

## **LEGCO PANEL ON WELFARE SERVICES**

### **REVIEW OF WELFARE SUBVENTION POLICY**

#### **PURPOSE**

The purpose of this paper is to inform and seek Members' views on the Administration's proposals for the future delivery and funding of welfare services.

#### **BACKGROUND**

2. Members will recall that this issue has a lengthy history and as early as 1994, Consultants were appointed to review the subvention system. Their recommendations on the proposed funding arrangements, as endorsed by the Administration, were subsequently rejected by the welfare sector and have resulted in the Administration exploring a number of new options. Subsequently, the Service Performance Monitoring System was introduced in April 1999 and is being implemented in phases.

#### **THE PROBLEM**

3. The Government and the community need to be satisfied that finite resources are targetted at helping those members of our society who require assistance and to provide services which meet changing needs. The current system of allocating resources, which is primarily based on rigid and in some cases, outdated planning standards, makes it difficult to be certain that this objective is met. The present subvention system with its emphasis on input control creates inflexibility for NGOs to deploy

resources, provides disincentives for efficiency and stifles innovation and is, moreover, administratively cumbersome to operate. There are also inherent difficulties in defining and measuring results particularly, in terms of linking outcomes of service objectives, with resource inputs. We also need to address increasing concerns about ensuring public accountability and cost-effectiveness in the delivery of welfare services.

## **CHANGES INITIATED**

### **Funding and Service Agreements/Service Quality Standards Service Performance Management System**

4. To more clearly delineate the role, responsibilities and expectations of government as funder and NGOs as service providers, a number of Funding and Service Agreements (FSA) and Service Quality Standards (SQS) were introduced earlier this year. FSAs include the objective and nature of service to be provided, the output indicators and funding arrangements whilst the SQSs define the policies, procedures and practices which a service unit should have in place in order to deliver a quality service to its clients. These will gradually be applied throughout the welfare sector and will form the basis, for development of the proposals described below. With the co-operation of the subvented sector, 19 SQS have been drawn up covering the full range of services. 5 have been implemented to date, another 5 will be implemented on 1 April 2000 and the exercise will be completed by 1 April 2001. As regards FSAs, 35 of the 108 required for the welfare sector have been introduced, another 53 will be introduced by 1 April 2000 and the remainder by 1 October 2000. To facilitate the efficient provision of quality welfare services, the Service Performance Monitoring System was introduced. This system covers an

annual self-assessment by individual service units and an external evaluation conducted by the Social Welfare Department every three years.

## **FURTHER DEVELOPMENTS PROPOSED**

5. To further the change to a subvention system which enhances accountability, efficiency, effectiveness and innovation, we propose to enhance the funding and service agreements. Integral to this development will be the linking of a better defined medium term plan and annual programme plans with a new lump sum funding subvention system.

6. For each service unit, a medium term plan will be developed which will more clearly define the objectives and key result areas of the service to be provided, the performance indicators and service quality standards which will be required. These will be incorporated into modified versions of the Funding and Service Agreements and Service Quality Standard documents. Each year, all service units will also produce programme plans to meet the objectives of the medium term plans. The programme plans will be approved by the commissioner and funder (ie Government) to tie in with adjustments to their annual budget. Also every year, both parties will agree on the community's needs in that particular geographical area or area of functional activity. The Funding and Service Agreement can then be adjusted, if necessary, to ensure that those needs are met. This process will ensure that resources are re-deployed to meet evolving needs without always requiring new resources to be provided.

7. It is envisaged that periodically there will be reviews of the objectives, scope and priorities of the services and from time to time, there may be a re-assessment of the continuing need for a service in a particular locality having due regard to meeting changing needs in the community.

All of this would provide the basis for the next set of medium term plans and annual programme plans and would provide an opportunity to reconfigure and re-engineer services to meet changing community needs. We envisage a regular dialogue between SWD and subvented NGOs so that any changes are known well in advance. This will allow both sides to be well prepared for any changes. In addition, any shortfall in performance should be identified as early as possible and the current operator given every chance to improve and meet the required standard. To cater for the changing requirements, the financial and management information needed will be different and will have to be incorporated into revised Funding and Service Agreements.

