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Panel on Welfare Services

Updated background brief prepared by the Legislative Council Secretariat for the meeting on 12 July 2021

Review of the Lump Sum Grant Subvention System

Purpose

This paper provides background information and gives an account of the past discussions of Members on the review of the Lump Sum Grant Subvention System ("LSGSS").

Background

2. Before January 2001, the Social Welfare Department ("SWD") allocated subventions to non-governmental organizations ("NGOs") providing recognized welfare services to pay for the actual costs incurred in the delivery of the services ("the conventional subvention system"). In January 2001, LSGSS was rolled out as a major revamp of the provision of funding to NGOs such that NGOs would have the autonomy and flexibility in the deployment of subvention resources to meet the service needs in a more timely manner. NGOs receiving subventions under the conventional subvention system could voluntarily opt for LSGSS. There were 164 NGOs receiving lump sum grant ("LSG") subvention in 2019-2020.

3. Under LSGSS, the annual amount of LSG subvention to an NGO is the sum of staff salaries, provision for provident fund and other charges¹, minus the NGO's fee income recognized by SWD. The benchmark of LSG provision of each NGO is determined on the basis of the mid-point salaries of the pay scales as at 31 March 2000 of its recognized establishment (i.e. all approved posts

¹ Other charges refers to the other miscellaneous operational expenses (e.g. administrative expenses, utilities, stores and equipment, programme expenses and food) and allowances (e.g. overtime allowance for drivers in day care centres for the elderly, special allowance on holiday for home help service, incentive payments for the spouse of houseparent of small group homes and workers of sheltered workshops) which are non-salary related.

including fractional posts) as at 1 April 2000, plus the sector-wide average Provident Fund employer's contribution of 6.8%. A snapshot of staff strength of each NGO as at 1 April 2000 and its Personal Emolument ("PE") subvention for 2000-2001 under the conventional subvention system was taken for the above purpose.² Within the context of the Funding and Service Agreement ("FSA"),³ NGOs have flexibility in deploying the LSG subvention to pay their staff expenses and other operating expenses. An NGO can retain unspent LSG subvention in a reserve to meet future spending. The cumulative reserve, which is separated from the Provident Fund Reserve and Holding Account balances, is capped at 25% of the annual operating expenditure (excluding expenditure for Provident Fund) of the subvented services of the NGO concerned. Any cumulative reserve exceeding the cap is subject to claw-back and should be returned to the Government. In 2019-2020, a total of 33 NGOs as set out in **Appendix I** were required to refund to the Government.

4. To monitor the implementation of LSGSS, the Director of Social Welfare has re-convened the LSG Steering Committee ("LSGSC") since August 2007. In January 2008, the Administration appointed an Independent Review Committee ("LSGIRC") which comprised a non-official chairman and four members with different backgrounds to carry out a review of LSGSS. LSGIRC concluded that the principles of LSGSS were sound and the system was worth retaining, and put forth 36 recommendations to enhance LSGSS in the Review Report on the Lump Sum Grant Subvention System ("Review Report") submitted to the Administration in December 2008. The recommendations of LSGIRC are set out in **Appendix II**. The Administration accepted in principle all the recommendations.

5. One of the recommendations put forth in the Review Report was that a Best Practice Manual ("BPM") should be drawn up for NGOs under LSGSS to enhance their governance in the areas of financial management, human resource management, corporate governance and accountability. SWD appointed the Hong Kong Polytechnic University to conduct a consultancy study on the drawing up of BPM. The Project Steering Committee, which was set up under LSGSC to oversee the study,⁴ subsequently came up with a BPM framework with 18 items. Of these 18 items, consensus had been reached on 14 items,

² To address the welfare sector's concern that 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.

³ Funding and Service Agreements is a binding document between the Social Welfare Department ("SWD") as a funder and the service operator. Both parties are required to observe the terms of agreement for different services as laid down in the document.

⁴ Chaired by the Assistant Director (Subventions) of SWD, the Project Steering Committee comprises non-official members of the Lump Sum Grant Steering Committee who are representatives from four different groups, namely the management of non-governmental organizations (NGOs), staff union representatives, service users and independent members, in addition to SWD representatives.

with seven being categorized as Level One guidelines that NGOs were expected to follow unless having strong justifications not to do so and the other seven as Level Two guidelines that NGOs were encouraged to adopt. The four items which consensus had yet been reached were all in relation to human resource management. Details of these 18 items are in **Appendix III**. LSGSC endorsed the implementation of the 14 consensus items from 1 July 2014 and NGOs were given a transition period of three years (i.e. by 30 June 2017) to implement the guidelines.⁵ This also marked the full implementation of all the 36 recommendations put forth by LSGIRC.

