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Panel on Welfare Services

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 12 January 2009**

Lump Sum Grant Subvention System

Purpose

This paper provides background information on the implementation of the Lump Sum Grant (LSG) subvention system. It also summarizes the discussions of the Panel on Welfare Services (the Panel) on the subject matter in the third term of the Legislative Council (LegCo).

Background

2. In 1994, the Administration appointed consultants to review the social welfare subvention system which had been criticized as inflexible, complex and bureaucratic, and no longer able to meet in full the needs of the social welfare development. The general view was that the system should place emphasis on the effective use of public resources, innovation, responsiveness and performance management to meet the changing community needs in a timely manner.

3. The review was concluded in 1998. The recommendation for introducing a Service Performance Monitoring System received general support from the welfare sector and was implemented by three phases between 1999-2000 and 2001-2002 through the Funding and Service Agreements and Service Quality Standards with the joint efforts of the Social Welfare Department (SWD) and non-governmental organizations (NGOs). However, the proposal on fixed funding arrangements was not accepted by the welfare sector. As a result, the Administration continued to explore new options to improve the social welfare subvention system.

4. In October 1999, the Administration presented to the Social Welfare Advisory Committee initial proposals to introduce a new funding arrangement in

the form of a Lump Sum Grant (LSG). Under the proposed LSG package, the benchmark for each NGO would be determined on the basis of mid-point salaries of the then existing pay scales of its recognized establishment as at 1 April 2000, plus the sector-wide average Provident Fund employer's contribution of 6.8%. Secondly, a snapshot of staff strength of each NGO as at 1 April 2000 and its Personal Emolument (PE) subvention for 2000-2001 under the existing subvention mode would be taken and projected. 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 proposed the introduction of a Tide-Over Grant (TOG) Scheme to address any possible problems arising from the need to meet contractual obligations to serving staff for salary increments and Provident Fund contributions in the first three years. Taking into consideration the comments received at the end of the consultation period in May 2000, the Administration extended the TOG period from three years to five years.

5. With the Finance Committee's approval on 15 December 2000, the LSG subvention system was formally put in place as from January 2001.

6. In the light of the findings and recommendations of a survey conducted by an external independent consultant on NGOs' projected financial condition after the TOG period and their need for financial assistance, the Administration proposed to provide a Special One-off Grant (SOG) in 2006-2007 to NGOs following the termination of TOG. Members were advised that SOG was intended to provide 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. Invitations for SOG applications were made to eligible NGOs in August 2005.

7. According to the Administration, as at 2008-2009, 162 out of 173 subvented NGOs have joined the LSG subvention mode on a voluntary basis. The total subvention allocated to these 162 NGOs under LSG in 2008-2009 accounts for about 99% of the total baseline recurrent subvention provided by SWD in the year.

Deliberations of the Panel

8. The Panel held a series of meetings to discuss the implementation of LSG subvention system and the difficulties faced by the welfare sector. The Panel also received views from deputations on the matter. The major deliberations of the Panel are summarized below.

Employment terms of staff in the subvented welfare sector

9. Members noted with concern that some NGO operators were reported to have changed unilaterally the terms and conditions of services of their Snapshot Staff in order to attain financial viability. They also expressed concern that there was a lack of consultation by NGOs in making decisions on matters which had staff implications. Members requested the Administration to put in place a mechanism to ensure that NGOs on LSG would honour the employment contract with their staff, and would not dismiss staff for refusing to enter into an employment contract unilaterally introduced by the management.

10. At the meeting on 8 November 2005, the Panel passed a motion urging the Administration to immediately scrap SOG, extend TOG, monitor whether NGOs honour their contractual commitment to staff, and set up a committee comprising the Administration and the relevant stakeholders to review the LSG subvention system.

11. The Administration advised that NGOs on LSG were given flexibility in the deployment of resources to meet evolving priorities and changing community needs. The responsibility to deal with the commitment to Snapshot Staff lay ultimately with the NGOs. The Administration's responsibility under the LSG arrangement was to provide financial support to NGOs which had difficulties in operating on the benchmark salary through TOG and SOG. Should a NGO fail to honour its contractual agreement with its staff, the matter could be taken up by the LSG Steering Committee (LSGSC). The Administration further advised that to ensure that SOG would be spent in a proper manner by NGOs, the use of SOG would be monitored through the Annual Progress Report to be submitted by NGOs each year until the SOG allocated was used up. NGOs would be required to substantiate the use of SOG allocated, in particular the PE expenditure of the Snapshot Staff, the voluntary retirement scheme of individual staff, etc. in the Annual Progress Report, for monitoring and assessment by SWD. If SOG was not used in accordance with the approved purposes, it would be subject to clawing back by SWD.

