

**For discussion on
12 July 2021**

Legislative Council Panel on Welfare Services

**Review Report on Enhancement of
Lump Sum Grant Subvention System**

Purpose

This paper briefs members on the findings and recommendations of the review on enhancement of Lump Sum Grant Subvention System (LSGSS).

Background

2. The Government introduced LSGSS in 2001. Before that, the Social Welfare Department (SWD) allocated subvention to non-governmental organisations (NGOs) to pay the actual costs incurred in delivering recognised welfare services, and at the same time imposed stringent control on NGOs' inputs of resources, and examined each expenditure item in great detail. The stipulation of staffing structures, levels of pay, qualifications for various 'grades' and 'levels' of staff, etc. for NGOs necessitated complicated audit procedures, including vetting staff qualifications, procurement procedures and reimbursement of recognised expenses, etc. Such arrangements were heavily criticised on the ground of hefty administrative costs on both the Government and NGOs. Moreover, the funding criteria were criticised for failing to effectively ensure the provision of quality social welfare services to service users by NGOs. In contrast, LSGSS seeks to focus on the effectiveness of service delivery and hence allows NGOs better flexibility and efficiency in utilising public funds and providing quality services. LSGSS helps simplify administration work and enhance the quality of service substantively. Experience in past years has proved that LSGSS allows NGOs to keep abreast of the times through effective deployment of resources to enhance their services for those in need. In this regard, whilst complying with SWD's stipulated basic service requirements, many NGOs have made good progress to adjust or even upgrade their service standards/ levels to meet the increasing user expectations and demands.

3. The Government announced in the Policy Agenda published in October 2017 that it would discuss with the social welfare sector on how to optimise LSGSS. The Secretary for Labour and Welfare tasked SWD to set up a Task Force to conduct the review on the enhancement of LSGSS. The Task Force, chaired by the Director of Social Welfare, comprises representatives from different sectors, including Legislative Council (LegCo)

Members, and representatives from the Hong Kong Council of Social Service (HKCSS), NGOs' management, staff and service users, independents from the community and representative of the Labour and Welfare Bureau (LWB). Members of committees which have participated in LSGSS-related work were also appointed as members of the Task Force. The Task Force's Terms of Reference and membership list are at **Annex**. SWD has also engaged a consultancy firm to conduct data collection and research by means of questionnaires, focus groups and in-depth interviews with relevant stakeholders.

4. LWB and SWD briefed the LegCo Panel on Welfare Services on the progress of the review on enhancement of LSGSS in May 2018, and sought Members' advice on the scope of the review. Subsequently, the Task Force held seven sectorial consultations/focus groups. The review report has duly taken into consideration the views and comments received in the exercise.

Recommendation

5. The Task Force has completed the review and made 30 recommendations under five domains. Paragraphs 6 to 16 below summarise the guiding principles and recommendations under the five domains. The review report has been uploaded onto SWD's website (https://www.swd.gov.hk/en/index/site_ngo/page_taskforce/) for public viewing.

(1) Recommendations in relation to the quality of welfare services

6. In an ever-changing social environment, NGO management should continue to improve services through flexible deployment of resources and re-engineering of services made possible under LSGSS, so as to meet service users' needs. Under the system, SWD has formulated the LSGSS Best Practice Manual for NGOs (BPM) in collaboration with the sector to enhance and consolidate the corporate governance of governing boards and the management capabilities of NGOs, and improve the overall services. SWD also updates the Social Welfare Services Lump Sum Grant Manual (LSG Manual) from time to time to provide the necessary guidance and support to NGOs. Moreover, SWD has been increasing LSG to NGOs in a timely manner, so as to enable the NGOs to continuously enhance and strengthen the services to users.

7. The Government agrees that there is a need to develop a standing mechanism to conduct reviews on welfare services in a more systematic manner to ensure that welfare service quality and service development will keep pace with the times. In conducting service reviews, NGOs must give due regard to resource constraints and the need of redeploying existing resources. NGOs should also evaluate their own performance and

propose recommendations for improvement¹.

