

For discussion
on 14 November 1997

**Provisional Legislative Council
Panel on Welfare Services**

Review of the Social Welfare Subvention System

PURPOSE

This paper informs Members of progress on the review of the social welfare subvention system and the proposed funding system for subventing welfare NGOs.

BACKGROUND

2. At present, around 90% of our direct welfare services are provided by 173 non-governmental organisations (NGOs) using Government subvention. In 1997/98, subvention for welfare services will amount to \$4.6 billion, representing some 75% of SWD's annual budget, excluding social security payments. In March 1995, the Director of Social Welfare commissioned a consultancy review to examine, among other things, how the current subvention system could be improved by placing greater emphasis on output performance, and by providing incentive and flexibility to NGOs to make the best use of resources with the aim of enhancing the quality of services. A summary of progress of Review is at Appendix I.

Sector's views on the Consultants' initial proposals

3. The Consultants have made initial proposals, including the setting up of a service performance monitoring system based on a set of service quality standards and Funding and Service Agreements (FSA). The Consultants proposed a “Unit Grant” funding mechanism under which service units of the same size and type would receive the same level of subvention. Between April and August 1996, SWD consulted the welfare sector on the consultant's proposals. The feedback obtained indicated that there was a **general consensus in support of the introduction of output monitoring controls and Funding and Service Agreements** in order to provide a better structured relationship between the department and NGOs. There was, however, **little support for the “Unit Grant” proposal.**

4. To address the concerns of NGOs, SWD set up three Working Groups in December 1996, with the participation of the sector, to develop the service performance monitoring system, to identify the related training needs and to formulate an alternative funding formula. The work of the Working Groups was completed in August 1997. The first tranche of **5 service quality standards**, a policy framework for the development of a **service quality assessment process** and a strategy on the **provision of training** for NGO and departmental staff has been prepared. **FSA for 21 services** have been finalized and a **new subvention funding formula** developed.

FIXED FUNDING FORMULA BASED ON MID-POINT PERSONAL EMOLUMENTS

5. Having considered the views of the Working Group, the Administration proposes that a fixed funding formula be introduced which is based on Mid-Point Personal Emoluments (PE)^(Note 1).

The fixed funding formula

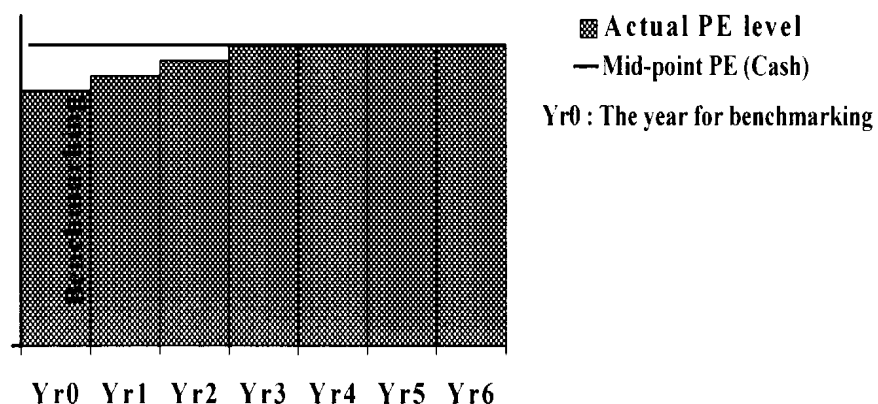
6. Under the proposed fixed funding formula, subvention for each service unit would be calculated at **Mid-Point PE** based on the **recognised staffing structure** with a 2% deduction for natural wastage/vacancy in the sector. An additional factor of 6.1% covering the average Provident Fund contribution will be added. Once fixed, this PE grant together with the grant for Other Charges (OC) can be managed and used by agencies concerned with autonomy and maximum flexibility. There will be free virement between PE and OC, no claw back of unspent funds in a year and accumulation of such unspent funds as agencies' reserves subject to a cap of 20% of the respective agencies' annual subvention allocation. Government will adjust the PE funding in line with the annual civil service salary adjustment but there will be no further provision for incremental creep nor topping up for deficits arising from whatever cause.

