

## **A. Introduction**

The Audit Commission ("Audit") conducted a review of the administration of lump sum grants ("LSGs") by the Social Welfare Department ("SWD").

2. Hon Abraham SHEK Lai-him, Hon Paul TSE Wai-chun and Hon SHIU Ka-fai declared that they were directors and/or advisers to a number of non-governmental organizations ("NGOs") which might have received LSGs or other subventions from SWD. Hon Steven HO Chun-yin declared that one of his family members worked in SWD.

### Background

3. SWD is responsible for developing and co-ordinating welfare services in Hong Kong. It provides subventions to NGOs for the provision of welfare services to the public.

4. Before January 2001, subventions were provided to NGOs through the conventional subvention system, under which SWD paid NGOs for the actual costs incurred in the delivery of recognized welfare services. In January 2001, a LSG subvention system was rolled out as a major revamp of the provision of funding to NGOs. NGOs receiving subventions under the conventional subvention system might voluntarily opt for LSG subvention system.<sup>1</sup>

5. LSG subvention is provided on an NGO basis. The annual amount of LSG subvention to an NGO is the sum of staff salaries, provision for provident funds and other charges (e.g. administrative expenses, utilities and overtime allowance), minus NGO's fee income recognized by SWD. Under the LSG subvention system, NGO management has the autonomy and flexibility in the deployment of subvention resources to meet the service needs.

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<sup>1</sup> In 2016-2017, of the 170 NGOs receiving subventions from SWD, 165 (97%) were under LSG subvention system, while the other five (3%) NGOs remained in the conventional subvention system.

6. An NGO can retain unspent LSG subvention in a reserve (i.e. the LSG Reserve) to meet future spending. The cumulative reserve (separate from Provident Funds ("PF") Reserve<sup>2</sup> and Holding Account balances<sup>3</sup>) is capped at 25% of the annual operating expenditure (excluding expenditure for provident funds) of the subvented services of the NGO. Any amount above the 25% cap is subject to claw-back and should be returned to the Government. The LSG Reserve can be used at the discretion of the NGO on the Funding and Service Agreement ("FSA") activities and FSA related activities.

7. SWD draws up an FSA for each service that a service unit of an NGO provides. FSA defines the welfare service to be provided by an agreement service unit ("ASU"). It also stipulates the Output Standards and Outcome Standards to be achieved by an ASU, Essential Service Requirements ("ESRs") to be met by ASUs, the need to observe the 16 Service Quality Standards ("SQSs"),<sup>4</sup> and the need to follow the requirements laid down in the LSG Manual<sup>5</sup> and LSG Circulars. NGOs are also required to adopt the best practices laid down in the Best Practice Manual ("BPM") developed under the auspices of the LSG Steering Committee ("LSGSC") with members appointed by the Labour and Welfare Bureau ("LWB") to monitor the implementation of LSG subvention system and identify areas for improvement.

8. In January 2008, an LSG Independent Review Committee ("IRC") was appointed by LWB to review the LSG subvention system with a view to assessing its overall effectiveness and identifying scope for improvement. In December 2008, IRC submitted its report and made 36 recommendations on ways to improve the LSG subvention system.<sup>6</sup> In April 2009, the LSG Independent Complaints Handling Committee ("Complaints Handling Committee") was set up to handle LSG-related complaints that could not be satisfactorily addressed at the NGO level.

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<sup>2</sup> The PF Reserve can only be used for PF contributions. For details regarding the calculation of provision for PF, see paragraph 1.12(b) of the Director of Audit's Report ("Audit Report").

<sup>3</sup> To facilitate NGOs to achieve their financial viability and to honour contractual commitments to "Snapshot Staff" after the cessation of the Tide-Over Grant in 2006-2007, SWD withheld the claw-back of the LSG Reserve above the 25% cap for three years from 2004-2005 to 2006-2007. The cumulative LSG Reserve as at 31 March 2007 was kept in an account known as Holding Account of individual NGOs and they may use such balances for Funding and Service Agreement ("FSA") activities and FSA related activities. For details regarding Tide-Over Grant, see paragraph 1.14 of the Audit Report.

<sup>4</sup> See paragraph 1.18(c) and Appendix B of the Audit Report for details of the 16 SQSs.

<sup>5</sup> The LSG Manual is uploaded onto the website of SWD (<https://www.swd.gov.hk>).

<sup>6</sup> See paragraph 6.2 and Appendix E of the Audit Report for details of the 36 recommendations made by IRC.

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9. In the 10-year period from 2007-2008 to 2016-2017, LSG subventions had doubled from \$6.3 billion to \$12.5 billion. In 2016-2017, LSG subventions granted to the 165 NGOs ranged from \$79,000 to \$1,121 million. As at 31 March 2017, SWD drew up FSAs for 2 691 ASUs of the 165 NGOs. Of the 2 691 ASUs, 717 (27%) ASUs were providing elderly services, 508 (19%) ASUs were providing family and child welfare services, 1 179 (44%) ASUs were providing rehabilitation services, and 286 (10%) ASUs were providing youth and corrections services.

### The Committee's Report

10. The Committee's Report sets out the evidence gathered from witnesses. The Report is divided into the following parts:

- Introduction (Part A) (paragraphs 1 to 14);
- Financial monitoring (Part B) (paragraphs 15 to 36);
- Self-assessment of service quality by non-governmental organizations (Part C) (paragraphs 37 to 53);
- Monitoring of service delivery by Social Welfare Department (Part D) (paragraphs 54 to 73);
- Governance and management matters (Part E) (paragraphs 74 to 89);
- Review of lump sum grant subvention system (Part F) (paragraphs 90 to 94); and
- Conclusions and recommendations (Part G) (paragraphs 95 to 97).

### Public hearing

11. The Committee held three public hearings on 12 December 2017, 13 January and 2 March 2018 respectively to receive evidence on the findings and observations of the Director of Audit's Report ("Audit Report").

Submissions from the welfare sector

12. The Committee has received a total of five submissions from NGOs and the welfare sector and a submission from a Legislative Council ("LegCo") Member giving views on the LSG subvention system. While the Committee welcomes members of the public to give views on the subject under investigation, the Committee has followed the established practices that this Report only contains evidence obtained from witnesses at the public hearings as well as written submissions from witnesses providing supplementary information to their evidence.

Speech by Director of Audit

13. **Mr David SUN Tak-kei, Director of Audit**, gave a brief account of the subject at the beginning of the Committee's public hearing held on 12 December 2017. The full text of his speech is in *Appendix 4*.

Opening statement by Director of Social Welfare

14. On behalf of Dr LAW Chi-kwong, Secretary for Labour and Welfare, **Ms Carol YIP, Director of Social Welfare** made an opening statement at the beginning of the Committee's public hearing held on 12 December 2017, the summary of which is as follows:

- the Administration accepted the recommendations contained in the Audit Report and would take the key follow-up actions as below:
  - (a) examining NGOs' LSG Reserves and their audited financial statements to ascertain their ongoing financial viability;
  - (b) 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 relevant guidelines as set out in the Circular Memorandum issued by the Administration Wing in March 2003 ("the Memorandum");
  - (c) reminding NGOs to put in place adequate internal controls for minimizing the occurrence of irregularities, properly apportioning costs between FSA and non-FSA activities, exercising due care in conducting self-assessment and monitoring and reviewing their

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human resources management issue to enhance transparency and communication with staff; and

- (d) monitoring services with persistent underperformance and deliberating on appropriate follow-up measures and setting or reviewing Outcome Standards for ASUs;
- after implementation of the LSG subvention system, the Administration had provided additional one-off allocations of over \$4 billion and additional recurrent funding of over \$800 million to NGOs for implementing programmes for enhancing staff training and administrative support to NGOs, and had commissioned universities, consultants and social service agencies to conduct training programmes for strengthening the governance capabilities of the management of NGOs; and
- the Chief Executive had indicated in the Policy Agenda that the Administration would discuss with the social welfare sector on ways to optimize the LSG subvention system. In this connection, the Task Force for Review on Enhancement of Lump Sum Grant Subvention System ("the Task Force") was set up to conduct a review with the participation of stakeholders in the welfare sector. In conducting the review, the Administration would take into account the recommendations in the Audit Report.

The full text of the opening statement is in *Appendix 5*.

## **B. Financial monitoring**

15. Referring to paragraph 1.12 of the Audit Report, the Committee enquired about the methodology in calculating the level of LSG subvention to NGOs, in particular the determination of "other charges" and whether the existing "top-down" approach was sufficient and appropriate in catering for different NGOs' operating needs.

16. **Director of Social Welfare** replied at the public hearing on 12 December 2017 and supplemented in her letter dated 5 January 2018 (*Appendix 6*) that:

- LSG subvention was calculated on the basis of the provisions covered by the traditional subvention system (including recognized staff

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salaries and recognized other charges, minus the recognized fee income);<sup>7</sup>

- for calculation of "other charges", it broadly covered operating expenses such as administrative expenses, programme expenses etc., and was based on the following benchmark: the level of provisions for the service before the introduction of LSG subvention system; operating expenses of identical or similar services; additional provisions required to meet the special needs of individual service units; reference to service experience drawn from pilot schemes or views from the welfare sector;
- prior to 2012-2013, "other charges" provisions were adjusted annually according to price movements of "other purchases of goods and services" made by the Government. Having collected the views of the welfare sector and obtained the endorsement of LSGSC, SWD adopted changes to the Composite Consumer Price Index as the basis of annual adjustments to "other charges" provisions from 2012-2013 onwards;
- the Administration had been reviewing the service needs and views from the welfare sector from time to time with a view to adjusting the LSG subvention and provided subsidies and supportive measures for subvented NGOs; and
- subvented NGOs were notified by SWD in writing on 22 May 2009 that in exceptional and justifiable cases, applications might be made by NGOs to advance "other charges" provision of the year. To date, no such applications had been received from NGOs.

17. The Committee sought details of and explanation for the additional recurrent funding of \$470 million provided for NGOs in 2014-2015, and the target outcomes to be achieved (paragraph 1.14(e) of the Audit Report). **Director of Social Welfare** replied at the public hearing on 12 December 2017 and supplemented in her letter dated 5 January 2018 (*Appendix 6*) that:

- starting from 2014-2015, the Administration had allocated additional recurrent funding of \$470 million to NGOs, with details as follows:

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<sup>7</sup> Details of calculation of the LSG subvention are set out in paragraphs 2.4 to 2.10 of the LSG Manual and paragraph 1.12 of the Audit Report.

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- (a) Central Administrative Support (additional recurrent funding of about \$160 million) was aimed at assisting all subvented NGOs to enhance their human resources and financial management, improve their administrative efficiency by applying information technology, strengthen administrative support to cope with new statutory requirements and those of Government guidelines and strengthen internal control, etc.;
- (b) Supervisory Support (additional recurrent funding of about \$130 million) was aimed at providing frontline social workers with supervision and training, guiding instructions on the handling of more complicated cases (e.g. cases involving risks, violence or attracting media concern), as well as service collaboration with other professionals, Government departments and relevant stakeholders in the provision of services for enhancing the quality of frontline services. The additional funding would result in a creation of over 150 supervisory positions equivalent to the social work officer rank in NGOs;
- (c) Paramedical Support (additional recurrent funding of about \$130 million): IRC recognized that those NGOs having the need to employ paramedical staff faced great difficulty in catching up with their rising pay trends, and that NGOs must offer better remuneration packages in order to attract and retain these staff. Since 2009, SWD had channelled additional funding from the Lotteries Fund to organizations in need under a pilot scheme, which covered a total of 15 ranks including nurses, physiologists, occupational therapists, speech therapists and clinical psychologists, to assist subvented NGOs in providing additional salaries and Mandatory Provident Fund contributions for paramedical staff, or hiring of paramedical services for provision of services subsidized by SWD.

The additional funding was an extended measure of the pilot scheme to regularize the initiative for organizations to formulate long-term plans with ease, and make flexible adjustment to the salaries of paramedical staff. Such additional funding for paramedical service support would also be included in new services to be launched in the future; and

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- (d) other charges (additional recurrent funding of about \$48 million) was aimed at supporting NGOs to cope with inflation, especially in areas such as food prices and insurance for employees.

18. In reply to the Committee's enquiry about the number of NGOs that required claw-back and the amount of claw-backs in the past five years (see paragraph 6 above on situations which require claw-back from NGOs), **Director of Social Welfare** provided the relevant statistics in her letter dated 5 January 2018 (*Appendix 6*) as follows:

<u>Year</u>	<u>Number of NGOs<sup>8</sup></u>	<u>Total amount of reserve refunded / to be refunded<sup>8</sup> (\$ million)</u>
2011-2012	23	16.6
2012-2013	17	10.8
2013-2014	17	12.7
2014-2015	30	50.9
2015-2016	34	41.6

19. As regards the reserves managed by NGOs as mentioned in paragraphs 2.2 to 2.7 of the Audit Report, the Committee sought the following information:

- requirements on the format of reserves held in the LSG Reserve, the Holding Account and the PF Reserve;
- as the PF Reserve could be used for special contributions to award "non-Snapshot Staff", measures taken by SWD, if any, to prevent its depletion; and
- according to paragraph 2.3(b)(ii) of the Audit Report, the PF Reserve would arise due to the surplus of 1.8% (6.8% - 5%) in provision, how the "6.8%" figure was calculated and any plan to review its appropriateness.

<sup>8</sup> The number of NGOs and the amount of reserve that should be refunded to the Government had been calculated based on a preliminary review conducted by SWD on the Annual Financial Reports submitted by individual NGOs. The data might be amended subject to subsequent supplemental information.



