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**Panel on Welfare Services**

**Updated background brief prepared by the Legislative Council Secretariat  
for the meeting on 14 May 2018**

**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 summarizes 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 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 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. In February 2009, the Administration accepted in principle all the 36 recommendations. SWD subsequently implemented all these recommendations.

### **Deliberations of the Panel**

#### Effectiveness of implementation of the Lump Sum Grant Subvention System and recommendations of the Lump Sum Grant Independent Review Committee

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 provided on various occasions an additional one-off funding of over \$4.3 billion and an additional recurrent funding of over \$800 million including: (a) the provision of a one-off funding of \$200 million in 2008-2009 for NGOs to implement various measures to enhance human resources and financial management; (b) the provision of an additional recurrent funding of \$200 million in 2008-2009 to enhance NGOs' administrative capacity; (c) the provision of \$1 billion starting from 2010-2011 for the establishment of the Social Welfare Development Fund ("SWDF") to subsidize NGOs' staff training, system upgrade and service studies; and (d) the provision of an additional recurrent funding of around \$470 million in 2014-2015 to enhance central administrative and supervisory support, etc.

6. 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.

7. 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 had taken forward all recommendations in the Review Report to enhance LSGSS in concert with the welfare system. In addition, the Administration had received different views and suggestions from the welfare sector on LSGSS. These views and suggestions mainly concerned provision of resources and monitoring of subvented NGOs. The social welfare sector suggested that the benchmark LSG and the contribution to Mandatory Provident Fund should be reviewed and monitoring of subvented NGOs should be strengthened. Given that the number of NGO staff with long years of service had been increased, the sector was concerned that many NGOs would not have sufficient funds if the benchmark LSG remained unchanged. The Administration was studying the views submitted by NGOs.

#### Corporate governance of non-governmental organizations

8. Members noted that for implementing one of the 36 recommendations made in the Review Report mentioned in paragraph 4 above, the welfare sector had developed for NGOs a Best Practice Manual ("BPM") which consisted of two levels of guidelines. Level One guidelines were those that NGOs were expected to follow unless there were strong justifications not to do so; Level Two guidelines were those that NGOs were encouraged to adopt. All governance-related items were currently grouped under Level Two. Given that BPM aimed to improve the corporate governance and human resource policies of NGOs, most members considered that BPM should be binding on NGOs to ensure its effectiveness and compliance by NGOs. They took the view that as NGOs should be required to meet the requirements of all governance-related items in BPM, these items should not be grouped under Level Two. Some members considered that BPM was ineffective and service users' interests had been neglected as many NGOs had not met the requirements of the fundamental and important governance-related items. The Administration was requested to set a time frame for NGOs to meet the requirements.

9. The Administration advised that during the first three years of implementation of BPM, NGOs must review their policies to ensure that they complied with the requirements in BPM. Many NGOs were working hard to enhance the projection and management of LSG and PF reserves as well as the transparency of information. They were also striving to enhance staff remuneration packages and the employers' contribution rate of PF. All NGOs were reviewing the roles and terms of office of governing boards and the communication channels amongst governing boards, management, staff and service users.

10. In reply to members' concern about the handling of NGOs' non-compliance with BPM, the Administration advised that NGOs were required to submit self-assessment checklists to SWD by end of October on an annual basis to report the implementation progress of BPM. If an NGO could not meet the Level One requirements, SWD would examine the circumstances and consider measures to enable the NGO concerned to meet the requirements. If these NGO persistently failed to comply with BPM requirements, SWD would submit the case to LSGSC for discussion and follow up. The Administration would conduct sharing sessions for NGOs to share their experience and practices on the implementation of BPM. The Administration would continue to proactively maintain communication and interaction with the sector, and carefully follow up the implementation of BPM.