^(Note 1) Mid-point Personal Emolument means the mid-point salaries of the recognized post. For example, the salary scale for an Assistant Social Work Officer is MPS Pt. 18 to 33, i.e. \$21,900 to \$43,940. The mid-point salary is MPS Pt.27, i.e. \$33,355.

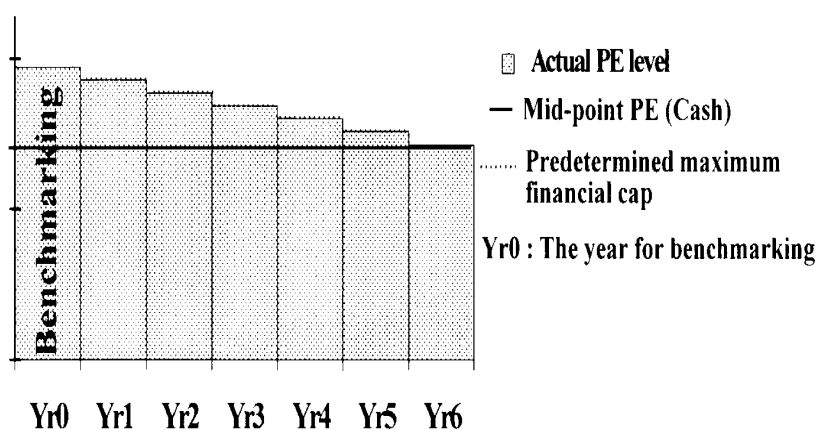
Transitional Arrangement

7. For **existing units**, the funding level will be calculated on an **agency** basis :

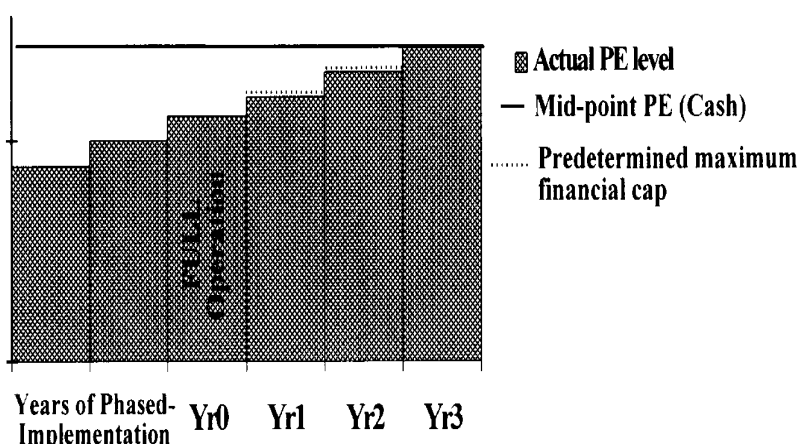
- **Agencies below mid-point PE** will be funded at their actual PE, **capped by the mid-point PE**, during Years 1 and 2 of the scheme's transitional period. They will be funded at the mid-point PE cost during the first two years whenever they reach the mid-point PE cap or from Year 3 onwards regardless of their actual PE level.



- **Agencies above mid-point PE** will be paid their actual PE or the pre-determined yearly financial cap, **whichever is the less**. The pre-determined yearly financial cap will decrease in equal steps to reach the mid-point PE in Year 6. These agencies will, however, be funded at mid-point PE cost whenever they drop to the mid-point PE level during Year 1 to 5 of the scheme's transition period.



8. **All new service units will be funded** under the new formula, irrespective of whether the agency joins the new funding system. These new units will be funded at the actual cost of their PE capped at mid-point and Other Charges (OC) during their phased implementation, (for example, large residential institutions generally commence operation by phases, gradually building up their staff strength and resident capacity). On full operation, they will be funded at their actual PE or the pre-determined yearly financial cap, **whichever is the less**, in equal steps towards the mid-point PE cost in Year 3.