6. To enable LSGSS keep pace with time, it was announced in the Policy Agenda of the Chief Executive's 2017 Policy Address that the Government would discuss with the social welfare sector on how to optimize LSGSS. The Task Force for Review on Enhancement of Lump Sum Grant Subvention System ("Task Force")⁶ was set up in November 2017 to conduct a review on the enhancement of LSGSS.⁷ The Task Force was expected to submit its report to the Administration in May 2020. Separately, the Audit Commission has conducted a review of the administration of LSG by SWD. The observations and recommendations of the review were published in the Director of Audit's Report No. 69⁸ which was tabled at the Council meeting of 22 November 2017. According to the Administration, the review conducted by the Task Force would take into account the audit findings and recommendations.

Deliberations of Members

7. Issues relating to LSGSS were discussed at a number of meetings of the Panel on Welfare Services ("the Panel"). The Public Accounts Committee ("PAC") had held three public hearings in respect of the audit results and

⁵ The Lump Sum Grant Subvention System Best Practice Manual for NGOs (effective from 1 July 2014) can be accessed at SWD's website at: <https://www.swd.gov.hk/doc/ngo/BPM/Best%20Practice%20Manual-E.pdf>.

⁶ The Task Force for Review on Enhancement of Lump Sum Grant Subvention System comprises Members of the Legislative Council, and representatives from the Hong Kong Council of Social Service, the Hong Kong Social Workers Association, management, staff and service users of NGOs, Lump Sum Grant Subvention System ("LSGSS") related committees, independent parties from the community, the Labour and Welfare Bureau and SWD.

⁷ The scope of the review includes (a) operating environment of NGOs under LSGSS; (b) review of staffing establishment and subvention benchmarks; (c) use of Lump Sum Grant/Provident Fund reserve and financial planning; (d) pay structures, staff turnover rate and vacancies; (e) activities relating to funding and service agreements and flexibility provided for NGOs; (f) mechanisms for reviewing funding and service agreements and NGOs' service performance assessment; (g) transparency and public accountability; and (h) communication and participation of stakeholders.

⁸ The full report can be accessed at the website of the Audit Commission at: https://www.aud.gov.hk/pdf_e/e69ch01.pdf.

observations on the administration of LSG by SWD covered in the Director of Audit's Report No. 69, and tabled its Report No. 69A at the Council meeting of 2 May 2018.⁹

Effectiveness of the Lump Sum Grant Subvention System

8. Sharing the concern of the welfare sector that there were inadequate resources under LSGSS to resolve the problems of high staff turnover rates, time-limited employment contracts, low salaries and increasing administrative work of NGO staff, which had adversely affected the service standards, some Members were concerned that no revision had been made to the recurrent subvention baseline allocation for NGOs since the inception of LSGSS in 2000. There were views that the recommendations of LSGIRC could not effectively address the above problems and LSGSS should be critically overhauled.

9. The Administration advised that whilst no substantial revision had been made to the baseline allocation, it had provided additional one-off allocations of over \$4 billion between 2001-2002 and 2018-2019, and additional recurrent funding of over \$800 million between 2008-2009 and 2017-2018 to support NGOs to enhance their central administration and supervisory support, facilitate the recruitment of paramedical personnel or procurement of related services, as well as increase the provision of other charges to meet operational needs. The Administration agreed with LSGIRC that LSGSS was worth retaining and had taken forward all the recommendations made in the Review Report to enhance LSGSS in concert with the welfare system.

10. Some Members pointed out that as the salary provision of NGO staff was capped by the benchmark which was set at the mid-point salaries of the corresponding civil service pay scale, some NGOs might lower the salaries of the existing staff in order to engage some new staff in providing new services. As a result, some NGO staff were underpaid and had given rise to staff turnover problem. These members considered that the Administration should detach the funding for salary cost from LSGSS. According to the Administration, since PE subvention represented more than 80% of LSG allocated to an NGO, LSGSS would in effect be abolished if actual reimbursement basis was adopted for salary cost. It should be noted that staff turnover rate and subvention benchmark had been included in the scope of the review on the enhancement of LSGSS.

⁹ Details of the relevant conclusions and recommendations are set out in paragraphs 95 to 97 of Report No. 69A of the Public Accounts Committee which is available at: http://www.legco.gov.hk/yr17-18/english/pac/reports/69a/69a_rpt.pdf. The progress made by the Government in implementing the recommendations concerned is set out in paragraphs 1 to 29 of the relevant Government Minutes which is available at: <https://www.legco.gov.hk/yr18-19/english/counmtg/papers/cm20181031-sp020-e.pdf>.

Implementation of the Best Practice Manual

11. Given that BPM aimed to improve the corporate governance and human resource polices of NGOs, most Members considered that Level One and Level Two guidelines should be merged into one set of guidelines such that BPM would be binding on NGOs to ensure compliance by NGOs. According to the Administration, in the light of their diversities in developments, some NGOs might encounter difficulties in complying with some guidelines. For example, the structure of governing boards of NGOs might vary according to the different mix of services provided by NGOs. It was against the above background that some guidelines were placed under Level Two.