8. The advantages of this approach are:-

- (a) clearer identification of Government/NGOs respective responsibilities and commitments. This will improve communications and facilitate the partnership between Government and NGOs and will enhance accountability to the community in a very practical and consistent manner.
- (b) closer monitoring of performance will result and is likely to lead to improved service quality;
- (c) non-performance can be addressed more speedily and effectively. This will help to ensure that public funds are spent in the most cost-effective manner and that the community receives optimal value for money; and
- (d) greater flexibility to deploy limited resources to meet the most pressing and evolving community needs. Focus can be put on those service areas which the community regard as being of

greatest importance.

## **FUNDING**

9. For many years, the focus of the Administration's financial relationship with NGOs has been on the basis of input-control which has proven to be extremely cumbersome. Changes are needed to introduce a more flexible funding system so as to reflect current thinking that output/outcome monitoring and evaluation is clearly preferable. In recent years, the NGO sector has been arguing in support of such a change.

10. We propose that in future, NGOs should move to subvention on a lump-sum mode with removal of traditional input controls and flexibility to re-deploy resources. The funding arrangements will need to tie in with the medium term and annual programme plans, and the external assessment cycle in the Service Performance Management System. The basis as to how this amount should be calculated will be discussed with the Sector. This new arrangement will provide incentives for NGOs to manage their resources efficiently and effectively and should also facilitate their efforts to achieve Enhanced Productivity Programme targets in the coming years.

## **FUTURE CONSIDERATIONS**

11. In view of the requirement to reconfigure social welfare services in response to the changing environment, increasingly various workers in the welfare field will need to be multi-skilled and the current rigid staffing structure should be superseded by a more flexible one. NGOs will require

much help both in the form of technical assistance, explaining the changes to staff and then, staff training to cope with these proposed changes. Similarly, major changes will be required of SWD since the nature of their work will change significantly. SWD intends to appoint Consultants in early 2000 to prepare a programme to support the development of all financial and management systems and in managing all of these changes both in the Department and in NGOs.

## **WELFARE SERVICE RESTRUCTURING AND RE-ENGINEERING**

12. Service re-engineering will also be an important component of the changes envisaged which aim to re-structure the way in which welfare services are delivered in Hong Kong. The on-going Fundamental Expenditure Review on Youth services, the review on Elderly Day Services, the move to integrate Day and Residential Services in both the Elderly and Rehabilitation fields are current examples of these initiatives. The objective of these exercises is to better integrate services so that individuals with needs are dealt with, in a more holistic and cost effective manner. The Lotteries Fund could be used to facilitate this process especially if NGOs' initiatives result in recurrent savings. The proposed new system will facilitate this process since there will be a regular review and dialogue on the new service priorities. This will enhance the ability to target resources to meet emerging needs and other areas most in need.

## **NEW SERVICES**

13. We propose that the allocation of new service units not yet allocated to NGOs should be by a competitive bidding process.

### **Competitive Bidding**

14. Members will be aware that the Administration has recently introduced competitive bidding to allocate new home care and meal service units. We see merit in the application of this approach whilst accepting that it cannot be applied uniformly to all welfare areas. In addition to contributing to the advantages outlined in paragraph 8, we see other advantages in that it will facilitate the introduction of innovation, flexibility, an outcome/output focus in service delivery, enhance benchmarking of costs and provide for a more transparent and open allocation system. The cost of providing a service using the highly structured existing subvention arrangement can be easily compared with the cost of the service following allocation after a competitive bidding process. This mechanism can be used to ensure value for money.

### **THE WAY FORWARD**

15. The proposals were discussed by the Social Welfare Advisory Committee on 28 October 1999. To take this forward, the Committee agreed that we should set up a working group comprising representatives from the Government and the welfare sector to discuss and agree the detailed implementation arrangements.