Other features

9. In addition, the following arrangements will apply :
- (a) There will be **free virement flexibility between PE and OC, and between subvented units**, for agencies joining the new funding option.
 - (b) Agencies are free to **determine their staffing structure** and have **full flexibility over contracting out and hiring part-time/temporary staff** subject to the basic staffing requirements in the FSA.
 - (c) Transfer to the new funding system for existing units is **voluntary** but irreversible. Agencies may join the new funding scheme in any year during the transitional years and subvention funding will be subject to the mid-point PE or financial cap prevailing in the year of joining the scheme.
 - (d) Agencies will be **free to delink or partially delink** (e.g. delinking for non-professional staff only) from civil service pay scales and will be accountable for the terms and conditions of employment to their staff. As a matter of good management practice, **the NGO management is expected to consult its staff before taking a decision**. Furthermore, upgrading of posts to the directorate pay scale and/or enhancement of pay scale will require the formulation of clearly-defined performance indicators for appraisal by the NGO

Boards. NGOs can, of course, opt to maintain the link with the civil service pay scale.

- (e) In line with the fundamental subvention principle, agencies are not expected to offer remuneration package to staff in the subvented service the cost of which is more favourable than that provided by the Government to comparable grades in the civil service.
- (f) Use of accumulated subvention surplus, which is capped at 20% of annual subvention under fixed funding, will be **restricted** to subvented service units operated by the agency.

Other Charges (OC)

10. OC of individual units joining the scheme will be provided at a lump sum based on **the existing recognized level of subvention and adjusted according to inflation**. Agencies have full discretion in determining the use of the other charges including virement to other subvented units.

Rent and Rates

11. The recognized level of rent and rates will continue to be subvented in full.

Benefits of the new proposal

12. This funding formula will have the following benefits :

(a) **certainty in subvention :**

NGOs will know exactly the subvention level on joining the scheme;

(b) **removes stringent control :**

it lifts the stringent monetary control under the existing system and obviates the need for NGOs to seek approval from the Department for virement of funds, release of conditional grant, appointment of staff and variations to recognized staffing structure;

(c) **flexibility in determining staffing structure :**

NGOs will enjoy full flexibility in determining their staffing structure and remuneration package thereby facilitating NGOs to fill vacancies. The basic staffing requirement in the FSAs will ensure a minimum level of professional input to the service and hence provide a safeguard on the professional quality of service;

(d) **free virement of funds :**

other flexibilities include the free virement of funds between PE and OC and between subvented units and the use of accumulated reserves on subvented units at NGOs' discretion; and

(e) **the option of choice :**

it allows existing units the option of staying on the existing funding system if the NGO concerned does not wish to join the new fixed funding scheme.

NEW SERVICE PERFORMANCE MONITORING SYSTEM

13. In keeping with our objective that service monitoring should emphasise output performance rather than input control, a new monitoring system on service performance will be introduced in parallel. We believe this approach is a more effective means to ensure that government subvention to NGOs represents 'value for money'. We propose to introduce the new system by phases starting from 1998/99. The system will be applied **across the board** for all subvented NGOs regardless of which funding mechanism is adopted, and will include the following features :

(a) Service Quality Standards

14. A total of **19** Service Quality Standards will be introduced in phases to define the concept of quality in social welfare services. A list of these standards is at Appendix II.

15. For each of these standards, there will be an implementation handbook setting out procedural guidelines and criteria for achieving the standards. We have completed implementation handbooks for five selected Service Quality Standards and the remaining 14 Service Quality Standards are expected to be completed by March 1998.

(b) Funding and Service Agreements

16. The welfare services to be provided and the required performance standards (in terms of quality and performance outputs as well as essential service requirements) will be defined in an FSA to be made between DSW and

NGOs for each service unit to be subvented. The Agreement will also set out the procedures for assessment of agreed standards, the general obligations of SWD to operators and the basis of subvention.

