

Review Report on the Lump Sum Grant Subvention System

Lump Sum Grant Independent Review Committee

December 2008

16 December 2008

Mr. Matthew Cheung Kin-chung, GBS, JP
Secretary for Labour and Welfare
Labour and Welfare Bureau
The Government of the HKSAR

Dear Mr. Cheung,

Re: Report on the Lump Sum Grant Independent Review

We are honoured to submit to you a report pertaining to our findings and recommendations on the Lump Sum Grant Subvention System. We are satisfied that, as reflected in the report, we have completed the review in accordance with the terms of reference as specified in your letter dated January 18, 2008.

Since this review was conducted some eight years after the introduction of the Lump Sum Grant Subvention System, we have found it necessary to go through a considerable amount of data relating to the implementation of the system. At the same time, we considered it only appropriate to consult widely all the stakeholders involved in order for the review to be conclusive.

The successful completion of this review is undoubtedly attributable to the support provided by all stakeholders including welfare non-government organisations, staff and their unions, user groups, the Labour and Welfare Bureau, and the Social Welfare Department, many of whom have met with us more than once. The stakeholders have on numerous occasions participated in discussions and visits scheduled after office hours and during weekends.

We have tried our best to ensure that the review was conducted in a fair, independent, transparent and comprehensive manner in order to arrive at objective assessments and conclusions. We believe we have achieved these goals and sincerely hope that you will find our recommendations useful and suitable for effecting improvements to the existing Lump Sum Grant Subvention System.

Yours sincerely,



Wilfred Wong Ying-wai

Chairman

Lump Sum Grant Independent Review Committee



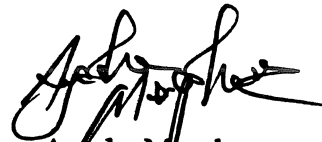
Lawrence Li Kwok-chang
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To view the written submissions received by LSGIRC during the review of Lump Sum Grant Subvention System or the full Report of the Consultancy Study on the Lump Sum Grant Subventions System, please visit the LSGIRC's website at (www.lsgir.hk).

Report of the Lump Sum Grant Independent Review Committee

Executive Summary

The Lump Sum Grant Subvention System

1. The Lump Sum Grant Subvention System (LSGSS) was introduced in January 2001 as a major revamp of the public funding and management of non-government organisations (NGOs) in the social welfare sector. Immediately prior to this reform, the Social Welfare Department (SWD) reimbursed NGOs for the actual costs incurred in delivering recognised welfare services through a system which was considered inflexible, complex and bureaucratic. With the introduction of the LSGSS, the SWD no longer imposes rigid input controls on NGOs' staffing and salary structures or individual items of expenditure. Recurrent funding is granted to NGOs in a lump sum (thus the name Lump Sum Grant, or LSG), and NGOs are given greater autonomy and flexibility to deploy resources and re-engineer their services to meet changing social needs.

The review

2. By early 2008, the LSGSS had been in place for seven years. Both the Government and the welfare sector saw the need for a major review of the system. While acknowledging that the LSGSS had its merits, the Government also agreed that there was scope for improvement. It therefore appointed the Lump Sum Grant Independent Review Committee (IRC) in January 2008 to assess the overall effectiveness of the LSGSS and identify areas and scope for improvement, covering but not limited to the following –

- (a) overall implementation;
- (b) flexibility, efficiency and cost-effectiveness in the use of public funds and in service delivery by subvented NGOs;
- (c) the accountability and corporate governance of subvented NGOs;
- (d) the impact of the LSG on the quality of welfare service; and
- (e) the handling of complaints related to implementation.

3. The IRC set out to conduct the review in an impartial, open-minded, transparent and thorough manner, and has consulted stakeholders, including the

Government, NGOs, staff, service users and the public at large through various communication channels. By the end of the review, the IRC has received 133 written submissions and met all the 112 stakeholder groups which requested meetings. It has also commissioned a consultancy study on overseas welfare funding models.

The IRC's assessment

4. Stakeholders' feedback suggests that most of them consider the LSGSS capable of achieving its objectives. Moreover, they have already adapted to the system. Although there are concerns about the implementation of the LSGSS, a return to the former system would not be advisable or practicable. **Having analysed the views collected, the IRC considers that the principles of the LSGSS are sound. Therefore, the system is worth retaining, and every effort should be made to improve it.** Highlighted below are the key issues identified by stakeholders and the IRC's recommendations on how to address them.

Issues identified

Overall implementation

5. Under the LSGSS, many NGOs have introduced new staffing arrangements which have a significant impact on the career paths and pay packages of their staff. During the review, staff representatives have expressed concerns about NGOs' management practices (e.g. capping staff salaries at mid-point of the corresponding civil service pay scales, not fully deploying the additional Government funding for pay adjustments on staff salaries, etc.), the apparent high turnover and wastage rates and insufficient support for training and capacity enhancement in the welfare sector. Having staff employed on different terms (some as "Snapshot Staff"¹ and others on time-limited contracts) has also created tension between the NGO management and staff. There are demands for "equal pay for equal work", i.e. for staff working in subvented NGOs to be paid like their civil service counterparts. The IRC has examined these issues in detail, as reported in Chapter 3.

6. A number of financial issues have also affected the implementation of the LSGSS. For instance, an LSG which is determined primarily on the basis of NGOs' notional staff establishment in 2000 and further reduced for efficiency enhancement is considered insufficient to meet present day needs. Stakeholders also have different

¹ These are staff on the recognised establishment of NGOs' subvented service units as at 1 April 2000. Their terms and conditions of employment are guaranteed provided that they remain employed by the same NGO and have not been regraded or promoted to another rank.

views on how NGOs should use reserves. There are also calls to improve the interactions between the Government and NGOs, to disclose the computation of the LSG, to update the LSG Manual and to enhance day-to-day communications. Please see Chapter 4 for details.

Flexibility, efficiency and cost-effectiveness

7. Various measures can be taken to enable NGOs to make good use of the flexibility provided under the LSGSS, so that they may operate more efficiently and deliver service in a more cost-effective manner. For instance, the SWD can improve its audit procedures and financial reporting requirements; NGOs can pursue Business Improvement Projects (BIPs) funded by the Lotteries Fund (LF); the small NGOs in particular require assistance in terms of administrative support. Moreover, as most of the new welfare services are allocated through invitation of proposals or competitive bidding, stakeholders expect the bidding process to be fair, effective and capable of assuring service quality. Please see Chapter 5 for details.

Accountability and corporate governance of subvented NGOs

8. Welfare NGOs are accountable to the SWD and the public for the proper use of government funds and the delivery of quality service. Good corporate governance can enhance performance and ensure proper accountability. For this reason, NGOs need to clearly define the roles of their management and governing board. There are also expectations for NGOs to enhance financial information disclosure including the remunerations of their senior executives. Please see Chapter 6 for details.

Impact of the LSG on the quality of welfare services

9. The LSGSS should be conducive to quality enhancement because it provides NGOs with the flexibility needed for introducing initiatives which would improve their services and for responding to changing service needs. There is a built-in quality assurance mechanism under the LSGSS that monitors NGOs' performance through regular reporting and site inspections. Other factors such as better welfare planning and effective regulation of fee charging arrangements can also help improve service quality under the LSGSS. Please see Chapter 7 for details.

Handling of complaints

10. Feedback is essential for the improvement of any system. To support the LSGSS, there should be an effective complaints handling mechanism so that valid complaints can be made known and addressed. At present, LSG-related complaints are handled by both the SWD and the Lump Sum Grant Steering Committee (LSGSC), but stakeholders have doubt about the effectiveness of this arrangement and suggest that an independent complaints handling body be established. Please see Chapter 8 for details.

Related issues

11. Some issues are not about the LSGSS per se but are nonetheless important to the subvented welfare sector. For instance, if stakeholders' concerns about LF rules and the shortage of paramedical staff can be addressed, and if more community resources can be tapped for service enhancement, there will be a positive impact on NGOs' operation. Please see Chapter 9 for details.

Recommendations

12. To address the above issues and improve the LSGSS, the IRC has made 36 recommendations, as listed below -

- (1) A Best Practice Manual for NGOs on various management issues such as human resource policies, the level of reserves and their gainful deployment, corporate governance and accountability, etc., should be developed by the welfare sector, with professional input from management experts if necessary. The LSGSC should work with the sector in drawing up this manual.
- (2) The Government should make available an actuarial service for NGOs to assess their ability to meet Snapshot Staff commitments. Application for this service should be on a voluntary basis.
- (3) As a good management practice for NGOs, the additional funding provided in line with civil service salary adjustments should be spent solely on staff in subvented services.
- (4) In budgeting for non-subvented services, NGOs need to factor in pay adjustments, so that they may be in a better position to meet staff expectations when subvented services receive additional funds for pay adjustments.
- (5) The SWD should collect data on staff turnover and wastage rates for the purpose of monitoring the sector's overall manpower position. The

Government should invite the Advisory Committee on Social Work Training and Manpower Planning to monitor closely the manpower supply in the welfare sector, so as to ensure a stable supply of professional staff.

- (6) The Government should set up a \$1 billion Social Welfare Development Fund to support training, capacity enhancement initiatives and service delivery enhancement studies. Grants should be allocated to NGOs on LSG based on the merit of their applications.
- (7) In view of the changing service needs, the Government should institute a review mechanism whereby appropriate advisory bodies such as the Social Welfare Advisory Committee (SWAC), the Elderly Commission, the Rehabilitation Advisory Committee, etc. may oversee the systematic review of welfare services and ensure that stakeholders' views are taken into account in the review process.
- (8) In exceptional and justifiable cases, the SWD should allow NGOs to advance the subventions for other charges.
- (9) In managing their reserves, NGOs should take into account their Snapshot Staff commitments, as well as the need for service enhancement and staff development.
- (10) The SWD should establish a mechanism whereby NGOs which anticipate financial difficulties can alert the SWD in advance, so that remedial measures can be taken as appropriate before the NGOs concerned exhaust their reserves.
- (11) NGOs should fully deploy the Provident Fund (PF) provisions and reserves for non-Snapshot Staff on PF contributions, including possibly special contributions to award non-Snapshot Staff for their good performance.
- (12) Recognising NGOs' achievements in enhancing efficiency and productivity under the Enhanced Productivity Programme/ Efficiency Savings, it is recommended that the need for additional funding should only be justified by a systematic review of service needs.
- (13) The LSGSC should be reconstituted to strengthen its role and composition, so that it can lead the sector in the continuous development of the LSGSS.
- (14) For the sake of transparency, the SWD should be prepared to explain, at the request of individual NGOs, the basis of their LSG calculations.
- (15) The SWD should revise the LSG Manual in consultation with stakeholders, update it regularly, and announce changes on the SWD's website in the first instance. NGOs should also be notified instantaneously by email.
- (16) The SWD should rationalise the Agency Officer system with a team of officers who are familiar with the rules and operations of the Subventions, Finance and Service Branches and can provide prompt advice to NGOs on all LSG-related

issues. The resources thus released may be redeployed to step up existing work such as quality inspections or implement new initiatives.

- (17) The SWD should conduct a thorough review of its audit procedures to ensure that they are effective in monitoring the use of public funds and do not compromise NGOs' flexibility under the LSGSS.
- (18) To avoid misunderstanding, NGOs should consult the SWD in a timely manner as to what constitute "Funding and Service Agreement (FSA)-related" activities before conducting such activities.
- (19) The SWD should streamline its financial reporting requirements, including dropping the requirement for NGOs to provide analyses of incomes and expenditures by programme area and by FSA.
- (20) The SWD should review the deadline for NGOs to submit their Annual Financial Reports (AFRs), taking into account the practicability of the requirement.
- (21) The SWD should set up a help desk to provide management advice to small NGOs and to facilitate their collaborative efforts. To help small NGOs develop, the SWD should also make available additional resources for them to strengthen their administrative and professional support. Small NGOs may apply for grants up to \$300,000 (or 10% of its LSG, whichever is lower) each year for a total of four years.
- (22) The definition of "small NGOs" should be standardised so that the assistance to them can be more targetted and effective. For this purpose, small NGOs should more appropriately be defined as NGOs with an annual LSG of less than \$5 million and an annual expenditure below \$10 million.
- (23) Small NGOs may consider submitting joint proposals to enhance their competitiveness in the bidding of new services. While NGOs participating in such joint ventures have to identify a representative to sign the FSA and liaise with the SWD, the NGOs should also enter into an agreement among themselves to set out clearly their individual contributions and shared responsibilities.
- (24) In inviting bids for new services, the SWD should make known to prospective bidders the relative weighting of the various aspects of a proposal in the marking scheme.
- (25) NGOs should carefully consider their resource implications before preparing service proposals. NGOs should also take into account the views of their staff and share with them the considerations in submitting service proposals.
- (26) The SWD should look into the possibility of simplifying the process for the allocation of new services, such as introducing a two-stage tendering process,

so that resources can be saved both in the preparation of service proposals and in the vetting of the proposals.

- (27) As per **Recommendation (6)**, a new Social Welfare Development Fund should be established and should take over the function of the BIP Scheme. It is for the SWD to consider whether NGOs should still be required to contribute at the present or at a lower level to the projects supported by the new fund.
- (28) A formal public accountability framework should be in place for NGOs to disclose their AFRs as submitted to the SWD, so that they will also be accountable to the public for the proper and prudent use of public funds.
- (29) The SWD should fully consult the NGOs with a view to implementing the Government guidelines on the monitoring of remunerations of senior executives in subvented bodies.
- (30) The SWD should conduct more frequent service performance inspections and surprise visits, and systematically collect service users' feedback.
- (31) The Government, having regard to SWAC's recommendations, should work more closely in partnership with the sector to establish a practicable and sustainable mechanism for implementing a visionary welfare plan for Hong Kong.
- (32) Complaints made by service users and staff against subvented NGOs or their service units should be handled, in the first instance, by the NGOs concerned according to their established policy. How their management and governing boards should better perform their respective roles in this regard should be addressed in the sector's Best Practice Manual.
- (33) An Independent Complaints Handling Committee (ICHC) should be set up to determine on LSG-related complaints that cannot be satisfactorily addressed at the NGO level and recommend improvements to the LSGSS. The Director of Social Welfare should be informed of the ICHC's decisions and recommendations, and should take follow up actions as appropriate.
- (34) For anonymous complaints, where the SWD does not require any feedback from, or investigation by, the NGO, it should make that clear to the NGO to avoid unnecessary work.
- (35) The SWD should review the LF vetting procedures and funding rules, and consider, inter alia, the following improvements, so as to make better use of the LF -
 - (a) increase the agency cap of the Block Grant to 1.5%;
 - (b) for furniture and equipment items, lower the threshold for major grant applications to \$50,000;

- (c) where a project is carried out under the supervision of Authorised Persons or consultants, the Government should consider placing more reliance on their professional certification to expedite the vetting process; and
 - (d) where a project is proposed to be named after a donor, the SWD may maintain the requirement that the donor makes a contribution of at least 20% of the project cost, but of which only an amount equal to 10% of the project cost will be used to offset the LF grant, while the NGO concerned may use the remainder to upgrade the project.
- (36) The SWD should, in response to the labour market situation, provide additional resources for three years to welfare NGOs which need to employ paramedical staff or hire their services, so that they may offer more competitive salaries to recruit and retain these staff.

Guiding principles

13. The above recommendations are actions to be taken at this juncture. In addition, the IRC has identified principles to guide the LSGSS' continuous development in future. They are Partnership, Flexibility, Adequate Monitoring, Accountability and Communication, and above all, a Mindset for Change. The IRC is convinced that if all the stakeholders are willing to work together, they can make the LSGSS a success.

Chapter One -- Introduction

1.1 The Lump Sum Grant Subvention System (LSGSS) was introduced in January 2001 as a major revamp of the public funding and management of non-government organisations (NGOs) in the social welfare sector. Since then, the LSGSS has basically replaced the conventional social welfare subvention system which was considered inflexible, complex and bureaucratic. After more than seven years of operation, there was a general consensus amongst all the stakeholders that a comprehensive review of the LSGSS would be necessary. Therefore, in January 2008, the Government appointed the Lump Sum Grant Independent Review Committee (IRC) to conduct the review.

1.2 This chapter provides an overview of the LSGSS, the key developments since its implementation, the terms of reference of the IRC and the methodology adopted for the review.

The LSGSS

1.3 In Hong Kong, the majority of welfare services is not directly provided by the Government, but by NGOs. The Government, nonetheless, supports NGOs for the provision of a wide range of core services, through cash grants and other forms of assistance such as tax exemption and lease of premises at concessionary rental. The funding arrangements between the Government and the NGOs constitute the subvention system.

1.4 The subvention system for the welfare sector has evolved over time. A major reform took place in 2001 with the introduction of the LSGSS. Immediately prior to this reform, the Government, through the Social Welfare Department (SWD), reimbursed NGOs for the actual costs incurred in delivering recognised welfare services. The subvention budget was tightly controlled by stipulating the NGOs' staffing structures, levels of pay, staff qualifications and individual items of expenditure for each type of service. The system was inflexible, involving elaborate rules and procedures in vetting staff qualifications and reimbursement of expenses. There was also no incentive in the system to encourage more effective use of resources to achieve lower costs, better value for money or improved services to users, as NGOs were not allowed to freely deploy resources or keep savings for new initiatives to meet service needs. Moreover, once subvention was provided to an

NGO to run a particular service, it was seldom revised even when service needs had changed or the modes of operation required revamping. This did not encourage innovation and service re-engineering to meet changing community needs.

Objective and major features of the LSGSS

1.5 The LSGSS was meant to address these shortcomings. Under this system, the SWD no longer imposes rigid input controls on NGOs' staffing and salary structures or individual items of expenditure. Recurrent funding is granted to NGOs in a lump sum (thus the name Lump Sum Grant, or LSG), and NGOs are given greater autonomy and flexibility to deploy resources and re-engineer their services to meet changing social needs in a timely manner.

1.6 The amount of LSG varies for different NGOs. It is calculated according to a formula that takes into account the NGO's salaries costs, the salary-related allowances and provident fund (PF) for its staff, other charges (OC) and recognised fee income. Notably, a "benchmark" specific to each NGO is set for the part of its LSG that corresponds to staff costs, so as to standardise the funding level to NGOs operating the same type of service units. A "snapshot" was taken of the NGO's recognised staff establishment as at 1 April 2000 (i.e. the "Snapshot Staff"); and the sum of their salaries at mid-point on the civil service Master Pay Scales (MPS) as at 31 March 2000 is the "benchmark" for that NGO. The PF provision is calculated on an actual basis for the Snapshot Staff and at 6.8% of the mid-point salaries of the recognised notional establishment of the subvented service unit for non-Snapshot Staff. Separately, NGOs continue to receive reimbursement of rent and rates for their service premises on an actual basis.

1.7 As the salary structures and pay scales of NGOs were delinked from those of the civil service upon the introduction of LSGSS, and staff costs were henceforth funded according to the benchmark, it was important that the benchmark represented the level of subvention that was sufficient for the continuous provision of service. The Government was satisfied with pitching the benchmark at mid-point of the prevailing MPS because the welfare sector's actual salary bill as a whole had never reached the mid-point of the relevant MPS in the past. That said, in the initial years, NGOs on LSG were still fully funded for their actual salary costs in respect of Snapshot Staff where they were higher than the benchmark level, on the understanding that these NGOs would in due course reduce their personal emoluments (PE) requirement by 2% each year until they came down to the

benchmark level. Two-thirds of the NGOs, however, had a funding level below the benchmark at the time of joining the LSGSS. They received an immediate increase in funding up to the benchmark level. Although the 2% adjustment process mentioned above was originally scheduled to start in 2006-07, actual implementation was deferred twice and did not commence until 2008-09.

1.8 Under the LSGSS, NGOs can retain unspent funds in a reserve to meet future liabilities. The reserve (including interest income but excluding PF reserve) is capped at 25% of the annual operating expenditure of the NGO. Any amount above the 25% cap has to be returned to the Government in the following financial year, unless the NGO has applied to, and obtained the permission of, the Director of Social Welfare (DSW) to lift the cap. The reserve can be used at the discretion of NGOs on activities related to the Funding and Service Agreements (FSAs) they sign with the SWD and relevant support services, but PF reserve can only be used for PF expenses.

1.9 The formula for calculating the LSG as well as other general rules governing the LSGSS are set out in the LSG Manual. It is an agreement between the Government and the NGOs concerned, and is binding on both. It also contains guidelines for NGOs on good management practices and processes. As such, it is intended as a useful reference for all stakeholders under the LSGSS.

1.10 An important feature of the LSGSS is the shift from input control to output measurement. The Service Performance Monitoring System (SPMS), which was already in place before the introduction of the LSGSS and further improved down the road, measures each NGO's performance in terms of output requirements and service standards, against the FSAs and the Service Quality Standards (SQSs) that the SWD stipulates.

1.11 To monitor the implementation of the LSGSS, a Lump Sum Grant Steering Committee (LSGSC) was established in 2001. It is chaired by the DSW and comprises representatives of the NGOs' management, staff unions and service users.

1.12 There is much more to the LSGSS than determining the benchmark or putting in place the LSG Manual, the SPMS and the LSGSC. The flexibility in staff remuneration and the use of resources, the scope for re-engineering, the call on the NGOs' accountability and corporate governance, etc. are also pertinent issues in implementing the system. They will all be examined in greater detail in the

following chapters. In summary, the LSGSS seeks to simplify the subvention arrangements by devolving much of the operational and resource management decisions to the NGOs, while ensuring proper use of public funds and satisfactory service provision through setting mutually agreed accounting rules and service standards.

1.13 Currently, subvented NGOs are providing about 80% of Government-funded social welfare services in Hong Kong. As at 1 August 2008, 162 out of the 173 subvented NGOs had opted to join the LSG subvention mode on a voluntary basis. The total LSG subvention to these 162 NGOs in 2008-09 is estimated to be about \$8 billion, which accounts for over 99% of the Government's recurrent subvention on welfare in the year, and represents a 36% increase over the LSG subvention of \$5.9 billion in 2001-02.

Developments since 2001

1.14 The LSGSS today is largely the same as that in 2001. A number of facilitating measures have been introduced over the years to help NGOs in its implementation, some of which having a lasting impact on the system. A distinction, however, has to be made between circumstantial changes which affect the implementation of the LSGSS and modifications to the system itself, although they are often intertwined.

1.15 A case in point is the Government's decision to pursue the Enhanced Productivity Programme (EPP) and Efficiency Savings (ES) which, though not an intrinsic part of the LSGSS and not unique to the welfare sector, posed a major challenge to NGOs which were trying to adjust to the new funding mode at that time. The cumulative impact of these parallel developments on NGOs under the LSGSS was significant enough to justify repeated Government intervention and substantial funding injections into the system, as described in the ensuing paragraphs.

EPP and ES

1.16 At the turn of the century, the Government was under tremendous financial pressure. The entire public sector, across-the-board, was required to meet a recurrent savings target of 5% within three years' time, from 2000-01 to 2002-03. This initiative was known as EPP because it was expected that the bulk of savings would be achieved through service re-engineering which enhanced efficiency in the use of

resources. As the initiative should bring about fundamental and lasting changes to the organisations concerned, the savings would be recurrent and the funding reduction for this purpose permanent.

1.17 For the welfare sector, the SWD reduced the subvention to all subvented NGOs by 1% in 2000-01. Except for 77 small NGOs receiving subventions of less than \$3 million per annum, all these NGOs were required to reach a 4% EPP target by 2002-03. No further funding cut was applied to the welfare NGOs thereafter, as the SWD had itself absorbed the reductions required to meet the Government's target of 5%. The total EPP contributions from subvented NGOs were about \$110 million.

1.18 As financial pressures did not subside, the Government required the entire public sector to achieve further savings under ES in the years that followed. Accordingly, the SWD reduced the subvention to all NGOs by 1.8% in 2003-04 and another 2.5% in 2004-05 across-the-board. A further 1% funding cut was applied to these NGOs in 2005-06 but this time 74 NGOs with recurrent subventions below \$3 million were exempted. The total ES contributions from subvented NGOs were \$342 million.

1.19 In sum, a total of no more than 9.3% savings in recurrent funding (4% EPP and 5.3% ES) were delivered by the welfare sector, with nearly half of the NGOs contributing less than this amount, some at only 5.3% (i.e. 1% EPP + 1.8% ES + 2.5% ES). The actual savings of \$452 million accounted for a 6.5%, rather than 9.3%, cumulative target, and the remainder was borne by the SWD.

Tide Over Grant and Special One-off Grant

1.20 As PE on average represent about 80% of a welfare NGO's expenditures, the scope for savings from OC is limited. Moreover, in transition to the LSGSS, Snapshot Staff were guaranteed their terms and conditions of employment provided that they remained employed by the same NGO and had not been regraded or promoted to another rank. With these constraints, there were grave concerns in the sector that despite vigorous re-engineering efforts, NGOs would not be able to deliver the EPP and ES targets without compromising the interest of their staff. To ensure that NGOs had adequate funds to meet their contractual commitments to the Snapshot

Staff and had sufficient time to adapt to the new funding system through organisation restructuring and service reengineering, the Government provided a one-off Tide-over Grant (TOG) to them for five years from 2001-02 to 2005-06.

1.21 Upon the cessation of TOG, the SWD put forward another form of assistance, namely the Special One-off Grant (SOG), to NGOs in 2006-07. The SOG, made possible by allocations from the Lotteries Fund (LF), was capped at two times the amount of TOG that the respective NGOs received in 2005-06¹. There were two SOG schemes. NGOs in receipt of SOG under Scheme A had to furnish their own financial plans showing how they could achieve financial viability within a defined and reasonable period of time, while those in receipt of SOG under Scheme B undertook to honour their contractual commitments to the Snapshot Staff without requiring further financial assistance from the Government in this regard. As a corollary, the Government allowed NGOs to accumulate reserves over and above the normal 25% cap for three years from 2004-05 to 2006-07 and keep them in a separate account for future use, so as to maintain financial viability in the long run. Notably, among the 124 NGOs which applied for SOG, 78 opted for Scheme B and declared that they did not actually require assistance in honouring contractual commitments for their Snapshot Staff; SOG was granted to these NGOs to enhance their human resource practices, benefiting both Snapshot Staff and all other staff.

1.22 In the six years between 2001-02 and 2006-07, the total amount of assistance that Government provided to NGOs under the LSGSS amounted to almost \$2.4 billion, comprising \$1,473 million of TOG for 125 NGOs and \$912.4 million of SOG for 124 NGOs². As at March 2007, 140 out of the 164 NGOs operating under the LSGSS had accumulated reserves totalling over \$2 billion. The average percentage is 33% of their annual operating expenditures.

Further facilitating measures

¹ A small number of NGOs with proven financial difficulty in honouring their Snapshot Staff commitments were allowed, exceptionally and on a case-by-case basis, additional financial assistance. Their SOG was more than two times the amount of TOG they received in 2005-06.

² As two of these NGOs merged in 2006-07, the number of NGOs on SOG was subsequently reduced to 123.

1.23 Although TOG came as a timely relief against the backdrop of EPP and ES, and SOG provided a viable solution to the issue of Snapshot Staff, NGOs were facing other challenges at the same time, such as the need for organisational restructuring and service re-engineering to better meet the rapidly changing service demands.

1.24 The Government therefore introduced further measures in December 2007 to assist the NGOs under the LSGSS. The package of assistance comprised the following -

- (a) starting from 1 January 2008, all new services implemented by subvented NGOs would no longer be subject to the effect of the EPP/ES;
- (b) for new services implemented from 1 April 2000 onwards, where the provision for PE was below the mid-point of the relevant MPS, it would be adjusted to the mid-point level;
- (c) a one-off grant of \$200 million would be made by the LF to help NGOs cope with the challenges facing them in recent years, including the need for organisational restructuring and service re-engineering to better meet service needs; and
- (d) NGOs whose salary provision was higher than the benchmark had to reduce the provision by 2% each year, starting from 2008-09, until it came down to the benchmark level. Notwithstanding this “coming down” requirement, NGOs which had genuine difficulties could, with SWD’s agreement, defer the implementation date by one year.

1.25 Also recognising that service needs had undergone changes unforeseen at the time of introducing the LSGSS, such that NGOs needed stronger administrative support for effective service delivery, the Government decided to provide an additional \$200 million recurrent funding to NGOs under the LSGSS from 2008-09 onwards to help them strengthen their administrative capacity.

1.26 Thus, throughout the years, the implementation of the LSGSS has been affected by contemporary developments on various fronts. A chronology of the

major events described above would help us trace the progress of LSGSS in context.

Table 1 : Chronology of major events in relation to the introduction of LSGSS

<u>Financial Year</u> (April –March)	<u>Major Events</u>
1999-2000	• Introduction of SPMS
2000-01	• Implementation of LSGSS • Establishment of LSGSC
2001-02	• NGOs required to meet 1% savings target under EPP • Provision of 5-year TOG commenced
2002-03	• NGOs required to meet a cumulative 4% savings target under EPP
2003-04	• NGOs required to deliver 1.8% ES
2004-05	• NGOs required to deliver a further 2.5% ES
2005-06	• NGOs required to deliver a further 1% ES
2006-07	• Provision of SOG
2007-08	• New services rolled out on or after 1 January 2008 are not subject to EPP/ES
2008-09	• Provision of a one-off subsidy of \$200 million to support NGOs in enhancing human resource and financial management • Provision of an additional \$200 million recurrent funding (about 3% of NGOs' total recurrent subvention) to help NGOs strengthen their administrative capacity • For new services rolled out on or after 1 April 2008, provision for PE below mid-point are adjusted to mid-point level • NGOs in genuine difficulty are allowed, on application, to defer the “coming down” requirement for one year

The IRC

1.27 By early 2008, the LSGSS had been in place for seven years. Both the Government and the welfare sector saw the need for a major review of the system. More specifically, staff representatives on the LSGSC put forth a request at the meeting on 2 November 2007 that the Government should appoint an independent committee to review the LSGSS. While acknowledging that the LSGSS had its merits, the Government also agreed that there was scope for improving the system. It therefore responded positively to the request, and established the IRC in January 2008.

Composition and terms of reference

1.28 The IRC, comprising five independent individuals appointed on an ad personam basis, was tasked to assess the overall effectiveness of the LSGSS and identify areas and scope for improvement, covering but not limited to the following –

- (a) overall implementation;
- (b) flexibility, efficiency and cost-effectiveness in the use of public funds and in service delivery by subvented NGOs;
- (c) the accountability and corporate governance of subvented NGOs;
- (d) the impact of the LSG on the quality of welfare service; and
- (e) the handling of complaints related to implementation.

1.29 The IRC was given about nine months to complete the task, and was required to report its findings and make recommendations to the Secretary for Labour and Welfare (SLW).

Review methodology

1.30 The IRC was fully aware of the importance of this review for the welfare sector and its far-reaching implications on the community as a whole. It therefore set out to conduct the review in an impartial, open-minded, transparent and thorough manner, leaving no stones unturned. The IRC has made its best efforts to consult all stakeholders, including the Government, NGOs, staff, service users and the public at large through various communication channels.

1.31 Shortly after its formation, the IRC issued letters to more than 170 stakeholder groups, inviting them to send in written submissions or meet with the IRC. Views were also solicited through announcements published in the Hong Kong Economic Times, Ming Pao and South China Morning Post on 25 March 2008. The IRC website (www.lsgir.hk) was launched on the same day. It was constantly updated to report the IRC's activities and the progress of its review.

1.32 The response to the IRC's open invitation was very enthusiastic. During the period of the review, the IRC met with all the 112 stakeholder groups which requested an interview. It also invited 11 service user groups to a separate sharing session, and organised a number of focus group discussions as well as made nine site visits covering a wide range of welfare services³. Meetings were arranged with the Labour and Welfare Bureau, the SWD and the Audit Commission to gather information on government policies and accounting principles.

1.33 To encourage the exchange of views among different stakeholders, the IRC organised a seminar on 29 April 2008. About 240 stakeholders participated in the discussion. The SLW was invited to deliver an opening speech as Guest of Honour, while Professor Nelson Chow, Ms Christine Fang, Mr Ng Man-sui and Mr Yeung Ka-sing were guest speakers.

1.34 The IRC also attended seminars organised by stakeholder groups, such as those organised by Dr Fernando Cheung on 26 March 2008 and the Fight for Social Welfare Alliance on 12 April 2008. Invited by the Legislative Council Panel on Welfare Services (Panel), the IRC Secretary attended the Panel's meeting on 16 May 2008 to explain the work of the IRC and hear views expressed by the deputations.

1.35 A list of the IRC's meetings with stakeholders groups is at **Annex 1**. The IRC has also received 133 written submissions. With the consent of the parties concerned, 127 of the submissions are included in a compendium published on the IRC's website.

1.36 Apart from reviewing the implementation of the LSGSS in Hong Kong, the

³ To observe the operation of services and meet with frontline staff and service users, the IRC visited the following NGOs : Heep Hong Society Cheung Sha Wan Centre; International Social Service Sham Shui Po South Integrated Family Service Centre; St James' Settlement; Chi Lin Nunnery; Asbury Methodist Social Service; Caritas Jockey Club Lai King Rehabilitation Centre; Christian Family Service Centre Yang Chen House; SWD Tseung Kwan O East Integrated Family Service Centre and SWD Tseung Kwan O North Integrated Family Service Centre.

IRC also commissioned a consultancy study on the funding mode for welfare services in five overseas countries, comparing them with the LSGSS to see if useful references might be drawn. The executive summary of the study report is reproduced at **Annex 2**. The full report is available on the IRC's website.

IRC Report

1.37 The IRC's findings and recommendations are fully and unreservedly presented in this report. An overall assessment of the LSGSS is given upfront in Chapter 2, which is substantiated by detailed analyses in the chapters that follow. The five topics highlighted in the terms of reference of the IRC, as set out in paragraph 1.28 above, are addressed one by one, with cross references to each other where necessary. Towards the end of the report, the IRC has also taken the liberty to examine other issues which, though not part of the LSGSS, are nonetheless closely related to its implementation and hence of concern to the welfare sector. The concluding chapter summarises the IRC's 36 recommendations. It seeks to explain in a concise and coherent manner how the various recommendations relate to and complement each other, and serves as a handy reference for follow-up actions.

1.38 This report is the result of the IRC's independent analysis, but the task itself would not have been possible without the full support and invaluable input of all the stakeholders involved in the review process. The review is, therefore, the concerted efforts of all parties concerned, to whom the IRC is much indebted and immensely grateful.

Chapter Two --- Overall Assessment

2.1 In this chapter, we provide an overall assessment of the LSGSS based on views expressed by key stakeholders, including board members and the management of NGOs, staff and their unions, service users and the Government, during the IRC's comprehensive consultation.

2.2 Understandably, different stakeholders have different perspectives and diverse interests are involved. There is no dispute, however, that the effective provision of quality welfare services is in the interest of the community and should be the ultimate aim of any subvention system. Stakeholders have assisted us in assessing the LSGSS in this light, enabling us to arrive at a balanced view and seek further improvements to the system.