Reduction of 9.3% from LSG provisions as a result of the Enhanced Productivity Programme and Efficiency Savings

12. During the period from 2000-2001 to 2002-2003, a 5% Enhanced Productivity Programme (EPP) target was set and 1% across-the-board savings was made. In 2003-2004 and 2004-2005, 1.8% and 2.5% Efficiency Savings (ES) respectively had been applied across-the-board to the subvention allocations. As a result, the amount of LSG payable to NGOs was reduced, and this further aggravated their financial difficulties.

13. At the meetings on 8 November 2005 and 30 March 2006, members raised concern as to whether the Administration had violated any contractual obligation by deducting 9.3% from the annual LSG provisions to NGOs over the years as a result of EPP and ES. The Administration was urged to reimburse the money deducted from the Benchmark to NGOs, and reinstate the subvention of the Benchmark to the level laid down in the LSG Manual, so as to ensure that welfare services would not be compromised.

14. The Administration pointed out that it had not violated any contractual obligation by deducting 9.3% from the LSG provisions to NGOs over the years as a result of EPP and ES. SWD had informed all NGOs concerned of the adjustments to LSG resulting from EPP and ES through briefing sessions and letters, and the adjustments had been highlighted in the subventions allocation letters in each financial year. All NGOs concerned had noted the adjustments and signed to indicate their acceptance of the arrangements. The Administration further pointed out that it had adopted various measures to help alleviate the problems faced by NGOs on LSG.

15. Members noted that subvented NGOs with reduced LSG provision as a result of the EPP and ES exercise had financial difficulties in recruiting and retaining staff. According to the welfare sector, the staff turnover rate in welfare NGOs was about 15%, which was much higher than that of 2.5% in the social worker grades in the civil service. The gap between the salary levels of NGO staff and civil service grades was widening as a result of the deduction of 9.3% from the Benchmark Salary of NGOs on LSG over the years under the EPP and ES exercise. There was a need to adjust upwards the LSG provision.

16. The Administration stressed that EPP and ES were across-the-board exercises in the whole public sector, including the Government and all subvented bodies. The savings targets for subvented welfare NGOs were indeed lower than those for Government departments.

Implications of the 2006 Starting Salaries Survey findings on the subvented welfare sector

17. In the light of the 2006 Starting Salaries Survey (SSS) findings, the Panel discussed on 11 June 2007 their impact on the subvented welfare sector. Members were advised that the Administration proposed to adjust upwards the LSG provision for "new" NGO subvented services commissioned on or after 1 April 2000 to bring it in line with the adjusted pay scales resulting from the 2006 SSS findings, having regard to the fact that the LSG provision for these services was calculated with reference to the salaries of the then lower salary scales. As for services implemented before 1 April 2000, no adjustment would be required as the LSG provision was calculated on the basis of the higher civil service mid-point salaries as at 31 March 2000. Separately, the Administration would

adjust the subventions of NGOs upward as a result of the 2007-2008 Civil Service Pay Adjustment in accordance with the LSG Manual.

18. Members were concerned that although the Administration would adjust the annual LSG provision in respect of "new" subvented services commissioned on or after April 2000, the management of some NGOs would not make corresponding upward adjustment to the starting salaries of their staff. Some deputations pointed out to the Panel that some NGOs, for various management reasons, decided not to deploy the additional subventions for its intended purpose and accumulated reserves in excess of their current and future requirements. Members urged the Administration to take concrete actions to ensure that NGOs would spend the additional allocation only on adjusting the salaries of their staff.

19. Some NGO management told the Panel that NGOs had difficulties in implementing the pay adjustment at the present stage as the current subvention provisions had taken into account the EPP and ES adjustments. Some NGOs could only withhold the adjustments, pending the Government's approval of the interim and long-term facilitating measures being considered by LSGSC. The purpose of having a LSG Reserve was to allow individual NGOs to meet their commitments for paying salary increments to the Snapshot Staff. However, many NGOs had already made use of their own LSG Reserve to effect the adjustments as a result of EPP and ES.

20. The Administration advised that under the LSG subvention system, NGOs had flexibility in determining their staffing structures and the remuneration of their staff. While the Administration had reminded NGOs on LSG to use the additional allocation to improve the remuneration of their staff, individual NGOs would continue to enjoy the autonomy in determining how the remuneration of their staff should be adjusted.

