendation 14 For the sake of transparency, the SWD should be prepared to explain, at the request of individual

NGOs, the basis of their LSG calculations.

Agreed. As pointed out in the Review Report, NGOs under the LSGSS have the primary responsibility to work out their own resource allocation plans, and need not rely on SWD's LSG calculations. Nevertheless, for the sake of transparency, SWD is ready to supply the breakdown of the LSG calculation to NGOs on a case-by-case basis if they make such requests.

Recommendation 15 *The SWD should revise the LSG Manual in consultation with stakeholders, update it regularly, and announce changes on the SWD's website in the first instance. NGOs should also be notified instantaneously by email.*

Agreed. This will be one of the tasks to be carried out by the reconstituted LSGSC.

Recommendation 16 *The SWD should rationalise the Agency Officer system with a team of officers who are familiar with the rules and operations of the Subventions, Finance and Service Branches and can provide prompt advice to NGOs on all LSG-related issues. The resources thus released may be redeployed to step up existing work such as quality inspections or implement new initiatives.*

Agreed. The Agency Officer system will be rationalised and the Agency Officers will be SWD's first contact point to provide prompt advice to NGOs on LSG-related issues.

Recommendations in relation to Flexibility, Efficiency and Cost-effectiveness

Overview

11. In administering subvention, the primary responsibility of the Government authority is to ensure that public money is used for its intended purposes and expenditures are properly accounted for. These principles are not to be compromised even if the subvented bodies may enjoy considerable flexibility in the management of resources. That said, what auditing procedures and financial reporting requirements would best serve the purpose depends on the design of the subvention system. In the case of the LSGSS, these procedures and requirements should reflect the system's emphasis on service outcome, and should be commensurate with the level of control that the Government intends to exercise. **We note the IRC's comments on the existing audit procedures and financial reporting requirements under the LSGSS.** The SWD is also aware of NGOs' concerns and has already commissioned a consultancy study to identify areas for improvement.

12. The IRC has also looked into the bidding process through which new services are allocated, as well as the Business Improvement Project (BIP) Scheme. Both seek to enhance the NGOs' efficiency and cost-effectiveness in service provision. **We are receptive to suggestions that are in line with this objective, including special measures to help small NGOs overcome their limitations and maximise their service contributions.**

Specific Recommendations

Recommendation 17 *SWD should conduct a thorough review of its audit procedures to ensure that they are effective in monitoring the use of public funds and do not compromise NGOs' flexibility under the LSGSS.*

Agreed. The SWD has commissioned,

through the Efficiency Unit, a consultancy study for this purpose. The consultant is expected to submit its recommendations in the first quarter of 2009.

Recommendation 18 To avoid misunderstanding, NGOs should consult the SWD in a timely manner as to what constitute “Funding and Service Agreement (FSA)-related” activities before conducting such activities.

Agreed.

Recommendation 19 The SWD should streamline its financial reporting requirements, including dropping the requirement for NGOs to provide analyses of incomes and expenditures by programme area and by FSA.

and

Recommendation 20 The SWD should review the deadline for NGOs to submit their Annual Financial Reports (AFRs), taking into account the practicability of the requirement.

Agreed. The submission deadline will be postponed from July to October.

Recommendation 21 The SWD should set up a help desk to provide management advice to small NGOs and to facilitate their collaborative efforts. To help small NGOs develop, the SWD should also make available additional resources for them to strengthen their administrative and professional support. Small NGOs may apply for grants up to \$300,000 (or 10% of its LSG, whichever is lower) each year for a total of four years.

Agreed. SWD will set up a help desk to provide management advice to small NGOs and facilitate their collaborative efforts. We are also identifying resources for small NGOs to strengthen their administrative and professional support.

Recommendation 22

The definition of “small NGOs” should be standardised so that the assistance to them can be more targeted and effective. For this purpose, small NGOs should more appropriately be defined as NGOs with an annual LSG of less than \$5 million and an annual expenditure below \$10 million.

Agreed. SWD has no objection to adopting the proposed definition of small NGOs for all purposes relating to the LSGSS.

Recommendation 23

Small NGOs may consider submitting joint proposals to enhance their competitiveness in the bidding of new services. While NGOs participating in such joint ventures have to identify a representative to sign the FSA and liaise with the SWD, the NGOs should also enter into an agreement among themselves to set out clearly their individual contributions and shared responsibilities.

We welcome joint proposals from NGOs. SWD will liaise with the NGOs’ representative on the FSA. We defer to the NGOs concerned to consider entering into an agreement among themselves.

Recommendation 24

In inviting bids for new services, the SWD should

make known to prospective bidders the relative weighting of the various aspects of a proposal in the marking scheme.

Agreed. The pilot measure to provide an abridged version of the marking scheme in inviting service proposals can become a standard practice.

Recommendation 25 NGOs should carefully consider their resource implications before preparing service proposals. NGOs should also take into account the views of their staff and share with them the considerations in submitting service proposals.