20. **Director of Social Welfare** replied at the public hearing on 12 December 2017 and supplemented in her letter dated 5 January 2018 (*Appendix 6*) that:

- according to paragraph 2.32 of the LSG Manual, an amount of cash equivalent to the LSG Reserve (including that kept in the Holding Account) must be kept in a separate interest-bearing account with a bank licensed in Hong Kong. NGOs might invest surplus funds in their LSG Reserve in form of bank deposits, bonds or certificates of deposit in Hong Kong dollars based on the investment framework specified in paragraph 2.33 of the LSG Manual. Paragraph 2.40(a) of the LSG Manual stipulated that the PF Reserve could only be used for PF commitments in the future. If necessary, SWD would request NGOs to explain how the LSG Reserve and the PF Reserve were kept;
- as part of their own governance and human resources deployment, NGOs might adjust the percentage of PF contributions for "non-Snapshot Staff" and disburse special contributions to reward staff for their good performance; and
- in order to ensure NGOs joining the LSG subvention system had adequate funds to honour their contractual commitment to "Snapshot Staff" (i.e. serving staff as at 1 April 2000) in terms of PF contribution rates (with the employer's contribution rate at 5%, 10% or 15% depending on the length of service), PF provisions were calculated by the Government on an actual basis. For "non-Snapshot Staff" (those employed after 1 April 2000), PF provisions were calculated at 6.8% of the mid-point salaries of the recognized notional staff establishment, a rate determined by the Government on the basis of the average PF contribution rate of the sector at the time, so that NGOs might draw up their own PF policy as appropriate in accordance with their human resources policy and financial position. The Administration embarked in November 2017 on a review on the enhancement of the LSG subvention system. One of the areas under the proposed scope of the review was to examine the benchmark for PF provisions.

21. In reply to the Committee's enquiry regarding statistics relating to participation of NGOs in various PF schemes, **Director of Social Welfare** replied at the public hearing on 12 December 2017 that the Administration did not collect the relevant information. She replied in her letter dated 5 January 2018 (*Appendix 6*) that based on the Annual Financial Reports ("AFRs") of NGOs for 2015-2016, their

total expenditure on PF contribution for "Snapshot" and "non-Snapshot" staff were about \$390 million and \$450 million respectively.

22. The Committee noted from paragraph 2.4 of the Audit Report that total reserves kept by NGOs had risen from \$3.4 billion as at 31 March 2012 to \$4.7 billion as at 31 March 2016 and sought the following information:

- reasons for the rise and measures taken to monitor NGOs' use of their LSG Reserves, especially those NGOs that had accumulated huge amount of reserves;
- NGOs' compliance with Level One guidelines of BPM on the use of their LSG Reserves and whether NGOs had sought consent for exemption with strong justifications in case of non-compliance; and
- whether using the LSG Reserve for incentive payment to staff was in compliance with the principle of fair, reasonable, proper and effective use of reserves by NGOs.

23. **Director of Social Welfare** replied at the public hearing on 12 December 2017 and supplemented in her letter dated 5 January 2018 (*Appendix 6*) that:

- all NGOs with over \$100 million in their LSG Reserves as at 31 March 2016 (shown in Table 5 in paragraph 2.4 of the Audit Report) were large NGOs. Given that they provided more subvented services, the level of reserves retained would be relatively higher;
- BPM set out the requirements<sup>9</sup> on the management and use of the LSG Reserve. NGOs were reminded by SWD on a yearly basis to submit their BPM self-assessment checklists. The details and requirements for implementation were set out in BPM with stipulation of follow-up if an NGO did not comply with Level One guidelines in the workflow for implementation, including if the NGOs persistently failed to comply with Level One guidelines, the case would be submitted to LSGSC for discussion and recommendation for follow-up action;

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<sup>9</sup> Both "Maximized Use of the LSG Reserve" and "Status of the LSG Reserve" are Level One guidelines.

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- self-assessment checklists for 2016-2017 which reported the implementation of BPM as at 31 March 2017 had been submitted by NGOs before 31 October 2017. According to the self-assessment checklists, the number of NGOs which had implemented Level One guidelines was as follows:
  - (a) "Maximized Use of LSG Reserve" - 158 NGOs (96%);
  - (b) "Status of LSG Reserve" - 161 NGOs (98%);
  - (c) "Use of PF Reserve" - 153 NGOs (93%);
  - (d) "Status of PF Reserve" - 162 NGOs (98%);
  - (e) "Salary Adjustment" - 163 NGOs (99%);
  - (f) "Composition, Duties and Responsibilities on Handling Complaints at Different Levels" - 163 NGOs (99%); and
  - (g) "NGOs' Policies and Procedures on Complaints Handling" - 163 NGOs (99%);
- initial information suggested that all NGOs were capable of implementing all Level One guidelines. As such, it was not necessary for any NGO to apply for exemption;
- with respect to the use of reserves as incentive payments, under the LSG subvention system, NGOs might determine the salaries/remuneration and fringe benefits for their staff with reference to factors such as their respective human resources policies and financial positions, on the premise that service quality could be maintained and regulations stipulated in FSAs could be complied with. NGOs might reward and retain their staff by means of providing incentive payments or cash allowance as part of employees' remuneration packages; and
- while NGOs were allowed to flexibly deploy LSG subventions (including the LSG Reserve), they had to comply with the following requirements:

- (a) NGOs should ensure that the organizations were directly accountable to SWD and the public for the proper and prudent use of public funds. It was the responsibility of NGOs' governing boards and management to maintain proper control of LSG, ensure that the use of LSG met the requirements and objectives set out in FSAs and complied with the conditions spelt out in the LSG Manual, and spent LSG for the intended purposes in the most cost-effective manner;
- (b) NGOs should have clear human resources management policies and programmes in respect of pay and reward systems; and
- (c) according to the requirements set out in paragraphs 4.14 to 4.19 of the LSG Manual, NGOs should disclose their AFRs and their Review Reports on Remuneration Packages for Staff in the Top Three Tiers ("RRs") unless it met one or more of the specified exemption criteria<sup>10</sup> through specified channels for public scrutiny. Since June 2017, SWD had either uploaded AFRs of NGOs and RRs (if applicable) on SWD's website, or provided links to the webpages of the NGOs. If the increments of the remuneration packages for staff in the top three-tiers (incentive payments or cash allowance inclusive) exceeded appropriate levels, SWD would require an explanation from the NGOs concerned or even arrange a meeting with their governing boards/management committees to request the NGOs to make adjustment.

24. Referring to paragraph 2.13 of the Audit Report, 14 NGOs had incurred deficits for three consecutive years, of which eight of them depleted their reserves by end 2014-2015. The Committee enquired about:

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<sup>10</sup> According to paragraph 4.17 of the LSG Manual, NGOs are exempted to review and disclose annually the remunerations of its top three-tier staff if it meets one or more of the following criteria:

- (a) receiving subventions and subsidies of less than \$10 million a year from SWD;
- (b) receiving 50% or less of the NGOs' total operating income from SWD; or
- (c) with the top three-tier positions of the NGO funded entirely by the NGO's income from sources other than the Government.

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- reasons for the NGOs having incurred large or persistent LSG deficits and follow-up actions taken, especially in monitoring their financial viability;
- whether services offered by NGOs in deficit were affected and details regarding SWD's monitoring of their service delivery; and
- latest figures on NGO's LSG operating situation and actions taken, if any, for those still with the deficit problem.

25. **Director of Social Welfare** replied at the public hearing on 12 December 2017 and supplemented in her letter dated 5 January 2018 (*Appendix 6*) that:

*Reasons for NGOs to incur huge or persistent LSG operating deficits and follow-up actions*

- according to the information provided by the NGOs involved, they incurred LSG operating deficits for a particular year or consecutive years due to the following reasons: the need to allocate funding to cover non-recurrent expenses under special or emergency circumstances, a tide-over period for services or manpower (e.g. more employees' salaries had exceeded the mid-point salary), staff wastage lower than the anticipated level, recruiting or retaining staff by higher salaries with reference to the market situation, etc. They had strategically used the LSG Reserve/NGOs' overall reserves to meet the needs of subvented services and maintained service quality;
- to determine that NGOs could provide subvented services as requested in a sustainable and stable manner under sound financial position, SWD would continue to review their financial positions regularly based on AFRs and annual audited financial statements submitted by NGOs, and ascertain whether or not any improvements had been made for persistent deficits with reasons, and follow up on a need basis;

*Impact of LSG deficits on service performance*

- apart from requiring NGOs' periodic submission of quarterly statistical reports and annual self-assessment reports, SWD would also conduct visits to all subvented NGOs in every monitoring cycle (one cycle every three years) and conduct review visits or surprise visits to selected subvented service units in order to assess and monitor their

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service performance. Besides, to review the service quality, SWD would conduct on-site assessment at service units operating new services, and service units with alleged or suspected problematic performance. For any non-compliance identified, the NGOs concerned would be required to submit improvement plans, and the progress of which would be monitored by SWD;

- according to the information obtained by SWD, the service performance of the 14 NGO with LSG operating deficits as indicated in Tables 7 and 8 in paragraph 2.13 of the Audit Report was not affected by the operating deficits;

*Measures for monitoring the financial soundness of NGOs with operating deficits*

- SWD would continue to conduct regular reviews on AFRs and annual audited financial statements submitted by NGOs to ascertain their financial soundness;
- as shown in Tables 7 and 8 in paragraph 2.13 of the Audit Report, the 14 NGOs which had incurred operating deficits for three consecutive years from 2013-2014 to 2015-2016 still had considerable amounts of the LSG Reserve (including the holding account balances) or overall reserve. These deficit situations could be properly dealt with by using the LSG Reserve, and NGOs should formulate their own governance and accountability frameworks to determine the use of the LSG Reserve (paragraphs 2.37 to 2.41 of the LSG Manual);
- if NGOs anticipated financial difficulty, their boards should have thorough deliberation and informed SWD in advance, so that remedial measures could be taken as appropriate before the NGOs exhausted their reserves (paragraph 3.20 of the LSG Manual);
- if NGOs were incurring persistent and huge deficits or mobilizing a large sum of reserve in the operation of LSG-subvented services, SWD would, in the light of the circumstances, take different actions, such as:
  - (a) conduct interviews with the boards/management committees to ascertain the underlying reasons, including NGOs' overall income in addition to subventions from SWD; give advice, conduct reviews and request NGOs to submit financial reports, financial projections and follow-up plans, where necessary, in order for

NGOs to continue the provision of subvented services as required while maintaining a healthy financial position;

- (b) consider submitting the cases to LSGSC for deliberation and recommendation on follow-up plans. Based on the circumstances of the cases and the recommendations from LSGSC, SWD would determine the follow-up actions, such as issuing warning letters to NGOs, and conducting interviews with NGOs' boards for explanations. If NGOs persistently failed to make improvement, SWD did not rule out the possibility of imposing penalties on the advice of LSGSC; and
  - (c) encourage NGOs to conduct actuarial or relevant financial studies using the Social Welfare Development Fund. So far, 11 NGOs had received funding allocations to conduct actuarial studies and relevant study projects. NGOs provided with funding were required to report on the progress and effectiveness of their projects on an annual basis. Upon completion of the projects, SWD would collect NGOs' experience gained in conducting the actuarial studies, and would actively encourage these NGOs to share their findings with other NGOs;
- one of the areas under the proposed scope of the review on the enhancement of the LSG subvention system embarked in November 2017 was to examine NGOs' financial positions and planning so that services would be provided through sustainable and effective use of resources; and

*Latest information on NGOs' deficits*

- LSG surplus/(deficit) and overall reserve<sup>11</sup> for 2016-2017 of the 14 NGOs were as follows:

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<sup>11</sup> An NGO's overall reserve was the cumulative amount of reserve after taking into account the NGO's overall operating surplus/deficit. The figures reported above were extracted from the Audited Financial Statements for 2016-2017 submitted by the NGOs listed.

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<b>NGOs</b>	<b>NGOs' LSG surplus/(deficit) for 2016-2017<sup>12</sup> (\$)</b>	<b>Overall reserve of NGOs for 2016-2017 (\$)</b>
NGO 1	(2,876,193)	29,938,812
NGO 2	546,348	31,983,328
NGO 3	(38,368)	9,845,764
NGO 4	(1,116,905)	55,276,356
NGO 5	(855,793)	282,465,489
NGO 6	(5,969)	15,638,326
NGO 7	(65,805)	14,803,437
NGO 8	290,260	6,032,418
NGO K	(7,040,982)	449,637,576
NGO 9	(8,632,250)	96,712,042
NGO 10	(8,674,653)	174,297,192
NGO 11	(2,220,739)	3,603,930,914
NGO 12	644,183	6,755,797
NGO 13	(110,319)	2,485,369

26. Referring to paragraph 2.14 and Table 9 of the Audit Report, the Committee enquired about:

- reasons for increase in staff emoluments exceeding \$500,000 from 2014-2015 to 2015-2016 for NGO K, and whether the NGO's LSG deficit in the years mentioned was mainly attributable to such increase;
- ratios of the number of staff having annual emoluments exceeding \$500,000 to the NGO's establishment and total expenditure on staff annual emoluments exceeding \$500,000 to the NGO's operating income under the purview of Secretary for Labour and Welfare/Director of Social Welfare; and
- whether staff emoluments of NGO K which accounted for 70% and 72% of their total expenditure in 2014-2015 and 2015-2016 respectively were normal as compared with other NGOs, and actions taken by SWD if the ratio was considered too high.

<sup>12</sup> The figures above were provided by the NGOs in their 2016-2017 AFRs. They were subject to further review by SWD.



27. **Director of Social Welfare** replied at the public hearing on 12 December 2017 and supplemented in her letter dated 5 January 2018 (*Appendix 6*) that:

- based on the information provided by NGO K, a number of staff members in NGO K received annual emoluments ranging from \$500,000 to \$600,000 between 2014-2015 and 2015-2016 as a result of reference to civil service salary adjustments and yearly increments. During this period, the NGO did not employ significantly more staff with annual emoluments exceeding \$500,000. As indicated by the relevant information, the increase in expenditure on staff emoluments might be one of the reasons for its operating deficits;
- staff with annual emoluments exceeding \$500,000 made up 17% of all subvented staff in NGO K in 2014-2015, and 27% in 2015-2016. The expenditure on emoluments for staff with annual emoluments exceeding \$500,000, as a percentage of the NGO's operating income from LWB and SWD, was about 37% in 2014-2015 and 52% in 2015-2016; and
- normally, about 80% of NGOs' recurrent expenditure would be on the personal emoluments of staff. This proportion might vary in respect of different NGOs for various reasons, such as seniority of staff and types of services provided by NGOs. If the services operated by an NGO were in high demand for staff, the proportion of personal emoluments to recurrent expenditure would also be higher. In the case of NGO K, its staff emoluments accounting for about 70% or 72% of the total expenditure were not particularly high.

