

立法會
Legislative Council

LC Paper No. CB(2)2269/11-12(04)

Ref : CB2/PL/WS

Panel on Welfare Services

**Updated background brief prepared by the Legislative Council
Secretariat for the meeting on 11 June 2012**

Review of the Lump Sum Grant Subvention System

Purpose

This paper provides background information on the review of implementation of the Lump Sum Grant subvention system ("LSGSS") and summarises the discussions of the Panel on Welfare Services ("the Panel") on the subject matter.

Background

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

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

4. In October 1999, the Administration presented to the Social Welfare Advisory Committee initial proposals to introduce a new funding arrangement in the form of a Lump Sum Grant ("LSG"). Under the proposed LSG package, the benchmark for each NGO would be determined on the basis of mid-point salaries of the pay scales of its recognized establishment as at 1 April 2000, plus the sector-wide average Provident Fund employer's contribution of 6.8%. Secondly, a snapshot of staff strength of each NGO as at 1 April 2000 and its Personal Emolument subvention for 2000-2001 under the existing subvention mode would be taken and projected. To address the welfare sector's concern that LSG might not provide sufficient funds to meet their contractual commitments to the existing staff, the Administration proposed the introduction of a Tide-Over Grant ("TOG") Scheme to address any possible problems arising from the need to meet contractual obligations to serving staff for salary increments and Provident Fund contributions in the first three years. Taking into consideration the comments received at the end of the consultation period in May 2000, the Administration extended the TOG period from three years to five years.

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

6. In the light of the findings and recommendations of a survey conducted by an external independent consultant on NGOs' projected financial condition after the TOG period and their need for financial assistance, the Administration proposed to provide a Special One-off Grant ("SOG") in 2006-2007 to NGOs following the termination of TOG. Members were advised that SOG was intended to provide greater flexibility to and more time for the NGO management to make the necessary adjustments to meet their financial and/or staff commitments in the long run. Invitations for SOG applications were made to eligible NGOs in August 2005.

7. According to the Administration, as at 1 April 2012, 164 out of 171 subvented NGOs have joined the LSG subvention mode on a voluntary basis.

Deliberations of the Panel

8. In the light of the strong views from the welfare sector, the Panel had time and again discussed with the Administration the review of LSGSS.

Reconvening of the LSG Steering Committee ("LSGSC")

9. At its meeting on 29 October 2007, the Panel discussed with the Administration and received views from 23 deputations on the implementation

of LSGSS. Deputations attending the meeting strongly urged the Administration to, among other things, reconvene LSGSC and set up an independent committee to review LSGSS without further delay. Members shared the deputations' views and suggestions. They took the view that the grievances expressed by the subvented welfare sector were rooted in the implementation of LSGSS. Members also urged the Administration to provide a concrete timetable for the review.

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

11. The Administration further advised that the Director of Social Welfare ("DSW") had re-convened LSGSC in August 2007, with a view to further enhancing LSGSS and assisting NGOs in its implementation. Chaired by DSW, LSGSC comprised representatives of NGOs management, staff unions and service users. The sector had made a number of proposals for enhancing LSGSS, including –

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

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

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

13. Members expressed dissatisfaction at the Administration's reluctance to set up an independent committee to review LSGSS. To facilitate members'

future discussion, the Panel requested the Research and Library Services Division ("RLSD") of the Legislative Council ("LegCo") Secretariat to prepare an information note on the impact of LSGSS on the subvented welfare sector. The information note prepared by RLSD of the LegCo Secretariat was issued to members vide IN14/07-08 on 9 May 2008. The Panel also invited public views on the subject. A total of 76 submissions from the welfare sector and members of the public were received.

Interim facilitating measures

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

- (a) starting from 1 January 2008, all new services to be implemented by subvented NGOs were no longer subject to the effect of Enhanced Productivity Programme and Efficiency Savings;
- (b) new services implemented since April 2000 with PE of some grades set below the mid-point were adjusted upwards to the mid-point salary starting from 1 April 2008;
- (c) the Lotteries Fund Advisory Committee had approved a one-off subsidy of \$200 million for subvented NGOs to strengthen support and training for staff and enhance service quality; and
- (d) starting from 2008-2009, NGOs had to reduce the Snapshot Salary by 2% each year until it came down to the Benchmark Salary. SWD had allowed 26 subvented NGOs which had genuine difficulties in implementing the "coming down" requirement in 2008-2009 to defer it for one year, i.e. to 2009-2010.