12. At its meeting on 12 May 2014, the Panel passed a motion requesting that both the Level One and Level Two guidelines in BPM should be mandatorily followed and subject to public scrutiny, and representatives of staff and service users should be included in the boards of directors of the NGOs concerned. The Administration advised that NGOs were required under BPM to establish effective channels of communication among the governing boards, the management, staff and service users, so as to ensure that feedback from the staff side and service users on LSG-related matters could be received. As BPM could only be implemented successfully with the consensus and cooperation of the management and staff side of NGOs as well as service users, it was not feasible to enforce all BPM guidelines, particularly the Level Two guidelines, in a mandatory manner when NGOs had practical difficulties in implementing some of the guidelines.

13. Some Members took the view that BPM was ineffective and service users' interests had been neglected as many NGOs receiving subvention under LSGSS had not met the requirements of the governance-related items. They called on the Administration to set a timeframe for NGOs to meet the requirements. The Administration advised in March 2017 that the NGOs concerned were required to review their existing policies and procedures with a view to meeting the requirements of BPM by 30 June 2017. They were also required to submit by end of October in 2015, 2016 and 2017 reports in checklist format to inform SWD of the implementation progress in respect of Level One items and Level Two items as at March of the corresponding year. As at 31 March 2016, 98 out of the 165 NGOs receiving LSG (59.4%) had implemented all Level One items and 38 out of the 154 NGOs which had returned their Level Two checklists (24.7%) had implemented all Level Two items.

14. On Members' concern about the handling of NGOs' non-compliance with BPM, the Administration advised that 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 NGOs persistently failed to comply with the 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.

15. Given that the four items which had yet been included in BPM¹⁰ were of major concerns of NGO staff, some Members urged the Administration to include them in BPM. The Administration advised that while the management of NGOs considered that it was a good start to place them under Level Two, the staff side insisted on placing them under Level One. The view of the Working Group on Implementation Details of Best Practice Manual under LSGSC was that more time would be needed for NGO management and the staff side to consider possible options of the criteria and procedures for agreement by the sector.

Utilization of Lump Sum Grant subvention

16. There was a concern that some NGOs had used LSG to organize non-subvented programmes which were targeted at private firms. The Administration explained that as NGOs had greater flexibility to deploy resources under LSGSS, some NGOs had made use of LSG to provide non-subvented services. It noted that this would thin out the resources apportioned by these NGOs to subvented services, thereby affecting the remuneration of their employees. It agreed that the issue needed to be addressed.

17. Some Members expressed grave concern that excess reserves were kept by subvented NGOs and many NGOs had not yet implemented the requirement on "optimal level of LSG reserve" in BPM. Noting that some NGOs had used the reserve for paying bonus/allowance payments of a large amount to their senior management staff, some Members worried that these NGOs might recruit fewer employees and reduce staff remuneration, resulting in deterioration of their service quality. In their view, provision of bonus/allowance payments for staff of NGOs should be forbidden. Some other Members, however, took the view that using the subvention for incentive payments could motivate good performers to do even better.

18. 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. NGOs could make salary adjustment and cash

¹⁰ See paragraph 5 above.

allowance arrangements according to their own human resource policies and the employment contracts/agreements. 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. 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.

19. In response to Members' call for the close monitoring of the utilization of LSG subvention, the Administration advised that it would study how the monitoring system for LSG could be improved to ensure effective provision of quality services by NGOs.

Latest developments

20. In July 2018, LSGSC endorsed the implementation of three new items under BPM with effect from 1 October 2018. Details of these new items and a summary of the self-assessment checklists submitted by NGOs on all BPM items for 2018-2019 are in **Appendices IV and V**.

21. The Task Force has completed the review on LSGSS and released its review report on 5 July 2021.

22. The Administration is requested to brief the Panel on the progress of the review on enhancement of LSGSS and the implementation progress of BPM at the meeting on 12 July 2021.

Relevant papers

23. A list of the relevant papers on the LegCo website is in **Appendix VI**.

Non-governmental organizations required to refund to the Government due to cumulative lump sum grant reserve exceeding 25% of operating expenditure for the year and the amounts involved for 2019-20