28. Referring to paragraphs 2.18 to 2.26 of the Audit Report regarding the disclosure of NGO's senior staff emoluments, the Committee enquired about:

- reasons for the long deferment of some six years in implementing the disclosure requirement as required under the Memorandum;
- a chronology of communications between SWD, the Administration Wing and the Financial Services and the Treasury Bureau ("FSTB") in clarifying the calculation of the "50% income threshold" requirement;
- justifications for SWD to continue adopting its current calculation of the "50% income threshold" requirement despite that SWD's calculation was at variance with the intents of the Memorandum;

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- whether SWD had consulted LWB when clarifying with the Administration Wing and FSTB on the calculation of the "50% income threshold" in 2013 and 2017;
- as SWD's calculation of the "50% income threshold" would reduce the number of NGOs required for disclosing their senior staff emoluments, actions taken by SWD/LWB to maintain transparency in senior staff emoluments of NGOs; and
- whether there were difficulties for NGOs to apportion operating income of NGOs in accordance with different policy portfolios and timeline for adopting the new calculation method.

29. **Secretary for Labour and Welfare** and **Director of Social Welfare** replied at the public hearings on 12 December 2017 and 13 January 2018 and supplemented in their letters dated 5 January and 8 February 2018 (*Appendices 6 to 8*) that:

*Reasons for delay in implementing the Memorandum*

- when the Memorandum was promulgated in 2003, the LSG subvention system had just been introduced for a short period of time. Taking into account the need to amend the LSG Manual in order to implement the guidelines as set out in the Memorandum, and that any amendment to the LSG Manual must be based on a consensus between SWD and the welfare sector, SWD did not implement the guidelines in the Memorandum immediately in 2003;
- one of the recommendations made by IRC was that SWD should consult NGOs with a view to implementing the Government guidelines on the monitoring of remunerations of senior executives in subvented bodies (i.e. the Memorandum). Having considered the consensus built in the process of the review, it was discussed and agreed at a meeting of LSGSC in January 2010 that SWD should, in accordance with the guidelines as set out in the Memorandum, inform subvented NGOs of the relevant arrangement in writing and request them to submit their RRs for 2009-2010;
- SWD was of the view that it was still necessary to reach a consensus (over the criteria, method of assessment and channels of disclosure,

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etc.) with more than 160 NGOs of varied scales before actual implementation;

*SWD sought advice from the Administration Wing and FSTB*

- in response to the concerns and questions raised by LegCo Members in 2013 about how the Government would monitor the remuneration of senior executives of subvented bodies, SWD saw the need to seek advice on the consistency among various Government bureaux/departments ("B/Ds") in administering the guidelines in the Memorandum and on other relevant matters, including privacy of the individual, public interest, whether SWD and other B/Ds had a common understanding of the exemption criteria in relation to the "50% income threshold", and how B/Ds should make their own arrangements under these exemption criteria. In this connection, SWD consulted the Administration Wing in writing in June 2013;
- the communication processes between SWD, the Administration Wing and FSTB in 2013 were listed chronologically in the table below. In general, the content of verbal discussions between SWD and other B/Ds was either recorded or followed up in writing;

<b>Date</b>	<b>Content</b>
24 June 2013	SWD consulted the Administration Wing via a memo.
12 July 2013	SWD followed up with the Administration Wing on the phone.
19 July 2013	In response to the clarification sought by SWD on whether the exemption criteria it had adopted were in line with the guidelines as stated in the Memorandum, the Administration Wing replied in an e-mail asking SWD to seek advice from FSTB.
31 July 2013	SWD staff reported to his senior officers by e-mail that FSTB was contacted for enquiry about the "50% income threshold". FSTB advised that it would need more time to consider the matter.

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- in the light of the concerns of the public and LegCo Members at the end of 2016 about how the Government would monitor the remuneration of senior executives of subvented bodies, SWD sought clarification from the Administration Wing by e-mail again in January 2017 on the basis for determining the "50% income threshold";
- in May 2017, the Administration Wing conveyed the advice on the method of determining the "50% income threshold" to SWD, i.e. Directors of Bureaux should look at the percentages of the operating income relating to the subvented bodies that received subventions from the B/D for its responsible service/policy area, and determine whether those subventions accounted for more than 50% of the operating income of the subvented bodies in that specific service/policy area. The Administration Wing would carry out a survey to find out the current practice and opinions of the implementation of the guidelines from all B/Ds to confirm if the Memorandum needed updating, or whether some of the execution details should be clarified. Taking into account the time needed to discuss the arrangement with a large number of NGOs and any possible updating/revision on the guidelines arising from the survey conducted by the Administration Wing on the implementation of the guidelines, SWD expected that the calculation method of the "50% income threshold" in accordance with the Administration Wing's advice could be implemented for reporting in the fourth quarter of 2018 to reflect NGOs' positions in 2017-2018;
- while LWB was aware of and involved in the discussion of SWD's implementation of the relevant guidelines, there was no record showing that LWB and SWD had deliberated on the calculation method of the "50% income threshold" prior to the implementation, and there was no record showing that LWB and SWD had deliberated on the issue before SWD sought advice from the Administration Wing and FSTB in 2013 and 2017;

*SWD's understanding of calculating the "50% income threshold"*

- the determination of the "50% income threshold" was based on: *"all subvented bodies which receive more than 50% of their operating income from the Government should review their senior staff's number, ranking and remuneration"* and *"for a multi-disciplinary organisation providing services which fall under programme areas of different Directors of Bureaux, a Director of Bureau would be responsible for*

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*that part of the review report covering those senior staff who operate services under his/her policy purview".<sup>13</sup> On the basis of the above provisions, it was SWD's understanding at that time that to determine whether the "50% income threshold" was met for an NGO, the NGO's operating income received from SWD should be divided by the operating income of the NGO as a whole;<sup>14</sup>*

*Enhancing public accountability on NGOs' senior staff emoluments*

- NGOs were required under relevant guidelines to disclose their AFRs and RRs (where applicable) through designated channels. NGOs' reports had been uploaded onto SWD's website from June 2017 onwards to facilitate public access. In addition, the Task Force appointed by LWB and chaired by Director of Social Welfare was planning to examine how to increase transparency in the management of subvented NGOs with a view to further enhancing their public accountability;

*Difficulties in using the Administration Wing's calculation method of the "50% income threshold"*

- from an audited financial statement submitted by an NGO, SWD could only collect information about the income of the NGO as a whole and the total subvention from SWD. There was no figure showing its total income in the welfare purview, and the NGO's income was not categorized according to source or programme area on the financial statement. At present, the presentation of an annual financial statement of an NGO as a whole as audited by a certified public accountant registered under the Professional Accountants Ordinance (Cap. 50) was not standardized. As such, if the calculation method of

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<sup>13</sup> See paragraphs 6(a) and 14 of the Memorandum and paragraph 7(a) of a relevant LegCo Brief dated 25 February 2003 contained in *Appendix 6*.

<sup>14</sup> Upon SWD's enquiry on the calculation of the "50% income threshold" requirement in January 2017, the Administration Wing conveyed the following advice to SWD in July 2017:

- (a) in determining whether a subvented body should be subject to the review and report requirement, the relevant Director of Bureau/Controlling Officer should look at the part of the operating income relating to the subvented service under his/her purview. SWD's prevailing practice had been at variance with the intents of the Memorandum; and
- (b) the responsibility for administering the Memorandum rested with the relevant Director of Bureau and any departure from the Memorandum should be justified.

See paragraph 2.24 of the Audit Report.

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the "50% income threshold" was revised, NGOs would be required to adapt and change the way in which their income was reported; and

- with the development of diversified services and the growth of collaboration projects (such as medical-social collaboration projects), many NGOs were involved in the operation of services beyond the welfare purview (such as healthcare and education services) while receiving sums of money from different policy bureaux, government departments and the public. How each sum should be defined as belonging to the welfare purview or otherwise would affect whether an NGO was exempted from submitting a RR.

30. The Committee enquired about the progress of the survey conducted by the Administration Wing on the implementation of the Memorandum and whether SWD had considered alternative mechanism in requiring NGOs to disclose senior staff emoluments to enhance transparency.

31. **Secretary for Labour and Welfare** and **Director of Social Welfare** replied at the public hearings on 12 December 2017 and 13 January 2018, and **Director of Social Welfare** supplemented in her letters dated 5 January and 8 February 2018 (*Appendices 6* and *8* respectively) that:

- in early October 2017, the Administration Wing issued a questionnaire to all relevant bureaux to understand and collect their views on how they implemented the guidelines in the Memorandum, and had received their returns by the end of the same year. The information collected was now being collated and analyzed, and further information was being sought from individual bureau as necessary;
- after the Administration Wing decided whether it would update, revise or clarify the relevant guidelines in its Memorandum, SWD would discuss with subvented organizations on amending the relevant rules and guidelines in the LSG Manual, as well as the details for the implementation of the new guidelines or arrangements;
- apart from the mechanism for requesting subvented organizations to submit RRs in accordance with the relevant guidelines in the Memorandum, all NGOs subvented by SWD were required to submit the Self Assessment Report on Remuneration Packages for Staff in the Top Three Tiers to SWD annually. Besides, NGOs were also required

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to include in their AFRs the number of posts and expenditure information of staff with individual annual emoluments exceeding \$700,000 paid under LSG;

- according to paragraphs 4.14 to 4.19 of the LSG Manual, a formal public accountability framework was required to be in place for NGOs to disclose their AFRs and RRs (if applicable) as submitted to SWD, so that they would be accountable to the public for the use of public funds:
  - (a) posting up the relevant information prominently on the notice board(s) at the Central Administration Units/ Head Offices;
  - (b) uploading the relevant information onto NGOs' websites;
  - (c) reporting the relevant information in NGOs' annual reports;<sup>15</sup> or
  - (d) publishing the relevant information through special circular(s), newsletter(s) or other means; and
- SWD had, since June 2017, established hyperlinks to the websites of AFRs of subvented NGOs or uploaded onto SWD's website the relevant reports, so as to facilitate the public's access to these reports and to enhance the NGOs' transparency and public accountability.

32. At the request of the Committee, **Director of Social Welfare** provided a sample of the proforma for RR of NGOs (*Appendix 9*) and a sample of AFR (*Appendix 10*). The Committee noted that information in AFR regarding the disclosure of senior staff emoluments in the top three-tiers of a relevant NGO was comparatively less informative than that required of under RR. NGOs were only required to disclose the number of posts and expenditure information of staff with individual annual emoluments exceeding \$700,000 paid under LSG in AFR. However, NGOs needed to set out in RR 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.

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<sup>15</sup> Where a NGO publishes its annual report, AFR must be an integral part. If any NGO chooses not to provide AFR in its annual report, it has to upload the full set of the latest AFR onto its website, and specify the website address linking to AFR in its annual report.

33. With reference to paragraph 2.33 of the Audit Report, the Committee asked about the follow-up actions taken by SWD on the irregularities and internal control weaknesses of ASUs being identified, and the risk factors to be taken into account when formulating its risk-based inspections.

34. **Director of Social Welfare** replied at the public hearing on 12 December 2017 and supplemented in her letter dated 5 January 2018 (*Appendix 6*) that as far as advice on internal control was concerned, it was stated in paragraph 3.23 of the LSG Manual that NGOs should always ensure that adequate internal controls were in place having regard to the nature and size of their organization and the services provided. Advice on internal control procedures in respect of important financial activities had been provided by SWD as part of the subvention inspection process. SWD would require NGOs found to have internal control problems to take rectification actions and submit written replies to SWD as soon as possible (paragraph 4.10 of the LSG Manual). SWD would follow up on NGOs with inadequate internal control as appropriate and take into account various risk factors including the amount of subventions, number of service units, past performance on the compliance with SWD's subvention guidelines, NGOs' financial position, etc. in formulating plans for accounting inspections.

35. Regarding head office overheads apportionment of NGOs, the Committee enquired about:

- cost apportionment for NGOs I, J and K (paragraphs 2.39 and 2.40 of the Audit Report) and the follow-up actions taken;
- whether SWD was aware of the practices relating to the apportionment of salaries, emoluments and other charges by NGO H and G (paragraph 2.40 of Audit Report) and measures to be taken by SWD to enhance its monitoring role;
- the ratio of the Chief Executive Officer's salary to the NGO's operating income under the portfolio of SWD/LWB in Case 2 in paragraph 2.40 of the Audit Report; and
- whether NGOs, in particular small NGOs, encountered difficulties in apportioning expenses between FSA and non-FSA activities and assistance provided to these organizations.