21. As the Administration had not fully addressed members' concern, the Panel held a joint meeting with the Panel on Health Services on 25 June 2007 to further discuss the implications of the 2006 SSS findings on the subvented healthcare and welfare sectors. The following motion was passed by all members present at the meeting –

"That this Panel urges the Government to adopt the following principles in dealing with the pay adjustment of the social welfare sector –

- (a) requiring NGOs to use the relevant funding entirely for pay adjustment of their staff;
- (b) implementing systematically equal pay for equal work within the NGOs and the Government, and improving the situation of different pay for the same work between the NGOs and the Government;

- (c) reviewing comprehensively the LSG arrangement and the system of contracting out of services through competitive bidding; and
- (d) honouring immediately the commitment made in implementing the LSG arrangement by reverting the benchmark level of funding to the mid-point salary level as at 31 March 2000."

22. The Administration reiterated that it had provided NGOs with additional recurrent resources of \$330 million as a result of the 2007 Starting Salaries Adjustments and the 2007-2008 Civil Service Pay Adjustment. SWD had stressed to NGOs concerned that they were expected to use it for the purpose of adjusting the pay of their subvented staff. It would be a matter for individual NGOs to work out the detailed arrangements.

Review of the LSG subvention system

Reconvening of the LSG Steering Committee

23. In the light of the strong views from the welfare sector, the Panel had time and again discussed with the Administration the review of the LSG subvention system. The Panel passed a motion at the meeting on 25 June 2007 urging the Administration to, among other things, review comprehensively the LSG arrangement (paragraph 21 above refers).

24. The Panel held another meeting on 29 October 2007 to discuss with the Administration and 23 deputations the implementation of the LSG subvention system. Deputations attending the meeting strongly urged the Administration to, among other things, reconvene LSGSC and set up an independent committee to review the LSG subvention system without further delay. Members shared the deputations' views and suggestions. They took the view that the grievances expressed by the subvented welfare sector were rooted in the implementation of the LSG subvention system. Members also urged the Administration to provide a concrete timetable for the review.

25. The Administration advised that it was aware of the difficulties faced by the subvented sector operating under the LSG subvention mode. The Administration pointed out that the financial problems faced by some NGOs on LSG were caused by a number of factors, including the Government's cost-saving initiatives, changing community needs and higher public expectation.

26. The Administration further advised that the Director of Social Welfare (DSW) had re-convened LSGSC in August 2007, with a view to further enhancing the LSG subvention system and assisting NGOs in its implementation. Chaired by DSW, LSGSC comprised representatives of NGOs management, staff

unions and service users. The sector had made a number of proposals for enhancing the LSG subvention system, including –

- (a) conducting a comprehensive review of the LSG subvention system;
- (b) increasing the recurrent subvention baseline allocation; and
- (c) implementing interim measures to ease the financial problems faced by NGOs.

These proposals were under consideration by the Administration. As LSGSC represented a wide spectrum of views, including the Government, NGO management and staff, staff unions as well as service users, the Administration did not see the need for setting up a new committee to review the LSG subvention system. The LSGSC would continue to be the platform for engagement with the sector on the LSG subvention system. The Administration stressed that it would maintain an open mind on any proposals for enhancing the system.

27. Members were further advised that the LSG subvention system had brought about benefits and enhancement to the welfare sector and was widely accepted by NGOs. It would continue to improve the system and offer assistance to NGOs as appropriate within the framework of the established policy.

28. Members expressed dissatisfaction at the Administration's reluctance to set up an independent committee to review the LSG subvention system. To facilitate members' future discussion, the Panel requested the Research and Library Services Division (RLSD) of the LegCo Secretariat to prepare an information note on the impact of the LSG subvention system on the subvented welfare sector. The information note prepared by RLSD of the LegCo Secretariat was issued to members vide IN14/07-08 on 9 May 2008. The Panel also invited public views on the subject. A total of 76 submissions from the welfare sector and members of the public were received.

Interim facilitating measures

29. At the meeting on 17 March 2008, members were advised that the Administration had implemented the following four interim facilitating measures to ease the financial difficulties faced by NGOs –

- (a) starting from 1 January 2008, all new services to be implemented by subvented NGOs were no longer subject to the effect of EPP and ES;

- (b) new services implemented since April 2000 with PE of some grades set below the mid-point were adjusted upwards to the mid-point salary starting from 1 April 2008;
- (c) the Lotteries Fund Advisory Committee had approved a one-off subsidy of \$200 million for subvented NGOs to strengthen support and training for staff and enhance service quality; and
- (d) starting from 2008-2009, NGOs had to reduce the Snapshot Salary by 2% each year until it came down to the Benchmark Salary. SWD had allowed 26 subvented NGOs which had genuine difficulties in implementing the "coming down" requirement in 2008-2009 to defer it for one year, i.e. to 2009-2010.

