

**Meeting of the Public Accounts Committee of the Legislative Council  
on 12 December 2017**

**Director of Audit's Report No. 69  
Chapter 1: Administration of lump sum grants  
by the Social Welfare Department**

**Opening Remarks by the Secretary for Labour and Welfare  
(English Translation)**

Chairman,

The Government accepts the recommendations in Chapter 1 of the Director of Audit's Report No. 69 on the administration of lump sum grants by the Social Welfare Department (SWD). The SWD will follow up with the sector on the recommendations to strengthen financial monitoring, self-assessment of service quality by non-governmental organisations (NGOs), monitoring of service delivery by the SWD, and the governance and management of NGOs under the Lump Sum Grant (LSG) Subvention System. The Government will also collaborate with the sector to conduct a review on how to optimise the LSG Subvention System.

2. Regarding the implementation of the LSG Subvention System, the key follow-up actions to be taken by the SWD include: -

- (i) examining NGOs' LSG Reserve and their audited financial statements to ascertain their ongoing financial viability;
- (ii) discussing with NGOs the new implementation method on the disclosure of emoluments of NGOs' staff in the top three tiers in light of the promulgation of the guidelines for the control and monitoring of remuneration practices in subvented bodies as set out in the Circular Memorandum issued by the Administration Wing in March 2003;
- (iii) reminding NGOs to put in place adequate internal controls for minimising occurrence of irregularities; to properly apportion costs between Funding and Service Agreement (FSA) activities and non-FSA activities; to exercise due care in conducting self-assessment of service quality; and to monitor and review their human resource management issues with a view to enhancing transparency and communication with staff;

- (iv) monitoring services with persistent underperformance and deliberating on appropriate follow-up measures, as well as setting or reviewing the Outcome Standards for Agreement Service Units; and
- (v) promoting the implementation of the four outstanding items of the Best Practice Manual concerning human resource management.

3. Since the introduction of the LSG Subvention System in 2001, the Government has been in continuous communication and discussion with the sector on the concerns of stakeholders and adopted enhancement measures to, among others, help NGOs strengthen their governance and service quality and build up reliable teams. In 2008, an Independent Review Committee was appointed by the Government to assess the overall effectiveness of the LSG Subvention System and identify the scope for improvement. The Independent Review Committee concluded that the principles of the LSG Subvention System were sound and hence the system was worth retaining. The Government has since implemented all 36 recommendations of the Independent Review Committee.

4. After the implementation of the LSG Subvention System, the Government has provided NGOs with additional one-off allocations of over \$4 billion and additional recurrent funding of over \$800 million to help them in the implementation of staff training, system upgrade and service studies; enhancing central administrative and supervisory support; and recruiting professionals, etc.

5. Apart from additional resources, the Government has commissioned universities, consultants and social service agencies to conduct training programmes on many occasions for enhancing the governance capabilities of the management of NGOs. From September 2015 to February 2016, the SWD organised the Envisioning Programme on the Best Practice Manual for the boards of directors and senior management of NGOs to exchange their knowledge and experience on the challenges and opportunities arising from the enhanced transparency and accountability in corporate governance.

6. The Government will continue its collaboration with the sector to facilitate the development of the LSG Subvention System. In fact, the Chief Executive has indicated in the Policy Agenda that the Government would discuss with the social welfare sector on ways to optimise the LSG Subvention System. In this connection, I have tasked the SWD to set up a Task Force for Review on Enhancement of Lump Sum Grant Subvention System (Task Force) to conduct a review with the participation of stakeholders in the social welfare sector. The Task Force is comprised of members of the Legislative Council, representative(s) of the Hong Kong Council of Social Service, the Hong Kong Social Workers Association, management of NGOs,

staff side, service users, LSG-related committees, independent persons, the Labour and Welfare Bureau and the SWD. It convened its first meeting on 27 November 2017. Once the scope of the review is determined, the review is expected to be completed within two years. In conducting the review, the Government will take into account the recommendations in the Audit Report.

7. My colleagues and I are pleased to answer questions raised by Members. Thank you, Chairman.

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