

**For information on
29 October 2007**

**LEGISLATIVE COUNCIL PANEL ON WELFARE SERVICES
LUMP SUM GRANT SUBVENTION SYSTEM**

PURPOSE

This paper updates Members on the implementation of the Lump Sum Grant (LSG) subvention system in the welfare sector.

THE LSG SUBVENTION SYSTEM

2. To enhance the social welfare subvention system, the Social Welfare Department (SWD) has, following consultation with the sector and relevant stakeholders including this Panel since early 1999, introduced the LSG subvention system in January 2001. The LSG system has since largely replaced the conventional social welfare subvention system which was considered inflexible, complex and bureaucratic. Under LSG, SWD no longer imposes rigid input controls on non-governmental organisations (NGOs) in terms of their staffing and salary structures, as well as individual items of expenditure. NGOs are given greater autonomy and flexibility to deploy resources and re-engineer their services to meet changing social needs in a timely manner.

3. The LSG subvention system has been in operation for nearly seven years. As at 1 October 2007, 163 out of 174 subvented NGOs have opted to join the LSG subvention mode on a voluntary basis, a testament to its wide acceptance by NGOs. The total subvention allocated to these 163 NGOs under LSG accounts for about 99% of the total baseline recurrent subvention of the year.

BENEFITS OF THE LSG SUBVENTION SYSTEM

4. Feedback from NGOs on the implementation of LSG has been generally positive. Major enhancements brought about by the LSG system include -

(a) Enhancement of corporate governance in the welfare sector

As the management boards of NGOs are given greater autonomy as well as responsibility in optimising their organisation structures and service delivery mechanism, many NGOs have taken proactive measures to strengthen their governance competencies by developing more effective financial management and human resource management systems. The LSG system has thus become a catalyst for the enhancement of corporate governance in the welfare sector.

(b) Encouraging flexible deployment of resources for better service delivery

Under LSG, NGOs enjoy greater flexibility in the deployment of subventions to meet the requirements of the Funding and Service Agreements (FSAs). Many NGOs have actively re-examined the service delivery mode and manpower deployment to ensure that the specific needs of service users are met in an innovative and effective manner. Some examples are:

- (i) An NGO running pre-primary institutions has identified surplus arising from the short-term vacancy of a child care worker post. Making full use of the LSG flexibility, without which the surplus would have to be returned to SWD, the surplus was used to strengthen the programmes of the Extended-hour Child Care Service which were most appreciated by working parents in the district.
- (ii) Similarly, an NGO running services for mentally handicapped persons has used its savings to organise more outings and community programmes for the service users. The NGO considered that its approach

would provide mentally handicapped persons with more exposure to the community, and in turn promote their integration into the community.

- (iii) A Residential Care Home for the Elderly, after streamlining the work procedures of the kitchen, identified savings to strengthen the medical care of the frail elderly residents. The NGO has deployed a pharmacist and a dietician to enhance the administration of medication and better ensure the nutrition of the elderly.
- (iv) An NGO in the rehabilitation field has made use of the LSG flexibility to employ marketing staff for its sheltered workshops. With the expert efforts, the NGO has received more job orders for its service users and this has in turn promoted their self-reliance abilities.

(c) Facilitating the implementation of service re-engineering on a sector-wide scale

With the LSG subvention mode and its flexibility, NGOs have greater capacity to absorb the impact and challenges of service re-engineering on a sector-wide scale. With their concerted efforts, SWD has smoothly implemented a number of significant service reviews which have brought about service improvements. Examples are the formation of Integrated Family Service Centres, Integrated Children and Youth Services Centres, District Elderly Community Centres, Neighbourhood Elderly Centres, Integrated Vocational Rehabilitation Services Centres, etc.