36. **Secretary for Labour and Welfare** and **Mr KOK Che-leung, Assistant Director of Social Welfare (Subventions)** replied at the public hearings on 12 December 2017 and 13 January 2018 and **Director of Social Welfare** supplemented in her letters dated 5 January and 8 February 2018 (*Appendices 6 and 8* respectively) that:

*Cost apportionment for NGOs I, J and K and NGOs H and G*

- NGOs I, J and K held diverse views to the data analysis and conclusions of Audit. According to NGO I, their estimations showed that income from self-financing activities in 2015-2016 was far lower than the figure in Table 14 in paragraph 2.37 of the Audit Report; NGO J opined that the conclusion of self-financing activities having been subsidized by LSG was too simplistic without regard to the practice of resource sharing from a more macroscopic perspective; NGO K suggested that it had always been their practice to exclude some head office expenses (such as staff emoluments and other expenses) for individual non-FSA activities, i.e. such expenses had been excluded from AFRs. SWD would study the Audit Report and the views of NGOs in order to sort out the issues of apportioning overheads between FSA and non-FSA activities with a view to agreeing on a set of fair and effective criteria for cost apportionment, and would continue to discuss the issue with the sector and complete the relevant follow-up this year;
- with regard to Case 1 in paragraph 2.40 of the Audit Report, the NGO agreed to revise the proportion of cost apportionment between FSA and non-FSA activities in respect of the services provided by the central kitchen. This issue would also be discussed at the upcoming meeting of the NGO's management committee;
- with regard to Case 2 in paragraph 2.40 of the Audit Report, the NGO indicated that it had put in place an established mechanism for cost apportionment. If the costs incurred by a non-FSA unit could be clearly identified (e.g. costs relating to rents, rates and electricity charges as in the case), such costs would be allocated to the non-FSA unit. If the costs could not be clearly identified (e.g. water charges, artisan salaries and emoluments of Chief Executive Officer as in the case), the NGO would apportion the costs by requiring the non-FSA unit to pay an administrative fee to the head office. The relevant administrative fee would be reported as income in the LSG account;

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- the full-year expenditure on emoluments of NGO G's Chief Executive Officer in 2015-2016 (about \$1.57 million) was about 1.2% of the NGO's operating income from LWB and SWD for the year;

*Difficulties in cost apportionment*

- according to paragraph 3.3 of the LSG Manual, NGOs must ensure that proper books of account and other accounting records were kept for all transactions, separately identified into FSA activities and support services (including central administration and supervisory support), and non-FSA activities. Paragraph 2.37 of the LSG Manual also stipulated that LSG and the LSG Reserve were intended for operating expenditure for FSA or FSA related activities. SWD had a mechanism in place to review an NGO's AFR and audited annual financial statement as a whole and conducted LSG subvention inspection to review whether the use of subvention complied with SWD's requirements. SWD would require NGOs found to be non-compliant to take rectification actions and submit a written reply to SWD as soon as possible;
- in accordance with the Financial Circular No. 9/2004 on the "Guidelines on the Management and Control of Government Funding for Subvented Organisations", subvented organizations should keep a separate set of accounts for self-financing activities and ensure that there was no cross-subsidization of self-financing activities by subvented programmes in money or in kind;
- SWD had been answering questions from and offering advice and support to NGOs through designated liaison officers of the Subventions Branch, specified contact persons of the Finance Branch as well as the helpline in relating to their concerns about cost apportionment between FSA and non-FSA activities. SWD would, on the basis of the individual circumstances of the enquiring NGO, clarify the principle on cost apportionment and discuss the appropriate cost apportionment proposal with the NGO. SWD had also arranged meetings with the top management of all subvented NGOs in batches between June and October 2016, and deliberated on matters including the handling of cost apportionment issues. Moreover, guidelines would be prepared by SWD for their reference and use; and

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- SWD had been offering support to small NGOs on financial management as follows:
  - (a) a number of sharing sessions were organized for small NGOs between October 2009 and March 2012, covering topics such as financial management, subvention inspection, human resources management and corporate governance, with a view to assisting them in enhancing their governance and financial management;
  - (b) the Envisioning Programme on BPM, which also covered financial management, was organized for board members and management staff of all subvented NGOs between September 2015 and February 2016;
  - (c) a sum of over \$9.7 million was allocated from the Lotteries Fund to the Hong Kong Council of Social Service ("HKCSS") in early 2016 to implement the four-year NGOs' Governance Platform Project. Through collaboration with different professional sectors such as the Hong Kong Institute of Certified Public Accountants, the project was aimed at providing more training opportunities for the boards of directors of NGOs, building a more robust network and database, facilitating research studies, enhancing the sharing of experiences among NGOs, and innovating with and passing on knowledge about professional management so as to further enhance the overall corporate governance of NGOs; and
  - (d) if small NGOs encountered difficulties in apportioning central administration costs, SWD would provide support as appropriate through the designated liaison officer system under the Subventions Branch, as well as specified contact persons and the helpline of the Finance Branch.

**C. Self-assessment of service quality by non-governmental organizations**

37. According to paragraph 3.2 of the Audit Report, NGOs were required to submit to SWD self-assessment reports on the attainment of various indicators. The Committee asked how SWD would monitor and verify the figures in these reports to truly reflect the services of the relevant NGOs.

38. **Secretary for Labour and Welfare** replied at the public hearing on 13 January 2018 and **Director of Social Welfare** supplemented in her letter dated 8 February 2018 (*Appendix 8*) that:

- subvented services of the NGOs were monitored by SWD through the Service Performance Monitoring System. Under the system, FSAs on the subvented services were drawn up jointly between SWD and the NGOs to formulate service standards and assess service performance. NGOs should properly manage their service units to ensure compliance with FSA requirements, including ESRs, Output/Outcome Standards and SQSs;
- SWD issued letters to all subvented NGOs on a yearly basis, requiring them to comply with the requirements under Service Performance Monitoring System through conducting self-assessment and submitting self-assessment reports on whether their service units met ESRs, Output/Outcome Standards and SQSs under individual FSAs. Where there was non-compliance, the NGOs were required to submit action plans for improvement at the same time and implement the relevant measures. The self-assessment reports should be completed in a format prescribed by SWD;
- SWD would visit all subvented NGOs within each monitoring cycle (every three years) in the form of review visits or surprise visits to selected subvented service units, so as to assess and monitor their service performance by means such as reviewing their implementation records and relevant data;
- if non-compliance was found during the visits or in the reports submitted by the NGOs, the following measures would be taken by SWD:
  - (a) if inaccuracies were found in the self-assessment of Output/Outcome Standards, SWD would elucidate the understanding and definition of individual Output/Outcome Standards and the criteria for measuring such standards and, where necessary, prepare explanatory notes and/or guidelines to clarify the relevant assessment methods;

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- (b) SWD would in writing require the NGOs to make rectifications and examine their quality checking mechanism at the same time, in order to ensure accuracy in the statistics and reports prepared by the service units for submission to SWD; and
- (c) SWD would require the NGOs to submit action plans for improvement regarding the non-compliant areas and monitor the NGOs' implementation of improvement measures.

At the request of the Committee, **Director of Social Welfare** provided a copy of the forms relating to the self-assessment report and a sample of FSA in her letters dated 8 February and 9 April 2018 (*Appendices 8 and 11*) respectively for the Committee's reference.

39. With reference to Table 16 in paragraph 3.6 of the Audit Report, the Committee sought explanation on the overstatement of Output/Outcome Standards by NGOs B and F, reasons for the great discrepancy between the standard agreed in FSAs and the standard as reported by NGOs, and SWD's follow-up actions taken in this respect.

40. **Secretary for Labour and Welfare** replied at the public hearing on 13 January 2018 and **Director of Social Welfare** supplemented in her letter dated 8 February 2018 (*Appendix 8*) that:

- NGO B had attributed the error in data to mere human mistakes rather than a misunderstanding of the Output Standards. NGO B had subsequently strengthened its internal review mechanism after the incident; and
- the rather large discrepancy between the output reported by NGO B and the service standard was due to the following reasons:
  - (a) with the launch of the Home care service for persons with severe disabilities ("HCS") by SWD in March 2014, home-based services were provided for persons with severe disabilities living in the community. As the service recipients were not referred from the central waiting list, the NGO operator had to devote considerable time and manpower at the initial stage to establishing a liaison and referral network with hospitals, clinics, paramedical and allied health professions, other rehabilitation service and home care

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service units, patient self-help organizations, etc. As a result, it took time for the case numbers and output to build up;

- (b) the principal staff of the NGO operator's service team involved various professional disciplines (including physiotherapists, occupational therapists, nurses and social workers) and personal care workers, etc. The NGO had faced many difficulties and challenges in staff recruitment; and
- (c) as the service was still at a developing stage, SWD had been in discussion with various NGO operators to examine options for service enhancement and analyze the components and workflow for service provision. Both parties had confirmed that the definition and calculation method drawn up in the planning stage for service output had failed to cover the service hours of some direct services (e.g. pre-discharge and home-based professional assessment, home modifications, etc.) and indirect services (e.g. multi-disciplinary case conference for formulating and co-ordinating the treatment plan, training of personal care workers and therapy assistants for the provision of individualized care, arrangement of suitable treatment devices on a case-by-case basis, etc.) As a result, the data could not fully reflect the actual output of the NGO. SWD would follow up on these issues and adjust the calculation of service output for individual items.

41. The Committee further enquired about the mechanism for granting subvention to ASU B of NGO B and under what circumstances such mechanism would be adopted.

42. **Mr FONG Kai-leung, Assistant Director of Social Welfare (Rehabilitation and Medical Social Services)** replied at the public hearing on 13 January 2018 and **Director of Social Welfare** supplemented in her letter dated 8 February 2018 (*Appendix 8*) that as the utilization rate of HCS was lower than expected, SWD had reviewed the subvention arrangements for the service jointly with the NGO and revised the relevant FSAs, which came into effect in April 2015, in order to optimize the use of public funds. Under the revised arrangements, annual subventions (payable on a monthly basis) to the NGO were pegged to the caseload, as follows:

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- ASU would receive 50% of the subvention, if it attained less than 50% of the agreed caseload<sup>16</sup> for the year;
- ASU would receive 75% of the subvention, if it attained 50% or above but less than 75% of the agreed caseload for the year; and
- ASU would receive 100% of the subvention, if it attained 75% or above of the agreed caseload for the year.

43. As regards NGO F, **Secretary for Labour and Welfare** replied at the public hearing on 13 January 2018 and **Director of Social Welfare** supplemented in her letter dated 8 February 2018 (*Appendix 8*) that:

- the target group of ASU J, a children and youth centre, was those between the age of 6 and 24. However, it had been used for organizing activities for children under 6 and retired men respectively from 2014-2015 to 2016-2017. Activities for participants not belonging to that age group were not normally regarded as FSA services. As the numbers of sessions and participants of the above activities were counted towards the total FSA output of the centre by NGO F, and there were also man-made calculation mistakes, the output was overstated as a result; and
- SWD would continue to follow up on the matter and reiterate to the NGO that it should ensure that usage of LSG was for providing FSA related activities, and report the service output/outcome in an accurate manner. NGO F would also be requested to revise the statistics of its relevant annual statements and submit them for SWD's inspection.

44. According to SQS 11 in Appendix B of the Audit Report, the service unit had to adopt a planned approach to assessing and meeting service users' needs. The Committee enquired about SWD's measures to ensure that different NGOs were using a common and standard approach for assessing the same kind of service for easy monitoring and comparison purposes.

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<sup>16</sup> Caseload is defined as "the number of cases provided with social work intervention, including counselling and support service to the service users and their family members/carers".

45. **Mr LAM Ka-tai, Deputy Director of Social Welfare (Services)** replied at the public hearing on 13 January 2018 and **Director of Social Welfare** supplemented in her letter dated 8 February 2018 (*Appendix 8*) that SWD had formulated a set of criteria and assessment indicators for each SQS. The detailed descriptions were set out in the Assessment Matrix Reference Guide and the Implementation Handbook, and they had been uploaded onto SWD's website.<sup>17</sup> NGOs were required to formulate, in accordance with the criteria and assessment indicators for each standard, relevant policies and procedures for its service units according to its circumstances, and the implementation details for each standard. During service performance visits, SWD would also examine the policy and procedural documents relating to the relevant SQSs as well as the relevant implementation records, so as to ensure that the service units meet the relevant requirements.

46. Referring to Case 3 in paragraph 3.6 of the Audit Report, the Committee enquired about measures adopted by SWD to avoid NGOs' misunderstanding and inaccurate reporting of Outcome Standards, and ways to prevent recurrence of similar incidents.

47. **Assistant Director of Social Welfare (Rehabilitation and Medical Social Services)** replied at the public hearing on 13 January 2018 and **Director of Social Welfare** supplemented in her letters dated 8 February 2018 (*Appendix 8*) that when SWD entered into a new FSA with NGO C in March 2017 for the period from 1 March 2017 to 29 February 2020, both parties agreed that the definition of the related Outcome Standards should be revised so as to better reflect the service performance of the NGO. As the new FSA came into effect in March 2017, the NGO was notified by SWD in the same month that it should either adopt the old definition of the Outcome Standards in preparing the full-year statistics of 2016-2017 (i.e. from April 2016 to March 2017) or not take into account the statistics of the last quarter of 2016-2017 (i.e. from January to March 2017) in preparing the full-year statistics. However, in reporting the full-year statistics of 2016-2017, NGO C mistakenly used the new definition of the Outcome Standards in calculating the statistics, thereby resulting in error in reporting the achievement of the related Outcome Standards. To prevent future occurrence of similar case, SWD had conducted meetings with NGO operators of various community rehabilitation day centres to find out the causes of error in similar situations, and would formulate

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<sup>17</sup> The Assessment Matrix Reference Guide and the Implementation Handbook can be accessed at the following hyperlinks respectively:  
[https://www.swd.gov.hk/en/index/site\\_ngo/page\\_serviceper/sub\\_serviceper/id\\_matrixtemplate/](https://www.swd.gov.hk/en/index/site_ngo/page_serviceper/sub_serviceper/id_matrixtemplate/)  
[https://www.swd.gov.hk/en/index/site\\_ngo/page\\_serviceper/sub\\_serviceper/id\\_sqshandbook/](https://www.swd.gov.hk/en/index/site_ngo/page_serviceper/sub_serviceper/id_sqshandbook/).



guidelines for reference and compliance by the staff of various operators. SWD also requested the officers-in-charge of various units to review their workflows and strengthen control measures so as to prevent recurrence of similar mistakes.

48. The Committee noted that SWD would be flexible in handling an ASU of an NGO which did not conform with the required performance standards due to special reasons and their subvention amount would not be affected. The Committee asked about examples of such cases.

49. **Director of Social Welfare** replied in her letter dated 8 February 2018 (*Appendix 8*) that where there was non-compliance with ESRs, Output/Outcome Standards and service quality standards under individual FSAs, the NGO was required to submit action plan for improvement at the same time when it submitted its annual self-assessment reports and implement the relevant measures. After reviewing the self-assessment reports and the action plan submitted by the NGO, SWD would notify it in writing of whether its action plan was acceptable. Examples of such cases were set out in *Appendix 8*.

50. The Committee enquired about reasons for non-compliance of SQS 9<sup>18</sup> by the six NGOs as depicted in Table 17 in paragraph 3.11 of the Audit Report, and follow-up actions taken by SWD to address the problem.

51. **Secretary for Labour and Welfare** replied at the public hearing on 13 January 2018 and **Director of Social Welfare** supplemented in her letter dated 8 February 2018 (*Appendix 8*) that upon enquiry, SWD understood that all six NGOs had already taken appropriate actions to follow up on the non-compliance cases. One of the cases might still take some time for the NGO to address, while for another case, the NGO held different opinions over the assessment made by Audit. Details on follow-up actions taken by NGOs regarding the non-compliance of SQS 9 was in *Appendix 8*. In addition, SWD had also reminded NGOs to strengthen training of their staff, so as to ensure that their service units provided a safe physical environment for their staff and service users.