Stakeholders' overall assessment of the LSGSS

NGOs

2.3 Most of the NGOs consulted agree that the LSGSS is designed to provide the flexibility needed for them to be more responsive to changing needs and better serve their clients. In general, they have affirmed the advantages of the LSGSS, such as the high degree of management autonomy inherent in the system, the focus on outcome rather than input control and the resultant greater public accountability.

2.4 Different NGOs have adopted different strategies in implementing the LSGSS. Many see the introduction of the LSGSS as an opportunity for improvement. They have taken the initiative to enhance their own corporate governance and carried out extensive re-engineering exercises to bring about lasting benefits. The IRC is very much impressed with the remarkable achievements of these NGOs.

2.5 NGOs are also aware of problems in the implementation of the system, some of which are caused by external factors such as the Government's financial pressures and the increasing complexity of social problems. They are concerned that such problems, if left unmanaged, will undermine the quality and sustainability of welfare services. Many NGOs have offered helpful advice to the IRC on how their concerns may be addressed.

Staff

2.6 Views of frontline staff, staff unions and social work students on the LSGSS are diverse. While some of them agree with the objectives of the system, others have expressed concern about the flexibility given to NGOs in terms of financial and human resource management, and wish to see more effective checks and balances in place. More specifically, they demand “equal pay for equal work” which in effect links their pay to that of civil servants.

2.7 Staff have also highlighted the importance of professional development and a stable workforce. As these issues are essential not only for maintaining service quality, but also for the long-term development of the welfare sector, staff hope that they can be fully addressed under the LSGSS.

2.8 The IRC observes that some staff are prepared to rise to the challenges of the LSGSS because they see the potential benefits of the system and wish to contribute to its success, while others are less optimistic about the outlook. It appears to the IRC that for NGO staff, the degree of acceptance of the LSGSS to a large extent corresponds to the level of trust in the NGO management. Where there are common objectives and agreed priorities within the agency, the NGO and its staff are better equipped to overcome resource constraints, manage work pressures and reap the benefits of the LSGSS together.

Service users

2.9 For the users, service quality is understandably their primary concern. Under the LSGSS, NGOs are encouraged to introduce initiatives which would improve their services. This is welcome by all, as confirmed by the positive findings of NGOs’ surveys on users’ satisfaction.

2.10 Some service users have observed that the turnover rates of social workers seem to be higher than before the introduction of the LSGSS and staff’s workload also appears to have increased. They wish to be assured that the LSGSS is able to address these issues and that service quality will not be compromised as a result.

The Government

2.11 In introducing the LSGSS, the overriding aim of the Government is service

enhancement. Greater autonomy and flexibility are given to NGOs so that they can meet changing social needs in a more effective and timely manner. In practice, most NGOs are able to meet the output/outcome standards stipulated in their FSAs; many have also taken the initiative to improve their organisational management. The Government is pleased to see this development. Indeed, the LSGSS is regarded by the SWD as being instrumental to service re-engineering throughout the sector. We shall explain this in greater detail in Chapter 5.

2.12 The Government is convinced that the LSGSS has its merits and should continue. Over the years, the Government has introduced many measures to assist NGOs and staff in the implementation of the LSGSS, such as the provision of TOG and SOG. However, there is a limit as to how far the Government can intervene without undermining the NGOs' autonomy. The Government's strategy has therefore been to provide the necessary facilitation and support, enabling the NGOs to make good use of the LSG while not dampening their enthusiasm in service improvement.

Overall Assessment by the IRC

2.13 The IRC is aware of the widespread discontent about the subvention system which was in place prior to the introduction of the LSGSS. That system required the SWD to reimburse NGOs for the actual costs incurred in delivering recognised welfare services and to tightly control NGOs' budget down to the level of individual staff and items of expenditure, and was strongly criticised as being too rigid and bureaucratic.

2.14 The LSGSS is intended to address the shortcomings of the former subvention system. From the many verbal and written representations the IRC has received, we see that the majority of stakeholders consider the LSGSS capable of achieving this objective. To date, over 160 NGOs have opted to join the LSGSS. The majority of stakeholders have already adapted to the system, some have gone through more extensive re-engineering than others, and many of them have been able to reap the benefits that the system promises.

2.15 In the circumstances, a return to the former system will not be advisable or practicable, as that system was fraught with problems and changes have been made under the LSGSS for the better. In comparison, the LSGSS is a much more progressive funding model capable of supporting Hong Kong's welfare development

in the long term. There are problems encountered in the implementation of the LSGSS, but they should not be insurmountable.

2.16 Having analysed the views collected, the IRC considers that the principles of the LSGSS are sound. Therefore, the system is worth retaining, and every effort should be made to improve it.

Scope for improvement

2.17 The objectives of the LSGSS are simple and clear, but one must not underestimate the difficulty in its implementation. It was an ambitious venture from the start, in the sense that it expects all the stakeholders to adapt to their new roles, and the kind of adaptation required is no less than a fundamental paradigm shift.

2.18 NGOs, which used to follow prescribed rules in the acquisition and use of resources, now have to decide how best to manage their resources. Staff have to move in tandem with their management in this development. Service users also have to be alert to changes that may affect service quality, and provide timely feedback to the service providers. Even for the Government which initiated the subvention reform, it is no easy task to manage all the teething problems and align the vision of all parties concerned, including its own staff in the SWD.

2.19 The success of the LSGSS therefore hinges on the stakeholders' readiness and willingness to assume new roles and accept challenges during the transition. Optimally, the LSGSS should contribute to the development of a responsive and sustainable social welfare sector. It should be able to support a wide range of quality services that meet changing social needs. This state is not beyond the reach of our community, but unless and until stakeholders have the mindset for change, the system will not be able to move in its intended direction and its ideal will always remain a distant vision.

2.20 Governments elsewhere are continuously modifying their welfare funding systems. In recent years, Australia has simplified its funding agreements and performance indicators; Canada has improved its grants and contributions system and issued Codes of Good Practice to promote collaboration between the government and the social service sector; New Zealand has also integrated service contracts to save administrative resources. More strategic reforms have been carried out by the United Kingdom (UK) as the relationships between the government and the voluntary

and community sectors are redefined and new funding practices introduced. As the world moves on, welfare systems everywhere also need to make progress. There is no reason why Hong Kong should be complacent.

2.21 This review has brought to the forefront various issues concerning the implementation of the LSGSS. The IRC believes that one does not resolve an issue by denying it or magnifying it, but by properly addressing it. The causes must be critically examined, its implications carefully assessed and improvements expeditiously made. This is what we will do in the following chapters.

2.22 Like all kinds of complex teamwork, the LSGSS has to be built on mutual trust. If any of the stakeholder groups feels alienated, the entire system falters. The objectives of the LSGSS can only be achieved with the concerted efforts of the Government, the NGOs, their staff and service users. We sincerely hope that our recommendations will motivate all stakeholders to work together and go an extra mile to make the LSGSS a success.

Chapter Three – Staffing Arrangements

3.1 Staff in welfare NGOs have dedicated their careers to the noble cause of giving the needy a helping hand, or better still, preventing them from falling into distress. Their vocation is a tall order, because service users not only need people who are competent in the job, but also people whom they can trust and rely upon. The personal qualities of all those involved in the welfare sector are as important as the availability of service hardware.

3.2 About 80% of the welfare NGOs' recurrent expenditures is on the PE of staff, which means that resource management in the welfare sector is primarily the management of human resources. Endowed with this asset, the more enterprising NGOs would invest in it to maximise its value; while those that look upon the payroll as just a financial commitment would not pay sufficient attention to staff issues. The investment in staff can take many forms : instituting a staffing structure that is conducive to staff development, putting in place a remuneration policy that recognises staff's contribution, sharing with staff the management's vision and objectives, being receptive to staff feedback, caring about their well being, etc.

3.3 This is why concerns raised by staff, about their working environment, about their career prospects and about operational difficulties, deserve serious attention. These concerns, insofar as they reflect genuine problems with the organisational management and service delivery, affect not only the staff themselves, but also service provision as a whole.

3.4 Some of the concerns about staffing arrangements under the LSGSS have been highlighted in the previous chapters. In this chapter, we analyse these issues in greater detail and recommend ways to address them.

Staffing arrangements under the LSGSS

3.5 The introduction of the LSGSS heralded a paradigm shift, from input to output control. This necessitated a severance from the previous staffing arrangements whereby only staff with approved qualifications as verified by the SWD could be recruited to fill vacancies on the recognised establishment. To maximise the flexibility allowed under the new system, the pay structure of staff in NGOs on LSG is entirely independent from that of the civil service, and NGOs are encouraged

to develop their own human resource management strategies that best meet service needs. Supported by Government measures that help them honour their contractual commitments to Snapshot Staff (namely the TOG and SOG mentioned in Chapter 1), subvented NGOs are able to enjoy unprecedented autonomy in their staffing arrangements. It is incumbent upon NGOs that this autonomy is exercised with a strong sense of responsibility and prudence, not only because public funds are involved, but also because the effective operation of these organisations hinges on sound management decisions.

3.6 Making use of the enhanced flexibility, many NGOs have re-engineered their services. Some have also undergone extensive re-structuring which has a significant impact on the career paths and pay packages of their staff. The extent of changes varies among the NGOs, but understandably, the staff affected would be concerned about the implications on themselves and the sector as a whole.

3.7 NGO staff have observed changes to their salary levels, pay scales and employment terms. Sector wide, increased staff turnover is perceived as a worrying trend. The two surveys commissioned by Dr Fernando Cheung¹ indicated that most staff were concerned about morale, job security, career prospects, professional development, etc. Another survey commissioned by the Department of Politics and Public Administration of the University of Hong Kong had other findings about staff concerns under the LSGSS². What are the causes of these phenomena which appear to have emerged only after the introduction of the LSGSS? Are they posing insurmountable challenges to both NGOs and their staff? How should they be tackled? Could they have been avoided? The IRC has examined these questions in consultation with the stakeholders.

Issues raised by stakeholders

The practice of capping staff salaries at mid-point

3.8 Frontline staff and staff unions have told the IRC that many NGOs now cap staff salaries at the mid-point of the corresponding civil service MPS. Some NGOs

¹ The surveys entitled “整筆撥款對社福界同工影響” and “非政府組織前線社工壓力與精神健康” published by Dr Fernando Cheung in 2005 and 2006 respectively.

² Dr Wing-Yee Lee and Dr Wai-fung Lam of the Department of Politics and Public Administration of the University of Hong Kong commissioned this questionnaire survey which was conducted in 2007 to assess the impact of public administrative reforms such as the LSGSS, SPMS and service bidding on NGOs.

have confirmed to the IRC that they indeed adopt this practice. Understandably, frontline staff and staff unions find this practice unacceptable. The ramifications on staff morale, staff turnover and the future of the social welfare sector cannot be overstated. To turn the tide, they propose reinstatement of a notional staffing establishment for individual NGOs with standardised salary packages.

3.9 NGOs have explained to the IRC that changes to pay scales are often the result of service re-engineering, or the management being responsive to changes in the labour market. They are not unaware of the need to provide a career path that can attract and retain quality staff, and accordingly have introduced changes aimed at strengthening the link between performance and pay. For instance, salary increment is justified on performance rather than seniority. From the NGOs' point of view, these initiatives can help improve the quality of service.

3.10 Some NGOs are reducing staff pay for financial reasons. Having been subject to the EPP/ES requirements, they are genuinely concerned that, with their commitments to Snapshot Staff and the increase in service demands, the benchmark funding may eventually become insufficient. Capping the pay scale at the mid-point of the corresponding civil service MPS would give them maximum financial security. Some NGOs also have limited scope to save resources where the staffing requirement of their services is subject to statutory or licensing control. For instance, operators of residential care homes for the elderly must obtain a licence pursuant to the Residential Care Homes (Elderly Persons) Ordinance (Cap.459). The licence stipulates, among other things, minimum staffing requirements for paramedical staff. As there is a huge market demand for these staff, NGOs have great difficulty catching up with their rising pay trends. They need to offer market salaries, which are above the mid-point or even the maximum point of the relevant civil service MPS, to the paramedical staff, often at the expense of other staff members.

3.11 In Chapter 1, we have examined why the SWD chose to pitch the benchmark funding for NGOs at the mid-point of the prevailing civil service MPS – that was because the welfare sector's actual salary bill as a whole, despite normal staff movement and progression along the pay scales, had never reached the mid-point of the relevant MPS in the past. The SWD envisaged that, with the benchmark funding, NGOs should not be worse off in terms of their ability to meet staff costs, and should be able to maintain service provision at the existing level. The SWD therefore considers that NGOs are adopting an unnecessarily conservative approach if they simply cap staff salaries at the mid-point indiscriminately.

3.12 More importantly, the civil service MPS is only a tool used by the SWD to calculate individual NGOs' benchmark funding under the LSGSS. It is not meant to prescribe or restrict NGOs' pay practices. Nor is it the only point of reference for staff remuneration. NGOs are at liberty to develop new pay scales which have their mid-points above or below the benchmark; or do away with a point system altogether and pay their staff according to performance, for instance. With the NGOs in control of their human resource policies, the Government funding and the new pay structures it supports have taken on a new course. While NGOs' overall financial position remains a matter of great importance and will be discussed in greater detail in Chapter 4, making references to specific pay points on the pre-LSGSS MPS, except for Snapshot Staff, is no longer meaningful.

3.13 It is important that the LSGSS allows NGOs a high degree of flexibility in human resource management. It helps NGOs cope with changes – changes in service demands and changes in the labour market. Indeed, many NGOs have made good use of this flexibility to pursue re-engineering initiatives. For example, an NGO has employed a Registered Nurse, not previously included in its recognised staff establishment, in order to cope with the needs of its ageing service users. Some NGOs have re-structured their service units to achieve synergy and facilitate service integration. These efforts to improve services should be commended, and will be discussed in greater detail in Chapter 5. However, in pursuing changes, in particular changes that affect staff salaries, NGOs must strike a balance between financial prudence and the interest of their staff.

3.14 Paragraph 5.8 of the LSG Manual states that “*NGOs should have clear Human Resource Management policies and programmes in respect of performance appraisal, pay and reward systems, training and development, manpower planning, recruitment and staff communication.*” The IRC considers that it would not be conducive to human resource development if an NGO arbitrarily truncates its pay scale for the sake of convenience, when there are no financial or management needs and no well-defined career paths for its staff.

3.15 We are particularly concerned about the implications of such a practice for the younger social workers. They are the future of our social welfare sector. It will be a great loss to our community if their career aspirations are frustrated by inappropriate human resource policies. In view of the above, the IRC strongly recommends that individual NGOs should pay more attention to the career

development of their staff, for the sake of nurturing a stable and motivated workforce in the welfare sector.

3.16 The IRC considers that matters of management practice should more appropriately be dealt with by the sector, as stakeholders should know best what is in the interest of the sector, and are more willing to be guided by principles set by consensus. The IRC therefore recommends the welfare sector to draw up its own Best Practice Manual to provide guidance to NGOs on, inter alia, human resource policies. Professional advice from human resource management experts, for instance, can be sought if necessary. The welfare sector may consider setting out in its Best Practice Manual two levels of guidelines. At one level are guidelines that NGOs are expected to follow unless there are strong justifications not to do so; at another level are guidelines that NGOs are encouraged to adopt.

3.17 In this connection, the IRC notes that the Hong Kong Council of Social Services (HKCSS) has attempted to produce a note on best practices, as part of its service funded by the SWD. The note is reproduced at **Annex 3**. We will explain in greater detail in Chapter 4 how the LSGSC may assume a more pro-active role in the preparation of the Best Practice Manual.

Recommendation 1

A Best Practice Manual for NGOs on various management issues such as human resource policies should be developed by the welfare sector, with professional input from management experts if necessary.

3.18 The IRC recognises that some NGOs may be reluctant to adopt a less conservative pay policy, for instance, to discontinue their practice of capping staff salaries at the mid-point of the prevailing civil service MPS, because they feel obliged to maintain a healthy financial position for payments to Snapshot Staff. The IRC therefore recommends that a Government-funded actuarial service be made available for a professional analysis of these NGOs' ability to meet their commitments to Snapshot Staff. NGOs can apply for this service on a voluntary basis. If the result of the actuarial study affirms that the NGO is capable of meeting Snapshot Staff commitments, the NGO will have a sound basis for considering more progressive human resource policies such as enhancing the remuneration package for staff, introducing performance related pay, etc. Spare resources may also be deployed for staff development purposes.

Recommendation 2

The Government should make available an actuarial service for NGOs to assess their ability to meet Snapshot Staff commitments. Application for this service should be on a voluntary basis.

3.19 As regards NGOs' problem of having to deploy significant amounts of funding to support nurses and paramedical staff, the IRC recognises that it is a cross-sector problem that has its roots in the labour supply, and while it affects the operations of NGOs under the LSGSS, it cannot be satisfactorily addressed by improvements to this system alone. The IRC will examine this issue again in Chapter 9, with a view to helping NGOs face the challenge without having to transfer the financial burden to other staff.

Salary adjustment

3.20 As mentioned above, the civil service MPS still has its role under the LSGSS, not as a salary standard, but as a tool for the SWD to calculate NGOs' funding. It follows that annual adjustments to the PE portion of the LSG are also made with reference to the civil service salary adjustment. This understanding is documented in paragraph 2.13 of the LSG Manual : *"The LSG will be adjusted annually in line with salary and price movements...Personal Emoluments will be adjusted in line with Civil Service Salary Adjustment."*

3.21 In effecting the adjustments, the SWD makes it clear to NGOs that they are for the purpose of adjusting staff salaries. NGOs on receipt of the additional funding are reminded by SWD that *"[the additional resources] will be spent for the purpose of adjusting the pay of your staff."*³

3.22 Staff unions, however, are concerned that some NGOs have not fully deployed the additional funding on staff salaries. They pointed out that percentage of the salary increase may be lower than the funding adjustment, or that some staff members may receive a one-off bonus or an allowance instead of an adjustment to the basic salary. Savings thus achieved may have gone to the NGO's general reserve or are deployed for other purposes. Staff unions consider such practices at odds with the stated purpose of the additional funding. They therefore urge the SWD to ensure that NGOs spend these resources on staff remuneration only, and that surpluses should

³ Letter of 16 July 2008 from the DSW to NGOs on LSG.

be clawed back.

3.23 NGOs, on the other hand, see a need to exercise discretion in pay adjustments having regard to their individual circumstances. Many of them, for instance, are providing both subvented and non-subvented services or running programmes funded on a one-off basis at the same time. While they receive additional funding for salary adjustments for the regular subvented services, the same is not available for the other types of services and programmes. The expectations of all the staff will nonetheless have to be dealt with, so that there will be no ill feeling among team members. As the Government's subvention rules do not allow cross-subsidisation, NGOs who do not have sufficient resources from other funding sources may choose to suppress the pay adjustment to staff supported on LSG, in order to align it with what they can afford for non-subvented staff members not on LSG. The additional subventions not fully utilised end up as savings for other purposes.

3.24 The IRC notes that the mechanism for providing additional funding to NGOs for the purpose of pay adjustments has been mutually agreed between the SWD and the NGOs, and has been followed by the SWD over the years. In advising NGOs of the purpose of the additional funding, the SWD has also taken care not to infringe upon the autonomy granted to NGOs in staffing matters. As a funding agency, the SWD has performed its due functions as stipulated in the LSG Manual.

3.25 The IRC also acknowledges that, in the spirit of the LSGSS, NGOs do have the discretion to devise its own pay policies. Such policies, however, must be conducive to the healthy development of the NGO including its staff, as well as the provision of services. Policies which arouse widespread suspicion and discontent among staff members would unlikely achieve the desired objectives. We therefore strongly advise NGOs to pay attention to staff feedback in developing their human resource policies. NGOs are also expected to act responsibly, taking into account the original purpose of the funding and the interest of their staff. As a good management practice for NGOs, the additional funding from the SWD for salary adjustments should be spent solely on staff in subvented services.

3.26 There are also some NGOs which have migrated from the conventional pay structures to new remuneration platforms, so that pay adjustments are implemented in different forms, including bonus payments, supplements or allowances. The IRC considers that NGOs should have flexibility in utilising the additional funding for pay

adjustments in accordance with their own human resource policies.

Recommendation 3

As a good management practice for NGOs, the additional funding provided in line with civil service salary adjustments should be spent solely on staff in subvented services.

3.27 Better planning on the part of the NGOs should also help prevent unintended disparity in staff pay. It is commendable that some NGOs have taken the initiative to raise alternative funding or run self-financing programmes that fill service gaps. We understand that, on average, Government subvention represents about 70% of the total income of these NGOs. If NGOs can take a further step to budget in pay adjustment requirements before they embark on these programmes, that would go a long way in meeting staff expectations when subvented services receive additional funds for pay adjustments.

Recommendation 4

In budgeting for non-subvented services, NGOs need to factor in pay adjustments, so that they may be in a better position to meet staff expectations when subvented services receive additional funds for pay adjustments.

Snapshot Staff

3.28 The term “Snapshot Staff” represents staff on the recognised establishment of NGOs’ Model System Units and Modified Standard Cost System Units (these being subvented service units in the pre-LSGSS era) as at 1 April 2000. To ensure that their remuneration, including salary increments as they progress along their original pay scale, will not be worse off after the introduction of the LSGSS, Snapshot Staff are guaranteed their terms and conditions of employment provided that they remain employed by the same NGO and have not been regraded or promoted to another rank.

3.29 To support NGOs in honouring their contractual commitments to Snapshot Staff, the SWD had provided them with, first, a TOG for five years from 2001-02 to 2005-06, and second, a SOG in 2006-07, amounting to \$2,385.4 million in total. These were complemented by other measures such as the deferral of the “coming down” requirement (Chapter 1 refers), and the temporary lifting of the reserve limit which will be elaborated in Chapter 4.

3.30 By the time the Government introduced the SOG, a lot of NGOs were already well prepared for fulfilling their obligations to Snapshot Staff. So while the SOG was primarily intended to help NGOs who still needed financial assistance in this regard (Scheme A), there was another option (Scheme B) for NGOs who did not need such assistance and were permitted to use the additional funds for the enhancement of human resource practices. Notably, 78 out of the 124 NGOs (63%) which applied for SOG opted for Scheme B. The remainder also furnished financial plans showing how they could achieve financial viability within a defined and reasonable period of time. Based on data collected by the SWD at that time, all the NGOs which had benefited from the SOG should be financially viable over a medium term of ten years.

3.31 Notwithstanding the above, some NGOs have advised the IRC that expenses on Snapshot Staff have taken up a large portion of their LSG. They also cite this as a reason for having to keep a sizable reserve, which in turn gives rise to other complaints by their staff. To these NGOs, the residual contractual obligations from the former subvention system do not sit well with the flexibility promised by the LSGSS. It has therefore been suggested to the IRC that the Government should take action to solve this problem once and for all, perhaps by providing additional funding to NGOs so that they may institute a special compensation scheme to terminate the existing employment of Snapshot Staff and put them on new contracts.

3.32 Staff unions, on the other hand, claim that NGOs have resorted to various tactics to reduce the number of Snapshot Staff on their payroll, hoping thereby to minimise their contractual obligations. Snapshot Staff are said to have been demoted or regraded, or even forced to leave the agency, purely for this reason. The remaining Snapshot Staff also suffer from poor morale as they are looked upon as a burden to the NGO.

3.33 According to the SWD, the number of Snapshot Staff has dropped significantly since 2000: from 21 455 in April 2000 to 12 413 in September 2007, i.e. over 42% reduction on average. As the number of Snapshot Staff⁴ in the majority of NGOs has reduced by at least 30%, the problem should be well contained, and should certainly not be a pretext for the coerced exit of Snapshot Staff under a new

⁴ According to statistics provided by the SWD, as at September 2007, the number of Snapshot Staff for 93 out of 153 NGOs had reduced by more than 30% but less than 60%. The reduction rate was less than 30% for 22 NGOs, and at 60% or above for 38 NGOs. The average was 42.2%.

sector-wide transition scheme as proposed by some NGOs.

3.34 Moreover, all NGOs had already indicated, at the time of receiving the SOG in 2006-07, that no further financial assistance would be required for meeting their Snapshot Staff obligations, or that they would be financially viable within a defined and reasonable period of time. As such, it is difficult to understand why, two years down the road, when headcounts have further dropped, such obligations would remain as an unresolved financial problem. That said, the IRC appreciates that different NGOs may have different characteristics and challenges, and as responsible employers they must ensure that they have the financial strength to meet contractual obligations. The Government-funded actuarial service recommended above would help clear doubts in this regard. If, after undertaking the actuarial study, an NGO finds that it does not have sufficient reserves to honour its commitments to Snapshot Staff, the Government should, in anticipation of this problem, work with the NGO to find a proper solution.

As per **Recommendation 2**, the Government should make available an actuarial service for NGOs to assess their ability to meet Snapshot Staff commitments.

3.35 Since the introduction of the LSGSS, the Government has made tremendous efforts in supporting Snapshot Staff. Many NGOs have also worked hard in concert. They are showing with their action what importance our community attaches to honouring contractual commitments. We hope this will remain as a core value shared by all employers and employees under the LSGSS.

Time-limited employment contracts

3.36 The welfare sector certainly regards staff appointment as a contractual relationship between the NGO and the staff concerned, but in discussing this with the IRC, a clear distinction was often made between the kind of open-ended appointments applicable to Snapshot Staff and clearly time-limited contracts for other staff. Staff unions generally favour the former for the job security and career prospects it implies, although in practice such an appointment may also be terminated, while time-limited contracts may also be renewed. As the number of Snapshot Staff diminishes and new recruits are mostly employed on time-limited contract terms, the management of

contract staff has become a more important issue. From the staff's point of view, the tendency for NGOs to shift from open-ended appointments to time-limited contracts is a worrying trend, detrimental not only to staff morale but also to the stability of the welfare sector.

3.37 According to a survey conducted by the HKCSS on NGOs' human resource practices in 2005, 52% of the responding NGOs employed over 40% of their staff on time-limited contract terms. The survey also revealed that 47% of the responding NGOs offered "six months or less" as the shortest period of contract and 73% offered "24 months or less" as the longest period of contract. The Hong Kong Social Workers General Union conducted its own survey in 2008, which showed that 67.6% of the respondents were employed on a contract term of 12 months or less, and 27.4% were employed on a contract term of 13 to 24 months.

3.38 The IRC has also collected relevant information from NGOs⁵. We found that, as at July 2008, 52% of staff in the welfare sector were employed on time-limited contracts, and that the practice of employing staff on contract terms has indeed become more common after the introduction of the LSGSS. In addition, stakeholders have also told the IRC that, for staff engaged on a project basis, NGOs will often time their employment contracts according to the life of the project. For instance, some Government-sponsored projects have a three-year funding cycle, and their continuation is subject to service needs and the NGO's performance. Staff recruited specifically for these projects will likely get a contract of no more than three years.

3.39 From the human resource management point of view, the IRC considers that there is nothing intrinsically wrong about employing staff on contract terms. If properly administered, a contract with clearly defined terms would allow both the employer and employee to know their rights and obligations without undermining their sense of commitment. Indeed, employment by time-limited contracts is not unique to NGOs under LSG. It has become a common practice nowadays, not only in the welfare but also in many other sectors. Staff in the welfare sector have reacted more strongly to this probably because they have experienced a rapid and drastic change over a relatively short period of time, but their resistance may also reflect undesirable management practices on the part of the NGOs.

⁵ The IRC issued questionnaires to the 162 NGOs under LSGSS in July 2008. A total of 117 NGOs (72.2%) responded.

3.40 The IRC considers that contract periods of less than a year should be an exception rather than a rule in the welfare sector. There seems to be little practical need for such short contracts, as even time-defined projects are usually funded by the SWD on three-year cycles and most project agreements are renewable. Even in private firms, when one-off projects form the bulk of their business, staff are not necessarily employed on contracts co-terminus with the projects they are working on, although a possibility of exit is provided for by having “break clauses” in the contract if circumstances warrant. This is because the management sees merit in retaining experienced and competent staff who can continue to work for the company when new projects come on stream. Likewise, an effectively managed NGO can also afford to give greater assurance to its staff while retaining the flexibility necessary for the day-to-day operation.

3.41 Some staff and staff unions have also expressed concern about unreasonable notice period for the termination of contract. The IRC notes that the Employment Ordinance (Cap.57) has clear provisions in this regard : a contract of employment may be terminated by the employer or employee through giving the other party due notice or wages in lieu of notice; for employment after a probation period, the length of notice should be as per the agreement between the employer and employee, but not less than seven days. NGOs, like any other employer, must comply with the statutory requirements.

3.42 As we have recommended that the sector draw up a Best Practice Manual for NGOs on various management issues, we further recommend that the administration of employment contracts should be addressed in the manual.

As per **Recommendation 1**, the administration of employment contract should be addressed in the Best Practice Manual for NGOs to be developed by the sector.

Equal pay for equal work

3.43 “Equal pay for equal work” topped the agenda of staff demands in the welfare sector. We understand that this term represents a request for staff working in subvented NGOs to be paid like their civil service counterparts. This used to be the case under the former subvention system, but the link was severed upon the introduction of the LSGSS. The benchmark funding should in theory allow NGOs to maintain its operation, but in practice a lot of NGOs have tightened their budget under EPP/ES, and at the same time taken advantage of the slack labour market either to

reduce staff costs or to recruit additional workers at more competitive pay levels. These developments, coupled with the Government's revision to civil servants' starting salaries in 2007, have resulted in a marked difference between the entry salary of Assistant Social Work Officers (ASWOs) in the SWD and that of NGO staff holding the same entry qualifications⁶. This has caused considerable grievances among NGO staff, many of whom have chosen to depart. According to statistics provided by the SWD, for their recruitment exercises in 2006 and 2007, about 54% of the new recruits at the ASWO level came from NGOs.

3.44 To address the problem, staff unions have suggested a total revamp of the LSGSS, whereby the Government should reinstate the notional staffing establishment in NGOs, standardise their pay structures and fund their staff costs on an actual basis, in accordance with the civil service provision. OC may continue to be funded on a lump sum basis.

3.45 The reality, however, is that the pay structures of NGOs have already undergone fundamental changes since the introduction of the LSGSS. They have moved away from uniform arrangements in favour of more flexible ones that suit their service needs. Even among NGOs, there is no "equal pay for equal work", and for those which have carried out extensive re-engineering, reverting to the former subvention mode would not be practicable. Where re-engineering has indeed brought about service enhancement, staff concerns alone would not justify a negation of that effort. Besides, abandoning the flexibility under the LSGSS should not be the way to address staff concerns.

3.46 If "equal work" refers to work of the same nature rather than positions that have the same entry requirements, one would have to look more closely at the respective functions of NGOs and the SWD to identify the relevant jobs for a meaningful comparison. There are certainly similarities among NGOs providing the same services, but the same may not be said of a comparison between NGOs and the SWD. The SWD, as administrator and regulator of welfare services, does not normally engage in direct service provision. Whenever it does, as in the case of Integrated Family Service Centres (IFSCs), it does so mainly because of service needs.

⁶ According to information provided by a staff association to the IRC, the starting salary of ASWOs in the SWD was \$17,145 as at April 2006, while that of similar posts in NGOs was around \$14,330. This difference was even greater after the SWD increased the starting salary of its ASWOs to \$21,900 in 2007.

3.47 IFSCs run by the SWD function fully as those run by NGOs, but in addition, they have to handle cases that require frontline staff to exercise statutory powers, as guardians of abandoned children, for instance. SWD staff also have to handle statutory procedures, as those in child adoption, Care or Protection Order or Guardianship Order cases, and prepare Social Enquiry Report on Employees' Compensation, etc. Other duties that the SWD considers more appropriately performed by Government staff at the IFSCs include the management of the DSW Incorporated Accounts, making special assessments in relation to Comprehensive Social Security Allowance applications and dealing with asylum seekers and torture claimants. SWD's IFSCs often provide the ultimate backup for exceptionally complex cases, and are on first call in cases of emergencies and crises such as natural disasters and the outbreak of SARS. As such, their staff are required to assume greater responsibilities. There have also been reports of assaults on SWD's frontline social workers, and those handling family disputes, social security and juvenile delinquencies seem to be particularly vulnerable. The 16 assault cases that happened in 2007 and 2008 involved 21 social workers of the SWD⁷. Thus, even in the context of IFSCs, the notion of equal work cannot easily be established.

3.48 Equal pay for equal work argues for "fairness", but it is also a reaction to what staff unions would regard as offensive pay policies. The LSGSS gives NGOs the flexibility to determine their pay levels which is a positive attribute of the system. If an NGO chooses to link pay to performance, staff who add more value to service delivery will be rewarded a higher pay than they would have received had they been subject to uniform pay scales. Individual NGOs' pay structures, tailored to staff aspirations, may also offer a more attractive career path than the rigid civil service MPS. Provided that NGOs are able to develop sound pay policies, it is possible for the management, staff and service users to share the positive outcomes.

3.49 Further pursuing the concept of equal pay for equal work is not constructive. Rather, the focus should be on fairness and good management practice. The IRC appeals to the NGO management to regard it as their primary responsibility to ensure that human resource policies are fair and transparent. The fact that management decisions can have a significant impact on staff means that the management must be more sensitive to staff expectations in arriving at decisions. The IRC has recommended the development of a Best Practice Manual for NGOs. The need to

⁷ Various news reports by Oriental Daily, Sing Tao Daily and The Sun on 2 September 2008, quoting figures provided by the SWD for the period from January 2007 to August 2008.

formulate fair pay policies should no doubt be an important issue to be addressed.

As per **Recommendation 1**, the need to formulate fair pay policies should be addressed in the Best Practice Manual for NGOs to be developed by the sector.

Staff wastage and turnover

3.50 A stable workforce in the welfare sector is crucial for the building of trust between service providers and service users. If staff wastage and turnover rates are on the rise, NGO management and front-line staff would naturally be concerned about the impact on service quality and the development of the social welfare sector in the long term.

3.51 The information below is extracted from a note entitled “Impacts of the Lump Sum Grant Subvention System on the subvented welfare sector” prepared by the Legislative Council Secretariat -

Table 2 : Turnover rates^(A) of social work posts

Financial year	Turnover rates (in %) in NGOs		Turnover rates (in %) in the SWD^(B)	
	Social work degree posts	Social work diploma posts	Social work degree posts	Social work diploma posts
1998-1999	8.1	14.5	1.8	2.8
1999-2000	6.8	10.6	1.3	1.3
2000-2001	8.0	15.5	1.6	5.4
2001-2002	9.2	13.6	0.8	6.3
2002-2003	8.1	16.5	1.5	2.3
2003-2004	8.8	13.1	1.8	5.6
2004-2005	9.7	16.8	2.5	8.0
2005-2006	11.1	19.0	2.5	2.5

Table 3: Wastage rates^(C) of social work posts

Financial year	Wastage rates (in %) in NGOs		Wastage rates (in %) in the SWD ^(B)	
	Social work degree posts	Social work diploma posts	Social work degree posts	Social work diploma posts
1998-1999	3.4	6.3	Not available	0.9
1999-2000	2.6	5.8	1.3	1.3
2000-2001	3.9	10.3	1.5	5.4
2001-2002	4.1	7.2	Not available	4.1
2002-2003	3.5	8.4	1.2	2.2
2003-2004	4.3	6.2	1.7	5.6
2004-2005	5.1	7.9	2.5	8.0
2005-2006	6.5	9.0	1.7	2.5

Note (A) Turnover rate refers to the rate of social workers leaving any social welfare organisations regardless of whether they will rejoin the social welfare sector.