MONITORING OF SUBVENTED NGOs

Monitoring of Service Performance

5. The Service Performance Monitoring System (SPMS), jointly implemented by SWD and the subvented NGOs in 1999, has been enhanced and improved since April 2003. The SPMS is a well established measure to ensure financial accountability and the provision

of quality social welfare services to the needy. It encourages service operators to be accountable for the performance of their service units and allows early detection of problems and intervention in case of poor performance. Enhanced service performance assessment methods include:

- (a) annual reporting on self-assessment of Essential Service Requirements, Service Quality Standards, and Output and Outcome Standards by service operators on the performance of their service units (together with, if applicable, a specific action plan on non-compliant areas);
- (b) self-reporting by service operators half-yearly on variance in the performance of Output Standards;
- (c) review visits conducted by SWD to randomly selected service units of each service operator in a 3-year cycle; and
- (d) on-site assessment of new service units and other units with identified/suspected problem areas in service performance by SWD.

Monitoring of the Use of Subventions

6. NGOs are required to meet the basic requirements in respect of accounting, financial reporting and internal control to ensure that they have a sound and prudent financial management system, and that they comply with the conditions set out in the LSG Manual and LSG Circulars.

7. NGOs must prepare an Annual Financial Report in respect of all its FSA activities funded by LSG, other social welfare subventions and income. It is the responsibility of the NGOs' board and management to maintain proper control of the LSG and ensure that the use of the LSG meets the requirements and objectives as specified in the FSAs. NGOs should ensure that the LSG is spent in the most cost-effective manner and for the intended purposes. They are also responsible for making improvements to their accounting systems in accordance with the advice of their auditors as required in their management letter and that of SWD.

8. NGOs are required to commission its external auditors to conduct an independent review on its Annual Financial Report. Such a

review should be performed in accordance with the Practice Note issued by the Hong Kong Society of Accountants. The Annual Financial Report should be reviewed and the annual financial statements should be audited by a Certified Public Accountant/Public Accountant, and signed by two authorised representatives of the NGO i.e. the Chairman and the NGO head.

9. SWD conducts regular subvention inspections of service units of NGOs, focusing on systems auditing and internal control procedures to ensure that their LSG is properly used and accounted for.

ASSISTANCE TO SUBVENTED NGOS

10. The Administration has provided various forms of assistance to subvented NGOs to ensure the smooth implementation of the LSG subvention system, as elaborated in the ensuing paragraphs.

Provision of Tide-over Grant and Special One-off Grant

11. To address concerns of the welfare sector that LSG may not provide sufficient funds to meet their commitment to staff captured in the snapshot of 1 April 2000 (Snapshot Staff), SWD introduced a Tide-Over Grant (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. A total TOG of \$1,473 million was allocated to 125 NGOs on that basis.

12. Having regard to the findings and recommendations of the survey conducted by an external independent consultant and opinions collected from the parties concerned, the Administration provided a Special One-off Grant (SOG) in 2006-07 to NGOs following the termination of TOG in the year before. The SOG was meant to give greater flexibility to and more time for the NGO management to make the necessary adjustments to meet their financial and/or staff commitments in the long run. Altogether, a total SOG of \$912.4 million was allocated to 124 NGOs under that premise.

13. As part of the SOG package, the following three measures were implemented to help ensure the financial viability of the NGOs:

- (a) SWD has agreed to withhold the clawback of LSG Reserve above the 25% cap for the 2004-05 to 2006-07 financial years;
- (b) NGOs are allowed to utilise their own resources/LSG Reserve/SOG to implement voluntary retirement scheme for their staff to improve the efficiency of the organisation; and
- (c) for NGOs with their salary portion above the Benchmark Salary, the planned annual 2% reduction of the salary portion of the LSG to the Benchmark Salary has been postponed for two years, till 2008-09.

Business Improvement Projects

14. With the support of the Lotteries Fund (LF), NGOs subvented on LSG can carry out Business Improvement Projects (BIP) to improve the efficiency of their management and service delivery. Each NGO is allocated a maximum of \$4 million to carry out various BIPs. Since the establishment of BIP in October 2001 till now, LF grants totalling \$96.8 million have been allocated to 68 NGOs to carry out 52 BIP. Through these BIPs, the NGOs concerned have improved the efficiency of their management systems (e.g. knowledge system, human resource management information system and financial management system) and achieved savings in service running costs (e.g. installation of energy saving luminaries and installation of ozone laundry system).