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<sup>18</sup> SQS 9 states that "the service unit takes all reasonable steps to ensure that it provides a safe physical environment for its staff and service users".

52. Referring to Case 4 in paragraph 3.7 of the Audit Report, the Committee enquired whether SWD was aware of the different interpretation and definition of service outcomes (i.e. completion of training), and how SWD would ensure that NGOs were adopting evaluation methods that complied with the original intent of the objective listed in FSA.

53. **Assistant Director of Social Welfare (Rehabilitation and Medical Social Services)** replied at the public hearing on 13 January 2018 and **Director of Social Welfare** supplemented in her letter dated 8 February 2018 (*Appendix 8*) that:

- prior to the examination by Audit, SWD was not aware of NGO D's practice of regarding training as having been completed when service users had just completed 10% or more of the planned training sessions;
- apart from NGO D, other NGOs operating community rehabilitation day centres did not have the understanding as NGO D regarding completion of individual training plans. The attending therapists were of the opinion that a completed training and support plan was understood in their profession as having been completed in full, rather than in part;
- for NGO D, it would normally design training and support plans spanning from three months to a year for service users. Given the long treatment period, some service users were reluctant to attend follow-up treatment and assessment at the centre when their symptoms had improved. Therefore, it regarded some service users having completed only 10% of the plans as having "completed" the individual training and support plans;
- NGO D had pledged to make improvements by designing appropriate individual training and support plans with different symptoms taken into account, and complying with SWD's requirements on attainment of Output/Outcome Standards; and
- SWD would draw up guidelines jointly with the NGO operators for a clear interpretation of SWD's requirements on attainment of Output/Outcome Standards, in order to ensure a uniform understanding of the content of FSA and definition of terms therein.

**D. Monitoring of service delivery by Social Welfare Department**

54. Noting from the public hearing that SWD had previously withdrawn LSG subvention as the ultimate sanction, the Committee enquired about the circumstances under which SWD would instigate the withdrawal of LSG subvention from NGOs and asked for details of previous withdrawal case.

55. **Director of Social Welfare** replied at the public hearing on 2 March 2018 and supplemented in her letter dated 9 April 2018 (*Appendix 11*) that:

- according to paragraph 4.4(g) of the LSG Manual, if a subvented NGO obstructed Director of Social Welfare to exercise his/her authorities (e.g. accessing the records and accounts of the NGO, etc.) or failed to (i) achieve a reasonable standard of performance in accordance with the full requirements of FSAs; (ii) exercise reasonable and prudent financial management; or (iii) comply with the LSG rules and other subvention rules, SWD would withhold or terminate its social welfare subventions; and
- there was a precedent case in which an NGO, due to its internal governance problem, failed to operate according to its articles of association, and was unable to exercise its human resources management and financial management properly. Despite repeated advice and reminders given to its board, the NGO was unable to submit the financial statements and service performance reports to SWD as required. In the end, the NGO board confirmed that they were unable to make any rectifications and had no objection to SWD's withdrawal of the subvention. SWD subsequently allocated the affected subvented services to other subvented NGOs for continuation of operations.

56. The Committee enquired details about Case 5 in paragraph 4.3 of the Audit Report regarding the increase in the level of subvention provided to the concerned ASU although the ASU could not meet the required Output/Outcome Standards for the consecutive periods from 2012-2013 to 2016-2017.

57. **Mr FUNG Man-chung, Assistant Director of Social Welfare (Family and Child Welfare)** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that:

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- the concerned ASU had been providing subvented intercountry adoption service since 1986. SWD formulated the Output Standards in consultation with the NGO, taking into consideration service demand at that time, procedures required for intercountry adoption and past service performance of the NGO;
- amidst the social changes and advancement in medical technology, the number of children being placed for adoption had been decreasing. In addition, in accordance with the principle set out in the Convention on Protection of Children and Co-operation in Respect of Intercountry Adoption, the Contracting State should accord priority to placing children to families of the same cultural or ethnic background as far as possible. Therefore, suitable overseas adoptive homes should be identified through intercountry adoption only when there were no suitable local homes for the children waiting to be adopted;
- the majority of children waiting for intercountry adoption were children with special needs. This was challenging for NGOs providing intercountry adoption service as there were considerable difficulties to secure suitable overseas adoptive homes. Besides, the number of applications for intercountry adoption by relatives had been fluctuating, which led to the ASU's failure in meeting some of the Output Standards as stipulated in FSA in the past few years; and
- having regard to the fluctuating number of children available for adoption and the latest development of the adoption service, SWD and the NGO concerned had kept reviewing the NGO's service performance, exploring intervening strategies and extending the scope of service so as to enhance the adoption prospect of the children to be adopted. SWD had also revised FSA with the NGO, which had come into effect since 1 July 2017.

58. Referring to Table 21 in paragraph 4.10 of the Audit Report, the Committee enquired about:

- the basis for setting a higher level of performance standards for 2016-2017 despite the significant underperformance of the relevant ASUs in 2015-2016, and the updated situation of the ASUs' performance standards in 2017-2018;

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- reasons for the relevant ASUs not attaining the agreed performance standard, such the output standards "Total number of service sessions of rehabilitation training service provided by physiotherapists/occupational therapists in a year" and "Total number of service sessions of nursing care service provided by nurse/health care staff in a year" for ASU 16; and
- measures adopted by SWD to help the relevant NGOs to address the manpower shortage problem.

59. **Assistant Director of Social Welfare (Family and Child Welfare)** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that:

- as the utilization rate of HCS was lower than expected, SWD had reviewed the subvention arrangements for the service which came into effect in April 2015. Annual subventions (payable on a monthly basis) to the NGOs were pegged to the caseload attained.<sup>19</sup> Since all service units had exceeded 75% of the agreed caseload at the end of 2015-2016, the allocation of subventions were at 100% level for 2016-2017 despite that all the service units could not achieve the expected level of performance in 2015-2016;
- compared with 2015-2016 and 2016-2017, all NGOs had achieved significant improvement in performance in 2017-2018 (up to December 2017). Details were provided in *Appendix 11*;
- reasons for service standards not being met were set out below:
  - (a) the NGOs had to devote considerable time and manpower at the initial stage to establish a liaison and referral network with hospitals, clinics, other rehabilitation service and other relevant organizations. It took time for the case numbers and output to build up;
  - (b) the principal staff of HCS involved various professional disciplines (including physiotherapists, occupational therapists, etc.) and there were considerable difficulties in staff recruitment; and

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<sup>19</sup> See paragraph 42 above on details of subvention based on the attainment of caseload.

- (c) SWD found out that the original definition of service output and calculation methods during the service planning stage could not fully cover certain service-related indicators and therefore the data collected could not fully reflect the actual output of the NGOs; and
- to address the shortage for medical staff problem, SWD had joined hands with universities and the Hospital Authority to launch professional training programmes for strengthening the manpower input of allied health and nursing professionals in subvented services, such as launching master programmes in Occupational Therapy and Physiotherapy and providing tuition fee sponsorship for students admitted by the NGOs to encourage them to join the social welfare sector. In addition, training programmes for nursing staff were launched by the Hospital Authority, with over 90% of the graduates had joined the social welfare sector. The Open University of Hong Kong was commissioned by SWD to provide 920 nursing training places in the four consecutive years since 2017-2018. Participants were required to sign an undertaking to work for two consecutive years in the social welfare sector upon completing the training programmes.

60. Referring to paragraph 4.14 of the Audit Report, the Committee sought explanation why support services, which were stated in service users' care plans, were not provided to users in some cases, and whether such reasons would be recorded in individual service users' case files.

61. **Mr FONG Kai-leung, Assistant Director of Social Welfare**<sup>20</sup> replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that:

- regarding HCS and the Integrated support service for persons with severe physical disabilities ("ISS"), the major characteristic of the two services was the provision of case management for service users. The 24 cases (13 cases from ASU A and 11 cases from ASU B) examined by Audit were taken care of under case management by social workers, such as service coordination and matching, emotional

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<sup>20</sup> Mr FONG Kai-leung attended the public hearings held on 12 December 2017 and 13 January 2018 in the capacity of "Assistant Director of Social Welfare (Rehabilitation and Medical Social Services).

support, information giving, etc. Since the Audit Report had not put social work support under its definition of "support services", follow-up work and support delivered by social workers under case management had not been reflected in the Audit Report;

- some other reasons for not having received support services were as follows:
  - (a) family members/carers expressed no immediate service need but requested using the service whenever in need;
  - (b) family members/carers changed their mind and chose other services (e.g. hire of domestic helpers, day rehabilitation centres, etc.);
  - (c) service users were using other services or were not suitable to receive physiotherapy or occupational therapy services; and
  - (d) loss of contact with service users and family members/carers; and
- case managers should record situations where service users were unable to receive rehabilitation, nursing care and/or personal care services in their case files. SWD would work out guidelines to remind all NGOs to monitor and implement the relevant practice accordingly.

62. According to paragraph 4.19 of the Audit Report, there were delays in discharging service users. The Committee enquired whether guidelines would be issued relating to discharging of patients.

63. **Assistant Director of Social Welfare** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that reasons for the delay in discharging patients were summarized as follows:

- family members/carers expressed no immediate service need but requested using the service whenever in need;

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- service users were hospitalized or had to be admitted to hospitals frequently for treatment;
- service users were in unstable medical condition;
- loss of contact with service users and family members/carers; and
- it took time to wind up and complete the administrative work for closing the case or the case social worker had not closed the case in a timely manner.

SWD had already spelt out clearly in the Service Specifications of HCS the policy and terms on exit of the service before the regularization of the service in March 2014. According to the requirement of SQS10 for subvented NGOs, service units needed to have the policy and procedures for entering and leaving the service. The relevant sections are extracted in *Appendix 11*.

64. With reference to SWD's response in paragraph 4.25(b) to (c) of the Audit Report regarding the provision of HCS and ISS services, the Committee sought more information about the progress and timeframe in implementing the improvement work.

65. **Assistant Director of Social Welfare** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that:

- with regard to providing more guidelines on the counting of cases into the caseloads, provision of support services in accordance with the agreed care plans and discharge of service users (paragraph 4.25(b) of the Audit Report), the task was expected to be completed around December 2018; and
- with regard to setting up a case cross-checking mechanism among the service operators of HCS and ISS to avoid service users receiving support services from the two services concurrently (paragraph 4.25(c) of the Audit Report), SWD had already reached an agreement with the NGOs that the applicants should give consent and authorization to allow the staff of the service units to liaise with service units providing similar service in the district to check and prevent the service users from using service of the same nature at the same time. Besides, the



applicants needed to make declaration upon application that they were not using any services of the same nature. Such measure had already been put in place since December 2017.

66. According to Case 7 in paragraph 4.27 of the Audit Report, Outcome Standards were included in the revised FSAs of three ASUs but not for another two ASUs which offered similar service. The Committee enquired about the reasons for the different arrangements; the number of other NGOs offering similar services as the five ASUs and whether they had incorporated Outcome Standards in their FSAs.

67. **Assistant Director of Social Welfare** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that:

- the current five ASUs providing refuge centre services for women had been receiving subventions from SWD since 1989, 1996, 2002, 2006 and 2009 respectively. Two of the ASUs commenced operation before the implementation of the LSG subvention system in 2001. Outcome Standards were not included when FSAs of these two ASUs were set. However, the ASUs were requested to provide information on two items to reflect service effectiveness when submitting the quarterly statistical information form, i.e. user satisfaction rate and the extent of enhancement in service users' basic skills in protecting themselves and their children upon leaving the centre;
- there was one service unit under an NGO which offered similar services since 2010. The two Outcome Standards mentioned above had been included in its FSA; and
- in September 2017, SWD reviewed FSAs of the two ASUs and deliberated with the service units concerned on the addition/revision of the Output Standards for enhancing the service monitoring of individual units. Two Outcome Standards had been newly added to FSAs of these two service units, which came into effect in April 2018.

68. The Committee asked about the action plan and timeframe for SWD to incorporate Outcome Standards into 2 209 FSAs which did not contain Outcome Standards as revealed in paragraphs 4.27 and 4.28 of the Audit Report.

69. **Director of Social Welfare** replied at the public hearing on 2 March 2018 and supplemented in her letter dated 9 April 2018 (*Appendix 11*) that SWD had already begun to set Outcome Standards for new ASUs. For existing ASUs, SWD would discuss with the NGOs concerned on setting Outcome Standards as appropriate when their FSAs were reviewed. Besides, the Task Force had proposed to review the area on "Mechanism for review of FSAs", and it would be examined in detail in the coming meetings of the Task Force (see paragraphs 93 and 94 below for the work of the Task Force).

70. Noting from Case 8 in paragraph 4.31 of the Audit Report that an ASU organized activities for non-target service users under the FSA, the Committee enquired about the reasons for that and actions taken by SWD to ensure that subvention resources were used effectively to deliver FSA related activities of the concerned ASU.

71. **Mrs Helen KWOK LI Ming-yee, Assistant Director of Social Welfare (Youth and Corrections)** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that:

- according to the FSA, in addition to core programmes, the ASU was also required to provide non-core programmes. Non-core programmes were aimed at attracting their target users, i.e. children and young people to go to the centres with their families, enable them to use their leisure time constructively, build up relationship between members and their families as well as build up community network. As such, apart from children and young people, people of other age groups, including family members and people in the community, could have the opportunity to join non-core programmes. While the number of programme sessions and attendances for non-core programmes were much higher than those for core programmes, the resources utilized for non-core programmes were much lower than those for core programmes;
- the concerned ASU conducted activities for non-target users, i.e. young children under the age of 6 and retired men from 2014-2015 to 2016-2017. The NGO considered that through providing services for young children, early intervention for children could be achieved for meeting the needs of the community. Besides, providing services for retired men could set up a platform for young people to enhance their

communication skills with elders and foster trans-generational harmony;

- in the last three financial years, records of SWD showed that the concerned ASU had fully met the performance standards as stipulated in the FSA. Although the NGO counted the service figures of non-service targets towards the output level of core programmes by mistake, the NGO was still able to meet the required output level after Audit's re-calculation; and
- SWD was examining the service information and output figures in connection with the services provided for young children under the age of 6 and retired men from 2014-2015 to 2016-2017 as submitted by the NGO. In the event of any subvented resources being deployed for non-FSA related activities, the NGO would be requested to apportion the costs in respect of rent, rates, utility charges and personal emoluments, etc. funded by social welfare subventions.

