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**Panel on Welfare Services**

**Updated background brief prepared by the Legislative Council  
Secretariat for the meeting on 12 May 2014**

**Review of the Lump Sum Grant Subvention System**

**Purpose**

This paper provides background information on the review of implementation of the Lump Sum Grant Subvention System ("LSGSS") and summarises the discussions of the Panel on Welfare Services ("the Panel") on the subject matter.

**Background**

2. In 1994, the Administration appointed consultants to review the social welfare subvention system. Against the conclusion drawn up in 1998, the recommendation for introducing a Service Performance Monitoring System received general support from the welfare sector and was implemented by three phases between 1999-2000 and 2001-2002 through the Funding and Service Agreements ("FSA") and Service Quality Standards with the joint efforts of the Social Welfare Department ("SWD") and non-governmental organizations ("NGOs"). In January 2001, LSGSS was put in place.

3. Under LSGSS, the benchmark for each NGO would be determined on the basis of mid-point salaries of the pay scales of its recognized establishment as at 1 April 2000, plus the sector-wide average Provident Fund ("PF") employer's contribution of 6.8%. Besides, a snapshot of staff strength of each NGO as at 1 April 2000 and its Personal Emolument ("PE") subvention for 2000-2001 under the existing subvention mode would be taken and projected. To address the welfare sector's concern that the Lump Sum Grant ("LSG") might not provide sufficient funds to meet their contractual commitments to the existing staff, the Administration introduced a Tide-Over Grant Scheme from 2001-2002

to 2005-2006, followed by the provision of a Special One-off Grant ("SOG") in 2006-2007 to cater for NGOs' need for financial assistance.

4. Since August 2007, the Director of Social Welfare had re-convened the LSG Steering Committee ("LSGSC") to further enhance LSGSS and assist NGOs in its implementation. As proposed by LSGSC, the Administration had launched several interim facilitating measures to further ease the financial difficulties faced by NGOs. In January 2008, the Administration established the LSG Independent Review Committee ("LSGIRC") which comprised a non-official chairman and four members with different backgrounds to assess the overall effectiveness of LSGSS and identify areas for improvement. In December 2008, in consultation with the stakeholders, frontline staff and service users of the welfare sector, LSGIRC submitted to the Administration its Report on the review of LSGSS ("Review Report"), with 36 recommendations on ways to improve the system.

## **Deliberations of the Panel**

### Effectiveness of implementation of LSGSS and LSGIRC's recommendations

5. Members shared the concern of the welfare sector that there were inadequate resources to resolve the problems of high staff turnover rates, low salaries and increasing administrative work of NGO staff, which had adversely affected the service standards. They enquired if the Administration had revised the recurrent subvention baseline allocation for NGOs since the inception of LSGSS in 2000 to address the problems. The Administration advised that, whilst no substantial revision had been made to the baseline allocation, it had been providing additional resources for NGOs through different channels. For instance, the provision of SOG to NGOs had enabled the NGO management to make necessary adjustments to meet their financial and/or staff commitments. This apart, the Administration had implemented interim facilitating measures to ease the financial difficulties faced by NGOs. In addition, the establishment of Social Welfare Development Fund ("SWDF") would cover the costs of workers to relieve staff who went on training, and thereby support training and enhance skills of frontline social workers as well as enhance the service delivery. Moreover, \$278 million and \$344 million had been sought from the Lotteries Fund for NGOs to employ paramedical staff or hire their services for the periods from 2009-2010 to 2011-2012 and 2012-2013 to 2014-2015 respectively.

6. At the Panel meeting on 9 February 2009, members were advised that the Administration accepted in principle all the 36 LSGIRC's recommendations. The Panel passed a motion urging the Administration to address expeditiously

the problems arising from the implementation of LSGSS, implement concrete measures to resolve the problems in the social welfare sector such as unequal pay for equal work, chaotic staffing establishment and low staff morale, and enhance monitoring of the operation of all subvented services. The Administration was requested to report progress to the Panel regularly.