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

LSG Independent Review Committee ("LSGIRC")

16. The Administration announced on 18 January 2008 the establishment of a

LSGIRC to review the implementation of LSGSS. The committee comprised a non-official chairman and four members with different backgrounds. LSGIRC was tasked to assess the overall effectiveness of LSGSS and identify areas and scope for improvement.

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

18. While welcoming the setting up of LSGIRC to review LSGSS, members remained of the view that the implementation of LSGSS had brought about many problems to the subvented welfare sector, such as poor corporate governance of some NGO management, staff grievances, and deteriorating partnership between the Administration and the sector. They strongly urged the Administration to take immediate actions to address the problems while awaiting the outcome of the review of LSGSS.

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

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

Response of the Administration to the LSGIRC Review Report

21. At its meeting on 9 February 2009, the Panel was briefed on the Administration's response to the Review Report and its recommendations.

Members were advised that the Administration agreed with LSGIRC that LSGSS could be improved and accepted in principle all its 36 recommendations. The Administration would take forward the more straightforward recommendations, such as those having no resource implications, as soon as practicable and hoped to introduce most of the new initiatives by the end of 2009. It also agreed in principle to take forward some of the other recommendations having resource and other significant implications, as it had to seek funding approval as necessary and consult the sector on how best these recommendations might be taken forward.

22. Pointing out that the Best Practice Manual was the primary initiative put forward by LSGIRC to improve the corporate governance and human resource policies of NGOs, most members took the view that the Best Practice Manual should be binding on NGOs to ensure the effectiveness of the manual, and its compliance by NGOs.

23. The Administration advised that the reconstituted LSGSC would work with the sector in drawing up a Best Practice Manual for NGOs on various management issues as recommended by LSGIRC. Should NGOs deviate significantly from the guidelines set out in the Best Practice Manual at the expense of service quality, this would be made known to the public. This would exert pressure on the NGOs concerned. In addition, NGOs with a poor track record would be in a less favourable position when they submitted bids for new services. As regards the concern on ways to enhance the compliance with the Best Practice Manual, the Administration advised that it would be a matter for the reconstituted LSGSC to consider in the course of drawing up the manual.

24. Some members expressed doubt about the effectiveness of the 36 recommendations in addressing the problems in the welfare sector, notably the poor staff morale, high staff turnover rate and deteriorating service quality in the sector. These members were of the view that the LSGSS per se was ineffective and urged the Administration to critically overhaul the system.

25. The Administration stressed that it agreed with LSGIRC that LSGSS was worth retaining, and every effort would be made to improve it. The 36 recommendations were inter-related and could complement each other in bringing about improvements to the system. Hence, the Administration would retain LSGSS and take forward the recommendations in the Review Report to enhance the system in concert with the welfare sector.

26. Members remained of the view that the Administration had failed to make concrete responses to address the problems arising from the implementation of LSGSS. At the meeting on 9 February, 2009, the Panel passed a motion urging the Administration to address expeditiously the problems arising from

the implementation of LSGSS, implement concrete measures to resolve the problems in the social welfare sector such as unequal pay for equal work, chaotic staffing establishment and low staff morale, and enhance monitoring of the operation of all subvented services. The Administration was requested to report progress to the Panel regularly.

Implementation of LSGIRC recommendations

27. At its meeting on 14 May 2010, the Panel was briefed on the progress of the implementation of the recommendations made by LSGIRC. According to the Administration, the implementation of the LSGIRC recommendations followed the planned schedule: of the 36 recommendations, 33 were implemented by the end of 2009, and the remaining three in January 2010. The Administration drew members' attention to the fact that some of the recommendations, including drawing up the Best Practice Manual for NGOs, making available an actuarial service for NGOs and setting up a \$1 billion Social Welfare Development Fund ("SWDF") to support training and capacity enhancement initiatives would require a longer time span to accomplish. The Administration would work closely with the reconstituted LSGSC to ensure that these recommendations were implemented in accordance with the respective objectives designated by LSGIRC.