8. Based on the above considerations, the Task Force has made the following recommendations :

Recommendation 1	Provide a learning platform on governance and management, so as to consolidate and enhance NGOs' knowledge and capacity in governance and management required in different areas
Recommendation 2	Provide subsidy for staff training, business system upgrading, including information technology (IT) and non-IT projects, and service studies
Recommendation 3	Provide additional supervisory support for paramedical grades to facilitate relevant professional development and handle complex cases ²
Recommendation 4	Provide commercial rental subsidy to subvented service units; and increase the Block Grant under the Lotteries Fund to help NGOs meet the expenditure for replenishment/ replacement of furniture and equipment, as well as to cover the costs of minor works
Recommendation 5	Standardise the cycle of reviewing the output standards and outcome standards of a time-defined Funding and Service Agreement (FSA) at five years; and review the output standards and outcome standards of a non-time-defined FSA if there are new resources
Recommendation 6	Conduct systematic reviews on notional staffing establishment, service targets, service nature and service performance standards to keep pace with the changing needs of users of various types of social services

¹ The Director of Audit recommended in his Report No. 69 published in 2017 that SWD should set outcome indicators for all Funding and Service Agreements, and that NGOs should improve the accuracy of self-assessment on output/ outcome indicators.

² SWD has increased the recurrent provision to NGOs by \$104 million in December 2019 for the creation of about 94 positions equivalent to the ranks of senior occupational therapists and senior physiotherapists.

Recommendation 7	Specify in LSG Manual the frequency and means of internal service inspections conducted by NGOs to enhance the self-assessment mechanism for service performance; share good practices on the mechanism for internal service inspections among NGOs and formulate sector benchmarks through regular sector sharing sessions
------------------	---

(2) Recommendations in relation to the staffing establishment, subvention benchmark and human resource management

9. NGOs should regularly review their human resource management policies and, having regard to the overall financial position, put in place a remuneration policy that recognises staff’s contribution and is conducive to sustainable development, so as to attract and retain staff, especially those holding posts with recruitment difficulty³. Under LSGSS, SWD takes into account NGOs’ salary costs, salary-related allowances, Provident Fund for its staff, and recognised fee income in calculating LSG, with a view to ensuring that NGOs receive sufficient subvention to cover the required expenditure⁴. The subvention for salary costs is calculated on the basis of the notional staffing establishment set by SWD for individual service unit with reference to the mid-point salaries of the relevant posts of the civil service pay scales. It is worth noting that under LSGSS, the salary structures and pay scales of NGOs are already delinked from those of the civil service. The benchmarking against civil service pay scales is only adopted by SWD to calculate individual NGOs’ funding. It is not intended to prescribe or restrict NGOs’ pay practices. It is noted that a lot of NGOs have, in response to service needs, established ranks of staff and pay structures which are different from SWD’s estimated notional staffing establishment. Some NGOs have also categorised some professional grades into different levels taking into account their professional expertise and work complexity, etc.

10. Based on the above considerations, the Task Force has made the following recommendations :

³ In the light of some posts being left vacant for a long period of time due to recruitment difficulty as reported by NGOs, SWD has since 2014 made special arrangements to provide additional funding of two to three pay points on top of the mid-point salary of the relevant posts, such as clinical psychologist, speech therapist and occupational therapist, etc.

⁴ According to the findings of the consultancy firm, there is no data to show that SWD’s subvention amount based on benchmarking against mid-point salaries of civil service pay scales is insufficient to cover NGOs’ expenditure on salaries.

Recommendation 8	Maintain the subvention benchmark at mid-point salaries to allow NGOs to continue to exercise the flexibility to employ staff, respond to service needs swiftly and provide welfare services efficiently
Recommendation 9	Formulate different base levels of subvention for central administration according to the scales of NGOs to strengthen NGOs' capacity for central administration
Recommendation 10	NGOs should improve human resource management continuously, including the establishment of a manpower structure for staff career development, optimal use of the Holding Account and/ or Provident Fund reserves, and formulation of appropriate staff-friendly and staff wastage reduction initiatives

(3) Recommendations in relation to the financial planning

11. Effective resource management and ensuring financial stability are the basic responsibilities of NGOs. NGOs should make better use of the LSG reserve⁵ and the accumulated balance of the Holding Account for Snapshot Staff⁶ to develop effective and long-term financial plans and arrangement, so as to strike an appropriate balance between maintaining financial stability and supporting the continuous development of staff and services. In this regard, SWD has been monitoring the financial needs of NGOs closely. Apart from the provision of additional resources for new service needs and annual price adjustments, SWD reviews NGOs' financial situation from time to time, and increases resources to enhance the administrative and professional support to NGOs.