	Name of Non-governmental organizations	Amount of lump sum grant reserve refunded in 2019-20 ^[Note 1] (\$)
1	Association for Engineering and Medical Volunteer Services	1,485,267
2	Association for the Rights of Industrial Accident Victims Limited	744,415
3	Agency for Volunteer Service	1,068,064
4	Alice Lan and Vera Shen Education Fund Limited	602,772
5	Hong Kong Buddhist Association (The)	462,664
6	China Peniel Missionary Society Incorporation	892,183
7	Christian Nationals' Evangelism Commission Grace Light Neighbourhood Elderly Centre	1,075,916
8	Chung Sing Benevolent Society	13,645,274
9	Hop Yat Church, the Church of Christ in China	532,538
10	Emmanuel Church	72,344
11	Fung Kai Public School	264,771
12	Fung Ying Seen Koon	408,609
13	Hong Kong and Kowloon Kaifong Women's Association	1,540,175
14	Hong Kong Down Syndrome Association (The)	1,261,198
15	Hong Kong Women Foundation Limited	56,609
16	Hong Kong Juvenile Care Centre	1,793,413
17	Hong Kong Mutual Encouragement Association Limited	52,421
18	Hong Kong Rehabilitation Power	96,460
19	Hong Kong Society for the Protection of Children	6,110,637
20	Fo Guang Shan International Buddhist Progress Society (Hong Kong) Limited	1,257,666
21	Jordan Valley Kaifong Welfare Association	468,143
22	Lam Tin Estate Kai Fong Welfare Association Limited (The)	160,578
23	New Life Church of Christ Hong Kong Limited	1,162,769
24	New Territories Women and Juveniles Welfare Association Limited (The)	553,478
25	Shamshuipo Kai Fong Welfare Advancement Association	2,615,205
26	Society for Community Organization	517,284
27	Mission Covenant Church Limited (The)	779,959
28	Tsim Sha Tsui District Kaifong Welfare Association	475,886
29	Suen Mei Speech and Hearing Centre	633,070
30	Hong Kong and Macau Regional Centre of the World Fellowship of Buddhists Limited	338,197
31	Yuk Chi Resource Centre Limited	52,545
32	Hong Kong West Point Baptist Church	338,498
33	Zion Social Service Limited	84,475
	Total ^[Note 2]	41,603,480

[Note 1] The amount of reserve that should be refunded to the Government is calculated on the basis of the Social Welfare Department's examination of the annual financial reports submitted by individual non-governmental organizations. The figures are subject to change with further supplementary information.

[Note 2] Individual figures may not add up to the total due to rounding effect.

Recommendations of the Lump Sum Grant Subvention Independent Review Committee on the Lump Sum Grant Subvention System

- (1) A Best Practice Manual for NGOs on various management issues such as human resource policies, the level of reserves and their gainful deployment, corporate governance and accountability, etc., should be developed by the welfare sector, with professional input from management experts if necessary. The LSGSC should work with the sector in drawing up this manual.
- (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.
- (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.
- (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.
- (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 to monitor closely the manpower supply in the welfare sector, so as to ensure a stable supply of professional staff.
- (6) The Government should set up a \$1 billion Social Welfare Development Fund to support training, capacity enhancement initiatives and service delivery enhancement studies. Grants should be allocated to NGOs on LSG based on the merit of their applications.
- (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), the Elderly Commission, the 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.
- (8) In exceptional and justifiable cases, the SWD should allow NGOs to advance the subventions for other charges.
- (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.

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

- (22) The definition of “small NGOs” should be standardised so that the assistance to them can be more targetted 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.
- (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.
- (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.
- (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.
- (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.
- (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.
- (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.
- (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.
- (30) The SWD should conduct more frequent service performance inspections and surprise visits, and systematically collect service users’ feedback.
- (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.

- (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.
- (33) An Independent Complaints Handling Committee (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.
- (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.
- (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 furniture and equipment items, lower the threshold for major grant applications to \$50,000;
 - (c) where a project is carried out under the supervision of Authorised Persons 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.
- (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.

Source: Review Report on the Lump Sum Grant Subvention System issued by the Lump Sum Grant Independent Review Committee in December 2008

Best Practice Manual**14 Items of the Best Practice Manual**
(with effect from 1 July 2014)**Level One Items¹****Management of Lump Sum Grant (LSG) Reserve****1. Maximised Use of Reserve (Level One)****A. Principles**

- (i) NGOs are required to ensure that the reserve is fairly, reasonably, properly and effectively used for the intended purposes as stipulated by SWD.
- (ii) NGOs should maximise the use of the reserve in order to maintain or strengthen service delivery and implement strategic development plans, including building up a staff team with high quality.

B. Criteria and ProceduresUse of LSG Reserve

- (i) NGOs are required to, based on the actual circumstances and their development strategies, decide on their own how the LSG reserve be utilised in different areas, such as fulfilling the contractual commitment to staff, maintaining or strengthening service delivery and implementing strategic development plans, including building up a staff team with high quality through enhancement of the employment terms of existing staff, supporting the professional development of staff, etc.

Management and Monitoring

- (ii) NGOs' governing boards/management committees are required to discuss in their meeting(s), at least once a year, how to manage and utilise the reserve, and to consider during the discussion how to maximise the use of the reserve for the NGOs' development. The discussion has to be put on record.

¹ As recommended by the Lump Sum Grant Independent Review Committee, the welfare sector may consider setting out in its Best Practice Manual two levels of guidelines. Level One guidelines are those that NGOs are expected to follow unless there are strong justifications not to do so; Level Two guidelines are those that NGOs are encouraged to adopt.

