

**For Information
on 13 March 2000**

Legislative Council Panel on Welfare Services

Social Welfare Reforms: Proposed Lump Sum Funding Package and Planning Reforms

PURPOSE

The purpose of this paper is to inform Members about the Administration's proposals regarding the introduction of lump sum funding and associated service planning and monitoring reforms to welfare NGOs, in receipt of Government subvention.

BACKGROUND

2. At the meeting of the LegCo Panel on Welfare Services held on 6 December 1999, Members agreed, inter alia, that the Government should consult social service organizations, staff and users of services on the proposed changes to the existing subvention system. We have since met with the Board, Management and staff representatives of numerous NGOs, the Hong Kong Council of Social Services (HKCSS), the Hong Kong Social Workers Association (HKSWA), the Fighting for Social Welfare Alliance (FSWA) and eight consumers' groups to exchange views on the proposals. Members may also wish to note that a representative of the FSWA has joined the Working Group on the Implementation of the 1999 Subvention Review Exercise Proposals.

3. Taking into account the views and concerns expressed by the Sector during these preliminary discussions and drawing reference from the HKCSS's LSF proposals, the Administration has drawn up a detailed proposal which is outlined below.

INTRODUCTION

4. The existing subvention system with its emphasis on input control has been criticized for creating inflexibility for NGOs to deploy resources, entrenching disincentives for efficiency, stifling innovation and being administratively cumbersome to operate. As early as 1994,

Government appointed Consultants to review the subvention system with a view to shifting the emphasis from input to output control, as well as devising monitoring mechanisms to enhance public accountability and cost-effectiveness in the delivery of welfare services.

5. The review was concluded in 1998. The recommendation of introducing a Service Performance Monitoring System received general support from the sector and is now being implemented by phases since April 1999. However, the proposal on fixed funding arrangements was not accepted by the Sector. As a result, the Administration continued to explore new options to improve the existing subvention system.

6. In October 1999, the Administration presented to the Social Welfare Advisory Committee (SWAC) initial proposals to change the existing subvention mode to a lump sum grant and enhance the Service Performance Monitoring System, with a view to –

- (a) streamlining procedures to achieve greater efficiency and effectiveness;
- (b) improving service quality and performance;
- (c) encouraging innovation in service delivery;
- (d) enhancing accountability; and
- (e) providing flexibility in the deployment of resources to meet evolving priorities and changing community needs.

PROPOSED PACKAGE

7. We have taken a flexible approach in designing the lump sum subvention package, incorporating features to address NGO's concerns as regards different stages of maturity of agencies and their commitments to serving staff. As part of the package which is to be implemented as a whole, there are improved monitoring mechanisms to ensure quality of service and accountability of public funds.

(I) LUMP SUM GRANT (LSG)

Existing Service Units

The fixed lump sum grant for the 1,911 existing payment units has

to take into account the different stages of maturity of the various agencies and their existing commitments to serving staff. We have taken a flexible approach in designing the lump sum grant to facilitate the introduction of changes to the existing subvention arrangements. Under the proposed package, all existing subvented NGOs will have a two-year period starting from 1 April 2000 until 1 April 2002 to join the new Scheme. We propose that existing agencies, on an agency basis should be given the new lump-sum grant calculated on the following basis-

Personal Emoluments (PE)

- (a) first of all, we will determine the benchmark lump-sum grant (Benchmark) of each NGO on the basis of the **mid-point salaries of the existing pay scales** of its **recognized establishment as at 1.4.2000** (that is, all approved posts are fully funded) plus the present sector-wide average Provident Fund employer's contribution of 6.8%;
- (b) we will take a snapshot of staff strength of each NGO as at 1.4.2000 and project its PE subvention for 2000-01 under the existing subvention mode;
- (c) we will then compare this projected PE subvention with the benchmark
 - for agencies with Snapshot above the Benchmark, they will receive the Snapshot as the LSG. There will be no top-up and no claw-back in the course of the financial year except for adjustment in line with the annual civil service pay award. Their lump-sum grant will be reduced annually to reach the Benchmark **in steps of 2% per annum** starting from 2003/04, i.e. **after the EPP period**;
 - for agencies with Snapshot below the Benchmark, they will receive the Benchmark as LSG **in one step** (that is, on Day One) provided that their service is already fully commissioned (otherwise in line with the agreed phased commissioning of the facility/service). Likewise, there will be no top-up and no claw-back in the course of the financial year except for adjustment in line with the annual civil service pay award.

Other Charges (OC)

- (a) In the context of relaxing subvention rules to facilitate achieving EPP, it has already been agreed that OC subvention will be released in lump sum for all service units w.e.f. from 1.4.2000.
- (b) Rent and rates (including management fees and Government Rent) will be on an actual reimbursement basis.

For existing service units on lump sum mode, unit grant or 5% subsidy

The current subvention mode for these units will remain unchanged and the subvention amount will be incorporated into the respective agency's overall LSG.

For Allocated New Service Units

PE

For all new service units already allocated to NGOs and which are scheduled to start operation after 1 January 2000, we will provide a LSG calculated on the basis of the **new mid-point salary** (taking account of lower entry pay) of recognized establishment plus 5% Provident Fund (PF) contribution (in line with the new Mandatory Provident Fund Scheme).

OC

- (a) Subvention for OC is based on the lump sum allocation.
- (b) Rent and rates will be on an actual reimbursement basis.