Note (B) The figures include social work posts employed by the Department of Health.

Note (C) Wastage rate refers to the rate of social workers leaving the social welfare sector.

Sources: Joint Committee on Social Work Manpower Planning (2000-02), Joint Committee on Social Work Manpower Planning (2003-05), Joint Committee on Social Work Manpower Requirements (2005) and Joint Committee on Social Work Manpower Requirements (2006).

3.52 Turnover and wastage rates are affected by various economic, social and personal factors, and hence it is not easy to predict or account for the changes. While we need to be alert to abnormal variations, we would not wish to see a stagnant workforce either. Healthy staff movements within the sector can facilitate knowledge transfer, while those across sectors can bring in new perspectives. The welfare sector has been a relatively stable sector, notwithstanding the introduction of the LSGSS. According to surveys conducted by the Hong Kong Institute of Human Resource Management (HKIHRM), the overall employee turnover rates for Hong Kong were 7.89% in 2003, 10.92% in 2004, 11.95% in 2005, 11.94% in 2006 and

14.7% in 2007⁸. In comparison, the rate for the welfare sector is not particularly high. Nevertheless, the IRC agrees that it would be in the interest of the welfare sector to ascertain the overall manpower position. For the purpose of this review, we have looked for data from various sources, as we understand that movements of non-Snapshot Staff have not been tracked systematically by the SWD since the introduction of the LSGSS. We recommend that the SWD should start collecting the data again, to facilitate the analysis of staff movements in future. Special attention should be given to social workers who joined the welfare sector after the introduction of LSGSS.

3.53 Staff movement is, of course, only one of the factors affecting the supply of labour. Equally important is manpower planning. Noting that there is an Advisory Committee on Social Work Training and Manpower Planning (ACSWTMP) which advises the Government on all matters related to the education and training of social workers and manpower planning for the welfare sector, the IRC also recommends that the Government should invite the ACSWTMP to monitor closely the manpower supply in the welfare sector, to ensure that we have a stable supply of professional staff to meet service needs.

Recommendation 5

The SWD should collect data on staff turnover and wastage rates for the purpose of monitoring the sector's overall manpower position. The Government should invite the ACSWTMP to monitor closely the manpower supply in the welfare sector, so as to ensure a stable supply of professional staff.

Professional development and capacity enhancement

3.54 Another important manpower issue is in-service training for staff. NGOs have pointed out to the IRC that the Government has not given them sufficient funding support for this purpose. As a result, staff training is often a low priority, if it features at all, in NGOs' tight budget. NGOs and staff are concerned that this will

⁸ The definition of "turnover" adopted by the HKIHRM is not identical to that used in the Social Work Manpower Requirements System (SWMRS) of the SWD. HKIHRM defines "turnover (流失)" as "voluntary resignations from the companies, excluding turnover caused by voluntary or involuntary redundancy, dismissal and retirement." In the SWMRS, "turnover (離職)" refers to "the number of 'occurrences' of social welfare personnel leaving any organisation for whatever reasons in the specified period." The SWMRS uses the term "wastage (流失)" to refer to "the number of turnover cases less the number of re-entrant (重新入職) cases in a year."

be detrimental to the professional development of the welfare workforce, and will lead to deterioration of service quality in the long run.

3.55 The IRC agrees that the success of the LSGSS, and indeed the future of our welfare sector, depends on the availability of staff who are qualified for, and committed to, their careers. A pool of well trained social workers is a social asset, and our community should continue to invest in it. Indeed, in-service training is not only necessary for social workers, but also for other staff in the welfare sector, the NGO management and board members. It helps them upgrade their skills, so that they may perform their respective roles more effectively. This is of utmost importance under the LSGSS as all stakeholders have to work together to meet new challenges and take advantage of new opportunities. Enhancing their capacity means enhancing welfare services.

3.56 We therefore consider it necessary to put in place a comprehensive scheme to enhance the personal capacity of all those who work in welfare NGOs under the LSGSS (in particular the younger social workers who joined the sector after 2000) and to enhance the management capacity of the NGOs. Regarding the latter, we note that a Business Improvement Project (BIP) Scheme has been implemented since 2001 to help NGOs improve service quality, efficiency and responsiveness in the LSG environment. We shall discuss further how the BIP Scheme has achieved its objectives in Chapter 5. It is clear that if there is to be a new initiative to enhance the capacity of the entire welfare sector, the contributions of the BIP Scheme should be taken into account.

3.57 Having regard to the above considerations, and in anticipation of the substantial demand for capacity enhancement in the foreseeable future, we recommend that the Government introduce a \$1 billion Social Welfare Development Fund to support the following -

- ◆ training and professional development for NGO board members, management and staff (not limited to social workers), covering also the cost of workers to relieve staff who go on training;
- ◆ system upgrading for NGOs, e.g. IT infrastructure, system design and initiatives to enhance NGOs' management capacity or facilitate their re-engineering; and
- ◆ studies aimed at enhancing NGOs' service delivery.

3.58 As the scope of the proposed Social Welfare Development Fund will be broader than that of the BIP Scheme, there is no practical need for the latter to continue in its present form. Its function can be taken up by the new fund for administrative efficiency.

3.59 We defer to the Government to draw up the detailed eligibility criteria and funding rules, but as a matter of principle, the IRC considers that the fund should be available to all NGOs on LSG and should be allocated based on the merit of their applications.

Recommendation 6

The Government should set up a \$1 billion Social Welfare Development Fund to support training and capacity enhancement initiatives. Grants should be allocated to NGOs on LSG based on the merit of their applications.

A new partnership

3.60 Just as capping staff salary at mid-point would seem to provide maximum security to NGOs, reinstating the former subvention system whereby staff are paid according to uniform pay scales would provide the maximum job security to staff. Neither, however, would be true to the spirit of the LSGSS.

3.61 The LSGSS has introduced a positive change - it provides the stimulus and the facilitation necessary for the welfare services to progress to a higher level. Under the LSGSS, NGOs and staff have entered into a new form of partnership. They should not limit their respective roles within rules that have been set for them. They need to work out the rules for themselves and support each other in their new roles.

3.62 One may think that most of the staffing issues identified in this chapter are the result of the LSGSS. This is true in the sense that some practices unpopular to staff would not have been possible in the old days when many management decisions were not made at the level of individual NGOs. However, this is also not true in the sense that these practices are not the intended or inevitable consequences of the system. The LSGSS does not dictate policies or actions on staff issues. It only provides the necessary conditions for change. And if everyone in the system is prepared to work in partnership, changes can certainly be made for the better.

Chapter Four – Financial Issues and Interactions between the Government and NGOs

4.1 The LSGSS sets the funding parameters and governs the funding relationship between the Government and the NGOs. How funding is determined, allocated, spent and accounted for are all issues central to this system. As we introduced the system and examined the staffing arrangements in the previous chapters, we have noted funding concepts such as how LSG is calculated according to a formula that takes into account the individual NGOs' notional salaries costs and other charges and how the EPP/ES requirements and various assistance measures came into play.

4.2 In this chapter, we examine the key financial issues which affect the implementation of the LSGSS. They are issues that NGOs and staff are most concerned about, such as the funding level, the use of reserves, etc. We also look into how the Government and NGOs interact in this funding relationship, whether existing practices are conducive to the operation of the system and what improvements can be considered.

Financial issues raised by stakeholders

Notional staffing establishment

4.3 Under the LSGSS, although NGOs receive their recurrent subvention in a lump sum, the amount comprises different components, namely, PE, PF provision and OC. The portion of the LSG that corresponds to an NGO's staff costs originated from a "benchmark" specific to that NGO. When the LSGSS was first introduced, a "snapshot" was taken of each NGO's recognised staff establishment as at 1 April 2000, and the sum of their salaries at mid-point on the civil service MPS as at 31 March 2000 became the "benchmark" for that NGO. According to the SWD, it should represent a sufficient level of subvention because the welfare sector's actual salary bill as a whole had never reached the mid-point of the relevant MPS in the past. Moreover, the LSGSS allows NGOs greater flexibility in staff management and resource deployment, enabling them to budget for staffing requirements more effectively.

4.4 As the benchmark represents the NGO's notional staff costs, it is adjusted from time to time in accordance with civil service pay adjustments. It was also

subject to the Government's EPP/ES requirements, along with other components of the LSG. In the initial years of the implementation of LSGSS, where the actual salaries payment to Snapshot Staff exceeded the benchmark, the NGO concerned received subvention for the excess in full, but starting from 2008-09, the NGO has to reduce it by 2% each year until it aligns with the benchmark (although 26 NGOs have been allowed to defer the "coming down" requirement for one year).

4.5 Over the years, service needs have changed significantly in terms of volume, complexity and emphasis. Looking ahead, changes will continue to bring about new challenges. NGOs therefore doubt whether such a historical "benchmark" that makes reference to a notional staffing establishment in 2000 can truly reflect their funding requirements now and in the future. Without a mechanism to review staffing requirements, NGOs are concerned that they would not be able to meet changing service needs, such as the need for more nursing staff to cater for an ageing population. An NGO has also indicated to the IRC that it has difficulty in maintaining its rehabilitation programmes and retaining experienced staff. NGOs look for a review mechanism that would allow the LSGSS to capture the changing funding needs over time. So do staff unions which are concerned about the increasing workload of frontline workers, and service users who wish to ensure that there are sufficient manpower resources to deliver quality services.

4.6 Following the introduction of the LSGSS, some of the new services have been allocated to NGOs through competitive bidding. Under this arrangement, NGOs do not actually compete on the funding level, but on the quality and added value of their service proposals. The funding provision is fixed by the SWD with reference to service requirements, but the actual basis of SWD's estimate, in terms of staffing assumptions, is not disclosed. This is to encourage bidders to be more innovative in devising their own manpower plans. Frontline staff, however, are concerned that, in the absence of an agreed notional staffing establishment for the new services, NGOs which are keen to secure the service contract would tend to underestimate the staffing needs. They have therefore suggested that the SWD should stipulate a notional staffing establishment, or at least disclose the staffing assumptions for these services, against which NGOs' manpower plan can be monitored.

4.7 Fundamental to the LSGSS is the flexibility granted to NGOs in staffing arrangements, including the organisational structure and the distribution of work among staff. Only with this flexibility may NGOs pursue re-engineering to enhance

their services, and indeed a large number of NGOs have already done so. From this perspective, reinstating a notional staffing establishment for every single service would be a regressive step. For many NGOs, such a proposition is also impracticable, because over the years they have developed very different staffing structures to suit service needs. It would be counter-productive to undo their efforts in this regard.

4.8 The IRC therefore agrees that it would not be helpful for the SWD to stipulate a notional staffing establishment for input control purposes. Doing so does not guarantee effective service delivery, but would certainly undermine the strengths of the LSGSS and the versatility of the welfare sector in the long term.

4.9 In the pre-LSGSS days, it was the notional staffing establishment that dictated the NGO's manpower resources. Over time, notional staffing establishment has somehow become the shorthand for a reasonable funding provision. Even nowadays, these two long-wedded concepts are still viewed by some as interchangeable, such that concerns about funding level are often expressed as calls for a reinstatement or review of the notional staffing establishment. This does not have to be the case.

4.10 The social welfare sector has indeed undergone significant changes since the implementation of the LSGSS. Social problems are becoming more complicated; service users have higher expectations; and NGOs and their staff have to cope with unforeseen workload. The IRC fully agrees that there is a need for such changes to be recognised under the LSGSS.

4.11 Apart from annual price adjustments, the SWD reviews NGOs' funding provisions for specific purposes from time to time. Non-recurrent injections as a result of these reviews include the TOG and SOG to assist NGOs in meeting their contractual commitments and the special one-off grant of \$200 million in 2008-09 to help NGOs with their resource management. Also as a result of service reviews, the SWD has provided additional resources to enhance various services, including those at District Elderly Community Centres (DECCs), Social and Recreational Centres for the Disabled, Integrated Children and Youth Services Centres, Counselling Centres for Psychotropic Substance Abusers and IFSCs. In the case of the DECCs, for example, the SWD has been monitoring service needs closely. After re-engineering the centre-based community support services for elders, it commissioned a study to evaluate the effectiveness of the services. Based on the study's recommendations,

additional recurrent resources were allocated to DECCs to strengthen outreaching and counseling services for elders in need. The SWD also reviews non-service specific funding provisions. For instance, NGOs' baseline subventions were increased by \$200 million in 2008-09, so that NGOs may strengthen their administrative capacity.

4.12 The IRC appreciates the SWD's efforts in conducting these reviews. However, it appears that comprehensive service reviews have been conducted on an ad hoc basis and only at the SWD's discretion. The lack of a formal mechanism to regularise the reviews means that some service areas may not be reviewed for many years, and where services are chosen for review, stakeholders may not be fully prepared to provide input. This arrangement is not conducive to the balanced development of the welfare sector.

4.13 In fact, service reviews should not be standalone exercises, but should be part and parcel of a continuous welfare planning process, the need for which will be discussed in greater detail in Chapter 7. In that context, we will highlight the role of the Social Welfare Advisory Committee (SWAC) in studying welfare planning for Hong Kong. The terms of reference of SWAC are to keep social welfare services under continuous review and to advise the Government on all matters of social welfare policy. For the review of services in specific areas, the Government consults relevant advisory bodies such as the Elderly Commission (EC) and the Rehabilitation Advisory Committee (RAC). If a mechanism is to be formally established for service reviews, it would be appropriate for these advisory bodies to advise the Government on the priorities.

4.14 We therefore recommend that the Government institute a review mechanism, whereby appropriate advisory bodies such as SWAC, EC, RAC, etc. may oversee the systematic review of welfare services and ensure that stakeholders' views are taken into account in the review process. In practice, the SWD may, based on stakeholders' feedback, submit for the relevant advisory bodies' endorsement its plans to review the various service areas, and carry out the reviews and implement the recommendations under the supervision of these bodies.

Recommendation 7

In view of the changing service needs, the Government should institute a review mechanism whereby appropriate advisory bodies such as SWAC, EC, RAC, etc. may oversee the systematic review of welfare services and ensure that stakeholders' views are taken into account in the review process.

Adjustment of OC

4.15 Some NGOs have also expressed concerns about the calculation of the OC portion of their LSG. Under the LSGSS, OC is adjusted annually according to a Government-wide adjustment factor. This factor is produced by the Census & Statistics Department based on price movements of "Other Purchases of Goods and Services" procured by the Government. Price movements in each 12-month period ending 30 September are compared with those in the previous 12-month period to work out the change in percentage. In the past ten years, OC subventions had been adjusted six times, at the following rates -

Table 4 : Adjustment to OC subventions between 1998-99 and 2008-09

Financial year	1998-99	1999-00	2000-01	2001-02	2002-03 to 2006-07	2007-08	2008-09
Adjustment to OC subventions	+5.4%	+4.3%	-0.5%	-0.7%	0%	+1.3%	+1.4%

4.16 As the actual adjustments to OC subventions in respect of each 12-month period will only take effect from the following April, it is difficult for some NGOs to catch up with inflation. For instance, the composite consumer price index for food has increased by 10.6% between August 2007 and August 2008. As the OC adjustment for 2008-09 has not reflected this change, some NGOs running meal and residential services have informed the IRC that they are finding it hard to make ends meet.

4.17 Service users are particularly concerned that NGOs would cut costs at the expense of service quality. In the case of meal services, this might even mean compromising clients' dietary needs. They urge the Government to adjust the LSG in a more timely manner.

4.18 NGOs have also asked for a different price adjustment factor that can truly reflect the price changes of their specific expenditure items. That OC is adjusted according to the Government-wide price adjustment factor is an arrangement agreed between the SWD and NGOs, as documented in section 2.13 of the LSG Manual. It has the advantage of being a consistent and handy reference for application across the public sector. It is also simple to administer. The obvious limitations, however, are that the factor does not cater for variations in users' spending patterns, and can only be obtained retrospectively and applied after a further delay. The important questions are : To what extent do these limitations affect the operation of welfare NGOs? Do they outweigh the convenience of the existing adjustment mechanism, such that we need to consider changes?

4.19 According to the SWD, the spending patterns of welfare NGOs and the Government are broadly comparable. The procurement items classified under "Other Purchases of Goods and Services" are also mostly relevant to NGOs. Slight variations are inevitable, but they do not amount to a serious mismatch. Even if food items do not normally constitute the Government's departmental expenditures and are not among those captured by "Other Purchases of Goods and Services", the overall impact of this difference should not be significant, as less than half of subvented NGOs provide meal services, and for these NGOs, food costs only make up about 5% of their recurrent subventions. With the flexibility in resource deployment under the LSGSS, NGOs should be able to absorb such variations. The reserve facility available to them should also allow them to tide over temporary inadequacies in OC provision. All in all, the LSGSS should have the built-in capacity to accommodate the system's limitations in terms of OC adjustment.

4.20 The IRC accepts that, on the whole and over a longer time frame, the current OC adjustment mechanism is running reasonably well. However, this does not mean that shortcomings must be tolerated if service quality is genuinely at stake. The IRC recommends that in exceptional cases such as rapid inflation hikes, NGOs should be allowed to apply to the SWD for advance payment of their OC subventions, so that they can cater for immediate service requirements. This, being an adjustment to cashflow to catch up with inflation, should be cost neutral to the Government.

Recommendation 8

In exceptional and justifiable cases, the SWD should allow NGOs to advance OC subventions.

LSG reserves

4.21 Before the introduction of the LSGSS, NGOs were not allowed to keep any reserves. Unspent subventions were returned to the Government at the end of each financial year. As a result, NGOs did not have the incentive to save money and could not budget for future development. When the LSGSS was introduced, these shortcomings of the old subvention mode were addressed by allowing NGOs to manage their own resources and keep reserves. The objective was to encourage wise spending and planning in the use of public funds. NGOs may also meet contingency requirements, such as price fluctuations and unforeseen service needs, more effectively. As NGOs need to accumulate sufficient savings to meet their commitments to Snapshot Staff in future, this has become another important function of the reserves under the LSGSS.

4.22 According to the LSG Manual, unspent LSG must be kept in the NGO's Reserve Fund and reported to the SWD in the NGO's Annual Financial Report (AFR). The level of cumulative reserve (including interest but excluding PF reserve) at the end of the financial year should not exceed 25% of the NGO's operating expenditure (excluding PF expenditure) for that year. This percentage was agreed between the SWD and the NGOs after thorough deliberation, so as to strike a balance between public interest and NGOs' concerns about financial viability in the long run. Any amount above the 25% cap has to be returned to the Government in the following financial year, unless the NGO has applied to, and obtained the permission of, the DSW to lift the cap. Exemption en bloc was granted for three years from 2004-05 to 2006-07, to enable NGOs to save, without limit, surplus TOG and SOG in a separate account, basically for meeting contractual commitments in future. As a matter of principle, LSG Reserve must be used on FSA activities and the related support services.

4.23 Since 2001, NGOs operating under the LSGSS have gradually built up reserves, as shown below –

Table 5 : Cumulative Reserves of NGOs from 2000-01 to 2006-07

Financial year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
LSG reserves (\$m)	219.539	608.145	1,051.429	1,395.950	1,603.267	1,860.304	2,047.491

4.24 As at 31 March 2007, 140 out of the 164 NGOs operating under LSGSS had accumulated reserves totaling about \$2.05 billion, or 33% of their annual operating expenditures in 2006-07. 43 NGOs were keeping reserves at or above 40% of their annual operating expenditures. Details of NGOs' reserve position as at 31 March 2007 are tabulated at **Annex 4**.

4.25 Frontline staff, staff unions and social work students are of the view that such sizeable reserves could have only come from cutting staff costs, as that accounts for about 80% of NGOs' subventions. They do not have any means to guard against this, nor do they see any incentive for NGOs to spend their reserves on staff. The resentment is particularly strong where staff are not aware of their management having any plans to put the reserves to good use. They have suggested to the IRC that the SWD should closely monitor the level of reserves kept by NGOs, and require them to spend the reserves on service enhancement and staff development.

4.26 On the other hand, NGOs have pointed out that their reserves are mainly for honouring their commitments to Snapshot Staff. They are necessary for the NGOs' operation and sustainability in the long term.

4.27 The IRC understands that many subvented organisations in the public sector are allowed to accumulate reserves. For example, the Hong Kong Tourism Board is allowed to accumulate reserves up to four months of its operating expenditure; the eight higher education institutions funded by the University Grants Committee may normally accumulate reserves of not more than 20% of their respective recurrent grants. As a resource management tool to help an organisation meet contingency needs and budget for future development, a reserve certainly has its merits. In the context of the LSGSS, it is not only an integral part of the design, but also essential for the NGOs to meet contractual commitments. No stakeholder seems to dispute the need to retain this facility, but NGOs and staff do differ in proposing how it should function. NGOs, for instance, have suggested that the SWD should raise the maximum reserve level or should give them even greater flexibility in the investment of their reserves, so that the return on capital can be higher. Staff, however, have proposed that the SWD should impose more restrictions on the level and the use of the reserves, and require NGOs to spend them on staff welfare.

4.28 The IRC considers that reserves should be put to good use for service enhancement and strategic developments, including the development of a strong team

of staff. NGOs are encouraged to be prudent, but not overly conservative, in estimating their reserve requirements. In Chapter 3, we have proposed that NGOs should have access to an actuarial service to be made available by the Government, so that they may ascertain their ability to honour their commitments to Snapshot Staff, and gainfully deploy the surplus. NGOs should be encouraged to make use of this service and to invest their reserves in staff, through, for instance, improving their conditions of employment and supporting their professional development.

Recommendation 9

In managing their reserves, NGOs should take into account their Snapshot Staff commitments, as well as the need for service enhancement and staff development. As per **Recommendation 2**, they may make use of the Government-funded actuarial service to assess their ability to meet Snapshot Staff commitments.

4.29 Noting that 21 NGOs have not accumulated any reserves at present, the IRC has examined the profiles of these NGOs to see if there is a correlation between the funding level and the NGO's ability to save money. The correlation is not apparent, as the 21 NGOs ranked between 67th to 171st in terms of the amount of subventions they received in 2006-07, while the 43 NGOs that had accumulated reserves at or above 40% of their operating expenditure ranked 5th to 173rd. The level of reserves varies greatly among NGOs, and depends on a lot of factors including the management philosophy, size, service type and development plans of the individual NGOs. Although views are diverse as to whether the maximum reserve level should remain at 25%, or should be raised (as requested by some NGOs) or lowered (as requested by some staff), there is no evidence that the current level is inappropriate. As the main purpose of the reserves is to help NGOs meet contractual and contingency requirements, instead of arguing for an adjustment to the maximum reserve level, the IRC considers it more important for NGOs to make good use of this facility and be able to seek further assistance when necessary. We therefore recommend that the SWD establish a mechanism whereby NGOs which anticipate financial difficulties can alert the SWD in advance, so that remedial measures can be taken as appropriate before the NGOs concerned exhaust their reserves.

Recommendation 10

The SWD should establish a mechanism whereby NGOs which anticipate financial difficulties can alert the SWD in advance, so that remedial measures can be taken as appropriate before the NGOs concerned exhaust their reserves.

4.30 At the NGO level, it requires careful deliberations to determine the optimal level of reserves, and staff's contribution to such deliberations would be helpful. We have recommended in the previous chapter that a Best Practice Manual should be developed for NGOs by the welfare sector. We further recommend that the manual should address the question of how to set a reasonable level of reserves and how reserves should be put to good use.

As per **Recommendation 1**, the Best Practice Manual recommended for welfare NGOs should also address issues in relation to the level of reserves and their gainful deployment.

PF reserves

4.31 Under the LSGSS, PF provision is calculated on an actual basis for Snapshot Staff (i.e. at 5%, 10% or 15%, depending on the length of service) and at a standard rate of 6.8% of the mid-point salaries of the recognised notional establishment of the subvented service unit for non-Snapshot Staff. Staff representatives have pointed out to the IRC that some NGOs have, for various management reasons, decided not to fully deploy the PF provision for its intended purpose, such that non-Snapshot Staff receive PF of less than 6.8%.

4.32 In the case of non-Snapshot Staff, the standard 6.8% PF provision may be higher than actually required in the initial years of service expansion because the staff are still at relatively junior levels, but the requirement may be greater in due course if the NGO has put in place a policy to increase the percentage of PF contribution according to the length of service of the staff concerned. NGOs are therefore allowed to put the surplus of PF provision for non-Snapshot Staff into a separate PF reserve account for future use.

4.33 As at 31 March 2006, NGOs' total PF reserves for non-Snapshot Staff funded on the standard (6.8%) rate amounted to \$138.3 million. For the NGOs who have accumulated PF reserves in excess of their current and future requirements, there is room for deploying the surplus on staff welfare. As a matter of principle, PF reserves can only be spent on PF. It serves no useful purpose for NGOs to accumulate excessive reserves. The IRC therefore strongly encourages NGOs to use all their PF reserves for non-Snapshot Staff for the designated purpose, whether as ordinary contributions to the PF or as special contributions to award good performance.

Recommendation 11

NGOs should fully deploy the PF provisions and reserves for non-Snapshot Staff on PF contributions, including possibly special contributions to award non-Snapshot Staff for their good performance.

Reduction in the baseline provision under EPP/ES

4.34 It is a common concern among NGOs that they are in need of additional resources, primarily because of the reductions imposed upon them under the EPP/ES.

4.35 EPP was implemented from 2000-01 to 2002-03, when the Government and subvented sectors alike were expected to permanently reduce their recurrent expenditures by 5%, mainly through efficiency savings. Accordingly, in 2000-01, the SWD first applied a 1% reduction to the subventions of all welfare NGOs. In the following two years, NGOs were required to deliver further savings, but only up to a cumulative 4% (as against the original target of 5%). 77 small NGOs receiving subventions of less than \$3 million per annum were not required to deliver more than the 1% savings already achieved in 2000-01 because, constrained by their size, they had limited scope for service re-engineering. The total EPP contributions from subvented welfare NGOs amounted to about \$110 million.

4.36 In 2003-04, the SWD again applied, across-the-board, a 1.8% ES reduction to NGOs' subventions, followed by another 2.5% in 2004-05. A further 1% reduction was applied to NGOs in 2005-06, but this time 74 NGOs with recurrent subventions below \$3 million were exempted. The total ES contributions from subvented NGOs were \$342 million, representing not more than 5.3% (1.8% + 2.5% + 1%) of their recurrent subventions.

4.37 In other words, under EPP and ES, a total of not more than 9.3% (4% EPP and 5.3% ES) subventions reduction was imposed on welfare NGOs, with nearly half of them contributing less than this percentage (the least being 5.3% (i.e. 1% EPP + 1.8% ES + 2.5% ES)). The actual contributions of \$452 million (\$110 million from EPP and \$342 million from ES), however, represented only a 6.5% reduction, not 9.3%. This is because, apart from exempting small NGOs from some of the savings requirements, the SWD also allowed NGOs to deliver savings through service re-engineering, such as closure of under-utilised service units, instead of contributing in monetary terms. Moreover, for all NGOs, certain items of recurrent subvention

were exempted from EPP/ES, namely, provident fund, foster parent allowance, incentive payment to sheltered workers and rent and rates reimbursement.

4.38 EPP and ES were implemented not only on subvented bodies, but also on all Government bureaux and departments, including the SWD. For the welfare sector, subvented NGOs achieved 6.5% savings as compared to the target of 9.3%, and the remainder was borne by the SWD.

4.39 Although NGOs had to deliver EPP/ES savings, the Government had also assisted them through TOG and SOG. In the six years between 2001-02 and 2006-07, the total amount of such assistance amounted to almost \$2.4 billion. This was followed by further assistance measures in 2007 and 2008 which included, among other things, another one-off grant of \$200 million from the LF and an additional \$200 million recurrent funding from 2008-09 onwards. Between 2000-01 and 2008-09, subventions for NGOs on LSG have increased by over \$2 billion, and are still on the rise. The total subventions to these NGOs now amount to about \$8 billion, representing a 16% increase over the 2007-08 allocation.

4.40 During the review, some NGOs have suggested to the IRC that savings delivered under EPP/ES should be returned to them, so that they can be funded according to the “true benchmark” when the LSGSS was first introduced. As explained in Chapter 1, EPP and ES were initiatives to alleviate the Government’s financial pressures at the time. NGOs are of the view that while there was a practical need for them to reduce expenditures in times of financial constraints, their funding level should be returned to the original level now that the economy has recovered. Besides, their expenditures have increased as a result of other developments, such as the adjustments to civil service starting salaries, inflation and higher labour costs. They hope the EPP/ES savings can be returned to them to alleviate their financial pressures.

4.41 The argument for returning EPP/ES savings to NGOs once the economy recovers is now weakened by the recent financial turmoil which is expected to persist in the near future. In any event, the IRC does not consider it appropriate for welfare funding to fluctuate with the state of the economy. Moreover, NGOs should have achieved the bulk of their EPP/ES savings through service re-engineering and enhanced productivity. Such savings should not be cyclical, but should be permanent. If efforts have been made to do more with less, service quality should not have been compromised despite the reduction in funding level.

4.42 Indeed, the re-engineering efforts of many NGOs have achieved impressive outcomes. It would not be giving them due recognition if EPP/ES savings were simply returned to them as if they had not been able to take advantage of the LSGSS to enhance efficiency, or that genuine savings had not been achieved. In the case of the SWD, which has borne one-third of the EPP/ES requirements of the welfare sector, the departmental funding for existing activities has remained at the reduced level except for price adjustments.

4.43 In the earlier part of this chapter, we have discussed how the social welfare sector has undergone significant changes since the implementation of the LSGSS. We have also recommended that such changes be recognised under the LSGSS, by way of service reviews. In our view, this would be a more constructive and forward looking approach to address funding needs.

Recommendation 12

Recognising NGOs' achievements in enhancing efficiency and productivity under the EPP/ES, it is recommended that the need for additional funding should only be justified by a systematic review of service needs.

Interactions between the Government and NGOs under the LSGSS

4.44 The LSGSS governs the funding relationship between the Government and welfare NGOs. Since this is a formal relationship involving public money, it is important that terms and conditions are clearly defined, documented, and adhered to. These are the basics, but there is much more to this relationship.

4.45 The SWD, for instance, is not only a signatory to individual FSAs. It is the public authority overseeing the implementation of welfare policies in Hong Kong. It supports the development of subvented and non-subvented welfare sectors. As a service provider in the areas of social security, family and child welfare, etc., it also shares the responsibilities of NGOs in frontline services.

4.46 NGOs likewise do not only work to FSAs. Each of them has its unique mission, vision and contributions to welfare development in Hong Kong. They have first taken upon themselves the commitment to serve the community. Funding comes after, and the Government is often not the only source.

4.47 The multiple roles that the SWD and NGOs play in the welfare system have enriched their funding relationship, bringing to it new dimensions such as how welfare services should be planned and delivered in partnership.

4.48 Some NGOs have indicated to the IRC that they have not seen such a partnership in operation. Quite the contrary, they think that, following the implementation of the LSGSS, NGOs have been left on their own to bear the consequences of social changes that impact upon their resources and service plans. They are also concerned about not having sufficient involvement in welfare planning. This is not the partnership they expect of the SWD.

4.49 The SWD, on the other hand, believes that it has always been working closely with the NGOs, whether before or after the implementation of the LSGSS. If this has not been apparent to the NGOs, perhaps it is time to reflect on the reason.

4.50 Although the SWD works as a partner of NGOs in providing welfare services, it also has a duty to ensure that public resources are used properly and that NGOs deliver the services as agreed. The SWD is not always able to meet NGOs' expectations in the provision of resources, because, like any other Government bureau or department, it is subject to the Government's financial discipline and budget constraints. The SWD's supervisory role and restraint on resources may lead to a misunderstanding that it is unwilling to give full support to the NGOs.

4.51 The IRC is of the view that the introduction of the LSGSS should not have changed the fundamental relationship between NGOs and the SWD. Whether under the conventional subvention mode or the LSGSS, the SWD will still have to supervise NGOs and resources allocation will still be subject to the Government's budget. Nevertheless, as suggested by some NGOs, there are areas in which the SWD can play a more proactive role in strengthening its partnership with the NGOs and other stakeholders. For instance, the SWD may actively engage them in manpower development for the sector, in welfare planning and in the review of service needs, such that NGOs will share the ownership of the processes. Above all, there should be effective communications between the SWD and NGOs under the LSGSS. In the ensuing paragraphs, we shall examine areas where communications can be improved.

Issues related to interactions between the Government and NGOs raised by stakeholders

LSGSC

4.52 The LSGSC is an important platform for the SWD to discuss with NGOs and other stakeholders the problems they encounter in implementing the LSGSS. Its terms of reference are as follows –

- “ (a) To monitor the progress of LSG[SS] implementation;*
- (b) To receive representations from NGOs, staff and service users;*
- (c) To discuss and suggest solutions to problems arising from implementation of LSG[SS]; and*
- (d) To facilitate communication and sharing of information and experience among SWD, NGOs and staff in the social welfare field in the LSG[SS] environment.”*

4.53 The LSGSC was convened by the DSW in 2001 when the LSGSS was first introduced. At that time, the system was a new and ambitious venture for the welfare sector, and was not familiar to the general public. Teething problems were inevitable. To be able to promptly identify these problems and come up quickly with practical solutions, it was necessary for the LSGSC to engage the immediate stakeholders who had direct involvement in the system. As mentioned in Chapter 1, the LSGSC comprises representatives of the Government, NGOs’ management, staff unions and service users. This composition would seem to suit its primary objective in the initial years.

4.54 Over the years, the sector has in general adapted to the LSGSS and operational problems have been ironed out. Going forward, stakeholders should be able to focus more on developmental issues, such as consolidation of experiences, sharing of good practices, reinforcing the change in mindset and encouraging further improvement, etc.

4.55 In reviewing the role of the LSGSC in the handling of complaints, the IRC notes that many stakeholders are concerned about the effectiveness of the LSGSC in this regard, the reason being that the LSGSC comprises mainly stakeholder representatives, and they may not be able to resolve conflicts in an impartial and efficient manner. Chapter 8 examines this issue in greater detail. In this connection, the IRC has also considered the question of whether the LSGSC, in its present form, can best support the LSGSS as the system evolves.