- (iii) In managing the LSG reserve, NGOs are required to observe the intended purposes as stipulated in the LSG Manual, LSG Circulars, relevant letters/notifications, and to have documents such as financial reports, financial plans, etc.
- (iv) NGOs are required to have documents setting out the policies and procedures on managing and monitoring their LSG reserve, and to make known to staff such procedures.

2. Status of Reserve (Level One)

A. Principles

- (i) NGOs are required to, through convenient, effective and timely channels, disseminate information about the LSG reserve in a reader-friendly format to staff members and the public. Such information should include briefly a plan on how the reserve will be used in the future.

B. Criteria and Procedures

- (i) NGOs are required to, through appropriate channels, disseminate information about the utilisation of the LSG reserve in the past year to the public. Such information should include briefly a plan on how the reserve will be used in the future.

Use of Provident Fund (PF) Reserve for Non-Snapshot Staff

3. Use of Reserve (Level One)

A. Principles

- (i) NGOs are required to maximise the use of PF reserve for non-snapshot staff for the designated purpose so as to enhance staff morale and their sense of belonging to the organisations.

B. Criteria and Procedures

Use of PF Reserve for Non-Snapshot Staff

- (i) NGOs are required to, based on the actual circumstances of their PF reserve, determine on their own the use of PF reserve in such ways as adjusting the PF contribution rates or giving a one-off additional contribution to staff.

Management and Monitoring

- (ii) NGOs' governing boards/management committees are required to discuss in their meeting(s), at least once a year, how the PF reserve should be managed and utilised. The discussion has to take the above principles into consideration and be put on record.
- (iii) NGOs are required to observe the relevant legislation and the purposes as stipulated in the LSG Manual, LSG Circulars, relevant letters/notifications in utilising the PF reserve for non-snapshot staff, and to have documents such as financial reports, financial plans, etc.
- (iv) NGOs are required to have documents spelling out the mechanisms, policies and procedures regarding the management and monitoring of the PF reserve for non-snapshot staff.
- (v) NGOs are required to report on the utilisation of the PF reserve for non-snapshot staff in the past year and to provide a brief plan on how the reserve is going to be used in the future at their annual general meetings/in their annual reports.

4. Status of Reserve (Level One)

A. Principles

- (i) NGOs are required to use convenient, effective and timely channels to disseminate information about the PF reserve to staff members, including a brief plan on how the PF reserve will be used in the future.

B. Criteria and Procedures

- (ii) NGOs are required to, through appropriate channels, disseminate information about utilisation of the PF reserve in the past year to staff members, and to provide a brief plan on how the reserve will be used in the future.

Salary Package Policy and Administration

5. Salary Adjustment (Level One)

A. Principles

- (i) NGOs are required to spend the subvention for salary adjustment for the designated purpose by making timely adjustment to the salary for all staff members subvented by LSG.

B. Criteria and Procedures

Designated purpose

- (i) In spending the allocation for salary adjustment, NGOs are required to observe the relevant orders as imposed by the Finance Committee of the Legislative Council when granting the allocation, the latest LSG Manual, LSG Circulars, relevant letters/notifications of SWD regarding the designated purpose of the allocation.
- (ii) Meanwhile, when NGOs spend the allocation on salary adjustment, they are required to either –
 - (a) Adjust the staff salary by the same percentage of the Civil Service Pay Adjustment (CSPA); or
 - (b) Spend the full amount of the additional allocation for salary adjustment on salary adjustment for staff.

Keeping staff informed

- (iii) NGOs are required to, through letters or emails, inform all staff members subvented by LSG about the salary adjustment arrangement for the financial year, including the following –
 - (a) The amount of subvention allocated by SWD as additional resources to the NGO for salary adjustment for the financial year;
 - (b) The NGO's salary adjustment arrangement for the financial year, briefly explaining why the staff salary will be adjusted by the same percentage of CSPA, or why the additional allocation for salary adjustment will be fully spent on salary adjustment for staff.

Roles and Duties of NGOs in Complaints Handling

6. Composition, Duties and Responsibilities on Handling Complaints at Different Levels (Level One)

A. Principles

- (i) For LSG-related complaints, NGOs are required to develop a sound mechanism and policy to clearly spell out the personnel in handling complaints at different levels and their respective responsibilities and duties at each level.

- (ii) NGOs are required to ensure that all levels of staff involved in complaints handling are free from any conflict of interest.
- (iii) NGOs are required to ensure that both the complainant and the parties being complained against are aware that the complaint concerned is being handled in accordance with the procedures set out by the NGOs/the LSG Independent Complaints Handling Committee (IHC).