12. Based on the above considerations, the Task Force has made the following recommendations :

⁵ In 2017-18, 2018-19 and 2019-20, among the 164 subvented NGOs, 28, 34 and 33 NGOs had to return to the Government the amount of reserve exceeding the 25% cap of annual operating expenditure respectively.

⁶ "Snapshot Staff" refers to staff members who were on the recognised establishment of NGOs' subvented service units as at 1 April 2000. After the implementation of LSGSS, the terms and conditions of employment of Snapshot Staff are guaranteed provided that they remain employed by the same NGO and have not been regraded or promoted to another rank. To facilitate NGOs to honour contractual commitments to their "Snapshot Staff" while achieving financial viability, SWD withheld the claw-back of the LSG reserve exceeding the 25% cap for three years from 2004-2005 to 2006-2007. The cumulative LSG Reserve as at 31 March 2007 was kept in the Holding Account to cover the expenditure of honouring the contractual commitments to "Snapshot Staff". According to SWD, although the overall number of NGOs' Snapshot Staff has reduced from 6 959 in September 2015 to 4 738 in September 2019 (a decrease of 32%), there is no corresponding decrease in the accumulated balance of Holding Account.

Recommendation 11	Improve the management of Holding Account, and formulate utilisation plans and financial projections (including to honour the contractual commitments towards the Snapshot Staff and enhance human resource arrangements, etc.) to optimise the use of the reserve
Recommendation 12	Optimise the use of Provident Fund reserve to enhance staff morale and their sense of belonging to NGOs
Recommendation 13	Conduct annual financial projections, including examination of the accuracy and limitations of the projection for the last financial year
Recommendation 14	Regularise the scheme to subsidise NGOs to use actuarial service for financial projections to assist NGOs in striking a balance between maintaining financial stability and protecting staff's interest; and accord priority to NGOs that record a substantial reduction in the number of Snapshot Staff but no corresponding decrease in the cumulative balance of Holding Account; NGOs that have huge accumulated reserve; and NGOs that have to return to the Government the amount of reserve exceeding the cap

(4) Recommendations in relation to the relevance of utilising LSG subvention

13. In administering subvention, NGOs should give a proper account of the expenditures to the Government and the public. The criteria for defining FSA-related activities and the auditing procedures drawn up by NGOs should be commensurate with the regulatory requirement of SWD. In this regard, the Government's relevant guideline on the management of government funding for subvented organisations stipulates that NGOs should ensure that there is no cross-subsidisation of self-financing activities by the subvented programmes in money or in kind⁷. LSG Manual also stipulates that both LSG and LSG reserve are intended for operating expenditure for FSA or FSA-related activities.

14. Based on the above considerations, the Task Force has made the following recommendations :

⁷ The Director of Audit recommended in his Report No. 69 published in 2017 that SWD should have measures to help NGOs adopt an appropriate basis for apportioning overheads between FSA activities and non-FSA activities, including the apportionment of the overheads of the head office between FSA activities and non-FSA activities.

Recommendation 15	Draw up criteria for delineating FSA-related activities and the maximum proportion of LSG used for FSA-related activities
Recommendation 16	Formulate operating guidelines for FSA-related activities
Recommendation 17	Formulate guidelines on cost apportionment to set out the cost apportionment arrangements, benchmarks and examples for the use of LSG subvention
Recommendation 18	NGOs should submit to SWD annual statement on FSA-related activities held, so as to report the proportion of the expenditure for such activities against LSG for an Agreement Service Unit
Recommendation 19	NGOs should consider the criteria for consulting/ advising staff and service users on implementing FSA-related activities to enhance transparency

(5) Recommendations in relation to the accountability and corporate governance of NGOs

15. Good corporate governance enhances corporate performance and ensures proper accountability for different levels of management and staff in the interest of all stakeholders. NGOs should maintain effective communication with staff and service users by advising them of the funding sources of each welfare service, remuneration policies, career development ladders, as well as how to ensure the provision of quality and sustainable services. SWD has reminded NGOs of the importance and relevant issues of accountability and good corporate governance in LSG Manual, as well as the need to establish effective communication channels with staff and service users.