#### Financial and staffing arrangement of non-governmental organizations

11. 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. Under BPM, the governing boards of NGOs were required to discuss the utilization of the reserve at least once a year. Information about the utilization of the reserve in the past year and how the reserve would be used in the future should be made public. Utilization of the reserve by NGOs was one of the areas of concern of SWD and members of LSGSC would continue to discuss the matter. Under LSGSS, NGOs had the autonomy to determine the pay structure and adjustments of salary. Some NGOs had stipulated their salary-related arrangements in the terms and conditions of employment agreements/contracts. The Administration also pointed out that staff remuneration and pay policy were items which had originally been agreed by LSGSC to be included in BPM but had not yet been so included, as consensus had not yet been reached by LSGSC on whether they should be grouped under Level One or Level Two. LSGSC would continue to discuss these items with a view to incorporating them into BPM once consensus

could be reached, thereby further enhancing the transparency of NGOs.

12. Some members were concerned that some NGOs had not made corresponding salary adjustments for their staff according to Civil Service Pay Adjustment ("CSPA") after receiving the additional subvention on salary adjustment ("additional subvention"). They urged the Administration to consider requiring NGOs to use additional subvention arising from CSPA exclusively for salary adjustment for staff. The Administration explained that as the salary structures of NGO staff had been delinked from the civil service, NGOs were not required to model on the civil service in devising the employment terms. Nonetheless, the additional subvention was meant for pay adjustment for subvented staff. NGOs were reminded to use the additional subvention solely on staff in subvented services, and NGOs had responded positively. The Administration would monitor through subvention inspection on whether the subvention was spent on recognized activities under the ambit of FSA.

13. Noting that many NGOs had not yet implemented the requirement on "optimal level of LSG reserve" in BPM and some NGOs had used the reserve for paying bonus/allowance payments of a large amount to their senior management staff, some members were gravely concerned that these NGOs would not keep up their service. They worried that in order to save up for a larger sum for bonus/allowance payments, these NGOs might recruit fewer employees and reduce staff remuneration, resulting in deterioration of their service quality. Provision of bonus/allowance payments for staff of NGOs should therefore be forbidden. These members also enquired about SWD's role in monitoring NGOs' provision of bonus/allowance payments and the transparency of the usage of LSG. Some other members, however, took the view that using the additional subvention for incentive payments could motivate good performers to do even better and did not see any problem with the arrangement.

14. The Administration advised that NGOs should make salary adjustment and cash allowance arrangements according to their own human resource policies and the relevant employment contracts/agreements. The money spent on cash allowance did not necessarily come from the LSG reserve. While NGOs were required to use the LSG reserve for the intended services, they could also use it for enhancing service quality, staff training and service development. Besides, a mechanism was in place for requiring NGOs to seek the support of their governing boards or management committees on provision of cash allowance to their staff and putting the relevant discussions on record. Staff of NGOs should be duly informed of relevant arrangements. NGOs were also required to submit reports on review of remunerations to SWD in October every year. SWD would require NGOs to explain and justify any changes

regarding salary and cash allowance, if necessary. These reports had been uploaded onto SWD's website starting from March 2017.

15. Members held the view that the Administration should not allow a wanton use of LSG subvention by NGOs and should monitor the use of LSG subvention closely. According to the Administration, NGOs should gainfully deploy LSG subvention so as to meet the service standards and requirements stipulated in FSAs. NGOs were allowed to exceed FSA output targets with available resources. Some NGOs had used their LSG reserve for paying excessive bonus. Some had kept LSG reserve exceeding 25% of their operating expenditure and were required to return to the Administration the unused subvention above the 25% cap. The Administration would study how the monitoring system for LSG could be improved to address these problems and ensure effective provision of quality services by NGOs.

#### Provision of actuarial services to non-governmental organizations

16. Members were concerned about how actuarial service could help NGOs meet Snapshot Staff commitments.<sup>1</sup> 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. Actuarial studies were helpful to NGOs in drawing up financial forecasts and devising staff remuneration policies for maintaining a robust financial position. As such, LSGSC encouraged NGOs which were worried about their financial status to make use of SWDF to conduct actuarial studies. At present, 11 NGOs had engaged consultants to conduct actuarial studies and the Administration would discuss with LSGSC promotion of actuarial studies to NGOs.

