

LEGCO PANEL ON WELFARE SERVICES

Support after the Tide-Over Grant (TOG) Period to NGOs Currently Receiving TOG

PURPOSE

This paper outlines the proposal of the Social Welfare Department (SWD) to provide financial support after the Tide-Over Grant (TOG) period to Non-governmental Organisations (NGOs) currently receiving TOG.

BACKGROUND

Purpose of TOG

2. The Administration has put in place the Lump Sum Grant (LSG) subventions system with effect from 1 January 2001 as part and parcel of the subventions reform to replace the Model Cost System and Modified Standard Cost System, both of which have been criticized as inflexible, complex and bureaucratic. Under LSG, SWD no longer rigidly imposes input controls on staffing structures, levels of pay and individual items of expenditure. NGOs are given flexibility in the deployment of funds to meet the changing service and community needs. Switching to LSG subventions mode is a conscious and voluntary decision of respective NGOs. The increasing number of NGOs joining LSG, i.e. 96 in 2000-01 to 163 in 2005-06 has proved its wide acceptance by the NGOs. Out of the 19 remaining subvented NGOs, 9 are not eligible for switching to LSG as none of their service units is on Model Cost/Modified Standard Cost systems, and 10 NGOs have chosen not to opt for LSG.

3. In addressing the concerns of the welfare sector that LSG might not provide sufficient funds to meet their commitment to the staff captured in the snapshot of 1 April 2000 (thereafter referred to as "Snapshot Staff"), the Department has introduced a TOG scheme, covering a 5-year period from 2001-02 to 2005-06, to enable NGOs to honour their contractual commitments in terms of paying salary increments to the Snapshot Staff during the transitional period. Among the 163 NGOs on LSG, 125 are receiving TOG. For the

remaining 38 NGOs, 22 of them do not require TOG in 2005-06 because the projected salary of their Snapshot Staff does not exceed the LSG salary for the same group of staff; 6 NGOs are eligible for TOG but decline it due to religious reasons or that the agencies can manage within their own budget; 10 NGOs started service under LSG from day one or no longer operate service unit previously subvented under the Model Cost/Modified Standard Cost System subvention mode and hence not eligible for TOG.

4. Under the LSG arrangement, TOG will only be provided for five years, i.e. from 2001-02 to 2005-06. It will cease in 2006-07. At the same time, for NGOs with their snapshot salary above the benchmark salary, they should come down to the benchmark salary by a reduction of 2% annually. In achieving these, NGOs are expected to carry out organisation restructuring and service reengineering within the TOG period such that they can operate their services within the LSG provision. It has been agreed with the welfare sector that the Government will only be prepared to consider further assistance for NGOs to meet contractual obligations to existing staff under "exceptional circumstances" on a case by case basis and that all relevant factors would have to be taken into account in totality before exceptional assistance could be justified.

Allocation of TOG during 2001-02 to 2005-06

5. The amounts of TOG allocated for the five transitional years totalling at \$1,473 million are as follows:

2001-02:	\$ 122 million for 87 eligible NGOs
2002-03:	\$ 232 million for 109 eligible NGOs
2003-04:	\$ 324 million for 117 eligible NGOs
2004-05:	\$ 382 million for 119 eligible NGOs
2005-06:	\$ 413 million for 125 eligible NGOs
Total :	<hr/> \$1,473 million

In deriving the annual TOG requirement, the Department makes reference to the updated staffing position as at 1 September of previous year. There is no in-year adjustment or claw back of the TOG. Any surplus would be carried in the NGO's LSG reserve and subject to the overall 25% cap.

Survey on NGOs' Need for Financial Assistance after the TOG Period

6. Since the inception of LSG in January 2001, 163 NGOs have joined the new funding mode. With the implementation of enhanced productivity programme and efficiency savings, and the economic and social changes in recent years, some NGOs have expressed difficulties in coping with the financial pressures especially after the TOG period from 2006-07. With the endorsement of the Lump Sum Grant Steering Committee (LSGSC) at its 14th Meeting on 13

February 2004, the Department commissioned an external independent consultant to conduct a survey on NGOs' projected financial condition after the TOG period and their need for financial assistance.