The LSG will be **released in full on Day One** (despite the fact that agencies are likely to recruit new staff at entry pay) in line with the agreed phased commissioning schedule.

Flexibility of the LSG

8. The PE grant will be adjusted in line with the annual civil service pay award while the OC grant will be adjusted for inflation either on the basis of the Government-wide price adjustment factor or Composite

Consumer Price Index (CPI). In addition, agencies under LSG will enjoy the following flexibility –

- (a) to retain unspent funds in their reserves to meet future liabilities. The level of cumulative reserves will be capped at **25%** of operating expenditure of subvented services for that year. Any sum above this cap may only be retained with DSW's approval;
- (b) to retain all donations and income other than subvented service fees (which will have already offset Government subvention). This means that agencies may generate and fully retain income from other miscellaneous services incidental to the operation of the subvented service, e.g. running a gift shop, providing photocopying services, etc. in a separate account; and
- (c) to determine their own staffing structure and remuneration, if necessary, provided that specified quality and professional standards are met and the "No better than the Civil Service" subvention principle is not breached.

"TIDE-OVER" GRANT SCHEME

9. To address the Sector's concern that the lump sum grant might not provide sufficient funds to meet their commitments to existing staff, we propose to introduce a "Tide-Over" Grant Scheme for NGOs to address any possible problems in the first three years (i.e. between 2000/2001 and 2002/2003) arising from meeting contractual obligations to serving staff for salary creep and Provident Fund contributions. The intention is to allow NGOs to have sufficient time to adjust to the changes. Under this scheme, NGOs who can demonstrate that they have insufficient funds to meet their salary creep/provident fund contributions for serving staff who are on their payroll as at 1 April 2000, may apply to SWD for a one-off grant during this period. A set of criteria for the grant will be worked out and a vetting committee will be set up to consider the applications.

(II) ENHANCED SERVICE PERFORMANCE MONITORING SYSTEM (SPMS)

10. With the introduction of the LSG, the SPMS with its Funding and Service Agreement (FSA) will become an integral component of the funding system to ensure that resources are targetted at meeting the changing needs of the community in the most cost-effective manner. To

achieve this end, a service planning mechanism will be built into the FSA.

11. It is intended that in consultation with the Sector, medium term plans of 3 – 5 years duration will be developed for each programme area. These will review and redefine the objectives, scope and priority of the services required to meet changing community needs. The revised service objectives, scope and priorities will be incorporated into the Funding and Service Agreements which all subvented service units are required to sign. The basis of subvention to each unit, to deliver the agreed services and service outputs and outcomes and quality standards of the medium plan, would also be included.

12. It is also proposed that in each year of the medium plan cycle, an annual plan would be drawn up by each service unit, providing greater detail of the initiatives planned, taking into account in particular, local and demographic characteristics, which would enable the unit to achieve the objectives and outcomes set out in the Funding and Service Agreements. The annual subvention allocation would confirm the funding for each year based on the subvention parameters in the Funding and Service Agreements and taking into account any adjustments which may be required for the year.

13. The 3 – 5 year medium term planning cycle would provide an opportunity to review on a regular basis, the objectives and priorities of each programme area, to ensure that any changes in community needs are met. At the end of each review cycle, if no changes are required, the Funding and Service Agreements will be renewed. However, if changes are required such as the need to reconfigure or reprioritize services, the Funding and Service Agreement will, accordingly, need to be revised and renegotiated. And, as is the case at present, continuing subvention will be subject to the ongoing need for the service and satisfactory performance of the service unit. Assessment will continue to take the form of an annual self-assessment by the unit and an external assessment conducted by SWD every three years.

14. The above improvement measures i.e. LSG and enhanced SPMS will be introduced as an integrated package. The proposed package aims at enhancing accountability, efficiency and cost-effectiveness in public spending and ensuring that resources can be re-deployed to meet evolving service demands.

15. Subvented NGOs will have a two year period to join the Scheme

starting from 1 April 2000 to 1 April 2002.

OTHER SUPPORTING MEASURES

16. We understand that the lump sum grant subvention will generate new demands on the administrative and managerial requirements of NGO managers. As one of the measures to facilitate the sector in managing these changes, we will organize a series of training workshops focusing on the skills required to operate effectively under the new arrangements. The possibility of setting up a support centre for NGOs will also be considered.

CONSULTATION

17. The above represents the Administration's initial proposals and many details remain to be worked out, in consultation with the Sector. We circulated the above proposed package to each subvented NGO on 10 February 2000. In addition, we arranged briefing sessions for NGO representatives on 17 February 2000. 468 participants, comprising NGO Management Board Members, Agency Heads, Management Personnel and staff representatives from 160 NGOs attended the briefings. To further explain the proposals, we are, upon request, conducting visits to individual NGOs. In parallel, we will consult the Social Welfare Advisory Committee, the Subventions and Lotteries Fund Advisory Committee, the Rehabilitation Advisory Committee and the Elderly Commission in February/March 2000. In addition, we have lined up meetings to exchange views with the HKSWA and FSWA in early March 2000. To solicit the views of service recipients, we have arranged to meet eight consumers' groups in March 2000. The deadline for the receipt of comments on the proposed package is 9 April 2000.

Health and Welfare Bureau
March 2000

Reform-e.doc