17. Each of the 87 types of subvented social welfare services will have its own version of FSA. 21 are now available and we intend to complete agreements for the remaining 66 subvented welfare services by the end of 1998/99.

(c) *Service Performance Assessment*

18. The purpose of assessment is to examine whether the service unit concerned is meeting the various standards. Such assessment will apply to service units in **both the Department and the sector** and will involve two steps:

- initial self-assessment by the service unit; and
- external assessment by SWD's Service Performance Unit.

The assessment is a shared process between the service operator and the Department. The performance indicators and the assessment procedures are developed in consultation with NGOs.

19. Where a service unit is assessed as not complying with the funding and service requirements and the unit agrees with the assessment, it will be asked to develop an action plan for the necessary improvement. If the unit fails to conform within a reasonable time frame, DSW may consider imposing sanctions, for example, by terminating the relevant FSA and by transferring the unit to another operator or to SWD.

20. If, however, the service unit does not agree with the assessment and the sanction imposed, the service operator can appeal to the Social Welfare Service Quality Assessment Review Board to be appointed by the Secretary for Health and Welfare. The Board will give its views on the case and having regard to these, DSW will make a final decision on the performance assessment and the proposed sanctions.

(d) Application of the New Service Performance Monitoring System

21. To ensure that the ultimate goal of continuous service improvement is achieved, the new output performance monitoring system will apply to **all** subvented service units irrespective of whether an agency opts to join the new funding system. Existing measures of output monitoring include submission of statistical returns, completion of subvention worthiness reports and liaison visits by the district staff of SWD will continue to operate. The proposed service performance monitoring system which provides more consistent service standards and guidelines therefore represents a reinforced methodology for the same purpose, which the sector has generally accepted.

TRAINING NEEDS

22. A **Training Needs Strategy** was developed which identified the training needs of all relevant groups relating to the implementation of the Review recommendations. The **five broad groups of staff** within the social welfare sector which will require training are :

- (a) SWD Headquarters staff;
- (b) Regional Office staff,
- (c) NGO senior management staff and board members,
- (d) NGO and SWD service unit managers, and
- (e) NGO and SWD field staff.

23. Publicity will be provided to clients through channels such as customer liaison groups. For the delivery of training activities, the Strategy recommends a **centralised approach** with central support in terms of co-ordination, trainer training, training materials, provided by the SWD and downstream training activities to staff undertaken by service units. The training activities will include **awareness training** on the outcome of the Subvention Review, **service quality standards implementation training**, **external assessment training**, and **management of change training**.

24. To take the Training Needs Strategy forward, the SWD, with the assistance of the Consultants, will devise a detailed implementation plan packaging the main training programmes into self-contained proposals with clear objectives, activities output and estimated funding requirements for each programme. We envisage that training programmes will start in the first quarter of 1998.

IMPLEMENTATION

25. We propose that an enhanced service performance monitoring system for assessing the performance of subvented and departmental service units together with the **optional** funding formula for subventing welfare NGOs **be introduced in phases from April 1998**. Upon implementation, the new subvention system will gradually shift the emphasis of government control from ‘input’ in terms of number of staff and individual expenditure items to ‘output’ in terms of services actually delivered to the community. It will also help NGOs enhance their accountability in the use of subvention money for the delivery of quality services and encourage them to focus on ways of continuously improving the services they provide to their clients.

Consultation

26. SWD has organised briefing sessions for NGO Boards, NGO managers and NGO staff in October 1997. A questionnaire survey will also be conducted to collect the sector’s views on the proposals.

27. Members are invited to note these proposals.

Health and Welfare Bureau
October 1997

**Progress Summary on Phase A & B of the
Social Welfare Subvention Review**

The current subvention system is complex to operate, focussed on inputs rather than outputs, and it denies NGOs much flexibility in how they manage their resources.