7. The survey, with information submitted by 115 NGOs out of a total of 161 NGOs receiving LSG at the time, was completed in December 2004 by PricewaterhouseCoopers and the Survey Report was finalised in February 2005. Main recommendations of the consultancy are:

- (a) To leverage the flexibility offered by LSG, to cope with the cessation of TOG and to get prepared for coming down to Benchmark Salary, NGOs should consider changing their relatively rigid staff cost structure. The continuation of TOG would potentially discourage rather than promote the need for such change. TOG should be ceased as planned in 2006-07.
- (b) Financial assistance can be granted to NGOs that are committed to achieving financial viability in a defined period, e.g. for three to five years. NGOs should provide information to substantiate their ability to achieve financial viability within the designated period.
- (c) The 25% cap on LSG reserve can be raised so that NGOs can make use of the reserve to overcome the operating deficits in the coming transitional years;
- (d) NGOs can consider utilizing their own resources or LSG reserve to offer voluntary retirement (VR) to their staff so as to further enhance their staffing structure and their operating costs.

8. The Report was discussed by the LSGSC which considered that the recommendations should only serve as a reference in mapping out the way forward on the issue of TOG.

PROPOSAL

Special One-off Grant (SOG)

9. Having regard to the findings and recommendations of the Survey and opinions collected from the management and staff sides of NGOs, the LSGSC, the Social Welfare Advisory Committee and the Lotteries Fund Advisory Committee during March to May 2005, the Department notes that some NGOs operating on LSG subventions have already made preparations for the TOG cessation through organisation restructuring and service reengineering over the past five years. On the other hand, some NGOs are not yet prepared to come

down to and operate on the Benchmark Salary. But the situation of individual NGOs varies greatly.

10. While NGOs have the ultimate responsibility to deal with the commitment to their Snapshot Staff and that there are already five years of financial support to NGOs through TOG as a transitional arrangement, the Department recognises that not all NGOs can complete the transition in 2006-07 and require more time to make the necessary adjustments. In the light of the general understanding that there would be no extension of the TOG and any further financial support from government can only be time-limited and not long-term, the Department recommends providing a Special One-off Grant (SOG) to NGOs after the termination of the TOG. This SOG is meant to give greater flexibility and more time for the NGO management in making whatever necessary adjustments to meet their financial and/or staff commitments in the long run and is considered a more pragmatic way to assist NGOs than a mere extension of the TOG.

11. Two Schemes under the SOG are available to NGOs currently receiving TOG. Application will be on a voluntary basis and NGOs are expected to apply for either Scheme A or B. Details are proposed as follows:

Scheme A

Objective

This Scheme aims at providing time-defined further assistance to NGOs that are not yet ready to operate on the Benchmark Salary upon the TOG cessation in 2006-07 as scheduled. The SOG (Scheme A) would allow NGOs to have more time, in accordance to their financial plan that should take into consideration all relevant factors specific to the NGO concerned, to undergo organisation restructuring and service reengineering to achieve financial viability in the long run.

Eligibility Criteria

For establishment of eligibility for the SOG (Scheme A), NGO applicants should provide, with the endorsement of the management board, the following information regarding the period *from 2000-01 to 2005-06*:

- (a) A detailed account of the re-engineering and restructuring measures that they have taken since switching to LSG, and also the financial implications on the operational expenditure, in terms of annual savings;
- (b) The amount of new resources being allocated by the Department

to the NGO in terms of new services or improvement of existing services;

- (c) The turnover of Snapshot Staff, with details on posts and the salary at the point of departure, and financial implications of such staff turnover, either with or without replacement of the departing staff;
- (d) The amount of cumulated LSG Reserve;
- (e) A financial analysis report illustrating that they cannot operate on the LSG amount after the TOG cessation in 2006-07 and beyond, taking into account the LSG reserve accumulated in the TOG period; and for NGOs with LSG above the Benchmark, the report should take into account the amount to be reduced annually by 2% till reaching the benchmark in accordance with paragraph 2.6 (iv) of the LSG Manual (Edition 2), but with the starting year being postponed for two years as specified in paragraph 13 (c) below;
- (f) A financial plan showing how the NGO can achieve financial viability in the long run with the SOG provision;
- (g) A pledge to furnish annual progress report within the SOG period on the implementation of the organisation restructuring and service reengineering.

Ceiling Amount and Restriction

The amount of SOG (Scheme A) will be capped at two times of TOG for each respective eligible NGO at the 2005-06 TOG level. It should only be used for the personal emolument (PE) expenditure of Snapshot Staff.

Application

Invitation of application from NGOs will be issued around July 2005. NGOs in need of the SOG (Scheme A) should send in their applications, with supporting documents showing their current financial condition and plan for achieving financial viability to SWD on or before 30 September 2005.

Announcement of Application Result

NGOs will be informed of the application results before end of 2005.

Allocation Period

The SOG (Scheme A) will be approved in a lump sum and allocated by two installments at the beginning of the financial years of 2006-07 and 2007-08. The maximum amount allocated in each installment will be capped at the 2005-06 TOG level of respective eligible NGO.