#### **Latest developments**

17. Administration of LSGs by SWD was covered in Chapter 1 of the Director of Audit's Report No. 69 which was tabled at the Council meeting of 22 November 2017.<sup>2</sup> The Public Accounts Committee ("PAC") had held public hearings to examine the subject and presented a report thereon at the Council meeting of 2 May 2018.<sup>3</sup> The speech delivered by the PAC Chairman in tabling the PAC report is in **Appendix I**, highlighting the conclusions drawn

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<sup>1</sup> Snapshot Staff refers to staff on the recognized establishment of NGOs' subvented service units as at 1 April 2000.

<sup>2</sup> Details of the Chapter could be accessed from <http://www.legco.gov.hk/yr17-18/english/counmtg/papers/cm20171122-sp026-e.pdf>.

<sup>3</sup> Details of the report of the Public Accounts Committee could be accessed from [http://www.legco.gov.hk/yr17-18/english/pac/reports/69a/69a\\_rpt.pdf](http://www.legco.gov.hk/yr17-18/english/pac/reports/69a/69a_rpt.pdf).

and recommendations made by PAC on the subject. Details of the conclusions and recommendations are set out in paragraphs 95 to 97 (pages 57 to 74) of that report.

18. According to the Administration, the Secretary for Labour and Welfare has assigned SWD to set up a Task Force to conduct a review of the enhancement of LSGSS, comprising stakeholders from the Legislative Council ("LegCo"), Hong Kong Council of Social Service, Hong Kong Social Workers Association, NGOs' management, staff side, service users, committees related to LSG subvention, independent persons, the Labour and Welfare Bureau and SWD. SWD has started discussion with the welfare sector and the review is expected to be completed within two years after the scope of review is established. The Panel will be briefed on the progress made by the Task Force on mapping out the scope of review.

### **Relevant papers**

19. A list of the relevant papers on the LegCo website is in **Appendix II**.

Council Business Division 2  
Legislative Council Secretariat  
8 May 2018

**Speech by Hon Abraham SHEK Lai-him, GBS, JP  
Chairman of Public Accounts Committee  
in tabling the PAC Report No. 69A  
at the Legislative Council meeting of 2 May 2018**

President,

On behalf of the Public Accounts Committee ("the Committee"), I have the honour to table our Report No. 69A which contains our conclusions and recommendations on Chapter 1 of the Director of Audit's Report No. 69 on "Administration of lump sum grants by the Social Welfare Department ("SWD")".

2. SWD provides subventions to non-governmental organizations ("NGOs") for the provision of welfare services in Hong Kong. Starting from 2001, a lump sum grant ("LSG") subvention system was rolled out with a view to allowing NGO management autonomy and flexibility in the deployment of subvention resources. In 2016-2017, \$12.5 billion of LSG subventions was allocated to 165 NGOs.

3. The Committee wishes to affirm the indispensable role of NGOs in providing a wide range of services to meet the divergent needs of different social strata in Hong Kong. Given substantial public resources involved and the importance of NGOs' work to Hong Kong, the Committee stresses that there should be a proper and transparent accountability mechanism for SWD and the public to monitor LSG subvention from a value for money perspective.

4. In this Chapter, Audit Commission has revealed some incidents in which NGOs have not complied with the guidelines issued by SWD, including the LSG manual and the relevant financial circulars as well as the performance outcomes and standards stipulated in the Funding and Service Agreements ("FSAs") signed between NGOs and SWD. The Committee expresses grave concern and dissatisfaction about SWD's failure to effectively monitor NGOs' service delivery, and strongly urged SWD to closely monitor NGOs with persistent underperformance and devise with them appropriate follow-up measures.



5. The Committee expresses concern about the persistent LSG operating deficits incurred by some NGOs. The Committee considers that the persistent LSG deficit coupled with a depleted LSG reserve of an NGO might serve as a reminder for SWD to take a more proactive role and be alert to NGO's possible financial viability issues. SWD is urged to ensure that the provision of quality services would not be affected by NGOs' LSG deficits.