Agreed.

Recommendation 26 The SWD should look into the possibility of simplifying the process for the allocation of new services, such as introducing a two-stage tendering process, so that resources can be saved both in the preparation of service proposals and in the vetting of the proposals.

Agreed. SWD is already adopting various measures to save NGOs' time and efforts in preparing new service proposals, for example, extending invitations to those NGOs with related service experiences, limiting the length of service proposals and organising briefings for eligible NGOs to enhance their understanding of the new service before submission of proposals. SWD will continue to explore other facilitating measures, including the two-stage tendering process proposed by the IRC.

Recommendation 27 *As per Recommendation (6), a new Social Welfare Development Fund should be established and should take over the function of the BIP Scheme. It is for the SWD to consider whether NGOs should still be required to contribute at the present or at a lower level to the projects supported by the new fund.*

As mentioned above, we agree in principle to set up a new Social Welfare Development Fund, subject to funding approval. The SWD will draw up detailed application procedures and funding criteria in consultation with the sector.

Recommendations in relation to Accountability and Corporate Governance of Subvented NGOs

Overview

13. The IRC sees corporate governance, over and above statutory requirements and the essential financial and service controls currently imposed by the SWD, as matters for the NGOs concerned. It therefore looks to **the sector to consider what constitute best practices. We agree this is the preferred option.** Hitherto the Administration has been performing the role of a facilitator : highlighting the importance of good corporate governance in the LSG Manual, strengthening NGOs' management capacity through seminars and publications, and promoting good practices through the Hong Kong Council of Social Service. We shall continue to play this role, and in a more focused manner through helping the sector develop a Best Practice Manual and setting up a Social Welfare Development Fund to support NGOs' capacity building initiatives.

14. As regards the public accountability framework for NGOs envisaged in the LSG Manual, we consider that by subjecting NGOs' service provision to public scrutiny and providing various channels for

service users to provide feedback, NGOs are to a certain extent held accountable for the proper use of public funds. The IRC, however, considers that public accountability requires disclosure of NGOs' AFRs, which means that NGOs' resource management decisions as reflected in the AFRs (how resources are allocated among staff remuneration, reserves and other expenses, for instance) will also be subject to public scrutiny. While we see merit in enhancing NGOs' public accountability, the full disclosure of NGOs' AFRs, as well as regular review of the remuneration of senior staff in NGOs, are major moves affecting the NGO management. **We shall consult the sector on how best these recommendations may be taken forward.**

Specific Recommendations

Recommendation 28 *A formal public accountability framework should be in place for NGOs to disclose their AFRs as submitted to the SWD, so that they will also be accountable to the public for the proper and prudent use of public funds.*

and

Recommendation 29 *The SWD should fully consult the NGOs with a view to implementing the Government guidelines on the monitoring of remunerations of senior executives in subvented bodies.*

Agreed in principle. We shall consult the sector through the LSGSC on how best these recommendations may be taken forward.

Recommendations in relation to the Quality of Welfare Services

Overview

15. In terms of quality assurance, the LSGSS should have an

inherent advantage over previous subvention systems, because it focuses on output and outcome control instead of input control. In other words, it regulates services primarily at the receiving end and from the users' point of view. The Service Performance Monitoring System (SPMS) introduced shortly before the LSGSS and refined thereafter supports this model.

16. Statistics and complaints figures have not suggested a deterioration of service quality under the LSGSS. The IRC acknowledges this fact, but remains doubtful as to whether the existing quality assurance mechanism, which puts the onus on NGOs to evaluate their own performance and propose improvement, provides sufficient checks and balances. We believe such a mechanism is consistent with the principle of the LSGSS which requires NGOs to play a more active role in managing their own affairs. **As NGOs have to manage their resources, they should also be responsible for managing their own performance.** This is part of corporate governance – a basic requirement of NGOs under the LSGSS as well as a strength that should be developed.

17. A good quality assurance mechanism does not aim at mending wrongs only, but should seek to assure quality at source. This is the rationale for our promoting self-regulation under the SPMS. To provide an objective basis for NGOs to evaluate the quality of their services, there are clearly defined Service Quality Standards and service requirements, as well as users' feedback and a complaints handling mechanism. The SWD basically reinforces NGO's efforts by monitoring their performance assessments and conducting regular on-site inspections. If NGOs duly perform their managerial functions and service quality is not a cause of concern, the supervision required of the SWD does not have to be intensive. The need for more frequent service inspections and surprise visits, as recommended by the IRC, should be seen in this light.

18. The IRC takes a macro view of service quality, i.e. how effectively welfare services address social needs, and looks upon welfare planning as a major factor contributing to service enhancement. Welfare planning is a subject that SWAC is looking into.

Specific Recommendations

Recommendation 30 *The SWD should conduct more frequent service performance inspections and surprise visits, and systematically collect service users' feedback.*

In the spirit of the LSGSS, the current quality assurance mechanism encourages NGOs to manage their own performance and assure quality at source. The SWD will step up service inspections and surprise visits if necessary.