72. The Committee sought the reasons of mismanagement of emergency places by the relevant ASU in Case 9 in paragraph 4.31 of the Audit Report, and enquired about actions that had been/would be taken by SWD to ensure that the emergency service was optimally utilized by children in need.

73. **Assistant Director of Social Welfare (Family and Child Welfare)** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that:

- in 2011, the NGO operator of the concerned ASU shortened the maximum duration of stay of its emergency places from three months to six weeks, which led to repeated and frequent extension of stay for individual cases which were unable to secure alternative residential placement. In addition, the NGO did not specify a reasonable timeframe for the referring social workers to complete the required admission procedures for the children as soon as possible after confirming that there were vacant places (including obtaining the consent of the parents/guardians of the children, arranging medical examination for the children, etc.), which had undermined the service utilization of the emergency places. Besides, there was no mechanism in place to clearly require the referring social workers to submit relevant documents to ascertain that long-term welfare plans of the

children had been formulated as a reason to support the extension of stay when the applications were made;

- to improve the utilization of resources, the NGO had extended the maximum duration of stay of the emergency residential child care places from six weeks to three months with effect from 1 December 2017 after discussing with SWD. In order to improve the admission procedures of the emergency places, the NGO had taken intervening measures, including the requirement for the referring social workers to complete the required admission procedures for the children as soon as possible. If the referring social worker failed to arrange for the children to be admitted within 14 days, the residential places would be allocated to other children in need of the service. SWD had also requested the NGO to provide statistical return of the utilization of emergency residential child care places on a regular basis so as to monitor the utilization of the service; and
- SWD had maintained an established mechanism governing the extension of stay for the emergency residential child care places. To facilitate the processing of applications for extension of stay, the NGO had set out the requirements that the parental consent, endorsement of the long-term welfare plan of the child by the senior of the referring social workers and other relevant documents had to be provided by the referring social workers when the application for extension of stay was made.

#### **E. Governance and management matters**

74. Noting from paragraph 5.4 of the Audit Report that NGOs receiving LSG subvention were required to implement Level One guidelines of BPM by 30 June 2017, the Committee enquired about the implementation progress, actions taken by SWD to promote Level Two guidelines and follow-up actions if NGOs failed to follow Level One or Level Two guidelines of BPM.

75. **Secretary for Labour and Welfare** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that:

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- at present, all NGOs receiving LSG subventions had already implemented all items under Level One guidelines of BPM. During the three-year transition period (i.e. 2014-2015 to 2016-2017), each NGO was required to report to SWD its implementation progress by submitting to SWD by end of October of each year a self-assessment report;
- SWD had been encouraging NGOs to adopt Level Two guidelines. As at 31 March 2017, 153 NGOs had implemented all or some items of the Level Two guidelines, representing an increase of 7.7% as compared with the situation as at 31 March 2016 (i.e. 142 NGOs). SWD issued a letter to NGOs in April 2017 to share with them the implementation progress of BPM, and appealed to them to adopt Level Two guidelines. SWD would soon collate the checklists submitted by NGOs and arrange sharing sessions for NGOs on the good practices of Level Two guidelines with a view to encouraging NGOs to make reference to the good practices and develop suitable implementation plans; and
- workflow of BPM as shown in *Appendix 11* illustrated how SWD followed up with those NGOs not complying with Level One guidelines. According to BPM, if an NGO could not comply with Level One guidelines and persistently failed to make improvement, SWD would consider putting up the case to the LSGSC for consideration and making recommendations. SWD had all along encouraged NGOs to adopt Level Two guidelines as far as possible, and through submission of the self-assessment reports by NGOs, understood NGOs' implementation of this level of guidelines and collected their views.

76. The Committee asked about the follow-up actions taken by SWD in respect of the NGO which declined to follow Level One guidelines of BPM as depicted in paragraph 5.5(b) of the Audit Report.

77. **Director of Social Welfare** provided a table showing the follow-up actions taken by SWD against the NGO in chronological order in her letter dated 9 April 2018 (*Appendix 11*) as follows:

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Date	Content
October 2016	The NGO submitted the BPM checklist for 2015-2016. The checklist showed that it did not comply with Level One guidelines on the use of the PF Reserve for non-Snapshot Staff.
November 2016	SWD contacted the NGO to understand its reasons for not complying with the guidelines and the difficulties encountered, and reiterated that all NGOs had to implement all Level One guidelines by 2016-2017.
December 2016	SWD requested the NGO by e-mail to follow up the requirements of Level One guidelines.
August 2017	SWD contacted the NGO again to understand the progress of their implementation of Level One guidelines.
October 2017	SWD visited the NGO and met with their management to ensure that they understood how to fulfill the requirements of the BPM.
December 2017	The NGO's board endorsed and implemented all Level One guidelines.

78. Referring to paragraph 5.16 of the Audit Report, the proportion of board/committee members not attending any board/committee meetings was high, and there were cases where board/committee members with low attendance rates had been re-appointed to board/committees. The Committee enquired about:

- reasons for the above problems and role of SWD in this regard;
- how SWD could ensure that the management of the concerned NGOs exercised good governance; and
- assistance offered or guidelines provided on the appointment of board members to NGOs.

79. **Secretary for Labour and Welfare** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that:

- the NGOs concerned explained that some board members were unable to attend the meetings due to their busy schedules. Papers for the meetings would still be issued to those board members who could not attend the meetings, and they could review the documents and express their views through other channels. Some board members with low attendance rates were still re-appointed as they had made substantive contributions to the NGOs, for example, as leading fundraisers or professionals who could provide complimentary professional advice for NGOs' premises and service development; and
- in order to encourage NGOs to adopt good practice of corporate governance, relevant guidelines or templates on corporate governance of the Efficiency Office (formerly known as the Efficiency Unit), the Independent Commission Against Corruption and HKCSS had been listed in the LSG Manual and uploaded onto SWD's website. SWD had allocated more than \$9.7 million from the Lotteries Fund to HKCSS to launch a four-year project "NGOs' Governance Platform" to provide more exchange and training opportunities for NGOs' board of directors and further enhance the governance capacity of the NGOs.

80. The Committee asked about the actions taken by SWD to promote a wider adoption of "Guide to Corporate Governance for Subvented Organisations" published by the Efficiency Office and how SWD could monitor NGOs' adoption of good practices contained therein.

81. **Secretary for Labour and Welfare** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that to enhance corporate governance of the NGOs receiving LSG subventions as well as promoting their wider adoption of good practices on areas of declaration of interests, attendance of board/committee meetings and appointment of board/committee members, SWD would continue to encourage NGOs to adopt other good governance practices, including the "Guide to Corporate Governance for Subvented Organisations". As and when appropriate, SWD would share with the NGOs' boards good practices in the sector.

82. The Committee further enquired about the measures and follow-up actions taken by SWD/NGOs to improve the declaration of interests mechanism for their board/committee members to enhance transparency.

83. **Secretary for Labour and Welfare** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that to improve NGOs' management of conflicts of interest and enhance transparency, SWD would remind NGOs' boards and encourage them to (i) set out clearly the requirements for the avoidance of conflicts of interest, and the course of action to be taken when a member faced a real or apparent conflict of interest situation; (ii) consider adopting a "two-tier reporting system" whereby in addition to reporting conflicts of interest at board meetings as and when they arose, board members should disclose their general interests on appointment to the board and annually thereafter; and (iii) arrange making the declaration on a registration form, which should be made available for public inspection.

84. The Committee noted from Tables 31 and 32 in paragraphs 5.25 and 5.27 respectively of the Audit Report that staff turnover was high and enquired about:

- whether SWD/NGOs had compiled periodic statistics on staff turnover and ascertained reasons for the problem, e.g. conduct exit interviews with staff;
- how SWD would monitor the staff turnover problem to ensure sustainable development of the sector;
- as Audit revealed that job-related reasons were the main cause for staff leaving, SWD's measures to address the issues; and
- the statistics on wastage for the welfare sector in the past three years with breakdown by age, ranks, reasons for leaving and years of service of job holders.

85. **Secretary for Labour and Welfare** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that:

- human resources management, including recruitment and staff turnover, etc., fell within the realm of corporate governance of the



NGOs. The issue on "Staff turnover and vacancy condition" was one of the eight review areas proposed by the Task Force and would be examined in detail at the coming meetings of the Task Force (see paragraphs 93 and 94 below for the work of the Task Force);

- the Joint Committee on Social Work Manpower Requirements, comprising representatives of SWD and HKCSS, collected employment data of social work personnel to keep track of the manpower situation in social work field and published annual reports for the sector's reference to facilitate the manpower planning. The Joint Committee would provide the overview and projection of the demand and movement of manpower, including the trends of changes in the turnover rates of social workers in the past years. SWD had also subsidized HKCSS to publish the "NGOs Salary Survey Report" annually since 2003. The annual survey report showed the turnover rates of different grades of staff of the participating organizations in the year. Although there was no information on the reasons for staff departure, the report shared the measures on retaining staff as adopted in the sector. Besides, in order to grasp the manpower situation of frontline care workers of rehabilitation and elderly services in recent years, SWD conducted in mid-2017 a questionnaire survey to collect relevant information and shared the findings with the sector afterwards;
- staff turnover was subject to many factors, including remuneration packages, other employment opportunities, personal development and needs, etc. There was great variance in the turnover rates among different grades of staff/work types or different scales of NGOs. SWD would continue to monitor the performance of subvented services through the existing mechanism and provide suitable assistance to NGOs when needed;
- at present, SWD did not require NGOs to conduct exit interviews with departing staff or compile information on staff turnover. As such information was useful for NGOs in enhancing their corporate governance and human resources management, SWD would encourage NGOs to adopt these good management practices through appropriate channels; and
- according to the published figures of the Joint Committee, wastage rates of social work posts in 2013-2014, 2014-2015 and 2015-2016 were given in the following table. However, there was no statistical

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information regarding the job leavers' age, rank and reasons for leaving:

Year	Degree Posts Wastage Rate (%)	Diploma Posts Wastage Rate (%)	All Social Work Posts Wastage Rate (Note) (%)
2013-2014	4.7	8.0	4.2
2014-2015	4.6	6.5	2.8
2015-2016	5.1	9.0	3.4

Note: Figures have excluded cases switching between Diploma posts and Degree posts.

86. The Committee noted from paragraph 5.30 that pay scales were only established for some ranks in some NGOs, and there existed salary gap for the same ranks among different NGOs and the Government. The Committee enquired about the actions taken to address these issues.

87. **Secretary for Labour and Welfare** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that NGOs' human resources management, including the formulation of pay structure and benefits, was in the realm of corporate governance of NGOs. "Pay policies and pay scales" was one of the eight review areas proposed by the Task Force, and would be examined in detail in the coming meetings of the Task Force (see paragraphs 93 and 94 below for the work of the Task Force).

88. The Committee enquired about the progress in forging agreement among NGO management, the staff side and service users on the four outstanding items of BPM<sup>21</sup> and the timeline for full implementation as revealed in paragraph 5.32(d) of the Audit Report.

<sup>21</sup> The four outstanding items are related to human resources management covering staff remuneration policy, pay policy with clear salary structure and/or starting points, policy on the transfer of posts, renewal and termination of employment contracts and transparent and accountable decision making with regard to staff contracts. See paragraph 5.8 of the Audit Report for details.

89. **Director of Social Welfare** replied in her letter dated 9 April 2018 (*Appendix 11*) that the Working Group on Implementation Details of BPM, chaired by the Assistant Director of Social Welfare with members including NGOs' management, staff representatives, service user representatives and independent members, would continue to convene meetings with a view to forging consensus among the representatives for the four outstanding items. It was expected that the matters concerned would be submitted to LSGSC for discussion in the third quarter of 2018 followed by the incorporation of the items in BPM.

#### **F. Review of lump sum grant subvention system**

90. The Committee noted from paragraph 6.12 of the Audit Report that a member of the Complaints Handling Committee had not declared potential conflicts of interest and the minutes did not indicate that the Chairman had made decisions on the declarations as required. At the request of the Committee, **Director of Social Welfare** provided details regarding the Complaints Handling Committee, including its terms of reference, number and composition of membership, their background and the number of meetings held in the past three years in her letter dated 9 April 2018 (*Appendix 11*). The functions of the Complaints Handling Committee were:

- to receive LSG related complaints against welfare NGOs which could not be satisfactorily resolved at the NGO level;
- to handle LSG related complaints such as misuse of subventions, NGOs' management decisions that had a direct impact on service performance and non-compliance with service requirements; and
- to relay the Complaints Handling Committee's decisions and recommendations to SWD so that follow-up action might be taken by SWD as appropriate.

91. The Committee sought details of the case depicted in paragraph 6.12(a) of the Audit Report, and reasons of not recording the Chairman's decisions on the declaration of interests in the relevant minutes of meetings as pointed out in paragraph 6.12(b) of the Audit Report.

92. **Secretary for Labour and Welfare** replied at the public hearing on 2 March 2018 and **Director of Social Welfare** supplemented in her letter dated 9 April 2018 (*Appendix 11*) that:

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- the member of the Complaints Handling Committee in paragraph 6.12(a) of the Audit Report was the principal of a school under the NGO being complained. From July 2011 to November 2012, the member participated in reviewing the complaints lodged against the NGO in four meetings and took part in the discussions at two of the meetings. The member also participated in examining the investigation report on the complaint against a service unit of the NGO and endorsed that the complaint issues were not substantiated. Since the NGO's education and welfare services were independently run, the member was not aware of the potential conflicts of interest and therefore had not declared the potential conflicts of interest concerned;
- the Complaints Handling Committee had been requesting its members to declare their potential conflicts of interest or seeking the Chairman's ruling in accordance with the guideline for the "One-tier Reporting System" issued by the Home Affairs Bureau (*Appendix 11*). It also requested its members to complete the standard declaration form before each meeting to declare their potential conflicts of interest, and the Chairman would make decisions and arrangements on the members' declarations. At the Complaints Handling Committee meeting held on 20 September 2017, SWD reiterated to members the guideline and would re-circulate it to members for reference every year; and
- in the past, the Secretariat to the Complaints Handling Committee had followed up the decisions of the Chairman on the declaration of interests without recording the related information in the minutes of the meetings. Starting from the meeting held on 20 September 2017, the Secretariat would record such information in the minutes of the meeting.