B. Criteria and Procedures

Policies and mechanism on complaints handling

- (i) LSG-related complaints against NGOs or their service units lodged by service users/staff should first be handled by the NGO concerned in accordance with its established policies.
- (ii) NGOs are required to have policy documents spelling out the policies and mechanism in relation to complaints handling (including complaints involving staff, the senior management and board members). If NGOs' existing complaints handling policies and mechanism (SQS 15) have already covered the complaints mentioned above, the NGOs just need to follow the existing mechanism.

Ensuring that complainants know of the procedures

- (iii) NGOs are required to let both the complainant and the parties being complained against know that the complaint concerned is being handled in accordance with the procedures set out by the NGOs/the IHC.

7. NGOs' Policies and Procedures on Complaints Handling (Level One)

A. Principles

- (i) For LSG-related complaints, NGOs are required to strictly follow established policies and procedures, as well as the personnel composition to handle the complaints in a fair manner, with appropriate monitoring and appeal/review mechanisms.
- (ii) NGOs are required to comply with the IHC's complaints handling procedures and requirements in handling the complaints concerned.

B. Criteria and Procedures

Handling complaints carefully and fairly

- (i) NGOs are required to have documents spelling out their internal control measures in relation to handling LSG-related complaints.
- (ii) NGOs are required to keep written records of the complaints received and the actions taken to ensure that the complaints will be handled fairly in accordance with the established policies, procedures and personnel composition.

Complying with the ICHC's complaints handling procedures and requirements

- (iii) NGOs are required to comply with the ICHC's requirements to provide relevant information and written records of the complaints concerned in a timely manner to facilitate the ICHC's investigation into the complaints.
- (iv) NGOs are required to keep relevant written records to show that follow-up actions have been taken in accordance with the ICHC's recommendations.

Management of Lump Sum Grant (LSG) Reserve

1. Optimal Level of Reserve (Level Two)

A. Principles

- (i) NGOs should, having regard to their sizes and actual needs, develop planning and evaluation mechanisms on their own to determine the appropriate level of reserve, and monitor it effectively through appropriate years of projection.
- (ii) NGOs should be cautious but not be too conservative or aggressive when estimating the required amount of accumulated LSG reserve.

B. Criteria and Procedures

- (i) NGOs should have documents briefly setting out their mechanisms in planning, evaluating and determining the level of LSG reserve including –
 - (a) Planning and evaluation of the reserve level, which should be conducted regularly;
 - (b) Reference material and tools for planning and evaluation of the reserve level, including such factors as the salary structure, staff turnover rate, staff age distribution, NGOs' projection of the increase/decrease in income and expenditure, NGOs' contractual commitment to subvented staff, and long-term financial viability, etc., with a view to facilitating NGOs' development plan and projection of the reserve level. The above planning and projection should be discussed by NGOs' governing boards, and the discussion be put on record.
 - (ii) NGOs' chief executives should regularly report the status of the reserve to their governing boards.
-

Management Strategies

2. Communication (Level Two)

A. Principles

- (i) NGOs should establish effective channels of communication between the governing board, the management, staff and service users, to ensure that feedback from staff and service users on LSG-related matters can be received.

B. Criteria and Procedures

Channels of Communication

- (i) NGOs should establish effective channels of communication, such as meetings, visits to service units, emails, questionnaires and suggestion boxes, etc. to collect feedback from staff and service users.

Accessibility of the Channels of Communication

- (ii) NGOs should have documents spelling out the regular communication channels for the governing board and the management to collect feedback from staff and service users. NGOs should provide appropriate channels for staff and service users to access such information.

3. Term of Office of the Governing Board (Level Two)

A. Principles

- (i) NGOs should establish a succession mechanism for their governing board members, where there are no such restrictions in relevant legislation or constitution, to ensure the sustainable development of the board.

B. Criteria and Procedures

Succession mechanism

- (i) NGOs should establish a succession mechanism for their governing board members, especially for the chairman and key posts (such as secretary, treasurer, etc.), where there are no such restrictions in relevant legislation or constitution. NGOs should also have documents spelling out the succession mechanism, including the term of office, number of consecutive terms, etc., which should be made public.

4. Roles of Governing Board (Level Two)

A. Principles

- (i) Regarding LSG-related matters, NGOs should enhance the knowledge of their board members on the NGOs and their SWD-subvented services through various effective and appropriate arrangements so as to strengthen their leading roles.

B. Criteria and Procedures

Appropriate arrangements

- (i) NGOs should, at least once a year, provide the governing board and the relevant committees with updated service information, including the objectives of their SWD-subvented services, the number of subvented staff and service users of each service unit, etc.;
- (ii) NGOs should arrange for members of the governing board and the relevant committees to meet with the subvented staff and service users so that they can be familiar with the operation of their SWD-subvented services.

Responsibilities of the Governing Board and NGOs' Decision Making on Important Management Issues of SWD-subvented Services under LSGSS

5. Delineation of Roles and Responsibilities of the Governing Board (Level Two)

A. Principles

- (i) The roles, responsibilities and membership of the governing board and the relevant committees should be clearly defined and put on record.
- (ii) NGOs should properly delineate the terms of reference between governing board members and senior management.