Scheme B

Objective

This Scheme aims at providing NGOs which do not require further assistance in facing the TOG cessation with additional support to enhance their human resources practices. In addition, in allocating new services during 2006-07 to 2007-08, we propose to accord priority to these NGOs because NGOs' financial viability should be one of the considerations although the prime considerations remain to be knowledge, experience and expertise in the particular service and the quality of the service proposal. The SOG (Scheme B) will focus on initiatives that would benefit directly its staff, including both Snapshot Staff and all other staff in subvented services. NGOs may put up agency-specific initiatives that will benefit their staff engaged in subvented welfare services.

Eligibility Criteria

NGOs currently receiving TOG but do not require further financial assistance to cope with the cessation of TOG.

Ceiling Amount

The SOG (Scheme B) will be provided at an amount not more than two times of the TOG provision at the 2005-06 level of the NGO applicant.

Application

Application for the SOG (Scheme B) from NGOs has to be formal and accompanied by a signed declaration from the NGO Board that they will no longer require any further financial assistance from SWD for the purpose of meeting deficits of salary expenditure of Snapshot Staff after the 5-year TOG period which will cease on 31 March 2006. Invitation of application from NGOs will be issued around July 2005. NGOs should send in their applications, with detailed plan and estimates for SOG (Scheme B) to SWD on or before 30 September 2005.

Announcement of Application Result

NGOs will be informed of the application results before end of 2005.

Allocation Period

The SOG (Scheme B) will be approved in a lump sum and allocated in one go at the beginning of the financial years of 2006-07. The maximum amount allocated will be capped at two times of the 2005-06 TOG level of respective eligible NGO. Subject to the Department's approval on the NGO's application, the amount allocated can be spent beyond 2006-07.

12. A choice between Scheme A and Scheme B is a management decision for individual NGOs taking into full account of their specific staffing and financial conditions.

Other Facilitating Measures for NGOs

13. On top of the SOG, SWD recommends implementing the following measures to facilitate NGOs concerned to achieve the financial viability more effectively:
- (a) to withhold the clawback of LSG Reserve above the 25% cap for three years for the financial years from 2004-05 to 2006-07. The existing LSG Reserves kept in NGOs are mainly products of their organisation restructuring and service reengineering. We understand that these Reserves are planned savings in most NGOs for covering the operating deficits arising from the TOG cessation in the coming transitional years. It is therefore appropriate to withhold the clawback until the entire organisation restructuring and service reengineering are completed in the coming two to three years. Nevertheless, NGO boards are advised to take into full consideration the impact on staff morale and service quality when they implement further saving measures;
 - (b) to allow NGOs to utilise their own resources or LSG Reserve or SOG to implement VR scheme for their staff to increase the efficiency of the organisation. NGO boards should consult their staff before the implementation of any VR schemes. SWD will provide NGOs with some guiding principles, but flexibility would be allowed for NGOs to formulate a scheme that best suits their staffing and financial conditions; and
 - (c) for NGOs with their salary portion above the benchmark salary,

to postpone the planned annual 2% reduction of the salary portion of the LSG to the Benchmark Salary for two years to 2008-09.

FINANCIAL IMPLICATION

14. As the SOG is capped at the 2005-06 TOG level and set at 2 times provision of the 2005-06 TOG level, the potential commitment for this proposal, on a lump sum basis, would be at a maximum of \$826 million which is to be financed by the Lotteries Fund (LF) account. This commitment should not seriously affect the available annual allocations from LF for other uses. The Lotteries Fund Advisory Committee agreed in principle to the SOG proposal and endorsed the financial commitment at its meeting held on 19 May 2005. Moreover, the financial implication for the 2-year postponement of annual 2% reduction of the salary portion of LSG to align with the Benchmark Salary will be at a total of around \$191 million. On the LSG Reserve above the 25% cap, the amount to be clawbacked for 2003-04 is in the region of \$50 million, but the financial implication for withholding the clawback from 2004-05 to 2006-07 would depend on the actual expenditure pattern of the NGOs concerned.

ADVICE SOUGHT

15. While the Administration recognises that NGOs may need further short-term assistance to attain financial viability and consolidate their organisation restructuring and service reengineering efforts, with the provision of the SOG and other facilitating measures provided by the Government, NGOs should carry out in full swing all the necessary reengineering and reorganisation measures with a view to streamlining their cost structures and achieving financial viability.

16. Members are invited to give their views on the Department's proposal as listed in paragraphs 9 to 13 above.

**Social Welfare Department
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