4.56 With this in mind, the IRC has reviewed the terms of reference of the LSGSC, and recommends reconstituting the LSGSC to strengthen its role and composition, so that it can lead the sector in the continuous development of the LSGSS. More specifically, we recommend that the LSGSC should take on the following responsibilities –

- (a) Implement the recommendations of this review report;
- (b) Work with the sector in drawing up a Best Practice Manual;
- (c) Continue to monitor the implementation of the LSGSS and identify room for improvement; and
- (d) Facilitate communication and the sharing of information and experiences among SWD, NGOs, staff in the welfare sector and service users under the LSGSS.

The LSGSC's existing function in handling complaints and how this function should be rationalised are discussed in Chapter 8.

4.57 To support its new role, the LSGSC should comprise not only the existing stakeholders, but also independent members of the community. Individuals who have the expertise to help the LSGSC take forward its various functions may be co-opted, and professional assistance can be engaged if necessary.

4.58 Sub-committee(s) may also be set up for specific functions, such as the development of the Best Practice Manual and the implementation of the recommendations of this review report. These will be matters for the LSGSC to consider.

Recommendation 13

The LSGSC should be reconstituted to strengthen its role and composition, so that it can lead the sector in the continuous development of the LSGSS.

Transparency in LSG computation

4.59 Upon opting to join the LSGSS, NGOs each received a comprehensive list of subventions items for its existing service units, specifying the provisions for salary, salary-related allowances, PF and OC. Whenever new services are allocated, NGOs will also receive a notification of the LSG involved, broken down by the same expenditure categories. Otherwise, NGOs were only informed annually of

the LSG, the PF provision for Snapshot Staff and that for other staff.

4.60 Some NGOs are not satisfied with this level of disclosure. They wish to be apprised of the basis for calculating the PE and OC portions of the LSG, in particular for new services, new units of existing services and in-situ expansion. They also request to know the basis of SWD's adjustments to LSG allocations, including salary adjustments. NGOs consider such information essential for their service planning, in particular in relation to human resource matters. Moreover, in the submission of AFR and during subvention inspections, the SWD still requires NGOs to provide a detailed breakdown of their financial accounts by individual service units as per the FSAs. Many NGOs perceive this as a requirement for them to manage their funds by FSAs. Concerns about the lack of flexibility aside, NGOs also find it difficult to comply with such accounting requirements without knowing the basis of the funding allocations.

4.61 The IRC understands that, apart from specific items such as PF provision, NGOs are not bound by SWD's calculation basis in utilising their LSG. Not only can they allocate resources within a service unit as they see fit, but they can also do so across service units provided that they are covered by FSAs. We shall discuss in greater detail how this flexibility should dovetail with the accounting requirements in Chapter 5. As NGOs have full flexibility in the allocation of LSG on an agency basis, knowledge of SWD's calculation basis is largely irrelevant to the NGOs' own management decisions. The decisions should be made with reference to the characteristics of the agency and the nature of the services it operates.

4.62 Under the LSGSS, NGOs have the primary responsibility to work out their own resource allocation plans, and need not, for this purpose, rely on SWD's LSG calculations. If further guidance on this matter is needed, the sector may consider addressing it in the Best Practice Manual to be developed in due course.

4.63 For the sake of transparency, SWD should be prepared to explain, at the request of individual NGOs, the basis of their LSG calculations. However, this should not be perceived as restricting the NGO's autonomy in resource deployment, and should not prejudice the SWD's right to review funding needs from time to time.

Recommendation 14

For the sake of transparency, the SWD should be prepared to explain, at the request of individual NGOs, the basis of their LSG calculations.

Revision and continuous update of the LSG Manual

4.64 While FSAs set out the funding conditions for individual service units, the LSG Manual explains how the LSGSS operates. It covers the following –

- (a) the structure of the LSGSS, the arrangements for TOG and PF provision and other related matters;
- (b) financial management under the LSGSS;
- (c) the respective roles and responsibilities of the SWD and NGOs in the use of public funds; and
- (d) advice on best management practices and processes.

4.65 The LSG Manual was first issued in June 2000, prior to the implementation of the LSGSS. It was the outcome of the Administration's extensive consultation with various stakeholders including the Government's advisory committees, NGOs, staff associations, service users, etc. Four months later, an improved second edition was released, mainly to clarify the rules and address concerns raised by stakeholders. Thereafter, SWD has issued ten supplementary circulars. Both the manual and the circulars were distributed to all NGOs and uploaded onto the SWD's website.

4.66 However, additional information contained in the circulars was not incorporated into the LSG Manual, making it difficult for stakeholders to trace the development. Some outdated information, such as the former "no-better-than" subvention principle¹ and the sections on TOG, has not been deleted. The Preamble still refers to the former Health and Welfare Bureau and a welfare planning framework² which the Government had meant to put in place but has so far not materialised. Besides, the LSG Manual has not clarified important concepts such as "FSA-related activities". New policies, such as that on insurance, are also not reflected in the manual. All these have caused confusion and inconvenience to

¹ According to this principle, the terms and conditions of employment for staff in the subvented sector should not be better than those of civil servants at comparable ranks.

² According to the LSG Manual, this is "an integrated and forward looking planning framework comprising long term Strategic Directions, Medium Term Plan for individual programme service areas and service development and delivery of Annual Plans by SWD and NGOs".

stakeholders which look to the manual for guidance. They also resulted in the LSG Manual not fulfilling its role as the authoritative handbook on the LSGSS as it was originally intended.

4.67 The IRC is of the view that the LSG Manual should lay down clear guidelines on the day-to-day operation of the LSGSS. We therefore recommend that the SWD review the manual in consultation with stakeholders and update it regularly. To ensure that stakeholders have ready access to the document, changes should be made known on the SWD's website in the first instance. NGOs should also be notified instantaneously by email.

Recommendation 15

The SWD should revise the LSG Manual in consultation with stakeholders, update it regularly, and announce changes on the SWD's website in the first instance. NGOs should also be notified instantaneously by email.

Co-ordination among different branches of the SWD and their communication with NGOs

4.68 The SWD holds regular sharing and training sessions for NGOs to promote the LSG spirit. To facilitate communications between NGOs and the SWD, the Subventions Branch of the SWD has designated an Agency Officer (AO) for each NGO. The Service Branches also have regular contacts with NGOs to discuss service development and operations. At the district level, SWD officers convene meetings with NGOs from time to time to facilitate the planning and coordination of local services.

4.69 The many communication channels have made the Government's advice more accessible, but some NGOs have reflected to the IRC that they do not always receive consistent advice from the various channels, in particular when the implementation details of the LSGSS are in question. For instance, different SWD officers may offer different interpretations as to what constitute FSA-related activities. Some NGOs have suggested to the IRC that the various branches of the SWD involved in the administration of the LSGSS, namely the Subventions Branch, Finance Branch and Service Branches, should improve the communications among themselves and with the NGOs.

4.70 The IRC has ascertained from the SWD the roles and responsibilities of its

various branches in relation to the implementation of LSGSS. The Service Branches review service needs and prepare specifications for new projects, setting output/outcome measurements and service standards. The Subventions Branch formulates, executes, reviews and interprets subvention policies, rules and procedures. It also monitors and evaluates service performance. The Finance Branch monitors LSG accounts and reviews the financial arrangements of subvented NGOs. It also conducts regular subvention inspections. The various branches have their own clearly demarcated portfolios, but they do not work in isolation. In executing their functions, they often consult each other and coordinate their input.

4.71 Although its various branches stand ready to answer NGOs' queries, the SWD encourages NGOs to approach their respective AOs for assistance. The AO system has been established to provide one-stop services to NGOs. It is meant to save NGOs the trouble of having to identify the responsible officers and liaise with them on the various aspects of the issue at hand.

4.72 In practice, however, it appears that the AO system may not be able to fully meet NGOs' expectations. Many NGOs have told the IRC that the system is not as effective as it should be, because the AOs do not have sufficient contact with their NGOs, and cannot always render a timely one-stop service when assistance is needed. Having interviewed the AOs and understood their constraints, the IRC considers that the AO system should be rationalised so that staff can be deployed to perform the functions that they are best at. More specifically, we consider that the AOs' role as one-stop help desks can be better performed by one single team of SWD officers who come from the Subventions, Finance and Service Branches and are familiar with the rules and operations of these branches. Together, these officers should possess the expertise necessary for providing prompt advice to NGOs on all LSG-related issues. Provided that its members are sufficiently senior and have adequate subject knowledge, the team need not retain all the 12 posts of the existing AO system. The spare resources thus released may then be redeployed to step up functions originally performed by AOs (such as quality inspections to be discussed further in Chapter 7) or implement new initiatives (such as the service reviews discussed in the earlier part of this chapter). We defer to the SWD to consider how its manpower resources should be allocated to achieve these objectives in the most effective manner.

Recommendation 16

The SWD should rationalise the AO system with a team of officers who are familiar with the rules and operations of the Subventions, Finance and Service Branches and can provide prompt advice to NGOs on all LSG-related issues. The resources thus released may be redeployed to step up existing work such as quality inspections or implement new initiatives.

Looking forward

4.73 Resources will not be unlimited; they have never been. Notwithstanding this, the public sector has proven itself to be highly resilient in times of difficulty and capable of overcoming financial constraints. This is not a feat to be ignored.

4.74 While many NGOs see financial issues as their major concerns under the LSGSS, the IRC observes that, following rigorous re-engineering and repeated assistance from the Administration, the majority of NGOs have managed to attain financial viability in the long term, although some may not be entirely certain about their funding position. If doubts can be cleared on this front, the sector should have every reason to be more forward looking – to deploy surplus resources for service improvements, to invest more in staff and team building, to plan more progressively for future developments.

4.75 As the welfare sector moves ahead, so should the LSGSS and the Government machinery supporting it. When the system was first introduced, it had on the drawing board careful deliberations of the funding basis, formal documentation, an AO system for operational backup and an LSGSC for solving problems. They showed how the Government and NGOs had valued the new funding relationship and had looked forward to contributing to it. And that should not be a snapshot. Every effort should be made to sustain the goodwill then and now, and we look to the Government to take the lead in reviewing service needs and ensuring that the LSG Manual and various communication channels do move with the times.

Chapter Five – Flexibility, Efficiency and Cost-effectiveness

5.1 There is a long history of NGOs' involvement in social welfare in Hong Kong, dating back to the times when the SWD did not even exist, let alone any formal subvention system. However, historical reasons alone cannot account for the fact that some 80% of all Government-funded welfare services are now delivered through NGOs. There must be a conscious decision on the Government's part to enlist their assistance. Our community is indeed privileged to have their support in this regard.

5.2 NGOs are an important social asset in themselves. Not only do they possess the experience and expertise in running welfare services, but they also enjoy a flexibility in operation that is not readily available to Government departments. The Government being a huge and complex structure, its departments are bound by elaborate sets of rules and procedures that enable them to perform their functions in a fair, consistent and transparent manner. Though befitting the Government, such a mode of operation may not be the best for service delivery on the frontline. It often means that decisions cannot be made quickly, and discretion can only be exercised sparingly. Greater flexibility is needed if service demands are to be met in a more timely manner, and NGOs are certainly suited to perform this function.

5.3 The Government has taken a decisive step in furthering this advantage when it introduced the LSGSS. Under this system, NGOs enjoy greater autonomy in resource deployment, and this has opened the door to a more efficient operation and more cost-effective services. Efficiency is about maximising productivity, whereas cost-effectiveness is the extent to which stated objectives are achieved with reference to costs. Flexibility, efficiency and cost-effectiveness are three mutually reinforcing concepts under the LSGSS – by exercising flexibility in resource deployment, NGOs can enhance efficiency in their operation, which in turn will enable them to deliver quality service in a more cost-effective manner. The positive outcomes will likely bring about further savings and thereby greater scope for flexible deployment. As the three concepts are interwoven, we will deal with issues related to them together in this chapter.

LSGSS - flexibility for efficiency and cost-effectiveness

5.4 The LSGSS provides the flexibility needed for service re-engineering, through which work processes can be streamlined, services re-prioritised, resources

redirected and innovative thinking employed, all for the purpose of enhancing services. There are many examples of how the flexibility available under the LSGSS has served this purpose. To name but a few -

- ◆ An NGO running pre-primary institutions had identified surplus resources arising from the short-term vacancy of a child care worker post. Such a surplus would have had to be returned to the SWD under the conventional mode of subvention. However, with the flexibility provided by the LSGSS, the NGO was able to redeploy the surplus to strengthen its Extended-hour Child Care Service. This was very much appreciated by working parents in the neighbourhood.
- ◆ Another NGO running services for the mentally handicapped had used its savings to organise more outings and community-based programmes for its clients. These activities were crucial to promoting social integration.
- ◆ A Residential Care Home for the Elderly had identified savings after streamlining the work procedures of its kitchen, so that it could employ a pharmacist and a dietician to strengthen the medical care of the elderly residents.
- ◆ Making use of the flexibility in staffing arrangements, an NGO in the rehabilitation field employed marketing staff for its sheltered workshops. With this new expertise, the NGO received more job orders and could more effectively promote the self-reliance of its workers.
- ◆ An Integrated Vocational Training Centre (IVTC) used to train persons with intellectual disabilities for working in the manufacturing industries. As most of the manufacturing industries subsequently moved to the Mainland, the IVTC re-engineered its training programmes to focus on the service industries such as catering, housekeeping and cleaning. The flexibility provided under the LSGSS has enabled the IVTC to respond quickly to the changing market demands.

5.5 Where there is service re-engineering on a sector-wide scale, NGOs may face difficulties in staff recruitment or have to deal with redundant staff. Compared to former times, NGOs under the LSGSS have more flexibility in staffing matters and hence a greater capacity to absorb such impact and challenges. For instance, this

advantage given by the LSGSS has made possible significant re-engineering arising from service reviews initiated by the SWD, resulting in the formation of IFSCs and DECCs, etc. Due to changes in the mode of service delivery, some ranks such as welfare workers in the existing service units were not included in the staff establishment of the IFSC. Under the conventional subvention mode, these staff would have become redundant, but under the LSGSS, the NGOs concerned could re-deploy these surplus staff to other service units or allow them to stay at the IFSC until they leave through natural wastage. The same principle also applied to the redeployment of surplus staff at the Multi-Service Centres for the Elderly in the formation of DECCs.

5.6 Without the flexibility given to NGOs under the LSGSS, the above re-engineering would not have been possible. NGOs could have missed countless opportunities to upgrade their services; introducing variety into their services would have been less easy, and above all, they would have found it much harder to meet the requirements of the EPP/ES without compromising service quality. Eight years down the road, despite all the challenges and adjustments, our welfare sector is still delivering satisfactory services with no major service gap. All NGOs have been able to achieve the “users’ satisfaction rates” stipulated as outcome standards in their FSAs. Taking into account the amount of savings delivered under the EPP/ES¹, the fact that the majority of NGOs have exceeded the FSA output targets², the greater variety of service and their satisfactory delivery as testified by service users, the services nowadays are, all in all, greater value for money. This speaks for the remarkable success of our NGOs and staff in adapting to the LSGSS and making use of its flexibility.

5.7 NGOs generally welcome the flexibility that came with the LSGSS, provided that they have sufficient resources to make good use of it. That said, some NGOs have suggested further relaxing input and output controls as well as giving them greater flexibility in service delivery. There are also concerns about small NGOs not being able to make full use of the flexibility under the system. In this chapter, we look into these important issues in greater detail.

Issues raised by stakeholders

¹ The savings delivered by subvented welfare NGOs alone amounted to \$452 million under EPP/ES.

² In four service areas, namely Family & Child Welfare, Youth, Elderly and Rehabilitation & Medical Social Services, over 95% of the 8 952 output standards were exceeded in 2006-07. The actual output ranged from 145% to 163% of the agreed standards.

SWD's audit procedures

5.8 Many NGOs have pointed out to the IRC that although the LSGSS advocates a change from input control to output control, this is not sufficiently borne out by operations on the ground. The SWD's audit procedures are not materially different from those of the conventional subvention mode. Nor is the guideline that the SWD adopts for inspection of NGOs' accounts. According to some NGOs, SWD's financial inspectors still tend to pay a lot of attention to input control instead of focusing on output and outcome. The current year accounts of NGOs are compared with their accounts in the immediately preceding year and NGOs have to explain variations of \$50,000 or more for individual OC expenditure items, or even fluctuations in the spending pattern for relatively minor items. Staff attendance records are also inspected. NGOs find all this unnecessary and at odds with the spirit of the LSGSS. Furthermore, they do not see any requirement for such detailed financial reporting in the LSG Manual.

5.9 According to the SWD, its inspectors do look into NGOs' individual expenditure items when reviewing the NGOs' internal control system. The SWD also considers it necessary to analyse the items to ensure compliance with FSAs and financial reporting requirements. In this connection, NGOs have to provide an explanation if OC expenditures (either in totality or by individual item) have increased by more than 20% or \$50,000 as compared to the previous year. As regards the inspection of staff attendance records, the SWD explains that this is to check whether staff on the NGOs' staff lists are actually on duty in the service units concerned. It is the SWD's standard audit procedure for the checking of PE.

5.10 The IRC considers that if NGOs are to enjoy in full the flexibility envisaged under the LSGSS, audit procedures that are inherited from a former system and which no longer serve their purposes in present day circumstances should be discontinued. While it is incumbent upon SWD officials to ensure that public money is properly spent and accounted for, this may not justify detailed checking on minor items. Doing so will not only add to the administrative costs of both the SWD and the NGOs, but will also discourage NGOs from exercising their flexibility under the LSGSS. The IRC recommends that the SWD conduct a thorough review of its existing audit procedures to identify room for improvement.

Recommendation 17

The SWD should conduct a thorough review of its audit procedures to ensure that they are effective in monitoring the use of public funds and do not compromise NGOs' flexibility under the LSGSS.

Definition of FSA-related activities

5.11 Some NGOs have asked for the flexibility to freely redeploy resources on activities which, though not readily recognised by the SWD as “FSA-related”, are in fact necessary and complementary to the subvented services. As mentioned in the previous chapter, some NGOs have pointed out that the definition of “FSA-related” activities is unclear, and that different officers within the SWD may offer different interpretations.

5.12 The IRC notes that under the LSGSS, the DSW has the authority to determine what constitute “FSA-related activities” on a case by case basis. We appreciate that in doing so, the DSW is performing his duty as Controlling Officer of welfare expenditures and upholding the Government’s principle of “no cross-subsidy” from subvented to non-subvented activities. The IRC does not dispute this principle which seeks to safeguard the proper use of public funds for their intended purposes. As there is an existing mechanism for NGOs to propose recognition of their activities as FSA-related ones, we would encourage NGOs to consult the SWD at an early stage, prior to conducting these activities, to avoid misunderstandings or arguments later on. In Chapter 4, we recommended that the SWD rationalise the AO system with a team of officers with relevant expertise to provide prompt advice on all LSG-related issues. We further recommend that NGOs should make good use of the new system to seek SWD’s advice on the interpretation of FSA-related activities.

Recommendation 18

To avoid misunderstanding, NGOs should consult the SWD in a timely manner as to what constitute “FSA-related” activities before conducting such activities. As per **Recommendation 16**, the SWD should set up a team to provide prompt advice on LSG-related issues.

AFR requirements***(1) Analyses of incomes and expenditures by programme area and by FSA***

5.13 While discussing flexibility with the IRC, some NGOs seem to be uncertain

about the parameters set by the SWD and how they relate to the FSAs. A common perception among the NGOs is that they are not permitted to redeploy resources across service units, and to address this concern they wish to pursue an agency-based FSA. The IRC, however, suggests that this issue may be tackled from a different perspective.

5.14 As stated in section 2.15 of the LSG Manual, “*LSG is provided on an NGO basis. NGOs’ management may redeploy LSG resources across service units as long as these are within the service units governed by FSAs after assessing needs, and vire from one cost item to another cost item, e.g. from other charges to salaries and vice versa.*” The SWD has further explained to the IRC that although each service unit of an NGO is governed by a separate FSA, the NGO has the flexibility to redeploy resources across all these service units.

5.15 However, we are given to understand that, in the context of AFR submission and subvention inspections, NGOs are still required to break down their financial accounts by service unit in accordance with the FSAs. This may have given NGOs the impression that funding may, after all, not be freely deployed across the service units.

5.16 Despite the current AFR reporting requirement by service unit, SWD’s clarification above would mean that an agency-based FSA for the purpose of maximising funding flexibility would not be necessary. However, NGOs’ suggestion has also highlighted another area of concern, which is that the financial reporting by service unit is considered to be unnecessarily cumbersome. It appears to some NGOs that having an agency-based FSA would resolve all these perceptual and practical problems.

5.17 To consider the merit of their proposal, one would have to understand the rationale of having separate FSAs for individual service units. FSAs stipulate the detailed service requirements of each service unit, including the output and outcome targets. In devising these requirements, the SWD has taken into account the service needs in the district. If the requirements are not complied with, or if NGOs are at liberty to adjust output targets of individual service units under an “agency-based FSA”, there may be service mismatch at the district level. From the service provision point of view, there is a need to retain control of the output and outcome targets, i.e. the service requirements, by service unit.

5.18 That said, financial reporting is quite a separate issue. It is serving a very different purpose, which is basically to ensure that the LSG is spent properly on recognised activities. As LSG funding is already on an NGO basis, it begs the question as to whether there is a practical need to request financial reporting by FSA. We therefore recommend that the SWD should streamline its financial reporting requirements, including dropping the requirement for NGOs to provide analyses of their incomes and expenditures by programme area and by FSA. As mentioned above, we have recommended that the SWD should conduct a thorough review of its audit requirements.

Recommendation 19

The SWD should streamline its financial reporting requirements, including dropping the requirement for NGOs to provide analyses of incomes and expenditures by programme area and by FSA.

(2) Deadline for the submission of AFR

5.19 In examining the SWD's audit process, the IRC observed that half of the NGOs on LSG failed to meet the deadline imposed by the SWD for submission of their AFRs for the 2007-08 financial year. The corresponding figures for 2005-06 and 2006-07 were 50% and 56% respectively, indicating a common and perennial problem.

5.20 At present, NGOs are required to file their AFRs by 31 July following the end of each financial year (i.e. 31 March), which means that NGOs only have four months' time to finalise their submissions. However, these four months coincide with the busy period of the accounting sector, when private firms are also compiling their accounts and financial reports. NGOs, especially small ones which do not have their own central administrative support, often have to rely on voluntary accounting services. Such services are not readily available when the service providers have to give priority to their business clients. As a result, many NGOs have difficulty meeting the SWD's deadline.

5.21 The IRC has enquired about the implications of NGOs not being able to submit their AFRs in time, and was advised that the SWD could possibly accommodate a longer timeframe for such submissions. In view of NGOs' practical difficulties, the IRC recommends that the SWD review the requirement and set a more realistic deadline for NGOs to submit their AFRs.

Recommendation 20

The SWD should review the deadline for NGOs to submit their AFRs, taking into account the practicability of the requirement.

(3) Preparation of AFR on a cash accounting basis

5.22 At present, NGOs are required by the SWD to prepare AFR on a cash accounting basis. However, NGOs usually prepare their audited financial statements on an accrual basis, as is the generally accepted accounting practice. Much resources are required in the preparation of two sets of accounts. Besides, NGOs have pointed out that cash accounting cannot reflect accrual expense items such as staff leave days and long-service payments, and does not help NGOs make long-term financial plans. NGOs therefore suggest that the SWD should allow them to prepare their AFR on an accrual basis.

5.23 The SWD's rationale for requiring NGOs to prepare their AFR on a cash basis is as follows –

- ◆ For stewardship purposes and in line with the Government accounts, AFRs should be prepared mainly on a cash accounting basis.
- ◆ Basically, the purpose of the LSG is to provide the cash that is necessary for NGOs to meet the operating requirements of providing the subvented services. Therefore, the AFR is a statement showing the amount of cash received by an NGO and how the NGO spent the cash on the different elements of operating components; essentially, it is a statement of cash received and cash outlays of the NGO. If the expenditure side is prepared on an accrual basis, it is not comparing like with like.
- ◆ Moreover, if accrual accounting is adopted, non-cash items and provisions will be included in the AFR. As these items represent estimated liabilities of the NGOs to be settled in future, it will pose a problem in the calculation of the 25% clawback. This is because when the items materialise and the actual amounts are known, it may be necessary to make adjustments against the previously estimated figures and the clawback for certain years may need to be re-done.

5.24 The IRC agrees with the SWD that cash accounting is necessary for reporting on public accounts and that the requirement for NGOs to prepare AFR on a cash basis has to be retained. Although we understand that NGOs have to spend additional time on the preparation of accounts as a result, we hope that, in recommending the SWD to streamline other financial reporting requirements and review the deadline for the submission of AFR as per **Recommendations 19 and 20**, we have identified effective ways to help NGOs prepare financial reports.

Flexibility for small NGOs

5.25 Flexibility is a powerful tool provided that there are sufficient resources for redeployment and a capable administration that can put the resources to good use. Among the 162 NGOs currently on LSG, 51 (about 32%) are receiving annual subventions of less than \$3 million. Although many of them have other significant income sources³, the scope for these NGOs to exercise flexibility in resource management is still limited, especially when the “no cross-subsidy” rule forbids them to transfer funds freely across the subvented and non-subvented accounts.

5.26 Under the LSGSS, all NGOs are expected to develop their own resource management and service plans. This calls for a stronger central administration, but unlike their bigger counterparts, small NGOs were not equipped with dedicated administrative personnel before their transition to the LSGSS. They therefore have asked for greater administrative support.

5.27 According to the SWD, to some extent provisions for administrative support have been factored into the calculation of the LSG. Moreover, additional non-recurrent and recurrent grants of \$200 million each were provided by the SWD in 2008-09 to enhance NGOs’ administrative capacity.

5.28 The LSGSS itself does not seem to have built-in measures to address the limitations of scale, but the SWD has given smaller NGOs special treatment through various administrative measures. For instance, the way that the \$200 million grants mentioned above were allocated was in favour of smaller NGOs. On each occasion, NGOs with an annual subvention of \$1 million or below were granted \$75,000; those

³ According to the SWD, in 2006-07 there were 59 NGOs on LSG with an annual subvention of less than \$3 million. 36 of these NGOs had other sources of income (i.e. other than SWD’s subventions and subsidies) which contributed to over half of their respective total income for the year.

with an annual subvention of more than \$1 million and up to \$5 million received \$150,000, and the balance was divided on a pro-rata basis among NGOs with an annual subvention of more than \$5 million. Accordingly, the smaller NGOs received proportionally a greater subsidy under SWD's assistance measures⁴. This was to ensure that they have sufficient resources to employ suitable administrative staff. Moreover, small NGOs were exempt from part of the EPP/ES requirements⁵. These measures indicated that the SWD recognises the contributions of small NGOs to our welfare sector, especially the roles they play in their niche areas. For instance, one small NGO is dedicated to assisting street sleepers, while another focuses on serving accident victims, etc. It is in the interest of the community to support them in fulfilling their unique roles.

5.29 If small NGOs feel disadvantaged because they lack the economy of scale and the administrative support to maximise the benefits of the LSGSS, the IRC considers it worthwhile for them to consider pooling their resources, including administrative resources, to overcome this problem. That said, we note that not all small NGOs are prepared to do so, because each agency has its own mission and vision and it will be difficult, if at all practicable, to look for a compromise. The Concerned Group of Small NGOs, for instance, told the IRC that small NGOs had been exploring the possibility of forming a consortium in the past decade, but it was not viable to expect them to surrender their identity and autonomy for this purpose.

5.30 According to the group, two major problems that small NGOs face are insufficient PE provision and the absence of a subvented agency head post. It therefore proposes that additional recurrent resources (known as the Golden Staff Supplement) be allocated to NGOs so that they may offer to their staff who are on the notional establishment subvented by the SWD remuneration packages comparable to their counterparts in the SWD, up to the maximum point of the relevant civil service MPS and with corresponding contributions to the Occupational Retirement Schemes. In addition, the group suggests that the SWD should also subvent a full-time agency head post, normally pitched at the Social Work Officer level, and at ASWO level for NGOs receiving annual subventions of less than \$3 million.

⁴ For instance, the additional recurrent funding provided to NGOs from 2008-09 onwards represented about 3% of their total annual subventions for that year, but the actual amounts allocated to small NGOs ranged from 5.1% to 24.2% of their annual subventions.

⁵ NGOs receiving less than \$3 million annual subventions were only required to deliver in total 5.3% savings under EPP/ES, as compared to up to 9.3% for other NGOs.

5.31 As discussed in Chapter 3, there is no strong justification for NGOs under the LSGSS to adopt the salary scales of the civil service when they are encouraged to develop their own human resource management strategies that best meet service needs. Moreover, as a condition for joining the LSGSS, NGOs have agreed that, where their actual staff costs are higher than the benchmark level, the costs should be reduced by 2% each year until they come down to the benchmark level. The request for Golden Staff Supplement will run contrary to this undertaking. Likewise, the idea of providing subvention specifically for a post pegged to a civil service rank is not in line with the funding principles of the LSGSS and will undermine the NGOs' flexibility in resource deployment.

5.32 We have pointed out above that some provisions for administrative support have been factored into the calculation of the LSG, and that the SWD has provided additional resources to NGOs in this regard in recent years. In Chapter 3, we have also proposed the establishment of a \$1 billion Social Welfare Development Fund. Together, these measures should be able to help NGOs strengthen their administrative capacity.

5.33 Nonetheless, the IRC recognises that the difficulties encountered by small NGOs may not be the same as those of other NGOs. While Government resources are available to all, special assistance to small NGOs is justified in order to maximise their contributions to the welfare sector. We therefore recommend that the SWD set up a help desk to provide management advice to the small NGOs. It should also allocate, on application, additional resources for small NGOs to hire professional services (e.g. marketing and accounting services), set up websites, strengthen its central administration, etc., so that they can secure greater community support and enhance their competitiveness in the bidding of new services. Having regard to the existing resources available and assuming that the Social Welfare Development Fund will come on stream, we recommend that each small NGO may apply for grants up to \$300,000 (or 10% of its LSG, whichever is lower) each year for a total of four years. We envisage that, with the additional grants, the small NGOs should be able to develop, improve their financial positions and remain competitive upon the expiry of the funding period.

5.34 The IRC understands that there is considerable resistance among the small NGOs to forming federations. However, we remain of the view that the fundamental problem with small NGOs is that they lack the economy of scale to maximise the benefits of the LSGSS. We believe this problem can be tackled by encouraging them

to form federations or jointly provide certain services, so that they can share the costs of a stronger administrative support and achieve synergy. NGOs may also voluntarily pursue various forms of structural collaboration including merger. The help desk proposed to be set up under the SWD should facilitate the efforts of the small NGOs in this regard.

Recommendation 21

The SWD should set up a help desk to provide management advice to small NGOs and to facilitate their collaborative efforts. To help small NGOs develop, the SWD should also make available additional resources for them to strengthen their administrative and professional support. Small NGOs may apply for grants up to \$300,000 (or 10% of its LSG, whichever is lower) each year for a total of four years.

5.35 We have been referring to small NGOs above mainly in terms of their subvention level, which is from the SWD's point of view. In fact, welfare NGOs do not necessarily rely solely on Government subventions, and many NGOs subvented by the SWD also provide other community services that fall outside the scope of social welfare, for instance, educational and medical services. The amount of LSG that these NGOs receive does not accurately reflect their scale of operation and is therefore not a reliable indicator of the problems they are likely to face under the LSGSS.

5.36 The Concerned Group of Small NGOs defines small NGOs as ones which do not have funding provision for the position of agency head when the snapshot was taken in 2000. This definition does not take into account the fact that some of these NGOs might have undergone significant changes and service expansion in the past eight years. For the purpose of identifying NGOs which are likely to need extra administrative support, the IRC proposes that NGOs with an annual LSG below \$5 million⁶ and an annual expenditure below \$10 million⁷ should be regarded as "small

⁶ We note that in allocating the \$200 million one-off and recurrent grants to NGOs in 2008-09, the SWD had divided NGOs into three bands, namely, (i) those receiving annual subventions of less than \$1 million; (ii) those receiving over \$1 million but less than \$5 million; and (iii) those receiving \$5 million or more. As explained at footnote 4 above, NGOs in bands (i) and (ii) received proportionally bigger grants, indicating that the SWD recognises their greater need for assistance.

⁷ We consider that a ceiling is needed for the definition of small NGOs because some NGOs may receive a relatively small amount of welfare subvention, but are actually operating on a large scale because they have other sources of income, or that their main business is non-welfare related. A case in point is the Hospital Authority which received less than \$360,000 subvention from the SWD in 2007-08. NGOs as such are not small organisations and do not necessarily share the concerns of small NGOs.

NGOs”. We believe that with a standard definition, it would be easier for stakeholders to identify the NGOs in need and appropriate assistance can be rendered to them in a more effective manner.

Recommendation 22

The definition of “small NGOs” should be standardised so that the assistance to them can be more targetted and effective. For this purpose, small NGOs should more appropriately be defined as NGOs with an annual LSG of less than \$5 million and an annual expenditure below \$10 million.

Bidding of new services

5.37 Since 2001, all new welfare services have been commissioned to NGOs through either invitation of proposals, competitive bidding or in-situ expansion⁸. Some small NGOs have pointed out to the IRC that in bidding for new services they face tremendous difficulties in competing with bigger NGOs because they do not have as much existing resources, facilities and variety in service to add value to their proposal. For instance, an NGO has told the IRC that big NGOs may assign a team of staff or hire consultants to prepare better service proposals, and as the SWD’s marking scheme favours NGOs which have service network and the ability to pool existing resources, bigger NGOs have an inherent advantage. As a result, new services are often allocated to the bigger NGOs, which in turn will strengthen their capacity in competitive bidding. Small NGOs fear that they will be increasingly marginalised if the vicious cycle perpetuates. They have proposed to the IRC that the SWD should set aside some new services for bidding by small NGOs only, so that they will be competing on a level playing field and have a fair chance of success.

5.38 According to the SWD, a total of 190 new service agreements were signed between the department and NGOs between 2000 and March 2008 through invitation of proposals, and only 3 (1.5%) of them were allocated to small NGOs⁹. During the same period, another 46 new service agreements were awarded to NGOs and private organisations by way of competitive bidding, but none of them were small NGOs.

⁸ The new practice was tried out on a pilot basis in 1999 and 2000. “Invitation of proposal” means the SWD invites suitable NGOs to submit proposals for the operation of a particular service at a level of funding determined by the SWD. “Competitive bidding” is the commissioning of service through a bidding process open to both NGOs and the private sector, but also at a fixed cost. “In-situ expansion” refers to the expansion of existing service units by the NGOs concerned.

⁹ Defined as NGOs with an LSG of less than \$3 million in 2008-09.

The figures do seem to support the small NGOs' claim.