7. Regarding the implementation of the LSGIRC's recommendations, the Administration advised that it would follow the planned schedule: 33 out of the 36 recommendations were implemented by the end of 2009, and the remaining three in January 2010. The Administration drew members' attention to the fact that some of the recommendations, including drawing up the Best Practice Manual ("BPM") for NGOs, making available an actuarial service for NGOs and setting up a \$1 billion SWDF to support training and capacity enhancement initiatives would require a longer time span to accomplish. The Administration would work closely with LSGSC which was reconstituted in April 2009 to ensure that these recommendations were implemented in accordance with the respective objectives designated by LSGIRC.

8. Some members expressed doubt about the effectiveness of the 36 LSGIRC's recommendations in addressing the problems in the welfare sector and those arising from the implementation of LSGSS, notably the poor staff morale, high staff turnover rate, deteriorating service quality in the sector, the practice of capping staff salaries at the mid-point of the corresponding civil service pay scale and the offer of time-limited employment contracts. These members were of the view that LSGSS per se was ineffective and urged the Administration to critically overhaul the system.

9. The Administration stressed that it agreed with LSGIRC that LSGSS was worth retaining. The 36 recommendations were inter-related and could complement each other in bringing about improvements to the system. The Administration would make very effort to take forward all recommendations in the Review Report to enhance LSGSS in concert with the welfare system. For instance, SWD had increased the number of review visits and introduced surprise visits in the three-year monitoring cycle of 2009-2012 and conducted additional on-site visits for the investigation of complaints. The One-in-Ten principle was adopted for selecting NGOs for either review visit or surprise visit. Further inspections of NGOs would be conducted upon receipt of complaints.

#### Corporate governance of NGOs

10. Concern was expressed about whether the Administration would put in place any mechanism to monitor the operation of and the use of funding by subvented NGOs. Members were advised that under LSGSS, the NGO management was provided with the flexibility in terms of financial and human

resource management. Notwithstanding this, the Administration noted the concerns raised by NGO staff about the corporate governance and management of NGOs, and as recommended by LSGIRC, a BPM for NGOs covering various management issues, including human resources policies, financial accountability and corporate governance would be developed by the welfare sector, with professional input from management experts as necessary. Moreover, the establishment of SWDF would support training and professional development for NGOs including their board members and senior management. According to the Administration, the monitoring of NGOs had shifted from input control to output and outcome monitoring. In addition, subvented NGOs were required to submit annual financial reports to SWD in accordance with the relevant FSA.

11. Pointing out that BPM was the primary initiative put forward by LSGIRC to improve the corporate governance and human resource policies of NGOs, most members considered that BPM should be binding on NGOs to ensure the effectiveness of the manual, and its compliance by NGOs. The Administration advised that the compliance with BPM would be a matter for the reconstituted LSGSC to consider in the course of drawing up the manual. The Administration further advised that any NGOs deviated significantly from the guidelines as set out in BPM at the expenses of service quality would be made known to the public, thereby exerting pressure on the NGOs concerned. In addition, NGOs with a poor track record would be in a less favourable position when they submitted bids for new services.

#### Financial and staffing arrangement of NGOs

12. Members expressed grave concern about the excess reserves kept by subvented NGOs while most social workers in these NGOs were offered low paid and time-limited contracts. The Administration explained that the level of reserves kept by NGOs had all along been capped at 25% of NGOs' operating expenditure and any unused subventions above the cap would be clawed back in the following financial year. In 2010-2011, the level of reserves kept by NGOs had amounted to \$2.534 billion. In addition, NGOs should fully deploy the PF contributions and reserves for non-Snapshot Staff on PF contributions for the specific purpose.