16. Based on the above considerations, the Task Force has made the following recommendations :

Recommendation 20	NGOs should disclose their annual financial reports for public scrutiny
Recommendation 21	NGOs should enhance the transparency of their governing boards and senior management by disclosing to the public the membership list and structure of governing boards, as well as the list of senior management/ executives, and update such information in a timely manner

Recommendation 22	NGOs should disclose the remuneration of their senior executives in the top three tiers in order to enhance their public accountability and promote public understanding of their financial position
Recommendation 23	NGOs should disseminate information about the use of LSG reserve and Provident Fund reserve to the public to enhance transparency
Recommendation 24	NGOs should enhance the transparency of their staff remuneration policies, including disclosing the pay structure and/ or starting salary points of their regular posts under LSG, and offer a transition period of five years for NGOs' preparation
Recommendation 25	NGOs should enhance the transparency of the establishment of their regular posts (i.e. non-temporary or non-short-term posts) under LSG
Recommendation 26	NGOs should enhance the transparency on special incidents and significant incidents which occurred in the NGOs concerned or their service units by disclosing the relevant information to the service users/ family members/ staff concerned or any other parties involved, on top of the established practice to make timely report to SWD
Recommendation 27	NGOs should consult potentially affected staff on important matters to enhance accountability to staff
Recommendation 28	NGOs should consult potentially affected service users on important matters to enhance accountability to service users
Recommendation 29	NGOs should establish regular communication channels between the governing boards/ senior management and staff/ service users, so as to collect and respond to feedback on LSG-related matters from staff and service users
Recommendation 30	NGOs should establish channels for potentially affected staff and service users to participate in the decision-making process of important matters, so as to enhance stakeholders' participation

Way Forward

17. SWD will discuss with stakeholders on how to take forward the recommendations in a systematic manner, which are expected to be introduced gradually starting from 2022-23.

Advice Sought

18. Members are invited to note and give views on the findings and recommendations of the review on enhancement of LSGSS.

Labour and Welfare Bureau
Social Welfare Department
July 2021

Task Force for Review on Enhancement of Lump Sum Grant Subvention System

Terms of Reference

1. Scope of the review on enhancement of Lump Sum Grant Subvention System (LSGSS);
2. Collation and study of data relevant to the review;
3. Areas for improvement and feasible measures for enhancement of LSGSS; and
4. Stakeholders' engagement for the review.

Membership List

Chairman

Director of Social Welfare

Member

Hon Cheung Chiu-hung, Fernando (with effect from 27.11.2017 to 30.11.2020)

Hon Leung Che-cheung, SBS, MH, JP

Hon Luk Chung-hung

Hon Shiu Ka-chun (with effect from 27.11.2017 to 30.11.2020)

Mr Chua Hoi-wai, JP

Ms Leung Pui-yiu, Irene, JP

Mr Fong Cheung-fat, JP

Mr Kwok Lit-tung, JP

Ms Yeung Yee-ching, Noel

Mr Cheung Chi-wai

Mr YIP Kin-chung (with effect from 27.11.2017 to 28.6.2018)

Ms Chung Wai-ling (with effect from 29.6.2018)

Ms Chan Yee-ching, Tammy

Mrs Lee Lau Chu-lai, Julie, JP

Mr Hui Chung-shing, Herman, SBS, MH, JP

Ms Chan Mei-lan, Anna May, MH, JP

Ms Au Chor-kwan, Ann

Professor Chan Chi-fai, Andrew, SBS, JP

Mr Eric Tong

Mr Charles Yang, BBS, JP

Deputy Secretary for Labour and Welfare (Welfare)¹, Labour and Welfare Bureau

Deputy Director (Admin), Social Welfare Department

Assistant Director (Subventions), Social Welfare Department

Secretary

Chief Social Work Officer (Subventions), Social Welfare Department