B. Criteria and Procedures

- (i) NGOs should have documents and the organisation chart to illustrate the structure and membership of the governing board, the relevant committees and senior management, their roles and responsibilities, and delineate the roles and responsibilities between governing board members and senior management.

- (ii) NGOs should provide appropriate channels for the staff and service users to access such information.

6. NGOs' Decision Making on Important Management Issues of SWD-subvented Services (Level Two)

A. Principles

- (i) NGOs should consult their staff and service users on important issues that affect them.
- (ii) According to paragraph 5.6 of the LSG Manual, generally speaking, the NGO's governing board should consult the staff first before there are any changes that may affect them, including –
 - (a) changing the existing establishment structure;
 - (b) changing the remuneration package or the working conditions; and
 - (c) re-engineering and rationalising the service delivery modes, and the corresponding manpower redeployment that may become necessary.
- (iii) According to paragraph 5.8 of the LSG Manual, NGOs should consider involving service users as far as practicable in service re-engineering, changing the existing service delivery mode, and monitoring compliance with service performance standards. Service users' feedback may be obtained through a variety of means such as service user liaison groups, discussions or opinion surveys.

B. Criteria and Procedures

Collect and respond to feedback

- (i) NGOs should prepare documents and policies on their own, explaining how feedback from staff and/or service users will be collected and responded to when making important decisions related to LSGSS, such as through meetings, visits to service units, emails, questionnaires, newsletters, notice boards, suggestion boxes, etc.

Examples of important decisions mentioned above -

- (a) changing the existing establishment structure and staff ratios, etc.;
- (b) changing the remuneration package or the working conditions;
- (c) re-engineering and rationalising the service delivery modes, and the corresponding manpower redeployment that may become necessary;
- (d) service re-engineering;
- (e) changing the existing service delivery mode; and
- (f) monitoring compliance with service performance standards.

7. NGOs' decision made on important management issues of SWD-subvented services (Level Two)

A. Principles

- (i) NGOs should disseminate to their staff and services users in a timely manner the decisions made on important management issues related to LSGSS.

B. Criteria and Procedures

Provision of Information

- (i) NGOs should prepare documents and policies on their own, spelling out how information about important decisions related to LSGSS will be disseminated to their staff and/or service users, such as through meetings, visits to service units, emails, newsletters, notice boards, etc.

Examples of important decisions made by NGO -

- (a) changing the existing establishment structure and staff ratios, etc.;
- (b) changing the remuneration package or the working conditions;
- (c) re-engineering and rationalising the service delivery modes, and the corresponding manpower redeployment that may become necessary;
- (d) service re-engineering;
- (e) changing the existing service delivery mode; and
- (f) monitoring compliance with service performance standards.

Four Outstanding Items under BPM

- (a) staff remuneration policy with due recognition of work experience and good performance, including one that allows staff salary to go beyond the equivalent ranks' mid-point of civil service pay scale if applicable;
- (b) pay policy with a clear salary structure and/or starting points, with communication channels for collecting views from staff;
- (c) policy on the transfer of posts and the renewal and termination of employment contracts, and recognition of work experience when drawing up employment contracts; and
- (d) transparent and accountable decision making with regard to staff contracts (i.e. the rules and procedures to be made known to existing and prospective staff of the NGO concerned).

Source: Paper entitled "Progress of the implementation of the Best Practice Manual in non-governmental organizations receiving lump sum grant subvention" provided by the Administration for the meeting of the Panel on Welfare Services on 13 March 2017 (LC Paper No. CB(2)931/16-17(09))

Three New Items of the Best Practice Manual
(with effect from 1 October 2018)

Level One Items

Human Resource Management

Contract Management

1. Handling of Internal Transfer and Contract Termination (Level One)

A. Principle

- (i) NGOs should develop clear and transparent policy on handling employment contracts of staff.

B. Criteria and Procedures

- (i) NGOs are required to develop recruitment policies on subvented positions (including those on time-defined or non-time-defined contracts), such as whether there will be an open recruitment exercise and whether internal staff will be notified first.
- (ii) NGOs should have documents spelling out their policies on handling employment contracts, including their policies and procedures on internal transfer of staff; renewal, non-renewal and termination of contract; and concrete period of notice. Such documents shall be made accessible to employees.

2. NGOs' Decision Making on Employment Contracts (Level One)

A. Principle

- (i) NGOs should comply with the relevant requirements and procedures when making decisions on employment contracts.

B. Criteria and Procedures

- (i) NGOs are required to have documents spelling out the requirements and procedures in relation to making decisions on staff appointment, internal transfer, as well as renewal, non-renewal and termination of contracts. NGOs should inform employees, including existing and newly-appointed employees, on the relevant documents and provide access to them.