93. The Committee enquired about the operational details of the Task Force as highlighted in paragraph 6.18 of the Audit Report including its terms of reference, its membership, timeline of and issues to be covered in the review.

94. **Director of Social Welfare** provided the terms of reference, membership list and the proposed scope of the review of the Task Force in her letter dated 9 April 2018 (*Appendix 11*). The Administration expected to consult the LegCo Panel on Welfare Services on the scope of the review proposed by the Task Force in May 2018. It was expected that the relevant review study would be completed within two years after the scope of the review was established.

**G. Conclusions and recommendations**

<b>Overall comments</b>
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95. The Committee:

- affirms the contributions made by the social welfare sector in providing a wide range of services to meet the divergent needs of different social strata in Hong Kong. To this end, the role of the non-governmental organizations ("NGOs") to provide services to people in need is indispensable;
- notes that the lump sum grant ("LSG") subvention system was introduced in 2001 as a major revamp in the provision of public funding to NGOs. Under this system, the Social Welfare Department ("SWD") no longer imposes rigid and inflexible input controls on NGOs (e.g. staffing, salary structure and individual items of expenditure), but instead provides recurrent funding in a lump sum to offer greater autonomy and flexibility for NGOs to deploy resources and re-engineer their services to meet changing social needs in a timely manner;
- acknowledges that whilst NGOs are given the autonomy and flexibility under LSG in the deployment of subvention resources and retention of unspent surpluses<sup>22</sup> to proactively respond to changing community needs, it is equally important from a value for money perspective that a proper and transparent accountability mechanism should be put in place to ensure proper and prudent use of public funds, with performance outcomes/standards clearly stipulated for effective evaluation and monitoring of service delivery by SWD and the public at large;
- stresses that SWD, as the government department responsible for developing and coordinating welfare services in Hong Kong, not only assumes a vital role to support and facilitate NGOs in the provision of

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<sup>22</sup> An NGO can retain unspent LSG subvention in a reserve to meet future spending. The cumulative reserve is capped at 25% of the annual operating expenditure (excluding expenditure for provident funds) of the subvented services of the NGO. Any amount above the 25% cap is subject to claw-back and should be returned to the Government. The reserve can be used at the discretion of the NGO on Funding and Service Agreement ("FSA") activities and FSA related activities.

public services, but should also fulfill an important duty to monitor the performance of service delivery, and ensure that NGOs are exercising prudent control on the use of public funds and upholding the principles of accountability and transparency on their deployment of subvention resources;

- considers that people are the most valuable asset for the welfare sector for the provision of quality services. Even though public resources should be optimally utilized to maximize outcomes, this principle should not be achieved at the expense of the remunerations and benefits of social welfare personnel. SWD should work closely with the welfare sector to devise a transparent remuneration policy with clear salary structure which is competitive enough to attract, recognize and retain talents, and to give due recognition to staff members of welfare sector for their sound experience and good performance;

Room for enhancement on the use of reserves

- expresses concern that, albeit the need for NGOs to retain reserves for future spending, introducing new and improved services for the public and meeting various contractual obligations on staff emoluments, total amount of reserves<sup>23</sup> retained by NGOs had risen by 38% from \$3.4 billion in 2011-2012 to \$4.7 billion in 2015-2016. It is crucial for SWD to keep in view NGOs' balances of reserves and remind them, as when necessary, the need to optimally utilize public resources to suit the present-day needs of service users and the public;
- expresses concern about the persistent LSG operating deficits incurred by some NGOs as revealed in the Director of Audit's Report ("Audit Report"). Fourteen of 31 NGOs which had LSG deficits in 2015-2016 had incurred deficits for three consecutive years from 2013-2014 to 2015-2016. Of these 14 NGOs, eight had depleted their LSG reserves by end 2014-2015 and financed their operations from other sources;
- considers that the persistent LSG deficit coupled with a depleted LSG reserve of an NGO might serve as a reminder for SWD to take a more proactive role and be alert to the NGO's possible financial viability issues, so that remedial measures could be taken as appropriate in a timely manner, such as reviewing more stringently and at more

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<sup>23</sup> Total amount of reserves includes LSG Reserve, Holding Account and Provident Funds Reserve.

*Administration of lump sum grants by the Social Welfare Department*

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frequent intervals its financial reports/statements and providing advice or taking necessary follow-up actions when needed;

- urges SWD to take measures to facilitate NGOs to optimally manage and utilize their reserves in compliance with the guidelines of the Best Practice Manual ("BPM")<sup>24</sup> and to review the financial reports and discuss with the NGOs concerned to ensure LSG deficits of NGOs would not affect the provision of quality services for the public;

Disclosure of senior staff emoluments to enhance transparency and accountability

- expresses dissatisfaction about the inadequacies of SWD and the Labour and Welfare Bureau ("LWB") in implementing the disclosure requirements<sup>25</sup> which are aimed at enhancing NGOs' transparency and accountability to the public, as evidenced by the following:
  - (a) SWD only implemented the disclosure requirements with effect from 2009-2010, a deferment of some six years as required under the Memorandum issued by Director of Administration in 2003 ("the Memorandum");
  - (b) SWD had not sought approval from LWB regarding the deferment which was contrary to the requirement of the Memorandum;

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<sup>24</sup> According to the Level One guidelines of BPM which NGOs are expected to follow unless there are strong justifications not to do so, NGOs should maximize the use of the reserves in order to maintain or strengthen service delivery and implement strategic development plans, including building up a staff team with high quality. Also, NGOs are required to, through convenient, effective and timely channels, disseminate information about the reserves in a reader-friendly format to staff members and the public. Such information should include briefly a plan on how the reserves will be used in the future.

<sup>25</sup> In March 2003, Director of Administration issued a Circular Memorandum promulgating a set of guidelines for the control and monitoring of remuneration practices in subvented bodies by Directors of government bureaux and Controlling Officers of government departments. The guidelines require a subvented body to review and disclose annually in a Review Report the remunerations of its top three-tier staff unless it meets certain exemption criteria. The effective date for the implementation of the disclosure requirement was 1 April 2003.

*Administration of lump sum grants by the Social Welfare Department*

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- (c) SWD's calculation of the "50% income threshold" requirement<sup>26</sup> deviated from the intents of the Memorandum,<sup>27</sup> which resulted in fewer NGOs being required to disclose their senior staff emoluments;
  - (d) SWD and LWB maintained their stance in adopting the existing way to calculate the "50% income threshold" even after clarifying with the Administration Wing and the Financial Services and the Treasury Bureau ("FSTB") that their calculation was not the intents of the Memorandum, and the responsibility for administering the Memorandum vested with the relevant bureau; and
  - (e) although NGOs receiving LSG subventions are required by SWD to disclose in their Annual Financial Statements the number of posts and expenditure information of staff with individual annual emoluments exceeding \$700,000 paid under LSG, such information is considered less informative, and it does not require NGOs to explain and justify any changes to the remuneration packages of the staff in the top three-tiers covered in the period;
- expresses grave concern about SWD's lax attitude and the serious delay in the process of seeking clarification with the Administration Wing and FSTB in the calculation of the "50% income threshold":
- (a) the effective date of implementing the disclosure requirements under the Memorandum was 1 April 2003, but SWD only sought clarification on the calculation of the "50% income threshold" with the Administration Wing and FSTB in 2013;

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<sup>26</sup> One of the exemption criteria of disclosure is that the government subvention constitutes a proportion of 50% or less of the subvented body's operating income whereby the proportion is the average government subvention received in the past four years to the average operating income in the same period.

<sup>27</sup> SWD's prevailing practice in calculating the "50% income threshold" and the calculation as intended by the Memorandum are compared below:

(a) SWD's existing calculation:

The NGO's operating income from SWD/Operating income of the NGO as a whole (in accordance with the NGO's audited consolidated financial statements) x 100%

(b) Calculation according to the intents of the Memorandum:

The NGO's operating income from SWD/Operating income of the NGO under the purview of Secretary for Labour and Welfare or Director of Social Welfare x 100%



*Administration of lump sum grants by the Social Welfare Department*

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- (b) SWD had not effectively followed through the matter and did not keep proper records on the communications with the Administration Wing and FSTB. SWD only consulted the Administration Wing via a memo and followed up verbally over the phone in June and July 2013 respectively; and there was an e-mail sent by a SWD staff member to his senior officers in July 2013 reporting that FSTB was contacted for enquiry; and
- (c) no follow-up actions had been taken by SWD despite that FSTB gave a reply in July 2013 that it would need more time to consider the matter. It was only until January 2017 that SWD took up the matter again;
- notes that LWB and SWD will decide the way forward after the Administration Wing has completed its survey to confirm if the Memorandum needs updating or revising on some of the execution details, and will consult the welfare sector on the Administration Wing's calculation method in respect of the preparation of NGOs' Review Reports on the remunerations of their top three-tier staff as required under the Memorandum;

Apportioning of head office overheads by non-governmental organizations

- notes that according to LSG Manual and Financial Circular No. 9/2004 "Guidelines on the Management and Control of Government Funding for Subvented Organisations" issued by FSTB, NGOs should ensure that financial transactions are separately identified into Funding and Service Agreement ("FSA") and non-FSA activities and there should be no cross-subsidization of self-financing activities by subvented programmes in money or in kind;
- expresses concern that as revealed in the Audit Report, some NGOs had not apportioned the head office overheads between FSA and non-FSA activities or used an inappropriate basis for apportionment;
- considers that while it is important for NGOs to follow LSG Manual and other guidelines on the use of LSG subvention, SWD should enhance its communication with those NGOs which have encountered genuine difficulties in apportioning overheads between FSA and non-FSA activities, and offer advice taking into account actual circumstances of individual NGOs and the flexibility allowed for each NGO to deploy resources to meet the diversified needs of the society.

NGOs should not be discouraged by these guidelines from providing additional value-added services using the subvented resources but this should only be done on the principles that no additional resources are required and that the provision of FSA activities would not be affected;

- urges SWD to consider formulating a set of fair, effective and practical criteria on cost apportionment and providing guidelines for NGOs to follow;

#### Deficiencies in monitoring service quality

##### *Self-assessment by non-governmental organizations*

- acknowledges that NGOs' self-assessment mechanism, being an integral part of SWD's Service Performance Monitoring System, respects and honours the corporate governance of NGOs;
- expresses grave concern and dissatisfaction that SWD failed to effectively monitor the conduct of self-assessments by NGOs. Improper conduct of self-assessment might hinder SWD/NGOs' early detection of unsatisfactory performance and delay implementing necessary improvement measures. Cases of ineffective monitoring by SWD are as follows:
  - (a) there were cases of overstatement/understatement and miscalculation of Output/Outcome Standards reported by NGOs;
  - (b) basis and methodology used by NGOs offering the same service in measuring the Outcome Standards were different; and
  - (c) some NGOs did not observe the requirements laid down in NGOs' Service Quality Standards ("SQS") manuals in the implementation of SQSs;
- strongly urges SWD to follow up on cases with anomalies and provide guidelines to facilitate and enhance the conduct of self-assessment by NGOs, disseminate NGOs' good practices of self-assessment and ensure that NGOs observe the requirements laid down in their SQS manuals in the implementation of SQSs;

*Monitoring of service delivery by Social Welfare Department*

- expresses grave concern and dissatisfaction about SWD's inadequacies in monitoring service delivery by NGOs, which might hinder SWD and/or the related NGO to take timely actions to rectify the problems identified in service provision to users in need:
  - (a) Audit examined 20 Agreement Service Units ("ASUs")<sup>28</sup> that had underperformance in Output/Outcome Standards in three or more consecutive years between 2012-2013 and 2016-2017 and found that despite the submission of plans mapping out actions to be taken for improvement in each of the consecutive years, the underperformance persisted;
  - (b) in respect of the provision of Home care service for persons with severe disabilities ("HCS") and Integrated support service for persons with severe physical disabilities ("ISS"), there was significant underperformance of the required Output Standards for 2015-2016 and 2016-2017. There is room for improvement in the provision of services to users (e.g. provision of support services to users and discharge of patients); and
  - (c) there was a case in which of the five ASUs providing the same service, only three of them were required to attain Outcome Standards. Although the remaining two ASUs started to provide services since 2001 and SWD undertook to revise their FSAs in December 2016, Outcome Standards had still not been set and incorporated into their revised FSAs. In addition, of the 2 691 FSAs drawn up with ASUs as at 31 March 2017, 2 209 (82%) did not contain Outcome Standards;
- strongly urges SWD to:
  - (a) closely review those ASUs with persistent underperformance and devise with them appropriate follow-up measures;
  - (b) review underperformance of HCS and ISS services and improve their service delivery, especially on the provision of support services and the procedures on discharging patients;

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<sup>28</sup> The 20 ASUs (of 14 NGOs) were selected by Audit from the self-assessment reports submitted by the 165 NGOs receiving LSG subventions in the period 2012-2013 to 2016-2017.