5.39 We have recommended in the sections above new measures to help small NGOs enhance their capacity. Regarding the bidding of services in particular, the IRC understands from the SWD that a vetting committee comprising representatives of the SWD, service users, NGOs and if necessary the Labour and Welfare Bureau will be formed to assess service proposals. The SWD will first evaluate the proposals according to a pre-determined marking scheme before making recommendations to the vetting committee for a final decision. As funding is fixed for the new service, the marking scheme evaluates basically the quality of the proposed service. In other words, it aims at identifying a viable proposal which represents best value for money. Usually, factors such as the extent to which a proposal has achieved the service objectives and requirements stated in the service specifications, the NGO's track record in the provision of subvented services, its service and manpower plans and the availability of other supporting services, etc. will be taken into account. The size of the NGO is not a standard checkpoint in the marking scheme.

5.40 While we appreciate the small NGOs' concern about not being successful in the bidding of new services, we also understand the rationale for awarding the services to NGOs whose proposals represent the best value for money. Such proposals will be able to maximise the benefits to service users. NGOs will also be encouraged to make the best use of their existing resources to achieve synergy – an effort that the LSGSS seeks to promote. The IRC therefore does not support the idea of setting aside specific services for exclusive bidding by small NGOs for the purpose of ensuring their success. We believe that service quality and value should indeed be the primary considerations in the evaluation of proposals, and should take precedence over the interest of individual NGOs or categories of NGOs.

5.41 Recognising the desire of small NGOs to take up additional services, we recommend that they consider submitting joint proposals, leveraging on their complementary strengths to enhance their competitiveness. We appreciate that, for administrative purposes, the SWD considers it necessary for the partnering NGOs to identify a representative to sign the FSA and liaise with the SWD, but the NGOs should also enter into an agreement among themselves to set out clearly their individual contributions and shared responsibilities.

Recommendation 23

Small NGOs may consider submitting joint proposals to enhance their competitiveness in the bidding of new services. While NGOs participating in such joint ventures have to identify a representative to sign the FSA and liaise with the SWD, the NGOs should also enter into an agreement among themselves to set out clearly their individual contributions and shared responsibilities.

5.42 As in any bidding exercise involving Government funding, it is important that selection is done, and is seen to be done, impartially according to objective criteria. For the bidding of new welfare services, greater transparency in the marking scheme will also help bidders prepare proposals more suited to service needs. At present, the SWD's normal practice is to provide prospective bidders with a guideline on the submission of proposals, and the assessment criteria are set out therein. We recommend that the SWD take a further step and make known to prospective bidders the relative weighting of the various aspects of a proposal in the marking scheme. We are pleased to note that the SWD has recently introduced a pilot measure to provide an abridged version of the marking scheme in inviting service proposals. We consider that this arrangement should be adopted for the allocation of all new services.

Recommendation 24

In inviting bids for new services, the SWD should make known to prospective bidders the relative weighting of the various aspects of a proposal in the marking scheme.

5.43 Some front-line staff do not agree that new services should be allocated through the invitation of proposals and competitive bidding. They are concerned about the considerable time and efforts devoted to the preparation of service proposals when such resources should really be spent on service delivery. Moreover, as NGOs tend to pool resources from existing services to add value to their new proposals, the quality of existing services may also suffer.

5.44 The IRC has asked the SWD whether there are measures to address these concerns. The SWD explains that the amount of time and efforts that staff spend on drawing up service proposals vary, and NGOs should ensure that deployment of staff resources for this purpose should not affect service delivery. The SWD also points out that some NGOs regard the proposal formulation process as an opportunity for them to review and improve service provision. As they involve staff in developing innovative service models for the service proposal, these new ideas can also benefit

their existing services. Sometimes, new services can also create synergy with existing ones.

5.45 The IRC acknowledges the merit of allocating new services through the invitation of proposals and competitive bidding. In principle, both of these processes should ensure that only proposals which represent the best value for money will be accepted. Moreover, when an NGO takes the initiative to submit a service proposal, it is bound to critically review its capacity and potentials in service delivery. This process of self-reflection should help the NGO identify its strengths and weaknesses and improve its overall service planning. Nonetheless, the IRC also appreciates the staff's concerns, and agrees that it will not be in the interest of any of the stakeholders if new services are obtained at the expense of service quality. As NGOs are not obliged to bid for new services, we recommend that they carefully consider the resource implications, including the impact on staff and existing services, before embarking on the preparation of proposals. If NGOs can take into account the views of their staff and share with them the considerations in submitting service proposals, staff members will be more likely to support the proposals.

Recommendation 25

NGOs should carefully consider their resource implications before preparing service proposals. NGOs should also take into account the views of their staff and share with them the considerations in submitting service proposals.

5.46 On the part of the SWD, measures can also be taken to simplify the bidding process for new services, so that resources can be saved both in the preparation of service proposals and in the vetting of the proposals.

5.47 The IRC notes from its commissioned study on overseas welfare subvention models (executive summary reproduced at **Annex 2**) that a number of countries have reviewed their systems for the competitive bidding of services, with a view to reducing excessive tender submissions and saving administrative resources. New Zealand, for instance, has decided not to go for open tendering in respect of a service for victims of domestic violence, but to first ascertain from prospective bidders how they intend to address the service needs, before proceeding to restrictive tendering. In doing so, the funding body is able to manage the sector's expectation and ensure that only worthy proposals will be submitted.

5.48 We understand that in Hong Kong, it is not uncommon for Government

bureaux and departments to adopt a two-stage tendering process, whereby only those bidders meeting the basic requirements in the first “qualification” stage may proceed to the submit full proposals in the second stage. Where appropriate, the SWD may consider adopting this or similar practices to simplify the bidding process for welfare services.

Recommendation 26

The SWD should look into the possibility of simplifying the process for the allocation of new services, such as introducing a two-stage tendering process, so that resources can be saved both in the preparation of service proposals and in the vetting of the proposals.

5.49 Given the flexibility for NGOs to deploy resources, some service users and frontline staff are also concerned about how the SWD may monitor the commitments made by NGOs in successful bids.

5.50 The IRC understands that all new services are granted to NGOs by time-limited FSAs. Each FSA sets out clearly the service requirements, including the NGO’s own commitments in submitting its service proposal. The NGO is required to regularly submit statistical information on service provision and self-assessment reports to the SWD, and SWD officers will also conduct on-site inspections to ensure that the NGO has complied with the FSA requirements. In case of non-compliance, the NGO will have to formulate improvement plans. Renewal of the FSA at the end of the service period is subject to satisfactory service performance and service demand. In brief, the same quality assurance mechanism applies to both existing and new services. This should ensure that service users’ interests will not be compromised even in the case of competitive bidding. We shall discuss this mechanism in greater detail in Chapter 7.

BIPs

5.51 As mentioned in Chapter 3, the SWD launched in 2001 a BIP Scheme to help NGOs improve service quality, efficiency and responsiveness in the LSG environment. The BIP Scheme is financed by the LF, and each NGO can apply for up to \$4 million to implement one or more projects which meet the objectives of the scheme. More specifically, these projects are required to focus on organisational improvement, efficiency in administration and service delivery as well as service re-engineering.

5.52 Many BIPs have indeed helped NGOs enhance efficiency and/or achieve long-term savings. For example, there were projects¹⁰ which enabled NGOs to strengthen their corporate management, enhance their communication both within the agencies and with external stakeholders, as well as facilitate effective service delivery and increase NGOs' responsiveness to the community needs. There were also projects to save energy and manpower. For instance, after installing an Ozone Laundry System under the BIP, a nursing home for the elderly reduced electricity consumption by 15%, water consumption by 36.3% and detergent consumption by 47%. Moreover, the laundry processing time was reduced by 20%. Similarly, with the installation of an energy-saving lighting system, another NGO reduced its electricity bill by 40% a year, while the premises were 25% brighter.

5.53 In view of the effectiveness of the BIP Scheme and the need for more resources to support similar improvement projects, we have proposed, as per **Recommendation 6**, the establishment of the Social Welfare Development Fund. As the fund will provide all the assistance to NGOs hitherto available under the BIP Scheme, the latter can cease operation. The experiences gained in running BIPs, however, will provide a useful reference for the Government in drawing up the details of the new fund.

5.54 Some of the rules governing the BIP Scheme, for instance, have been a concern to NGOs. For instance, the SWD requires NGOs to contribute 20% of the project cost. In exceptional cases, the SWD may waive this requirement having regard to factors such as the size and financial position of the NGO and the nature of the proposal. The SWD may also allow NGOs to count the service of dedicated in-house staff as contribution in lieu of cash. In any event, the contribution is expected to instill in NGOs a greater sense of ownership of the projects. The arrangement was endorsed by the LSGSC and the then Subventions and Lotteries Fund Advisory Committee.

5.55 Some NGOs, however, have indicated to the IRC that they have difficulty meeting the 20% contribution requirement. They believe that NGOs which can truly benefit from BIPs should not be barred simply because they cannot meet this

¹⁰ Including the "Continuous Improvements through Knowledge Management" of the Boys' and Girls' Clubs Association of Hong Kong, the "HeCAN System" of the Hong Kong Sheng Kui Hui Welfare Council, and the "Enhancement of Human Resources Management System" and "Management Information System for Home Help Services" of the Hong Kong Society for the Aged.

requirement.

5.56 The IRC agrees that projects funded by the BIP Scheme can indeed help NGOs meet the many challenges brought about by the LSGSS. It is also reasonable that NGOs should contribute to their own initiatives that can help them achieve savings in the long run, in particular when there is already a mechanism for waiving the contribution requirement where justified. With the establishment of the Social Welfare Development Fund, we recommend that the SWD consider whether NGOs should still be required to contribute at the present or at a lower level to the projects supported by the fund.

Recommendation 27

As per **Recommendation 6**, a new Social Welfare Development Fund should be established and should take over the function of the BIP Scheme. It is for the SWD to consider whether NGOs should still be required to contribute at the present or at a lower level to the projects supported by the new fund.

Flexibility as a development tool

5.57 Flexibility, efficiency and cost-effectiveness are three pillars of the LSGSS. They are objectives that justify the introduction of the system in the first place. At the agency level, many BIPs are already testimony to these concepts; in the longer term, the sector as whole may continue to perfect itself through this developmental process.

5.58 Flexibility, however, cannot be absolute. Under the LSGSS, there is an internal mechanism to ensure that public expectations are met. The various schemes of control discussed in this chapter, such as the SWD's audit process, the way services are allocated and regulated, etc. are all part of this mechanism. It entails, inevitably, rules and procedures aimed at setting clear parameters for NGOs to work with, so that they may exercise flexibility with confidence. The various recommendations the IRC has made in this regard are homing in on this same principle. For subvented NGOs, the ultimate check and balance will come from the community, as taxpayers expect public funds to be properly spent and accounted for, and service users closely monitor service quality. We hope that, by balancing flexibility with appropriate control, all stakeholders under the LSGSS will benefit from this powerful development tool.

Chapter Six – Accountability and Corporate Governance of subvented NGOs

6.1 Welfare NGOs in Hong Kong undertake activities that bring tremendous social benefits. They are non-profit making and exist to serve people in need. However, for the benefit of society, it is necessary to ensure that these organisations are effective in their operations.

6.2 Welfare NGOs are accountable to the SWD and the public for the proper use of government funds and the delivery of quality service. As responsible employers, they are also accountable to their staff for their welfare and development. Like all organisations, they need to perform these functions effectively, and this is where the concepts of accountability and corporate governance become most relevant.

6.3 Corporate governance enhances corporate performance and ensures proper accountability for management in the interests of all stakeholders. As defined by the Organisation for Economic Co-operation and Development (OECD), “corporate governance” is the “institutionalisation of a set of relationships between a company’s management, its board, its shareholders and other stakeholders”¹. Stakeholders of welfare NGOs in Hong Kong include the people for whose benefit the NGOs operate, the Government, individuals, corporations and other donors from where they generate funding for their operations, society at large and their employees.

6.4 In this chapter, we analyse welfare NGOs’ accountability and corporate governance from various perspectives, such as what guidance and support the Government has provided, the changes that have been introduced in the sector, how NGOs’ management, board and staff may contribute, and what should be required of NGOs in terms of financial information disclosure.

Guidance and support provided by the Government and changes introduced by the sector

6.5 Chapter 5 of the LSG Manual contains advice and guidelines to NGOs in respect of good management practices and processes which should be taken into account in the performance evaluation of NGOs. They cover the areas of corporate

¹ The OECD Principles of Corporate Governance 1999.

governance, human resource management and internal auditing.

6.6 On corporate governance, the focus is on the roles played by NGO boards and management, such as their responsibilities in setting the mission and goals of the NGOs, in determining service delivery modes which meet the changing needs of the community, in the proper use of public money, in programme planning, budgeting and human resource management as well as in establishing a community network and support system. The LSG Manual also highlights the importance of involving staff and service users in the management process. The former should be consulted on management decisions which may affect staff, for example, changes to the staffing structure, staff's remuneration packages and working conditions, as well as re-engineering and service rationalisation initiatives which have implications on staff deployment. There is also a specific reference to NGOs' obligation to honour their contractual commitments to existing staff. NGOs are also advised to obtain the feedback of service users through a variety of means, and to involve them as far as practicable in service re-engineering, changing the service delivery mode and the monitoring of service performance.

6.7 Apart from offering advice in the LSG Manual, the SWD has taken the following actions over the years to help enhance NGOs' corporate governance –

- ◆ 2001 : Set up a Help Centre to provide assistance and advice to NGOs and enhance their management capacity, so that they could function efficiently in the LSG environment and meet the challenges arising from the LSGSS².
- ◆ 2001 : Commissioned the Hong Kong Polytechnic University to conduct a "Survey on NGO Boards". The purpose was to collect information on the NGO boards and identify their training needs. The findings have been used to develop training packages for board members to enhance their capacity and performance.
- ◆ 2001 : Organised a half-day seminar on "Directors' role in Not-for-profit Organisations Seminar for Board of Directors" for NGO board members and CEOs.

² According to the SWD, as the LSGSS developed, members of the LSGSC and NGOs were generally in favour of having a single unit in the SWD to provide one-stop advice and support on subvention matters. Accordingly, the SWD set up the Subventions Liaison Section in September 2002 by merging the Help Centre with the Subventions Section.

- ◆ 2001-03 : Issued booklets on five best practice modules, namely, “Staff Administration”, “Procurement Procedures”, “Sample Code of Conduct for NGOs”, “Stores Management in NGOs” and “Letting and Administration of Works Contracts in NGOs”.
- ◆ 2002 : Published the “Leading Your NGO – Corporate Governance, A Reference Guide for NGO Boards”.
- ◆ 2002 : Organised a half-day seminar on “Corporate Governance” for NGO board members and senior management.
- ◆ 2003-04 : Commissioned the Poon Kam Kai Institute of Management to conduct a 21-day training workshop on “Advanced Management Programme for CEOs and Senior Managers of NGOs”.
- ◆ 2006 : Commissioned the Dun and Bradstreet to organise six workshops on “Leading NGOs in the Time of Change” for NGO board members.
- ◆ 2007 : Organised a further series of four “Leading Your NGOs” seminars on specific topics, including handling complaints, mass media and legal liability for both board members and CEOs of NGOs.
- ◆ 2007 : Published a document summarising the management concepts highlighted at the 2006 “Leading NGOs in the Time of Change” workshop.

6.8 At the same time, the SWD considered it desirable for the HKCSS to reposition itself and focus on supporting the welfare sector through the subvention reform. From April 2003 onwards, the HKCSS’ FSA requires it to develop and promote best practices in NGOs’ organisation management, so as to enhance their operation capacity and public accountability. To this end, the HKCSS has facilitated experience sharing among NGOs and communications between NGO management and staff. As one of its FSA activities for 2007-08, HKCSS was specifically asked to develop good practices in the employment of contract staff and to promote it among NGOs. HKCSS subsequently issued a guideline to NGOs for reference in February 2008.

6.9 Individual NGOs have also strived to improve their corporate governance.

One NGO that the IRC has interviewed, for instance, has developed its own Corporate Governance Manual containing guidelines on accountability, risk management and internal control. The roles and responsibilities of its board and management are clearly defined; strategic plans are drawn up once every three years and reviewed annually; and its pay structures have been critically reviewed. Many other NGOs have introduced similar changes to strengthen their corporate governance. In recognition of their achievements, many NGOs received the “Director of the Year Award” from the Hong Kong Institute of Directors³ in recent years.

6.10 From the IRC’s consultative sessions, we understand that the welfare sector generally appreciates the need for NGOs to enhance their corporate governance and accountability. However, NGO management and front-line staff have different expectations of the level of flexibility and autonomy that an NGO should enjoy. While NGOs generally favour greater flexibility, staff unions and many frontline staff are concerned about possible abuse of such flexibility to their disadvantage. Some staff representatives have suggested to the IRC that the Government, as the funder and regulator of subvented welfare services, should set more specific guidelines on best practices for NGOs in terms of staffing policies and remuneration packages.

6.11 As discussed in Chapter 4, we believe that the flexibility granted to NGOs in staffing arrangements, including staffing structures and the distribution of work among staff, is fundamental to the LSGSS. In that chapter, we have also considered the suggestion of setting a notional establishment for every single service unit, and observed that it may not be a practicable option, especially when many NGOs have undergone extensive re-engineering. Even if it were an option, it would have been a regressive step contrary to the spirit of the LSGSS. The same considerations would apply here. While recognising the importance for NGOs to be accountable to frontline staff and service users, the IRC is of the view that it is not desirable for the SWD to set guidelines aimed at restricting the managerial decisions of NGOs, in particular when the parameters for financial and service monitoring have already been set out in the LSG Manual and FSAs, and NGOs are already subject to the relevant legislation for the protection of employees’ rights.

6.12 A more constructive alternative would be for the sector to review the best

³ Welfare NGO awardees since 2002 include : Executive Committee, St James’ Settlement (2002), Executive Committee, Hong Kong Society for the Protection of Children (2003), The Boys’ and Girls’ Clubs Association of Hong Kong (2005), Heep Hong Society (2006), Aberdeen Kai-Fong Welfare Association Limited (2007), Agency for Volunteer Service (2008) and The Hong Kong Society for the Aged (2008).

practice guidelines currently available, including those drawn up by the HKCSS and the SWD, to ensure that they address the concerns raised by stakeholders and reflect modern day management concepts conducive to the development of the welfare sector in Hong Kong. This is in recognition of the fact that, in trying out new management strategies under the LSGSS, NGOs have accumulated useful experiences and should have many success stories to share. It is time for the sector to consolidate these experiences for the benefit of everyone concerned. For this reason, we have recommended in Chapter 3 that the sector should draw up its own Best Practice Manual to provide guidance to NGOs on various management issues. Among other issues, the manual should cover corporate governance and accountability. We further recommend that stakeholders should be thoroughly consulted and professional input sought where appropriate.

As per **Recommendation 1**, a Best Practice Manual should be drawn up for the welfare sector. It should also address corporate governance and accountability issues.

Roles of the NGO's management and governing board

6.13 In corporate governance, the board of directors and the management have their distinctive functions which are supportive of each other and at the same time subject to a mechanism of internal monitoring and control. In general, the governing board is responsible for determining the agency's strategic objectives and policies, such as corporate directions, long-term goals, risk policy, performance targets and business plans. Some organisations have invited independent members of the community to join their boards to provide fresh perspectives and impartial advice. The management, on the other hand, is the executive agent responsible for implementing policy decisions of the board and making decisions at the operational level. It is usually made up of senior staff members and is accountable to the governing board.

6.14 The importance of corporate governance to the provision of welfare services has become more apparent since the implementation of the LSGSS. While the roles of boards and managements are widely recognised in the business world, they may be relatively new concepts for some NGOs. For instance, the IRC was told that the board of an NGO expected to be consulted on the appointment of senior staff, but its understanding of seniority was different from that of the management, thus resulting in arguments about a certain appointment.

6.15 Some NGOs have requested more guidance on corporate governance, in addition to what the SWD has already provided. Given that effective corporate governance is the key to success for NGOs, the IRC recommends that the Best Practice Manual should also address this issue. The manual may provide, inter alia, a clear delineation of the respective roles and responsibilities of the NGO's governing board and management, with a view to helping NGOs better segregate duties.

6.16 Staff unions and some frontline staff, social work students and service users have expressed a wish to be on the governing boards of NGOs, so that they may reflect their views at board meetings and take part in management decisions. Section 5.5 of the LSG Manual also advises the NGO Board/ Management Committee to *"consult staff on changes that may affect staff."* It is encouraging to note that some NGOs have indeed engaged their staff in implementing reforms. For instance, their management have taken the initiative to hold consultative sessions and group meetings with staff. While the IRC agrees that the input of staff would be particularly useful in discussions on service delivery and human resource management strategies, such input may also be obtained through means other than their direct participation in the board. The IRC also appreciates that different NGOs may have different management styles. It would not be appropriate for the Administration to dictate the governing and management structures of individual NGOs or require all of them to abide by the same set of rules in this regard. Indeed, the SWD, acknowledging NGOs' autonomy in corporate governance under the LSGSS, has planned to phase out, by the end of this year, its traditional practice of having a liaison officer to sit on some of the NGOs' boards or management committees. The composition of the governing board, as well as the participation of staff and service users in it, will be matters for the NGO to decide having regard to the agency's own circumstances. As regular and effective communications with staff and service users are very important, the IRC recommends that the sector further examine how this can be done in the context of developing its Best Practice Manual.

As per **Recommendation 1**, a Best Practice Manual should be drawn up for welfare NGOs. It should also address issues in relation to the roles of NGO boards and management under the LSGSS, as well as how frontline staff and service users can be involved in the decision making process for important management issues.

Financial information disclosure

6.17 Chapter 4 of the LSG Manual on “Public Accountability” states that “*While the statutory responsibility for the control and management of social welfare subventions rests with the Director of Social Welfare, a public accountability framework has to be put in place to ensure that NGOs receiving Government subventions are accountable, through the Director of Social Welfare, to the public for the use of public funds*”. This principle is reiterated in paragraph 4.9 which states that “*NGOs receiving LSG and other social welfare subventions are directly accountable to SWD and the public for the proper and prudent use of public funds*”.

6.18 The financial reporting requirements are contained in Chapter 3 of the LSG Manual. Specifically, subvented NGOs are required to submit the AFR together with a review report thereon issued by the external auditors in respect of all FSA activities (including their support services to FSA activities), and the audited financial statements of the NGOs as a whole to the Finance Branch of the SWD not later than 31 July following the financial year end of 31 March. The LSG Manual states that NGOs must ensure that the due date for submission is strictly observed. In Chapter 5, we have discussed how and why many NGOs do not adhere to this deadline and are given time extensions.

6.19 The required format of the AFR is set out in Appendix 6 of the LSG Manual. Note 6 specifies the disclosure requirement for “Personal Emoluments” while note 8 specifies the disclosure requirement for “Analysis of Reserve Fund”.

6.20 The vast majority of welfare NGOs are incorporated under the Hong Kong Companies Ordinance (Cap.333), and as privately owned companies they are not subject to any public disclosure requirements. If an exemption from tax has been granted under Section 88 of the Inland Revenue Ordinance (Cap.112), the NGOs would not be required to complete and file annual Profits Tax returns. However, as a matter of practice, every three years or so, the Inland Revenue Department would issue a standard enquiry letter requesting a copy of the latest financial statement and other information to verify that the activities of the NGO conform with the tax exemption.

6.21 In the absence of statutory or regulatory requirements, welfare NGOs currently adopt very different approaches on financial information disclosure. Some NGOs include financial information as part of their annual reports available to the general public, while others provide no or very minimal financial information in their annual reports or on their websites. To promote accountability among NGOs, assist

donors in making donation decisions and foster public confidence in charitable organisations, the charity sector has launched a self-regulatory system known as “Wise Giving”. NGOs which volunteer to join the system need to fulfil various criteria in relation to governance, finance, fund raising, service quality and transparency. The finance criterion requires the NGO to make available to the public its audited annual financial statements with a breakdown of expenses for programmes and administrative activities. The IRC considers that this practice should be encouraged.

6.22 It would appear from the above that the “*public accountability framework*” for NGOs to be “*directly accountable to SWD and the public for the proper and prudent use of public funds*” envisioned in the LSG Manual is not formally in place, or at least does not exist as an integral part of the LSGSS. In meetings with the IRC, union representatives have raised concerns about the flexibility given to NGO management over pay structure. They have alleged that some management have accumulated excessive reserves at the expense of appropriate remuneration for staff. It is not clear, however, to what extent staff have access to the actual financial information to support their allegations. The lack of transparency in NGOs’ financial position does not help staff articulate their concerns; instead it adds to the misunderstanding and tension between the management and staff.

6.23 It begs the question as to why there are no specific financial information disclosure requirements for organisations funded primarily by Government subvention when the Government’s own budget and accounts are highly transparent and listed companies have to follow stringent requirements in the disclosure of financial information⁴. In the spirit of the LSGSS, we recommend formalising the public accountability framework set out in the LSG Manual, by requiring NGOs to disclose in public their AFRs as submitted to the SWD. Each subvented NGO should make a copy of its AFR available for public inspection at its principal place of business, or publish it on its website if it has one.

6.24 Useful information that can be gathered from an NGO’s accounts includes the amount of remuneration paid to staff, the level and movement of reserves, sources

⁴ Companies listed on the Stock Exchange of Hong Kong are required to disclose in their annual reports certain financial information, including audited financial statements, to the public and their shareholders promptly and regularly through electronic and other means. The report shows, inter alia, the emoluments of all the company’s directors on a named basis; it also discloses the emoluments of the five highest paid individuals on a no-name basis but analysed by bands of remuneration.

of income and key expenditure items. Staff, for instance, may wish to know the expenditure on staff remuneration for comparison with the additional funding provided by the SWD for pay adjustments. We believe that the disclosure of the AFR would strike a balance between monitoring the use of public funds and management flexibility.

Recommendation 28

A formal public accountability framework should be in place for NGOs to disclose their AFRs as submitted to the SWD, so that they will also be accountable to the public for the proper and prudent use of public funds.

6.25 Recent press reports have also noted concerns in the community regarding the lack of transparency of NGO financial affairs. For example, a survey conducted by the South China Morning Post revealed that only seven of the 30 welfare NGOs that received the highest amount of Government subventions were willing to disclose their chief executives' salaries⁵.

6.26 In this connection, the IRC notes that the Government promulgated a set of guidelines in 2003 which require that subvented bodies receiving more than \$10 million a year from the Government, and where such amount accounts for more than 50% of their operating incomes, should review their senior staff's number, ranking and remuneration each year, unless otherwise exempted by virtue of their special circumstances. It was further promulgated that each subvented body's review report should set out the up-to-date position in respect of the number, ranking and remuneration packages of staff at the top three-tiers, and also explain and justify any changes over the period covered in the report. The updated position should be reported to the relevant Director of Bureau, who should then assess its appropriateness by referring to comparable jobs in the civil service or to market practices. He should also work out with the subvented bodies suitable arrangements for public disclosure of their regular reviews. With the implementation of the new guidelines, the "no better than" subvention principle was removed.

6.27 Prior to the publication of the above guidelines, the SWD had agreed with the welfare sector an elaborate set of rules and guidelines for the subvention of NGOs funded on LSG. They are documented in the LSG Manual and cover aspects such as the administration of the LSG, as well as financial management and public

⁵ Reports of 28 July 2008.

accountability under the LSGSS. More specifically, NGOs are required to disclose PE expenditures in their AFRs in the format set out in Appendix 6 of the LSG Manual (i.e. by number of posts and by six bands of \$100,000 for remuneration packages in excess of \$500,000). Also, during accounting inspections, the SWD's Finance Branch will collect information on the PE of the top three highest paid staff members of the unit or central administration office under inspection.

6.28 Following the publication of the Government guidelines, there was discussion between the SWD and subvented NGOs on how the guidelines should be implemented. Compliance with the guidelines would require modifications to the LSG Manual. As this manual was drawn up after extensive consultation with the welfare sector and directly affects NGOs' interests, there is a legitimate expectation on the part of the NGOs that any substantive changes or supplement to the stated arrangements should not be implemented without due regard to their views. Nevertheless, given the public demand for greater transparency in the remuneration policies governing senior executives in Government subvented bodies, the IRC recommends that the SWD fully consult the NGOs, with a view to implementing the Government guidelines mentioned above.

Recommendation 29

The SWD should fully consult the NGOs with a view to implementing the Government guidelines on the monitoring of remunerations of senior executives in subvented bodies.

Corporate governance – beyond management responsibility

6.29 Welfare NGOs in Hong Kong are managed by people that are genuinely committed to the mission and objectives of their organisations. They are passionate and dedicated to the cause and to the welfare of the needy in the community. However, the challenges for welfare NGOs today are increasing. On the one hand, community expectations are on the rise; on the other hand, there is fierce competition in attracting and retaining talent. Funds, moreover, are not freely available to them. More often than not, NGOs face operational dilemmas. They are often caught between the need to expand services and the desire to keep their operations within manageable proportions. Good corporate governance practices will certainly help NGOs address these challenges.

6.30 Good corporate governance is a universally endorsed concept. It is

cherished no less in the welfare sector than in the business sector. Under the LSGSS, when management decisions are mostly left to the NGOs, it is all the more important that they prove the value of such flexibility with good corporate governance and a high level of accountability. This is essential to safeguard the proper use of public funds. From the point of view of the other stakeholders, namely staff and service users, it is also only fair that they understand the management decisions and have a part to play in the management process.

6.31 In this chapter, the IRC has made a number of recommendations aimed at encouraging good governance and transparency in the management of NGOs. We hope they will not be looked upon as just added responsibilities, but as opportunities for NGOs' development for the benefit of all the stakeholders.

6.32 We have highlighted in particular the issue of financial information disclosure, which is an important aspect of NGOs' accountability. Equally important is, of course, the monitoring of service quality and the relevant reporting requirements. These will be discussed in greater detail in the next chapter when we examine the impact of the LSGSS on the quality of welfare services.

Chapter Seven – Impact of the LSG on the Quality of Welfare Services

7.1 Irrespective of the subvention mode, the core mission of the welfare sector remains the provision of effective services to address society's welfare needs. Subvention arrangements should be designed with this in mind; its rules and regulations should work to this end. It follows that any review of the subvention system, including this review, must ultimately aim at enhancing the quality of services and the effectiveness of its delivery.

7.2 The LSGSS provides NGOs with the flexibility in resource management that enables them to introduce greater variety to their services and be more responsive to changing service needs. The LSGSS also has a built-in quality assurance mechanism that monitors NGOs' performance through regular reporting and site inspections. In practice, service quality is affected by a lot of factors, such as the availability of financial and manpower resources, the availability of a welfare planning mechanism that can minimise service mismatch, the capability of the service providers, etc. Although service users may not always be able to fully articulate their concerns about service quality or pinpoint the limitations of the system in this regard, their feedback provides important pointers for us to look for improvement.

7.3 In this chapter, we examine the quality assurance mechanism under the LSGSS and key issues raised by stakeholders, in particular service users. We hope that our recommendations will help ensure that, if the LSGSS can have an impact on service quality, it would be a positive and lasting one.

The SPMS

7.4 The SPMS was introduced jointly by the SWD and subvented NGOs in 1999 to ensure that quality social welfare services are provided to the public and increase the accountability of both the SWD and NGOs in service delivery. Upon the introduction of the LSGSS, it was formally incorporated into the system as its quality assurance mechanism. Under the SPMS, NGOs have to meet various requirements in respect of accounting, financial reporting and internal control.

7.5 Details of the SPMS are set out at Appendix 1 of the LSG Manual. In

brief, it monitors NGOs' performance with reference to their FSAs and SQSs. Under the LSGSS, each subvented service unit operated by NGOs has an FSA in which the SWD sets out the services to be provided and the required performance standards¹ in terms of output and outcome, as well as other essential service requirements². NGOs are also subject to a set of 16 SQSs (reproduced at **Annex 5**) which define the quality of management and service provision that each service unit is expected to attain. They were developed according to four principles –

- (a) Clearly defining the purposes and objectives of the service and making its mode of delivery transparent to the public;
- (b) Managing resources effectively with flexibility, innovation and continuous quality improvement;
- (c) Identifying and responding to specific service users' needs; and
- (d) Respecting the rights of service users.

7.6 The SPMS was implemented in three phases between 1999-2000 and 2001-02 and was improved in 2003 with enhanced service performance assessment methods. The Service Performance Section (SPS) of the SWD is responsible for administering performance assessment under the SPMS. The assessment takes into account NGOs' quarterly reports on the output of their service units and annual reports on their compliance with SQSs, essential service requirements and planning targets. SPS assessors also conduct on-site inspections once every three years to ensure compliance with the service requirements. It is not a standard practice for the assessors to pay surprise visits to the service units, except for the investigation of complaints.

7.7 To promote continuous improvement under the SPMS, service units found to be non-conforming with the performance standards have to submit plans to improve their services within an agreed time frame. If a unit fails to improve after repeated requests, the SWD may withdraw its subvention.

7.8 The LSGSS emphasises output control. Adequate monitoring of service quality is therefore essential. Service users have also reflected to the IRC that they

¹ Performance standards include output standards and outcome standards. Output standards are quantitative measures of the key activities for the provision of a particular service, while outcome standards measure the effectiveness of the service.

² Essential service requirements are specifications of the infrastructure for the provision of services, e.g. staff qualifications and the availability of appropriate equipment.

have high expectations in this regard. The present performance assessments, however, rely primarily on NGOs' self-appraisals (i.e. their quarterly reports on output and annual reports on compliance with service requirements) and their initiatives to improve. Actual on-site inspections are only conducted at three-year intervals. In the LSGSS environment, where resource deployment and service planning are already determined to a large extent by the NGOs, it begs the question as to whether a quality assurance mechanism that promotes self-regulation would provide sufficient checks and balances. The IRC therefore considers it desirable for the SWD to conduct more frequent quality inspections. Random surprise checks for general quality assurance purposes should also be conducted. These will be in addition to the scheduled inspections and the surprise visits for the investigation of complaints. SWD's assessors should also formalise a system for collecting service users' feedback directly at the visits.

Recommendation 30

The SWD should conduct more frequent service performance inspections and surprise visits, and systematically collect service users' feedback.

7.9 The IRC is aware of other statutory and administrative requirements for the quality control of welfare services. They may not be specific to NGOs under the LSGSS, but are stated as essential service requirements in these NGOs' FSAs. For instance, care and attention homes for the elderly are required to have registered social workers, qualified nurses and professional therapists; special child care centres need to have, in addition, child care supervisors and child care workers. The IRC appreciates that these requirements are necessary. We hope that **Recommendation 30** can help strengthen the overall quality assurance mechanism for the welfare sector.

Concerns of service users about service quality

7.10 Some service users have expressed concerns about the turnover of social workers and their heavy workload. A high turnover rate makes it difficult for social workers to pass on their expertise and establish a rapport with their clients. A heavy workload may mean that workers cannot afford to give service users the care and attention they need. They are worried that if the situation worsens, service quality may suffer.

7.11 Frontline staff have also pointed out that some NGOs are already stretching their human resources to the limit. To comply with the SWD's service requirements, some NGOs would focus on quantitative output targets, such as the number of cases handled, the number of participants for service programmes, etc., instead of qualitative improvement. Although most frontline staff and staff unions do not consider that the introduction of LSGSS has led to a deterioration of service quality, they are concerned about the negative impact of an increasing workload on both service quality and the ability of NGOs to recruit and retain staff.