30. Members were subsequently briefed at the meeting on 16 May 2008 on the implementation of the LSG subvention system and the Administration's new initiatives to enhance the system. Apart from the interim facilitating measures and the \$330 million additional recurrent resources provided to NGOs since 2007-2008 in line with the 2007-2008 Civil Service Pay Adjustment and 2007 Starting Salaries Adjustments, the Administration had decided to provide an additional \$200 million recurrent funding to NGOs on LSG from 2008-2009 onwards to help them strengthen their administrative capacity.

LSG Independent Review Committee (LSGIRC)

31. The Administration announced on 18 January 2008 the establishment of a LSGIRC to review the implementation of the LSG subvention system. The committee comprised a non-official chairman and four members with different backgrounds. LSGIRC was tasked to assess the overall effectiveness of the LSG subvention system and identify areas and scope for improvement.

32. At the meeting on 16 May 2008, members were advised that LSGIRC had openly invited stakeholders, including the NGO management, staff associations and service users, and members of the public to give views on the subject, and would make visits to NGOs to solicit views from the frontline staff and service users. Members were also advised that depending on the work progress, LSGIRC was expected to complete the review of the LSG subvention system by the end of the third quarter of 2008, and would report its findings and make recommendations to the Secretary for Labour and Welfare (SLW).

33. While welcoming the setting up of LSGIRC to review the LSG subvention system, members remained of the view that the implementation of the LSG subvention system had brought about many problems to the subvented welfare sector, such as poor corporate governance of some NGO management, staff

grievances, and deteriorating partnership between the Administration and the sector. They strongly urged the Administration to take immediate actions to address the problems while awaiting the outcome of the review of the LSG subvention system.

34. The Administration advised that the review of the LSG subvention system would help identify areas for improvement and come up with useful recommendations for the Administration's consideration. As the review was still underway, in order not to pre-empt the findings of LSGIRC, the Administration was unable to make any commitment at that stage. Pending the outcome of the review, the Administration had already launched a series of interim facilitating measures and provided additional recurrent subvention to assist NGOs to cope with their financial difficulties.

35. On 16 December 2008, LSGIRC submitted to SLW its report on the review of LSG subvention system, with 36 recommendations on ways to improve the system. The Panel was briefed at the special meeting on 19 December 2008 on the Review Report. A further special meeting of the Panel will be held on 17 January 2009 to receive views from deputations on the Review Report. Members were advised that the Administration would provide responses to the recommendations of the Review Report in one to two months' time, and it aimed at reverting to the Panel in February 2009.

Relevant papers

36. A list of relevant papers is in the **Appendix** for members' reference. The papers are available on the Council's website at <http://www.legco.gov.hk>.

Council Business Division 2
Legislative Council Secretariat
6 January 2009

Relevant Papers/Documents

<u>Meeting</u>	<u>Meeting Date</u>	<u>Papers</u>
Panel on Welfare Services	13 December 2004	Administration's paper LC Paper No. CB(2)340/04-05 (04) Minutes of meeting LC Paper No. CB(2)537/04-05
	2 June 2005	Administration's paper LC Paper No. CB(2)1695/04-05 (01) Minutes of meeting LC Paper No. CB(2)2212/04-05
	11 July 2005	Administration's paper LC Paper No. CB(2)2213/04-05 (01) Minutes of meeting LC Paper No. CB(2)2243/04-05
	8 November 2005	Administration's paper LC Paper No. CB(2)296/05-06 (01) Minutes of meeting LC Paper No. CB(2)717/05-06
	30 March 2006	Administration's paper LC Paper No. CB(2)1566/05-06 (02) Minutes of meeting LC Paper No. CB(2)2635/05-06

<u>Meeting</u>	<u>Meeting Date</u>	<u>Papers</u>
Panel on Welfare Services	10 July 2006	Administration's paper LC Paper No. CB(2)2636/05-06 (01) Paper prepared by the Legal Service Division of Legislative Council Secretariat LC Paper No. LS90/05-06 Minutes of meeting LC Paper No. CB(2)3172/05-06
	11 June 2007	Administration's paper LC Paper No. CB(2)2046/06-07 (07) Minutes of meeting LC Paper No. CB(2)2600/06-07
	29 October 2007	Administration's paper LC Paper No. CB(2)146/07-08 (01) Minutes of meeting LC Paper No. CB(2)940/07-08
	17 March 2008	Minutes of meeting LC Paper No. CB(2)1534/07-08
	16 May 2008	Administration's paper LC Paper No. CB(2)1875/07-08 (03) Minutes of meeting LC Paper No. CB(2)2569/07-08
	19 December 2008	Review Report on the Lump Sum Grant Subvention System provided by the Administration

<u>Meeting</u>	<u>Meeting Date</u>	<u>Papers</u>
Joint meeting of the Panel on Welfare Services and Panel on Health Services	25 June 2007	Minutes of meeting LC Paper No. CB(2)2746/06-07

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