28. The majority of members were of the view that the Review Report had not thoroughly resolved the problems arising from the implementation of LSGSS, such as the practice of capping staff salaries at the mid-point of the corresponding civil service pay scale, the offer of time-limited employment contracts and high staff wastage and turnover in NGOs. While noting that the reconstituted LSGSC would work with the sector in drawing up a Best Practice Manual for NGOs on various management issues as recommended by LSGIRC, members expressed grave concern about the compliance of the Manual given that it was non-binding on NGOs.

29. The Administration advised that to take forward the recommendations of LSGIRC, SWD had increased the number of review visits and introduced surprise visits in the three-year monitoring cycle of 2009-2012 and conducted additional on-site visits for the investigation of complaints. The One-in-Ten principle was adopted for selecting NGOs for either review visit or surprise visit. Further inspections of NGOs would be conducted upon receipt of complaints.

30. Members remained concerned about the salary adjustment arrangements adopted and the excess reserves kept by subvented NGOs. Although the Administration had explained that since the inception of LSGSS, NGOs could devise and implement their own staffing and remuneration structures to best suit their unique financial management and human resource management needs in

accordance with the performance standards and conditions stipulated in the Funding and Service Agreements, some members considered that the Administration should introduce measures to ensure the use of subventions solely for subvented services. Consideration should be given to imposing a clear condition on the exclusive use of the additional funding provided in line with the civil service pay adjustments for the increase of salary for NGO staff.

31. On members' concern about the setting up of the \$1 billion SWDF, the Administration advised that Lotteries Fund Advisory Committee had granted approval-in-principle in November 2009 for setting up SWDF. Briefing sessions for NGOs had been held in January 2010. NGOs could submit their applications for SWDF in Phase 1 during the application period from 15 January to 30 June 2010.

32. Some members sought information on the rationale for involving only one NGO in the pilot actuarial study. The Administration explained that the pilot actuarial study would be conducted on a large NGO with an annual LSG of more than \$5 million. The NGO concerned would have to share its experience of participating in the pilot study with other NGOs subvented under LSGSS before the launch of the Second Round Actuarial Study, tentatively scheduled for 2011-2012.

33. The Administration will brief members on the latest progress of the implementation of recommendations of LSGIRC at the Panel meeting on 11 June 2012.

Relevant papers

34. A list of the relevant papers on the Legislative Council website is in the **Appendix**.

Appendix

Relevant papers on the review of the Lump Sum Grant Subvention System

Committee	Date of meeting	Paper
Panel on Welfare Services	13 December 2004 (Item VI)	Agenda Minutes
Panel on Welfare Services	2 June 2005 (Item II)	Agenda Minutes
Panel on Welfare Services	11 July 2005 (Item III)	Agenda Minutes
Panel on Welfare Services	8 November 2005 (Item II)	Agenda Minutes
Panel on Welfare Services	30 March 2006 (Item II)	Agenda Minutes
Panel on Welfare Services	10 July 2006 (Item III)	Agenda Minutes
Panel on Welfare Services	11 June 2007 (Item VI)	Agenda Minutes
Panel on Welfare Services Panel on Health Services	25 June 2007 (Item II)	Agenda Minutes
Panel on Welfare Services	29 October 2007 (Item I)	Agenda Minutes
Panel on Welfare Services	17 March 2008 (Item V)	Agenda Minutes
Panel on Welfare Services	16 May 2008 (Item IV)	Agenda Minutes
Panel on Welfare Services	19 December 2008 (Item I)	Agenda Minutes

Committee	Date of meeting	Paper
Panel on Welfare Services	12 January 2009 (Item VI)	Agenda Minutes
Panel on Welfare Services	17 January 2009 (Item I)	Agenda Minutes
Panel on Welfare Services	9 February 2009 (Item IV)	Agenda Minutes
Panel on Welfare Services	14 May 2010 (Item V)	Agenda Minutes

Council Business Division 2
Legislative Council Secretariat
5 June 2012