7.12 Statistics collected by the SWD suggest that service standards, as measured by both quantitative output and qualitative outcome targets, are met by most NGOs.³ Users' satisfaction surveys conducted by NGOs also indicate that service quality is maintained under the LSGSS.⁴ We have also examined in Chapter 3 the turnover rates of social workers in the subvented welfare sector, and found that they were not particularly high compared with the overall market situation. Nonetheless, the IRC agrees that service quality is the primary consideration in social welfare, and concerns expressed by stakeholders should not be taken lightly.

7.13 **Recommendation 30** above aims at strengthening the existing quality assessment process, which we hope can help address concerns about the current emphasis on quantitative output. As regards the concern about workload and the implications on staff turnover, the IRC appreciates that improving the quality assurance mechanism under the LSGSS would not be the ultimate solution, because these are very much the result of increasing service demand and complexity of social problems, as discussed in Chapter 4. In the same chapter, we have examined in detail how these problems can be more effectively addressed at source, and recommended that the Government should institute a review mechanism whereby appropriate advisory bodies such as SWAC, EC, RAC, etc. may oversee the systematic review of welfare services and ensure that stakeholders' views are taken into account in the review process.

³ The average percentage of output and outcome targets met was 87.54% in 2003-04, 93.68% in 2004-05, 97.06% in 2005-06 and 95.71% in 2006-07.

⁴ It is a common practice for NGOs to conduct users' satisfaction surveys to collect feedback on service quality. At the same time, users' satisfaction rate is commonly adopted as one of the outcome standards for IFSCs, DECCs, Neighbourhood Elderly Centres, etc. and an agreed rate is stipulated in the FSA. Since the implementation of the LSGSS, all NGOs have been able to achieve the agreed rates.

As per **Recommendation 7**, to address the concerns about staff turnover and workload and their impact on service quality, Government should institute a mechanism whereby appropriate advisory bodies such as SWAC, EC, RAC, etc. may oversee the systematic review of welfare services and ensure that stakeholders' views are taken into account in the review process.

Social welfare planning

7.14 Quality welfare services do not emerge by chance. For services to effectively address social needs, there must be careful planning. One would expect, for instance, a formal process of service review and extensive consultation involving the welfare sector, to arrive at strategies and, where appropriate, action plans for service development and funding allocation. However, many stakeholders, including NGOs, frontline staff and service users have pointed out to the IRC that the LSGSS does not seem to be supported by such a formal planning mechanism. They are disappointed that the *“integrated and forward looking planning framework comprising long term Strategic Directions, Medium Term Plan for individual programme service areas and service development and delivery of Annual Plans by SWD and NGOs”* envisioned in the LSG Manual never materialised. They understand that at present, the introduction of new services depends primarily on the Government's own resource allocation exercises, and the allocation is often inadequate to meet all the competing demands for Government funding. This has imposed great limitations on NGOs' service planning.

7.15 Up to the 1990s, the Government had adopted a Five-Year Plan (FYP) mechanism for planning social welfare services. FYPs were working documents to monitor the extent to which the policy objectives relating to various welfare services as set out in the White Papers⁵ were achieved. They also set specific targets for service delivery.

7.16 Towards the end of the last century, the Government reviewed the planning mechanism and decided that the FYPs lacked the flexibility to cope with the ever-changing needs of society. They also did not work well with the Government's prevailing resource allocation mechanism which focused on more immediate funding needs. The practice was therefore discontinued after 1999. Although the three-tier

⁵ White Papers on social welfare were issued in 1973, 1979 and 1991.

planning mechanism described in the LSG Manual was not implemented in that particular format, the Government has continued to consult the sector on overall welfare priorities at the policy and district levels, and has also planned for specific services. For instance, the then Health, Welfare and Food Bureau consulted the welfare sector on a possible Strategic Framework for Social Welfare in 2004 and on welfare priorities in 2005. The SWD has also enhanced the role of its District Social Welfare Officers in district welfare planning and service co-ordination. Meanwhile, periodic reviews of the Rehabilitation Programme Plan continue, and there is separate planning for elderly services in consultation with the relevant sector.

7.17 In his 2007 Policy Address, the Chief Executive tasked SWAC to study welfare planning in Hong Kong. This is recognising Hong Kong's need for a macro and forward-looking planning mechanism to steer social welfare development in the longer term.

7.18 The IRC agrees that there is a need for Hong Kong to develop a blueprint for welfare development, and the SWAC study is a move in the right direction. In the course of the study, the welfare sector will have to review the existing landscape and agree on future priorities. The outcome will be of important reference to the Government's resource allocation exercises as well as NGOs' own service planning. The latter is indeed encouraged under the LSGSS, as NGOs now have greater flexibility in resource management and service development. With reference to its own recommendations in the study, SWAC, alongside other advisory bodies, may also oversee the systematic review of welfare services in future, as per our **Recommendation 7** in Chapter 4. This will ensure that the developmental principles formulated for our welfare sector are applied to the individual service areas systematically.

7.19 At the time of preparing this report, SWAC was consolidating the initial views of the sector on welfare planning and preparing for more in-depth discussions. We hope that the Government, having regard to SWAC's recommendations, will work more closely in partnership with the sector to establish a practicable and sustainable mechanism for implementing a visionary welfare plan for Hong Kong.

Recommendation 31

The Government, having regard to SWAC's recommendations, should work more closely in partnership with the sector to establish a practicable and sustainable mechanism for implementing a visionary welfare plan for Hong Kong.

Fee charging services

7.20 Some service users have pointed out to the IRC that there has been an increase in fee charging services in the welfare sector since the implementation of the LSGSS. This is not confined to new services; a number of existing services which were fully subvented before have also become fee charging. Service user groups have urged the SWD to monitor the practice of charging service fees to ensure that low income service users will not suffer as a result.

7.21 According to the SWD, the fee charging policy for subvented NGOs mainly governs three types of fees. Two types, namely, membership fees (e.g. those of social centres and supportive services for the handicapped) and service fees (e.g. those of residential services for the elderly and handicapped), are set by the SWD, and the recognised fee income is taken into account in determining the LSG. The third type is set by NGOs according to their own fee charging systems. These fees are for cost recovery and the income must be spent entirely on subvented activities. In the past two years, the SWD has received five complaints about the charging of fees by NGOs. Only one was substantiated⁶.

7.22 Section 2.36 of the LSG Manual stipulates that NGOs which continue to charge fees for subvented services under the LSGSS must manage the fees and charges in accordance with existing practices and procedures. NGOs that wish to introduce new fees and charges for value-added services in respect of the services governed by FSAs must ensure that the proposed new fees and charges –

“(i) do not affect their FSA activities;

(ii) are not detrimental to the interests of users. In this respect, NGOs should pay particular attention to the affordability and need of users; and

⁶ In that case, the NGO concerned set unreasonable photocopying charges (i.e. \$100 per page) for users who requested copies of their personal records.

(iii) have obtained SWD's prior approval (or in future to be incorporated in the NGOs' Annual Plan)."

7.23 Allowing NGOs to charge fees for their services can increase their income, which in the case of value-added services, can be freely deployed for service improvement. From the users' point of view, they will only be willing to pay for a certain service or activity if they are genuinely interested or in need. Therefore, a contribution on the part of the user can help ensure that limited resources are only spent on services with a genuine demand. Furthermore, if users who can afford to pay can contribute to the service costs, public resources can also be released for redeployment to the most needed areas.

7.24 Apart from these considerations, there is of course the overriding principle, as set out in section 2.36(b)(ii) of the LSG Manual (see extract above), that users' interests should come first. The IRC fully understands the risk of allowing fee charging practices to run their own course without supervision. In this regard, we note that the LSG Manual also requires NGOs to display all fees and charges at the service units concerned, together with details of the contact persons in the NGO and the SWD in case users have queries and complaints. We agree that this is a useful arrangement to ensure that users know their rights and obligations. As the LSG Manual has clear requirements to safeguard the interest of service users, we urge NGOs to fully comply with these requirements.

Putting service quality in context

7.25 Quality service is the ultimate objective of the LSGSS, but it is not easy to come by. By giving NGOs greater flexibility in resource management, the system has created favourable conditions for service enhancement; by adopting the SPMS, it has also ensured that sub-standard performance can be identified for improvement. Together with rules to safeguard users' interest, such as those governing fees and charges, both incentives and controls exist under the LSGSS for NGOs to deliver quality service.

7.26 Our recommendations above are meant to strengthen the design of the LSGSS in this regard. Beyond the system, we have also looked for complementary mechanisms that play a crucial role in the enhancement of welfare services. Welfare planning and service reviews, for instance, are part of the sector's developmental

process. They provide a sound empirical basis for welfare subvention. With input from these plans and reviews, both the Government and the NGOs will be in a better position to improve service provision.

7.27 Perfecting the system per se, however, does not guarantee success. For the social welfare sector, quality is often more a result of good people than good rules. We need people who, as members of the NGO board and management, can lead the organisation in the right direction; we need people who, as frontline staff, are willing and able to give their best; and people who, as part of the Administration, will give the sector the support it deserves. Above all, we need people who, as users, will provide timely feedback on the services they receive. Positive feedback will of course be welcome – that will help reinforce and disseminate good practices, but negative feedback is no less important – it alerts the stakeholders to possible improvement.

7.28 In the next chapter, we shall look more closely at how complaints are handled under the LSGSS, and consider how negative feedback, if properly channeled and addressed, can bring about positive outcomes.

Chapter Eight – Handling of Complaints

8.1 We have discussed in the previous chapter why users' feedback, be it positive or negative, is important for the improvement of welfare services. The service providers themselves, including NGOs and their staff, may also have complaints about the welfare system or Government policies or their implementation, or for not being provided with sufficient support. It is in the interest of the public that there is an effective mechanism to collect their feedback and handle their complaints.

8.2 In this chapter, we examine the major complaints handling mechanisms relevant to the subvented welfare sector, focusing on those that serve to support the implementation of the LSGSS in particular, and consider whether improvements can be made.

Existing complaints handling mechanisms

8.3 In respect of any system, insofar as it affects people, there will always be those who are dissatisfied with it. How such dissatisfaction can be made known and addressed are important.

8.4 In the social welfare context, complaints may be lodged for many reasons. Staff may complain about NGOs' management decisions, NGOs may complain about SWD's operation, service users may complain about service provision, etc. Depending on the nature and subject of the complaint, the complainant can seek redress through various existing mechanisms which may or may not be operating exclusively for the social welfare sector.

The Labour Tribunal

8.5 A member of staff in a subvented welfare NGO, for instance, may complain about not being paid his due wages. Although the subject of the complaint is a welfare NGO, the nature of the complaint is an employment dispute. Apart from requesting the management to rectify the problem, the staff can also lodge a claim at the Labour Tribunal or the Minor Employment Claims Adjudication Board. The Labour Tribunal hears claims arising from the failure of a person to comply with the

provisions of the Employment Ordinance (Cap.57) or the Apprenticeship Ordinance (Cap.47). It also deals with cases involving breaches of contracts of employment or apprenticeship. Claims lodged by both employees and employers are heard at the Labour Tribunal. A common item of claim lodged by employers, for example, is the wages in lieu of notice on the employees' resignation or termination of contract of employment.

8.6 Nonetheless, the Labour Tribunal only hears cases where the amount of claim exceeds \$8,000 for at least one of the claimants in a claim or where the number of claimants in the claim exceeds ten. Claims lodged by not more than ten claimants for a sum of money not exceeding \$8,000 per claimant are dealt with by the Minor Employment Claims Adjudication Board.

The Ombudsman

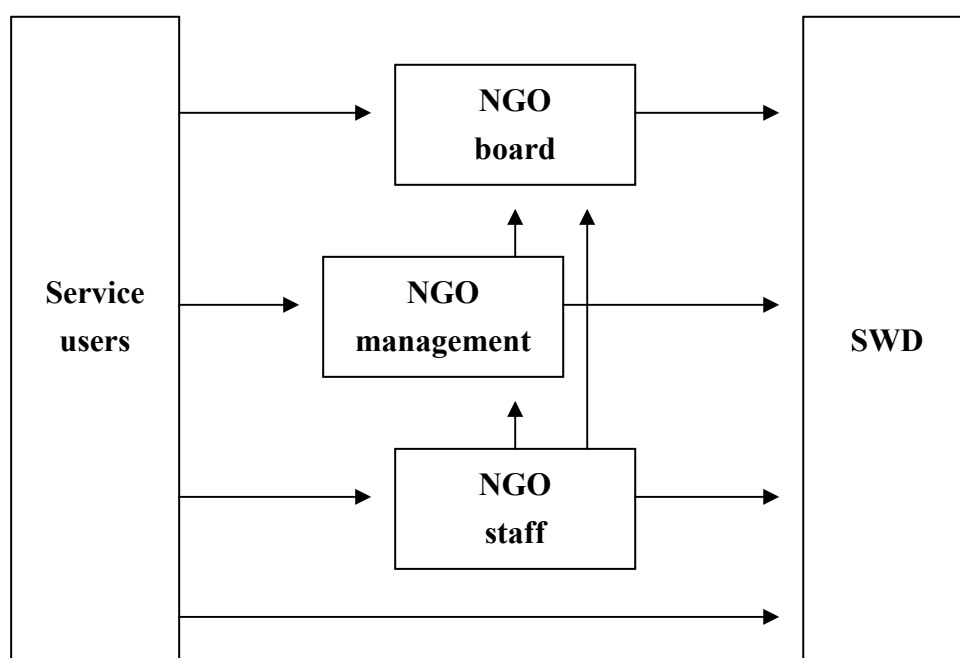
8.7 Likewise, a complaint about the SWD does not necessarily have to be dealt with as a welfare issue. For instance, if the SWD fails to respond to an enquiry about its service within a reasonable period of time, the aggrieved member of the public can request an explanation from the department itself or lodge a complaint with the Ombudsman. The Ombudsman has a mission to redress grievances and address issues arising from maladministration in the public sector and bring about improvement in the quality and standard of, and promote fairness in, public administration. Among other functions, it investigates complaints against almost all government departments and major public organisations for alleged maladministration such as inefficiency, unreasonable or improper actions or procedures, abuse of power, negligence and disparity of treatment, etc. If the Ombudsman detects administrative faults after investigating the complaint, she may make recommendations to correct it. For instance, she may recommend the relevant authority to review a decision, change a procedure or suggest some other remedies. While ensuring that wrongs are righted, she also points out facts when public officers are unjustly accused.

8.8 As in any complaints handling mechanism, there are also limits to the Ombudsman's power of investigation. According to the Ombudsman Ordinance (Cap.397), the Ombudsman will not investigate complaints about policy, personnel matters or contractual/ commercial transactions, or complaints not made by the aggrieved himself or an office bearer acting on behalf of a body corporate. The Ombudsman will not take action on cases for which the complainant has a statutory

right of appeal or objection or a remedy through the courts, or where court proceedings have commenced. Expressions of opinion, requests for assistance that are not related to maladministration and anonymous complaints will also not be entertained.

Complaints handling mechanism in relation to the provision of subvented welfare services

8.9 In relation to the provision of subvented welfare services, one stakeholder may complain against another, as illustrated in the diagram below, with the arrows pointing to the objects of the complaints.



8.10 Pursuant to the SPMS which applies to welfare service units operated by the SWD and NGOs alike, the operators concerned are required to set up their own complaints handling mechanism. SQS-15 specifically requires that each service user and staff member be free to raise, without fear of retribution, any complaints he may have regarding the agency or its service units, and that these complaints be addressed in accordance with established policies and procedures as known to them. All complaints raised and actions taken to resolve them have to be documented.

8.11 Some complaints against subvented NGOs are also lodged with the SWD. The SWD has two channels for handling these complaints. For complaints that are

not addressed to the LSGSC, the AOs concerned¹ will investigate and follow up with the NGOs as appropriate. For complaints which are addressed specifically to the LSGSC, the AOs will report the findings of their investigation to the LSGSC. If necessary, the LSGSC will activate its hearing mechanism, whereby two members on the monthly duty roster will receive representation from the complainant and the NGO concerned before reaching a conclusion. The members' recommendations will be presented to the LSGSC for consideration. The Secretary of the LSGSC will relay the findings and advice to both the complainant and the NGO concerned. A flowchart provided by the SWD illustrating how the LSGSC handles complaints against welfare NGOs is reproduced at **Annex 6**.

8.12 Although there is no specific reference to a “complaints handling” function in its terms of reference, the LSGSC has dealt with complaints because it has the responsibility to receive representations from stakeholders and help solve problems arising from the implementation of the LSGSS.

8.13 The total number of complaint cases received by the SWD between the formal implementation of the LSGSS (January 2001) and May 2008 is 636. 112 of them were substantiated or partially substantiated, but only four were considered to be LSG-related. These four cases were related to the misuse of subvention, staff performance and false accounting records. The following table shows a breakdown by the outcome of the investigation and by the nature of the complaints.

Table 6 : Statistics of complaints received by the SWD between January 2001 and May 2008

Outcome of investigation	LSG-related	Service quality-related	Staff-related	Total	
Substantiated	0	37	2	39	} 112
Partially substantiated	4	56	13	73	
Unsubstantiated	25	302	104	431	
Withdrawn	3	15	3	21	
Not pursuable	2	23	10	35	

¹ The SWD Agency Officers designated as the contact points for the relevant NGOs, as mentioned in Chapter 4.

Under investigation	4	17	16	37
Total :	38	450	148	636

8.14 Included in the above were 17 complaints specifically addressed to the LSGSC. They were made by staff and ex-staff of NGOs in relation to their provident fund, salary and training allowances or staff dismissal. The LSGSC conducted hearings for three cases, one of which was ruled partially substantiated and two not substantiated. The remaining 14 cases were ruled to be non LSG-related and no further action was taken by the LSGSC.

Stakeholders' concerns

8.15 The IRC understands that the welfare sector finds the current mechanism for handling LSG-related complaints unsatisfactory. Stakeholders are primarily concerned about its ineffectiveness and lack of independence. They have pointed out to the IRC that, as some members of the LSGSC are also members of the NGO management or of staff unions, the LSGSC may not be able to resolve conflicts between these two groups of stakeholders in an impartial and effective manner. Moreover, it is not clear why LSG-related complaints are handled by the LSGSC only if they are specifically addressed to the LSGSC, leaving the others entirely to the SWD. Given the stakeholders' reservations, the IRC cannot be certain whether the small number of complaints quoted above indicates that stakeholders are generally content with NGOs' services, or that they choose not to complain because they do not think their concerns can be satisfactorily addressed.

8.16 In view of the limitations of the current complaints handling mechanism, the Alliance (社福界爭取同工同酬大聯盟) has proposed to set up an Independent Committee on Handling Complaints (接受投訴委員會). The proposal was discussed at the 24th meeting of the LSGSC in November 2007 and at a special meeting in December 2007. As a result, the IRC is specifically requested to review the handling of complaints related to the implementation of the LSGSS.

A total approach

8.17 The IRC is of the view that an effective complaints handling mechanism is an essential part of the management process for individual service providers as well as the LSGSS. A total approach should be adopted in dealing with complaints at

various levels of the system.

8.18 The SPMS has identified the service provider as having the primary responsibility to handle complaints from service users and staff regarding the agency or its service units. Each NGO is required to establish its own policy and procedures in this regard. The IRC agrees with these principles because the NGO should know best the agency's operations and the problems that give rise to the complaints. If the NGO can investigate or mediate in the first instance, problems may be promptly resolved. NGOs also have to be accountable for service performance. Tasking NGOs to handle complaints will assist them in assessing their own performance and identify room for improvement.

8.19 In Chapter 6, we have discussed corporate governance and the respective roles of the NGO board and its management. On the issue of handling complaints, the management is often expected to be in charge of the procedures and be able to deal with complaints about operational matters independently. However, some issues such as complaints about the NGO management itself or complaints of a serious nature (e.g. involving criminal offences) may require the attention of the NGO's governing board. The IRC therefore recommends that the issue of how the NGO management and the governing board should better perform their respective roles in handling complaints should be addressed in the Best Practice Manual proposed to be drawn up for the sector. For example, the manual may provide guidelines on what kind of complaints can be handled by the management and when they should be elevated to the board level.

Recommendation 32

Complaints made by service users and staff against subvented NGOs or their service units should be handled, in the first instance, by the NGOs concerned according to their established policy. How their management and governing boards should better perform their respective roles in this regard should be addressed in the sector's Best Practice Manual to be drawn up as per **Recommendation 1**.

8.20 The total approach should also provide for a further process to review complaints about the provision of subvented services which cannot be satisfactorily resolved by the NGOs concerned. This is because NGOs are accountable to the public for the provision of these services. If complaints remain unresolved, to the extent that service provision is adversely affected or service quality is in doubt, the

community will expect intervention by the Government or an independent party that has the authority to do so.

8.21 Both the SWD and the LSGSC have hitherto assumed this role, with the LSGSC limiting its concern to complaints specifically addressed to it. The role of the LSGSC is justified primarily by its objective, which is to facilitate the effective implementation of the LSGSS. However, it seems that whether a complaint is handled by the SWD or the LSGSC depends not on the nature of the complaint, but on how the complainant chooses to address the complaint. The IRC considers such segregation of duties undesirable and that the roles of the SWD and LSGSC should be rationalised.

8.22 The IRC has also considered whether the LSGSC can effectively handle complaints. Feedback from staff and users suggests that it cannot, for reasons explained above. As the IRC understands it, the biggest limitation of the LSGSC in this regard is its composition. Members of the LSGSC are appointed on an *ad personam* basis, but there is intentionally a fair representation of each of the stakeholder groups including NGOs, staff, users and the Government. As a platform for discussing the implementation of the LSGSS, the LSGSC would benefit from this composition as it offers a balance of viewpoints. However, the same composition may not work to its advantage when it has to settle specific disputes between NGOs and staff whose interests are advocated by different members. If the core function of the LSGSC is to facilitate the exchange of views rather than the resolution of disputes, the IRC would see the merit of tailoring its composition and *modus operandi* to this function, and transferring its complaints handling duties to another body to be set up specifically for this purpose.

8.23 We have recommended in Chapter 4 that the LSGSC be reconstituted, so that it can lead the sector in the continuous development of the LSGSS. We further recommend that an independent body, proposed to be called the Independent Complaints Handling Committee (IHC), should be formed to handle LSG-related complaints that cannot be satisfactorily addressed at the NGO level. It should comprise independent members of the community, who are neither NGO management nor staff, so as to ensure its impartiality. The SWD can provide secretarial support but should not be adjudicating the LSG-related complaints once the IHC has been set up. All LSG-related complaints, irrespective of whether they are addressed to the IHC or not, should be channeled to the IHC. The detailed membership and terms

of reference of the ICHC should be for the Government to decide.

8.24 The IRC defers to the ICHC to define clearly what constitutes a LSG-related complaint, but we recommend that it should focus on complaints about non-compliance with service requirements and NGOs' management decisions that have a direct impact on service performance. Depending on the actual cause of complaint, some complaints about NGOs' management decisions may be a matter for the governing board to consider or a subject of claims to be handled by the Labour Tribunal. Complaints against the SWD and other Government departments about maladministration also fall outside the ambit of the ICHC and should continue to be lodged with the Administration itself or with the Ombudsman. The ICHC should focus on LSG-related complaints and should not duplicate the role of existing complaints handling bodies.

8.25 To ensure that the ICHC function efficiently and effectively, we further recommend a two-tier approach for it to handle complaints, whereby an initial screening process will reject complaints that do not fall within the ICHC's terms of reference, leaving only those that are genuinely LSG-related for the ICHC's deliberation. DSW should be informed of the ICHC's decisions and recommendations, and should take follow up actions as appropriate. Apart from determining the complaints, the ICHC may also share its observations with the welfare sector on how, in the light of the complaints received, the LSGSS can be further improved.

Recommendation 33

An Independent Complaints Handling Committee (ICHC) should be set up to determine on LSG-related complaints that cannot be satisfactorily addressed at the NGO level and recommend improvements to the LSGSS. DSW should be informed of the ICHC's decisions and recommendations, and should take follow up actions as appropriate.

8.26 When discussing complaints handling procedures with the IRC, some NGOs have also raised concerns about the handling of anonymous complaints. They told the IRC that on receipt of anonymous complaints, the SWD would refer them to the relevant NGO's CEO or Chairman for their attention and follow up as appropriate. Much resources and time are wasted on such complaints and, because of their anonymous nature, little is achieved. They therefore consider the SWD's act of

referral unreasonable.

8.27 The IRC has sought clarifications from the SWD on this matter. According to the SWD, under the existing complaints handling mechanism, anonymous complaints will be referred to NGOs for their reference only. No formal feedback or reports are required, unless the case involves improper use of subvention and the complainant has provided specific information to facilitate investigation. The SWD also encourages complainants to disclose their identities so as to be fair to the accused parties.

8.28 The IRC notes that the Ombudsman, in accordance with the Ombudsman Ordinance, shall not undertake or continue an investigation into a complaint if the complaint is made anonymously. It appears that the SWD's procedures are generally in line with this practice. By referring the anonymous complaint to the NGO concerned, the NGO management will be alerted to potential problematic areas. However, where the SWD does not intend to require any feedback from the NGO, it should make that clear to the NGO to avoid unnecessary work.

Recommendation 34

For anonymous complaints, where the SWD does not require any feedback from, or investigation by, the NGO, it should make that clear to the NGO to avoid unnecessary work.

A readiness to change for the better

8.29 When the LSGSS was introduced to replace the conventional subvention mode, it was meant to be a change for the better. This is because the conventional mode has been criticised as being too rigid, not sufficiently outcome oriented, and not conducive to a more efficient operation. Not only is this move to a new system a decisive step in itself, but the LSGSS is also designed to facilitate further changes. Its flexibility encourages innovation, which is the driving force behind many successful examples of service re-engineering. Its quality assurance mechanism aims at improvement, such that, instead of simply imposing penalties for non-compliance, it motivates service providers to address the concerns.

8.30 The system's stakeholders are expected to have a mindset for change, i.e. they should be receptive to changes, ready to introduce changes themselves, and

willing to keep changing for the better. Those who are prepared to adopt this mindset would find a complaints handling mechanism useful, because it allows feedback to be channeled to the responsible agencies which can make improvements in a timely manner.

8.31 The IRC finds it most encouraging that the Chief Executive has highlighted the importance of an effective complaints handling mechanism in his recent Policy Address. He said, *“We must remain humble at all times and be open to suggestions for improvement. To ensure that public services move with the times and respond quickly to citizens’ needs, I have asked Heads of Departments to review the implementation of their performance pledges and to improve their complaints handling mechanism in the coming year.”*

8.32 In this chapter, we have recommended improvements to the welfare sector’s complaints handling mechanism, and also the introduction of a new independent body, the ICHC, to handle LSG-related complaints. This is because we fully appreciate the goodwill of all the stakeholders and the tremendous efforts they have put in throughout the years to make the LSGSS work. We appreciate that they do so because they understand that our society is ever changing, and are ready to embrace changes for the better. We hope our recommendations will help the LSGSS progress along its designated path. Nevertheless, it will be up to its stakeholders to make the journey a success.

Chapter Nine – Related Issues

9.1 The LSGSS currently governs the funding arrangements and service provision of 162 subvented NGOs. It covers all the essential aspects of a funding system including funding rules, audit process, quality control, complaints handling and communication channels. However, a funding system cannot function in isolation. Nor can it be immune to social and economic changes. It has to relate to other systems that support the welfare sector, and it must work in tandem with other sectors of the community.

9.2 In Chapters 3 and 4, we have seen how general market conditions such as the cross-sectoral efficiency drive some years ago and the current shortage of paramedical staff have affected the operation of the LSGSS. In Chapter 7 we have also discussed why systematic service reviews and macro welfare planning are essential. It is clear that the LSGSS must continue to develop and adapt to changing social needs.

9.3 In the course of this review, the IRC therefore welcomed stakeholders' comments on issues which are not directly related to the implementation of the LSGSS but are considered important to the subvented welfare sector. These issues, such as alternative sources of funding support and changes in labour market supply, impact on the sector's operation. In this chapter, we bring them to the Government's attention.

Support to NGOs from the LF

9.4 Other than the LSG, the LF is a major source of funding for NGOs. In 2007-08, 363 LF allocations amounting to \$332 million were made to various NGOs. If the LF is able to provide timely support to NGOs in need, that would go a long way in facilitating NGOs' operation. To consider whether there is room for improving this funding mechanism, one has to first understand how it works.

9.5 The LF was created in June 1965 by Resolution of the Legislative Council for the purpose of financing social welfare services. The proceeds from the Mark Six Lottery are its main source of income. Other regular sources of income include

investment income and auctions of vehicle registration numbers. Receipts of the LF in 2007-08 amounted to \$1,478 million.

9.6 The LF is primarily used to finance the capital expenditure of welfare projects (such as construction, fitting-out and renovation works), purchase furniture and equipment (F&E) for premises occupied by NGOs for the provision of welfare services and provide one-off grants to experimental projects with a limited duration. It was also the source of funding for TOG, SOG, and other one-off subsidies for NGOs under the LSGSS. An NGO is eligible to apply for a grant from the LF if it is recognised by the SWD as a bona-fide non-profit-making organisation providing a valuable service to the community. Subject to certain conditions, the authority to approve grants from the LF has been delegated to the DSW, acting on the advice of the Lotteries Fund Advisory Committee (LFAC). An LF Manual, available on the SWD's website, regulates matters relating to the use of the LF and guides NGOs through the procedures of application, payment and control of the LF grants. In the ensuing paragraphs, we will highlight some of the LF rules that are of concern to the NGOs.

9.7 According to Chapter 5 of the LF Manual ("Major Grants, Other Grants or Loans"), an NGO may apply for an LF grant to purchase F&E items costing more than \$100,000, or carry out major renovation where the estimated cost of the project exceeds \$500,000, etc. Unlike the arrangements for fitting-out works and F&E at "bare shell" new premises¹, for major renovation NGOs have to submit a detailed breakdown of the estimated costs, with full justification for each proposed item of expenditure. The technical aspects of the application will be vetted by the Architectural Services Department (ASD). Service branches of the SWD will be consulted if there are above-standard items and where there is a need to change the layout. For premises in public housing estates, the application will be vetted by the Housing Department, whose consent is required for structural alternations.

9.8 Separately, in accordance with Chapter 4 of the LF Manual ("Block Grant for the Replenishment of F&E and Minor Works for Existing Premises Providing Subvented Welfare Services"), the Lotteries Fund Projects Section of the SWD invites applications from subvented NGOs for the Block Grant (BG) each year, for

¹ For these, a lump sum LF grant is provided to the NGO concerned, based on the configuration of the premises and the technical schedule of the services (for fitting-out works) or on the standard or particular requirements of the service (for F&E). The NGO need not prepare any cost estimates and the works are not subject to the technical vetting by the Government.

replenishment of F&E items costing no more than \$100,000 and minor works for existing premises costing no more than \$500,000. The recommended amount of BG for individual NGOs is submitted to the LFAC for endorsement. Any unspent balance of the grant can be carried forward to the next financial year for use by the NGO concerned. However, to introduce an element of proportionality and equity amongst NGOs, and taking into account the overall funding position of the LF, an agency cap at 1% of the recurrent subvention of the respective NGOs has been imposed on the BG provision since 2003-04.

9.9 NGOs have informed the IRC that they appreciate the funding support provided by the LF. However, some of them have reflected to the IRC that because of the 1% agency cap, the BG allocation is insufficient to meet the recurrent maintenance needs of small NGOs, NGOs which have high maintenance costs due to statutory requirements and those operating on old premises. As a result, these NGOs have to use their own LSG to make up the shortfall, even though the LF is accumulating sizeable surpluses.

9.10 This problem is aggravated by the high thresholds for items to be charged to the major grants, i.e. at least \$100,000 for F&E and at least \$500,000 for major renovation. Because of these thresholds, many essential but costly items have to be charged to the BG instead, and have to compete for funds which are already insufficient because of the 1% agency cap.

9.11 NGOs are also concerned about the long processing time for major grant applications. They would like to see improvements in these aspects, so that the assistance from LF can be more timely and effective.

9.12 The IRC expects the LF to have a steady source of income in the foreseeable future, and as it is to be used exclusively for welfare services, there is much scope for the sector to make better use of it. The LF would not have fully achieved its objectives if administrative restrictions make it difficult for the grants to reach where they are most needed. The IRC has therefore considered possible improvements to the funding arrangements of the LF.

9.13 Regarding the specific concerns raised by the NGOs about the BG and the thresholds for grants, the IRC understands that the SWD does not support the idea of significantly lowering the thresholds for major grants because doing so will

undermine the flexibility of the BG and increase the administrative workload of both the SWD and NGOs. However, NGOs have pointed out that the current thresholds are unreasonable. For instance, no single F&E item on the SWD's standard list costs more than \$80,000, which basically means that all of them have to be charged to the BG. As funds under the BG are limited, some NGOs have to defer major renovation or the replacement of F&E items until the cumulative costs of these items qualify for a major grant application. The IRC considers this situation undesirable. While for administrative efficiency there is a need to limit major grant applications to major items, the thresholds must be reasonable so that the costs of the items that are meant to be charged to the BG are proportional to the funds available under the BG. In view of this and NGOs' concern about the shortage of funds under the BG in general, the IRC recommends that the SWD lower the threshold for F&E items for major grants to \$50,000, and at the same time increase the agency cap for the BG to at least 1.5%. We believe that this would help strike a reasonable balance between financial prudence, administrative efficiency and service quality.

9.14 The IRC has also looked into the application process for major renovation. The SWD has pledged to complete the processing of these applications within nine months after the NGO has submitted all the required documents. Of the 128 major LF grants approved in 2007-08, 84% were completed within this timeframe. According to the SWD, some applications require a longer processing time mainly because the NGOs take time to provide the necessary information, such as the approval given by the relevant authorities, technical drawings, revisions to the proposal, etc. Notwithstanding this, the IRC has examined whether there is scope for streamlining the vetting process, say, by placing greater responsibility on the Authorised Persons (APs) or consultants employed by the NGOs for these projects, thus relieving Government departments of their duties to offer technical advice.

9.15 Section 6.6 of the LF Manual sets out the arrangements for the engagement of APs or consultants for LF-funded works projects. These persons must be employed for major fitting-out works (e.g. building or drainage works involving the statutory approval of the Building Authority must be handled by an AP) and should normally be employed for other major works that require the input of architects, building services engineers or geotechnical engineers. The APs or consultants are responsible for project design and the preparation of tender documents, and have to supervise the works. The IRC considers that, where a project is carried out under the supervision of these professionals, the Government should consider placing more

reliance on their professional certification to expedite the vetting process. The IRC recommends that the SWD seriously look into this possibility. If the procedures can thus be simplified, not only can the vetting process be shortened, the Government's own technical resources can also be redeployed to other more needy areas.