*Administration of lump sum grants by the Social Welfare Department*

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- (c) discuss with the relevant NGOs on a timetable to set Outcome Standards for all existing ASUs; and
- (d) follow up on other cases with irregularities as revealed in the Audit Report;

Inadequacies in corporate governance and management

- acknowledges that to facilitate the monitoring of their work and the use of public money, NGOs are expected to be transparent in its operation by maintaining an accountability mechanism to SWD and the public. It is the responsibility of NGOs' board and management to monitor the proper use of LSG to meet the requirements and objectives set out in FSAs;

*Corporate governance and accountability*

- expresses grave concern and dissatisfaction about the following inadequacies in governance issues as revealed in the Audit Report, which might undermine the public's confidence in NGOs to uphold accountability and achieve good governance:
  - (a) NGOs have been given a transition period of three years (i.e. by 30 June 2017) to make arrangements for full implementation of Level One guidelines of BPM, while implementation of Level Two guidelines is on a voluntary basis. As at 31 March 2016, of the 165 and 154 NGOs which submitted their 2015-2016 self-assessment reports for Level One and Level Two guidelines respectively, only 59.4% and 24.7% of NGOs had fully implemented the respective guidelines. 7.8% of NGOs had not implemented any of the Level Two guidelines; and
  - (b) SWD has included "Guide to Corporate Governance for Subvented Organisations" in LSG Manual to help NGOs develop and maintain good practice in corporate governance. Audit review uncovered the following irregularities in board/committee members attending meetings, re-appointment of board/committee members and management of conflicts of interest:
    - (i) the proportion of board/committee members not attending any board/committee meetings was high;

- (ii) there were cases where board/committee members with low attendance rates had been re-appointed to the board/committee meetings. In one case, a board member and a committee member had been re-appointed despite the fact that they did not attend any meetings in the three years prior to the re-appointment; and
- (iii) there were cases where some NGOs had not documented their procedures on requiring board/committee members to declare interests, had not used registration forms to record members' declaration of interests, and only required directorships of board members to be declared while other interests (e.g. pecuniary interests) were not so required;
- strongly urges SWD to follow up with those NGOs which are still in the process of implementing items under Level One guidelines, step up efforts in promoting Level Two guidelines and explore the possibility of mandating the compliance of good practices contained in the "Guide to Corporate Governance for Subvented Organisations" among NGOs so as to enhance their governance and accountability;

*Problem of high staff turnover*

- expresses grave concern and dissatisfaction about SWD's slow and inadequate actions to tackle the problem of high turnover of social work personnel in Hong Kong as evidenced by the following:
  - (a) the problem of staff turnover was notably on a rising trend. From the reports published by the Joint Committee on Social Work Manpower Requirements,<sup>29</sup> turnover of social work posts in Hong Kong from 2013-2014 to 2015-2016 has risen from 12.2% to 15.2%;

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<sup>29</sup> The Joint Committee on Social Work Manpower Requirements is jointly set up by SWD and the Hong Kong Council of Social Service to undertake the collection and analysis of information on the demand and supply of social work personnel in Hong Kong with a view to keeping track of the manpower situation and facilitating manpower planning in the social work field.

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- (b) Audit examination of the six NGOs<sup>30</sup> showed that staff turnover from 2013-2014 to 2015-2016 ranged from 14% to 35%, and for some NGOs, staff turnover had increased over the period;
- (c) reasons for staff leaving as collected by Audit from the five NGOs showed that job-related reasons were the main cause for leaving by post-holders (i.e. job hunting, job nature and job conditions such as salaries); and
- (d) salary setting for some ranks of the six NGOs was not transparent. Pay scales had been established only for some ranks and some NGOs staff were paid below the mid-point salaries of Government's pay scales.

As the manpower problem would affect the provision of quality social services and the sustainable development of the sector, SWD should have taken a more proactive role in monitoring NGOs' staff turnover situation;

- strongly urges SWD to take a more proactive lead to address the problem of staff turnover of NGO by:
  - (a) collating relevant statistics from NGOs periodically and promulgating among NGOs the good practice of conducting exit interviews with leaving staff so as to better gauge the magnitude and underlying causes of the problem;
  - (b) reviewing the salary structures and pay scales of social welfare personnel to ensure that their remunerations and benefits are competitive enough to attract, recognize and retain talents, and taking measures to minimize the salary gap of same rank or position among different NGOs and the Government; and
  - (c) encouraging NGOs to maintain a stable and effective workplace and enhancing communication with staff on pay-related issues;

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<sup>30</sup> In conducting the review, Audit visited six NGOs to examine their use of LSG subventions in general and covered matters including governance, delivery of services and financial arrangements.

Review of lump sum grant subvention system

*Need to better manage potential conflicts of interest of Lump Sum Grant Independent Complaints Handling Committee*

- is surprised and finds it unacceptable that a member of the LSG Independent Complaints Handling Committee ("Complaints Handling Committee"), being the head of a school run by an NGO being complained, declared no potential conflicts of interest in declaration forms prior to the holding of each of the four meetings held to deliberate seven complaints relating to the NGO. In two of the four meetings, the member had participated in discussions and in one of the meetings, the member had endorsed the results that the complaint was not substantiated. In addition, in 21 of the 31 meetings, Committee members had declared potential conflicts of interest, but none of the minutes of meetings indicated that the Chairman had made decisions on the declarations as required;
- expresses serious concern and finds it unacceptable that SWD, which provides support to the Complaints Handling Committee, lacks the sensitivity on matters relating to declaration of interests for members of the Complaints Handling Committee, bearing in mind that the Complaints Handling Committee is an important appeal mechanism in handling complaints lodged against NGOs and that the validity of rulings made by the Committee could be affected by failing to declare the actual or potential conflicts of interest concerned in process of considering or handling the relevant complaints, hence upholding the principles of transparency and accountability in the operations of the Complaints Handling Committee is of utmost importance;
- strongly urges SWD to take measures to strengthen the declaration of interests by members of the Complaints Handling Committee; remind the Chairman to make decisions on the interests declared by members and properly record all such decisions in the minutes of meetings;

*Way forward for lump sum grant subvention system*

- notes that as the last review of LSG was conducted more than 10 years ago in 2008 and there were voices in society and among stakeholders for another review, it is an opportune time to conduct a further review on the LSG subvention system. A Task Force has been set up to undertake the review; and

- recommends that the Task Force should take into considerations the following when undertaking the review:
  - (a) engaging different stakeholders including frontline staff and service users and gauging their views on how to enhance the subvention system;
  - (b) collating not only quantitative findings but also qualitative feedback and comments on how to improve service quality;
  - (c) reviewing the use of reserves by NGOs and to maintain an optimal balance between maximizing the use of subvention resources and maintaining NGOs' autonomy and flexibility in resources deployment to suit the present-day needs of the community;
  - (d) formulating a set of fair, effective and practical criteria for cost apportionment between FSA and non-FSA activities;
  - (e) devising improvement measures on the monitoring of service delivery and enhancing transparency and accountability for supervision by SWD and the public at large, and promoting the implementation of BPM guidelines and other useful guides on corporate governance;
  - (f) formulating staff remuneration policy with a clear salary structure, reviewing pay scale of different ranks and establishing communication channels with staff on pay-related issues;
  - (g) monitoring closely staff turnover problem in the welfare sector and devising long-term manpower planning to ensure sustainable development of the sector; and
  - (h) taking into account findings and recommendations made by the Committee and Audit in taking forward the review.



<b>Specific comments</b>
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96. The Committee:

Financial monitoring

- expresses serious concern that:
  - (a) total amount of reserves retained by some NGOs was high. Overall reserves retained by one NGO for 2016-2017 amounted to \$3.6 billion.<sup>31</sup> SWD should ensure that reserves kept by NGOs are put into gainful use at opportune times;
  - (b) in 2016-2017, of the 53 NGOs involving a total of 120 ASUs at which SWD's accounting inspections were planned to be conducted, inspections at six NGOs (11% of the 53 NGOs) involving a total of 21 ASUs (18% of the 120 ASUs) had not been conducted within 2016-2017 as planned;
  - (c) some irregularities (e.g. non-FSA items wrongly included in annual financial reports) and internal control weaknesses (e.g. in revenue collection and receipt) were commonly found in accounting inspections of ASUs of NGOs. Internal control weaknesses of ASUs of some NGOs had existed for a long period of time;
  - (d) there are other risk factors that SWD should consider in formulating its risk-based inspections (e.g. NGOs with persistent operating deficits);
  - (e) for the six NGOs visited by Audit, there were cases where the internal control procedures as set out in LSG Manual had not been properly followed; and

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<sup>31</sup> Information is provided in the audited financial statements submitted by the relevant NGO to SWD for 2016-2017, which includes LSG Reserve, the Provident Funds Reserve and those obtained from other services and operations. The NGO's accumulated reserves mainly came from its self-financing hostel and private education services, etc.

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- (f) the current fees and charges for subvented welfare services have been frozen at the existing level for some 18 years since 1997-1998;
- notes that:
  - (a) SWD will issue reminders to NGOs annually to remind them of their responsibility to ensure that adequate internal controls are in place;
  - (b) SWD will review regularly the fees and charges for subvented services, follow up the proposed fee adjustment in 2018-2019, and deliberate on the way forward; and
  - (c) Director of Social Welfare has agreed with Audit's recommendations in paragraphs 2.16, 2.27, 2.34, 2.41, 2.45 and 2.52 of the Audit Report;

Self-assessment of service quality by non-governmental organizations

- expresses grave concern and dissatisfaction that there was room for improvement in measuring the effectiveness of NGO services. For example, in measuring the service effectiveness upon completion of training of service users, of the 30 cases of service users examined by Audit, one NGO conducted clinical assessments of 14 cases via telephone only, instead of performing the assessments on site. Furthermore, the NGO regarded training as having completed when service users had completed 10% or more of the planned training sessions;
- notes that:
  - (a) SWD will encourage NGOs, having regard to their own circumstances, to put in place an internal service inspection mechanism with a view to enhancing their internal controls and monitoring of service performance; and
  - (b) Director of Social Welfare has agreed with Audit's recommendations in paragraphs 3.8, 3.13 and 3.17 of the Audit Report;

Monitoring of service delivery by Social Welfare Department

- expresses grave concern and dissatisfaction that:
  - (a) there is room for improvement in the provision of subventions based on caseloads attained (e.g. different determining factors used in computing caseloads, no support services provided to users in some cases, delay in discharging service users, and service users receiving both HCS and ISS);
  - (b) savings in subventions to HCS and ISS could have been achieved had SWD calculated the subventions based on the number of daily active users instead of the number of active users as at 31 March of the last financial year;
  - (c) there was room for improvement in the use of service resources by two ASUs examined by Audit (e.g. an ASU had not sought clarification from SWD on whether the activities it conducted were "FSA related" activities before conducting such activities) while another ASU had not properly used its emergency places for children whose families had crisis; and
  - (d) as at 31 March 2017, of the 2 691 ASUs, 542 (20%) had never been visited by SWD for conducting performance visits. During the performance visits, all the service users interviewed by SWD staff were pre-selected by the ASUs and some of the service users who were requested to complete questionnaires were selected by the ASUs;
- notes that:
  - (a) SWD has kick-started a review of HCS and ISS since July 2016. As far as HCS and ISS are concerned, SWD will:
    - (i) provide more guidelines on the counting of cases into the caseloads, provision of support services in accordance with the agreed care plans, and discharge of service users, etc.; and
    - (ii) set up a case cross-checking mechanism among the service operators of HCS and ISS to avoid service users receiving support services from both HCS and ISS;

*Administration of lump sum grants by the Social Welfare Department*

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- (b) SWD will explore the feasibility of fine-tuning the existing arrangements for calculating subventions for the ASUs providing the services;
- (c) SWD will issue reminders to NGOs annually reminding them to consult SWD prior to the conduct of activities which they regard as FSA related activities but not stipulated in FSAs;
- (d) the purpose of emergency placement is to cater to the urgent residential care needs of children due to family crisis. SWD has requested the ASU to follow up closely with referring social workers on cases requiring extension of stay and to ensure that necessary approval and long-term care plan are in place to justify the need for extension. SWD will also step up the review and monitoring of the utilization of the services and duration of stay of the admitted cases with the ASU to ensure that the service is meeting the urgent residential care needs of needy children;
- (e) SWD will review regularly the approach to conducting review/surprise visits and to assess the manpower need with a view to ensuring efficient and effective conduct of performance visits;
- (f) SWD will ensure that service users involved in the assessment are not pre-selected by ASUs, and the staff conducting performance visits select samples for examination at ASUs; and
- (g) Director of Social Welfare has agreed with Audit's recommendations in paragraphs 4.4, 4.24, 4.28, 4.32, 4.37 and 4.48 of the Audit Report;

Governance and management matters

- expresses grave concern and dissatisfaction that:
  - (a) for the six NGOs visited by Audit, there were incidents where NGOs did not accurately report their implementation of the BPM guidelines in their self-assessment reports;
  - (b) of the 165 NGOs which submitted 2015-2016 self-assessment reports for Level One guidelines, 58 (35%) were late in submitting their reports;

*Administration of lump sum grants by the Social Welfare Department*

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- (c) of the 154 NGOs which submitted 2015-2016 self-assessment reports for Level Two guidelines on a voluntary basis, only 38 had fully implemented all the seven items of the Level Two guidelines. Furthermore, 12 had indicated that they had not implemented any of such guidelines;
  - (d) during the development of BPM, best practices were to be formulated for 18 items. However, only 14 of the 18 items were formulated and incorporated as guidelines into BPM in 2014. Up to October 2017, four outstanding items relating to human resources management (e.g. staff remuneration policy and pay policy with a clear salary structure and/or starting points) had still not been formulated and incorporated as guidelines into BPM;
  - (e) four of the six NGOs had not adopted a two-tier reporting system for the declaration of interests and declaration forms were not used to record members' declaration of interests; and
  - (f) as at 31 August 2017, two of the six NGOs had not prepared strategic plans and one NGO had not prepared action plans;
- notes that:
- (a) SWD will remind NGOs to provide accurate information when they submit the self-assessment reports on the progress of implementation of BPM;
  - (b) SWD has taken various measures to facilitate NGOs' implementation of BPM in order to provide opportunities for NGOs to share experiences and good practices identified in the implementation of BPM;
  - (c) SWD has prepared a preliminary draft of the contents of the four outstanding items of BPM for deliberation by the Working Group on the Implementation Details of BPM in their previous meetings. SWD will forge agreement among NGO management, the staff side and service users on the outstanding items; and
  - (d) Director of Social Welfare has agreed with Audit's recommendations in paragraphs 5.11, 5.22 and 5.31 of the Audit Report;

Review of LSG subvention system

- expresses serious concern that as at 31 July 2017, only 11 of the 165 NGOs receiving LSG subventions had applied for funding from the Social Welfare Development Fund for conducting studies by external consultants;
- notes that Secretary for Labour and Welfare has tasked SWD to set up a Task Force to work with stakeholders to conduct a review on the enhancement of the LSG subvention system. The Task Force, comprising members from LWB, SWD, NGO management, staff side, service users and independent persons, will oversee and chart the review, including discussion of specific areas in the LSG environment to be covered in the review, the audit findings and recommendations, examination of specific areas where data collection from the sector is required, and consideration of the findings and recommendations of the review; and
- notes that Director of Social Welfare has agreed with Audit's recommendations in paragraphs 6.14 and 6.19 of the Audit Report.

<b>Follow-up action</b>
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97. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by the Committee and Audit.