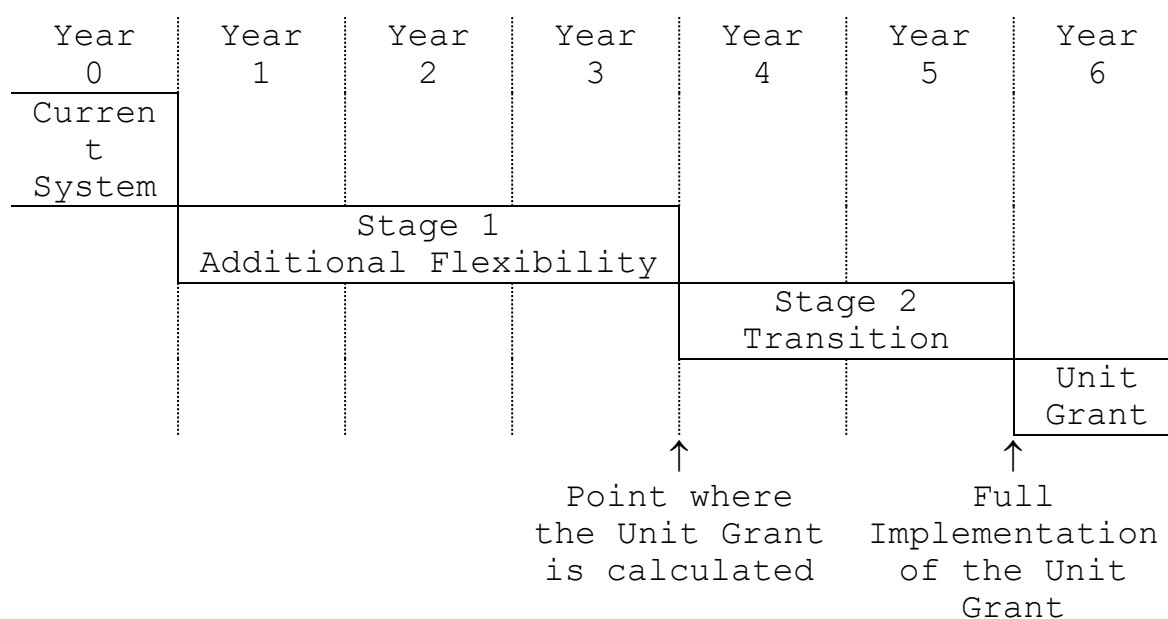
2. The department appointed Consultants in March 1995 to conduct a consultancy to review the social welfare subvention system. The overall objectives of the Review are to improve the current subvention system so that the department and the NGOs can provide more efficient, customer focussed, output driven services.

3. The Review comprises three stages. Phase A for investigation and outline proposals and Phase B for detailed design of new procedures and system were completed in July 1995 and April 1996 respectively. Based on a series of workshops and discussion sessions with both the department and NGOs, the Consultants recommended implementation of the following proposals :

- a set of 19 quality standards which define the concept of quality in social welfare services and provide indicators for assessment;
- an output performance system which describes how each aspect of service delivery in the standards can be assessed. The assessment process would involve two steps. An annual self assessment by the service unit followed by an external assessment by the Department;
- a formal funding and service agreements for various services, which set out the roles, responsibility and expectations between the Department and NGOs.

4. With regard to funding, the Consultants recommended the adoption of "Unit Grant" approach. Unlike the current subvention system where the Department reimburses NGOs for the actual costs incurred in delivering services, the "Unit Grant" proposes that units which deliver the same type and quantity of service be allocated the same level of subvention and that NGOs be given full discretion in the use of their funding to enable them to meet required levels of performance.

5. To move from the present system to a Unit Grant approach to funding, the Consultants proposed an implementation process which consists of two stages lasting in total five years.



6. The Department consulted the sector on the various recommendations between April and August 1996. To work out details of the recommendations and to resolve the funding issue, the Department set up in December 1996 the following Working Groups :

- Working Group on Service Quality Standards, Performance Assessment and Funding & Service Agreements;
- Working Group on Training Needs;
- Working Group on Funding.

7. Phase C of the Review was completed in August 1997.

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