



(Translation)

9 April 2009

Hon Albert Chan
Chairman to Panel
Panel on Welfare Services
Legislative Council Building
8 Jackson Road, Central
Hong Kong

Dear Hon Chan,

Panel on Welfare Services

**Supplementary Subvention to
Subvented Non-governmental Organisations
for the 2008-09 Salary Adjustment**

Thank you for your letter of 18 March 2009 to the Financial Secretary. The Financial Secretary has asked me to reply on his behalf.

The Administration has the responsibility of ensuring the proper use of public money. For resources allocated to the subvented non-governmental organisations (NGOs) under its purview, the Social Welfare Department (SWD) has already established a well-defined financial monitoring mechanism for ensuring that the subventions are only spent on activities within a specified scope. Subvented NGOs are required to put in place adequate internal controls to ensure sound and prudent financial management. Each NGO must also commission a Certified Public Accountant or Public Accountant as the external auditor to conduct an independent review on its Annual Financial Report. Such a review should be performed in accordance with the Practice Note issued by the Hong Kong Institute of Certified Public Accountants. SWD staff also conduct subvention inspections in subvented NGOs on a regular basis. All

these are measures taken by the Director of Social Welfare (DSW) to fulfil his statutory responsibilities as the Controlling Officer of the Government's General Revenue Account Head 170 Social Welfare Department in monitoring the proper use of public funds, pursuant to the Public Finance Ordinance (Cap.2).

It is Government's policy that the Lump Sum Grant Subvention System (LSGSS) should emphasize output rather than input control, subject to the financial monitoring mechanism outlined above. Accordingly, NGOs under the LSGSS have the flexibility in deploying their Lump Sum Grant (LSG) for meeting staff and other operating expenses within the confines of the Funding and Service Agreements (FSAs) they sign with DSW. So long as the changes are made within the FSA framework, the NGO management may transfer funds from one cost item to another, e.g. from other charges to salaries and vice versa, and from one cost centre to another. The LSG Manual which sets out, inter alia, "the respective roles and responsibilities and accountability of SWD and NGOs for the use of public funds" stipulates the LSG adjustment mechanism. More specifically, it provides that the LSG will be adjusted annually in line with the civil service pay adjustment. As the Legal Service Division of the Legislative Council Secretariat observed (re. paragraph 2 of LC Paper No.LS42/08-09), "the supplementary provision for annual pay adjustment is part of the LSG". NGOs should therefore have the flexibility in deploying the additional subventions in the same way as they may deploy the rest of their LSG.

The above arrangements are in line with the Administration's position as stated in the paper submitted to the Finance Committee of the Legislative Council (FC) when the Administration sought approval for the 2008-09 Civil Service Pay Adjustment. The paper (FC Paper FCR(2008-09) 37) says that:

"for the non-school subvented sector, the Government is generally not involved in the determination of the pay or pay adjustment of staff working in subvented organisations. The pay and pay adjustment for these staff is a matter between them as employees and their employers which are

the organisations that employ them. That said, it has been the established practice that following a civil service pay adjustment, the Government would make corresponding variations to the annual subventions for those organisations with funding price-adjusted on the basis of formulae including a factor of civil service pay adjustment ...if this proposal is approved, we will inform these organisations that the additional subventions are intended for salary increase of their staff and encourage them to use the additional funding accordingly."

As foreshadowed in this FC agenda item,, SWD informed NGOs under the LSGSS that the additional subventions were intended for salary increase of their staff and encouraged them to use the additional funding accordingly in its letter of 16 July 2008.

The LSG Independent Review Committee appointed by Government to assess the overall effectiveness of the LSGSS published its report in December 2008. It has recommended, amongst other things, that 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, and that the Lump Sum Grant Steering Committee, to be reconstituted shortly, should work with the sector in drawing up this manual. The use of additional subventions by NGOs is an issue to be addressed in that context.

Yours sincerely,



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c.c. Secretary for Labour and Welfare
Director of Social Welfare