9.16 Some NGOs may be soliciting other funding support to supplement LF grants. This is permitted by the LF Manual. Nonetheless, if a donor wishes to have the project named after him, the NGO concerned has to seek SWD's approval, and the donor is required to contribute towards the recognised portion of the project at a level to be agreed with the SWD². Moreover, the LF sponsorship is reduced by the amount of the contribution. Some NGOs consider the offsetting requirement a disincentive for them to solicit donations, because the net effect is that the project would not benefit from the donations.

9.17 The IRC understands that, from the Administration's point of view, a naming right is not to be given away easily, unless the donor has made a substantial contribution to the project. However, the IRC agrees with the NGOs that, in the case of LF funded projects, the offsetting requirement may have to be revisited if there is a genuine concern that the existing contribution requirement would discourage the NGOs from seeking private funding and work against the interest of the community. A possible improvement may be to maintain the minimum contribution at 20% of the project cost, but of which only an amount equal to 10% of the project cost will be used to offset the LF grant, while the remainder can be used by the NGO concerned, in addition to the LF grant, to upgrade the project. In this way, even with the same amount of private contribution, NGOs and service users will benefit from the additional funding.

Recommendation 35

The SWD should review the LF vetting procedures and funding rules, and consider, inter alia, the following improvements, so as to make better use of the LF -

- (a) increase the agency cap of the BG to 1.5%;
- (b) for F&E items, lower the threshold for major grant applications to \$50,000;
- (c) where a project is carried out under the supervision of APs or consultants, the Government should consider placing more reliance on their professional

² Where the project cost is not already expressed in money-of-the-day prices, the precise formula for working out the contribution, as stipulated at section 7.3.1 of the LF Manual, is "[the estimated capital cost of the project (ECC) + (ECC x TPI% x 4 years)] x 20%, where TPI% is the average of the Tender Price Index over the past five years.

- certification to expedite the vetting process; and
- (d) where a project is proposed to be named after a donor, the SWD may maintain the requirement that the donor makes a contribution of at least 20% of the project cost, but of which only an amount equal to 10% of the project cost will be used to offset the LF grant, while the NGO concerned may use the remainder to upgrade the project.

Supply of paramedical staff

9.18 In Chapter 3, we mentioned that NGOs which need to employ paramedical staff (mainly nurses) were having great difficulty catching up with their rising pay trends, and had to offer them better remuneration packages in order to attract and retain them, often at the expense of other staff members. We pointed out that this was a cross-sectoral problem arising from the shortage of labour supply and that it could not be satisfactorily addressed by improvements to the LSGSS alone.

9.19 In the welfare sector, the NGOs most affected are those running specific types of services, such as rehabilitation institutions, special child care centres and elderly institutions. They are in keen competition with the public sector, private clinics and each other for the limited labour supply. The shortage of paramedical staff in these NGOs, coupled with the poor morale of other staff whose salaries have to be reduced to make up for the higher salaries of paramedical staff, has exerted great pressure on the NGO management. Both the management and staff have urged the Government to assist.

9.20 The IRC understands that the SWD, in collaboration with the Hospital Authority (HA), had launched three batches of the Enrolled Nurse (EN) Training Programme for the Welfare Sector (Training Programme) between March 2006 and December 2007. Together with five additional Training Programmes to be launched from 2008 to 2011, the total number of EN training places to be provided is 930. Tuition fees are fully subsidised by the SWD, and in return the trainees have to undertake to work in the welfare sector for at least two consecutive years after graduation, otherwise they will have to repay SWD the tuition fees in full or in part. Despite this requirement, the retention rate of the graduates is not high. For instance, the first batch of 96 ENs graduated in April 2008. By the end of May 2008, only about 70% of them were working in the welfare sector; some 20% had gone to other sectors, e.g. private hospitals, while 10% were employed by the HA under short-term

contracts or had not yet joined the work force.

9.21 The IRC agrees that increasing the manpower supply, through the provision of additional training places, should help tackle the problem at source. However, there is a limit to the capacity of training institutions as well as the availability of suitable trainees at any point in time. As can be seen from the experience of the Training Programmes, the current demand has exceeded the supply to such an extent that the problem is unlikely to be resolved in the near future. This will continue to have an adverse impact on NGOs in terms of their financial viability, staff management and service quality. To help the welfare sector tide over this difficult period, the IRC considers it necessary for the SWD to provide, in the next three years, additional resources to welfare NGOs which need to employ paramedical staff or hire their services, so that they may offer more competitive salaries to recruit and retain these staff. The actual amount of resources to be provided should be based on service needs. Hopefully, the problem will ease in three years' time as more ENs graduate from the Training Programmes. In the longer term, the relevant Government authorities should monitor closely the manpower situation of the paramedical professionals and the provision of training places to ensure a steady labour supply.

Recommendation 36

The SWD should, in response to the labour market situation, provide additional resources for three years to welfare NGOs which need to employ paramedical staff or hire their services, so that they may offer more competitive salaries to recruit and retain these staff.

Diversity in the provision of welfare services

9.22 Throughout this report, as guided by the IRC's terms of reference, we have examined issues that concern the subvented welfare sector, primarily those related to the implementation of the LSGSS. The services provided by the subvented NGOs are core services most needed by our community. The availability of Government subvention ensures that the service provision and the quality of service are maintained at the agreed level.

9.23 However, we appreciate that the welfare sector in Hong Kong is vibrant and diverse. There is an array of organisations providing social welfare services that are

either self-financing or supported by sources of income other than Government subvention. Support in money or in kind is provided by companies in the spirit of corporate social responsibility. There are also individuals willing to assist these organisations. Credit is due to all of them who have taken the initiative to serve the community using their own resources. Together, they are the many helping hands that reach out to the less privileged.

9.24 The Government has a standing arrangement to provide subsidy on rent, rates and government rent to charitable organisations which operate non-subvented welfare services to supplement government funded programmes and activities in meeting the community's needs. In recent years, the Government has been actively supporting, outside the recurrent subvention systems, welfare and community projects that meet specific policy objectives. Assistance is mainly in the form of one-off grants which serve as seed money for these projects. When the grant is exhausted, the grantee is expected to find alternative sources of income.

9.25 Under the welfare portfolio, for instance, there is the Partnership Fund for the Disadvantaged which provides matching grants to donations made by business organisations in support of NGOs' welfare projects. There is also the Community Investment and Inclusion Fund to finance community projects that promote mutual assistance in the neighbourhood, in particular those involving the collaborative efforts of community organisations and the private sector. To encourage the development of social enterprises in Hong Kong, the Government has introduced a number of schemes, such as the Enhancing Employment of People with Disabilities through Small Enterprise Project³, the Enhancing Self-Reliance Through District Partnership Programme⁴ and the Social Enterprises Partnership Programme⁵. With these

³ The Project provides seed money to NGOs to support the creation of small enterprises to ensure that people with disabilities can enjoy genuine employment in a carefully planned and sympathetic working environment. The ceiling of grant is \$2 million per business and the maximum funding period is two years. The business is expected to become self-sustaining after two years' operation.

⁴ The Programme provides seed money to NGOs to support Social Enterprise (SE) projects that promote self-reliance of the socially disadvantaged. The funding ceiling for each project is \$3 million and the maximum funding period is two years. After the funding period, the SEs have to maintain sustainability and operate on a self-financing basis.

⁵ The Programme provides a platform to enhance and facilitate partnership among different sectors of the community through a matching forum and the SEs Mentorship Scheme. Interested business organisations can team up with NGOs to establish SEs or to partner with SEs. The partnership can be in the form of outsourcing certain operations (e.g. cleansing service) to the SEs; providing concessionary rental of their premises, vacant land for use by the SEs; and allowing SEs access to their clients, etc. The Mentorship Scheme aims to provide SEs with business advisory services to enhance their competitiveness.

additional resources, not only can welfare NGOs and other community groups try out new projects, but they can also explore new resource models as viable alternatives to recurrent subvention. For instance, tapping the expertise of their business partners, they may help the unemployed set up co-operatives which can operate in a competitive environment on a self-financing basis. Mutual support networks can also be established in the neighbourhood to provide child care and other value-added services at affordable prices.

9.26 These experiences are important in that they open up new horizons for our welfare services. They demonstrate to the community how welfare is not only a matter for NGOs, and how funding does not have to come solely from the Government. We note from the study we commissioned on overseas experiences that welfare funding in Singapore, for instance, is the shared responsibility of the Government and voluntary welfare organisations (VWOs). The Singaporean Government funds 90% of the approved capital costs, and 50% of the approved recurrent costs, of welfare facilities and services, while the VWOs raise funds for the balance. This is called the “Many Helping Hands” approach and it is a guiding principle of Singapore’s welfare policy. In the UK, the government has recently produced actions plans⁶ to enhance the involvement of the third sector in public services, the broader aim of which is to increase plurality in social care provision. The UK Government has also made commitments to encourage the development of social enterprises.

9.27 The IRC believes that every one of us can contribute to social welfare in our own way. It would be a great loss to the community if, influenced by a long tradition of subvented services, we were content not to fully explore other community resources for welfare purposes. The IRC therefore encourages NGOs to develop new resource models for welfare projects and services. They can supplement the Government subvention system and add diversity to our welfare sector.

Beyond subvention

9.28 The IRC has set out to examine these “Related Issues” in this chapter because we are convinced that LSGSS should not function in isolation. For instance,

⁶ See the Cabinet Office’s reports on “Partnership in Public Services: An Action Plan for Third Sector Involvement” (December 2006) and “Future Roles of the Third Sector in Social Economic Regeneration” (July 2007).

we may have very dedicated staff working for the subvented services, but as employees they also have their own career aspirations which result in their mobility in the labour market as supply and demand fluctuate. There are also alternative funding sources such as the LF and various types of community resources for NGOs to pursue initiatives not funded under the LSGSS. Although strictly speaking these “Related Issues” may be external to the LSGSS, their impact on its stakeholders must not be ignored.

9.29 There is, of course, a limit to how far one may go in addressing other issues of concern that affect indirectly the operation of the LSGSS. We do not purport to have mastered, for instance, all of the very complex social problems that NGOs and their staff have to deal with on a daily basis, and we have not considered the economic changes that affect the Government’s funding decisions. Within the confines of this review, we have tried to highlight at least a few concerns that, if satisfactorily addressed, can greatly facilitate the operation of the LSGSS.

9.30 We are not suggesting, however, that stakeholders of the LSGSS should only be reacting to external circumstances. One management quality that the system highly values is entrepreneurship, which is essential for service re-engineering and organisational development. It requires one to go beyond the existing parameters, and perhaps beyond the subvention model itself, to reach out to new opportunities. In this chapter, we have discussed the types of resources and expertise available to support the welfare sector. As we seek to improve the LSGSS, we should not forget that, beyond subvention, opportunities abound. Those who are dedicated to serving the community can bring about remarkable improvement by working together.

Chapter Ten – Recommendations

10.1 The present is certainly not the best of times. With the financial tsunami wrecking one economy after another, the whole world is struggling against a gloomy outlook and Hong Kong is no exception. What makes us special, however, is our resilience in the face of adversities and our courage in embracing challenges. These qualities have helped us overcome tremendous difficulties time and again. That we should have confidence in ourselves is not sheer optimism but a time-tested conviction.

10.2 It is with this conviction that the IRC has made recommendations to improve the LSGSS. We believe that our welfare sector deserves a good subvention model that is effective and can help the sector develop in the long run. More importantly, we believe that stakeholders of this system are capable of perfecting it. Having closely examined the various aspects of the LSGSS and having consulted all stakeholders who have come forth to share their views, we believe that the LSGSS is in principle and in design a good system suited to the needs of Hong Kong. It is in the interest of the community to retain it. If stakeholders can align their vision, they can certainly embrace the challenges arising from the implementation of the LSGSS and emerge stronger.

10.3 In Hong Kong, as in anywhere else, the primary duty of providing welfare services rests with the Government. NGOs certainly have an indispensable part to play; other corporations and individuals also have their invaluable contributions, but it is incumbent upon the Government to work with them to ensure that welfare services are delivered in a timely and cost-effective manner to meet social needs. As the economic tide changes, the more vulnerable members of our community will be the first ones to be affected. It is all the more important for the Government to join hands with NGOs and help them ride the waves.

The recommendations

10.4 The recommendations we have put forth in the previous chapters are the specific actions that we believe the Government and NGOs should take to address the

concerns raised by various stakeholders at this juncture. They are listed at the end of this chapter. We appreciate, however, that the LSGSS will continue to evolve, as any progressive funding model should. The IRC therefore wishes to articulate in the following paragraphs the principles underlying a good subvention system, and hopes that they would guide the LSGSS in its way ahead.

The guiding principles

10.5 Partnership, Flexibility, Adequate Monitoring, Accountability and Communication are what we consider the five essential building blocks for any viable funding model. Partnership encourages stakeholders to participate and contribute; flexibility enhances efficiency; adequate monitoring ensures quality; accountability is the hallmark of responsible management; and communication facilitates collaboration. These five principles are like the spokes of a wheel. If any of them is missing, the wheel will not be strong enough to travel far.

10.6 Having a sturdy structure is important, but even more important is the force that sets the system in motion. This is the Mindset for Change – a mindset to embrace challenges and seek continuous improvement. It is also the overriding principle on which the success of the LSGSS depends, because the system is designed precisely to encourage such a mindset, so that the sector can make good use of its flexibility to move with the times.

A shared vision

10.7 Social circumstances are changing so rapidly that the welfare sector does not have the luxury to stay put. It must equip itself for the future. In the long history of the sector's evolution, the introduction of the LSGSS is but one of the milestones, its improvement a necessary part of the journey. We hope that one day the sector can look back on this review report, as a voyager who looks back on his footprints, remembers all the difficulties that he has overcome, and feels encouraged to carry on with greater confidence.

10.8 As the work of the IRC draws to a close, we wish to thank all the stakeholders again for assisting us in this review. We are deeply impressed with the

passion of the many people we have met - people who have dedicated their careers to social work; people who always put users' needs in the first place; people who strive for continuous improvement in our welfare system. They have raised many concerns about the LSGSS, not because they are negative, but because they care.

10.9 We hope we can share with them a vision, that in not so distant a future, our welfare sector will be able to demonstrate the success of a system tailored to our people's needs, that all its stakeholders will be proud of the efforts they have made to develop and improve this system, and that our community will reap the benefits of enhanced services as a result of their remarkable efforts.

Recommendations by chapter

Chapter 3

- (1) A Best Practice Manual for NGOs on various management issues such as human resource policies, the level of reserves and their gainful deployment, corporate governance and accountability, etc., should be developed by the welfare sector, with professional input from management experts if necessary. The LSGSC should work with the sector in drawing up this manual. (Also see Chapters 4, 6 and 8)
- (2) The Government should make available an actuarial service for NGOs to assess their ability to meet Snapshot Staff commitments. Application for this service should be on a voluntary basis. (Also see Chapter 4)
- (3) As a good management practice for NGOs, the additional funding provided in line with civil service salary adjustments should be spent solely on staff in subvented services.
- (4) In budgeting for non-subvented services, NGOs need to factor in pay adjustments, so that they may be in a better position to meet staff expectations when subvented services receive additional funds for pay adjustments.
- (5) The SWD should collect data on staff turnover and wastage rates for the purpose of monitoring the sector's overall manpower position. The Government should invite the ACSWTMP to monitor closely the manpower supply in the welfare sector, so as to ensure a stable supply of professional staff.
- (6) The Government should set up a \$1 billion Social Welfare Development Fund to support training, capacity enhancement initiatives and service delivery

enhancement studies. Grants should be allocated to NGOs on LSG based on the merit of their applications. (Also see Chapter 5)

Chapter 4

- (7) In view of the changing service needs, the Government should institute a review mechanism whereby appropriate advisory bodies such as SWAC, EC, RAC, etc. may oversee the systematic review of welfare services and ensure that stakeholders' views are taken into account in the review process. (Also see Chapter 7)
- (8) In exceptional and justifiable cases, the SWD should allow NGOs to advance OC subventions.
- (9) In managing their reserves, NGOs should take into account their Snapshot Staff commitments, as well as the need for service enhancement and staff development.
- (10) The SWD should establish a mechanism whereby NGOs which anticipate financial difficulties can alert the SWD in advance, so that remedial measures can be taken as appropriate before the NGOs concerned exhaust their reserves.
- (11) NGOs should fully deploy the PF provisions and reserves for non-Snapshot Staff on PF contributions, including possibly special contributions to award non-Snapshot Staff for their good performance.
- (12) Recognising NGOs' achievements in enhancing efficiency and productivity under the EPP/ES, it is recommended that the need for additional funding should only be justified by a systematic review of service needs.
- (13) The LSGSC should be reconstituted to strengthen its role and composition, so that it can lead the sector in the continuous development of the LSGSS.
- (14) For the sake of transparency, the SWD should be prepared to explain, at the request of individual NGOs, the basis of their LSG calculations.
- (15) The SWD should revise the LSG Manual in consultation with stakeholders, update it regularly, and announce changes on the SWD's website in the first instance. NGOs should also be notified instantaneously by email.
- (16) The SWD should rationalise the AO system with a team of officers who are familiar with the rules and operations of the Subventions, Finance and Service Branches and can provide prompt advice to NGOs on all LSG-related issues. The resources thus released may be redeployed to step up existing work such as quality inspections or implement new initiatives. (Also see Chapter 5)

Chapter 5

- (17) The SWD should conduct a thorough review of its audit procedures to ensure that they are effective in monitoring the use of public funds and do not compromise NGOs' flexibility under the LSGSS.
- (18) To avoid misunderstanding, NGOs should consult the SWD in a timely manner as to what constitute "FSA-related" activities before conducting such activities.
- (19) The SWD should streamline its financial reporting requirements, including dropping the requirement for NGOs to provide analyses of incomes and expenditures by programme area and by FSA.
- (20) The SWD should review the deadline for NGOs to submit their AFRs, taking into account the practicability of the requirement.
- (21) The SWD should set up a help desk to provide management advice to small NGOs and to facilitate their collaborative efforts. To help small NGOs develop, the SWD should also make available additional resources for them to strengthen their administrative and professional support. Small NGOs may apply for grants up to \$300,000 (or 10% of its LSG, whichever is lower) each year for a total of four years.
- (22) The definition of "small NGOs" should be standardised so that the assistance to them can be more targeted and effective. For this purpose, small NGOs should more appropriately be defined as NGOs with an annual LSG of less than \$5 million and an annual expenditure below \$10 million.
- (23) Small NGOs may consider submitting joint proposals to enhance their competitiveness in the bidding of new services. While NGOs participating in such joint ventures have to identify a representative to sign the FSA and liaise with the SWD, the NGOs should also enter into an agreement among themselves to set out clearly their individual contributions and shared responsibilities.
- (24) In inviting bids for new services, the SWD should make known to prospective bidders the relative weighting of the various aspects of a proposal in the marking scheme.
- (25) NGOs should carefully consider their resource implications before preparing service proposals. NGOs should also take into account the views of their staff and share with them the considerations in submitting service proposals.

- (26) The SWD should look into the possibility of simplifying the process for the allocation of new services, such as introducing a two-stage tendering process, so that resources can be saved both in the preparation of service proposals and in the vetting of the proposals.
- (27) As per **Recommendation (6)**, a new Social Welfare Development Fund should be established and should take over the function of the BIP Scheme. It is for the SWD to consider whether NGOs should still be required to contribute at the present or at a lower level to the projects supported by the new fund.

Chapter 6

- (28) A formal public accountability framework should be in place for NGOs to disclose their AFRs as submitted to the SWD, so that they will also be accountable to the public for the proper and prudent use of public funds.
- (29) The SWD should fully consult the NGOs with a view to implementing the Government guidelines on the monitoring of remunerations of senior executives in subvented bodies.

Chapter 7

- (30) The SWD should conduct more frequent service performance inspections and surprise visits, and systematically collect service users' feedback.
- (31) The Government, having regard to SWAC's recommendations, should work more closely in partnership with the sector to establish a practicable and sustainable mechanism for implementing a visionary welfare plan for Hong Kong.

Chapter 8

- (32) Complaints made by service users and staff against subvented NGOs or their service units should be handled, in the first instance, by the NGOs concerned according to their established policy. How their management and governing boards should better perform their respective roles in this regard should be addressed in the sector's Best Practice Manual.
- (33) An Independent Complaints Handling Committee (ICHC) should be set up to determine on LSG-related complaints that cannot be satisfactorily addressed at the NGO level and recommend improvements to the LSGSS. DSW should

be informed of the ICHC's decisions and recommendations, and should take follow up actions as appropriate.

- (34) For anonymous complaints, where the SWD does not require any feedback from, or investigation by, the NGO, it should make that clear to the NGO to avoid unnecessary work.

Chapter 9

- (35) The SWD should review the LF vetting procedures and funding rules, and consider, inter alia, the following improvements, so as to make better use of the LF -
- (a) increase the agency cap of the BG to 1.5%;
 - (b) for F&E items, lower the threshold for major grant applications to \$50,000;
 - (c) where a project is carried out under the supervision of APs or consultants, the Government should consider placing more reliance on their professional certification to expedite the vetting process; and
 - (d) where a project is proposed to be named after a donor, the SWD may maintain the requirement that the donor makes a contribution of at least 20% of the project cost, but of which only an amount equal to 10% of the project cost will be used to offset the LF grant, while the NGO concerned may use the remainder to upgrade the project.
- (36) The SWD should, in response to the labour market situation, provide additional resources for three years to welfare NGOs which need to employ paramedical staff or hire their services, so that they may offer more competitive salaries to recruit and retain these staff.

Stakeholder groups which have met the LSGIRC

1. Aberdeen Kai-fong Welfare Association Social Service Centre
2. Alice Ho Miu Ling Nethersole Nursing Home
3. Amity Mutual-Support Society
4. Asbury Methodist Social Service
5. Asia Women's League Limited
6. Association of Evangelical Free Churches of Hong Kong (The)
7. Association of Parents of the Severely Mentally Handicapped (The)
8. Audit Commission
9. Baptist Oi Kwan Social Service
10. Barnabas Charitable Service Association Limited (The)
11. Boys' & Girls' Clubs Association of Hong Kong Staff Club (The)
12. Boys' and Girls' Clubs Association of Hong Kong (The)
13. Caritas – Hong Kong
14. Caritas Staff Union
15. Cheung Chau Rural Committee Integrated Youth Centre
16. Chi Lin Nunnery
17. Child Development Centre (The)
18. Chinese Rhenish Church Hong Kong Synod (The)
19. Chinese YMCA of Hong Kong
20. Christian Action
21. Christian Nationals' Evangelism Commission Aged People Centre
22. Chung Shak Hei (Cheung Chau) Home for the Aged Limited
23. Community Care and Nursing Home Workers General Union
24. Concerned Group of Small Welfare Agencies (The)
25. Concord Mutual-Aid Club Alliance
26. Ebenezer School & Home for the Visually Impaired
27. EFCC Evangel Children's Home
28. Election Committee Members (Social Welfare subsector)
29. Endeavourers Hong Kong – Bert James Young Social Center for the Elderly (The)
30. Fight for Social Welfare Alliance
31. Five Districts Business Welfare Association
32. Free Methodist Church of Hong Kong (The)
33. Fu Hong Parents Association
34. Fu Hong Society
35. Fung Ying Seen Koon
36. Harmony House Limited
37. Haven of Hope Christian Service
38. Heep Hong Parents Association
39. Heep Hong Society
40. Helping Hand
41. Heung Hoi Ching Kok Lin Association
42. Hong Chi Association

43. Hong Kong Alzheimer's Disease Association (HKADA)
44. Hong Kong and Macau Lutheran Church
45. Hong Kong Association for Parents of Persons with Physical Disabilities
46. Hong Kong Catholic Marriage Advisory Council (The)
47. Hong Kong Christian Service
48. Hong Kong Council of Social Service (The)
49. Hong Kong Down Syndrome Association (The)
50. Hong Kong Down Syndrome Association Parents Committee
51. Hong Kong Employment Development Service
52. Hong Kong Family Welfare Society
53. Hong Kong Federation of Social Work Students
54. Hong Kong Joint Council for People With Disabilities
55. Hong Kong Joint Council of Parents of the Mentally Handicapped (The)
56. Hong Kong Lutheran Social Service, LC-HKS
57. Hong Kong Mutual Encouragement Association Limited
58. Hong Kong PHAB Association
59. Hong Kong Playground Association
60. Hong Kong Sheng Kung Hui Welfare Council
61. Hong Kong Single Parents Association
62. Hong Kong Social Workers' Association (The)
63. Hong Kong Social Workers' General Union
64. Hong Kong Society for Rehabilitation (The)
65. Hong Kong Society For The Aged (The)
66. Hong Kong Society for the Blind (The)
67. Hong Kong Society for the Protection of Children
68. Hong Kong Student Aid Society
69. Hong Kong Tuberculosis, Chest and Heart Diseases Association (The)
70. Hong Kong Young Women's Christian Association
71. Intellectually Disabled Education and Advocacy League Ltd. (The)
72. International Social Service Hong Kong Branch
73. Kiangsu Chekiang and Shanghai Residents (Hong Kong) Association
74. Labour and Welfare Bureau
75. Lok Sin Tong Benevolent Society, Kowloon (The)
76. Mental Health Association of Hong Kong (The)
77. Mission Covenant Church Ltd. (The)
78. Mongkok Kaifong Association Limited (The)
79. Mother Superior of the Congregation of Our Lady of Charity of the Good Shepherd of Angers at Hong Kong (The)
80. Neighbourhood Advice-Action Council (The)
81. New Life Psychiatric Rehabilitation Association
82. Operation Dawn Limited
83. Parents' Association of Pre-school Handicapped Children (The)
84. Playright Children's Play Assn.
85. Po Leung Kuk
86. Pok Oi Hospital

87. Project Care
88. Salvation Army (The)
89. Samaritan Befrienders Hong Kong (The)
90. Scout Association of Hong Kong
91. Senior Citizen Home Safety Association
92. Shamshuipo Kaifong Welfare Advancement Association
93. Sik Sik Yuen
94. Social Welfare Department
95. Society of Rehabilitation and Crime Prevention, Hong Kong (The)
96. Spastics Association of Hong Kong (The)
97. SPB Precious Blood Children's Village
98. St. James' Settlement
99. St. James' Settlement Rehabilitation Division Family Club
100. Staff Association of the Hong Kong Federation of Youth Groups
101. Staff Union of The Mental Health Association of Hong Kong
102. Stewards Limited
103. Stewards Staff Union (SSB)
104. Tsung Tsin Mission of Hong Kong Social Service Company Limited (The)
105. Tung Wah Group of Hospitals
106. Union of Hong Kong Rehabilitation Agencies Workshop Instructor
107. Wai Ji Christian Service
108. Watchdog Ltd.
109. Yan Oi Tong
110. Yan Tin Baptist Church
111. Yuen Yuen Institute (The)
112. YWCA Staff Union

Report of the Consultancy Study on The Lump Sum Grant Subventions System

Executive Summary

September 2008



**Department of Social Work and Social Administration
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**Report of the Consultancy Study on
The Lump Sum Grant Subventions System
Executive Summary**

Study Background

1. The LSGIRC was formed on 18 January 2008 to review the Lump Sum Grant (“LSG”) Subvention System for providing social services. The mandate of the LSGIRC is to assess the overall effectiveness of the LSG Subvention System and to identify areas and scope for improvement.
2. The University of Hong Kong was commissioned to conduct a desktop study on the subvention experience of other countries, namely Australia, Canada, New Zealand, Singapore, and United Kingdom.

Study Objectives

3. The objectives of this evaluation study were to:
 - analyze LSG at a macro level by making reference to overseas experiences in their funding modes for the social welfare sector; and
 - make recommendations to enhance the effectiveness of current LSG.

Study Design

4. Due to time constraint, only five English speaking countries, United Kingdom, Canada, Australia, New Zealand and Singapore, were selected to examine their welfare subvention systems. In this desktop study, data collection was primarily internet based including information available in the internet and communication with relevant government departments, organizations and informants over the internet.

Lessons learned from the case of Australia

5. In the subvention system review which began in 1994 and ended in 1997¹, many elements of the system in Australia, particularly New South Wales, were brought to Hong Kong. For instance, the Service Performance Monitoring System including the Service Quality Standards implemented in 1999 was closely linked with the

¹ The Social Welfare Department commissioned the consultancy firm, Cooper and Lybrand, to conduct the subvention review.

Australian system at that time. Competitive bidding was introduced in Hong Kong from Australia in 1999, i.e. at the time when the Australia government had just begun to step back from extensive competitive bidding to renewal funding.

6. Two conclusions drawn from the recent review of the Australia system have some relevance to Hong Kong:

- The monitoring system only ensures accountability to government but not necessary to the public. This seems to apply to the system in Hong Kong too. However, no much reference related to what kind of reform in the Australia system was made to deal with this problem. Logically, outcome-based or impact-based monitoring system will make more sense to the public than output-based or input-based monitoring system.
- The use of performance indicators had been excessive and had diverted resources from improving service quality. Reduction of performance indicators and adjustment of monitoring efforts according to the level of risk of non-compliance were adopted to enhance efficiency of monitoring efforts.

7. Another very recent development in Australia is the development of the national Compact modeled after the U.K. experience. The aim of developing the Compact is to develop a framework that outlines how the Government and service sector can work together to improve and strengthen their relationship in the long run, and such compact will also spell out the general principles of funding and performance monitoring.

Lessons learned from the case of Canada

8. The “contributions” in Canada are similar to subvention in Hong Kong. We should also note that the “grants” in Canada that aim at providing organizational support and stability and enhancing capacity building is very similar to the component in subvention in Hong Kong that includes subsidy for central administration and supervision support.

9. In the recent few years, Canadian government has made numerous efforts to improve its grants and contributions system and the relationship between the NGO sector and the Government. Collaborative efforts are promoted from the formulation of social policy to the improvement of funding policy and practices. While the actual practices and improvement measures may or may not be applicable to the Hong Kong context, we should note the efforts of the Canadian government in using the

Joint Accord Table as a platform to develop collaborative efforts between the Government and the NGO sector.

Lessons learned from the case of New Zealand

10. In terms of percentage of funding, funding practice in New Zealand was like Hong Kong in the sixties and seventies, i.e. moving from partial funding to full funding. On the other hand, New Zealand used competitive bidding much earlier than Hong Kong. With lessons learned in the past, New Zealand has made improvements in its tendering process to reduce unnecessary cost in the tendering procedure.

11. One of the major recent efforts of the New Zealand Government was to integrate contracts for each NGO to reduce the efforts and resources spent on reporting to multiple funding sources and multiple programmes. This is very much similar to the discussion on the development service-based or agency-based Funding and Service Agreements (FSA) in Hong Kong instead of using individual programme or centre FSA.

Lessons learned from the case of Singapore

12. Because of the similarity between Hong Kong and Singapore in many aspects, we should take extra caution in reading the case of Singapore. We should take into consideration two important differences in social policies between Singapore and Hong Kong and these differences would have important implications for social welfare policies:

- Singapore has a Central Provident Fund with the highest combined (i.e. employer and employee) contribution rate of 34.5%.
- Singapore has a much higher percentage (85%) of population living in public/subsidized housing than that (49%) in Hong Kong².

13. Furthermore, we should note that while the welfare spending in both Singapore and Hong Kong has been increasing rapidly in recent years, the proportion of government spending in welfare in the two cities differs substantially. In the Singapore 2008 budget, the allocation to Ministry of Community Development, Youth and Sports constituted 3.6% of the total government budget, while for the

² These include rental housing and home ownership schemes under the Housing Authority and Housing Society.

Hong Kong 2008-09, the welfare allocation amounted to 16.6% of the total government spending.

14. Hong Kong and Singapore can always be seen as sister cities and both learn from one another from time to time. We can frequently find common elements in social policy from both cities. It is always difficult to tell whether it is Singapore that is learning from Hong Kong or it is vice versa.

15. The partial government funding model of Singapore resembled the older system in Hong Kong back in the seventies and existed till the 90's for the Elderly Centre and Multi-service Centres for the elderly. Similarly, the Funding and Service Agreements implemented in Singapore in 2002 resembles their counter parts in Hong Kong implemented in 1999. Moreover, the use of mid-point salary as the basis for calculation on the funding for the expenditure on manpower in Singapore probably mirrors its counter part in Lump Sum Grant in Hong Kong.

16. Singapore government has been trying to keep the "Many Helping Hands" approach to avoid the building of over reliance of NGOs toward financial support from the government, and most of the social service funding finally was administered by quasi government organizations Community Chest and NCSS.

17. In this study, we compared the HK Family Welfare Society (HKFWS) and the Care Corner of Singapore. We found that the HKFWS in comparison to Care Corner relies more heavily on the Government and less on the Community Chest, income derived from operations and donations.

	HKFWS	Care Corner
% of income from Subvention	88.5%	32.2%
% of income from Community Chest	1.5%	27.1%
% of income from donations	0.5%	3.8%
% of income derived from operations	4.7%	22.6%

18. The use of output-financing or called "per capita funding" in Singapore resembled the unit-rate subsidy system in Hong Kong, but apparently applied more extensively in residential services. Similarly, the use of means-testing in Singapore appeared to be relatively more extensive than that used in Hong Kong. If we take the unit rate and means-testing system used in Singapore together, it would resemble the discussed voucher system or "money-followed-the-person" in elderly residential

services in Hong Kong.

19. The Enhanced Programme Evaluation System (EPES) implemented in Singapore appeared to worth further study. The monitoring system in Singapore appeared to follow very closely with the Service Performance Monitoring System adopted in Hong Kong in 1999 and has ever since advanced further in the direction of impact and outcome assessment, and possibly moving into outcome-financing in the future.

Lessons learned from the case of United Kingdom

20. A constant evolution of the local authorities in UK began in the 19th century and the decentralization of welfare service provisions and funding to local authorities has a long history. This is always one of the major difficulties of trying to apply lessons learned in UK to Hong Kong.

21. Direct payment systems in UK and in elsewhere are one of the major developments in social welfare funding policies. Experience learned in UK reflected the complexity of interaction among users, service providers, funding bodies, and intermediates (such as care managers) between the users and service providers.

22. The *Compact on Relations between the Government and the Voluntary and Community Sector* published in 1998 led to a series of development redefining the relationship between the government and the NGO sector. Subsequently, through the platform of the Compact, there have been recommendations to improve on the funding policy and practices in U.K.

23. One minor point that we observed in the UK system is the recommendation to organizations to use the principle of full cost recovery including a portion of organization's core cost. This was not explicitly stated in other case studies.