13. Some members were concerned that some NGOs had not made corresponding salary adjustments for their staff after receiving the supplementary provision in line with civil service salary adjustments. They urged the Administration to consider imposing a clear condition on the exclusive use of the additional funding provided in line with the civil service pay adjustments for the increase of salary for NGO staff. The Administration explained that the salary structures of NGO staff had been delinked from the

civil service, therefore it was not necessary for NGOs to model on the civil service in devising the employment terms. Nonetheless, the additional funding concerned was meant for pay adjustment for subvented staff. SWD had reminded subvented NGOs in writing to use the additional funding solely on staff in subvented services, and NGOs had responded positively. SWD would also monitor through subvention inspection on whether the subvention was spent on recognized activities under the ambit of FSA.

14. To address members' concerns about excess reserves being kept by subvented NGOs and salary adjustment arrangements, the Administration reiterated that LSGSC had been working with the welfare sector to draw up a BPM for NGOs on various management issues covering human resources policies, financial accountability and corporate governance, etc. A consultancy study for the production of BPM was underway and would be completed by the end of 2012. Recommendations for BPM would be worked out for further consultation with the sector.

15. Some members also called on the Administration to consider allocating the subventions under two separate votes, i.e. PEs and other charges, in response to the major concern raised by NGO staff on remuneration package. The Administration explained that, in line with the spirit of LSGSS, subvented NGOs had flexibility in determining their own staffing structures and remuneration levels in deploying their subventions for staff expenses and other expenditure items. It was noteworthy that provisions for PEs represented a substantial portion of the total subventions.

#### Provision of actuarial services to NGOs

16. Some members sought information on the rationale for involving only one NGO in the pilot actuarial study. The Administration explained that the pilot actuarial study would be conducted on a large NGO with an annual LSG of more than \$5 million. The NGO concerned would have to share its experience of participating in the pilot study with other NGOs subvented under LSGSS before the launch of the second round actuarial study, tentatively scheduled for 2011-2012.

17. Members were concerned about how the actuarial service could help the NGO participating in the pilot study meet Snapshot Staff commitments and the response of NGOs to the invitation for the second round actuarial study. According to the Administration, the actuarial service was rolled out for NGOs to assess their ability to meet Snapshot Staff commitments on a voluntary basis. Upon completion of the pilot study in August 2011, a report which summarized the pilot exercise and other materials were made available for the welfare sector's reference. The NGO concerned received a separate report which

provided actuarial opinions and recommendations on its financial viability. In view of the positive experience of the pilot study, SWD invited the remaining NGOs to participate in the second round pilot actuarial study in October 2011. A consultant would be commissioned to commence the study by the end of 2012. Once the second round study was completed, SWD would consider the way forward on actuarial service for NGOs having regarding to the experience gained.

### **Relevant papers**

18. A list of the relevant papers on the Legislative Council website is in the **Appendix**.

Council Business Division 2  
Legislative Council Secretariat  
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## Appendix

### Relevant papers on the review of the Lump Sum Grant Subvention System

Committee	Date of meeting	Paper
Panel on Welfare Services	13 December 2004 (Item VI)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	2 June 2005 (Item II)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	11 July 2005 (Item III)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	8 November 2005 (Item II)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	30 March 2006 (Item II)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	10 July 2006 (Item III)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	11 June 2007 (Item VI)	<a href="#">Agenda</a> <a href="#">Minutes</a>
Panel on Welfare Services Panel on Health Services	25 June 2007 (Item II)	<a href="#">Agenda</a> <a href="#">Minutes</a>
Panel on Welfare Services	29 October 2007 (Item I)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	17 March 2008 (Item V)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	16 May 2008 (Item IV)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	19 December 2008 (Item I)	<a href="#">Agenda</a> <a href="#">Minutes</a>

<b>Committee</b>	<b>Date of meeting</b>	<b>Paper</b>
	12 January 2009 (Item VI)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	17 January 2009 (Item I)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	9 February 2009 (Item IV)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	14 May 2010 (Item V)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	11 June 2012 (Item IV)	<a href="#">Agenda</a> <a href="#">Minutes</a>

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