6. The Committee expresses dissatisfaction about the inadequacies of SWD and the Labour and Welfare Bureau, the policy bureau of SWD, in implementing the disclosure requirements which are aimed at enhancing NGOs' transparency and accountability to the public. In 2003, Director of Administration issued a Memorandum promulgating a set of guidelines for the control and monitoring of remuneration practices in subvented bodies. The guidelines require a subvented body to review and disclose annually in a Review Report the remunerations of its top three-tier staff unless it meets certain exemption criteria. However, SWD only implemented these requirements from 2009-2010, a delay of some six years. The Committee also expresses grave concern about SWD's lax attitude and the serious delay in seeking clarification with the Administration Wing and the Financial Services and the Treasury Bureau on the calculation of the "50% income threshold", one of the exemption criteria. SWD's calculation of the "50% income threshold" deviated from the intents of the Memorandum, which resulted in fewer NGOs required to disclose their senior staff emoluments.

7. The Committee expresses concern that some NGOs had not apportioned the head office overheads between FSA and non-FSA activities or used an inappropriate basis for apportionment. The Committee considers that while it is important for NGOs to follow guidelines on the use of LSG subventions, SWD should enhance its communication with those NGOs which have encountered genuine difficulties in the apportioning process, and offer advice to them in a timely manner, taking into account actual circumstances of individual NGOs.

8. Pointing out that people are the most valuable assets of NGOs in providing quality service, the Committee expresses grave concern and dissatisfaction about SWD's slow and inadequate actions to tackle the problem of high turnover of social work personnel in Hong Kong. SWD is strongly urged to take a more proactive lead to address the problem of staff turnover.

9. As the Administration has formed a Task Force to review the enhancement of the LSG subvention system, the Committee recommends the Task Force to take into consideration a host of issues, such as engaging different stakeholders, including frontline staff, in taking forward the review.

10. The Report has also touched upon issues relating to the governance and management of NGOs, and management of conflicts of interest by the LSG Independent Complaints Handling Committee. Details of the Committee's conclusions and recommendations are set out in the Report. Lastly, I wish to record my appreciation of the contributions made by members of the Committee. Our gratitude also goes to the witnesses who attended the hearings held by the Committee. I would also like to express our gratitude to the Director of Audit and his colleagues for their unfailing support.

## Appendix II

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

Committee	Date of meeting	Paper
Panel on Welfare Services	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>
	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> <a href="#">LC Paper No.</a> <a href="#">CB(2)885/08-09(01)</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> <a href="#">LC Paper No.</a> <a href="#">CB(2)93/10-11(01)</a>
	11 June 2012 (Item IV)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	12 May 2014 (Item IV)	<a href="#">Agenda</a> <a href="#">Minutes</a>
	11 May 2015 (Item IV)	<a href="#">Agenda</a> <a href="#">Minutes</a> <a href="#">LC Paper No.</a> <a href="#">CB(2)586/17-18(01)</a>
	11 January 2016 (Item V)	<a href="#">Agenda</a> <a href="#">Minutes</a>

Committee	Date of meeting	Paper
		<a href="#">LC Paper No. CB(2)1930/15-16(01)</a>
	13 March 2017 (Item VII)	<a href="#">Agenda</a> <a href="#">Minutes</a> <a href="#">LC Paper No. CB(2)1968/16-17(01)</a>
	12 June 2017 (Item III)	<a href="#">Agenda</a> <a href="#">Minutes</a> <a href="#">LC Paper No. CB(2)586/17-18(01)</a>
Public Accounts Committee	22 November 2017*	<a href="#">Report No. 69 of the Director of Audit on the Results of Value for Money Audits - October 2017 (Chapter 1)</a>
Panel on Welfare Services	13 November 2017 (Item VII)	<a href="#">Agenda</a> <a href="#">Minutes</a> <a href="#">LC Paper No. CB(2)609/17-18(01)</a>
Public Accounts Committee	2 May 2018*	<a href="#">Supplemental Report of the Public Accounts Committee on Report No. 69 of the Director of Audit on the Results of Value for Money Audits</a>

\* Date of tabling in Council