Enhancement of Corporate Governance of Subvented NGOs

15. To enhance subvented NGOs' corporate management competence in running their own organisations, SWD issued a reference guide titled "Corporate Governance - Leading Your NGO" for NGO Boards in 2002. With the assistance of the Independent Commission Against Corruption, SWD also issued a series of Guidelines for Corruption Prevention, comprising "Sample Code of Conduct for NGOs", "Letting and Administration of Works Contracts in NGOs", "Procurement Procedures in NGOs", "Stores Management in NGOs" and "Staff Administration on NGOs" to all subvented NGOs in 2003 to promote clean governance.

16. SWD had also conducted three series of training programmes for the Board Members and top executives of subvented NGOs in 2003-04, 2006 and 2007. A total of 40, 200 and 217 Board Members/executives

had joined the programmes respectively. The programmes covered a wide range of knowledge and techniques in governance, including financial management, human resources management, legal liability, employment-related ordinances, service and organisation positioning, skills in dealing with mass media and strategic planning. A publication (“Leading NGOs in the Time of Change”) illustrating NGOs’ practical experiences in service and organisation positioning, non-profit financial management, communication with staff and collaboration with other stakeholders for business development was issued to NGOs in 2007. SWD will continue their efforts in enhancing the corporate governance competence of NGOs.

RECENT DEVELOPMENT

Implications of the 2007 Starting Salaries Adjustments and 2007-08 Civil Service Pay Adjustment on the Subvented Welfare Sector

17. The Administration has advised Members of the implications of the 2007 Starting Salaries Adjustments and the 2007-08 Civil Service Pay Adjustment on the subvented welfare sector at the Panel meetings on 11 and 25 June 2007. Despite the fact that the salary structures of staff in subvented NGOs have been delinked from those of the civil service since the introduction of LSG in 2001, the Administration has provided NGOs with additional recurrent resources of \$330 million, in line with the 2007 Starting Salaries Adjustments and 2007-08 Civil Service Pay Adjustment. Further to the Panel meetings, the SWD informed NGOs on 9 July 2007 and 17 September 2007 of the arrangement for the subvention adjustments, the additional subventions allocated to individual NGOs together with the relevant breakdown and the principles of the calculations.

18. SWD has stressed to the NGOs that as the additional allocation of subventions to NGOs is for addressing the impact of the 2007 Starting Salaries Adjustments and the 2007-08 Civil Service Pay Adjustment on the subvented organisations, the Department expects the NGOs to use it for the purpose of adjusting the pay of their subvented staff. The sum was released to NGOs in October 2007.

Re-convening the LSG Steering Committee

19. With a view to further enhancing the LSG subvention system and

assisting NGOs in its implementation, the Director of Social Welfare has re-convened the Lump Sum Grant Steering Committee (LSGSC), comprising as members representatives of SWD, NGOs management, staff unions and service users. Two meetings were held, on 29 August and 25 September 2007. Proposals were received from the Fight for Social Welfare Alliance, the Hong Kong Council of Social Service and the Hong Kong Social Workers Association respectively for discussion in the LSGSC meeting on 25 September 2007. The proposals are under consideration by the Administration.

WAY FORWARD

20. The LSG system is widely accepted by NGOs and has brought about significant benefits and enhancements. Within the framework of this established policy we will continue to improve the implementation of the system and offer assistance to NGOs as appropriate. The LSGSC will continue to be the platform for engagement with the sector, and it will further discuss the various proposals for enhancing the LSG system at its coming meeting on 2 November 2007.

ADVICE SOUGHT

21. Members are invited to note the content of this paper.

**Labour and Welfare Bureau
Social Welfare Department
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