Conclusions and Recommendations

Monitoring Effectiveness

24. While accountability of using public funds has been one of the major emphases in most reviews of funding arrangement in various countries, efforts have also spent

in reducing the unnecessary efforts spent in reporting as seen from the case of New Zealand and Canada. In the case of New Zealand, the effort extends to integrate contacts across different government departments. Though it may not be necessary for Hong Kong to go all the way as what New Zealand has been doing, at least integration of Funding and Service Agreements (FSA) within the same service (i.e. within the same branch of SWD) or within the same NGO (i.e. within SWD) should be possible

Complaint Handling

25. There is not much information related to complaint procedure found in this study. In the case of New Zealand, we found the complaint procedures for service providers against the funding bodies. In the case of UK, we found the complaint procedures for both service providers and the service users. In Hong Kong, the Service Quality Standards require the NGOs to develop complaint procedures to deal with complaints from users. While there is no standardized procedure for complaints against NGOs, current complaints are directed to either the District Offices of SWD or to the Director of Social Welfare, sometimes through District Council Members or Legislative Council Members. There is apparent need to develop a more comprehensive and standardized framework for complaint handling procedure for NGOs in Hong Kong.

Funding methods

26. In many countries, there are different modes of funding. Similarly, in Hong Kong, we have many different types of recurrent funding (excluding rent and rate subsidy), namely Lump Sum Grant (LSG), Hire of Service (i.e. contract for service), Modified Standard Cost/Model Cost, Unit Rate Subsidy, and general contribution³. However, if we take all of the above categories of funding together, LSG takes 91% while Hire of Service takes 7%⁴. The other types of funding are quite minimal. We have to consider whether LSG is suitable for most services or NGOs, particularly smaller NGOs

27. In this study, we noted the system of competitive bidding is a subject of reviews in several countries. Two major directions can be consistently found: the reduction

³ There is only one general contribution item, i.e. the contribution of \$128,000 to the United Nations Children Fund.

⁴ The term “subvention” usually excludes Hire of service. LSG constituted 99% of “Subvention”. The above figures are derived from the HKSAR Budget 2008-09, head 170 Social Welfare Department.

of excessive tender submissions which have consumed substantial resources from NGOs, and the increase in funding stability. The use of the “qualification” stage of tendering is quite common in Hong Kong to reduce the number of tender submissions to be submitted in the second stage. Competitive bidding used by the SWD can make reference to these practices.

28. Direct Payment is also one of the recent developments in many other countries using the “money following the user” principle. While it is definitely more complex than what just the principle implies, this is also an alternative system of funding that Hong Kong can consider.

29. One of the problems that are frequently observed in Hong Kong funding arrangement is the issue of full cost recovery. On the “principle” or the myth that funding should directly benefit the service users, many funding arrangements in Hong Kong ignored the simple fact that there are overhead costs, including administration and supervision support, for delivering any single item of service. As a result, there are substantial cross-subsidies across programmes of different sources of funding. For instance, under the LSG, there is a component of administration and supervisory support, though sufficiency of such financial support is debatable, such support is spread even thinner to cover other ad hoc programmes initiated by the Social Welfare Department, sources of government funding⁵, and self-funded programmes. The recommendation of UK system to ask organization to use the principle of full-cost recovery is worth adopting in Hong Kong.

Collaborations between the Government and NGOs

30. The concept of “partnership” has always been pronounced as the key element of the relationship between the Government and the NGO sector in Hong Kong prior to the conclusion of the subvention review in 1997, which stressed the importance of the “funding body” (Government) and “service provider” (NGO) relationship. We should also note that in the “Strategic Planning” conducted by the Health and Welfare Bureau in 2004 concluded that “Tripartite Partnership” (namely, the Government, the business sector, and the NGO sector) should be promoted as the major strategic direction.

31. The leverage on the NGOs to provide social welfare services to the community

⁵ One example is the student counselling services provided by NGOs to primary schools as funded by the Education Bureau.

is consistent with the “small government and large market” philosophy of the HKSAR Government. Thus, empowerment and capacity building of NGOs should always form the core strategic direction in social welfare. The close relationship between the NGOs and the Singapore government, the recent efforts of the Canadian and Australian government following the example of the UK government to strengthen the collaboration between the government and the NGO sector is definitely an important lesson for Hong Kong. We should also note that these efforts can be seen across countries in the European Union in recent years.

非政府社會服務機構

制定「具時限合約制僱傭政策」時的考慮範疇

香港社會服務聯會

員工是社會服務機構的重要資產，共同為服務使用者提供最佳服務而努力。機構無論聘用任何僱員時，應讓他們在較有前景、較有就業安全感的環境下工作。這不單能培養員工對機構的歸屬感亦可充分調動他們的積極性，提高工作士氣，長遠對社會服務發展有所裨益，讓整個界別得到社會大眾的支持。

近年，不少社會服務機構採用合約制僱傭政策，以提高機構在聘用員工方面的彈性。在平衡員工的穩定性與彈性方面，機構在設計其僱傭政策時，須考慮以下幾個範疇：

- 1. 合約時限** 機構若有需要開設「有時限性合約制」職位，要考慮合適的合約期時限，部份為一個特定的時限（如一年或兩年），部份亦與有關服務計劃的「時限」，或該計劃財政來源的「時限」相關。
- 2. 聘用條件** 機構聘用新的「有時限性」或「非時限性」合約僱員，須考慮可相比較的聘用條件。若兩類職位的聘用條件有需要出現差異，管理層、董事會、員工須保持溝通，並不時檢討。
- 3. 轉為非時限僱員** 為鼓勵表現良好的僱員繼續為機構服務，機構可考慮訂立制度，讓「有時限性的合約僱員」有一個可見的年期目標，為轉為「非時限性的合約僱員」職位的機會而努力工作。
- 4. 學歷年資** 社會服務質素會隨工作員的學歷及經驗累積而提昇。機構為促進服務水平持續提昇，在人事管理制度中，須考慮僱員的學歷及服務年資，以吸引人才。
- 5. 續約安排** 由於「合約制僱員」屬一份有時限性的僱傭契約，在接近約滿前，任何一方打算在約滿後不予續約的話，須盡量提早通知對方。雙方提出「不予續約」的通知期，一般會清楚載於僱員的合約條款內。

6. 終止合約責任 勞資任何一方向對方提出「不予續約」的「通知」，必須依照本港《僱傭條例》履行有關責任，如遣散費、長期服務金等。

明白社會服務機構需要更具體的資料，就以上的範疇，作適當的政策決定，因此社聯將於 08 年度，進行有關「合約制僱傭」實務的調查，讓機構掌握一般的實務安排，屆時歡迎機構踴躍參與。

註：社工工會一直要求不以「合約制」聘用沒有時限職位的員工，並按「政府薪級表」讓合約員工按年增薪，而「約滿」僱員則優先聘用。社聯明白機構有實際需要，以「具時限合約」聘用員工。由於機構情況各異，個別職位的需要亦不一樣，因此不可能制定一個劃一、適用於整個界別的「合約制僱傭」政策。然而，通過上述調查，機構可以參考一般採用的措施，決定本身合用的僱傭政策，有利於整個界別人力資源的長遠和穩定發展。

Reserve Position of NGOs receiving LSG as at 31 Mar 2007

LSG Reserve as a % of Op Exp	No. of NGOs
over 40%	43
35% to less than 40%	13
30% to less than 35%	19
25% to less than 30%	16
20% to less than 25%	15
15% to less than 20%	10
10% to less than 15%	7
5% to less than 10%	7
less than 5%	34
Total	164

LSG Reserve as a % of Op Exp	No. of NGOs
25% and Above	91
Below 25%	73
Total	164

Service Quality Standards (SQSs) and Criteria

Principle 1 : Provision of Information

The purpose and objectives of the service should be clearly defined and its mode of operations transparent for the benefit of staff, existing and potential service users, and the general community.

SQS 1 The service unit ensures that a clear description of its purpose, objectives and mode of service delivery is publicly available.

- 1.1 The service unit has an up-to-date handbook, information leaflet or brochure describing its purpose, objectives, target group, approach to service delivery and service entry and leaving mechanisms.
- 1.2 The service description is in a user-friendly language and is accessible to potential service users, staff and members of the community (depending on the nature of the service and its target service users, this may necessitate the information being available in more than one language; being in audio or visual format and/or being explained to service users on an individual basis).
- 1.3 Where appropriate, the service unit should circulate its service description to potential service users, staff, and relevant local services or community groups.

SQS 2 The service unit should review and update the documented policies and procedures describing how it will approach key service delivery issues.

- 2.1 The service unit has a mechanism to review and update its policies and procedures.
- 2.2 The service unit has a mechanism for obtaining service users and staff input in the process of reviewing and updating policies and procedures, as appropriate.

SQS 3 The service unit maintains accurate and current records of service operations and activities.

- 3.1 Accurate and current records of service operations and activities of the service unit are maintained.
- 3.2 Accurate and current statistical reports are produced for reporting to SWD.
- 3.3 Periodical statistics and reports on the service unit's performance are accessible to the public.

Principle 2 : Service Management

The service unit should manage its resources effectively and in a manner consistent with flexibility, innovation and continuous improvement in the quality of service delivered to service users.

SQS 4 The roles and responsibilities of all staff, managers, the Management Committee and/or the Board or other decision-making bodies should be clearly defined.

- 4.1 Job description and duty statements which define roles, responsibilities and accountabilities in respect of all positions within the service unit are available.
- 4.2 Job description and duty statements form part of the information accessible to all staff, service users and other interested parties.
- 4.3 The roles, responsibilities and membership of the Management Committee and/or the Board or other decision making bodies are clearly defined and documented.
- 4.4 The service unit has an organisation chart which depicts its overall structure and accountability relationships.

SQS 5 The service unit/agency implements effective staff recruitment, contracting, development, training, assessment, deployment and disciplinary practices.

- 5.1 The service unit/ agency has policies and procedures on staff (including part-time staff) recruitment, deployment and promotion, employment contracting and disciplinary actions, and such policies and procedures are accessible to staff.
- 5.2 The service unit/ agency has induction policy and procedures for new staff.
- 5.3 The service unit/agency provides on-going supervision for staff and conducts regular performance reviews/ appraisals for identifying areas for performance improvement and needs for ongoing training and development.
- 5.4 The service unit/agency has a training policy and a plan for staff training and development.

SQS 6 The service unit regularly plans, reviews and evaluates its own performance, and has an effective mechanism by which service users, staff and other interested parties can provide feedback on its performance.

- 6.1 The service unit develops and documents appropriate plans to guide its operations and provide a basis for evaluating its performance.
- 6.2 The service unit has policy and procedures for obtaining feedback from service users, staff and other interested parties on its performance and for responding to such feedback, and such policy and procedures are accessible to them.
- 6.3 Action is taken in response to performance / quality issues identified during review and evaluation processes.

SQS 7 The service unit implements policies and procedures to ensure effective financial management.

- 7.1 The service unit has procedures for developing and endorsing budgets.
- 7.2 The service unit has policy and procedures to manage financial resources and monitor financial performance.
- 7.3 The service unit has procedures to regularly consider opportunities for introducing efficiencies/containing cost.

SQS 8 The service unit complies with all relevant legal obligations.

- 8.1 The service unit is aware of all legislation which governs its operations and service delivery (including health and safety legislation, etc.).
- 8.2 The service unit has procedures to monitor its performance ensuring that it complies with relevant legislation and seeks legal advice if and when required.

SQS 9 The service unit takes all reasonable steps to ensure that it provides a safe physical environment for its staff and service users.

- 9.1 Fire, and other necessary safety equipment, is available and effectively maintained.
- 9.2 Staff and service users are made aware of procedures for responding to an emergency and fire drills are conducted on a regular basis, at least annually.
- 9.3 The service unit regularly reviews its immediate and broader environment to identify safety issues and ensures that appropriate strategies for managing them are developed and implemented.
- 9.4 A record is kept of any accidents or injuries involving staff and/or service users at the service unit and the manner of responding to such incidents.
- 9.5 If the service unit is involved in transporting service users, all relevant road and traffic safety precautions are taken.
- 9.6 The service unit ensures that any service equipment is properly maintained and, where appropriate, is used under proper supervision.

Principle 3 : Service to Users

The service unit should identify and respond to specific service users' needs.

SQS 10 The service unit ensures that service users have clear and accurate information about how to enter and leave the service.

- 10.1 The service unit has policies and procedures in relation to entering and leaving the service and they are accessible to service users, staff or other interested parties.
- 10.2 The entry policy is non-discriminatory and clearly identifies the target group for service delivery and the criteria for determining priority for entry.
- 10.3 Where an applicant is refused entry to a service, the service unit provides the applicant with reasons for the decision and, where appropriate, refers the applicant to an alternative service unit.

SQS 11 The service unit has a planned approach to assessing and meeting service users' needs (whether the service user is an individual, family, group or community).

- 11.1 The service unit has policy and procedures in relation to assessing and meeting service users' needs, and they are accessible to service users, staff or other interested parties.
- 11.2 Service users, relevant staff, family members or other relevant personnel are consulted and, where appropriate, their views are incorporated in all stages of the assessment and planning process.
- 11.3 The service unit records assessment of service users' needs and plans as to how they will meet their needs, including goals, action identified and timeframes for achieving or reviewing plans.
- 11.4 Service users' records are regularly updated to reflect changing circumstances.

Principle 4 : Respect for Service Users' Right

The service unit should respect the rights of the service users in all aspects of service operations and delivery.

SQS 12 The service unit respects the service users' right to make informed choices of the service they receive as far as practicable.

- 12.1 The service unit has policy and procedures to provide service users with timely information about operations which affect the services received by them.
- 12.2 The service unit has policy and procedures for providing service users with opportunities, if appropriate, to make informed choices and decisions about the services they receive, and such policy and procedures are accessible to them.

SQS 13 The service unit respects the service users' rights in relation to private property.

- 13.1 The service unit has policy and procedures for ensuring that service users' rights in relation to private property are being respected, and the policy and procedures are accessible to service users, staff or other interested parties.
- 13.2 Where appropriate, the service unit provides service users with the opportunity to keep private property in a secure place, or informs service users of the risks to their personal property.
- 13.3 Where the service unit has any responsibilities for collecting and/or managing the service users' money and other valuables, appropriate procedures and controls exist and are adhered to.

SQS 14 The service unit respects the service users' rights for privacy and confidentiality.

- 14.1 The service unit has policy and procedures, where practicable, for ensuring that the privacy and dignity of individual service users are being respected, and the policy and procedures are accessible to service users, staff or other interested parties.
- 14.2 The service unit ensures that any personal care activities which may be required are conducted, where practicable, in a manner which respects the privacy and dignity of individual service users.
- 14.3 The service unit has policy and procedures for ensuring that service users' rights on confidentiality are being respected, and the policy and procedures are accessible to service users, staff or other interested parties.

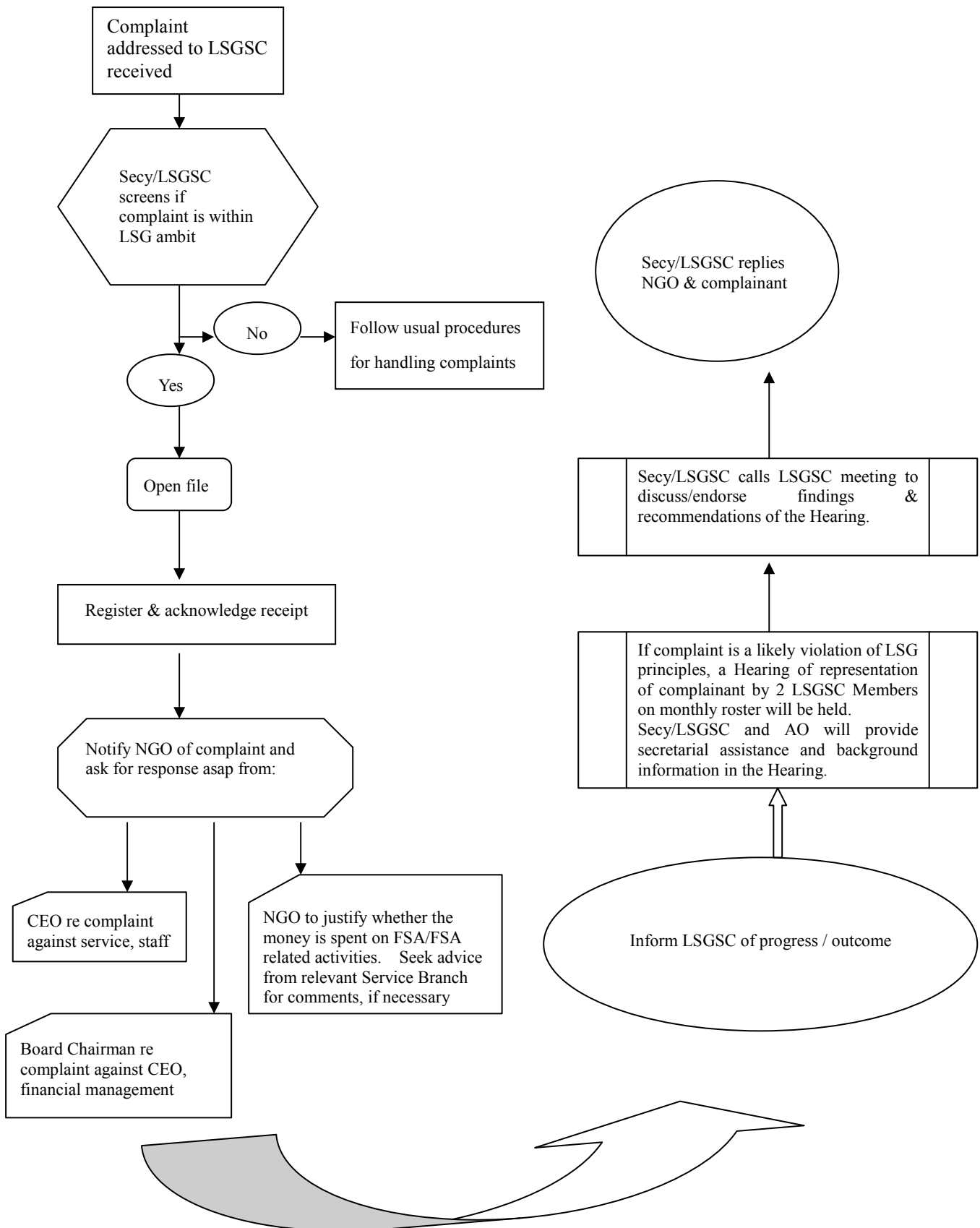
SQS 15 Each service user and staff member is free to raise and have addressed, without fear of retribution, any complaints he or she may have regarding the agency or the service unit.

- 15.1 The service unit has policy and procedures in relation to handling complaints and they are accessible to service users, staff or other interested parties.
- 15.2 The service unit's procedures for handling complaints:
 - include timeframes within which action will be taken in response to any complaints raised,
 - identify necessary staff actions and specify who will be responsible for dealing with the complaints, and
 - indicate how/when feedback will be provided to the service users.
- 15.3 Service users are informed of their rights to, and procedures involved in, raising complaints and having these addressed.
- 15.4 The service unit encourages and provides opportunities for service users to discuss service delivery issues and to freely raise any concerns they may have.
- 15.5 Any complaints raised and actions taken to resolve complaints are documented.

SQS 16 The service unit takes all reasonable steps to ensure that service users are free from abuse.

- 16.1 The service unit has policy and procedures for ensuring that service users' rights to freedom from verbal, physical and sexual abuse are being respected, and the policy and procedures are accessible to service users, staff or other interested parties.
- 16.2 Staff of the service unit are aware of its policy and procedures on protecting service users' rights to freedom from abuse.
- 16.3 Staff and service users are encouraged to raise any concerns about verbal, physical or sexual abuse and are given appropriate opportunities to do so.

Flowchart on how LSGSC Handles Complaints against NGOs



Glossary

AFR (Annual Financial Report)

An NGO must prepare an AFR in respect of all its FSA activities (including support services to FSA activities) funded by LSG, other social welfare subventions and other income.

Agency Officer (AO)

To facilitate communications between NGOs and the SWD, the Subventions Branch of the SWD has designated an AO for each NGO.

Benchmark

An NGO's benchmark is the sum of its snapshot staff salaries at mid-point on the civil servant master pay scales as at 31 March 2000.

Block Grant

Block Grant is a grant from Lotteries Fund for subvented welfare services. It is used for the replenishment of furniture & equipment and minor works for existing premises.

Business Improvement Project Scheme (BIP Scheme)

BIP Scheme is supported by the Lotteries Fund to help individual NGOs improve the efficiency of their management and service delivery.

Community Investment and Inclusion Fund (CIIF)

In the 2001 Policy Address, the former

辭彙

周年財務報告

非政府機構必須就其津貼及服務協議規定的所有服務(指獲整筆撥款、其他社會福利津貼或其他收入資助的服務,包括此等服務的支援服務),擬備周年財務報告。

機構主任

為促進非政府機構與社署之間的溝通,社署津貼科為每間非政府機構指派一名機構主任。

基準

非政府機構撥款的基準是按二零零零年三月三十一日適用的公務員總薪級表中點薪金推算所得的定影員工薪酬總和。

整體補助金

整體補助金是獎券基金為津助福利服務提供的資助,用作補充家具及設備和為現有處所進行小型工程。

業務改進計劃

此計劃由獎券基金資助,旨在協助個別非政府機構改善其管理效率和服務質素。

社區投資共享基金

前行政長官在二零零一年施政報告中公布,政府成立一項三億元的

Chief Executive announced the setting up of a \$300 million CIIF. This CIIF provides seed money to support the collaborative efforts of community organisations and the private sector. The fund aims to encourage mutual concern and aid among people, promote community participation at the local level and support cross-sectoral programmes to develop social capital.

Competitive bidding

The commissioning of service through a bidding process open to both NGOs and the private sector at a fixed cost.

Conventional mode

A subvention mode which takes the form of a Model System and Modified Standard Cost System under which SWD imposes input controls with regard to NGOs' staffing structures, levels of pay and individual items of expenditure.

District Elderly Community Centre (DECC)

A District Elderly Community Centre (DECC) is a type of community support service at district level to enable elders to remain in the community and to lead a healthy, respectful and dignified life. DECCs also collaborate with other service units in the district and cooperate to build a caring community with better use of community resources.

Efficiency Savings (ES)

As financial pressures did not subside after 2002-03, the Government required the entire public sector to achieve further savings

社區投資共享基金。社區投資共享基金是一項種子基金，支持社區團體、商界等機構之間的合作。基金旨在鼓勵市民彼此關心，互相幫助，推動社區參與，並推動跨界別的合作，以期建立社會資本。

競爭性投標

透過公開競投方式委聘非政府機構及私營機構承辦服務，條件是須以固定成本承辦服務。

傳統資助模式

指模擬成本資助模式及修訂標準成本資助模式。在此等資助模式下，社署就非政府機構的人手編制、薪酬水平及個別開支項目設定資源投入控制。

長者地區中心

長者地區中心是一種地區層面的長者社區支援服務，目的是幫助長者在社區過著健康、受尊重及有尊嚴的生活。此外，長者地區中心亦聯繫地區上各服務單位，更有效地運用社區資源，共同建立一個關懷長者的社區。

節約措施

政府的財政壓力在二零零二至零三年度之後未有減輕，因此要求所

under ES in the years that followed.

Enhanced Productivity Programme (EPP)

Under EPP, the entire public sector, across-the-board, was required to meet a recurrent savings target of 5% within three years, from 2000-01 to 2002-03, to cope with the tremendous financial pressure facing the Government.

Enhancing Employment of People with Disabilities through Small Enterprise Project

The Project provides seed money to NGOs to support the creation of small enterprises to ensure that people with disabilities can enjoy genuine employment in a carefully planned and sympathetic working environment. The ceiling of grant is \$2 million per business and the maximum funding period is two years. The business is expected to become self-sustaining after two years' operation.

Enhancing Self Reliance through District Partnership

The Programme provides seed money to NGOs to support Social Enterprise (SE) projects that promote self-reliance of the socially disadvantaged. The funding ceiling for each project is \$3 million and the maximum funding period is two years. After the funding period, the SEs have to maintain sustainability and operate on a self-financing basis.

Funding and Service Agreements (FSAs)

A FSA is drawn up for each of the subvented

有公營機構在隨後數年推行節約措施，進一步節省開支。

資源增值計劃

根據資源增值計劃，所有公營機構均須在三年內(由二零零零／零一年度至二零零二／零三年度)達到節省 5%經常開支的目標，以紓緩政府當年面對的沉重財政壓力。

創業展才能計劃

這項計劃提供種子基金，協助非政府機構開設小型企業，確保殘疾人士可在一個妥善安排而且氣氛融洽的工作環境中真正就業。非政府機構就每項業務可申請的最高撥款額為 200 萬元，最長的資助期為兩年，預計這些業務在經營兩年後可以自負盈虧。

伙伴倡自強社區協作計劃

這項計劃提供種子基金，支持非政府機構推行社會企業計劃，協助弱勢社群自力更生。非政府機構就每項計劃可申請的最高撥款額為 300 萬元，最長的資助期為兩年。在資助期結束後，有關的社會企業應可持續發展及以自負盈虧的方式繼續經營。

津貼及服務協議

為由非政府機構營辦的每項受資

services operated by NGOs. It defines the welfare services to be provided and the required performance standards in terms of quality, performance output as well as essential service requirements.

Independent Complaints Handling Committee (ICHC)

An independent body recommended by the LSGIRC to handle LSG-related complaints that cannot be satisfactorily addressed at the NGO level.

In-situ expansion

The expansion of existing service units operated by the NGOs concerned.

Integrated Family Service Centre (IFSC)

Integrated Family Service Centres (IFSCs), operated by the Social Welfare Department and subvented non-government organisations (NGOs), are a new service delivery model to deliver family service in Hong Kong. They aim at providing comprehensive, holistic and one-stop services to meet the multifarious needs of individuals and families in the community. An IFSC consists of a family resource unit, a family support unit and a family counselling unit. There is an extensive network of 61 IFSCs over the territory and two Integrated Services Centres in Tung Chung to provide a continuum of preventive, supportive and remedial services under child-centred, family-focused and community-based directions.

Invitation of proposals

The SWD invites suitable NGOs to submit

助服務訂立的協議。協議除了述明所提供的福利服務的定義外，還訂明必須達到的服務表現水平，包括服務質素、服務量和基本服務的規定。

接受投訴獨立委員會

整筆撥款獨立檢討委員會建議成立的獨立組織，主要負責處理非政府機構未能妥善解決的整筆撥款投訴。

原址擴展現有服務

擴充有關非政府機構的現有服務單位。

綜合家庭服務中心

由社會福利署及受資助非政府機構營辦的綜合家庭服務中心是一項嶄新的家庭服務模式，旨在為個人和家庭提供全面、整全和一站式的服務以滿足社區個人及家庭各式各樣的需要。綜合家庭服務中心由家庭資源組、家庭支援組和家庭輔導組整合而成。現時分佈全港的61間綜合家庭服務中心及兩間設於東涌的綜合服務中心，均從「兒童為重、家庭為本、社區為基礎」的服務方向而提供一系列預防、支援和補救性的服務。

邀請提交建議書

社署邀請合適的非政府機構提交

proposals for the operation of a particular service at a level of funding determined by the SWD.

Lotteries Fund (LF)

The Lotteries Fund was created in June 1965 by Resolution of the Legislative Council for the purpose of financing social welfare services. The fund is primarily used to finance the capital expenditure of welfare projects and provide one-off grants to experimental projects with limited duration.

Lotteries Fund Advisory Committee (LFAC)

The body advise the Director of Social Welfare on applications from welfare organisations for allocations from the Lotteries Fund and on charitable fund-raising issues including the allocation of flag days.

Lump Sum Grant Independent Review Committee (LSGIRC)

An independent review committee tasked to assess the overall effectiveness of the LSGSS and identify areas and scope for improvement.

Lump Sum Grant Manual (The Manual)

A manual on the operation of the lump sum grant subvention system.

Lump Sum Grant Reserve

NGOs must keep unspent LSG in a Reserve Fund and report to SWD as part of their LSG Annual Financial Report.

建議書，按社署訂定的資助水平營辦某項服務。

獎券基金

一九六五年六月，立法局通過設立獎券基金的決議案，以資助社會福利服務。該基金主要用以支援各項福利計劃的非經常開支，及補助有期限的試驗計劃。

獎券基金諮詢委員會

委員會就福利團體要求獎券基金撥款及慈善籌款事宜包括舉行售旗籌款之申請，向社會福利署署長提供意見。

整筆撥款獨立檢討委員會

成立此獨立檢討委員會的目的是評估整筆撥款津助制度的整體成效及找出有待改善的地方及範疇。

整筆撥款手冊

整筆撥款津助制度的運作手冊。

整筆撥款儲備

非政府機構必須把整筆撥款中未動用的款項撥入儲備基金，並須在年度財務報告中向社署申報。

Lump Sum Grant Steering Committee (LSGSC)

The LSGSC was set up to monitor the progress of LSG implementation; to receive representations from NGOs, staff and service users; to discuss and suggest solutions to problems arising from implementation of LSG; and to facilitate communication and sharing of information and experience among SWD, NGOs and staff in the social welfare field in the LSG environment.

Master Pay Scale (MPS)

The scale under the heading "Master Pay Scale" in the Civil Service Pay Scales published by the Secretary for Civil Service. Civil servants are remunerated on the pay scales of their respective grade and rank.

Mid-point Salaries

The mid-point salaries of the MPS as at 31 March 2000 of NGOs' recognised establishment as at 1 April 2000.

Non-Government Organisations (NGOs)

NGOs in this report refer to non-government organisations in the social welfare sector.

Notional Staffing Establishment

The recognised staffing establishment of an NGO's subvented service units in the pre-LSGSS era as at 1 April 2000.

Other Charges (OC)

Category of non salary-related costs.

整筆撥款督導委員會

成立此委員會的目的是監察整筆撥款的推行進度，聆聽非政府機構、員工及服務使用者的申述，討論推行整筆撥款制度時產生的問題及建議解決方法，以及在整筆撥款制度下，協助社署、非政府機構及福利界的員工之間的溝通和資訊與經驗的交流。

總薪級表

以總薪級表為名的薪級表，屬公務員事務局局長公布的公務員薪級表之一。公務員是根據其所屬職系和職級的薪級表獲發薪酬的。

中點薪金

指二零零零年三月三十一日薪級表的中點薪金，適用於非政府機構二零零零年四月一日的認可人手編制。

非政府機構

本報告提及的非政府機構是指社會福利界別內的非政府機構。

估計人手編制

指二零零零年四月一日時，非政府機構受資助服務單位在整筆撥款津助制度推行前的認可人手編制。

其他費用

與薪酬無關的成本

Personal emoluments (PE)

Category of salary-related costs.

個人薪酬

與薪酬有關的成本

Service Performance Monitoring System (SPMS)

A system jointly introduced by SWD and subvented NGOs to ensure the provision of quality social welfare services to the public, and to increase the accountability of delivering welfare services

服務表現監察制度

由社署及受資助非政府機構合作推行的制度，旨在確保能為市民提供優質的福利服務，以及加強提供福利服務的問責性。

Service Quality Standards (SQSs)

The SQSs define the level of quality in terms of management and service provision which units are expected to attain.

服務質素標準

服務質素標準訂明服務單位在管理和提供服務方面應達到的質素水平。

Snapshot Staff

Staff on the recognised establishment of NGOs' subvented service units in the pre-LSGSS era as at 1 April 2000.

定影員工

定影員工是指於二零零零年四月一日時，在非政府機構的受資助單位擔任認可資助職位的員工。

Social Enterprises Partnership Programme

The programme provides a platform to enhance and facilitate partnership among different sectors of the community through a matching forum and the SEs Mentorship Scheme. Interested business organisations can team up with NGOs to establish SEs or to partner with SEs. The partnership can be in the form of outsourcing certain operations (e.g. cleansing service) to the SEs; providing concessionary rental of their premises, vacant land for use by the SEs; and allowing SEs access to their clients, etc. The Mentorship Scheme aims to provide SEs with business advisory services to enhance their competitiveness.

社會企業伙伴計劃

這項計劃透過提供配對平台和推行社會企業師友計劃（師友計劃），加強並促進社會上屬不同界別的機構之間的合作。有意合作的商業機構可以伙拍非政府機構成立社會企業或與社會企業合作，合作形式可包括由商業機構把某些工作（例如清潔服務）外判給社會企業，或提供優惠租金，讓社會企業租用其物業或空置用地，以及容許社會企業接觸其客戶等。師友計劃則旨在為社會企業提供營商顧問服務，藉以提升其競爭力。

Social Welfare Advisory Committee (SWAC)

The SWAC is appointed by the Chief Executive to keep social welfare services under continuous review and to advise the Government, through the Secretary for Labour and Welfare, on all matters of social welfare policy.

Social Welfare Development Fund

One of the recommendations of LSGIRC is to set up a Social Welfare Development Fund to support training, capacity enhancement initiatives and service delivery enhancement studies.

Special One-off Grant (SOG)

Upon the cessation of TOG, the SWD put forward the SOG to NGOs in 2006-07 to provide greater flexibility and more time for NGOs management in making whatever necessary adjustments to meet their financial and/or staff commitments in the long run.

Tide-over Grant (TOG)

The Government provided a one-off TOG to NGOs for five years from 2001-02 to 2005-06, to ensure that they had adequate funds to meet their contractual commitment to the Snapshot Staff and had sufficient time to adapt to the new funding system through organisation restructuring and service reengineering.

Turnover (according to the Joint Committee on Social Work Manpower Requirements (2007))

社會福利諮詢委員會

此委員會由行政長官委任，負責持續監察社會福利服務，並透過勞工及福利局局長，就各項社會福利政策事宜向政府提供意見。

社會福利發展基金

整筆撥款獨立檢討委員會提出的建議之一，是成立社會福利發展基金，資助推行培訓計劃、提升能力的措施和提升服務質素的研究。

特別一次過撥款

在過渡補貼期屆滿後，社署於二零零六至零七年度向非政府機構提供特別一次過撥款，使有關機構的管理層可更靈活及有更多時間採取必要的調整措施，以便長遠來說可履行財務承擔及／或對員工的承諾。

過渡期補貼

政府在二零零一／零二年度至二零零五／零六年度的五年間，向非政府機構提供一次過的過渡期補貼，以確保有關機構有足夠資源履行對定影員工的合約承諾，以及有足夠時間透過重組架構和重整服務，適應新的津助制度。

離職（社會工作人力需求聯合委員會（2007）所下的定義）

Refers to the number of “occurrences” of SWP (social work personnel) leaving any organisation for whatever reasons in the specified period, regardless of whether they have rejoined / would rejoin the field again. *(If a worker has resigned from more than one job or resigned from more than one organisation during the period, he / she would be counted more than once depending on the total number of jobs that he / she has left.)*

Wastage (according to the according to the Joint Committee on Social Work Manpower Requirements (2007))

Refers to the number of turnover cases less the number of re-entrant cases in a year.

指社工人員在某段期間，因任何理由離開服務機構的「次數」，不論他們會否重投社工界。（如某人員在該段期間辭去超過一份工作或離開超過一間服務機構，該人員會被重複計算，計算次數視乎其離職的總次數而定）。

流失（社會工作人力需求聯合委員會（2007）所下的定義）

指某年內離職的人數減去重投社工界的人數。