Recommendation 31 *The Government, having regard to SWAC's recommendations, should work more closely in partnership with the sector to establish a practicable and sustainable mechanism for implementing a visionary welfare plan for Hong Kong.*

SWAC is undertaking a study on welfare planning and intends to fully consult the sector before making recommendations to the Administration.

Recommendations in relation to the Handling of Complaints

Overview

19. Based on the principle of the SPMS, the IRC recommends a total approach in handling complaints under the LSGSS, with the NGO assuming primary responsibility for complaints against it, and the proposed ICHC to review cases which cannot be satisfactorily resolved at the NGO level. **We agree that this approach strikes an appropriate balance between promoting self-regulation and ensuring public accountability.**

We also see merit in establishing an independent body to take over the complaints handling function of the LSGSC, so that the latter can focus on systemic and developmental issues.

Specific Recommendations

Recommendation 32 *Complaints made by service users and staff against subvented NGOs or their service units should be handled, in the first instance, by the NGOs concerned according to their established policy. How their management and governing boards should better perform their respective roles in this regard should be addressed in the sector's Best Practice Manual.*

Agreed.

Recommendation 33 *An ICHC should be set up to determine on LSG-related complaints that cannot be satisfactorily addressed at the NGO level and recommend improvements to the LSGSS. The Director of Social Welfare should be informed of the ICHC's decisions and recommendations, and should take follow up actions as appropriate.*

Agreed.

Recommendation 34 *For anonymous complaints, where the SWD does not require any feedback from, or investigation by, the NGO, it should make that clear to the NGO to avoid unnecessary work.*

Agreed.

Recommendations on Related Issues

Overview

20. We appreciate that the IRC has taken the initiative to examine issues which are not directly related to the implementation of the LSGSS but are considered important to the subvented welfare sector. **The comments on LF are helpful, and while we are prepared to streamline procedures, some basic controls, such as those in relation to the budget and technical aspects of major projects, have to be in place to ensure safety and proper use of public money.** NGOs may help expedite the vetting process by providing the required documentation in a timely manner.

21. The IRC has also proposed short-term financial assistance to NGOs affected by the shortage of paramedical staff. **We accept that additional funding can be provided to NGOs on LSG to cater for justified and exceptional service needs, even though such needs do not arise from the implementation of the LSGSS.**

Specific Recommendations

Recommendation 35 *The SWD should review the LF vetting procedures and funding rules, and consider, inter alia, the following improvements, so as to make better use of the LF –*

- (a) increase the agency cap of the Block Grant to 1.5%;*
- (b) for F&E items, lower the threshold for major grant applications to \$50,000;*
- (c) where a project is carried out under the supervision of Authorised Persons (APs) or consultants, the Government should consider placing more reliance on their professional certification to expedite the vetting process;*

and

(d) where a project is proposed to be named after a donor, the SWD may maintain the requirement that the donor makes a contribution of at least 20% of the project cost, but of which only an amount equal to 10% of the project cost will be used to offset the LF grant, while the NGO concerned may use the remainder to upgrade the project.

(a), (b) and (d) agreed in principle, and we will consult the LF Advisory Committee. As regards (c), we will consider how to get the most out of APs' professional input. However, this cannot compromise the vetting procedures which are essential for safeguarding public interests.

Recommendation 36 The SWD should, in response to the labour market situation, provide additional resources for three years to welfare NGOs which need to employ paramedical staff or hire their services, so that they may offer more competitive salaries to recruit and retain these staff.

Agreed. We will assess the amount required and seek necessary funding.

Way Forward

22. Apart from the last two on “Related Issues”, all the recommendations made by the IRC seek to support the implementation of the LSGSS. Stakeholders' concerns are meticulously addressed, but more importantly, many recommendations aim at enhancing their capacity as key players of the system. The proposals to draw up a Best Practice Manual, set up a Social Welfare Development Fund, and provide a help

desk for small NGOs, for instance, are all measures enabling stakeholders to contribute better to the system in the long run. As one of the stakeholders, the Government fully endorses this progressive view.

23. We also accept the IRC's advice that the 36 recommendations are not isolated remedies, but parts of a total solution, unified by the guiding principles of Partnership, Flexibility, Adequate Monitoring, Accountability, Communication, and a Mindset for Change. They are therefore considered and agreed in principle as a package. Actual implementation will be subject to further deliberations.

24. We plan to take forward the recommendations as and when ready, and will keep Members in the picture. We hope most recommendations will take effect by the end of 2009. However, some will require much consultation and deliberation, such as SWAC's welfare planning study, drawing up a Best Practice Manual and revising the LSG Manual. They will take longer to implement.

Advice sought

25. Members are invited to note the Administration's response to the IRC report. Views are welcome.

Labour and Welfare Bureau
Social Welfare Department
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