- (ii) NGOs are required to have documents spelling out the policies and procedures in relation to handling complaints on employment contracts. The relevant documents shall be made accessible to employees.

Level Two Item

Salary Package Policy and Administration

1. Disclosure of Remuneration Policy (Level Two)

A. Principle

- (i) NGOs should have in place a remuneration policy, including their salary structure and/or minimum salary points, for reference of the staff of respective grades/ ranks/ posts.

B. Criteria and Procedures

- (i) NGOs should have documents spelling out their remuneration policy, including their salary structure and/or minimum salary points, for reference of the staff of respective grades/ ranks/ posts.
- (ii) NGOs should establish channels of communication with their staff to explain their remuneration policy and collect feedback.

**Summary of Returns for Best Practice Manual - Level One and Level Two items
Self-assessment Checklists for the Year of 2018-19**

(Position as at 31 March 2019)

14 Items (implemented since July 2014)

Level One Items

As at 31 March 2019, all 164 NGOs reported having fully complied with the requirements of all 7 Level One items.

Level Two Items

As at 31 March 2019, 160 NGOs submitted the Self-assessment Checklists of 7 Level Two items. The progress of implementation is as follows:

List of Level Two Items (No. of NGOs submitted Self-assessment checklists : 160)	No. of NGOs (%)		
	Implemented	In progress	Not yet implemented
Financial Management			
1. Optimal level of LSG reserve	102 (63.75%)	44 (27.50%)	14 (8.75%)
Corporate Governance and Accountability			
2. Communication	136 (85.00%)	19 (11.88%)	5 (3.12%)
3. Term of office of the governing board	126 (78.75%)	20 (12.50%)	14 (8.75%)
4. Roles of governing board	134 (83.75%)	19 (11.88%)	7 (4.37%)
5. Delineation of roles and responsibilities of governing board	138 (86.25%)	18 (11.25%)	4 (2.50%)
6. NGOs' decision making on important management issues of SWD-subvented services	110 (68.75%)	40 (25.00%)	10 (6.25%)
7. NGOs' decisions made on important management issues of SWD-subvented services	108 (67.50%)	42 (26.25%)	10 (6.25%)

New Items (implemented since 1 October 2018)

The 2 Level One items and 1 Level Two item for the Year of 2018-19 (Position as at 31 March 2019)

New Level One Items

List of Level One Items (No. of NGOs submitted Self-assessment checklists : 164 NGOs)	No. of NGOs (%)		
	Complied with	In progress	Not yet complied with
Human Resources Management			
1. Handling of Internal Transfer and Contract Termination	123 (75.00%)	39(23.78%)	2 (1.22%)
2. NGOs' Decision Making on employment Contracts	108 (65.85%)	53(32.32%)	3(1.83%)

New Level Two Item

List of Level Two Items (No. of NGOs submitted Self-assessment checklists : 161 NGOs)	No. of NGOs (%)		
	Implemented	In progress	Not yet implemented
Human Resources Management			
1. Disclosure of Remuneration Policy	86 (53.42%)	59 (36.65%)	16 (9.93%)

Source: Summary of Returns of the Self-assessment Checklists of the Best Practice Manual which can be accessed at the website of the Social Welfare Department at www.swd.gov.hk/en/index/site_ngo/page_best/sub_bestpm

Appendix VI

Relevant papers on review of the Lump Sum Grant Subvention System

Committee	Date of meeting	Paper
Panel on Welfare Services	16 May 2008 (Item IV)	Agenda Minutes
	19 December 2008 (Item I)	Agenda Minutes
	12 January 2009 (Item VI)	Agenda Minutes
	17 January 2009 (Item I)	Agenda Minutes CB(2)885/08-09(01)
	9 February 2009 (Item IV)	Agenda Minutes
	14 May 2010 (Item V)	Agenda Minutes CB(2)93/10-11(01)
	11 June 2012 (Item IV)	Agenda Minutes
	12 May 2014 (Item IV)	Agenda Minutes
	11 May 2015 (Item IV)	Agenda Minutes CB(2)586/17-18(01)
	11 January 2016 (Item V)	Agenda Minutes CB(2)1930/15-16(01)

Committee	Date of meeting	Paper
	13 March 2017 (Item VII)	Agenda Minutes CB(2)1968/16-17(01)
	12 June 2017 (Item III)	Agenda Minutes CB(2)586/17-18(01)
Public Accounts Committee	22 November 2017*	Report No. 69 of the Director of Audit on the Results of Value for Money Audits - October 2017 (Chapter 1)
Panel on Welfare Services	13 November 2017 (Item VII)	Agenda Minutes CB(2)609/17-18(01)
Public Accounts Committee	2 May 2018*	Supplemental Report of the Public Accounts Committee on Report No. 69 of the Director of Audit on the Results of Value for Money Audits
Panel on Welfare Services	14 May 2018 (Item IV)	Agenda Minutes

* Date of tabling in Council